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 2014

HIGHLIGHTS OF 2014 ANNUAL RESULTS

- Revenue generated from our newly-developed online business reached RMB271 million, representing approximately 17.8% of our total revenue
- Online business achieved a segment margin of 28.3%, significantly higher than traditional manufacturing business
- Profit attributable to owners of the Company significantly increased by 89.1% to approximately RMB248 million, representing record-breaking full-year net profit for the Group
- The Board proposed a final dividend of HK$0.05(2013:HK$0.03) per share. Together with the interim dividend of HK$0.02(2013:HK$0.02) per share paid in November 2014, total dividend for 2014 will be HK$0.07 (2013: HK$0.05).

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 2014.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

	NOTES	2014 RMB'000	2013 RMB'000
Revenue	3	**1,522,716**	1,506,963
Cost of sales		**(1,179,325)**	(1,284,749)
Gross profit		**343,391**	222,214
Other income		**3,054**	1,139
Other gains and losses		**(434)**	(4,275)
Administrative expenses		**(50,251)**	(27,119)
Selling and distribution expenses		**(8,172)**	(1,731)
Research and development expenses		**(2,046)**	(2,051)
Other expenses		**(244)**	(111)
Finance costs		**(8,104)**	(7,943)
Share of result of an associate		**(400)**	–
Profit before tax		**276,794**	180,123
Income tax expense	4	**(28,454)**	(48,785)
Profit and total comprehensive income for the year	5	**248,340**	131,338
		RMB	*RMB*
Earnings per share	7		
Basic		**0.27**	0.15
Diluted		**0.27**	0.15

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2014

	NOTES	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**182,720**	181,365
Prepaid lease payments		**19,003**	19,437
Intangible assets		**5,443**	5,307
Deferred tax asset		**2,307**	2,485
Interest in an associate		**200**	–
		209,673	208,594
CURRENT ASSETS			
Prepaid lease payments		**432**	432
Inventories	*8*	**136,390**	122,412
Trade receivables and prepayments	*9*	**52,789**	5,091
Trade deposits		**5,233**	978
Pledged bank deposit		**20,100**	20,000
Bank balances and cash		**740,434**	381,144
		955,378	530,057
CURRENT LIABILITIES			
Trade and other payables	*10*	**43,288**	34,630
Customer receipts in advance		**378**	8,400
Income tax payable		**13,054**	20,728
Bank borrowings		**130,139**	129,947
		186,859	193,705
NET CURRENT ASSETS		**768,519**	336,352
TOTAL ASSETS LESS CURRENT LIABILITIES		**978,192**	544,946
CAPITAL AND RESERVES			
Share capital		**7,362**	7,362
Share premium and reserves		**746,529**	527,644
TOTAL EQUITY		**753,891**	535,006
NON-CURRENT LIABILITIES			
Receipts in advance for issue of shares		**215,075**	–
Deferred income		**9,226**	9,940
		224,301	9,940
TOTAL EQUITY AND NON-CURRENT LIABILITIES		**978,192**	544,946

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

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 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. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The International Accounting Standards Board has issued a number of amendments to International Accounting Standards ("IASs"), IFRSs and a new interpretation ("IFRIC") which are effective for the Group's financial year beginning on 1 January 2014 (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.

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:

IFRS 9	Financial Instruments[1]
IFRS 14	Regulatory Deferral Accounts[2]
IFRS 15	Revenue from Contracts with Customers[3]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operation[5]
Amendments to IAS 16 and IAS 38	Classification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plant[5]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to IAS 27	Equity Method in Separate Financial Statements[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to IFRSs	Annual Improvements to IFRSs 2010 – 2012 Cycle[6]
Amendments to IFRSs	Annual Improvements to IFRSs 2011 – 2013 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2012 – 2014 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

2 Effective for first annual IFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.

3 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

4 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

5 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Early application is permitted.

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.

3. REVENUE AND SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision makers ("CODMs") (i.e. the executive directors of the Company) for the purposes of resource allocation and performance assessment, are as follows:

(i) manufacturing and sales of silver ingots and other non-ferrous metals in the PRC ("Manufacturing segment"); and

(ii) retailing and wholesaling of silver jewellery and collectibles through mainly online platforms in the PRC ("Online segment").

The Group's operating segments also represent its reportable segments.

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segments:

For the year ended 31 December 2014

	Manufacturing segment *RMB'000*	Online segment *RMB'000*	Segment total *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
Revenue					
External sales	**1,251,719**	**270,997**	**1,522,716**	**–**	**1,522,716**
Inter-segment sales*	**119,746**	**–**	**119,746**	**(119,746)**	**–**
Total segment revenue	**1,371,465**	**270,997**	**1,642,462**	**(119,746)**	**1,522,716**
Results					
Segment results	**224,960**	**76,726**	**301,686**		**301,686**
Non-segment items					
Unallocated income, expenses, gains and losses					**(16,388)**
Finance costs					**(8,104)**
Share of result of an associate					**(400)**
Profit before tax					**276,794**

For the year ended 31 December 2013 (restated) ***(note)***

	Manufacturing segment *RMB'000*	Online segment *RMB'000*	Segment total *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
Revenue					
External sales	1,479,876	27,087	1,506,963	–	1,506,963
Inter-segment sales	–	–	–	–	–
Total segment revenue	1,479,876	27,087	1,506,963	–	1,506,963
Results					
Segment results	195,153	1,532	196,685		196,685
Non-segment items					
Unallocated income, expenses, gains and losses					(8,619)
Finance costs					(7,943)
Profit before tax					180,123

* Inter-segment sales are charged at prevailing market rates

Note: In prior year, the Group's CODMs reviewed 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 was not necessary to analyse the Group's revenue and results by operating segment. During the current year, the Group expanded to online retailing and wholesaling business which constitutes a new reportable segment (i.e. Online segment). As a result, the comparative information for the year ended 31 December 2013 has been restated to conform with the current year's presentation.

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:

	2014 ***RMB'000***	2013 *RMB'000*
Manufacturing segment		
Silver ingot	**764,574**	1,020,063
Lead ingot	**252,425**	243,819
Bismuth ingot	**138,845**	105,500
Antimony ingot	**58,732**	63,200
Non-standard gold	**20,335**	28,256
Zinc oxide	**16,315**	18,551
Others	**528**	487
	1,251,754	1,479,876
Online segment (restated)		
Silver jewellery and collectibles	**270,962**	27,087
	1,522,716	1,506,963

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

Information about major customers

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

	2014	2013
	RMB'000	*RMB'000*
Customer A	**253,197**	284,015
Customer B	**189,529**	251,520
Customer C	**183,619**	254,580

4. INCOME TAX EXPENSE

	2014	2013
	RMB'000	*RMB'000*
PRC Enterprise Income Tax ("EIT")		
– current year	**46,786**	48,395
– (over)underprovision in respect of prior years	**(18,510)**	375
	28,276	48,770
Deferred taxation for the year	**178**	15
	28,454	48,785

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% for both years, except that one of the major subsidiaries of the Company, Jiangxi Longtianyong Nonferrous Metals Co., Ltd, has been recognised as a High and New Technology Enterprise by the PRC tax authorities on 25 March 2014 such that it is entitled to a concessionary tax rate of 15% for three consecutive years beginning from the year of 2013 and therefore an overprovision in prior year of approximately RMB18.5 million has been recognised in the current year.

5. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR

	2014	2013
	RMB'000	*RMB'000*
Profit and total comprehensive income for the year has been arrived at after charging:		
Directors' emoluments	**4,745**	3,738
Other staff costs		
– salaries and wages	**42,077**	30,926
– retirement benefit scheme contributions	**7,826**	6,166
– share-based payments, excluding those of directors	**4,788**	821
Total staff costs	**59,436**	41,651
Auditor's remuneration	**1,347**	1,356
Amortisation of intangible assets	**362**	361
Cost of inventories recognised as expenses	**1,179,325**	1,284,749
Depreciation of property, plant and equipment	**14,795**	12,143
Release of prepaid lease payments	**434**	435
Rental expenses	**3,792**	477

6. DIVIDENDS

	2014	2013
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
Interim dividend of HK$0.02 per share for the year ended 31 December 2014	**14,355**	–
Final dividend of HK$0.03 per share for the year ended 31 December 2013	**21,534**	–
Interim dividend of HK$0.02 per share for the year ended 31 December 2013	**–**	14,453
	35,889	14,453

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2014 of HK$0.05 (2013: HK$0.03) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

7. 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:

	2014	2013
	RMB'000	*RMB'000*
Earnings		
Profit for the year	**248,340**	131,338

	2014	2013
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**906,186**	905,076
Effect of dilutive potential ordinary shares:		
– Share options of the Company	**2,101**	–
– Over-allotment option granted in relation to the Listing	**–**	161
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**908,287**	905,237

The computation of diluted earnings per share does not assume the exercise of the Company's share options if 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.

8. INVENTORIES

	2014	2013
	RMB'000	*RMB'000*
Raw materials	**46,034**	66,709
Work in progress	**54,717**	51,484
Finished goods	**35,639**	4,219
	136,390	122,412

9. TRADE RECEIVABLES AND PREPAYMENTS

	2014 *RMB'000*	2013 *RMB'000*
Trade receivables	**35,409**	4,494
Prepayments	**17,380**	597
	52,789	5,091

Before accepting any new customer, other than those settling by cash or credit card, 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:

	2014 *RMB'000*	2013 *RMB'000*
0 – 30 days	**33,647**	4,494
31 – 60 days	**1,762**	–
	35,409	4,494

Included in the Group's trade receivables amounting to RMB1,762,000 (2013: Nil) which are past due at the reporting date for which the Group has not recognised impairment loss, as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience.

The remaining 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.

10. TRADE AND OTHER PAYABLES

	2014 *RMB'000*	2013 *RMB'000*
Trade payables	**21,236**	20,666
Other payables and accrued expenses *(note)*	**16,231**	9,273
Value-added tax and other taxes payables	**5,821**	4,691
	22,052	13,964
	43,288	34,630

Note: The balance included an amount of RMB12,000 (2013: RMB12,000) due to a related party, who is the spouse of Mr. Chen. The amount represents certain operating expenses paid by the related party on behalf of the Group, and is unsecured, interest-free and repayable on demand.

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:

	2014	2013
	RMB'000	*RMB'000*
0 – 30 days	**21,236**	20,666

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 timeframe.

BUSINESS REVIEW

The year 2014 was a milestone for the Group.

In January 2014, the Group decided to enter the downstream silver retail business in the PRC. During 2014, we successfully launched our proprietary online sales platform (www.CSmall.com, "金貓銀貓") and achieved aggregate online sales of RMB271 million, representing 17.8% of our total revenue.

Unlike traditional manufacturing business, online business which provides customers with greater value-added products enjoys considerably higher gross profit margin. As a result, our consolidated gross profit margin saw significant improvement, rising from 14.7% to 22.6%. With the continued growth in contribution from the online segment, we are confident that the overall gross profit margin will further improve.

The Group's consolidated revenue increased slightly to RMB1,523 million (2013: RMB1,507 million) as the increase in revenue from online segment was partially offset by the decrease in the average selling price of silver ingot due to the decrease in the international silver price.

Profit attributable to owners of the Company rose to RMB248 million, representing a record-breaking full-year net profit for the Group. Excluding the one-off reversal of income tax expense of RMB19 million, profit attributable to owners of the Company increased to approximately RMB230 million, representing a remarkable increase of 75.0% as compared to last year.

Manufacturing Business

The global commodity market remained volatile in 2014. 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 2014:

Due to decline in market silver price, the average selling price of our popular Longtianyong silver ingot decreased from RMB4,126 per kg (VAT exclusive) in 2013 to RMB3,434 per kg in 2014, representing a decrease of 16.8%.

We applied a proprietary production model to manufacture high quality silver and other non-ferrous metals. During the year, we sold 219 tonnes of silver ingot to our customers and used 49 tonnes of silver ingot for our online business. Sales volume of other metal by-products remained stable.

While we strategically allocated more resources to develop our fast-growing online business, the manufacturing business will continue to contribute stable cash flow and serves as a solid foundation for the Group to expand.

Online Business

As a young retailer, we fully understand the importance of the use of technology and the revolutionary changes brought by the internet. Unlike traditional retailers who rely heavily on offline construction, we are determined to adopt an unconventional O2O (online to offline) business model, one that we call "Small Window, Big Platform; Little Inventory, Huge Market", to accommodate the fast-changing retailing landscape in the PRC. We understand how to better merge business with technology is the key to succeed in the retail market in the future.

While we develop different sales channels to promote our downstream products, namely silver jewellery and collectibles, all sales orders are directed to and centralized at www.CSmall.com "金貓銀貓", our proprietary online sales platform. Valuable sales data are further analysed so that we can understand customers' habit, improve our future services and better manage inventory. Our proprietary online platform, together with all our offline establishments, will provide a unique O2O shopping experience to our customers.

To give shareholders a better understanding of our business, we further separate the online business into B2B (business-to-business) and B2C (business-to-customer).

B2B (business-to-business)

During the year, we successfully developed several B2B initiatives.

1. O2O experience outlets

   At present, we have a total of roughly 50 franchise and self-owned outlets providing offline experience, service and support to our online business. Most of them are shopping mall counters located in the Yangtze River Delta and are profitable at shop-level.

2. TV channels

   We worked with TV shopping channels to promote our silver products in the PRC. In May 2014, we rocked the market by launching our self-branded "China Silver investment silver bars" on the CCTV shopping channel and recorded a staggering sales of over 100 units in the first hour. Currently, we are working with a total of 7 TV shopping channels, offering wide coverage to TV audiences and shopaholics throughout China.

3. Exhibition hall wholesale

   In September 2014, we officially opened our flagship exhibition hall in Shuibei, Shenzhen. The 2,000 square meter exhibition hall now showcases all of our brands' products and serves as the all-in-one exhibition and experience centre supporting our online operation. It also provides comprehensive wholesale service to our customers.

4. Big customers

   Big customers refer to corporate clients and online brands with large-sized orders. For example, we cooperated with the famous online wedding brand "YiHongZhuang" to design silver accessories tailored for their wedding gown series.

B2C (business-to-customer)

1. www.CSmall.com "金貓銀貓"

   In January 2014, we officially launched www.CSmall.com "金貓銀貓", our proprietary online sales platform. CSmall "金貓銀貓" aims to become the most comprehensive and integrated sales platform for gold, silver and jewellery products in China. CSmall "金貓銀貓" now features more than 60 self-owned and third party jewellery brands. On 11 November 2014, also known as the Single's Day Festival, CSmall "金貓銀貓" achieved record sales of approximately RMB6 million in one day.

2. Third party online platforms

   Apart from developing our own sales platform, we also worked with popular third party platforms such as Tmall and JD to distribute our brand products. All such third party platforms recorded healthy sales growth throughout 2014.

PROSPECTS

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

Given our instant success with the CCTV shopping channel, we added 6 more TV channels to promote our popular silver investment bars. While we continue to add more influential TV channels as our partners, we are also exploring opportunities to promote different types of our silver products to the massive TV audience in the PRC.

We will continue to expand our O2O outlets throughout China. In September 2014, we launched a mass marketing campaign at the Shenzhen International Jewellery Fair, the largest jewellery exhibition in mainland China, and received an overwhelming response from participants from all over China. To date, we have already signed agreements with 11 regional distributors in different provinces and expect to open 300 outlets in 2015.

To enrich the product portfolio, we are introducing gold, amber, gemstone, pearl, diamond, etc., to our flagship exhibition hall in Shuibei. The modern 2,000 square meter hall currently offers the most comprehensive range of jewellery products in Shenzhen and sets a new industry standard.

We will continue to search for and bring in more quality third party jewellery brands to www.CSmall.com "金貓銀貓" and relentlessly upgrade the unique O2O shopping experience we offer to our customers. In late 2014, we launched the CSmall mobile app to timely meet the shift in customers' shopping habit.

While we strive our best to improve our existing channels, we also spend relentless effort to explore new business initiatives:

> In February 2015, we partnered with the Chinese New Year blockbuster 3D movie "Zhongkui – Snow Girl and the Dark Crystal" and tailor-made a series of silver investing souvenirs for movie fans and collectors. The event received extensive media coverage and greatly helped to increase our brand awareness.
>
> In March 2015, we formed a joint venture with Shanghai White Platinum & Silver Exchange for setting up the Shanghai Huatong International Silver Exchange, currently the only spot silver trading market in the China (Shanghai) Pilot Free Trade Zone in Pudong. Shanghai Huatong International Silver Exchange will be the first spot silver trading market in China that allows foreign investor to directly participate. It serves to connect domestic and international commodity market and marks an important step towards free trading in future. By investing in Shanghai Huatong International Silver Exchange, we can enter the downstream silver trading market and further strengthen our leading position and brand influence in the silver and precious metal industry in the PRC.

As disclosed in the 2013 annual report, we strategically delayed the capacity expansion plan to allocate more resources to the development of our downstream business. We plan to gradually increase the new capacity to an annual design capacity of 450 tonnes of silver ingots by the end of 2016.

In January 2015, we completed a private placing to two strategic investors to further strengthen our shareholder base. Both Mr. Luo and Mr. Chu are veteran investors in the precious metals industry in China and can bring invaluable knowledge and network to the Group.

As of 31 December 2014, we have net cash of RMB630 million, meaning that we have adequate firepower to do acquisitions. We have been looking at different opportunities in the market and will disclose more details in accordance to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange when appropriate.

In summary, I am happy to see numerous positive signs in our development. Just about a year ago, we took a bold move to tap into downstream. We started a small office in Shenzhen with roughly 10 people and we grew from there. Right now, we have grown into a team of over 250 people, most of whom are post-90s graduates. I feel particularly joy to work with such a young and talented team, which brings creativity and energy to the Group as we commit relentless effort to adapt to the fast-changing Chinese retailing landscape every single day.

I am confident that the Group is heading the right direction at full speed, we aim to become one of the leading silver brands in the world.

FINANCIAL REVIEW

Revenue

The revenue of the Group for the year ended 31 December 2014 was approximately RMB1,523 million (2013: RMB1,507 million), representing a slight increase of approximately 1% from that of last year.

	Year ended 31 December, 2014		2013	
	Revenue *(RMB'000)*	**% of revenue**	Revenue *(RMB'000)*	% of revenue
Manufacturing				
Silver ingot	**764,574**	**50.2%**	1,020,063	67.7%
Other metal by-products	**487,180**	**32.0%**	459,813	30.5%
	1,251,754	**82.2%**	1,479,876	98.2%
Online				
Silver jewellery and collectibles	**270,962**	**17.8%**	27,087	1.8%
Total	**1,522,716**	**100%**	1,506,963	100%

Sales of silver ingot decreased from RMB1,020 million to RMB765 million for the year ended 31 December 2014, representing a decrease of 25.0% from that of last year. The decrease was due to decline in both the average selling price and sales volume.

The average selling price of silver ingot decreased from RMB4.1 million (value-added tax exclusive) per tonne to RMB3.4 million per tonne due to a drop in the average market silver price. Sales volume of silver ingot decreased from 248 tonnes to 219 tonnes as a portion of the silver ingots were used for the manufacture of silver jewellery and collectibles in the downstream retail business. The aggregate production volume of silver ingot remained stable.

Other metal by-products such as lead ingot, bismuth ingot and antimony ingot are produced during the production of our silver ingot. Their sales were roughly the same as last year.

During 2014, the online segment recorded sales of silver jewellery and collectibles of RMB271 million (2013: RMB27.1 million). This business was developed rapidly during the year.

Cost of Sales, Gross Profit and Gross Profit Margin

Our cost of sales mainly represents the cost of raw materials consumed, direct labor and manufacturing overhead. Cost of raw materials consumed accounted for over 90% of cost of sales. The purchase cost of raw materials 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. The decrease in cost of sales was mainly due to the decline in the average market price of silver.

We recorded gross profit of RMB343 million (2013: RMB222 million) for the year ended 31 December 2014, representing an increase of 54.5% as compared to that of last year, mainly due to the significant increase in gross profit margin.

The overall gross profit margin rose from 14.7% to 22.6% due to a rapid surge in sales of the high margin online retail business and the decrease in volatility of the international silver price during 2014.

Administrative Expenses

Administrative expenses increased by approximately 85.3% from RMB27.1 million to RMB50.3 million for the year ended 31 December 2014. The increase was mainly due to additional staff hired for the development of the online segment.

Selling and Distribution Expenses

Selling and distribution expenses increased by approximately 372% from RMB1.7 million to RMB8.2 million for the year ended 31 December 2014 mainly due to the increase in advertising costs for the online segment.

Research and Development Expenses

Research and development expenses mainly represent research staff costs and remained stable.

Finance Costs

Finance costs were roughly the same as last year as there was no material change in the average bank borrowing balance during the year.

Income Tax Expense

During the year, one of the Group's major subsidiaries was recognized as a High and New Technology Enterprise by the PRC government. The tax rate was reduced from the statutory rate of 25% to a concessionary tax rate of 15%. In addition, due to the rate reduction, an one-off reversal of income tax expense of RMB19 million overprovided last year was also recorded during the year.

Profit Attributable to Owners of the Company

Profit and total comprehensive income attributable to owners of the Company increased from RMB131 million for the year ended 31 December 2013 to RMB248 million for the year ended 31 December 2014. Net profit margin significantly increased from 8.7% to 16.3% primarily due to the increase in gross profit margin and a reduction in income tax expense.

Inventories, Trade Receivables and Trade Payables Turnover Cycle

The Group's inventories mainly comprise of raw materials of ore powder, smelting slag and silver jewellery. For the year ended 31 December 2014, inventory turnover days were approximately 40.0 days (for the year ended 31 December 2013: 41.0 days) and remained stable.

The turnover days for trade receivables for the year ended 31 December 2014 were approximately 4.8 days (for the year ended 31 December 2013: 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.

The turnover days for trade payables for the year ended 31 December 2014 were approximately 6.5 days (for the year ended 31 December 2013: 5.3 days). We are generally required by our suppliers to prepay 30 to 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 2014, the Group's bank borrowings balance amounted to RMB130 million (as of 31 December 2013: RMB130 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 the total bank borrowings less bank balances and cash and pledged bank deposit as a percentage of shareholder equity. As of 31 December 2014, the Group is in a net cash position with a net gearing ratio of -83.6% (as of 31 December 2013: -50.7%).

Pledge of Assets

As of 31 December 2014, the Group pledged property ownership rights in respect of buildings, land use rights, inventories and bank deposit with total carrying value of RMB67.4 million, RMB11.1 million, RMB66.9 million and RMB20.1 million, respectively (as of 31 December 2013: RMB71.0 million, RMB11.4 million, RMB85.0 million and RMB20.0 million) to secure the general banking facilities granted to the Group.

Capital Expenditures

For the year ended 31 December 2014, the Group invested RMB17.7 million in property, plant and equipment (2013: RMB53.9 million). The amount decreased as the construction work for capacity expansion was substantially completed during the year.

EMPLOYEES

As of 31 December 2014, the Group employed 936 staff (as of 31 December 2014: 698 staff) and the total remuneration for the year ended 31 December 2014 amounted to approximately RMB59.4 million (2013: RMB41.7 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 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 of 31 December 2014, the cash and cash equivalents, net current assets and total assets less current liabilities were RMB740 million (as of 31 December 2013: RMB381 million), RMB769 million (as of 31 December 2013: RMB336 million) and RMB978 million (as of 31 December 2013: RMB545 million), respectively. As of 31 December 2014, the Group had bank borrowings amounting to RMB130 million (as of 31 December 2013: RMB130 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 were intended to be applied in the manner consistent with that in the prospectus of the Company dated 14 December 2012. As of 31 December 2014, HK$25.5 million of the proceeds from the Listing have not been utilized.

DIVIDEND

The Directors recommend a final dividend for the year ended 31 December 2014 of HK$0.05 (2013: HK$0.03) per share with scrip option. The shareholders will be given an option to elect to receive shares of the Company credited as fully paid in lieu of cash in respect of part or all of the proposed final dividend (the "**Scrip Dividend Scheme**"). Interim dividend of HK$0.02 (2013: HK$0.02) was declared and paid during the year. Total dividend for the year amounts to HK$0.07 (2013: HK$0.05) per share.

The Scrip Dividend Scheme will be subject to (i) the approval of the proposed final dividend at the annual general meeting to be held on 21 April 2015 (the "**Annual General Meeting**"); and (ii) the Stock Exchange granting the listing of and permission to deal in the new shares to be allotted thereunder. Subject to the above conditions, new share entitlements will be calculated by reference to the par value of the Shares, being HK$0.01, or the average of the closing prices per share of the Company on the Stock Exchange for the five consecutive trading days up to and including 24 April 2015, whichever is higher. Full details of the Scrip Dividend Scheme will be set out in a circular to be despatched to the shareholders.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

(i) From 17 April 2015 to 21 April 2015 (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 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 pm on 16 April 2015 for registration of transfer.

(ii) From 27 April 2015 to 29 April 2015 (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 29 May 2015), 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 pm on 24 April 2015 for registration of transfer.

CODE OF CORPORATE GOVERNANCE PRACTICE

During the year ended 31 December 2014, the Company has complied with the code provisions as set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Listing Rules, except for the following deviations:

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.

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 of 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 year ended 31 December 2014.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF OUR COMPANY

For the year ended 31 December 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee has reviewed the financial reporting processes and internal control system of the Group and discussed with the external auditors the consolidated financial statements for the year ended 31 December 2014. 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 profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2014 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

I would like to thank the Board, 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.chinasilver.hk) and the Stock Exchange (www.hkexnews.hk). The 2014 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, 16 March, 2015

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. Jiang Tao, Dr. Li Haitao and Dr. Zeng Yilong.