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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2015

HIGHLIGHTS OF 2015 INTERIM RESULTS

- Revenue generated from O2O segment reached RMB214 million, representing a growth of approximately 245% as compared to last period and 38.6% of our total revenue (for last period: 9.0%)
- Proprietary online sales platform, www.CSmall.com (金 貓 銀 貓), surpassed 800,000 registered members and reached 8.5 million monthly page views
- Profit attributable to owners of the Company however significantly decreased by 89.7% to RMB13.7 million mainly due to the deterioration of traditional smelting business, certain one-off expenses and an increase in administrative expenses due to the transformation of the business
- The Board resolved to declare an interim dividend of HK$0.01 per share

The board of directors (individually, a "**Director**", or collectively, the "**Board**") of China Silver Group Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2015 together with the comparative figures for the corresponding period in 2014. The results for the current interim period have been reviewed by our auditor, Deloitte Touche Tohmatsu, certified public accountants in Hong Kong, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants and the audit committee of the Company with no disagreement.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

		Six months ended 30 June	
		2015	2014
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*3*	**554,653**	687,903
Cost of sales		**(455,179)**	(526,451)
Gross profit		**99,474**	161,452
Other income		**1,420**	1,118
Administrative expenses		**(56,185)**	(17,469)
Selling and distribution expenses		**(7,356)**	(1,333)
Research and development expenses		**(958)**	(950)
Other gains (losses)		**3,731**	(1,421)
Other expenses		**(11,224)**	(13)
Finance costs		**(3,758)**	(4,105)
Profit before tax		**25,144**	137,279
Income tax expense	*4*	**(11,420)**	(3,553)
Profit and total comprehensive income for the period	*5*	**13,724**	133,726
		RMB	*RMB*
Earnings per share	*7*		
Basic		**0.012**	0.148
Diluted		**0.012**	0.148

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015

	Notes	**30 June 2015 RMB'000 (unaudited)**	31 December 2014 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**189,534**	182,720
Prepaid lease payments		**18,786**	19,003
Intangible assets		**6,339**	5,443
Deferred tax asset		**2,253**	2,307
Deposits paid for acquisition of property, plant and equipment		**5,945**	–
Interest in an associate		**200**	200
		223,057	209,673
CURRENT ASSETS			
Prepaid lease payments		**432**	432
Inventories		**508,174**	136,390
Trade and other receivables	8	**135,473**	52,789
Trade deposits		**13,385**	5,233
Pledged bank deposit		**20,100**	20,100
Bank balances and cash		**830,994**	740,434
		1,508,558	955,378
CURRENT LIABILITIES			
Trade and other payables	9	**70,190**	43,288
Customer receipts in advance		**37,328**	378
Income tax payable		**10,762**	13,054
Bank borrowings		**149,989**	130,139
		268,269	186,859
NET CURRENT ASSETS		**1,240,289**	768,519
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,463,346**	978,192
CAPITAL AND RESERVES			
Share capital		**10,625**	7,362
Share premium and reserves		**1,443,852**	746,529
TOTAL EQUITY		**1,454,477**	753,891
NON-CURRENT LIABILITIES			
Receipts in advance for issue of shares		**–**	215,075
Deferred income		**8,869**	9,226
TOTAL NON-CURRENT LIABILITY		**8,869**	224,301
TOTAL EQUITY AND NON-CURRENT LIABILITIES		**1,463,346**	978,192

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2015 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014, except for the new or revised International Financial Reporting Standards ("**IFRSs**") newly adopted by the Group in the current interim period which is disclosed below.

New and revised IFRSs

Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2010 – 2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011 – 2013 Cycle

The application of the new or revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

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 People's Republic of China (the "**PRC**") ("**Manufacturing segment**"); and

(ii) retailing and wholesaling of silver jewellery and collectibles in the PRC ("**O2O segment**").

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

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

	Six months ended 30 June 2015				
	Manufacturing segment *RMB'000*	**O2O segment** *RMB'000*	**Segment total** *RMB'000*	**Elimination** *RMB'000*	**Consolidated** *RMB'000*
Revenue					
External sales	**340,596**	**214,057**	**554,653**	**–**	**554,653**
Inter-segment sales	**176,653**	**159,670**	**336,323**	**(336,323)**	**–**
Total segment revenue	**517,249**	**373,727**	**890,976**	**(336,323)**	**554,653**
Results					
Segment results	**46,446**	**20,637**	**67,083**		**67,083**
Non-segment items					
Unallocated income, expenses and losses					**(38,181)**
Finance costs					**(3,758)**
Profit before tax					**25,144**

	Six months ended 30 June 2014				
	Manufacturing segment *RMB'000*	O2O segment *RMB'000*	Segment total *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
Revenue					
External sales	625,866	62,037	687,903	–	687,903
Inter-segment sales	10,513	–	10,513	(10,513)	–
Total segment revenue	636,379	62,037	698,416	(10,513)	687,903
Results					
Segment results	118,782	28,205	146,987		146,987
Non-segment items					
Unallocated income, expenses and losses					(5,603)
Finance costs					(4,105)
Profit before tax					137,279

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 revenue by products is as follows:

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
Manufacturing segment		
Silver ingot	**200,852**	397,825
Lead ingot	**73,210**	119,216
Others	**66,534**	108,825
	340,596	625,866
O2O segment		
Silver jewellery and collectibles	**214,057**	62,037
	554,653	687,903

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

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
PRC Enterprise Income Tax ("**EIT**")		
– current period	**11,356**	21,974
– under(over)provision in respect of prior years	**10**	(18,510)
	11,366	3,464
Deferred taxation for the period	**54**	89
	11,420	3,553

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

Under the Law of the PRC on EIT (the "**EIT Law**") and its related implementation regulations, the Company's PRC subsidiaries are subject to PRC EIT at the statutory rate of 25% for both periods, 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.

Under the EIT Law, withholding tax is imposed on dividends payable to non-PRC shareholders when it is declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in these condensed consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries amounting to approximately RMB674.4 million as at 30 June 2015 (31 December 2014: RMB607.6 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

5. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
Profit for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets	**443**	181
Cost of inventories recognised as expenses	**455,179**	526,451
Depreciation of property, plant and equipment	**8,045**	7,149
Interest income	**(1,063)**	(749)
(Gain) loss on disposal of property, plant and equipment	**(191)**	1,310
Net exchange (gain) loss	**(3,545)**	111
Release of deferred income	**(357)**	(357)
Release of prepaid lease payments	**217**	217
Expenses and professional fee for acquisition projects and fund raising activities	**11,094**	–

6. DIVIDENDS

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
Dividends recognised as distributions during the period:		
– Final dividend of HK$0.05 per share for the year ended 31 December 2014	**42,829**	–
– Final dividend of HK$0.03 per share for the year ended 31 December 2013	**–**	21,642
	42,829	21,642
Dividends in form of:		
– Cash	**9,413**	21,642
– Scrip dividend	**33,416**	–
	42,829	21,642

Subsequent to 30 June 2015, the directors of the Company have determined that an interim dividend of HK$0.01 per share (six months ended 30 June 2014: HK$0.02 per share) will be paid to the owners of the Company whose names appear in the Register of Members on 16 October 2015.

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:

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
Earnings		
Profit for the period	**13,724**	133,726
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,136,818**	906,186
Effect of dilutive potential ordinary shares:		
Share options	**21,930**	107
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,158,748**	906,293

8. TRADE AND OTHER RECEIVABLES

	30 June 2015	31 December 2014
	RMB'000	*RMB'000*
Trade receivables	**63,217**	35,409
Prepayments	**30,853**	17,380
Other receivables *(note)*	**41,403**	–
	135,473	52,789

Manufacturing segment

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.

O2O segment

The Group generally does not grant a credit period to retail customers, while wholesale customers are normally granted a credit period of 30 days. The Group also demanded advance deposit before delivery of goods to wholesale customers.

note: Other receivables include value-added tax rebate of RMB21,489,000 (31 December 2014: Nil).

9. TRADE AND OTHER PAYABLES

	30 June 2015 *RMB'000*	31 December 2014 *RMB'000*
The amount comprises:		
Trade payables, aged within 30 days	**53,802**	21,236
Other payables and accrued expenses	**13,406**	16,231
Value-added tax and other taxes payables	**2,982**	5,821
	70,190	43,288

The credit periods for purchase of goods and procurement of service for subcontracting processing range from 20 to 30 days. The Group has financial management policies in place to ensure that all payables are settled within credit time frame.

The balance of inventories and trade payables as at 30 June 2015 increased significantly as compared to those at 31 December 2014 because of management's decision to keep a higher level of raw materials to cater for the manufacturing operation in the second half of 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Directors are delighted to report our remarkable progress in the development of our O2O business in the first half of 2015.

Last year, we decided to diversify from traditional smelting business to downstream O2O business. During the period, we launched a number of new initiatives and achieved encouraging results in our O2O segment. The aggregate sales in O2O segment amounted to RMB214 million, representing 38.6% of our total revenue (for last period: 9.0%) and a significant increase of 245% as compared to last period. We foresee that the O2O segment will soon become a major revenue contributor to the Group in the near future.

Our consolidated net profit, nevertheless, recorded a significant decline as compared to last period mainly due to:

(i) the absence of one-off tax reversal of approximately RMB18.5 million recorded in last period;

(ii) the decrease in gross profit margin of the smelting business due to further decline in international silver price and the initial adoption of the new environmental laws by the PRC government;

(iii) the non-recurring expenses of approximately RMB20.8 million incurred for acquisitions and fund-raising activities during the period;

(iv) the increase in non-cash share-based payments of RMB13.3 million; and

(v) the significant increase in operating costs in the O2O business during the rapid expansion stage.

Despite a decrease in net profit due to the transformation of the business, we remain fully confident in our current business strategy and believe all the initial investments will bring fruitful results in the near future.

Manufacturing segment

We are one of the leading silver producers in the PRC which manufactures high-grade silver ingots for industrial and trading purpose.

During the period, the decrease in international silver price further affected the average selling price of our silver ingots. In addition, cost of raw materials increased significantly after the adoption of new environmental laws in the PRC with the government encouraging silver producers to use environmental-friendly recycled materials for production. As a result, the overall performance of the manufacturing segment was adversely affected.

We have been working closely with the local authority on compliance with the regulatory changes and have been studying ways to improve our production process based on the new environmental laws.

We however foresee that as the O2O segment continues to grow rapidly, the traditional smelting business will play a less significant role in the Group's overall performance in the future.

O2O segment

As a young retailer, we fully understand the importance of the use of technology and the revolutionary changes brought by the internet. During the current period, we made significant achievements in our downstream O2O operation.

B2C online

Our proprietary online sales platform, www.CSmall.com (金貓銀貓) surpassed 800,000 registered members, with 8.5 million monthly page views (PV), 4.0 million unique visitors (UV) and 2.3 million internet protocols (IP). The platform now carries an aggregate of approximately 100 self-owned and third party brands offering a comprehensive range of products to customers.

During the period, we also worked with third party platforms such as Tmall, JD, Suning, Gome and Yihaodian to distribute our products online.

O2O stores

O2O stores are franchised and self-owned outlets which provide offline experience, service and support to customers.

In response to the highly-fragmented retail market in the PRC, we introduced a new multi-brand store concept, namely CSmall, to fulfil different needs. Unlike mono-brand stores which only carry one single brand, CSmall store is virtually a mini-mall carrying three to eight silver and jewellery brands which can offer customers with a wide range of choices. The multi-brand store strategy increases the flexibility to react to market changes and adapt to local tastes.

During the period, we opened approximately 50 outlets, including 17 CSmall stores. As of today, we have over 100 outlets across the PRC with presence in Anhui, Guangdong, Hebei, Heilongjiang, Henan, Jiangsu, Shandong, Shanxi, Shaanxi, Shanghai, Tianjin, Yunnan and Zhejiang.

Multimedia shopping

Leveraging the instant success with CCTV shopping channel last year, we now work with a total of 14 television channels with an aggregate coverage of over 300 million home viewers in the PRC. Our partners include CCTV, Shanghai Oriental CJ Shopping, Shandong Lucky Pai, Shenzhen Eachome, etc.

Apart from TV channels, we are in discussion with social media and mobile platforms to promote our products through their various channels.

Wholesale

Wholesale refers to OEM customers and sales generated from our all-in-one 2,000 square meter flagship exhibition hall located in Shuibei, Shenzhen. We work closely with corporate clients and customize silver products according to their needs.

Marketing Campaigns

During the period, we launched a series of marketing activities to boost our brand awareness.

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.

In May 2015, we cooperated with the popular TV show "Where are We Going, Dad 2" and became the only official silver brand to promote show-related silver products.

While we spent great effort to develop our O2O business, our ambition also caught the attention of CCTV. In May 2015, CCTV invited us to participate in one of their key series – "Dream Building in China" and introduced our innovative O2O silver and jewellery retail platform to the audience in the PRC.

Going forward, we will continue to allocate more resources to promote our brands. For example, we have been working with Trends Group, one of the largest media groups in the PRC, and invited their celebrities to promote our silver products. We have also collaborated with the China Railway Corporation to promote our online sales platform, www.CSmall.com (金貓銀貓), on trains so as to allow passengers to shop comfortably during their journey.

Prospects

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

In July 2015, we announced that we acquired a 25% equity interest in Shanghai White Platinum & Silver Exchange (上海華通鉑銀交易市場有限公司). Shanghai White Platinum & Silver Exchange is the operator of an integrated precious metals and non-ferrous metals exchange in the PRC which provides professional and standardized spot goods supply, trading, logistic and e-commerce services. It is currently the largest spot exchange for silver trading in the PRC with its official website, www.buyyin.com, being the most authoritative web portal for the silver industry in the PRC. The daily spot silver prices quoted by www.buyyin.com are the general reference prices for the silver industry in the PRC.

Upon completion of the acquisition, the Group will own over 50% attributable interest in Shanghai Huatong International Silver Exchange (上海華通白銀國際交易中心), the only approved spot silver trading exchange in China (Shanghai) Pilot Free Trade Zone which will become the first silver exchange in the PRC allowing foreign investors to directly participate in.

In August 2015, we partnered with the PRC's largest crowd-funding platform, Renrentou.com (人人投), to open our 100th O2O store in Shenzhen Haiya Mega Mall. This is also the first project we worked with Renrentou, with Renrentou responsible for fund raising and the Group responsible for store operation. In view of the positive response from investors, we recently signed a strategic partnership agreement with Renrentou to open up to 200 O2O stores with an estimated funding of RMB300 million in the coming year.

In summary, we are glad to see numerous positive developments in our O2O business during this transformation period. Although the traditional manufacturing business will continue to be affected by the weakening of international silver price, we expect the effect to decrease over time as the downstream businesses expand rapidly. We aim to become the leading integrated silver enterprise in the PRC.

Financial Review

Revenue

The revenue of the Group for the six months ended 30 June 2015 was approximately RMB555 million (2014: RMB688 million), representing a decrease of approximately 19.4% from that of last period.

	Six months ended 30 June,			
	2015		2014	
	Revenue *(RMB'000)*	**% of revenue**	Revenue *(RMB'000)*	% of revenue
Manufacturing segment				
Silver ingot	**200,852**	**36.2%**	397,825	57.8%
Other metal by-products	**139,744**	**25.2%**	228,041	33.2%
	340,596	**61.4%**	625,866	91.0%
O2O segment				
Silver jewellery and collectibles	**214,057**	**38.6%**	62,037	9.0%
Total	**554,653**	**100%**	687,903	100%

Sales of silver ingot decreased from RMB398 million to RMB201 million for the six months ended 30 June 2015, representing a decrease of 49.5% from that of last period. The decrease was due to both decline in the average selling price and sales volume.

The average selling price of silver ingot decreased from RMB3.5 million (value-added tax exclusive) per tonne to RMB3.0 million per tonne due to a drop in the average market price of silver. Sales volume of silver ingot decreased from 113 tonnes to 66 tonnes as a portion of silver ingots was used for the manufacture of silver jewellery and collectibles in the downstream O2O business. The aggregate production volume of silver ingot remained stable at approximately 120 tonnes.

Other metal by-products such as lead ingot, bismuth ingot and antimony ingot are produced during the production of silver ingot. Sales decreased by 38.7% to RMB140 million mainly due to the use of environmental-friendly recycled materials which carried less metal by-products.

During this period, the O2O segment recorded sales of silver jewellery and collectibles of RMB214 million (2014: RMB62 million), representing an increase of 245% as all our retail sales channels expanded rapidly.

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 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 RMB99.5 million (2014: RMB161 million) for the six months ended 30 June 2015, a decrease of 38.4% as compared to that of last period and the overall gross profit margin decreased from 23.5% to 17.9% due to the use of recycled materials after the implementation of new environmental protection laws in the PRC.

Administrative Expenses

Administrative expenses increased by approximately 222% from RMB17.5 million to RMB56.2 million for the six months ended 30 June 2015. The increase was mainly due to an increase in non-cash share-based payments of RMB13.3 million, as well as a significant increase in staff cost due to the expansion in O2O segment.

Selling and Distribution Expenses

Selling and distribution expenses increased by approximately 452% from RMB1.3 million to RMB7.4 million for the six months ended 30 June 2015 mainly due to an increase in advertising cost for brand promotion and transportation cost for product delivery.

Other Expenses

Other expenses mainly represent non-operating professional expenses for acquisition projects and fund raising activities during the period.

Income Tax Expense

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 statutory rate of 25% to a concessionary tax rate of 15%. During the last period, a one-off reversal of income tax expense of RMB19 million overprovided was recorded. No such reversal was recorded during the period.

Profit Attributable to Owners of the Company

Profit and total comprehensive income attributable to owners of the Company decreased significantly from RMB134 million for the six months ended 30 June 2014 to RMB13.7 million for the six months ended 30 June 2015. Net profit margin decreased from 19.4% to 2.5% primarily due to the decrease in gross profit and the increase in non-operating and administrative expenses as explained above.

Inventories, Trade Receivables and Trade Payables Turnover Cycle

The Group's inventories mainly comprise of raw materials of ore powder, smelting slag and recycled materials. For the six months ended 30 June 2015, inventory turnover days were approximately 128 days (for the year ended 31 December 2014: 40 days). The significant increase was mainly due to the purchase of recycled materials after the implementation of the new environmental laws in the PRC.

The turnover days for trade receivables for the six months ended 30 June 2015 were approximately 16.1 days (for the year ended 31 December 2014: 4.8 days). The increase was mainly due to the increase in sales of O2O segment.

The turnover days for trade payables were approximately 15 days (for the year ended 31 December 2014: 6.5 days). The increase was due to the increase in the purchase of recycled materials.

Borrowings

As of 30 June 2015, the Group's bank borrowings balance amounted to RMB150 million (as of 31 December 2014: 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 30 June 2015, the Group was in a net cash position with a net gearing ratio of -48.2% (as of 31 December 2014: -83.6%).

Pledge of Assets

As of 30 June 2015, the Group pledged property ownership rights in respect of buildings, land use rights, inventories and bank deposit with total carrying value of RMB65.6 million, RMB11.0 million, RMB235 million and RMB20.1 million, respectively (as of 31 December 2014: RMB67.4 million, RMB11.1 million, RMB66.9 million and RMB20.1 million) to secure the general banking facilities granted to the Group.

Capital Expenditures

For the six months ended 30 June 2015, the Group invested RMB15.0 million in property, plant and equipment (2014: RMB15.1 million).

Employees

As of 30 June 2015, the Group employed 963 staff (as of 31 December 2014: 936 staff) and the total remuneration for the six months ended 30 June 2015 amounted to approximately RMB53.9 million (2014: RMB22.8 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 30 June 2015, the cash and cash equivalents, net current assets and total assets less current liabilities were RMB831 million (as of 31 December 2014: RMB740 million), RMB1,240 million (as of 31 December 2014: RMB769 million) and RMB1,463 million (as of 31 December 2014: RMB978 million), respectively. As of 30 June 2015, the Group had bank borrowings amounting to RMB150 million (as of 31 December 2014: RMB130 million).

Significant Investment Held, Material Acquisition and Disposal

On 3 May 2015, the Company entered into the memorandum of understanding ("**MOU**") in connection with the proposed acquisition of the entire issued share capital in Rich Metro Holdings Limited for an aggregate consideration of HK$625,500,000. On 17 June 2015, after having discussed with the Company's advisers and considered the due diligence progress in connection with the proposed acquisition, the Board decided to terminate the MOU and the Company will not proceed with the proposed acquisition.

Save as disclosed above, the Group did not hold any significant investment nor did the Group carry out any material acquisition and disposal during the period.

Use of Proceeds from the Listing

The net proceeds from the listing of the Company's share on the main board of the Stock Exchange (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 30 June 2015, HK$9.4 million of the proceeds from the Listing has not been utilized.

Interim Dividend

The Board has resolved to declare an interim dividend for the six months ended 30 June 2015 of HK$0.01 per share (2014: HK$0.02 per share). The interim dividend will be payable on or about 30 October 2015 to shareholders whose names appear on the register of members of the Company on 16 October 2015.

Closure of Register of Members

The register of members of the Company will be closed from 14 October 2015 to 16 October 2015 (both days inclusive) during which period no transfer of shares will be registered. In order to establish entitlements to the interim dividend, all completed 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 13 October 2015.

Code of Corporate Governance Practice

During the six months ended 30 June 2015, 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 did not have a separate chairman and chief executive officer which Mr. Chen Wantian performed these two roles until 30 April 2015.

The Board believed that vesting the roles of both chairman and chief executive officer in the same person had the benefit of ensuring consistent leadership within the Group and enabled more effective and efficient overall strategic planning for the Group. However, in order to comply with the Code, the Board decided to separate the roles of the chairman and chief executive officer on 30 April 2015.

Changes in Information of Directors

Changes in information of Directors since the publication of the Company's annual report 2014 were disclosed as below pursuant to Rule 13.51B(1) of the Listing Rules:

Mr. Chen Wantian has resigned from his position as the chief executive officer with effect from 30 April 2015, but remains as the chairman of the Board and an executive Director of the Company. Mr. Sung Kin Man has been appointed as the chief executive officer and executive Director with effect from 30 April 2015 and Mr. Guo Bin has been appointed as an independent non-executive Director with effect from 30 April 2015.

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 to 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 six months ended 30 June 2015.

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

Date of completion	Fund raising activity	Net proceeds raised	Reasons for fund raising and use of net proceeds	Closing price of last trading date
2 January 2015	Issue of 180,000,000 new ordinary shares at HK$1.51 each to two independent third parties by way of subscription under general mandate	Approximately HK$272 million	All the net proceeds will be applied for the expansion of the Company's downstream silver retailing business, its potential upstream acquisitions and general working capital	HK$1.82
22 May 2015	Placing of 200,000,000 existing ordinary shares to not less than six independent third parties and subscription of 200,000,000 new ordinary shares at HK$2.64 each under general mandate	Approximately HK$512 million	Approximately 30% of the net proceeds for the expansion of the Company's downstream silver retailing business, approximately 30% for the development of commodity trading platforms and related services and approximately 40% of the net proceeds for general working capital and other potential investments	HK$3.25
3 June 2015	Issue of 17,956,000 new ordinary shares at HK$4.25 each to five independent third parties by way of subscription under general mandate	Approximately HK$74 million	All the net proceeds will be applied for potential investments and general working capital	HK$5.31

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period ended 30 June 2015.

Share Option Scheme

The total number of shares available for issue under the share option scheme adopted on 5 December 2012 was 88,236,000 and 84,636,000, representing 9.74% and 6.41% of the Company's issued share capital as at 31 December 2014 and 30 June 2015 respectively.

On 27 May 2015, the remuneration committee of the Company resolved to grant a total of 76,000,000 share options under the rules of the share option scheme adopted on 21 April 2015 to certain employees and consultants of the Group. Since no grantees accepted the share option within the acceptance period, no share options were subsequently issued.

VIE Agreements

With reference to the Company's annual report 2014 ("**2014 Annual Report**") and the Company's announcements dated 20 May 2014 ("**2014 Announcement**") and 16 May 2015 ("**2015 Announcement**") respectively, the Company entered into a series of contractual agreements (the "**VIE Agreements**") as further detailed in the 2014 Announcement and note 35 (ii) to the consolidated financial statements as set out in the 2014 Annual Report. By entering into the VIE Agreements, a structure ("**VIE Structure**") has been established to enable the Group to effectively hold and control Shenzhen Yinruiji Cultural Development Company Limited ("**Structured Entity**"), a limited company established in the PRC.

Reasons for using the VIE Structure

The primary purpose for the Group to adopt the VIE Structure is to enable the Group to formally operate a proprietary online sales platform (www.CSmall.com) (the "**Online Platform**") owned by the Structured Entity. Since O2O retail business is a key business objective of the Group, the formation of an online sales platform is essential.

However, owing to certain restrictions under the laws and regulations relating to the telecommunication business in the PRC (as detailed in the 2015 Announcement), the equity-owned subsidiaries of the Company were prohibited from operating the Online Platform directly without first adopting the VIE Structure. After seeking advice from the PRC legal adviser that a VIE structure is a commonly used structure by foreign internet companies to overcome the barrier, the Group established the VIE Structure on 20 May 2014.

Significance and financial contribution of the Structured Entity to the Group

For the year ended 31 December 2014, the aggregate revenue attributable to the Structured Entity amounted to about RMB17.7 million and represents about 1.2% of the Group's total revenue. As at 31 December 2014, the assets attributable to the Structured Entity was immaterial.

Risks associated with the VIE Structure

In connection with the VIE Structure, the Group is subject to certain risks and limitations, which are summarized below:

If the Structured Entity fails to obtain the requisite licenses and approvals to continually operate its online sales business in the PRC, the Group's business and financial position may be adversely affected.

As mentioned in the 2015 Announcement, foreign direct investment in value-added telecommunications business is governed by the FITE Regulations, which require a foreign investor who would like to acquire any equity interest in the value-added telecommunications business to meet the certain qualification requirement (i.e. such foreign investor is required to have a good track record and experience in providing value-added telecommunications business, "**Qualification Requirement**"). The Group has been taking steps to build up its business record and experience, but given the lack of guidelines in this unclear area of the law, there is no guarantee that the steps taken will be sufficient to enable the Company to ultimately acquire the ownership in the Structured Entity.

Under the Exclusive Option Agreement, 深圳國銀通寶有限公司 (Shenzhen Guoyintongbao Company Limited*, "**SZ Silver**") has the sole discretion to require the shareholders of the Structured Entity to transfer their equity interest in the Structured Entity to SZ Silver at the lower of (i) the amount of the registered capital contributed by the shareholders in accordance with their respective percentage of equity interest in the Structured Entity and (ii) the lowest price permitted under the PRC laws. The relevant PRC authorities may require SZ Silver to pay a substantial amount of enterprise income tax for the income from the ownership transfer if the purchase price is set below the market value. The exercise of the option to acquire the ownership of the Structured Entity may therefore be subject to substantial costs.

Although the PRC legal adviser to the Company expressed the view that the VIE Structure is in compliance with the relevant PRC laws and regulations, uncertainties exist regarding the interpretation and application of the PRC laws and regulations, especially in the area of value-added telecommunications business. If the PRC government determines that the VIE Agreements do not comply with the applicable laws and regulations of the PRC or issues further guidelines that impose stricter foreign ownership requirements in that area of business, the Group's O2O retail business may be adversely affected.

The VIE Agreements may not provide control as effective as direct ownership. Under the VIE Structure, the Group operates its sales business through the Online Platform. The Group has to rely on SZ Silver's rights under the VIE Agreements to effect changes in the management of the Structured Entity and make an impact on its business decision making, as opposed to exercising its rights directly as a registered equity-holder. If the Structured Entity or its registered equity-holders refuse to cooperate, the Company will face difficulties in effecting control over the Structured Entity's operation of business through the VIE Structure, which may adversely affect the Company's business efficiency.

The registered equity-holders ("**Registered Equity-holders**") of the Structured Entity may have potential conflicts of interest with the Group. Although there are provisions under the Exclusive Option Agreement to prevent those situations, conflicts of interest may still arise when the interest of any Registered Equity-holder does not align with that of the Company, and such Registered Equity-holder may breach or cause the Structured Entity to breach the VIE Agreements. If the Group fails to resolve this internally, it may have to resort to formal dispute resolution proceedings, which may be costly and time-consuming and which outcome is uncertain. If ultimately any Registered Equity-holder has to be removed, it may be difficult for the Company to maintain investors' confidence in the VIE Structure.

Under the Exclusive Consultancy and Services Agreement, the Structured Entity is required to pay SZ Silver a service fee for the services rendered by SZ Silver. Such service fee payments between related parties may be subject to scrutiny or challenge by the PRC tax authorities within ten years after the taxable year during which such transactions are conducted.

Although the Company intends to take the steps as described above to meet the Qualification Requirement and the Company's PRC legal adviser has confirmed that the overseas business experience can be counted towards the Qualification Requirement, there is no assurance that those steps will be sufficient to satisfy the Qualification Requirement, especially when the relevant PRC authorities have not issued any clear guidance as to the interpretation of the Qualification Requirement. Thus, there is a risk that when the foreign ownership restrictions are lifted in the future, the Group may be required to unwind the VIE Structure before it is in a position to comply with the Qualification Requirement.

Up to 31 December 2014, the Group does not maintain any insurance to cover the risks relating to the VIE Agreements.

Despite the above, as advised by the PRC legal advisers to the Company, the VIE Structure is in compliance with and, to the extent governed by the PRC laws currently in force, are enforceable under, the current PRC laws. The Company will monitor the relevant PRC laws and regulations relevant to the VIE Structure and will take all necessary actions to protect the Company's interest in the Structured Entity.

Material changes

Save as disclosed in the 2014 Annual Report and above, as at the date of the 2014 Annual Report, there has not been any material change in the VIE Structure and/or the circumstances under which they were adopted.

Unwinding of the VIE Structure

Up to the date of the 2014 Annual Report, there has not been any unwinding of the VIE Structure, nor has there been any failure to unwind the VIE Structure when the restrictions that led to the adoption of the VIE Structure are removed.

Audit Committee

The Audit Committee has reviewed the financial reporting processes and internal control system of the Group and discussed with the external auditors of the condensed consolidated financial statements for the six months ended 30 June 2015. The Audit Committee is of the opinion that these statements had complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures had been made.

Acknowledgement

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

Publication of Interim Results Announcement and Interim Report

This announcement is published on the websites of the Company (www.chinasilver.hk) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The 2015 interim 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
Sung Kin Man
Chief Executive Officer and Executive Director

Hong Kong, 17 August, 2015

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