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 2016

HIGHLIGHTS OF 2016 ANNUAL RESULTS

- Consolidated revenue surged to RMB4,088 million, representing a growth of approximately 140% as compared to last year
- Fuelled by the strong growth in all business segments, profit attributable to owners of the Company significantly increased to RMB304 million, representing a record-breaking profit for the Group since Listing
- Excluding non-cash share option expenses of RMB47.9 million and one-off net gain resulting from certain acquisition and disposals of RMB26.7 million, adjusted net profit attributable to owners of the Company amounted to approximately RMB325 million
- The Board proposed a final dividend of HK$0.03 per share. Together with an interim dividend of HK$0.02 per share already paid, total dividend for 2016 amounts to HK$0.05 (2015: HK$0.01) per share

The board of directors (individually, a "**Director**", or collectively, the "**Board**") of China Silver Group Limited (the "**Company**") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	**2016**	2015
		RMB'000	*RMB'000*
Revenue	*3*	**4,088,195**	1,706,665
Cost of sales and services provided		**(3,461,038)**	(1,531,853)
Gross profit		**627,157**	174,812
Other income		**11,349**	6,203
Other gains and losses		**26,978**	12,358
Administrative expenses		**(173,504)**	(134,900)
Selling and distribution expenses		**(43,207)**	(18,404)
Research and development expenses		**(2,179)**	(2,027)
Other expenses		**(12,397)**	(22,867)
Finance costs		**(5,844)**	(7,932)
Share of results of associates		**57**	(239)
Profit before tax		**428,410**	7,004
Income tax expense	*4*	**(121,597)**	(17,975)
Profit (loss) for the year	*5*	**306,813**	(10,971)
Other comprehensive income (expense), net of income tax			
Item that may reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(1,592)**	270
Release of exchange reserve upon disposal of a subsidiary		**(908)**	–
Total comprehensive income (expense) for the year		**304,313**	(10,701)
Profit (loss) for the year attributable to:			
Owners of the Company		**304,078**	(10,969)
Non-controlling interests		**2,735**	(2)
		306,813	(10,971)
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**301,578**	(10,699)
Non-controlling interests		**2,735**	(2)
		304,313	(10,701)
		RMB	*RMB*
Earnings (loss) per share	*7*		
Basic		**0.212**	(0.009)
Diluted		**0.205**	(0.009)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016

	NOTES	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**176,603**	189,632
Prepaid lease payments		**18,134**	18,568
Goodwill		**407,321**	–
Intangible assets		**120,862**	7,091
Deferred tax asset		**3,129**	2,128
Interests in associates		**2,763**	63,598
Available-for-sale investment		**8,963**	–
		737,775	281,017
CURRENT ASSETS			
Prepaid lease payments		**432**	432
Inventories		**1,304,154**	236,447
Trade receivables, deposits and prepayments	8	**178,014**	168,348
Trade deposits		**28,115**	12,672
Amount due from an associate		**–**	39,610
Short-term bank deposit		**–**	500,000
Bank balances and cash		**527,549**	518,695
		2,038,264	1,476,204
CURRENT LIABILITIES			
Trade and other payables	9	**202,732**	115,473
Customer receipts in advance		**7,077**	1,388
Deferred income		**4,717**	–
Contingent consideration		**176,517**	–
Income tax payable		**53,087**	6,768
Bank borrowings		**110,000**	130,000
		554,130	253,629
NET CURRENT ASSETS		**1,484,134**	1,222,575
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,221,909**	1,503,592
CAPITAL AND RESERVES			
Share capital		**11,821**	10,627
Share premium and reserves		**2,077,342**	1,435,855
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**2,089,163**	1,446,482
Non-controlling interests		**98,483**	48,598
TOTAL EQUITY		**2,187,646**	1,495,080
NON-CURRENT LIABILITIES			
Deferred tax liability		**26,465**	–
Deferred income		**7,798**	8,512
		34,263	8,512
TOTAL EQUITY AND NON-CURRENT LIABILITIES		**2,221,909**	1,503,592

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 19 July 2012 and its shares are listed on the Stock Exchange since 28 December 2012 (the "Listing").

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The International Accounting Standards Board has issued a number of amendments to International Accounting Standards ("IASs"), IFRSs and a new interpretation ("IFRIC") which are effective for the Group's financial year beginning on 1 January 2016 (hereinafter collectively referred to as the "New IFRSs"). The Group has adopted, for the first time, the New IFRSs in the current year.

The application of the New IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and 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 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to IAS 40	Transfer of Investment Property[1]
Amendments to IFRSs	Annual improvements to IFRS Standards 2014 – 2016 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018.

2 Effective for annual periods beginning on or after 1 January 2019.

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 2017.

5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

The directors anticipate that the application of the other new and amendments to IFRSs upon their respective effective date will have no material impact on the Group's consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

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

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

(ii) retailing and wholesaling of gold, silver and jewellery products in the PRC ("New Jewellery Retail segment", previously known as "O2O segment"); and

(iii) providing professional electronic platform, related services for silver trading and trading of silver ingots ("Silver Exchange segment").

During the year ended 31 December 2016, the Group acquired additional 75% equity interest in Shanghai White Platinum & Silver Exchange* (上海華通鉑銀交易市場有限公司 or "**Shanghai Huatong**"). Since then, Shanghai Huatong has become a wholly-owned subsidiary of the Group. The CODM reviewed the results of Shanghai Huatong for the purpose of resource allocation and performance assessment and it has been regarded as a separate operating segment of the Group.

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 2016

	Manufacturing segment *RMB'000*	New Jewellery Retail segment *RMB'000*	Silver Exchange segment *RMB'000*	Segment total *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
Revenue						
External sales	1,457,098	2,465,291	165,806	4,088,195	–	4,088,195
Inter-segment sales*	318,409	–	–	318,409	(318,409)	–
Total segment revenue	1,775,507	2,465,291	165,806	4,406,604	(318,409)	4,088,195
Results						
Segment results	338,508	62,095	80,270	480,873		480,873
Non-segment items						
Unallocated income, expenses, gains and losses						(46,676)
Finance costs						(5,844)
Share of results of associates						57
Profit before tax						428,410

For the year ended 31 December 2015

	Manufacturing segment *RMB'000*	New Jewellery Retail segment *RMB'000*	Segment total *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
Revenue					
External sales	871,320	835,345	1,706,665	–	1,706,665
Inter-segment sales*	287,364	–	287,364	(287,364)	–
Total segment revenue	1,158,684	835,345	1,994,029	(287,364)	1,706,665
Results					
Segment results	74,437	25,828	100,265		100,265
Non-segment items					
Unallocated income, expenses, gains and losses					(85,090)
Finance costs					(7,932)
Share of results of associates					(239)
Profit before tax					7,004

* *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 by each segment, without allocation of central administrative expenses, certain other income, certain other gains and losses, finance costs and certain share of results of associates. This is the measure reported to the Company's executive directors for the purposes of resource allocation and performance assessment.

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:

	2016	2015
	RMB'000	*RMB'000*
Manufacturing segment		
Sales of silver ingot	**1,051,921**	571,308
Sales of other metal by-products	**405,177**	300,012
	1,457,098	871,320
New Jewellery Retail segment		
Sales of gold, silver and jewellery products	**2,465,291**	835,345
Silver Exchange segment		
Trading income	**43,995**	N/A
Membership fee income	**42,004**	N/A
Commission income	**79,807**	N/A
	165,806	N/A
	4,088,195	1,706,665

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

Information about major customers

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

	2016	2015
	RMB'000	*RMB'000*
Customer A	**N/A**	192,558
Customer B *(note)*	**N/A**	189,599
Customer C	**N/A**	185,231

Note: 11% of the Group's revenue in 2015 came from Customer B, Shanghai Huatong, a former associate acquired by the Group in July 2015, which has become a subsidiary of the Group in 2016.

4. INCOME TAX EXPENSE

	2016	2015
	RMB'000	*RMB'000*
PRC Enterprise Income Tax ("EIT")		
– current year	**123,808**	17,649
– underprovision in respect of prior years	**586**	147
	124,394	17,796
Deferred taxation for the year	**(2,797)**	179
	121,597	17,975

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

Under the Law of the PRC on EIT (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 years, except that in prior year, 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. In current year, Jiangxi Longtianyong has adopted 25% as the tax rate as it has applied for the renewal of the qualification as a High and New Technology Enterprise but is still pending for the approval from relevant authority.

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016	2015
	RMB'000	*RMB'000*
Profit before tax	**428,410**	7,004
Tax at the domestic income tax rate of 25%	**107,102**	1,751
Tax effect of expenses not deductible for tax purpose	**28,200**	24,318
Tax effect of income not taxable for tax purpose	**(11,185)**	–
Tax effect of share of results of associates	**(14)**	60
Tax effect of concessionary tax rate granted	**–**	(12,646)
Tax effect of utilisation of tax loss previously not recognised	**(3,768)**	–
Tax effect of tax loss not recognised	**676**	4,345
Underprovision in respect of prior years	**586**	147
Tax charge for the year	**121,597**	17,975

5. PROFIT (LOSS) FOR THE YEAR

	2016	2015
	RMB'000	*RMB'000*
Profit (loss) for the year has been arrived at after charging:		
Directors' emoluments	**7,676**	14,094
Other staff costs		
– salaries and wages	**72,713**	59,162
– retirement benefit scheme contributions	**12,105**	9,967
– share-based payments, excluding those of directors and a consultant	**45,954**	37,167
Total staff costs	**138,448**	120,390
Auditor's remuneration	**3,164**	1,974
Amortisation of intangible assets	**14,531**	900
Cost of inventories recognised as expenses	**3,418,151**	1,531,853
Depreciation of property, plant and equipment	**21,210**	17,554
Expenses and professional fees for acquisition projects and fund raising activities	**6,128**	13,733
Release of prepaid lease payments	**434**	435
Rental expenses	**15,703**	7,036
Share-based payment expenses in respect of consultancy services	**989**	1,903

6. DIVIDENDS

	2016	2015
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
Interim dividend of HK$0.02 per share for the year ended 31 December 2016	**25,049**	–
Interim dividend of HK$0.01 per share for the year ended 31 December 2015	**–**	10,625
Final dividend of HK$0.05 per share for the year ended 31 December 2014	**–**	42,829
	25,049	53,454

Subsequent to the end of the reporting period, a final dividend of HK$0.03 per share in respect of the year ended 31 December 2016 (2015: nil) has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

7. EARNINGS (LOSS) PER SHARE

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

	2016	2015
	RMB'000	*RMB'000*
Earnings (loss)		
Profit (loss) for the year attributable to owners of the Company for the purpose of basic earnings (loss) per share	**304,078**	(10,969)
Effect of dilutive potential shares:		
Fair value change of contingent consideration	**17,020**	–
Earnings (loss) for the purpose of diluted earnings (loss) per share	**321,098**	(10,969)

	2016	2015
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**1,434,723**	1,229,474
Effect of dilutive potential ordinary shares:		
– Share options of the Company	**3,435**	–
– Contingent consideration shares	**126,042**	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**1,564,200**	1,229,474

In calculating the diluted earnings per share for the year ended 31 December 2016, the potential issue of shares arising from the Company's certain share options and contingent consideration shares in respect of a business combination would decrease the earnings per share and was therefore taken into account as they have a dilutive effect.

In calculating the diluted earnings per share for the year ended 31 December 2015, the potential issue of shares arising from the Company's share options would decrease the earnings per share and were therefore not taken into account as they have an anti-dilutive effect.

8. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**63,257**	128,736
Deposits and prepayments	**114,757**	39,612
	178,014	168,348

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

The aged analysis of the Group's trade receivables based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates is as follows:

	2016	2015
	RMB'000	*RMB'000*
0 – 30 days	**59,502**	126,873
31 – 60 days	**3,238**	1,526
61 – 90 days	**517**	337
	63,257	128,736

Included in the Group's trade receivables amounting to RMB3,748,000 (2015: RMB40,000) which are past due but not impaired for which the Group has not recognised impairment loss, as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience.

Ageing of trade receivables which are past due but not impaired

	2016	2015
	RMB'000	*RMB'000*
31 – 60 days	**3,748**	40

The remaining trade receivables were neither past due nor impaired at the end of the reporting period. These receivables relate to customers that have a good repayment record with the Group. Majority of trade receivables that are neither past due nor impaired have no default payment history.

The Group does not hold any collateral over the above balances, but management considers that no impairment loss is necessary in view of the financial background of these customers and their subsequent repayments.

9. TRADE AND OTHER PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Trade payables	**10,682**	61,402
Other payables and accrued expenses	**87,070**	29,348
Deposits received from customer for using the silver exchange platform	**20,676**	–
Amount due to Huatong International (note)	**28,046**	–
Value-added tax and other taxes payables	**56,258**	24,723
	202,732	115,473

Note: The amount is non-trade in nature, unsecured, interest-free and repayable on demand.

The following is an aged analysis of the Group's trade payables present based on the invoice date at the end of the reporting period:

	2016	2015
	RMB'000	*RMB'000*
0 – 30 days	**8,976**	45,839
61 – 90 days	**–**	13,536
181 – 365 days	**1,706**	2,027
	10,682	61,402

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.

BUSINESS REVIEW

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

In 2014, we diversified from the traditional manufacturing business to the downstream 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. Throughout 2016, the New Jewellery Retail business achieved outstanding performance by implementing a series of business initiatives and marketing campaigns. The aggregate sales in the New Jewellery Retail business amounted to RMB2,465 million, representing approximately 60.3% of our total revenue (2015: 48.9%), a significant increase of approximately 195% as compared to last year. The New Jewellery Retail business has now become the major revenue contributor to the Group.

In February 2016, the Group further expanded downstream by completing the acquisition of 75% equity interest in Shanghai White Platinum & Silver Exchange* (上海華通鉑銀交易市場有限公司 or "**Shanghai Huatong**"), an operator of an integrated silver exchange platform in the PRC. Upon completion of the acquisition, Shanghai Huatong has become a wholly-owned subsidiary of the Company. This newly-acquired silver exchange business contributed a remarkable segment profit of RMB97.3 million (excluding a one-off loss of RMB17.0 million) during the year. We are confident that the silver exchange business will bring positive return to the Group.

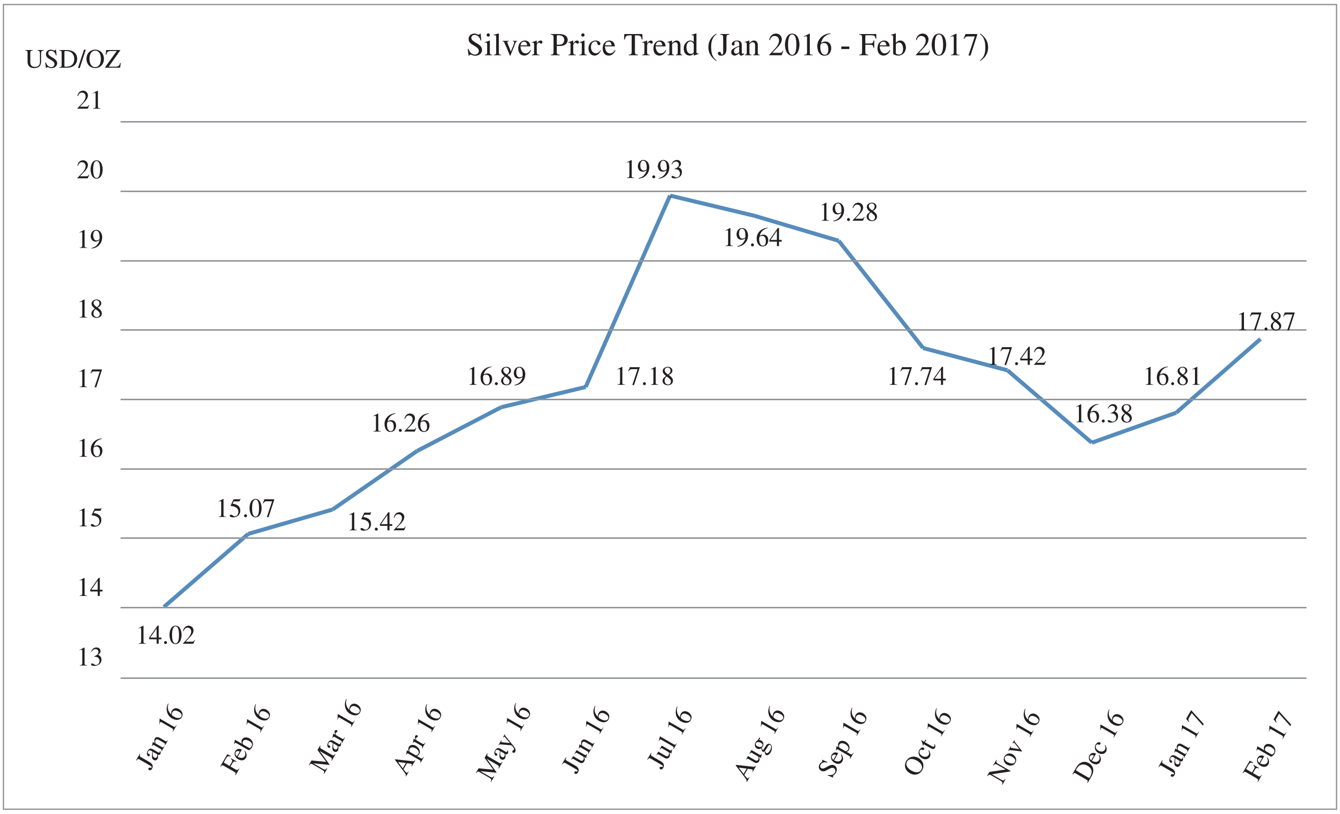
Fuelled by the strong growth in all the strategically-developed new businesses, profit attributable to owners of the Company significantly increased to RMB304 million, representing a record-breaking profit for the Group since Listing. Excluding non-cash share option expenses of RMB47.9 million and a one-off net gain resulting from certain acquisition and disposals of RMB26.7 million, adjusted profit attributable to owners of the Company amounted to approximately RMB325 million.

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 the New Jewellery Retail business and the addition of the silver exchange business, we are moving full speed towards this goal.

Manufacturing Business

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

The Group applied a proprietary production model to manufacture high quality silver and other non-ferrous metals. In 2016, we sold 322 tonnes of silver ingot to our customers and used 105 tonnes of silver ingot for our New Jewellery Retail business. Throughout 2016, the global commodity market showed signs of recovery. As such, the average selling price of our silver ingots slightly increased due to rebound in the international silver price since the beginning of 2016. The graph below shows the change in international silver price quoted on the London Bullion Market Association (LBMA) from January 2016 to February 2017:



Source: The London Bullion Market Association

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. As the business developed and evolved at a great pace, we now decided to name it "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 2016, we achieved outstanding results in the New Jewellery Retail business. Aggregate sales in the New Jewellery Retail segment amounted to RMB2,465 million, representing approximately 60.3% of our total revenue (2015: 48.9%), an increase of about 3 times the revenue in 2015.

Online Sales Channels

(i) Self-operated online platform

As of 31 December 2016, our self-operated online sales platform, www.CSmall.com (金貓銀貓) surpassed 4 million registered members, with over 370 million monthly page views (PV), 130 million unique visitors (UV) and 100 million internet protocols (IP). The platform now carries an aggregate of over 150 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, Shanghai Oriental CJ Shopping, Shandong Lucky Pai and Shenzhen Eachome.

(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, at our CSmall shops.

As of 31 December 2016, we had over 110 outlets across the PRC with presence in Anhui, Beijing, Guangdong, Hebei, Heilongjiang, Henan, Hubei, Hunan, Inner Mongolia, Jiangsu, Jiangxi, Liaoning, Shandong, Shanxi, Shanghai, Tianjin, Xinjiang and Zhejiang.

(ii) Shenzhen exhibition hall

Sales were generated from our Shenzhen exhibition hall with a gross floor area of approximately 2,000 square meters in Shuibei, Shenzhen. Shuibei in Shenzhen is home to 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 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 75% equity interest in Shanghai Huatong in February 2016.

Shanghai Huatong is an operator of an integrated silver exchange platform in the PRC which provides professional and standardized spot goods supply, trading, logistic and e-commerce services. Its official website, www.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 upgrades and optimizations of new systems, Shanghai Huatong achieved a remarkable result by contributing segment revenue of RMB166 million and segment profit of RMB97.3 million (excluding a one-off loss of RMB17.0 million) in 2016. We are confident that this newly acquired business will continue to grow rapidly and become one of the core revenue and profit contributors to the Group.

PROSPECTS

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

Following the rebound in international gold and silver prices, we saw a strong pickup in the demand for high-quality gold and silver products in the market. While we expect the global financial market to remain highly uncertain in the 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.

In summary, we are excited to see 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 year ended 31 December 2016 was approximately RMB4,088 million (2015: RMB1,707 million), representing an increase of approximately 140% from that of last year.

	Year ended 31 December, 2016		2015	
	Revenue *(RMB'000)*	**% of revenue**	Revenue *(RMB'000)*	% of revenue
Manufacturing segment				
Sales of silver ingot	1,051,921	25.7%	571,308	33.5%
Sales of other metal by-products	405,177	9.9%	300,012	17.6%
	1,457,098	35.6%	871,320	51.1%
New Jewellery Retail segment				
Sales of gold, silver and jewellery products	2,465,291	60.3%	835,345	48.9%
Silver Exchange segment				
Trading and related service income	165,806	4.1%	N/A	N/A
Total	4,088,195	100%	1,706,665	100%

Manufacturing segment

Sales of silver ingot increased from RMB571 million to RMB1,052 million for the year ended 31 December 2016, representing an increase of approximately 84.1% from that of last year. The increase was due to both increase in the average selling price and sales volume.

The average selling price of silver ingot slightly increased from RMB3.1 million (exclusive of value-added tax) per tonne to RMB3.3 million (exclusive of value-added tax) per tonne due to rebound in the international silver price. Sales volume of silver ingot increased from 186 tonnes to 322 tonnes after the production capacity ramped up during the year. The aggregate production volume of silver ingot increased from 281 tonnes to 427 tonnes.

Other metal by-products such as lead ingot, bismuth ingot and antimony ingot are produced during the production of silver ingot. Sales of other metal by-products increased as the production volume increased.

New Jewellery Retail segment

During 2016, the New Jewellery Retail segment recorded sales of RMB2,465 million (2015: RMB835 million), representing an increase of approximately 195% as our online and offline sales channels expanded rapidly. To further broaden our product portfolio, gold products were introduced which significantly boosted the overall sales due to its high ticket price.

Silver Exchange segment

Revenue mainly represents trading and related service income received from the operation of the online silver exchange platform. During 2016, the silver exchange segment recorded trading and related service income of RMB166 million (2015: nil). The financial results of Shanghai Huatong has been consolidated into the financial statements of the Group since February 2016.

Cost of Sales, Gross Profit and Gross Profit Margin

Manufacturing segment

Cost of sales mainly represents the cost of raw materials consumed, direct labor and manufacturing overhead. Cost of raw materials consumed accounted for over 90% of cost of sales. The purchase cost of raw materials is determined by the content levels of silver and lead at market prices at the time of purchase; other types of minerals or metals are not taken into account when determining purchase price. The increase was mainly due to the surge in sales volume.

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 all sales channels of New Jewellery Retail segment significantly expanded during the year.

Silver Exchange segment

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

Gross Profit and Gross Profit Margin

We recorded gross profit of RMB627 million (2015: RMB175 million) for the year ended 31 December 2016, an increase of approximately 259% as compared to that of last year due to rebound in the manufacturing segment, strong growth in the New Jewellery Retail segment and contribution from the newly-acquired silver exchange business.

The overall gross profit margin increased from 10.2% to 15.3% due to a change in sales mix. In particular, rebound of international silver price since the beginning of 2016 helped to boost the gross profit margin of the manufacturing business. Apart from that, the newly-acquired silver exchange business, which enjoyed a relatively higher margin, also helped to improve the overall gross profit margin.

Administrative Expenses

Administrative expenses increased by approximately 28.6% from RMB135 million to RMB174 million for the year ended 31 December 2016. The increase was mainly due to increase in other staff costs of RMB24.5 million and amortization expenses of RMB7.2 million resulting from the Shanghai Huatong acquisition.

Selling and Distribution Expenses

Selling and distribution expenses increased by approximately 135% from RMB18.4 million to RMB43.2 million for the year ended 31 December 2016 mainly due to an increase in advertising cost for brand promotion.

Other Gains and Losses

Amount in current year mainly represents net gain on deemed disposals of associates and subsidiaries of RMB43.7 million and fair value change of contingent consideration of RMB17.0 million resulting from the Shanghai Huatong acquisition.

Other Expenses

Other expenses mainly represent professional expenses for acquisition projects and fund raising activities. Amount decreased as less activities were carried out in 2016.

Income Tax Expense

Income tax expense increased by approximately 576% from RMB18.0 million to RMB122 million for the year ended 31 December 2016 mainly due to higher profit before tax.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company for the year ended 31 December 2016 increased significantly to RMB304 million, as compared to the loss attributable to owners of the Company of approximately RMB11 million in 2015, mainly due to increase in gross profit and a one-off net gain resulting from certain acquisition and disposals.

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 2016, inventory turnover days were approximately 81 days (for the year ended 31 December 2015: 44 days). The increase was mainly due to the need to maintain a sufficient level of raw material to satisfy future sales growth in all business segments.

The turnover days for trade receivables for the year ended 31 December 2016 were approximately 8.6 days (for the year ended 31 December 2015: 17.6 days).

The turnover days for trade payables were approximately 3.8 days (for the year ended 31 December 2015: 9.8 days).

Borrowings

As of 31 December 2016, the Group's bank borrowings balance amounted to RMB110 million (as of 31 December 2015: RMB130 million). The amounts are carried at fixed interest rates and will be due for repayment within one year.

The Group's net gearing ratio was calculated on the basis of the total bank borrowings less bank balances and cash and pledged bank deposit as a percentage of total equity. As of 31 December 2016, the Group was in a net cash position with a net gearing ratio of -19.1% (as of 31 December 2015: -59.4%).

Pledge of Assets

As of 31 December 2016, the Group pledged property ownership rights in respect of buildings, land use rights and inventories with total carrying value of approximately RMB60.3 million, RMB7.9 million and RMB220 million, respectively (as of 31 December 2015: RMB63.9 million, RMB10.9 million and RMB119 million) to secure the general banking facilities granted to the Group.

Capital Expenditures

For the year ended 31 December 2016, the Group invested RMB10.5 million in property, plant and equipment (2015: RMB24.5 million).

EMPLOYEES

As of 31 December 2016, the Group employed 1,049 staff (as of 31 December 2015: 983 staff) and the total remuneration for the year ended 31 December 2016 amounted to RMB138 million (2015: RMB120 million). The Group's remuneration packages are in line with the current legislation in the relevant jurisdictions, the experience and qualifications of individual employees and the general market conditions. Bonuses are linked to the Group's financial results as well as to individual performances. The Group ensures that adequate training and professional development opportunities are provided to all employees so as to satisfy their career development needs.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquidity position during the period under review. The Group was principally financed by internal resources and bank borrowings. The Group's principal financial instruments comprise cash and cash equivalents, trade and other receivables, trade and other payables and bank borrowings. As of 31 December 2016, the cash and cash equivalents, net current assets and total assets less current liabilities were RMB528 million (as of 31 December 2015: RMB1,019 million), RMB1,484 million (as of 31 December 2015: RMB1,223 million) and RMB2,222 million (as of 31 December 2015: RMB1,504 million), respectively. As of 31 December 2016, the Group had bank borrowings amounting to RMB110 million (as of 31 December 2015: RMB130 million).

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION AND DISPOSAL

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

On 6 June 2016, the Group proposed to issue new shares of a subsidiary, CSMall Group Limited ("**CSMall**"), to certain employees and connected persons for an aggregate consideration of RMB85.7 million which constituted a deemed disposal of an approximately 30% interest in CSMall by the Company. The transaction was fully completed in August 2016. Further details of the deemed disposal are set out in the announcements of the Company dated 6 June 2016, 8 July 2016, 12 July 2016 and 27 July 2016.

On 2 December 2016, the Group proposed to issue new shares of CSMall to certain investors for an aggregate consideration of RMB149 million which constituted a deemed disposal of an approximately 9.9% interest in CSMall by the Company. The transaction was fully completed in January 2017. Further details of the deemed disposal are set out in the announcement of the Company dated 2 December 2016.

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

DIVIDEND

The Board has resolved to recommend payment of a final dividend for the year ended 31 December 2016 of HK$0.03 per share (For the year ended 31 December 2015: nil), which is subject to shareholders' approval at the forthcoming annual general meeting of the Company to be held on Friday, 26 May 2017. It is expected that the final dividend will be paid on or about 18 July 2017 to shareholders whose names appear on the register of members of the Company on 7 June 2017.

CLOSURE OF REGISTER OF MEMBERS

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

(i) From 24 May 2017 to 26 May 2017 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the right to attend and vote at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 23 May 2017 for registration of transfer.

(ii) From 5 June 2017 to 7 June 2017 (both days inclusive), during which period no transfer of shares will be effected. In order to establish entitlement to the proposed final dividend (payable on or about 18 July 2017), all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 2 June 2017 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. 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 year ended 31 December 2016 and up to the date of this announcement, the Company has complied with the code provisions under the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 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 throughout the year ended 31 December 2016.

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

Date of completion	Fund raising activity	Net proceeds raised	Reasons for fund raising and use of net proceeds	Closing price of last trading date
22 January 2016	Placing of 50,000,000 new ordinary shares at HK$1.70 each to FIL Investment Management (Hong Kong) Limited under general mandate	Approximately HK$84 million	All the net proceeds will be applied for potential investments and general working capital	HK$1.95
14 September 2016	Issue of 30,000,000 new ordinary shares at HK$1.80 each to an independent third party by way of subscription under general mandate	Approximately HK$54 million	All the net proceeds will be applied for the development of the downstream silver exchange business and general working capital	HK$1.84

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 year ended 31 December 2016.

EVENT AFTER THE REPORTING PERIOD

In February 2017, 13.8 million new ordinary shares of the Company, representing 0.94% of the then issued share capital of the Company, were allotted and issued to certain placees at a price of HK$1.51 per share by way of placing under general mandate. The net proceeds raised (after deducting the commission and other expenses incurred) were approximately HK$20 million and will be used for general working capital.

AUDIT COMMITTEE

The Audit Committee has reviewed the financial reporting processes and internal control system of the Group and discussed with the external auditors the consolidated financial statements for the year ended 31 December 2016. The Audit Committee is of the opinion that these statements had complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures had been made.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

ACKNOWLEDGEMENT

I would like to thank the Board, the management and all of our staff for their hard work and dedication, as well as our shareholders and customers for their continuous support to the Group.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.chinasilver.hk) and the Stock Exchange (www.hkexnews.hk). The 2016 annual report of the Company will be dispatched to the shareholders and made available on the same websites in due course.

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

Hong Kong, 16 March 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*