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 2016

**HIGHLIGHTS OF 2016 INTERIM RESULTS**

- Revenue generated from O2O segment amounted to RMB1,243 million, representing a growth of approximately 481% as compared to last period
- Excluding a one-off net gain of RMB22.7 million, newly-acquired silver exchange business contributed an encouraging segment profit of RMB39.9 million in current period
- Profit attributable to owners of the Company significantly increased by approximately 587% to RMB94.2 million mainly due to rebound in traditional manufacturing business, strong growth in O2O business, positive contribution from newly-acquired silver exchange business and a one-off net gain resulting from the Shanghai Huatong acquisition
- Excluding non-cash share option expenses of RMB29.0 million and one-off net gain resulting from the Shanghai Huatong acquisition of RMB22.7 million, adjusted net profit attributable to owners of the Company amounted to approximately RMB101 million
- The Board resolved to declare an interim dividend of HK$0.02 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 condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2016 together with the comparative figures for the corresponding period in 2015. 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 2016*

| | NOTES | Six months ended 30 June 2016 RMB'000 (unaudited) | 2015 RMB'000 (unaudited) |
|---|---|---|---|
| Revenue | 3 | **1,905,514** | 554,653 |
| Cost of sales and services provided | | **(1,693,604)** | (455,179) |
| Gross profit | | **211,910** | 99,474 |
| Other income | | **3,370** | 1,420 |
| Administrative expenses | | **(82,737)** | (56,185) |
| Selling and distribution expenses | | **(15,891)** | (7,356) |
| Research and development expenses | | **(1,457)** | (958) |
| Gain on deemed disposal of associates | | **31,305** | – |
| Other gains and losses | | **(7,319)** | 3,731 |
| Other expenses | | **(2,867)** | (11,224) |
| Share of results of associates | | **253** | – |
| Finance costs | | **(3,156)** | (3,758) |
| Profit before tax | | **133,411** | 25,144 |
| Income tax expense | 4 | **(39,175)** | (11,420) |
| Profit for the period | 5 | **94,236** | 13,724 |
| **Other comprehensive expense, net of income tax** | | | |
| *Item that may reclassified subsequently to profit or loss:* | | | |
| Exchange difference arising on translation of foreign operations | | **(687)** | – |
| Total comprehensive income for the period | | **93,549** | 13,724 |
| Profit for the period attributable to: | | | |
| Owners of the Company | | **94,236** | 13,724 |
| Non-controlling interests | | **–** | – |
| | | **94,236** | 13,724 |
| Total comprehensive income for the period attributable to: | | | |
| Owners of the Company | | **93,549** | 13,724 |
| Non-controlling interests | | **–** | – |
| | | **93,549** | 13,724 |
| | | ***RMB*** | *RMB* |
| Earnings per share | 7 | | |
| Basic | | **0.066** | 0.012 |
| Diluted | | **0.066** | 0.012 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2016*

| | NOTES | 30 June 2016 RMB'000 (unaudited) | 31 December 2015 RMB'000 (audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **187,696** | 189,632 |
| Prepaid lease payments | | **18,351** | 18,568 |
| Goodwill | | **407,321** | – |
| Intangible assets | | **124,418** | 7,091 |
| Deferred tax asset | | **2,039** | 2,128 |
| Interests in associates | | **2,959** | 63,598 |
| | | **742,784** | 281,017 |
| **CURRENT ASSETS** | | | |
| Prepaid lease payments | | **432** | 432 |
| Inventories | *9* | **679,369** | 236,447 |
| Trade receivables, deposits and prepayments | *8* | **120,481** | 168,348 |
| Trade deposits | | **16,077** | 12,672 |
| Amount due from an associate | | **–** | 39,610 |
| Short-term bank deposit | | **–** | 500,000 |
| Bank balances and cash | | **748,313** | 518,695 |
| | | **1,564,672** | 1,476,204 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | *9* | **150,118** | 115,473 |
| Customer receipts in advance | | **33,904** | 1,388 |
| Contingent consideration for a business combination | | **168,081** | – |
| Income tax payable | | **32,095** | 6,768 |
| Bank borrowings | | **110,000** | 130,000 |
| | | **494,198** | 253,629 |
| **NET CURRENT ASSETS** | | **1,070,474** | 1,222,575 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,813,258** | 1,503,592 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **11,564** | 10,627 |
| Share premium and reserves | | **1,714,505** | 1,435,855 |
| Equity attributable to owners of the Company | | **1,726,069** | 1,446,482 |
| Non-controlling interests | | **51,590** | 48,598 |
| Total equity | | **1,777,659** | 1,495,080 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liability | | **27,444** | – |
| Deferred income | | **8,155** | 8,512 |
| | | **35,599** | 8,512 |
| **TOTAL EQUITY AND NON-CURRENT LIABILITIES** | | **1,813,258** | 1,503,592 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2016*

## 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 except for certain financial instruments, which are measured at fair value, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board that are relevant for the preparation of the Group's condensed consolidated financial statements:

| | |
|---|---|
| Amendments to IFRS 11 | Accounting for Acquisition of Interests in Joint Operations |
| Amendments to IAS 1 | Disclosure Initiative |
| Amendments to IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |
| Amendments to IFRSs | Annual Improvements to IFRSs 2012-2014 Cycle |
| Amendments to IAS 16 and IAS 41 | Agriculture: Bearer Plants |
| Amendments to IAS 27 | Equity Method in Separate Financial Statements |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment Entities: Applying the Consolidation Exception |

The application of the above amendments to 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 PRC ("**Manufacturing segment**");

(ii) retailing and wholesaling of silver, gold, jewellery and collectibles through mainly online in the PRC ("**O2O segment**"); and

(iii) providing professional electronic platform, related services for silver trading and trading of silver ingot ("**Silver exchange segment**").

During the six months ended 30 June 2016, the Group acquired additional 75% equity interest in 上海華通鉑銀交易市場有限公司 ("**Shanghai Huatong**"), since then, the Group is interested in 100% equity interest in Shanghai Huatong and Shanghai Huatong became a subsidiary of the Group. The CODM reviewed the results of Shanghai Huatong for the purpose of resources allocation and performance assessment and its result has been regarded as a reportable segment of the Group during the period.

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 2016 | | | | | |
|---|---|---|---|---|---|---|
| | **Manufacturing segment** *RMB'000* | **O2O segment** *RMB'000* | **Silver exchange segment** *RMB'000* | **Segment total** *RMB'000* | **Elimination** *RMB'000* | **Consolidated** *RMB'000* |
| **Revenue** | | | | | | |
| External sales | **569,232** | **1,242,666** | **93,616** | **1,905,514** | **–** | **1,905,514** |
| Inter-segment sales | **117,110** | **–** | **–** | **117,110** | **(117,110)** | **–** |
| Total segment revenue | **686,342** | **1,242,666** | **93,616** | **2,022,624** | **(117,110)** | **1,905,514** |
| **Results** | | | | | | |
| Segment results | **81,759** | **29,633** | **62,567** | **173,959** | | **173,959** |
| **Non-segment items** | | | | | | |
| Unallocated income, expenses and losses | | | | | | **(37,392)** |
| Finance costs | | | | | | **(3,156)** |
| Profit before tax | | | | | | **133,411** |

| | 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 | 129,512 | – | 129,512 | (129,512) | – |
| Total segment revenue | 470,108 | 214,057 | 684,165 | (129,512) | 554,653 |
| **Results** | | | | | |
| Segment results | 50,834 | 16,249 | 67,083 | | 67,083 |
| **Non-segment items** | | | | | |
| Unallocated income, expenses and losses | | | | | (38,181) |
| Finance costs | | | | | (3,758) |
| Profit before tax | | | | | 25,144 |

*Note:* CODMs revisited the method of allocation of costs and expenses between the operating segment in light of the change in the development of the business. Accordingly, the segment results for the six months ended 30 June 2015 was restated.

**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 | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB'000*** | *RMB'000* |
| **Manufacturing segment** | | |
| Silver ingot | **430,175** | 200,852 |
| Other metal by-products | **139,057** | 139,744 |
| | **569,232** | 340,596 |
| **O2O segment** | | |
| Silver, gold, jewellery and collectibles | **1,242,666** | 214,057 |
| **Silver exchange segment** | | |
| Trading and service income | **93,616** | N/A |
| | **1,905,514** | 554,653 |

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 | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB'000*** | *RMB'000* |
| PRC Enterprise Income Tax ("**EIT**") | | |
| – current period | **38,930** | 11,356 |
| – underprovision in respect of prior years | **156** | 10 |
| | **39,086** | 11,366 |
| Deferred taxation for the period | **89** | 54 |
| | **39,175** | 11,420 |

At the end of the reporting period, the Group has unused tax loss of RMB18 million (31 December 2015: RMB17 million) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit.

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 in prior period, one of the major subsidiaries of the Company, Jiangxi Longtianyong Nonferrous Metals Co., Ltd. ("**Jiangxi Longtianyong**"), was 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 to 2015. In current interim period Jiangxi Longtianyong has applied for the renewal of the qualification as a High and New-Technology Enterprise and is still pending for the approval from relevant authority.

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 RMB815 million as at 30 June 2016 (31 December 2015: RMB693 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 | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB'000*** | *RMB'000* |
| Profit for the period has been arrived at after charging (crediting): | | |
| Cost of inventories recognised as expenses | **1,687,472** | 455,179 |
| Depreciation of property, plant and equipment | **10,429** | 8,045 |
| Fair value change of contingent consideration | **8,584** | – |
| Amortisation of intangible assets | **6,947** | 443 |
| Expenses and professional fees for acquisition projects and fund raising activities | **463** | 11,094 |
| Release of prepaid lease payments | **217** | 217 |
| Interest income | **(1,073)** | (1,063) |
| Net exchange gain | **(859)** | (3,545) |
| Release of deferred income | **(357)** | (357) |
| Gain on disposal of property, plant and equipment | **(3)** | (191) |

## 6. DIVIDENDS

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | ***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 |
| Dividends in form of: | | |
| – Cash | **–** | 9,313 |
| – Scrip dividend | **–** | 33,516 |
| | **–** | 42,829 |

Subsequent to 30 June 2016, the directors of the Company have determined that an interim dividend of HK$0.02 per share (six months ended 30 June 2015: HK$0.01 per share) will be paid to the owners of the Company whose name appear in the register of members of the Company on 23 September 2016.

## 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 | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Profit for the period attributable to owners of the Company | **94,236** | 13,724 |
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,418,305** | 1,136,818 |
| Effect of dilutive potential ordinary shares: | | |
| Share options of the Company | **3,554** | 21,930 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,421,859** | 1,158,748 |

The computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices of those options were higher than the average market price for shares for both period ended 2016 and 2015.

## 8. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | **At 30 June 2016** | At 31 December 2015 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **55,122** | 128,736 |
| Deposits and prepayments | **65,359** | 39,612 |
| | **120,481** | 168,348 |

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 from 30 days to 90 days and requires advance deposits from certain customers before delivery of goods.

## 9. INVENTORIES/TRADE AND OTHER PAYABLES

| | At 30 June 2016 *RMB'000* | At 31 December 2015 *RMB'000* |
|---|---|---|
| The trade and other payables comprise: | | |
| Trade payables, aged within 30 days | **83,747** | 61,402 |
| Other payables and accrued expenses | **32,987** | 29,348 |
| Value-added tax and other taxes payables | **33,384** | 24,723 |
| | **150,118** | 115,473 |

The credit period for purchase of goods generally ranges from 20 to 90 days. The Group has financial management policies in place to ensure that all payables are settled within credit timeframe.

The balance of inventories as at 30 June 2016 increased significantly as compared to that at 31 December 2015 because of the management's decision to keep a higher level of inventories to cater for the business development of O2O and manufacturing segments.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The first half of 2016 was another major step forward for the Group. The Directors are delighted to report our remarkable progress in becoming a leading fully-integrated silver and precious metals enterprise in the People's Republic of China (the "**PRC**").

In 2014, we diversified from the traditional manufacturing business to the downstream O2O business and by leveraging our strength and resources in the upstream business as well as effective implementation of our strategies, the O2O business continued to grow rapidly since its launch. Throughout the first half of 2016, the O2O segment achieved outstanding performance by implementing a series of business initiatives and marketing campaigns. The aggregate sales in the O2O segment amounted to RMB1,243 million, representing approximately 65.2% of our total revenue (2015 1H: 38.6%), a significant increase of approximately 481% as compared to the last period. The O2O segment has now become the major revenue contributor to the Group.

In February 2016, the Group further expanded the downstream business by completing the acquisition of 75% equity interest in Shanghai White Platinum & Silver Exchange* (上海華通鉑銀交易市場有限公司 or "**Shanghai Huatong**"), an operator of an integrated silver exchange platform in the PRC. Upon completion of the acquisition, Shanghai Huatong has become a wholly-owned subsidiary of the Company. This newly-acquired silver exchange business contributed a remarkable segment profit of RMB39.9 (excluding a one-off net gain of RMB22.7 million) million during current period. We are confident that this new business will bring positive return to the Group.

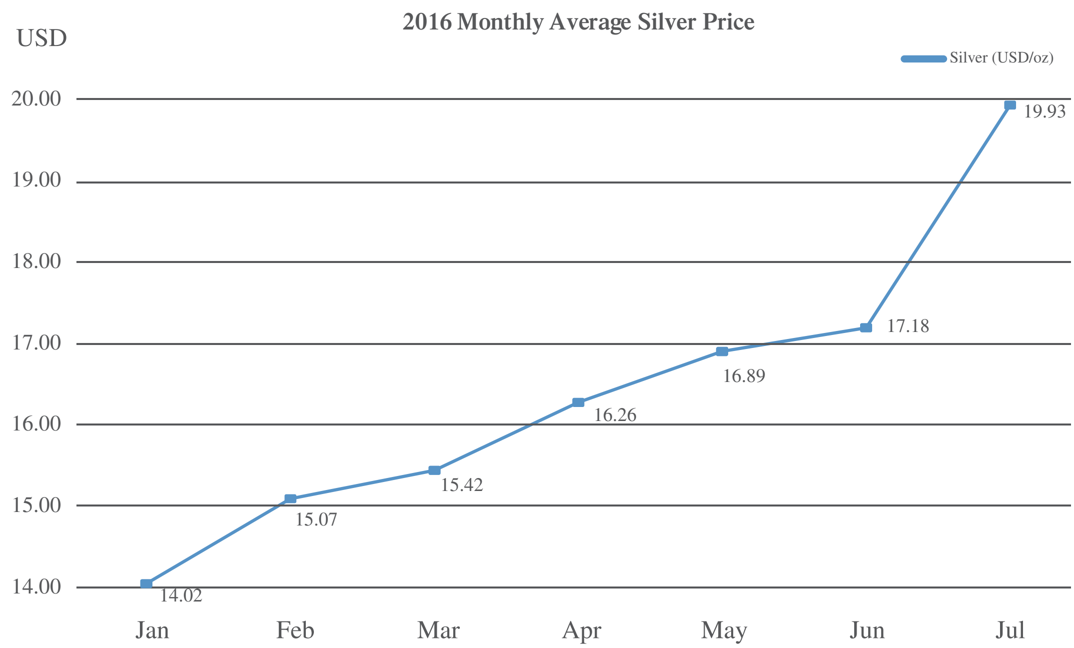
Excluding non-cash share option expenses of RMB29.0 million and a one-off net gain resulting from the Shanghai Huatong acquisition of RMB22.7 million, adjusted net profit attributable to owners of the Company amounted to approximately RMB101 million.

Our long-term vision is to become a leading fully-integrated silver and precious metals enterprise in the PRC. Together with the rapid growth in the O2O business and the silver exchange business, we are moving full speed towards this goal.

### Manufacturing Business

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

The Group applied a proprietary production model to manufacture high quality silver and other non-ferrous metals. During the first half of 2016, we sold 149 tonnes of silver ingot to our customers and used 55 tonnes of silver ingot for our downstream O2O business. Since the beginning of 2016, the global commodity market showed signs of recovery. As such, the average selling price of our silver ingots increased modestly due to rebound in the international silver price. The graph below shows the change in international silver price quoted on the London Bullion Market Association (LBMA) from January 2016 to July 2016:




*Source: The London Bullion Market Association*

While the manufacturing business will benefit from the strong recovery of international silver price starting from June 2016, we expect the traditional manufacturing business will play a less significant role in the Group's overall performance in the future with both the rapid growth in the O2O business and the silver exchange business.

**O2O Business**

As a new joiner in the downstream retail business, we fully understand the importance of the use of technology and the revolutionary changes brought by the internet. Therefore, we decided to adopt a revolutionary approach by applying an innovative O2O model to enter the downstream retail business. During the period, we achieved outstanding results in the O2O segment. Aggregate sales in the O2O segment amounted to RMB1,243 million, representing approximately 65.2% of our total revenue (2015 1H: 38.6%), an increase of over five times the revenue in the first half of 2015.

***B2C online***

B2C online sales experienced significant growth in the first half of 2016 and now represents approximately 70% of sales in the O2O segment. As of 30 June 2016, our online sales platform, www.CSmall.com (金貓銀貓) surpassed 2.9 million registered members, with 33.6 million monthly page views (PV), 15.8 million unique visitors (UV) and 10.0 million internet protocols (IP). The platform now carries an aggregate of over 130 self-owned and third party brands which offers a comprehensive range of products to customers.

Apart from developing our self-owned sales platform, we also cooperated with third party platforms such as Tmall, JD, Suning, Gome, Yihaodian and WeChat Social Distribution accounts to distribute our products online.

*O2O shops*

O2O shops consist of mainly franchised outlets which provide offline experience, service and support to customers.

In view of the highly-fragmented jewellery 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 offers customers a range of choices to suit their needs and preferences. The multi-brand store strategy increases the flexibility to react to market changes and adapt to local tastes.

During the first half of 2016, we opened approximately 20 outlets, including 11 CSmall stores. As of 30 June 2016, we have over 130 outlets across the PRC with presence in Anhui, Beijing, Guangdong, Hebei, Heilongjiang, Henan, Hubei, Hunan, Inner Mongolia, Jiangsu, Jiangxi, Liaoning, Shandong, Shanxi, Shaanxi, Shanghai, Tianjin, Xinjiang, Yunnan and Zhejiang. In January 2016, we opened our first overseas O2O shop in Taipei to explore the international market.

*Multimedia shopping*

We are currently cooperating with a total of 23 television channels with an aggregate coverage of over 300 million home viewers in the PRC. Our major partners include CCTV, Shanghai Oriental CJ Shopping, Shandong Lucky Pai and Shenzhen Eachome.

*Wholesale*

Wholesale refers to OEM customers and sales generated from our all-in-one 2,000 square meters flagship exhibition hall located in Shuibei, Shenzhen. We work closely with corporate clients and customize silver products to meet different demands. For example, we partnered with banking institutions like Bank of Ganzhou to distribute tailored silver collectibles to high-net-worth customers through their bank branches across the PRC.

**Silver Exchange Business**

To fulfil our long term goal of becoming a leading fully-integrated silver and precious metals enterprise, we completed the acquisition of 75% equity interest in Shanghai Huatong in February 2016.

Shanghai Huatong is an operator of an integrated silver exchange platform in the PRC which provides professional and standardized spot goods supply, trading, logistic and e-commerce services. Its official website, www.huatongsilver.com, has been one of the authoritative web portals for the silver industry in the PRC. The daily spot silver prices quoted by www.huatongsilver.com are the general reference prices for the silver industry in the PRC.

Following a series of upgrade and optimization of new systems, Shanghai Huatong achieved a remarkable result by contributing segment revenue of RMB93.6 million and segment profit of RMB39.9 million (excluding a one-off net gain of RMB22.7 million) in the first half of 2016. Since it was merely a five-month period after we took full control, we are confident that this newly acquired business will continue to grow rapidly in the future and become one of the core revenue and profit contributors to the Group.

Furthermore, to facilitate our international ambition, we signed a memorandum of understanding with the government authority on commodities in Dubai to jointly establish a central registry for a commodity ownership and financing platform in the Shanghai free trade zone.

***Marketing Campaigns***

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

In January 2016, we sponsored famous popstar, Chang Chenyue's music concert and set up a sales booth to promote our products. In February 2016, we partnered with the popular TV show, "Legend of the Nine Tails Fox", and became the only official silver brand to promote show-related silver products. In March 2016, we established cooperation with one of the PRC's most popular health care mobile apps, Jian Yue (「減約」), to promote our online sales platform. In May 2016, we became the official sponsor of one of the largest basketball competitions in the PRC, National Basketball League (NBL), to promote our brands and products. In June 2016, we became the official sponsor of the biggest movie award presentation in the PRC, The 16th China Ornamental Column Awards (第16屆中國電影華表獎). During the ceremony, we hosted a lucky draw with CCTV, which allowed the audience from all over the PRC to participate through the mobile app and TV live broadcast. It has in turn effectively enhanced our brand awareness.

Our dedication and achievement in developing the O2O business have won us attention of the media. In April and June 2016, we were invited by China Jiangsu TV to attend the famous reality show "You Are Hired" to promote our brands and products. In May 2016, "21st Century Business Review" published an article to introduce our innovative O2O silver and jewellery retail platform to the readers in the PRC.

In July 2016, we participated in the China Internet Conference to promote our integrated sales platform and were presented with the "Best Commercial Value Award". In the same month, we delivered a speech of our innovative O2O business model and were presented with the "Gold Award of Products and Services Innovation" at the 4th award presentation of TopDigital. Moreover, we tailor-made a series of jewellery accessories of Jiang Hoo, a cartoon character from the popular online game "Perfect World". The accessories were sold in the China Digital Entertainment Expo and Conference (ChinaJoy) in order to promote our brands. In August 2016, we partnered with Jingning People's Government of China to invest RMB10 million in the "Shezu Silver Museum Project". The museum will be displaying no less than 500 of our silver accessories, in order to promote Shezu's traditional culture together with our brands and products.

We are planning to partner with internet celebrities as they are now a big hit. We will create an exclusive jewellery brand for them, which the accessories will be selling on our online sales platform. Furthermore, Disney themed-products are gaining popularity in the PRC with the opening of the Shanghai Disney Resort. We will cooperate with the authorised distributor of Disney in the PRC to produce a series of tableware and mugs printed with Disney cartoon characters.

**Prospects**

Looking ahead, we are confident about the future of the silver, precious metals and jewellery market in the PRC.

Following the strong rebound in international gold and silver prices, particularly after the Brexit referendum in late June 2016, we saw a strong pickup in the demand for high-quality gold and silver products in the market. While we expect the global financial market to remain highly uncertain in coming years, the flight-to-safety investment trend will continue to drive substantial interest in gold and silver products and be vastly beneficial to all our business segments.

While we endeavor to improve our existing businesses, we spend relentless effort to explore new initiatives. As of 30 June 2016, we had net cash of RMB638 million, signifying the Group's sufficient resources in potential bolt-on acquisitions. As announced on 15 August 2016, we are considering to acquire high quality mine resources duly to meet the growing demand for gold and silver products in our downstream businesses. We have been reviewing various opportunities in the market and will disclose more details when appropriate.

In summary, we are pleased with the numerous positive developments in all our business segments. We will strive to the best to become a leading fully-integrated silver and precious metals enterprise in the PRC.

## Financial Review

### *Revenue*

The revenue of the Group for the six months ended 30 June 2016 was RMB1,906 million (2015 1H: RMB555 million), representing an increase of approximately 244% from that of last period.

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2016** | | 2015 | |
| | **Revenue (*RMB'000*)** | **% of revenue** | Revenue (*RMB'000*) | % of revenue |
| **Manufacturing segment** | | | | |
| Silver ingot | **430,175** | **22.6%** | 200,852 | 36.2% |
| Other metal by-products | **139,057** | **7.3%** | 139,744 | 25.2% |
| | **569,232** | **29.9%** | 340,596 | 61.4% |
| **O2O segment** | | | | |
| Silver and gold jewellery | **1,242,666** | **65.2%** | 214,057 | 38.6% |
| **Silver exchange segment** | | | | |
| Trading and related service income | **93,616** | **4.9%** | N/A | N/A |
| Total | **1,905,514** | **100%** | 554,653 | 100% |

*Manufacturing segment*

Sales of silver ingot increased from RMB201 million to RMB430 million for the six months ended 30 June 2016, representing an increase of approximately 114% from that of last period. The increase was due to both increase in the average selling price and sales volume.

The average selling price of silver ingot increased from RMB3.0 million (value-added tax exclusive) per tonne to RMB3.5 million per tonne due to rebound in the international silver price. Sales volume of silver ingot increased from 66 tonnes to 149 tonnes after the production capacity ramped up during the period. The aggregate production volume of silver ingot increased from approximately 120 tonnes to 204 tonnes. We target to produce over 400 tonnes of silver ingot in 2016.

Other metal by-products such as lead ingot, bismuth ingot and antimony ingot are produced during the production of silver ingot. Sales remained relatively stable.

*O2O segment*

During this period, the O2O segment recorded sales of RMB1,243 million (2015 1H: RMB214 million), representing an increase of approximately 481% as our retail sales channels expanded rapidly. To further broaden our product portfolio, gold products were introduced which significantly boosted the overall sales due to its high ticket price. Gold products accounted for over 70% of the overall O2O sales.

*Silver exchange segment*

Revenue mainly represents trading and related service income received from the operation of the online silver exchange platform. During this period, the silver exchange segment recorded trading and related service income of RMB93.6 million (2015 1H: nil).

***Cost of Sales and Services Provided***

*Manufacturing segment*

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 increase was mainly due to the surge in sales volume.

*O2O segment*

Cost of sales mainly represents cost of materials used for the production of silver and gold jewellery products. Except for silver, other materials like gold, amber and diamond are sourced from independent third parties. Amount increased as the sales of O2O segment significantly increased during the period.

*Silver exchange segment*

Cost of sales and services provided mainly represents cost of materials and direct expenses incurred for trading of silver and the operation of the online exchange platform.

***Gross Profit and Gross Profit Margin***

We recorded gross profit of RMB212 million (2015 1H: RMB99.5 million) for the six months ended 30 June 2016, an increase of approximately 113% as compared to that of last period due to rebound in the traditional manufacturing segment, growth in the O2O segment and contribution from the newly-acquired silver exchange business.

The overall gross profit margin decreased from 17.9% to 11.1% due to a change in sales mix. In particular, increase in sales of gold products of the O2O segment carried a lower gross profit margin and thus dragged down the overall gross profit margin.

***Administrative Expenses***

Administrative expenses increased by approximately 47.3% from RMB56.2 million to RMB82.7 million for the six months ended 30 June 2016. The increase was mainly due to increase in non-cash expenses including share-based payments of RMB14.8 million and amortization expenses of RMB6.5 million resulting from the Shanghai Huatong acquisition.

***Selling and Distribution Expenses***

Selling and distribution expenses increased by approximately 116% from RMB7.4 million to RMB15.9 million for the six months ended 30 June 2016 mainly due to an increase in advertising cost for brand promotion and transportation cost for product delivery.

***Other Gains and Losses***

Amount in current period mainly represents fair value change of contingent consideration of RMB8.6 million resulting from the Shanghai Huatong acquisition.

***Other Expenses***

Other expenses in last period mainly represent one-off professional expenses for acquisition projects and fund raising activities.

***Gain on Deemed Disposal of Associates***

Amount represents a one-off gain resulting from the Shanghai Huatong acquisition.

***Profit Attributable to Owners of the Company***

Profit and total comprehensive income attributable to owners of the Company increased significantly from RMB13.7 million for the six months ended 30 June 2015 to RMB94.2 million for the six months ended 30 June 2016 mainly due to increase in gross profit and a one-off net gain resulting from the Shanghai Huatong acquisition.

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

The Group's inventories mainly comprise of raw materials of ore powder, smelting slag, recycled materials and jewellery products. For the six months ended 30 June 2016, inventory turnover days were approximately 49 days (for the year ended 31 December 2015: 44 days). The increase was mainly due to the need to maintain a sufficient level of raw material to satisfy future sales growth.

The turnover days for trade receivables for the six months ended 30 June 2016 were approximately 8.7 days (for the year ended 31 December 2015: 17.6 days).

The turnover days for trade payables were approximately 7.8 days (for the year ended 31 December 2015: 9.8 days).

### *Borrowings*

As of 30 June 2016, the Group's bank borrowings balance amounted to RMB110 million (as of 31 December 2015: 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 2016, the Group was in a net cash position with a net gearing ratio of -35.9% (as of 31 December 2015: -59.4%).

### *Pledge of Assets*

As of 30 June 2016, the Group pledged property ownership rights in respect of buildings, land use rights and inventories with total carrying value of RMB62.1 million, RMB10.8 million and RMB308 million, respectively (as of 31 December 2015: RMB63.9 million, RMB10.9 million and RMB119 million) to secure the general banking facilities granted to the Group.

### *Capital Expenditures*

For the six months ended 30 June 2016, the Group invested RMB8.5 million in property, plant and equipment (2015: RMB15.0 million).

## Employees

As of 30 June 2016, the Group employed 1,084 staff (as of 31 December 2015: 983 staff) and the total remuneration for the six months ended 30 June 2016 amounted to RMB68.5 million (2015: RMB53.9 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 2016, the cash and cash equivalents, net current assets and total assets less current liabilities were RMB748 million (as of 31 December 2015: RMB1,019 million), RMB1,070 million (as of 31 December 2015: RMB1,223 million) and RMB1,813 million (as of 31 December 2015: RMB1,504 million), respectively. As of 30 June 2016, the Group had bank borrowings amounting to RMB110 million (as of 31 December 2015: RMB130 million).

## Significant Investment Held, Material Acquisition and Disposal

On 1 February 2016, the Group completed the acquisition of 75% equity interest in Shanghai Huatong for a consideration of not more than RMB625 million and not less than RMB125 million, which is determined based on the actual performance of Shanghai Huatong. Further details of the acquisition are set out in the announcements of the Company dated 11 December 2015, 25 January 2016 and 1 February 2016.

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.

**Interim Dividend**

The Board has resolved to declare an interim dividend for the six months ended 30 June 2016 of HK$0.02 per share (2015: HK$0.01 per share). The interim dividend will be payable on or about 31 October 2016 to shareholders whose names appear on the register of members of the Company on 23 September 2016.

**Closure of Register of Members**

The register of members of the Company will be closed from 21 September 2016 to 23 September 2016 (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 20 September 2016.

**Code of Corporate Governance Practice**

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and responsibility. The Board comprises four executive Directors and four independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the "**Code**") set out in Appendix 14 to the Listing Rules. During the six months ended 30 June 2016 and up to the date of this announcement, the Company has complied with the code provisions under the Code.

**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 2016.

**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 |
|---|---|---|---|---|
| 22 January 2016 | Issue of 50,000,000 new ordinary shares at HK$1.70 each to an independent third party by way of subscription under general mandate | Approximately HK$84 million | All the net proceeds will be applied for potential investments and general working capital | HK$1.95 |

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 2016.

**Event after the Reporting Period**

On 6 June 2016, CSMall Group Limited ("**CSMall**"), a direct wholly-owned subsidiary of the Company, entered into a subscription agreement with each of Blaze Loop Limited, Silver Apex Holdings Limited and Treasure Delight International Limited (collectively, the "**Subscribers**") pursuant to which CSMall has agreed to allot and issue, and the Subscribers have agreed to subscribe for, a total of 214,275,000 shares in the capital of CSMall at the subscription price of RMB0.40 per subscription share for an aggregate consideration of RMB85,710,000 in cash. Immediately following the subscription, the percentage shareholding of the Company in CSMall would be diluted from 100% to approximately 70%. For details, please refer to the announcements of the Company dated 6 June 2016, 8 July 2016 and 12 July 2016 and the circular of the Company dated 12 July 2016. An extraordinary general meeting (the "**EGM**") was held on 27 July 2016, during which the resolutions as set out in the notice of the EGM dated 12 July 2016 were duly passed by way of poll. For details, please refer to the announcement of the Company dated 27 July 2016.

On 5 August 2016, the Company entered into a share subscription agreement with Yi Shuo Group Limited, an independent third party, pursuant to which the Company has conditionally agreed to allot and issue, and Yi Shuo Group Limited has conditionally agreed to subscribe for, an aggregate of 30,000,000 shares of the Company at the subscription price of HK$1.8 per share. For details, please refer to the announcement of the Company dated 7 August 2016.

**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 2016. 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 2016 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**
**Chen Wantian**
*Chairman*

Hong Kong, 22 August 2016

*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, Mr. Song Hongbing, Dr. Li Haitao and Dr. Zeng Yilong.*

* *For identification purpose only*