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 2017

**HIGHLIGHTS OF 2017 INTERIM RESULTS**

- Consolidated revenue surged to RMB3,107 million, representing a growth of approximately 63% as compared to last period
- New Jewellery Retail segment contributed a segment profit of RMB60.8 million, representing the highest half-year profit since its launch in 2014.
- Fuelled by the strong growth in different business segments, profit attributable to owners of the Company significantly increased to RMB171 million, representing a growth of approximately 81.4% as compared to last period
- In view of future development and potential acquisition opportunities, the Board has resolved not to declare an interim dividend for the six months ended 30 June 2017.

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 2017 together with the comparative figures for the corresponding period in 2016. 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 2017*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2017** | 2016 |
| | *NOTES* | ***RMB'000*** | *RMB'000* |
| | | **(unaudited)** | (unaudited) |
| Revenue | *3* | **3,106,770** | 1,905,514 |
| Cost of sales and services provided | | **(2,803,732)** | (1,693,604) |
| Gross profit | | **303,038** | 211,910 |
| Other income | | **2,109** | 3,370 |
| Administrative expenses | | **(71,114)** | (82,737) |
| Selling and distribution expenses | | **(17,056)** | (15,891) |
| Research and development expenses | | **(958)** | (1,457) |
| Gain on deemed disposal of associates | | **–** | 31,305 |
| Other gains and losses | | **(785)** | 1,265 |
| Other expenses | | **(14,778)** | (11,451) |
| Share of results of associates | | **(5)** | 253 |
| Finance costs | | **(2,702)** | (3,156) |
| Profit before tax | | **197,749** | 133,411 |
| Income tax expense | *4* | **(9,127)** | (39,175) |
| Profit for the period | *5* | **188,622** | 94,236 |
| **Other comprehensive expense, net of income tax** | | | |
| *Item that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising on translation of foreign operations | | **(314)** | (687) |
| Total comprehensive income for the period | | **188,308** | 93,549 |
| Profit for the period attributable to: | | | |
| Owners of the Company | | **170,908** | 94,236 |
| Non-controlling interests | | **17,714** | – |
| | | **188,622** | 94,236 |
| Total comprehensive income for the period attributable to: | | | |
| Owners of the Company | | **170,594** | 93,549 |
| Non-controlling interests | | **17,714** | – |
| | | **188,308** | 93,549 |
| | | ***RMB*** | *RMB* |
| Earnings per share | *7* | | |
| Basic | | **0.112** | 0.066 |
| Diluted | | **0.112** | 0.066 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2017*

| | NOTES | 30 June 2017 RMB'000 (unaudited) | 31 December 2016 RMB'000 (audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **171,011** | 176,603 |
| Prepaid lease payments | | **17,916** | 18,134 |
| Goodwill | | **407,321** | 407,321 |
| Intangible assets | | **127,194** | 120,862 |
| Deferred tax asset | | **2,821** | 3,129 |
| Interest in an associate | | **2,758** | 2,763 |
| Available-for-sale investment | | **8,963** | 8,963 |
| | | **737,984** | 737,775 |
| **CURRENT ASSETS** | | | |
| Prepaid lease payments | | **432** | 432 |
| Inventories | | **1,136,069** | 1,304,154 |
| Trade receivables, deposits and prepayments | 8 | **344,940** | 178,014 |
| Trade deposits | | **27,454** | 28,115 |
| Income tax recoverable | | **19,169** | – |
| Restricted bank balances | | **550,478** | 20,676 |
| Bank balances and cash | | **866,370** | 506,873 |
| | | **2,944,912** | 2,038,264 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 9 | **870,064** | 202,732 |
| Customer receipts in advance | | **24,819** | 7,077 |
| Deferred income | | **3,844** | 4,717 |
| Contingent consideration | | **–** | 176,517 |
| Income tax payable | | **16,280** | 53,087 |
| Bank borrowings | | **110,000** | 110,000 |
| | | **1,025,007** | 554,130 |
| **NET CURRENT ASSETS** | | **1,919,905** | 1,484,134 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **2,657,889** | 2,221,909 |

| | NOTES | 30 June 2017 RMB'000 (unaudited) | 31 December 2016 RMB'000 (audited) |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **13,172** | 11,821 |
| Share premium and reserves | | **2,476,936** | 2,077,342 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY | | **2,490,108** | 2,089,163 |
| Non-controlling interests | | **134,856** | 98,483 |
| **TOTAL EQUITY** | | **2,624,964** | 2,187,646 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liability | | **25,485** | 26,465 |
| Deferred income | | **7,440** | 7,798 |
| | | **32,925** | 34,263 |
| **TOTAL EQUITY AND NON-CURRENT LIABILITIES** | | **2,657,889** | 2,221,909 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2017*

### 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 of Hong Kong Limited (the "**Listing Rules**").

### 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.

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 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

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

| | |
|---|---|
| Amendments to IAS 7 | Disclosure Initiative |
| Amendments to IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to IFRS 12 | As part of the Annual Improvements to IFRSs 2014 – 2016 Cycle |

The application of the amendments to IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements, but the application is expected to have impact on disclosures in the consolidated financial statements for the year ending 31 December 2017.

In addition, the Group has applied the following accounting policies during the current interim period:

**Acquisition of a subsidiary not constituting a business**

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

### 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 metal by-products in the PRC ("**Manufacturing segment**");

(ii) retailing and wholesaling of gold, silver and jewellery products in the PRC ("**New Jewellery Retail segment**"); and

(iii) providing professional electronic platform, related services for silver trading and trading of silver ingots ("**Silver Exchange 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 2017 | | | | | |
|---|---|---|---|---|---|---|
| | **Manufacturing segment** *RMB'000* **(unaudited)** | **New Jewellery Retail segment** *RMB'000* **(unaudited)** | **Silver Exchange segment** *RMB'000* **(unaudited)** | **Segment total** *RMB'000* **(unaudited)** | **Elimination** *RMB'000* **(unaudited)** | **Consolidated** *RMB'000* **(unaudited)** |
| **Revenue** | | | | | | |
| External sales | **1,258,319** | **1,798,717** | **49,734** | **3,106,770** | **–** | **3,106,770** |
| Inter-segment sales | **142,281** | **–** | **–** | **142,281** | **(142,281)** | **–** |
| Total segment revenue | **1,400,600** | **1,798,717** | **49,734** | **3,249,051** | **(142,281)** | **3,106,770** |
| **Results** | | | | | | |
| Segment results | **138,336** | **60,790** | **20,534** | **219,660** | | **219,660** |
| **Non-segment items** | | | | | | |
| Unallocated income, expenses, gains and losses | | | | | | **(19,204)** |
| Share of result of an associate | | | | | | **(5)** |
| Finance costs | | | | | | **(2,702)** |
| Profit before tax | | | | | | **197,749** |

| | Six months ended 30 June 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Manufacturing segment *RMB'000* (unaudited) | New Jewellery Retail segment *RMB'000* (unaudited) | Silver Exchange segment *RMB'000* (unaudited) | Segment total *RMB'000* (unaudited) | Elimination *RMB'000* (unaudited) | Consolidated *RMB'000* (unaudited) |
| **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, gains and losses | | | | | | (37,645) |
| Share of results of associates | | | | | | 253 |
| Finance costs | | | | | | (3,156) |
| Profit before tax | | | | | | 133,411 |

**Geographical information**

The Group's revenue is derived from the PRC, based on the location of customers, and substantially 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 and services**

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

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| **Manufacturing segment** | | |
| Sale of silver ingots | **576,731** | 430,175 |
| Sale of other metal by-products | **681,588** | 139,057 |
| | **1,258,319** | 569,232 |
| **New Jewellery Retail segment** | | |
| Sale of gold, silver and jewellery products | **1,798,717** | 1,242,666 |
| **Silver Exchange segment** | | |
| Commission income | **39,616** | 49,055 |
| Membership fee income | **10,118** | – |
| Trading income | **–** | 44,561 |
| | **49,734** | 93,616 |
| | **3,106,770** | 1,905,514 |

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 | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| PRC Enterprise Income Tax ("**EIT**") | | |
| – current period | **44,734** | 38,930 |
| – (over)underprovision in respect of prior years | **(34,935)** | 156 |
| | **9,799** | 39,086 |
| Deferred taxation for the period | **(672)** | 89 |
| | **9,127** | 39,175 |

At the end of the reporting period, the Group has unused tax losses of approximately RMB4 million (31 December 2016: RMB5 million) available for offset against future profits that will expire in 2017 to 2022. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

Under the Law of the PRC on EIT (the "**EIT Law**") and its related implementation regulations, the Group'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, 江西龍天勇有色金屬有限公司("**Jiangxi Longtianyong**"), was recognised as a High and New Technology Enterprise by the PRC tax authorities on 25 March 2014 such that it was entitled to a concessionary tax rate of 15% for three consecutive years beginning from the year of 2013 to 2015 and was subject to review once every three years. In 2016, Jiangxi Longtianyong had adopted 25% as the tax rate as it had applied for the renewal but the review had not been completed. In current period, the review has been completed such that it is entitled to a concessionary tax rate of 15% for three consecutive years beginning from the year of 2016.

Under the EIT Law, withholding tax is imposed on dividends payable to non-PRC shareholders which 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 RMB1,256.0 million as at 30 June 2017 (31 December 2016: RMB1,036.9 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** | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Profit for the period has been arrived at after charging (crediting): | | |
| Cost of inventories recognised as expenses | **2,799,986** | 1,687,472 |
| Depreciation of property, plant and equipment | **10,887** | 10,429 |
| Fair value change of contingent consideration | **10,540** | 8,584 |
| Amortisation of intangible assets | **8,716** | 6,947 |
| Expenses and professional fees for acquisition projects and fund raising activities | **6,615** | 463 |
| Release of prepaid lease payments | **217** | 217 |
| Interest income | **(1,185)** | (1,076) |
| Net exchange loss (gain) | **786** | (859) |
| Loss (gain) on disposals of property, plant and equipment | **2** | (3) |

## 6. DIVIDENDS

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Dividends recognised as distribution during the period: | | |
| – Final dividend of HK$0.03 per share for the year ended 31 December 2016 | **40,779** | – |

The directors of the Company do not recommend payment of an interim dividend for the current interim period. In prior interim period, an interim dividend of HK$0.02 per share, totalling RMB25,049,000, was declared and approved in August 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 | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| **Earnings** | | |
| Profit for the period attributable to owners of the Company | **170,908** | 94,236 |
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,526,207** | 1,418,305 |
| Effect of dilutive potential ordinary shares: | | |
| Share options of the Company | **2,614** | 3,554 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,528,821** | 1,421,859 |

In calculating the diluted earnings per share, the potential issue of shares arising from certain of the Company's share options would decrease the earnings per share and has therefore been taken into account as they have a dilutive effect.

## 8. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 30 June 2017 RMB'000 (unaudited) | 31 December 2016 RMB'000 (audited) |
|---|---|---|
| Trade receivables, aged within 90 days | **290,262** | 63,257 |
| Deposits and prepayments | **54,678** | 114,757 |
| | **344,940** | 178,014 |

Before accepting any new customer, other than those settling by cash or credit cards, 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 ranging from 30 to 90 days and requires advance deposits from its customers before delivery of goods.

## 9. TRADE AND OTHER PAYABLES

| | 30 June 2017 RMB'000 (unaudited) | 31 December 2016 RMB'000 (audited) |
|---|---|---|
| Trade payables | | |
| – aged within 30 days | **119,893** | 8,976 |
| – aged over 30 days | **1,128** | 1,706 |
| | **121,021** | 10,682 |
| Other payables and accrued expenses | **100,309** | 87,070 |
| Deposits received for using the silver exchange platform | **550,478** | 20,676 |
| Amount due to 上海華通白銀國際交易中心 | **22,146** | 28,046 |
| Value-added tax and other taxes payables | **76,110** | 56,258 |
| | **870,064** | 202,732 |

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

The balance of deposits received for using the silver exchange platform as at 30 June 2017 increased significantly as compared to that at 31 December 2016 because the number of customers increased during the current interim period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

In the first half of 2017, the Group continued to develop its various business segments as promised. 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 New Jewellery Retail business (previously known as "**O2O business**") and by leveraging our strength and resources in the upstream business as well as effective implementation of our strategies, the New Jewellery Retail business continued to grow rapidly since its launch. The aggregate sales in the New Jewellery Retail segment amounted to RMB1,799 million, representing a significant increase of approximately 44.7% as compared to the last period. Furthermore, the New Jewellery Retail segment contributed a segment profit of RMB60.8 million (1H2016: RMB29.6 million), representing the highest half-year profit since its launch.

In February 2016, the Group further expanded the downstream business by completing the acquisition of 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. The silver exchange business contributed a segment profit of RMB20.5 million during current period. We are confident that this new business will bring positive return to the Group in the long run.

Fuelled by the strong growth in different business segments, profit attributable to owners of the Company significantly increased to RMB171 million, representing an increase of 81.4% as compared to last period.

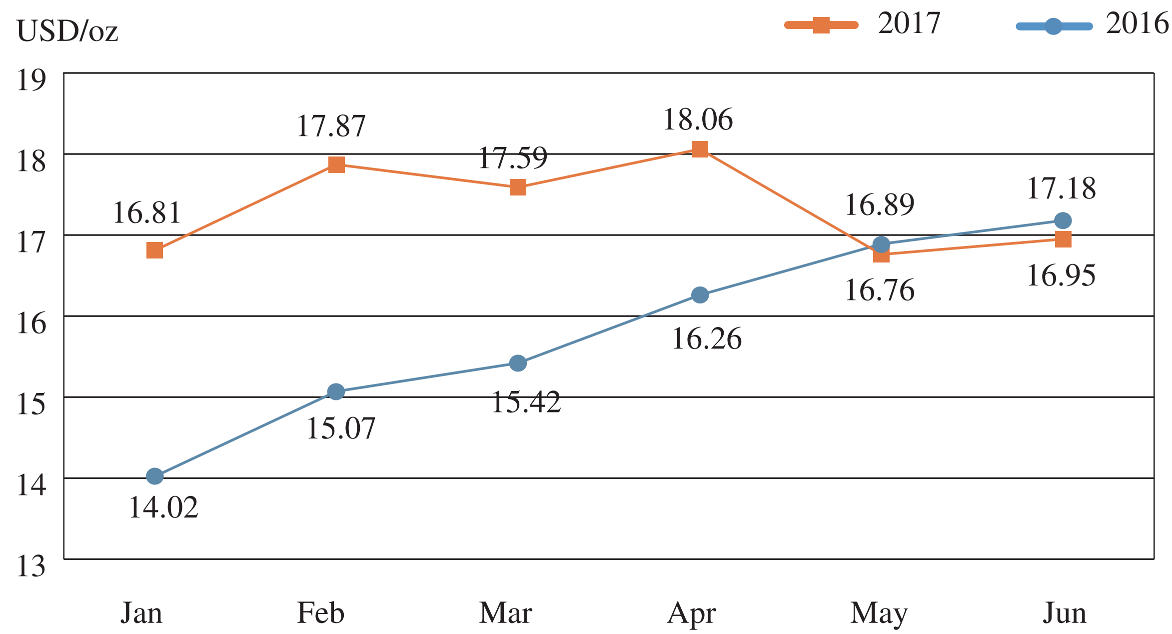
As always, our long-term vision is to become a leading fully-integrated silver and precious metals enterprise in the PRC. Together with the rapid growth in different business segments, we are moving full speed towards this goal.

### 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 2017, we sold 164 tonnes of silver ingot to our customers and used 35 tonnes of silver ingot for our downstream New Jewellery Retail business. Since the beginning of 2017, the global commodity market showed signs of recovery. As such, we recorded an increase in the average selling price of our silver ingots. The graph below shows the change in international silver price quoted on the London Bullion Market Association (LBMA) from January 2017 to June 2017:

**Monthly Average Silver Price**




*Source: The London Bullion Market Association*

With the continual improvement of our production process, we also began to extract new metal by-products such as palladium ingot during the period. As such, sale of other metal by-products significantly increased.

We expect the manufacturing business to continue to perform well following the recovery of the global commodity market.

**New Jewellery Retail Business**

In 2014, we decided to further diversify and expand into the downstream retail business. By the end of 2016, as the business developed and evolved at a great pace, we decided to rename it as "New Jewellery Retail business" (previously known as "**O2O business**") to better illustrate the transformation in our business model.

Our New Jewellery Retail business model incorporates four critical elements which complement each other, comprising (i) a comprehensive e-commerce platform, (ii) easily accessible offline retail and service network, (iii) data mining and utilisation capabilities; and (iv) innovative crossover sales and marketing initiatives.

During the first half of 2017, we continued to achieve outstanding results in the New Jewellery Retail business. Both segment sales and profit in the New Jewellery Retail segment achieved record levels.

***Online Sales Channels***

*(i) Self-operated online platform*

As of 30 June 2017, our self-operated online sales platform, www.CSmall.com (金貓銀貓) surpassed 6.1 million registered members, with over 327 million aggregate page views (PV), 80 million unique visitors (UV) and 50 million internet protocols (IP) for the six months ended 30 June 2017. The platform now carries an aggregate of over 100 self-owned and third party brands which offers a comprehensive range of products to customers.

*(ii) Television and video shopping channels*

We are currently cooperating with a total of 22 television channels with a daily coverage of over 5 million home viewers in the PRC to distribute our products. Our major partners include CCTV, China National Radio, Tianjin Sanjia* (天津三佳) and Zhejiang Best 1*(浙江好易購).

*(iii) Third-party online marketplaces*

We cooperate with third-party online marketplaces and retail platforms such as Tmall, JD, Suning, Gome, Yihaodian and WeChat, etc., to promote our jewellery products.

***Offline Retail and Service Network***

*(i) CSmall shops*

We offer intimate on-the-ground sales and services to our customers, including jewellery fitting and maintenance services, which we believe are essential and important in the jewellery shopping experience.

As of 30 June 2017, we had 121 outlets across the PRC with presence in Anhui, Beijing, Guangdong, Hebei, Heilongjiang, Henan, Hubei, Hunan, Inner Mongolia, Jiangsu, Jiangxi, Liaoning, Shandong, Shanghai, Tianjin and Zhejiang.

*(ii) Shenzhen exhibition hall*

Our Shenzhen exhibition hall is located in Shuibei, Shenzhen, with a gross floor area of approximately 2,000 square meters. Shuibei in Shenzhen is one of the largest and leading jewellery trading and wholesale markets in the PRC. Our Shenzhen exhibition hall showcases the product designs of our self-owned brands and certain third-party brands, and also serves as an interactive exhibition and sales platform for our wholesale customers as well as our franchisees.

*(iii) Third-party offline points of sale*

We also distribute our jewellery products through various third-party offline points of sale. For instance, we partnered with banking institutions such as 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 Shanghai Huatong last year.

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.buyyin.com, has been one of the authoritative web portals 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.

Following a series of upgrade and optimization of new systems, Shanghai Huatong contributed a segment revenue of RMB49.7 million and a segment profit of RMB20.5 million in the first half of 2017.

**Prospects**

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

Following the stabilisation in international gold and silver prices, we saw a gradual recovery 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.

As of 30 June 2017, we had net cash of approximately RMB756 million, signifying the Group's sufficient resources in potential acquisition. We have been considering various opportunities in the market and will disclose more details in accordance to the Listing Rules 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 2017 was approximately RMB3,107 million (1H2016: RMB1,906 million), representing an increase of approximately 63% from that of last period.

| | **Six months ended 30 June** | | | |
|---|---|---|---|---|
| | **2017** | | 2016 | |
| | **Revenue** ***(RMB'000)*** | **% of revenue** | Revenue *(RMB'000)* | % of revenue |
| **Manufacturing segment** | | | | |
| Sale of silver ingots | **576,731** | **18.6%** | 430,175 | 22.6% |
| Sale of other metal by-products | **681,588** | **21.9%** | 139,057 | 7.3% |
| | **1,258,319** | **40.5%** | 569,232 | 29.9% |
| **New Jewellery Retail segment** | | | | |
| Sale of gold, silver and jewellery products | **1,798,717** | **57.9%** | 1,242,666 | 65.2% |
| **Silver Exchange segment** | | | | |
| Trading and related service income | **49,734** | **1.6%** | 93,616 | 4.9% |
| Total | **3,106,770** | **100.0%** | 1,905,514 | 100.0% |

*Manufacturing segment*

Sales of silver ingot increased from RMB430 million to RMB577 million for the six months ended 30 June 2017, representing an increase of approximately 34.1% from that of last period. The increase was due to increase in both the average selling price and sales volume.

The average selling price of silver ingot increased from RMB2.9 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 slightly increased from 149 tonnes to 164 tonnes. The aggregate production volume of silver ingot remained stable. We target to maintain similar production level of silver ingot throughout 2017.

Other metal by-products such as lead ingot, palladium ingot, zinc ingot, bismuth ingot and antimony ingot are produced during the production of silver ingot. Due to the general recovery in international commodity prices and improvement in our production process to extract metal by-products, sales of metal by-products increased significantly from RMB139 million to RMB682 million for the six months ended 30 June 2017. In particular, we began to extract palladium ingot in the current period.

*New Jewellery Retail segment*

During this period, the New Jewellery Retail segment recorded sales of RMB1,799 million (1H2016: RMB1,243 million), representing an increase of approximately 44.7% as our retail sales channels continued to expand rapidly.

*Silver Exchange segment*

During this period, the Silver Exchange segment recorded sales of RMB49.7 million (1H2016: RMB93.6 million), representing a decrease of approximately 46.9%, mainly due to decrease in trading income as the proprietary trading business was closed down after we obtained full control in Shanghai Huatong last year.

***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, lead and palladium at market prices at the time of purchase; other types of minerals or metals are generally not taken into account when determining purchase price. The increase was mainly due to the surge in commodity prices and the inclusion of palladium as raw material.

*New Jewellery Retail segment*

Cost of sales mainly represents cost of materials used for the production of gold, silver and jewellery products. Except for silver, other materials like gold, amber and diamond are sourced from independent third parties. Amount increased as the sales of New Jewellery Retail 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. Amount decreased as the proprietary trading business was closed down.

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

We recorded gross profit of RMB303 million (1H2016: RMB212 million) for the six months ended 30 June 2017, an increase of approximately 43% as compared to that of last period mainly due to rebound in the traditional manufacturing segment and growth recorded in the New Jewellery Retail segment. The overall gross profit margin slightly decreased from 11.1% to 9.8% due to a change in sales mix.

***Administrative Expenses***

Administrative expenses decreased by approximately 14% from RMB82.7 million to RMB71.1 million for the six months ended 30 June 2017. The decrease was mainly due to a decrease in share-based payments of approximately RMB17.7 million.

***Selling and Distribution Expenses***

Selling and distribution expenses increased by approximately 7.3% from RMB15.9 million to RMB17.1 million for the six months ended 30 June 2017 mainly due to an increase in advertising cost for brand promotion and transportation cost for product delivery.

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

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

***Other Expenses***

Other expenses mainly represent the fair value change of contingent consideration resulting from the Shanghai Huatong acquisition and one-off professional expenses for acquisition projects and fund raising activities.

***Income Tax Expense***

Amount decreased as a major subsidiary was entitled to enjoy a concessionary EIT rate and an over-provision of RMB34.9 million was recorded for the six months ended 30 June 2017.

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

Profit attributable to owners of the Company increased significantly from RMB94.2 million for the six months ended 30 June 2016 to RMB171 million for the six months ended 30 June 2017 mainly due to increase in gross profit and decrease in income tax expense.

*Inventories, Trade Receivables and Trade Payables Turnover Cycle*

The Group's inventories mainly comprise raw materials of ore powder, smelting slag, recycled materials and jewellery products. For the six months ended 30 June 2017, inventory turnover days were approximately 79 days (for the year ended 31 December 2016: 81 days).

The turnover days for trade receivables for the six months ended 30 June 2017 were approximately 10.3 days (for the year ended 31 December 2016: 8.6 days).

The turnover days for trade payables for the six months ended 30 June 2017 were approximately 4.3 days (for the year ended 31 December 2016: 3.8 days).

*Borrowings*

As of 30 June 2017, the Group's bank borrowings balance amounted to RMB110 million (as of 31 December 2016: RMB110 million). The amounts are carried at fixed interest rates and will be due for repayment within one year.

The Group's net gearing ratio was calculated on the basis of the total bank borrowings less bank balances and cash as a percentage of total equity. As of 30 June 2017, the Group was in a net cash position with a net gearing ratio of -28.8% (as of 31 December 2016: -18.1%).

*Pledge of Assets*

As of 30 June 2017, the Group pledged property ownership rights in respect of buildings, land use rights and inventories with total carrying value of RMB58.5 million, RMB7.8 million and RMB95.6 million, respectively (as of 31 December 2016: RMB60.3 million, RMB7.9 million and RMB220 million) to secure the general banking facilities granted to the Group.

*Capital Expenditures*

For the six months ended 30 June 2017, the Group invested RMB5.3 million in property, plant and equipment (1H2016: RMB8.5 million).

**Employees**

As of 30 June 2017, the Group employed 1,141 staff (as of 31 December 2016: 1,049 staff) and the total remuneration for the six months ended 30 June 2017 amounted to RMB55.3 million (1H2016: RMB68.5 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 2017, the cash and cash equivalents, net current assets and total assets less current liabilities were RMB866 million (as of 31 December 2016: RMB507 million), RMB1,920 million (as of 31 December 2016: RMB1,484 million) and RMB2,658 million (as of 31 December 2016: RMB2,222 million), respectively. As of 30 June 2017, the Group had bank borrowings amounting to RMB110 million (as of 31 December 2016: RMB110 million).

**Significant Investment Held, Material Acquisition and Disposal**

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 not to declare an interim dividend for the six months ended 30 June 2017 (1H2016: HK$0.02 per share).

**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 2017 and up to the date of this announcement, the Company has complied with the code provisions under the Code, except for the following deviation:

Pursuant to code provision E.1.2 of the Code, the chairman of the Board should attend the annual general meeting. Due to other engagement, the chairman of the Board was unable to attend the annual general meeting held on 26 May 2017.

**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 2017.

**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 |
|---|---|---|---|---|
| 23 February 2017 | Issue of 13,800,000 new ordinary shares at HK$1.51 each under general mandate | Approximately HK$20 million | All the net proceeds will be applied for general working capital | HK$1.66 |

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 2017.

**Event after the Reporting Period**

On 31 July 2017, 白銀小鎮(上海)文化產業有限公司 ("**Baiyin Town**"), a subsidiary of the Group, has obtained approval for the Value-Added Telecommunications Business License (增值電信業務許可證), allowing Baiyin Town to provide online data processing and transaction processing services (operating e-commerce), which in turn, enable the Group to operate the online jewellery retail business through Baiyin Town without the VIE Structure (as defined in announcement of the Company dated 9 August 2017). In view of these developments, the parties to the VIE Agreements (as defined in announcement of the Company dated 9 August 2017) have entered into a termination agreement to unwind the VIE Structure and the VIE structure have been terminated and unwound on 22 August 2017. Further details are set out in the announcements of the Company dated 9 August 2017 and 22 August 2017.

**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 2017. 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 2017 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, 24 August 2017

*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*