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中國白銀集團
CHINA SILVER GROUP

CHINA SILVER GROUP LIMITED

中國白銀集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 815)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

HIGHLIGHTS OF 2020 ANNUAL RESULTS

- Revenue increased to approximately RMB4,759.3 million, representing a significant increase of approximately 21.2% as compared to that for 2019.
- Profit attributable to owners of the Company was approximately RMB227.5 million, as compared to a loss attributable to owners of the Company for 2019 of approximately RMB116.2 million.
- The segment revenue of the Manufacturing segment involving the production of silver, gold, palladium, other precious metals and the metal by-products derived therefrom increased to approximately RMB4,325.8 million, representing a tremendous increase of approximately 64.5% as compared to that for 2019, mainly due to the substantial growth of the sale of palladium. The segment profit slightly decreased by approximately 2.6% to approximately RMB239.5 million as compared to that for 2019.

- The segment profit of the New Jewellery Retail segment under CS Mall Group was approximately RMB9.6 million, representing a substantial decrease of approximately 91.7% as compared to the segment profit (excluding, for illustration purposes only, the one-off and non-cash share-based payment expenses of approximately RMB83.0 million for 2019) of approximately RMB115.0 million for 2019, mainly due to the overall economic downturn and sluggish consumption as well as the COVID-19 epidemic prevention and control measures which caused the stagnation or delay of major operating activities including retail business, store sales, market development and supply chains.
- The segment profit of the Silver Exchange segment was approximately RMB70.4 million, representing a substantial increase of approximately 160.2% as compared to a segment profit (excluding, for illustration purposes only, the non-recurring impairment loss on goodwill of approximately RMB330.3 million in 2019) of approximately RMB27.0 million for 2019, mainly attributable to the increase in transaction volume as the sharp fluctuations of international silver prices stimulated investors' desire for trade.

The board of directors (individually, a “**Director**”, or collectively, the “**Board**”) of China Silver Group Limited (the “**Company**”) is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**” or “**we**”) for the year ended 31 December 2020 (or the “**current year**” or “**during the year**”), together with the comparative figures for the year ended 31 December 2019 (or the “**last year**” or “**previous year**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

		2020	2019
	NOTES	RMB'000	RMB'000
Revenue	4	4,759,330	3,927,097
Cost of sales and services provided		<u>(4,326,130)</u>	<u>(3,395,957)</u>
Gross profit		433,200	531,140
Other income		10,145	16,689
Other gains and losses	5	(9,714)	(4,505)
Selling and distribution expenses		(28,318)	(56,894)
Administrative expenses		(96,636)	(193,493)
Research and development expenses		(2,430)	(2,373)
Other expenses		(4,154)	(791)
Impairment loss under expected credit loss model, net of reversal	13	(10,465)	(5,808)
Impairment loss on goodwill	10	–	(330,262)
Finance costs		(10,984)	(9,482)
Net loss on termination of assignment contract in relation to acquisition of a land use right	11(i)	<u>(27,441)</u>	<u>–</u>
Profit (loss) before tax		253,203	(55,779)
Income tax expense	6	<u>(47,420)</u>	<u>(61,322)</u>
Profit (loss) for the year	7	205,783	(117,101)
Other comprehensive expense, net of income tax			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value loss on investment in equity instrument at fair value through other comprehensive income (“FVTOCI”)		<u>(1,556)</u>	<u>–</u>
Total comprehensive income (expense) for the year		<u>204,227</u>	<u>(117,101)</u>

		2020	2019
	NOTES	RMB'000	RMB'000
Profit (loss) for the year attributable to:			
Owners of the Company		227,502	(116,195)
Non-controlling interests		<u>(21,719)</u>	<u>(906)</u>
		<u>205,783</u>	<u>(117,101)</u>
Total comprehensive income (expense)			
for the year attributable to:			
Owners of the Company		225,946	(116,195)
Non-controlling interests		<u>(21,719)</u>	<u>(906)</u>
		<u>204,227</u>	<u>(117,101)</u>
		RMB	RMB
Earnings (loss) per share			
	9		
Basic		<u>0.139</u>	<u>(0.071)</u>
Diluted		<u>0.139</u>	<u>(0.071)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

		2020	2019
	NOTES	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		147,032	142,994
Right-of-use assets		25,515	25,369
Goodwill	10	–	–
Intangible assets		100,938	88,464
Deferred tax assets		15,966	6,756
Refundable rental deposits		1,096	–
Equity instrument at FVTOCI		7,407	8,963
Deposits paid on acquisition of non-current assets	11	19,749	274,682
		317,703	547,228
CURRENT ASSETS			
Inventories		2,577,583	2,306,228
Trade and other receivables	12	304,155	490,185
Restricted bank balances		76,370	25,345
Pledged bank deposits		47,008	–
Bank balances and cash		1,192,989	610,679
		4,198,105	3,432,437

		2020	2019
	NOTES	RMB'000	RMB'000
CURRENT LIABILITIES			
Trade, bills and other payables	14	529,583	284,233
Trade loans	15	10,000	19,428
Lease liabilities – current portion		6,659	5,926
Contract liabilities		53,284	57,653
Deferred income		2,066	715
Income tax payable		27,074	32,311
Bank borrowings	16	205,000	110,000
		<u>833,666</u>	<u>510,266</u>
NET CURRENT ASSETS		<u>3,364,439</u>	<u>2,922,171</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>3,682,142</u></u>	<u><u>3,469,399</u></u>
CAPITAL AND RESERVES			
Share capital		13,284	13,275
Share premium and reserves		<u>2,800,757</u>	<u>2,573,974</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>2,814,041</u>	<u>2,587,249</u>
Non-controlling interests		<u>832,687</u>	<u>854,406</u>
TOTAL EQUITY		<u>3,646,728</u>	<u>3,441,655</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		18,260	20,586
Lease liabilities – non-current portion		2,114	2,220
Deferred income		<u>15,040</u>	<u>4,938</u>
		<u>35,414</u>	<u>27,744</u>
TOTAL EQUITY AND NON-CURRENT LIABILITIES		<u><u>3,682,142</u></u>	<u><u>3,469,399</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1. GENERAL INFORMATION

China Silver Group Limited was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 19 July 2012 and its shares are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 28 December 2012.

The addresses of the registered office is Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and principal place of business of the Company is Room 1416, China Merchants Tower, 168-200 Connaught Road Central, Sheung Wan, Hong Kong.

The Company is an investment holding company. The principal activities of the Group are (i) the manufacture, sale and trading of silver ingots, palladium and other non-ferrous metals in the People’s Republic of China (the “**PRC**”); (ii) design and sale of gold, silver, gem-set and other jewellery products in the PRC; and (iii) provide professional electronic platform, related services for trading of silver ingots.

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

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the International Accounting Standards Board (the “IASB”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendment to IFRS 16 “COVID-19-Related Rent Concessions”.

Except as described below, the application of the Amendments to References to the Conceptual Framework in IFRS Standards and the other amendments to IFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendment to IFRS 16 “COVID-19-Related Rent Concessions”

The Group has applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a COVID-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021;
and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 “Leases” if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application of the amendment had no impact to the opening retained profits at 1 January 2020. The Group has derecognised the part of lease liability that has been extinguished by the forgiveness of lease payments using the discount rates originally applied to these leases respectively, resulting in a decrease in the lease liabilities of RMB301,000, which has been recognised as variable lease payments in profit or loss during the year ended 31 December 2020.

New and amendments to IFRSs in issue but not yet effective

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

IFRS 17	Insurance Contracts and the related Amendments ¹
Amendments to IFRS 3	Reference to the Conceptual Framework ²
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2 ⁴
Amendments to IFRS 10 and IAS 28	Sale of Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ¹
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to IAS 8	Definition of Accounting Estimates ¹
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018 – 2020 ²

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2021.

The directors of the Company anticipate that the application of all new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. 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, sales and trading of silver ingots, palladium and other non-ferrous metals in the PRC ("Manufacturing segment");
- (ii) designing and sales of gold, silver, gem-set and other jewellery products in the PRC ("New Jewellery Retail segment"); and
- (iii) providing professional electronic platform, related services for trading of silver ingots ("Silver Exchange segment").

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

Segment revenue and results

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

For the year ended 31 December 2020

	Manufacturing segment <i>RMB'000</i>	New Jewellery Retail segment <i>RMB'000</i>	Silver Exchange segment <i>RMB'000</i>	Segment total <i>RMB'000</i>	Elimination <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Revenue						
External sales	4,325,813	347,768	85,749	4,759,330	–	4,759,330
Inter-segment sales*	258,823	–	–	258,823	(258,823)	–
Total segment revenue	<u>4,584,636</u>	<u>347,768</u>	<u>85,749</u>	<u>5,018,153</u>	<u>(258,823)</u>	<u>4,759,330</u>
Results						
Segment results	<u>239,515</u>	<u>9,565</u>	<u>70,350</u>	<u>319,430</u>	–	<u>319,430</u>
Non-segment items						
Unallocated income, expenses, gains and losses						(29,300)
Net loss on termination of assignment contract in relation to acquisition of a land use right						(27,441)
Finance costs						<u>(9,486)</u>
Profit before tax						<u>253,203</u>

For the year ended 31 December 2019

	Manufacturing segment <i>RMB'000</i>	New Jewellery Retail segment <i>RMB'000</i>	Silver Exchange segment <i>RMB'000</i>	Segment total <i>RMB'000</i>	Elimination <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Revenue						
External sales	2,629,687	1,248,918	48,492	3,927,097	–	3,927,097
Inter-segment sales*	317,909	70	–	317,979	(317,979)	–
Total segment revenue	<u>2,947,596</u>	<u>1,248,988</u>	<u>48,492</u>	<u>4,245,076</u>	<u>(317,979)</u>	<u>3,927,097</u>
Results						
Segment results	<u>245,893</u>	<u>31,998</u>	<u>(303,226)</u>	<u>(25,335)</u>	–	<u>(25,335)</u>
Non-segment items						
Unallocated income, expenses, gains and losses						(23,705)
Reversal of impairment loss on loan and interest receivables						2,743
Finance costs						<u>(9,482)</u>
Loss before tax						<u>(55,779)</u>

* Inter-segment sales are carried out on terms agreed between counterparties.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent profit earned (loss incurred) by each segment, without allocation of central administrative expenses, certain other income, certain other gains and losses, certain impairment loss, net of reversal, certain other expenses and finance costs. This is the measure reported to the Company's executive directors for the purposes of resource allocation and performance assessment.

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

Geographical information

The Group's operations are located in the PRC. Information about the Group's revenue from external customers is presented based on the location of the operations. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers		Non-current assets	
	2020	2019	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The PRC	4,759,330	3,927,097	291,944	527,520
Hong Kong	—	—	1,290	3,989
	4,759,330	3,927,097	293,234	531,509

Note: Non-current assets excluded financial instruments and deferred tax assets.

Information about major customers

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

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A ¹	1,368,847	774,341
Customer B ²	—	392,000
Customer C ¹	572,712	—
Customer D ¹	495,962	—

Notes:

1 Revenue from sales of palladium in Manufacturing segment.

2 Revenue from sales of lead ingots in Manufacturing segment.

4. REVENUE

Disaggregation of revenue from contracts with customers

Segments	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
By types of goods and services		
Manufacturing segment		
– Sales of silver ingots	286,907	361,605
– Sales of palladium	3,636,368	1,468,641
– Sales of lead ingots	146,992	494,116
– Sales of zinc oxide	1,990	69,120
– Sales of other metal by-products	253,556	236,205
	<u>4,325,813</u>	<u>2,629,687</u>
New Jewellery Retail segment		
– Sales of gold products, except for first-hand gold bars	78,708	639,477
– Sales of silver products	265,946	490,762
– Sales of gem-set and other jewellery products	3,114	115,631
– Sales of first-hand gold bars	–	3,048
	<u>347,768</u>	<u>1,248,918</u>
Silver Exchange segment		
– Commission income	85,749	48,492
	<u>85,749</u>	<u>48,492</u>
Total	<u>4,759,330</u>	<u>3,927,097</u>
By geographical market		
The PRC	<u>4,759,330</u>	<u>3,927,097</u>

All of the revenue are recognised at a point in time during the years ended 31 December 2020 and 2019.

5. OTHER GAINS AND LOSSES

	2020 RMB'000	2019 RMB'000
COVID-19 diagnostic kit trading income (Note i)	2,667	–
COVID-19 diagnostic kit trading expenses (Note i)	(3,638)	–
One-off write-off of COVID-19 diagnostic kits (Note i)	(12,539)	–
Net exchange gain (loss)	3,041	(1,942)
Gain (loss) on disposal of a subsidiary (Note ii)	755	(461)
Loss on disposal of property, plant and equipment	–	(101)
Impairment loss on deposits paid on acquisition of intangible assets	–	(321)
Impairment loss on intangible assets	–	(1,680)
	<u>(9,714)</u>	<u>(4,505)</u>

Notes:

- i. During the year ended 31 December 2020, the Group has commenced a pilot expansion into a new business of COVID-19 diagnostic kit distribution in collaboration with a pharmaceutical company in the PRC. The Group has entered into a sale and purchase agreement with the pharmaceutical company to purchase COVID-19 diagnostic kits in the PRC and export to overseas. However, due to various factors including the turbulent international situation, the export of the diagnostic kit was blocked and the products were scrapped upon expiry. The Group recognised trading income of RMB2,667,000, trading expenses of RMB3,638,000 and one-off write-off of inventories of RMB12,539,000 during the year ended 31 December 2020. The Group ceased the expansion plan to the new business of COVID-19 diagnostic kit distribution.
- ii. The amount represented gain on disposal of an indirect non wholly-owned subsidiary, Shenzhen Yunpeng Software Development Company Limited (深圳雲鵬軟件開發有限公司) (“**Shenzhen Yunpeng**”) previously held by the Group. Shenzhen Yunpeng was disposed of on 28 December 2020 at a cash consideration of RMB3,100,000 and did not have significant contribution to the results and cash flows of the Group during the current year nor did it have significant assets and liabilities as at the date of disposal.

During the year ended 31 December 2019, the amount represented loss on disposal of an indirect wholly-owned subsidiary, 上海找銀網絡科技有限公司 (“**上海找銀**”) previously held by the Group. 上海找銀 was disposed of to a related party on 16 May 2019 at a cash consideration of RMB2,000,000 and did not have significant contribution to the results and cash flows of the Group during the prior year nor does it have significant assets and liabilities as at the date of disposal. The cash consideration was received during the year ended 31 December 2019.

6. INCOME TAX EXPENSE

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
PRC Enterprise Income Tax (“EIT”)		
– current year	64,700	67,329
– overprovision in respect of prior years	<u>(5,744)</u>	<u>(709)</u>
	58,956	66,620
Deferred taxation – current year	<u>(11,536)</u>	<u>(5,298)</u>
	<u><u>47,420</u></u>	<u><u>61,322</u></u>

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

Under the Law of the PRC on EIT (the “EIT Law”) and its related implementation regulations, the Group’s PRC subsidiaries are subject to the PRC EIT at the statutory rate of 25% for both years except for the following two of the major subsidiaries of the Group. 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 such that it is entitled to a concessionary tax rate of 15% for three consecutive years beginning from the year of 2019 to 2021 (2019: 2019 to 2021) and was subject to review once every three years. Shenzhen Yunpeng, a former subsidiary of the Group, was disposed of on 28 December 2020 and it was recognised as a Software Enterprise by the PRC tax authorities and it is entitled to an exemption of PRC EIT for the first two consecutive years beginning from 2016 and a 50% reduction for the following three consecutive years. For the years ended 31 December 2020 and 2019, Shenzhen Yunpeng, the former subsidiary, was subject to PRC EIT at the rate of 12.5%.

7. PROFIT (LOSS) FOR THE YEAR

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit (loss) for the year has been arrived at after charging:		
Directors' emoluments	4,711	4,863
Other staff costs:		
– salaries and other allowances	38,958	74,300
– retirement benefit scheme contributions	11,495	17,313
– share-based payments, excluding those of directors and a consultant	–	83,008
Total staff costs	<u>55,164</u>	<u>179,484</u>
Auditor's remuneration	2,234	4,099
Amortisation of intangible assets	9,454	10,860
Depreciation of property, plant and equipment	17,901	19,988
Depreciation of right-of-use assets	9,115	8,223
Cost of inventories recognised as expenses (included in cost of sales and services provided)	4,326,130	3,393,081
Expenses on short-term leases in respect of office premises and retail shops	4,474	9,517
Pollutant handling fees (included in other expenses)	<u><u>3,302</u></u>	<u><u>–</u></u>

8. DIVIDENDS

No dividends were paid, declared or proposed for ordinary shareholders of the Company for both years, nor has any dividend been proposed since the end of the reporting period.

9. EARNINGS (LOSS) PER SHARE

The calculations of the basic and diluted earnings (loss) per share attributable to owners of the Company are based on the following data:

	2020	2019
Earnings (loss)		
Profit (loss) for the year attributable to owners of the Company for the purposes of basic and diluted earnings (loss) per share (RMB'000)	<u>227,502</u>	<u>(116,195)</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share (in thousand)	1,632,261	1,625,383
Effects of dilutive potential ordinary shares:		
– Share options of the Company (in thousand)	<u>225</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share (in thousand)	<u>1,632,486</u>	<u>1,625,383</u>

For the year ended 31 December 2019, the computation of diluted loss per share did not assume the exercise of the Company's outstanding options because the effect of exercise of these options was anti-dilutive.

10. GOODWILL

RMB'000

COST

At 1 January 2019, 31 December 2019 and 31 December 2020	<u>407,321</u>
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IMPAIRMENT

At 1 January 2019	77,059
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Impairment loss recognised for the year ended 31 December 2019	<u>330,262</u>
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At 31 December 2019 and 31 December 2020	<u>407,321</u>
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CARRYING VALUES

At 31 December 2019 and 31 December 2020	<u><u>-</u></u>
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As at 31 December 2019, for the purposes of impairment testing, goodwill with carrying amount of nil, trademarks with indefinite useful lives with carrying amount of RMB33,993,000, net of impairment loss of RMB686,000, customer relationship with definite useful life with carrying amount of RMB46,729,000, net of impairment loss of RMB943,000 arising on business combinations and certain system software with carrying amount of RMB2,526,000, net of impairment loss of RMB51,000 and a deposit paid for acquisition of intangible assets with carrying amount of RMB15,886,000, net of impairment loss of RMB321,000 under non-current assets as set out in Note 11 have been allocated to a cash-generating unit, Silver Exchange segment.

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation performed by an independent professional qualified valuer not connected with the Group.

As at 31 December 2019, the value in use calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period using a pre-tax discount rate of 21.0%. The cash flows beyond the 5-year period are extrapolated using a steady growth rate of 2.0%. This growth rate is based on the global economic growth rate and is the directors' best estimate on the average growth rate of this specific industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue and operating expenses, such estimation is based on the past performance and management's expectations for the market development.

For the year ended 31 December 2019, due to continuing decrease of transaction volume and number of members under the less favourable domestic policy in relation to the silver exchange platform, goodwill related to the cash-generating unit amounting to RMB330,262,000 has been fully impaired and an additional impairment amounting to RMB2,000,000 has been allocated on a pro rata basis to trademarks, customer relationship, system software under intangible assets and deposit paid for acquisition of software for silver exchange platform. The carrying amounts of these assets are not reduced below the highest of its fair value less costs of disposal, its value in use and zero. The recoverable amount of the cash-generating unit amounted to RMB99,134,000 as at 31 December 2019.

For the year ended 31 December 2020, the management assessed the recoverable amount of cash-generated unit was higher than its carrying amount. No further impairment loss on assets within the cash-generating unit of the Silver Exchange segment was recognised for the year ended 31 December 2020.

11. DEPOSITS PAID ON ACQUISITION OF NON-CURRENT ASSETS

	2020 RMB'000	2019 RMB'000
Deposits paid on acquisition of a land use right (Note i)	–	248,938
Deposits paid on acquisition of intangible assets (Note ii)	12,959	23,981
Deposits paid on acquisition of property, plant and equipment (Note iii)	6,790	1,763
	<u>19,749</u>	<u>274,682</u>

Notes:

- i. In September 2018, Huzhou Baiyin Property Co., Ltd. (湖州白銀置業有限公司) (“**Huzhou Baiyin**”), an indirect non wholly-owned subsidiary of the Group, entered into an assignment contract (the “**Contract**”) with Huzhou South Taihu New District Management Committee (the “**Committee**”) and Huzhou Municipal Bureau of Natural Resources and Planning (the “**Bureau**”) in relation to the acquisition of the land use right over a piece of land located in Huzhou, the PRC (the “**Acquisition**”). The total consideration for the land use right was RMB285,000,000.

During the year ended 31 December 2019, Huizhou Baiyin paid an additional deposit of RMB100,000,000 and other direct costs of RMB10,892,000 in relation to the Acquisition. As at 31 December 2019, the Group has already paid deposits with an aggregate amount of RMB248,938,000 on the Acquisition.

On 29 and 30 June 2020, Huzhou Baiyin entered into a termination agreement (the “**Termination Agreement**”) with the Committee and the Bureau, and a compensation agreement with the Committee, pursuant to which the Committee and the Bureau agreed to terminate the Contract and the Committee agreed to refund the deposits received amounting to RMB270,875,000 (the “**Compensation Sum**”) and compensate for (i) the capital expenditure and other expenses incurred by the Group in connection with the exploration, design and pre-construction works on the land; and (ii) certain taxes paid by another indirect non wholly-owned subsidiary of the Group.

Up to 31 December 2020, the Group had already paid an aggregate amount of RMB232,500,000 of deposits and other direct costs of RMB26,713,000 in relation to the Acquisition. An amount of RMB245,600,000 arising from the Compensation Sum was received by the Group during the year ended 31 December 2020 and the remaining RMB25,275,000 of the Compensation Sum was recorded and included in other receivables at 31 December 2020 as set out in Note 12, which has been fully received subsequent to the end of the reporting period. As at 31 December 2020, however, certain pre-construction costs had been incurred before the termination of the Acquisition remained payables to the Group and provision had been made of RMB39,103,000 as set out in Note 14. As a result of the termination of the Contract there was a net loss of RMB27,441,000 recognised in the consolidated statement of profit or loss and other comprehensive income during the year ended 31 December 2020.

- ii. During the year ended 31 December 2020, the Group paid deposits of RMB13,280,000 (2019: RMB16,207,000) to acquire certain system software for online exchange platform under Silver Exchange segment. During the year ended 31 December 2019, an impairment loss of RMB321,000 (2020: nil) has been recognised as a result of the impairment assessment on Silver Exchange segment.

During the year ended 31 December 2019, the Group paid deposits of RMB8,094,000 for the Group's online platform and system enhancement under New Jewellery Retail segment. The acquisitions were completed and respective deposits paid were transferred to intangible assets during the year ended 31 December 2020. On 28 December 2020, the Group has disposed of the intangible assets through the disposal of Shenzhen Yunpeng, the former subsidiary of the Group as disclosed in Note 5(ii).

- iii. The amount represents deposits paid by the Group in relation with the acquisition of plant and equipment under Manufacturing and New Jewellery Retail segment.

12. TRADE AND OTHER RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables for contracts with customers (Note i)	115,710	375,025
Less: allowance for credit losses	<u>(21,022)</u>	<u>(10,557)</u>
	94,688	364,468
Deposits and prepayments	17,521	24,184
Prepayment to suppliers (Note ii)	76,763	39,315
Amount due from a former subsidiary, Shenzhen Yunpeng (Note iii)	19,499	–
Value-added tax (“VAT”) recoverable	28,587	23,058
VAT rebate receivable (Notes i and iv)	41,822	39,160
Other receivable arising from termination of assignment contract of a land use right from the PRC government (Note 11(i))	<u>25,275</u>	<u>–</u>
	<u><u>304,155</u></u>	<u><u>490,185</u></u>

Notes:

- i. The Group has pledged trade receivables with a carrying value of RMB75,000,000 (2019: RMB75,000,000) and VAT rebate receivable with a carrying value of RMB41,822,000 (2019: nil) to secure banking facilities of the Group.
- ii. The balance represents prepayments for purchase of inventories under the Group's Manufacturing and New Jewellery Retail segment.
- iii. Amount due from a former subsidiary, Shenzhen Yunpeng, has been fully received after the end of reporting period.
- iv. Pursuant to the Notice on Issuing the Value-added Tax Preferential Catalogue on Products and Services Applying Integrated Use of Resources by the Ministry of Finance and the State Administration of Taxation (Cai Shui [2015] No. 78), Jiangxi Longtianyong, a subsidiary of the Group, utilises recycled materials in the course of production and is therefore subject to a preferential policy of an immediate VAT refund of 30%.

As at 1 January 2019, trade receivables from contracts with customers amounted to RMB238,936,000, net of allowance for credit losses of RMB2,006,000.

Before accepting any new customer, other than those settling by cash or credit card, the Group assesses the potential customer's credit quality and defines its credit limits based on reputation of the customer in the industry. The Group generally grants its customers a credit period ranging from 0 to 90 days and requires advance deposits from its customers before delivery of goods.

The ageing analysis of the Group's trade receivables net of allowance for credit losses presented based on the invoice dates at the end of the reporting period is as follows:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
0 – 30 days	41,788	190,280
31 – 60 days	42,972	43,712
61 – 90 days	1,789	4,594
Over 90 days	8,139	125,882
	94,688	364,468

As at 31 December 2020, included in the Group's trade receivables, net of allowance of credit losses, were debtors with an aggregate carrying amount of RMB47,129,000 (2019: RMB218,589,000) which were past due as at the reporting date. Out of the past due balances, RMB8,104,000 (2019: RMB94,475,000) has been past due 90 days or more and is not considered as in default as the Group considered such balances could be recovered based on repayment history, the financial conditions and the current credit worthiness of each customer. The Group does not hold any collateral over these balances.

13. IMPAIRMENT LOSS UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	2020 RMB'000	2019 RMB'000
Impairment loss recognised in respect of trade receivables, net of reversal	10,465	8,551
Impairment loss reversed in respect of loan and interest receivables	—	(2,743)
	<u>10,465</u>	<u>5,808</u>

14. TRADE, BILLS AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables	131,043	80,115
Other payables and accrued expenses	71,931	70,844
Bills payables (Note i)	94,000	—
Deposits received for using the silver exchange platform	76,370	25,345
Amount due to Shanghai Huatong International Silver Exchange Co., Ltd. 上海華通白銀國際交易中心有限公司 ("Huatong International") (Note ii)	19,373	19,456
VAT and other tax payables	95,899	82,503
Customer receipts in advance	1,864	5,970
Provision for termination of assignment contracts (Note iii, Note 11(i))	39,103	—
	<u>529,583</u>	<u>284,233</u>

Notes:

- i. As at 31 December 2020, bills payables amounting to RMB47,000,000 (2019: nil) are secured by pledged bank deposits of RMB47,000,000 (2019: nil). The remaining bills payables amounting to RMB47,000,000 (2019: nil) are secured by machinery with a carrying value of approximately RMB15,934,000 (2019: nil). All bills payables are issued to a supplier of the Manufacturing segment for repayment in February 2021. Subsequent to the year ended 31 December 2020, the bills payables are fully settled by the Group and the pledged bank deposits and the pledge of machinery are released.
- ii. Huatong International is a company which the Group held 18% equity interest and accounted for an equity investment at FVTOCI. The amount was non-trade in nature, unsecured, interest-free and repayable on demand.

- iii. Included in the balance is an amount of RMB20,650,000 (2019: nil) payable to Zhejiang Jifeng Geotechnical Technology Co., Ltd. (浙江績豐岩土技術有限公司) (“**Zhejiang Jifeng Geotechnical**”) which represents pre-construction costs incurred in relation to the land use right as detailed in Note 11(i) and remained outstanding at the end of the reporting period. During the year ended 31 December 2020, total pre-construction costs incurred to Zhejiang Jifeng Geotechnical amounted to RMB37,514,000 (2019: nil). Mr. Chen Wantian, a director of the Company, is also a director (out of the twelve directors) of Zhejiang Jifeng Geotechnical and holds 5.44% equity interest therein.

The ageing analysis of the Group’s trade payables based on the invoice dates at the end of the reporting period is as follows:

	2020 <i>RMB’000</i>	2019 <i>RMB’000</i>
0 – 30 days	103,517	50,482
31 – 60 days	9,896	–
61 – 90 days	347	–
Over 90 days	<u>17,283</u>	<u>29,633</u>
	<u><u>131,043</u></u>	<u><u>80,115</u></u>

The credit period of purchase of goods and subcontracting costs generally ranges from 1 to 90 days.

15. TRADE LOANS

	2020 <i>RMB’000</i>	2019 <i>RMB’000</i>
Trade loans	<u><u>10,000</u></u>	<u><u>19,428</u></u>

On 11 December 2019, 深圳國銀通寶有限公司 (“**Shenzhen Guoyintongbao**”), a subsidiary of the Group, entered into a reverse factoring agreement with a bank in the PRC, pursuant to which the bank agreed to grant revolving trade loans credit limit of not more than RMB20 million to Shenzhen Guoyintongbao in respect of the Group’s payment obligations under the contracts to certain suppliers. Under the reverse factoring arrangement, the bank in the PRC would settle the suppliers at a date earlier than Shenzhen Guoyintongbao settle with the bank, and Shenzhen Guoyintongbao would have a longer credit period.

The trade loans as at 31 December 2020 carry interest at a fixed rate of 5.66% (2019: 5.66%) per annum, which is also the effective interest rate during the year ended 31 December 2020. The amounts would be due for repayment within one year from the end of the reporting period.

In addition, the trade loans were secured by personal guarantees executed by Mr. Chen Wantian (a director of the Company) and Mr. Chen He (a director of CS Mall Group Limited, a subsidiary of the Group) and their respective spouses.

16. BANK BORROWINGS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Secured bank borrowing carrying interest at fixed rate, repayable within one year and without a repayment on demand clause	202,000	70,000
Secured bank borrowing carrying interest at floating rate, repayable within one year and without a repayment on demand clause	3,000	40,000
	<u>205,000</u>	<u>110,000</u>

The effective interest rate of the Group's bank borrowings (which is also equal to contracted interest rate) during the year is as follows:

	2020	2019
Effective interest rate per annum	<u>5.80%</u>	<u>6.96%</u>

The bank borrowings were secured by building, machinery, inventories, trade receivables, VAT rebate receivable and pledged bank deposits, with aggregate carrying amount of RMB66,506,000, RMB15,934,000, RMB270,859,000, RMB75,000,000, RMB41,822,000 and RMB8,000 (2019: leasehold land, building, machinery, inventories and trade receivables, with aggregate carrying amount of RMB17,262,000, RMB15,432,000, RMB17,377,000, RMB172,782,000 and RMB75,000,000).

The total banking facility granted to the Group amounted to RMB215,000,000 (2019: RMB281,500,000) of which RMB205,000,000 (2019: RMB110,000,000) were utilised.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

We are pleased to see that, despite the unstable global economy and the downturn of the Chinese economy due to multiple factors, the Group's Manufacturing segment and Silver Exchange segment realised strong sales growth during the year.

For the year ended 31 December 2020, the Group's Manufacturing segment generated sales of approximately RMB4,325.8 million (2019: RMB2,629.7 million), a tremendous increase of approximately 64.5% over the last year, and recorded a segment profit of approximately RMB239.5 million (2019: RMB245.9 million), a slight decrease of approximately 2.6% over the last year, mainly due to the increase in the cost of raw materials that offset the increase in sales of palladium.

During the current year, palladium realised large-scale sales and its sales increased significantly by approximately 147.6% over the last year, accounting for approximately 84.1% of the revenue of the Manufacturing segment, making it another core precious metal product besides silver as well as gold and gold alloy products (collectively, "**Gold Products**"). The revenue from sales of silver ingots decreased by approximately 20.7% over the last year, while the revenue from sales of Gold Products increased by approximately 31.4% over the last year. During the year ended 31 December 2020, we recognised large-scale increase in the sales of palladium with the strong support from our suppliers, growing market demand for palladium and our extensive experience and professional skills developed over the years.

During the current year, taking into account the volume of internal sales, the sales of silver ingots and palladium as a proportion of the revenue of the Manufacturing segment was over 90%, and the proportion is expected to increase continuously in 2021.

While continuously optimising the product mix and increasing the proportion of the precious metals business, the Group will continue to strictly control the cost of raw materials, improve profitability, and continue to seek and grasp future market opportunities against the backdrop of the global economic instability and the downturn of the Chinese economy.

Since 2014, we have diversified from the traditional Manufacturing segment to the downstream New Jewellery Retail segment which is now operated under our subsidiary, CSMall Group Limited (Stock code: 1815) (“**CSMall Group**”). Apart from leveraging our strength and resources in the upstream business, CSMall Group has optimized its sales and marketing strategies since 2018 and gradually shifted its focus to high-margin silver jewellery products. For the year ended 31 December 2020, external sales of CSMall Group amounted to approximately RMB347.8 million, representing approximately 7.3% of the Group’s total revenue of the current year (2019: 31.8%), and the New Jewellery Retail segment recorded a segment profit of approximately RMB9.6 million (2019: RMB32.0 million). However, on a comparable basis for illustration purposes only, if the one-off and non-cash share-based payment expenses of approximately RMB83.0 million for 2019 were excluded, the New Jewellery Retail segment would have contributed a segment profit of approximately RMB115.0 million for the year ended 31 December 2019. This would mean a substantial year-on-year decrease of approximately 91.7% to approximately RMB9.6 million for the year ended 31 December 2020. Such decrease was mainly due to the outbreak of the novel coronavirus (“**COVID-19**”) which resulted in overall economic downturn and sluggish consumption, and the epidemic prevention and control measures which caused the stagnation or delay of major operating activities including retail business, store sales, market development and supply chains. It should be noted that although the one-off net loss on termination of assignment contract in relation to acquisition of a land use right (see Note 11(i) to the consolidated financial statements for details) was recorded under CSMall Group, such net loss was treated as a non-segment item which did not affect the segment profit of the New Jewellery Retail segment.

In 2016, the Group further expanded the downstream business by the acquisition of Shanghai Huatong Silver Exchange (“**Shanghai Huatong**”), an operator of an integrated silver exchange platform in the PRC. For the year ended 31 December 2020, the Silver Exchange segment recorded a segment profit of approximately RMB70.4 million (2019: loss of RMB303.2 million). However, on a comparable basis for illustration purposes only, if the non-recurring impairment loss on goodwill of approximately RMB330.3 million for 2019 was excluded, the Silver Exchange segment would have contributed a segment profit of approximately RMB27.0 million for the year ended 31 December 2019. This would mean a substantial year-on-year increase of approximately 160.2% to approximately RMB70.4 million for the year ended 31 December 2020. Such increase was mainly attributable to the increase in transaction volume as the sharp fluctuations of international silver prices stimulated investors’ desire for trade.

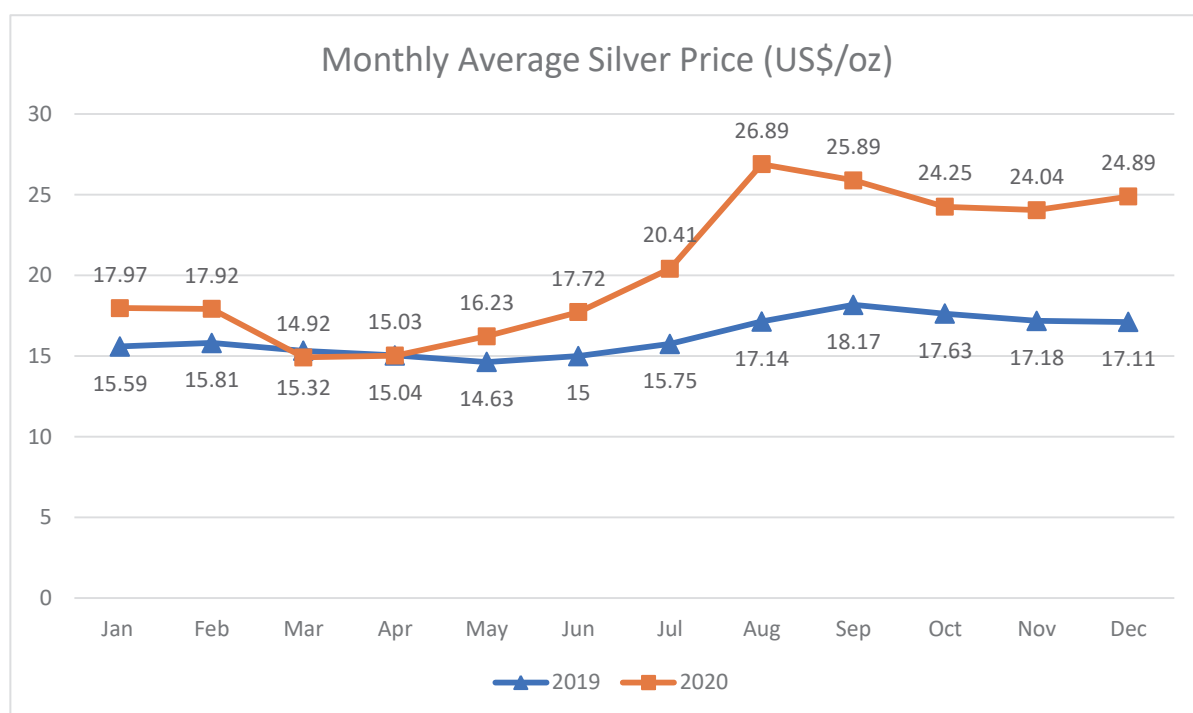
The Group recorded gross profit of approximately RMB433.2 million (2019: RMB531.1 million) for the year ended 31 December 2020, representing a decrease of approximately 18.4% as compared to that for 2019, mainly due to the substantial decrease in gross profit of the New Jewellery Retail segment operated under CS Mall Group. The overall gross profit margin of the Group decreased from approximately 13.5% for the year ended 31 December 2019 to approximately 9.1% for the year ended 31 December 2020, which is mainly due to the decreased contribution of sales by high-margin silver jewellery products under the New Jewellery Retail segment as compared to the last year.

For the year ended 31 December 2020, the profit attributable to owners of the Company amounted to approximately RMB227.5 million (2019: loss of RMB116.2 million). However, on a comparable basis for illustration purposes only, if the one-off net loss on termination of assignment contract in relation to acquisition of a land use right of approximately RMB27.4 million (see Note 11(i) to the consolidated financial statements for details) and the one-off net loss of approximately RMB12.5 million on inventory write-off upon expiry in relation to the pilot expansion into a new business of COVID-19 diagnostic kit distribution in collaboration with a pharmaceutical company in the PRC (see Note 5(i) to the consolidated financial statements for details) for 2020 were excluded, and the one-off and non-cash share-based payment expenses for the New Jewellery Retail segment of approximately RMB83.0 million and non-recurring impairment loss on goodwill for the Silver Exchange segment of approximately RMB330.3 million for 2019 were also excluded, then the profit attributable to owners of the Company would have decreased by approximately 3.9% from approximately RMB253.5 million for the year ended 31 December 2019 to approximately RMB243.6 million for the year ended 31 December 2020. This was mainly because, as a result of the COVID-19 epidemic, the New Jewellery Retail segment saw a considerable decline, while the significant increase in the sales of the Manufacturing segment, in particular palladium, and the increase in the transaction volume of the Silver Exchange segment offset part of the decline in the New Jewellery Retail segment.

As always, our long-term vision is to become a leading fully-integrated silver, palladium, gold and precious metals enterprise in the PRC and we are moving full speed towards this goal.

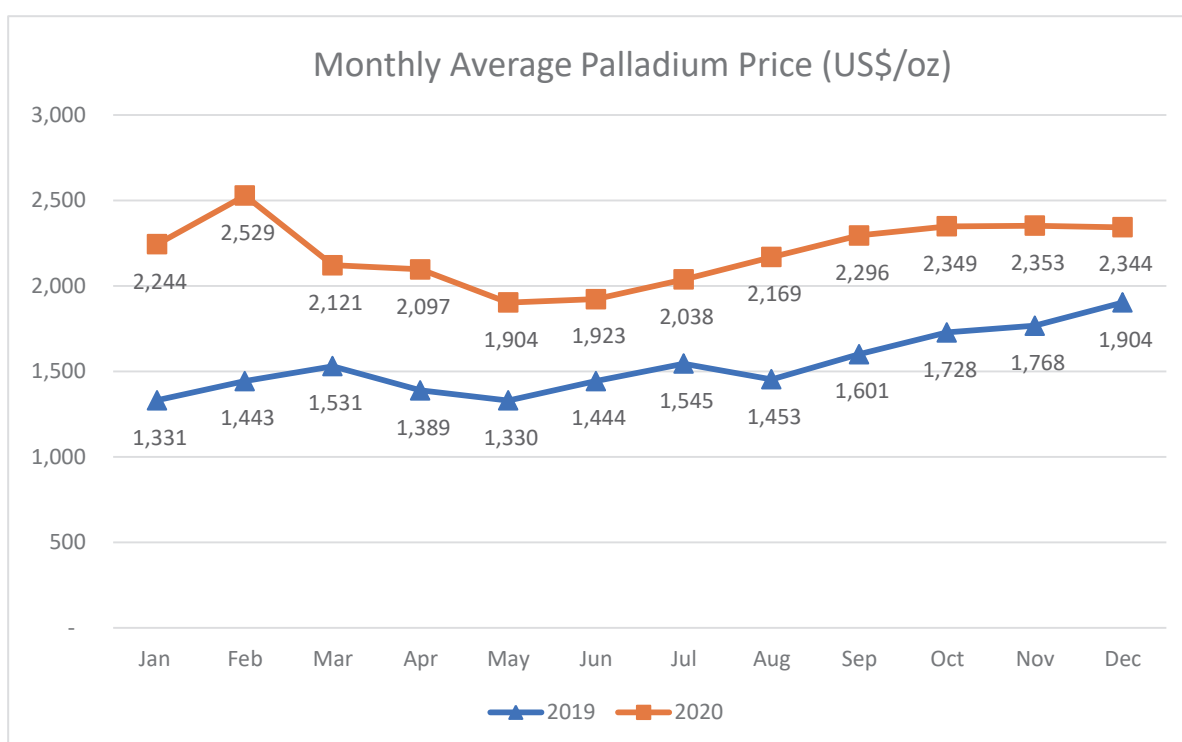
Manufacturing segment

The Group applied a proprietary production model to manufacture high quality silver ingots, Gold Products, palladium and other precious metals and the metal by-products derived therefrom. Sales of silver ingot decreased from approximately RMB361.6 million for the year ended 31 December 2019 to approximately RMB286.9 million for the year ended 31 December 2020, representing a decrease of approximately 20.7%, mainly due to the focus of the Group on palladium which saw a rapidly growing demand in recent years, resulting in a relative decrease in the number of silver ingots produced. During year ended 31 December 2020, we sold approximately 62 tonnes (2019: 96 tonnes) of silver ingots and approximately 7.8 tonnes of palladium (2019: 4.0 tonnes) to our customers. We have been working closely with the local authorities on compliance with regulatory requirements and have been devising ways to improve our production process in view of the tightening environmental measures. The graph below shows the change in international silver price quoted on the London Bullion Market Association from January 2019 to December 2020:



Source: The London Bullion Market Association

Due to the continuously bullish market price of palladium, the Group continued to record strong growth in the sales of palladium after the last year and realized sales of approximately RMB3,636.4 million for the year ended 31 December 2020 (2019: RMB1,468.6 million). Palladium is extracted from three major raw materials, including smelting slag (熔煉渣), smoke dust (煙塵灰) and sludge from wet smelting (濕法泥), purchased from both our new and existing suppliers. The price of the raw materials is determined mainly based on the content of silver and palladium and their unit market price, and the production process is carried out twice or three times a month. Our customers for palladium are mainly trading companies and their end customers are usually large-scale enterprises. The Group's foray into the palladium market has led to an explosive increase in its sales under the Manufacturing segment to approximately RMB4,325.8 million (2019: RMB2,629.7 million), up by approximately 64.5% over 2019. The graph below shows the change in international palladium price quoted on the London Bullion Market Association from January 2019 to December 2020:



Source: The London Bullion Market Association

New Jewellery Retail segment operated under CSMall Group (Stock code: 1815)

For the year ended 31 December 2020, CSMall Group recorded sales of approximately RMB347.8 million (2019: RMB1,248.9 million), representing a significant year-on-year decrease of approximately 72.2%, mainly due to the impact of the COVID-19 on the jewellery retail atmosphere.

CSMall Group's 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.

Online Sales Channels

(i) Self-operated online platform

The Group's past implementation of the established strategy of attracting user traffic through promotion of low-margin gold bars has achieved significant expected results. As of 31 December 2020, the number of registered members on our self-operated online jewellery platform, which consists of www.csmall.com, m.csmall.com and the mobile app of “金貓銀貓CSmall”, surpassed approximately 9.9 million. The platform has been upgraded to a membership-based platform. The focus of the platform was adjusted from the original vigorous solicitation of new members to the stimulation and enhancement of benefits for existing members, which generated remarkable results. In 2020, the repeat purchase rate of members was approximately 8.1%, representing an increase of approximately 26.6% as compared with 2019.

(ii) Television and video shopping channels

As of 31 December 2020, we cooperated with a total of 17 television and video shopping channels in the PRC to promote and sell our jewellery products and become a core supplier of gold, silver and jewellery category of all top television channels, which enabled us to achieve satisfactory sales performance. With a daily coverage of over 100 million home viewers in the PRC, our brand awareness among Chinese viewers of television and video shopping channels was enhanced substantially. Short-video promotion and online celebrity (KOL) promotion are a standard part of our brand marketing. Their content becomes the core of every aspect of our brand marketing, sales and operation.

(iii) Third-party online marketplaces

During the year ended 31 December 2020, we cooperated with third-party online platforms such as Tmall (天貓), JD.com (京東), Suning (蘇寧), WeChat (微信) and Xiaohongshu (小紅書), etc. During the year, the Group enhanced its online sales through new marketing models including short video marketing, e-commerce live streaming and KOL, relying on the strong traffic of third-party platforms.

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 indispensable to the jewellery shopping experience, at our CSmall Shops. In 2020, due to the impact of COVID-19 on offline retail sales, we slowed down our offline store expansion plan, adjusted the layout of offline business outlets, and closed 62 stores and opened 39 new stores. As of 31 December 2020, we had 98 CSmall Shops located in 25 provinces and municipalities in the PRC, consisting of 4 self-operated CSmall Shops and 94 franchised CSmall Shops with presence in Anhui, Beijing, Chongqing, Fujian, Gansu, Guangdong, Hainan, Hebei, Heilongjiang, Henan, Hubei, Inner Mongolia, Jiangsu, Jilin, Liaoning, Ningxia, Shaanxi, Shandong, Shanghai, Shanxi, Sichuan, Tianjin, Xinjiang, Yunnan and Zhejiang.

(ii) Shenzhen Exhibition Hall

We sell products at our Shenzhen Exhibition Hall with a gross floor area of approximately 1,500 square meters in Shuibei, Shenzhen, which is generally believed to be home to the PRC's largest and leading jewellery trading and wholesale market. 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 primarily for our wholesale customers as well as our franchisees.

(iii) Third-party offline points of sale

We also distribute our jewellery products and provide product customization service through various third-party offline points of sale, which are certain commercial banks we cooperated with. We also cooperate with branded retailers, entertainment service providers, commercial banks, telecommunications service providers and insurance companies.

Silver Exchange segment

Shanghai Huatong is the 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 (formerly 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 such website are the general reference prices for the silver industry in the PRC.

For the year ended 31 December 2020, the Silver Exchange segment recorded sales of approximately RMB85.8 million (2019: RMB48.5 million), representing a significant year-on-year increase of approximately 76.8%, mainly due to the increase in transaction volume of trading silver ingots as stimulated by sharp fluctuations of silver price during the year.

Prospects

The global economic turmoil, the pandemic of COVID-19, the PRC's economic slowdown and other unstable factors will continue to cast a shadow over the global and Chinese economy for a prolonged period, and a larger demand for hedge assets such as silver, palladium and Gold Products will continue to emerge in the market. We therefore remain fully confident in the manufacture and sale of precious metals including silver, Gold Products and palladium. Based on the Group's forward-looking strategic planning and strong execution power which have led to the Group's continuous optimisation of product mix, the revenue from the sale of precious metals including silver, Gold Products and palladium accounted for more than 90% of the Manufacturing segment in 2020, with the rest contributed by the metal by-products produced in the process of manufacturing the abovementioned precious metal products. This demonstrates the Group has transformed into an integrated enterprise mainly engaged in the manufacture and sale of silver, palladium, gold and other precious metals as its core business after the continuous optimisation of product mix over the years.

Meanwhile, the Group also seized the opportunities arising from the global economic turmoil and the downturn of the Chinese economy in a timely manner, strictly controlled the cost of raw materials and improved its profitability. In addition, the Group has also leveraged its constant strategic planning and strength to continue to seek opportunities arising from an unfavourable economic environment to invest in and acquire upstream high quality precious metal mines including silver and gold mines as well as poly-metallic mines containing silver and gold, thereby continuously enhancing the Group's profitability and achieving persistent strong growth in the Group's performance in the future.

We do not expect COVID-19 to last long but will remain vigilant in the tough retail environment. Meanwhile, we will not neglect the deployment of offline channels. The Group's franchisees are well-financed and demonstrate strong anti-risk capabilities. Added to that, with the introduction of Mr. Yao Runxiong, chairman of King Tai Fook which owns over 1,000 jewellery stores across China, as a strategic shareholder of CSMall Group in 2019, our future expansion plan for our offline retail network will resume this year. Relying on the online and offline digital operations and strong supply chain foundation of CSMall Group, the Group will accelerate digital marketing, adjust the layout of offline business outlets, and intensify the operation of new marketing models such as short video and e-commerce live streaming, to ultimately turn the corner.

In addition, the Group has taken advantage of its strengths as a leader among internet-based new retail enterprises to build well-developed technologies, systems and capabilities in digitization, big data and supply chains. It utilised new technologies such as artificial intelligence and blockchain to empower the traditional jewellery industry for development towards a technological innovation platform supported by new technologies including artificial intelligence, big data and blockchain, in order to continuously improve the Group's sustainable profitability.

Furthermore, as the PRC proposed the development strategy of "Integrated Reform Plan for Promoting Ecological Progress", hazardous waste treatment is generally recognized as the focus of the environmental technology industry. Therefore, the Group planned to enter the hazardous waste treatment business. We will expand our business scale and leverage the experience and expertise gained from recycling rare metals extracted from the manufacturing process of silver ingots, thereby becoming one of the leading influential environmental technology industry players in the near future.

In summary, we are pleased with the positive news and future development prospects of the business segments and fully confident in the continued strong growth of the Group's performance in the future, and will strive to become a leading fully-integrated silver, palladium, gold and precious metals enterprise in the PRC.

Financial Review

Revenue

The revenue of the Group for the year ended 31 December 2020 was approximately RMB4,759.3 million (2019: RMB3,927.1 million), representing an increase of approximately 21.2% from that of 2019.

	Year ended 31 December,			
	2020		2019	
	Revenue <i>RMB'000</i>	% of revenue	Revenue <i>RMB'000</i>	% of revenue
Manufacturing segment				
Sales of silver ingot	286,907	6.0%	361,605	9.2%
Sales of palladium	3,636,368	76.4%	1,468,641	37.4%
Sales of other metal by-products	402,538	8.5%	799,441	20.4%
	<u>4,325,813</u>	<u>90.9%</u>	<u>2,629,687</u>	<u>67.0%</u>
New Jewellery Retail segment operated under CS Mall Group				
Sales of gold, silver, gem-set and other jewellery products	<u>347,768</u>	<u>7.3%</u>	<u>1,248,918</u>	<u>31.8%</u>
Silver Exchange segment				
Commission income	<u>85,749</u>	<u>1.8%</u>	<u>48,492</u>	<u>1.2%</u>
Total	<u>4,759,330</u>	<u>100.0%</u>	<u>3,927,097</u>	<u>100.0%</u>

Manufacturing segment

Sales of silver ingot decreased from approximately RMB361.6 million to approximately RMB286.9 million for the year ended 31 December 2020, representing a decrease of approximately 20.7% from that 2019. The decrease was mainly due to decrease in sales volume of silver ingot from approximately 96 tonnes in 2019 to approximately 62 tonnes in 2020.

Due to the continued bullish market price of palladium, after the breakthrough in palladium sales during the last year, the Group realized robust growth with sales of approximately RMB3,636.4 million for the year ended 31 December 2020 (2019: RMB1,468.6 million), representing a significant increase of approximately 147.6% over the last year. The Group's foray into the palladium market has led to an increase in its sales under the Manufacturing segment to approximately RMB4,325.8 million, up by approximately 64.5% over 2019.

Other metal products such as lead ingot, zinc oxide, bismuth ingot and antimony ingot are produced during the production of silver ingot and palladium. Sales of other metal products decreased to approximately RMB402.5 million for the year ended 31 December 2020 (2019: RMB799.4 million).

New Jewellery Retail segment operated under CSMall Group

During the year ended 31 December 2020, the New Jewellery Retail segment recorded sales of approximately RMB347.8 million (2019: RMB1,248.9 million), representing a significant decrease of approximately 72.2% as compared to that of 2019, mainly due to the impact of the COVID-19 epidemic on the jewellery retail atmosphere, which have had a negative impact on the PRC retail market. Meanwhile, the Group implemented proactive strategic adjustment which saw a shift from the promotion of low-margin gold bars to a focus on stimulating users brought in by previous promotion initiatives and increasing their repeat purchase rate. On this basis, we optimised our product mix to focus on the sale of a more diverse product offering and the promotion of high margin silver products.

Silver Exchange segment

During the year ended 31 December 2020, the Silver Exchange segment recorded sales of approximately RMB85.8 million (2019: RMB48.5 million), representing a significant year-on-year increase of approximately 76.8%. The increase was mainly due to the increase in transaction volume as a result of the sharp fluctuations of international silver prices during the 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 amount increased mainly because of the upsizing of sales of palladium.

New Jewellery Retail segment operated under CSMall Group

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. The amount decreased mainly because of the decrease in segment sales.

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. The amount increased mainly because of the increase in transaction volume.

Gross profit and gross profit margin

The Group recorded gross profit of approximately RMB433.2 million (2019: RMB531.1 million) for the year ended 31 December 2020, a decrease of approximately 18.4% as compared to that of 2019 due to the impact of the COVID-19 epidemic on the industry atmosphere facing the New Jewellery Retail segment which resulted in a significant drop of segment gross profit by approximately 59.8%. The Group's overall gross profit margin decreased to approximately 9.1% (2019: 13.5%) due to the increase in unit cost of raw materials under the Manufacturing segment and less contribution of sales with high-margin silver jewellery products by the New Jewellery Retail segment under CSMall Group as compared to the last year.

Selling and distribution expenses

Selling and distribution expenses decreased significantly by approximately 50.2% from approximately RMB56.9 million for the year ended 31 December 2019 to approximately RMB28.3 million for the year ended 31 December 2020. However, if the one-off and non-cash share-based payment expenses of approximately RMB19.4 million for the year ended 31 December 2019 (see MANAGEMENT DISCUSSION AND ANALYSIS – “Significant investment held, material acquisition and disposal” in the 2019 annual report of the Company for details) were excluded, the selling and distribution expenses would have decreased by approximately 24.5% from approximately RMB37.5 million for the year ended 31 December 2019 to approximately RMB28.3 million for the year ended 31 December 2020, mainly due to the decrease in the advertising cost for brand promotion and the cost of sales personnel of the New Jewellery Retail segment operated under CS Mall Group.

Administrative expenses

Administrative expenses decreased significantly by approximately 50.1% from approximately RMB193.5 million for the year ended 31 December 2019 to approximately RMB96.6 million for the year ended 31 December 2020. However, if the one-off and non-cash share-based payment expenses of approximately RMB63.6 million for the year ended 31 December 2019 (see MANAGEMENT DISCUSSION AND ANALYSIS – “Significant investment held, material acquisition and disposal” in the 2019 annual report of the Company for details) were excluded, the administrative expenses would have decreased by approximately 25.6% from approximately RMB129.9 million for the year ended 31 December 2019 to approximately RMB96.6 million for the year ended 31 December 2020. The decrease was mainly due to the decrease in staff cost of the Group.

Other gains and losses

Other gains and losses increased to approximately RMB9.7 million for the year ended 31 December 2020 from approximately RMB4.5 million for the year ended 31 December 2019, mainly because of the combined effects of the trading expenses of approximately RMB3.6 million and one-off net loss of approximately RMB12.5 million on inventory write-off upon expiry in relation to the pilot expansion into a new business of COVID-19 diagnostic kit distribution in collaboration with a pharmaceutical company in the PRC, which offset the trading income in relation to such pilot expansion of approximately RMB2.7 million and the net exchange gain of approximately RMB3.0 million (2019: net exchange loss of approximately RMB1.9 million) recorded during the year.

Net loss on termination of assignment contract in relation to acquisition of a land use right

During the year ended 31 December 2020, Huzhou Baiyin, an indirect wholly-owned subsidiary under CS Mall Group, entered into the Termination Agreement and a compensation agreement to terminate the acquisition of the land use right over a piece of land located in Huzhou, the PRC (please refer to the section headed “Significant Investment Held, Material Acquisition and Disposal” below for details). In accordance with the terms of the agreements, the Committee agreed to refund the deposits received of approximately RMB270.9 million and compensate Huzhou Baiyin for certain capital expenditure, other related expenses and certain taxes paid. A net loss on termination of assignment contract in relation to the acquisition of a land use right of approximately RMB27.4 million was recorded during the year.

Income tax expense

The income tax expense fell from approximately RMB61.3 million for the year ended 31 December 2019 to approximately RMB47.4 million for the year ended 31 December 2020 due to the decrease in assessable profit.

Profit (loss) attributable to owners of the Company

For the year ended 31 December 2020, the profit attributable to owners of the Company amounted to approximately RMB227.5 million (2019: loss of RMB116.2 million). However, if the aforesaid one-off net loss on termination of assignment contract in relation to acquisition of a land use right of approximately RMB27.4 million and the one-off net loss of approximately RMB12.5 million on inventory write-off upon expiry in relation to the pilot expansion into a new business of COVID-19 diagnostic kit distribution in collaboration with a pharmaceutical company in the PRC in 2020 were excluded, the profit attributable to owners of the Company would have decreased by approximately 3.9% from approximately RMB253.5 million for the year ended 31 December 2019 (excluding, for illustration purposes only, the one-off and non-cash share-based payment expenses for the New Jewellery Retail segment of approximately RMB83.0 million and the non-recurring impairment loss on goodwill for the Silver Exchange segment of approximately RMB330.3 million in 2019) to approximately RMB243.6 million for the year ended 31 December 2020. This was mainly because, as a result of the COVID-19 epidemic, the New Jewellery Retail segment saw a considerable decline, while the significant increase in the sales of the Manufacturing segment, in particular palladium, and the increase in the transaction volume of the Silver Exchange segment offset part of the decline in the New Jewellery Retail segment.

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 year ended 31 December 2020, inventory turnover days decreased to approximately 206.0 days (2019: 237.2 days). Metals are durable and therefore will not depreciate in value. The Group believes that it is advantageous to keep durable inventories with good cost control since we foresee that the price of raw materials will increase in the near future. The Group also minimizes its risk on keeping long aged inventories through enhanced security check on the entry and exit of the warehouse.

The turnover days for trade receivables for the year ended 31 December 2020 were approximately 17.6 days (2019: 28.0 days), mainly due to less sales generated by the New Jewellery Retail segment towards the year end resulting in decreased trade receivables.

The turnover days for trade payables for the year ended 31 December 2020 were approximately 8.9 days (2019: 17.3 days), mainly due to the Group's speeding up of the payment process towards the year end.

Borrowings

As of 31 December 2020, the Group's bank borrowings balance amounted to approximately RMB205.0 million, of which approximately RMB202.0 million was carried at fixed interest rate and approximately RMB3.0 million was carried at floating interest rate (2019: RMB110.0 million of which approximately RMB70.0 million was carried at fixed interest rate and approximately RMB40.0 million was carried at floating interest rate). The amounts would be due for repayment within one year.

The Group also had trade loans of approximately RMB10.0 million carried at fixed rate as of 31 December 2020 (2019: RMB19.4 million). The amounts would be due for repayment within one year.

The Group's net gearing ratio was calculated on the basis of the total bank borrowings and trade loans less bank balances and cash as a percentage of total equity. As of 31 December 2020, the Group was in a net cash position with a net gearing ratio of approximately -26.8% (2019: -14.0%).

Capital expenditures

For the year ended 31 December 2020, the Group invested approximately RMB22.0 million in property, plant and equipment (2019: RMB6.6 million).

For the year ended 31 December 2020, the Group paid deposits and other direct costs of approximately RMB19.7 million in relation to the acquisition of intangible assets and property, plant and equipment (2019: RMB274.7 million for deposits and other direct costs for acquisition of a land use right, intangible assets and property, plant and equipment).

Pledge of assets

As at 31 December 2020, assets with the following carrying amounts were pledged to secure general banking facilities.

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
– Property, plant and equipment	82,440	32,809
– Leasehold land (included in right-of-use assets)	–	17,262
– Inventories	270,859	172,782
– Trade receivables	75,000	75,000
– Pledged bank deposits	47,008	–
– VAT rebate receivable	41,822	–
	517,129	297,853

Capital commitments

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure contracted for but not provided in the consolidated financial statements:		
– Property, plant and equipment	15,307	1,100
– Intangible assets	–	36,451
– Land use right	–	95,467
	15,307	133,018

Contingent liabilities

As at 31 December 2020 and 31 December 2019, the Group did not have any contingent liabilities.

Employees

As of 31 December 2020, the Group employed 914 staff members (2019: 1,085 staff members) and the total remuneration for the year ended 31 December 2020 amounted to approximately RMB55.2 million (2019: RMB179.5 million). The decrease was mainly due to the decrease in the number of staff in the current year and the absence of the one-off and non-cash share-based payment expenses of approximately RMB83.0 million for the year ended 31 December 2019 in the current year. The Group's remuneration packages are in line with the current laws 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 year. The Group was principally financed by internal resources, trade loans and bank borrowings. The Group's principal financial instruments comprise bank balances and cash, restricted bank balances, trade and other receivables, trade, bills and other payables, trade loans and bank borrowings. As of 31 December 2020, bank balances and cash, net current assets, and total assets less current liabilities were approximately RMB1,193.0 million (2019: RMB610.7 million), RMB3,364.4 million (2019: RMB2,922.2 million) and RMB3,682.1 million (2019: RMB3,469.4 million), respectively. As of 31 December 2020, the Group had bank borrowings and trade loans amounting to approximately RMB205.0 million and RMB10.0 million respectively (2019: bank borrowings of RMB110.0 million and trade loans of RMB19.4 million).

Dividend

No final dividend for the year ended 31 December 2020 was proposed (2019: Nil).

Significant Investment Held, Material Acquisition and Disposal

Between 29 and 30 June 2020, Huzhou Baiyin, an indirect wholly-owned subsidiary under CSMall Group, entered into the Termination Agreement with the Committee and the Bureau, and a compensation agreement with the Committee, pursuant to which (a) the Committee and the Bureau agreed to terminate the Acquisition described in Note 11(i) to the consolidated financial statements; and (b) the Committee agreed to (i) refund the deposits received amounting to approximately RMB270.9 million; (ii) compensate Huzhou Baiyin for the capital expenditure and other expenses incurred by the Group in connection with the exploration, design and construction works on the land; and (iii) compensate Huzhou Baiyin for certain taxes paid by another indirect wholly-owned subsidiary under CSMall Group.

Up to 31 December 2020, the Group paid an aggregate amount of approximately RMB232.5 million of deposits and other direct costs of approximately RMB26.7 million in relation to the Acquisition. Deposits of approximately RMB245.6 million were received by the Group during the year ended 31 December 2020 and a refundable amount of approximately RMB25.3 million was accounted as other receivables at 31 December 2020. Respective net loss on termination of assignment contract in relation to the Acquisition of approximately RMB27.4 million was recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020. Subsequent to the reporting period, a refund of approximately RMB25.3 million has been further received in full.

Save as disclosed above, the Group did not hold any significant investment nor did the Group carry out any material acquisition and disposal for the year ended 31 December 2020.

Event after the Reporting Period

Subsequent to 31 December 2020, in regard to the termination of the Acquisition mentioned under the section headed “Significant Investment Held, Material Acquisition and Disposal” above the Group has further received the remaining amount of approximately RMB25.3 million as compensation of capital expenditure and other expenses incurred in connection with the Acquisition.

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 9 June 2021 to Tuesday, 15 June 2021 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the right to attend and vote at the annual general meeting to be held on Tuesday, 15 June 2021, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Tuesday, 8 June 2021 for registration of transfer.

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. As at the date of this announcement, the Board comprises three executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). During the year ended 31 December 2020, the Company has complied with the code provisions under the CG Code, except for the following deviation:

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Following the resignation of Mr. Sung Kin Man, former Chief Executive Officer of the Company, on 1 January 2019, Mr. Chen Wantian has served as both the Chairman and the Chief Executive Officer of the Company. The Board will continue to review the situation and consider splitting the roles of Chairman and Chief Executive Officer of the Company in due course after taking into account of the then overall circumstances of the Group.

Pursuant to code provision A.6.7 of the CG Code, the independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Due to other engagements, two independent non-executive Directors were unable to attend the annual general meeting held on 15 June 2020.

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 to the Listing Rules as the code of conduct for Directors in their dealings in the securities of the Company. Having made specific enquiry with all the Directors, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code during the year ended 31 December 2020.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the year ended 31 December 2020.

Audit Committee

The Audit Committee of the Company (the “**Audit Committee**”) has reviewed the financial reporting processes, risk management and internal control systems of the Group and discussed with the external auditor the audited consolidated financial statements for the year ended 31 December 2020. The Audit Committee is of the opinion that these statements had complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures had been made.

Scope of Work of Moore Stephens CPA Limited

The figures in respect of the Group’s consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been agreed by the Group’s auditor, Moore Stephens CPA Limited, to the amounts set out in the Group’s audited consolidated financial statements for the year as approved by the Board on 29 March 2021. The work performed by Moore Stephens CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Moore Stephens CPA Limited on this announcement.

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 Results Announcement and Annual Report

This audited annual results announcement is published on the websites of the Company (www.chinasilver.hk) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The 2020 annual report of the Company will be dispatched to the shareholders of the Company and made available on the same websites in due course.

By Order of the Board
China Silver Group Limited
Chen Wantian
Chairman

Hong Kong, 29 March 2021

As at the date of this announcement, the executive directors of the Company are Mr. Chen Wantian, Mr. Song Guosheng and Mr. Liu Jiandong; and the independent non-executive directors of the Company are Mr. Song Hongbing, Dr. Li Haitao and Dr. Zeng Yilong.