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# 中國白銀集團 CHINA SILVER GROUP

(Incorporated in the Cayman Islands with limited liability)  
Stock Code: 815

Online | Offline

## New Jewellery Retail

### 2016 ANNUAL REPORT





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## Corporate Information

### Executive directors

Chen Wantian (陳萬天)  
Sung Kin Man (宋建文)  
Song Guosheng (宋國生)  
Chen Guoyu (陳國裕)

### Independent non-executive directors

Guo Bin (郭斌)  
Song Hongbing (宋鴻兵)  
Li Haitao (李海濤)  
Zeng Yilong (曾一龍)

### Audit committee

Zeng Yilong (Chairman)  
Song Hongbing  
Li Haitao

### Remuneration committee

Li Haitao (Chairman)  
Chen Wantian  
Song Hongbing

### Nomination committee

Chen Wantian (Chairman)  
Song Hongbing  
Li Haitao

### Company secretary

Moy Yee Wo, Matthew (梅以和), HKICPA

### Authorised representatives

Chen Wantian  
Moy Yee Wo, Matthew

### Cayman Islands share registrar and transfer office

Conyers Trust Company (Cayman) Limited  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

### Hong Kong share registrar

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre, 183 Queen's Road East  
Wanchai, Hong Kong

### Registered office

Cricket Square, Hutchins Drive  
PO Box 2681  
Grand Cayman, KY1-1111  
Cayman Islands

### Headquarters in the PRC

Rm 5A & 6 Floor  
Baolin International Gold Trade Center  
2nd Building, 3 Shutian Second Street  
Shuibe, Luohu District  
Shenzhen, PRC

### Principal place of business in Hong Kong

Unit 1416, China Merchants Tower  
168-200 Connaught Road Central  
Sheung Wan  
Hong Kong

### Company's website

[www.chinasilver.hk](http://www.chinasilver.hk)

### Place of listing and stock code

The Stock Exchange of Hong Kong Limited  
815

### Principal bankers

Bank of Ganzhou  
Agricultural Bank of China

### Auditor

Deloitte Touche Tohmatsu  
*Certified Public Accountants*

### Legal advisors

**Hong Kong law:**  
Chiu & Partners

**Cayman Islands law:**  
Conyers Dill & Pearman

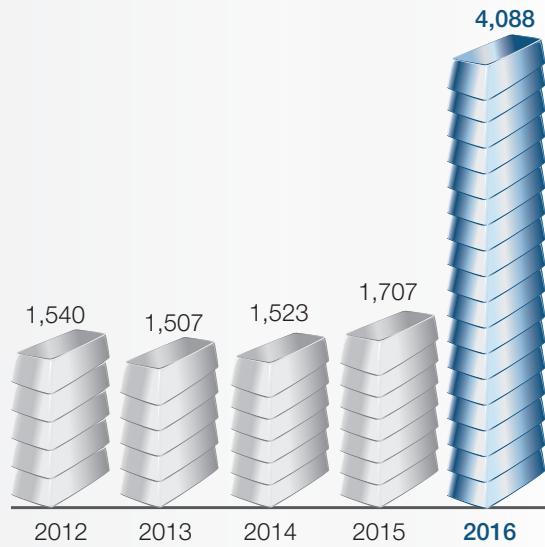
### Investors and media relations

Hill and Knowlton Strategies

# Financial Highlights

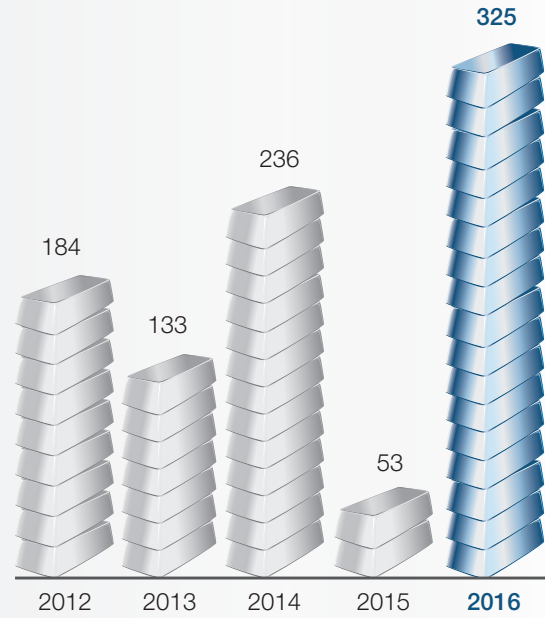
## Consolidated Revenue

RMB million



## Adjusted Profit Attributable to Owners of the Company\*

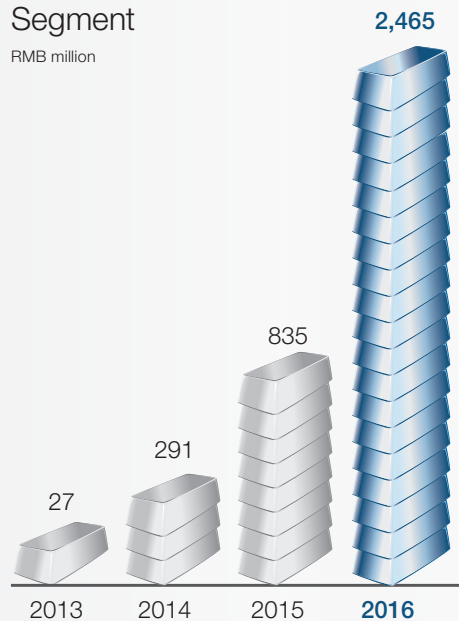
RMB million



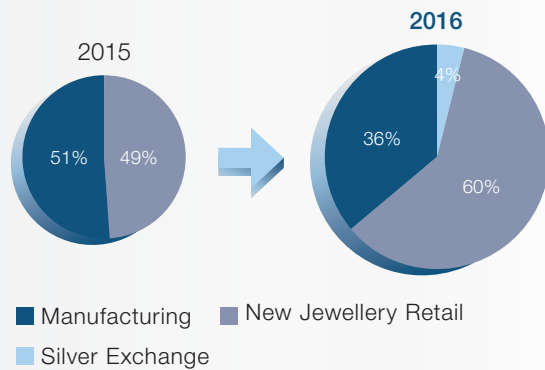
\* Excluding non-cash share option expenses and certain one-off items

## Revenue from New Jewellery Retail Segment

RMB million

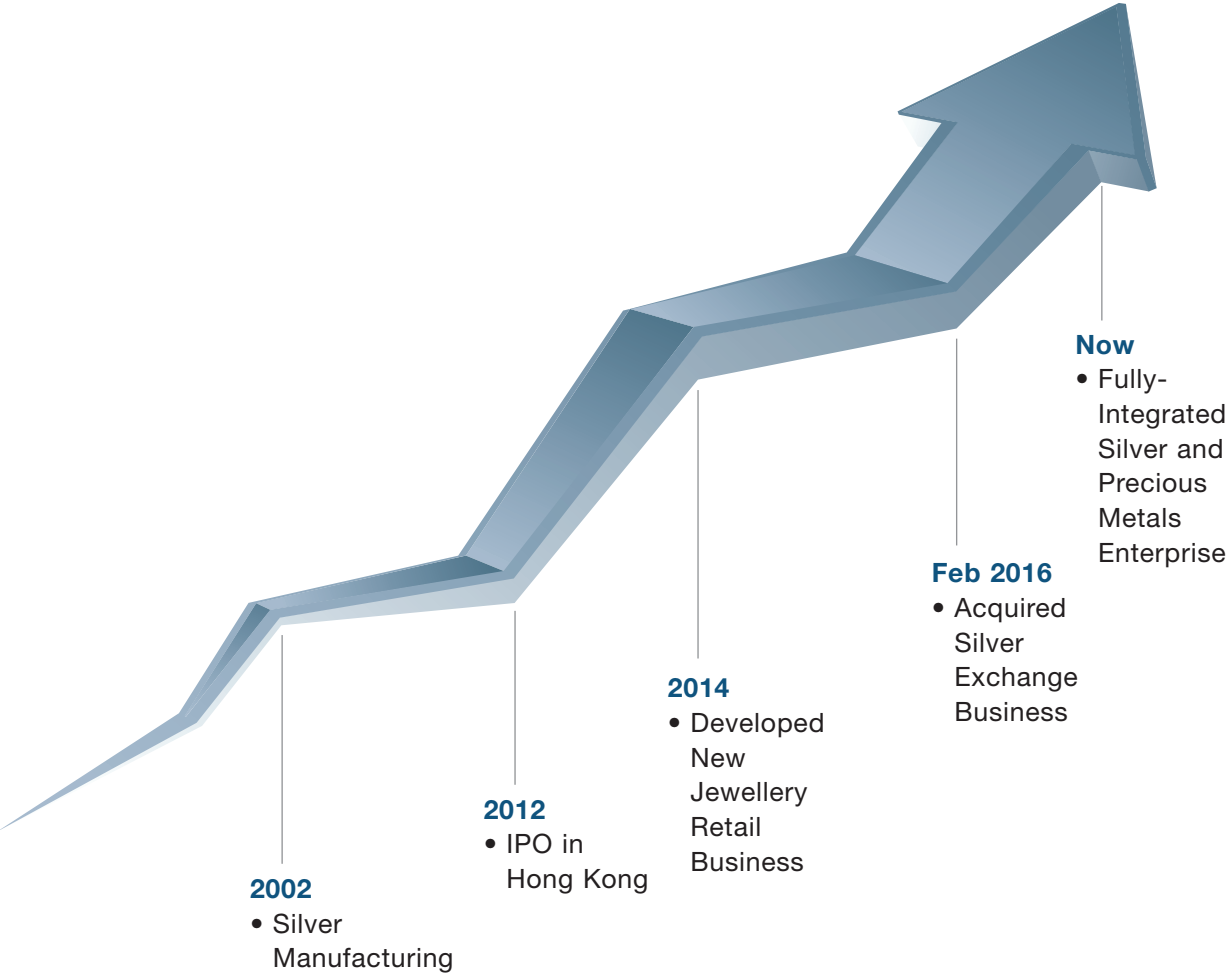


## Revenue Contribution from Different Segments



# Financial Highlights

## The Milestone of China Silver Group Limited



SELECTED BRANDS AND PRODUCTS

Zun Fan Pure Silver Jewelleries (尊梵足銀)



Guo Yin Tong Bao Silver Collectibles (國銀通寶)



## Chairman's Statement



The year 2016 was a record-breaking year for China Silver Group Limited (the “Company”, together with its subsidiaries, the “Group”). The directors of the Company (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 the listing of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). 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.

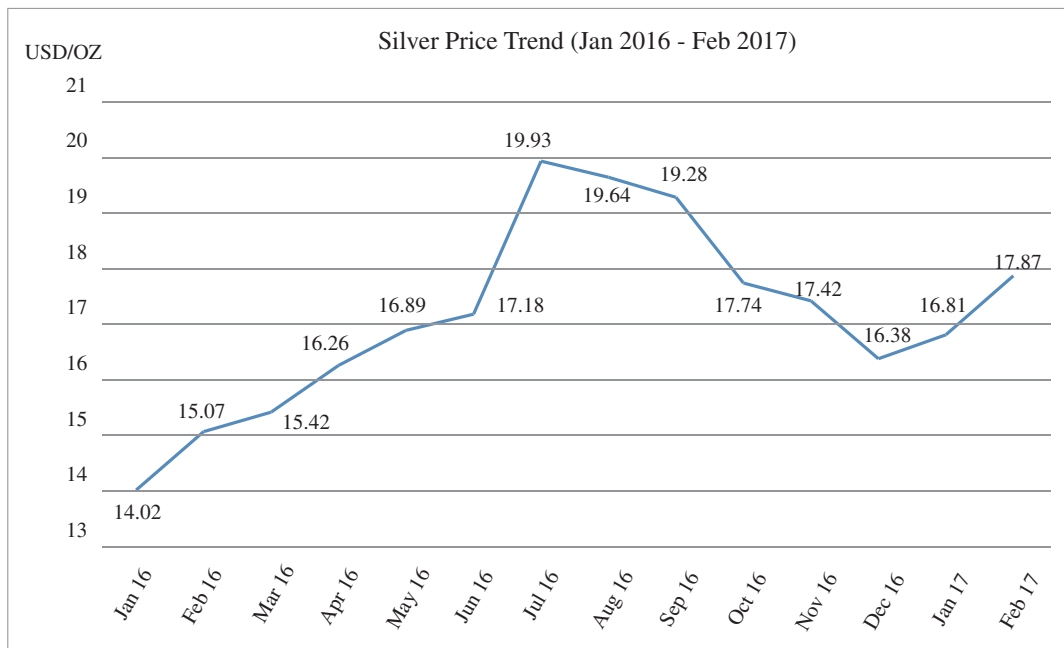
As always, our long-term vision is to become a leading fully-integrated silver and precious metals enterprise in the PRC. Together with the rapid growth in the New Jewellery Retail business and the addition of the silver exchange business, we are moving full speed towards this goal.

## Chairman's Statement

### Manufacturing Business

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

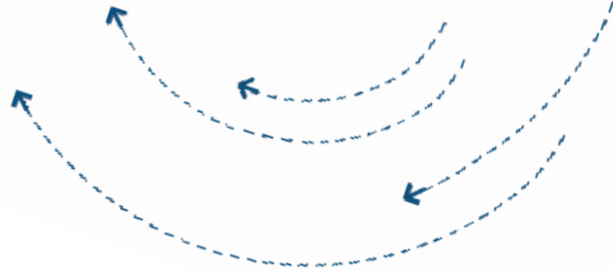
The Group applied a proprietary production model to manufacture high quality silver and other non-ferrous metals. In 2016, we sold 322 tonnes of silver ingot to our customers and used 105 tonnes of silver ingot for our New Jewellery Retail business. Throughout 2016, the global commodity market showed 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.



## Chairman's Statement

### (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.



## Chairman's Statement

### 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.

### Presence of CSmall Shops across the PRC



As of 31 December 2016, we had over 110 shops in 18 municipalities and provinces in the PRC.



Photos of CSmall shops

## Chairman's Statement

### (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.





## Chairman's Statement

### 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](http://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](http://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.



**Chen Wantian**

*Chairman*

Hong Kong, 16 March 2017

\* For identification purpose only

# Management Discussion and Analysis

## 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
<b>Manufacturing segment</b>				
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%
<b>New Jewellery Retail segment</b>				
Sales of gold, silver and jewellery products	2,465,291	60.3%	835,345	48.9%
<b>Silver Exchange segment</b>				
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.



## Management Discussion and Analysis

### 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.





## Management Discussion and Analysis

### 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).



## Management Discussion and Analysis

### 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.

## Directors and Senior Management

### EXECUTIVE DIRECTORS

**Mr. Chen Wantian** (陳萬天), aged 43, is the chairman and an executive Director of the Company. He is a co-founder of the Group and was appointed to the Board on 19 July 2012. Mr. Chen Wantian has over ten years of experience in the nonferrous metal mining and processing industry. Since May 2002, Mr. Chen Wantian has served as director and deputy general manager of Longtianyong Nonferrous Metals. He is responsible for the overall corporate strategies, management, planning and business development of the Group.

As at 31 December 2016, Mr. Chen Wantian had an interest in the shares of the Company, the details of which are set out in the paragraph headed “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” in the Report of the Directors contained in this annual report.

**Mr. Sung Kin Man** (宋建文), aged 45, is the chief executive officer and executive Director of the Company. Mr. Sung joined the Group in 2015 and was appointed to the Board on 30 April 2015. Mr. Sung has more than 20 years of experience in the financial industry. He is responsible for the overall corporate strategies, management, planning and business development of the Group.

Mr. Sung graduated from the University of Southern California with a bachelor’s degree of science in business administration.

**Mr. Song Guosheng** (宋國生), aged 54, is the vice president and an executive Director of the Company. Mr. Song joined the Group in 2002 and was appointed to the Board on 16 August 2012. Mr. Song has approximately 19 years of experience in the production management in the non-ferrous metallurgical industry. He is responsible for production management of the Group.

Mr. Song graduated from Suzhou University of Science and Technology Trade Unions (蘇州職工科技大學) in July 2004 with a diploma of business management.

As at 31 December 2016, Mr. Song Guosheng had an interest in the shares of the Company, the details of which are set out in the paragraph headed “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” in the Report of the Directors contained in this annual report.

**Mr. Chen Guoyu** (陳國裕), aged 68, is the vice president and an executive Director of the Company. Mr. Chen joined the Group in 2011 and was appointed to the Board on 16 August 2012. He is responsible for strategic and development planning, management and human resources development of the Group.

Mr. Chen graduated at Zhejiang University (浙江大學) with a master’s degree in philosophy.

## Directors and Senior Management

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Guo Bin (郭斌)**, aged 26, was appointed as an independent non-executive Director on 30 April 2015. Mr. Guo has been the head of sales and operations of a real estate company in Chengdu since 2014 and has expertise in online sales and marketing strategy.

Mr. Guo received his bachelor's degree in computer science from Tianjin University of Science & Technology in 2012.

**Mr. Song Hongbing (宋鴻兵)**, aged 48, was appointed as an independent non-executive Director on 28 December 2015. Mr. Song is a well-known Chinese economist with focus on the areas of global financial history and international commodity market. Mr. Song was elected by BusinessWeek as one of the 40 most influential persons in China.

Mr. Song graduated from Northeastern University in 1990 with a bachelor's degree in engineering. He obtained a master's degree in education from American University in 1996.

**Dr. Li Haitao (李海濤)**, aged 48, was appointed as an independent non-executive Director on 5 December 2012. Dr. Li has extensive research experience in the areas of hedging, derivatives and risk management. Dr. Li is currently appointed as Dean's Distinguished Chair Professor of Finance and Associate Dean of MBA Program at the Cheung Kong Graduate School of Business.

Dr. Li undertook the Ph.D program in geophysics at Yale University between 1991 and 1992. He received his Ph.D in finance from Yale University in 1998.

**Dr. Zeng Yilong (曾一龍)**, aged 45, was appointed as an independent non-executive Director on 5 December 2012. Dr. Zeng has over 18 years of experience in accounting, auditing and financial management. Dr. Zeng is the partner of Oriental Fortune Capital Co. Ltd. (東方富海投資管理股份有限公司), a reputable private equity fund management Company in the PRC.

Dr. Zeng obtained his master's degree in Business Administration and a doctoral degree in Business Administration (Accounting) from Xiamen University (廈門大學) in July 2000 and December 2006, respectively.

### SENIOR MANAGEMENT

**Mr. Moy Yee Wo, Matthew (梅以和)**, aged 38, is the chief financial officer and company secretary of the Company. Mr. Moy joined the Group in 2012 and is responsible for the supervision of financial management, investor relations and company secretarial functions of the Company. Mr. Moy has over 15 years of experience in the financial industry.

Mr. Moy graduated with a bachelor's degree in business administration in accounting and obtained a master's degree in business administration at the Hong Kong University of Science and Technology. Mr. Moy is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Moy has been a non-executive director of Chi Ho Development Holdings Limited (stock code: 8423) since 13 March 2017.

# Environmental, Social and Governance Report

China Silver Group Limited (the “Company”, together with its subsidiaries, the “Group” or “we” or “us”) strives to develop into a world-leading fully-integrated silver enterprise, adopts the sustainable development strategies and actively undertakes the social responsibility. The Board of Directors of the Company is responsible for assessing and determining the risks related to environmental, social and governance matters of the Group and ensuring that the Group has established an appropriate and efficient risk management and internal control system for environmental, social and governance matters.

The environmental, social and governance report (the “Report”) is prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). Major stakeholders have participated in the preparation of the Report to evaluate the importance of relevant environmental, social and governance matters based on the reporting principles of materiality, quantitative, balance and consistency. The Report covers the environmental, social and governance matters related to silver refinery, silver exchange and New Jewellery Retail businesses of the Group from 1 January 2016 to 31 December 2016 (the “Reporting Period” or “FY2016”).

We have established the following reporting scope of environmental, social and governance matters based on the level of importance of each environmental, social and governance areas in the Group’s business:

### Scope of the Environmental, Social and Governance Reporting Guide

### Important Environmental, Social and Governance Areas of the Group

#### A. Environmental

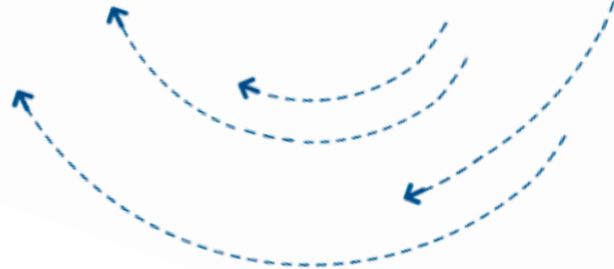
- A1. Emissions
- A2. Use of Resources
- A3. The Environment and Natural Resources

- Waste Reduction in Daily Operation
- Treatment of Waste Gas, Waste Water and Solid Waste
- Energy Saving
- Saving of Other Resources
- Management of Environmental Impacts

#### B. Social

- B1. Employment
- B2. Health and Safety
- B3. Development and Training
- B4. Labour Standards
- B5. Supply Chain Management
- B6. Product Responsibility
- B7. Anti-corruption
- B8. Community Investment

- Encouragement of Career Development
- Equal Employment System
- Improving the Health of Employees
- Ensuring Work Safety
- Internal and External Training for Employees
- Preventing Child or Forced Labour
- Quality Control of Supply Chain and Green Procurement
- Quality Products
- Quality Customer Services
- Valuing Privacy
- Prevention of Illegal Commercial Activities
- Community Engagement



## A. ENVIRONMENTAL

The business development of the Group will bring impacts to the surrounding environment, and therefore always takes environmental protection as an important factor for commercial consideration with focus on fulfilling the responsibilities towards the shareholders, customers, business partners, employees, neighbouring communities and other stakeholders in order to facilitate the sustainable development of the Group. We strictly comply with the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Law of the People's Republic of China on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the People's Republic of China on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》) and other regulations, and uphold the corporate spirit of caring for environmental protection.

The Group has not violated any relevant environmental laws and regulations during the Reporting Period.

### A1. Emissions

In order to ensure that the wastes from production operation of the Group are in compliance with relevant requirements of the national and regional laws, the Group implements comprehensive corporate management policies:

#### Waste Reduction in Daily Operation

For overall policy of daily operation, the Group emphasizes on corporate environmental protection management and environmental protection investment, conducts clean production, updates advanced production and environmental protection facilities and techniques in a timely manner and eradicates the occurrence of gas leaking, sweating, liquid dripping and liquid leaking due to poor management and improper operation during the storage and transportation of liquid and gas. In addition, for details of operation, the Group vigorously promotes green office by training the employees, conducting regular activities to promote environmental protection and formulating and distributing the environmental protection manual within the Group in order to raise the awareness of environmental protection among the employees of each department during their work, reduce the production of waste and promote waste recycling.

#### Treatment of Waste Gas, Waste Water and Solid Waste

For emission of waste gases and greenhouse gases, the Group utilizes dust removing, desulfurization and denitration devices, installs the waste gas online monitoring system and connects such system to relevant environmental protection departments so as to meet the emission standard. For emission of waste water, all the waste water of the Group will flow into the sedimentation tank through the piping network for treatment and recycling after meeting the standard and will not be discharged to the external environment. For disposal of solid waste, the Group will classify the outsourced and newly generated wastes and pile them in the storage warehouse. Leak prevention measures have been applied for the floor of the storage warehouse which is in compliance with the requirements of solid waste storage and disposal to ensure no loss and leakage.



### A2. Use of Resources

As a socially responsible enterprise, the Group actively promotes environmental protection and efficient use of resources and strives to maximize the benefits with minimal resources.

#### Energy Saving

The strategy of energy saving and emission reduction is important for metal smelting and production industry. The Group persists in establishing a comprehensive management system for energy saving, consumption reduction, waste reduction and efficiency enhancement, conducts regular assessment and analyses and handles the non-compliance incidents immediately in order to contribute to the construction of an environmental friendly society. In addition, for electricity saving, highly efficient lighting devices and automatic sensor switch for lighting devices are applied in the factories and offices of the Group in order to prevent the waste of energy due to long running time of lighting devices. Moreover, sectional temperature control is applied in the factories in order to prevent unnecessary energy consumption.

#### Saving of Other Resources


In order to carry out the idea of resources saving, the Group conducts regular promoting activities and posts relevant notices in the factories and offices to remind the employees of resources saving. In addition, the Group also promotes the recycling of industrial water and domestic water in order to save the water resources.

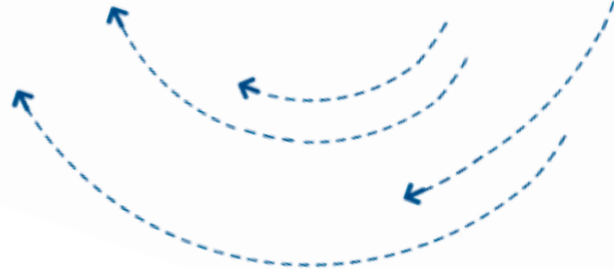
### A3. The Environment and Natural Resources

#### Management of Environmental Impacts

The Group considers sustainable development as its responsibility, takes the environmental impacts from operation as an important factor for consideration, assesses its potential impacts on environment, conducts assessment for each activity, continuously improves the production process equipment techniques, and strives to lessen the environmental impacts. In addition, we have also established an emergency response system for environmental accidents and formed a leading team of safety and environmental protection matters which is responsible for making rapid response to the accidents and reduce the damage caused to the environment. In addition to being in compliance with relevant national and provincial regulations and standards on environmental protection, the Group also actively cooperates with research institutions to conduct research on environmental protection technology and apply the same in the production process in order to develop the Group into a national benchmark enterprise.

The Group conducts construction in strict compliance with the environmental protection principle of “synchronization in three aspects”, that is, the pollution prevention and control facilities of the construction work project shall be designed, constructed and put into use simultaneously with the main project construction, and the investment in such facilities shall be included in the budget of the construction project. In addition, the emission of thermal pollution, noise pollution and other pollution generated from the production operation of the Group are in compliance with the standards and requirements of relevant laws and regulations on environmental protection. Meanwhile, in order to ensure that no damage is caused to the environment, the environmental protection department of the Group will conduct annual sampling inspection on the quality of soil and water at the place where the Group is located.





## B. SOCIAL

### B1. Employment

#### Encouragement of Career Development

The Group considers its employees as the most valuable asset, and understands the vital importance of talents in facilitating the long term development of the Group. We attach great importance to the protection of employees' rights, provide promising remuneration package and internal promotion opportunities, implement well performance assessment system and give recognition and rewards to the outstanding employees. Meanwhile, the Group also provides discretionary bonus to its employees as far as practicable based on its earning performance as the rewards for their contribution to the Group. The Group will conduct regular review on the remuneration policy to ensure that sufficient training and development opportunities are given to all the employees so as to satisfy their needs for career development, and facilitate the employees to develop their career and personal abilities in a fair and open working environment and advance together with the Group.

#### Equal Employment System

We recruit our employees based on the basic principles of integrity, innovation, initiative and team spirit and conduct objective employment examination on the job applicants to assess whether their abilities meet the needs for the development of the Group. The conditions of employment are in compliance with the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Law of the People's Republic of China on the Protection of Rights and Interests of Women (《中華人民共和國婦女權益保障法》), Trade Union Law of the People's Republic of China (《中華人民共和國工會法》) and the Special Rules on the Labour Protection of Female Employees (《女職工勞動保護特別規定》) and other relevant regulations, and strict approval procedures are followed in order to ensure the equality throughout the recruitment process. The working hours and vacation arrangement of the Group are in strict compliance with relevant national and local laws and regulations. As an equal opportunities employer, the Group strives to create a fair and equal working environment. We prohibit the occurrence of discrimination in any form in the working environment in terms of recruitment, remuneration, promotion and other aspects. We have established a whistleblowing mechanism, and for any unequal treatment, the special task force will conduct investigation and impose relevant disciplinary punishment.

During the Reporting Period, the Group has not violated any laws and regulations on human resources.

### B2. Health and Safety

#### Improving the Health of Employees

The Group attaches great importance to the safety of work environment. Apart from complying with all laws and regulations in relation to the health and safety of employees, we provide employees with a desirable work environment through training, health check and other welfares. In regards to health, the Group conducts health check for employees on a regular basis, monitors the level of hazardous factors of our production sites and evaluates control of the occupational disease hazards. Also, the Group allocates funds annually for providing employees with labour protection equipment and products as well as improving the healthy and safe environment of workplaces.





### Ensuring Work Safety

In regards to safety, the Group has developed a set of work safety codes and conducts regular training for employees. All cautions of relevant procedures in production are explained to employees to raise their awareness of safety and enhance their prevention to nip in the bud. In addition, the Group has formulated safety guidelines for emergencies such as fire and conducted drills to enhance the ability of all employees to respond to emergencies. Lastly, all equipment and facilities of the Group are capable of safety control. The Group also carries out regular checks and daily inspection on the products facilities. Any potential safety issues detected will be addressed promptly in order to maximize employees' safety. During the Reporting Period, the Group has not had any non-compliance with laws and regulations in relation to employees' health and safety.

## B3. Development and Training

### Internal and External Trainings for Employees

The Group attaches importance to trainings for employees, which helps enhancing their ability to perform duties. Trainings provided by the Group are divided into internal and external. For internal trainings, the Group hires interns from various universities and educational institutions each year and formulates a series of trainings for interns to integrate school knowledge and corporate practice and prepare them for working at the enterprise. Apart from trainings for new comers, the Group provides continuous career development plan and on-the-job training courses for experienced staff of different business scope every year. Aspects of the training includes not only businesses of the company, but also leadership skills, communication skills, business strategies, personal development skills etc. Furthermore, the Group assists staff to acquire relevant professional qualifications required in the industry. For external trainings, the Group support its employees to receive various external training and the training expenses can be reimbursed upon approval. Through the training, the Group expects the staff to achieve self-improvement and grow with the Group.

## B4. Labour Standards

### Preventing Child or Forced Labour

The Group complies with the Labour Law of the PRC (《中華人民共和國勞動法》), Provisions on the Special Protection of Juvenile Labour (《未成年工特殊保護規定》), Provisions on Prohibition of Child Labour (《禁止使用童工規定》) and other laws and regulations in relation to the prevention of child labour and forced labour. The Group adopts employment policies which prohibit child labour and forced labour and ensures strict compliance by each group company. At the point of entry, the Group will conduct investigation with due diligence into the applicants' age and background and thereafter regularly check whether employees of all levels violate any laws or regulations, to completely rule out the possibility of employing child labour and forced labour. During the Reporting Period, the Group has not had any non-compliance with laws and regulations in relation to the prevention of child labour or forced labour.

### B5. Supply Chain Management

#### Quality Control of Supply Chain and Green Procurement

Major suppliers of the Group include raw material suppliers for manufacturing business and New Jewellery Retail business and silver exchange business as well as other business partners which provide value-added services to the Group. The Group sees its suppliers as important partners and has stringent requirements for their public image, service ability, social influence and financial standards. Relevant risk control departments of the Group fully participate in major process of procurement and ensure fair and impartial decisions through bidding, negotiation, price comparison and other methods. The Group regularly assesses qualified suppliers to decide for reservation or removal. Where necessary, we will also appoint third-party professional institutions to conduct a review on suppliers to ensure objective evaluation. During the selection of suppliers, the Group will take into consideration the environmental and social risks, so as to control and manage the environmental and social risks of the supply chain. The Group requires suppliers to possess with relevant qualifications on environmental protection. During procurement, environmentally-friendly products will be considered with first priority to encourage suppliers to shoulder environmental and social responsibilities.

### B6. Product Responsibility

#### Quality Products

The Group strictly complies with laws and regulations on products and services quality. Adhering to the brand developing strategies of standardization, systematization, branding and popularization, through whole industrial chain model of silver, we strictly control the whole process of manufacturing silver ingots, designing jewellery, producing and manufacturing jewellery, brand retailing and after-sale services. We ensure that each product delivered to our customers has gone through various multiple testing procedures and are in line with industry standard and endeavour to provide flawless products for consumers.

#### Quality Customer Services

The Group strives to provide quality services for customers. We have developed a comprehensive routine for handling customer complaints and return process and never ignore customer opinions and needs. We also take the initiative to enhance communication between customers and the Group through various means. The Group ensures that our advertisements provide complete descriptions of our products and contain no false information. The Group's self-operated online platform, [www.CSmall.com](http://www.CSmall.com) (金貓銀貓), offers online customer services, which provides information on invoice of jewellery sold online, repair service, refurbishment service, return or exchange, resizing, cleansing and caring, repurchasing and other services. Products are allowed to be returned or exchanged within seven days and all products are available for free one-off refurbishment service, free resizing and free cleansing.

### Valuing Privacy

After launching on New Jewellery Retail platform, we have enhanced protection for customer privacy. We ensure that each department strictly implements the policies restricting the information permission, storage and destruction and regularly update policies in relation to the protection of customer information. Our online sales platform, www.CSmall.com, also specifies that registration information of individual users shall not be publicly available or provided to any third parties save in exceptional circumstances.

During the Reporting Period, the Group has not violated any laws or regulations in relation to privacy, products and services quality.

## B7. Anti-corruption

### Prevention of Illegal Commercial Activities

The Group devotes its efforts to establish a new business model with publicity, transparency and openness and is determined to combat corruption. Other than being in strict compliance with laws and regulations in relation to anti-bribery, extortion, fraud and money laundering to eradicate such illegal acts, the Group also handles reporting, including but not limited to those in which our employees soliciting or accepting bribes, which may include luxury gifts and extravagant entertainment; serious conflicts of interest of employees, such as offending the rules to invest and work at the suppliers, merchants and partners of the Group; employees leaking confidential information of the Group; employees exercising their authorities for personal interests etc. We will strictly protect the informers and preserve the confidentiality of such reporting. For those reporting filed for investigation and concluded, we will take corresponding action.

During the Reporting Period, the Group has not violated any laws or regulations in relation to bribery, extortion, fraud and money laundering.

## B8. Community Investment

### Community Engagement

The Group understands the needs of the community where it operates through community engagement and it adopts policies which ensure that its business activities take into account the interests of the community. In addition, while persisting in corporate development, the Group upholds its commitment to society and participates in public charity. The Group consolidates its charity activities in respect of resources and organisation and initiates charity activities more systematically, so as to achieve in-depth social integration and gain public recognition. Through the years, the Group has been attaching great attention to charity activities including those for disabled children and the aged in nursing home. We have been actively fulfilling our corporate social responsibility and contributing to the society.

# Corporate Governance Report



## 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, the Company has complied with the code provisions as set out in the Code, except for the following deviations:

Pursuant to code provision A.6.7 of the 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, four independent non-executive Director were unable to attend the annual general meeting held on 24 May 2016. To mitigate the above, future general meetings would be scheduled earlier to avoid timetable clashes.

Pursuant to code provision E.1.2 of the Code, the chairman of the independent board committee (if any) should be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval. Due to other engagement, the chairman of the independent board committee was unable to attend the extraordinary general meeting held on 27 July 2016.

## 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.

## BOARD OF DIRECTORS

### (i) Board Composition

As at the date of this annual report, the board of Directors (the “Board”) comprised a combination of four executive Directors and four independent non-executive Directors as follows:

#### Executive Directors

Mr. Chen Wantian (Chairman)  
Mr. Sung Kin Man (Chief Executive Officer)  
Mr. Song Guosheng  
Mr. Chen Guoyu

#### Independent non-executive Directors

Mr. Guo Bin  
Mr. Song Hongbing  
Dr. Li Haitao  
Dr. Zeng Yilong

To the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

The executive Directors, with assistance from the senior management, form the core management team of the Company. The executive Directors have the overall responsibility of formulating the business strategies and development plan of the Group and the senior management are responsible for supervising and executing the plans of the Company and its subsidiaries.

### (ii) Board Functions and Duties

The principal functions and duties conferred to the Board include:

- convening general meetings and reporting the Board’s work at general meetings;
- implementing resolutions passed by the shareholders of the Company in general meetings;
- deciding on business plans and investment plans;
- preparing annual financial budgets and final reports;
- formulating proposals for profit distributions, recovery of losses and for increases or reductions in the registered capital; and
- exercising other powers, functions and duties conferred by shareholders of the Company in general meetings.

### (iii) Management Functions and Duties

The management is responsible for implementing the strategies and plans adopted by the Board. Executive Directors and management personnel meet regularly to review the performance of the business of the Group as a whole, co-ordinate overall resources and make financial and operational decisions.

The Board is also entrusted with the overall responsibility of developing, maintaining and reviewing sound and effective corporate governance within the Group and is committed to ensuring that an effective corporate governance is put in place to continuously review and improve the corporate governance practices within the Group.

### (iv) Board Meetings

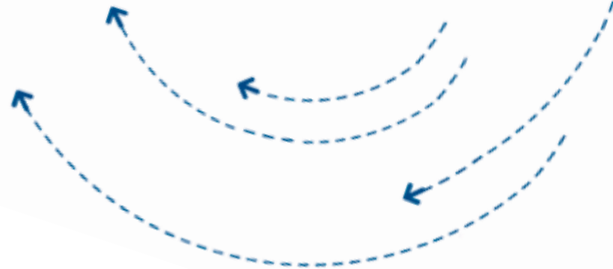
During the period under review, there were 17 board meetings held, at which the Directors approved, among other things, the annual result of the Group for the year ended 31 December 2016.

Prior notices convening the board meeting were despatched to the Directors before the board meetings setting out the matters to be discussed. At the meetings, the Directors were provided with the relevant documents to be discussed and approved to enable the Directors to make informed decisions. The company secretary of the Company (the "Company Secretary") had been responsible for ensuring the procedures of the board meetings are observed and keeping minutes for the board meetings which were sent to the Directors for records and are open for inspection at any reasonable time by any Director on reasonable notice.

### (v) Attendance Record

The following is the attendance record of the board meetings and general meetings:

Executive Directors	Attendance at meetings	
	Board meeting	General meeting
Mr. Chen Wantian (Chairman)	17/17	1/2
Mr. Sung Kin Man	17/17	2/2
Mr. Song Guosheng	13/17	0/2
Mr. Chen Guoyu	13/17	0/2
<b>Independent non-executive Directors</b>		
Mr. Guo Bin	13/17	0/2
Mr. Song Hongbing	12/17	0/2
Dr. Li Haitao	11/17	0/2
Dr. Zeng Yilong	13/17	0/2



### (vi) Independent Non-executive Directors

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed four independent non-executive Directors. The Board considers that all independent non-executive Directors have appropriate and sufficient industry or finance experiences and qualifications to carry out their duties so as to protect the interests of the shareholders of the Company. Among the four independent non-executive Directors, one of them have appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

The Company has also received a written annual confirmation from each of the independent non-executive Directors in respect of their independence pursuant to Rule 3.13 of the Listing Rules. The Company, based on such confirmations, considers that all independent non-executive Directors are independent with reference to the factors stated in the Listing Rules.

### (vii) Appointment and Re-election of Directors

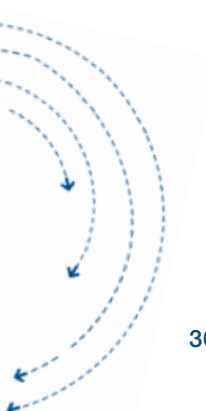
Each of the executive Directors has entered into a service agreement with the Company for a term of three years, which is terminable by not less than three months' notice in writing.

Under code provision A.4.1 of the Code, all the non-executive directors should be appointed for a specific term, subject to re-election. Each of the independent non-executive Directors has signed a letter of appointment with the Company for a term of three years, which is terminable by not less than three months' notice in writing.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

In accordance with the articles of association of the Company (the "Articles"), all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following annual general meeting of the Company after appointment.

The procedures and process of appointment, re-election and removal of directors are set out in the Articles. The Nomination Committee (as defined below) is responsible for reviewing the Board composition, monitoring the appointment, re-election and succession planning of Directors.





## Corporate Governance Report

### (viii) Directors' Remuneration

The Remuneration Committee (as defined below) makes recommendations to the Board on the remuneration packages of the Directors and senior management personnel. It is the Company's policy that the remuneration package of each Director and senior management shall be determined by taking reference to, inter alia, their duties, responsibilities, experiences and qualifications.

### (ix) Board Diversity

The composition, structure and size of the Board are reviewed at least annually by the Nomination Committee (as defined below) to ensure that it has a balance of appropriate skills, experience and diversity of perspectives to meet the needs of the business of the Group. Members of the Board have a diverse range of business, financial and professional expertise. Brief biographical details of the Directors are set out in the section headed "Directors and Senior Management" in this annual report.

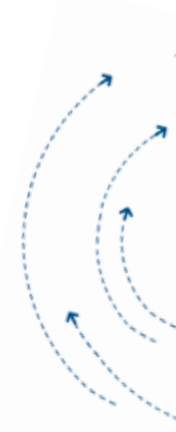
### (x) Directors' Continuous Training and Development

Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution into the Board remains informed and relevant. The Directors are committed to complying with the code provision A.6.5 under the Code on Directors' training. All Directors have participated in continuous professional development and provided a record of training they received for the year ended 31 December 2016 to the Company.

## AUDIT COMMITTEE

The Board established an audit committee (the "Audit Committee") on 5 December 2012 with written terms of reference in compliance with the Code. Under Rule 3.21 of the Listing Rules, a majority of the members of the audit committee should be independent non-executive directors and the audit committee should be chaired by an independent non-executive Director. The Audit Committee comprises all three independent non-executive Directors, namely, Dr. Zeng Yilong (Chairman), Mr. Song Hongbing and Dr. Li Haitao. The terms of reference of the Audit Committee were revised and adopted on 30 December 2015 to include additional responsibility in relation to the risk management system arising from the Stock Exchange's proposal on the risk management and internal control under the Code applicable to all listed companies with accounting periods beginning on or after 1 January 2016. The primary responsibilities of the Audit Committee are to review and supervise financial reporting processes and risk management and internal control systems of the Group.

During the period under review, the Audit Committee held two meetings. The members of Audit Committee reviewed and discussed with the external auditors of the Company the Group's audited consolidated financial statements for the year ended 31 December 2016. They were 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. Additional meeting may also be held by the Audit Committee from time to time to discuss special projects or other issues which it considers necessary. The external auditors of the Group may request a meeting of the Audit Committee to be convened if they consider that is necessary.





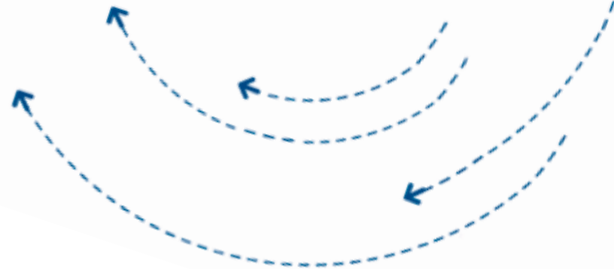
# Corporate Governance Report

The main duties of the Audit Committee are as follows:

- To consider the appointment of the external auditors, the audit fee, and any question of resignation or dismissal.
- To discuss with the external auditors the nature and scope of the audit.
- To review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard.
- To discuss with the management the systems of internal control and risk management and ensure that management has discharged its duty to have effective systems including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.
- To review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company.
- To review the Group's interim and annual financial statements before submission to the Board.
- To discuss problems and reservations arising from the interim and final audits and any matters that the external auditors may wish to discuss.
- To review the external auditors' management letter and the management's response.
- To review the Group's financial controls, and unless expressly addressed by a separate board risk committee, or by the Board itself, to review risk management and internal control systems.
- To consider the major findings of any internal investigations on risk management and internal control matters as delegated by the Board or its own initiative and the management's response to these findings.
- To consider other topics, as defined by the Board.

The following is the attendance record of the committee meetings held by the Audit Committee.

	<b>Attendance at meetings</b>
Dr. Zeng Yilong (Chairman)	2/2
Mr. Song Hongbing	2/2
Dr. Li Haitao	2/2



## AUDITOR'S REMUNERATION

For the year ended 31 December 2016, the total fee paid/payable in respect of audit services to the external auditor of the Group, Deloitte Touche Tohmatsu, was approximately RMB3.16 million. In addition, approximately RMB0.38 million was charged for non-audit services.

The Audit Committee is responsible for making recommendations to the Board as to the appointment, re-appointment and removal of the external auditor, which is subject to the approval by the Board and at general meetings of the Company by the shareholders.

## DIRECTOR'S RESPONSIBILITY FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

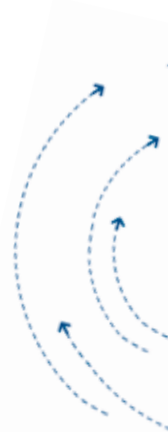
The Directors acknowledge that it is their responsibility to prepare accounts of the Group and other financial disclosures required under the Listing Rules and the management will provide information and explanation to the Board to enable it to make informed assessments of the financial and other decisions.

## RISK MANAGEMENT AND INTERNAL CONTROL

In view of the implementation of the Consultation Conclusions on Risk Management and Internal Control relating to code provision C.2.1 of the Code issued by the Stock Exchange in December 2014, the Board has already reviewed the effectiveness of its risk management framework and processes and has implemented relevant measures resulting from this exercise that aim to enhance its framework and processes to comply with the requirements of the Code.

The Group established the Risk Management Taskforce ("RMTF") to assist the Board and the Audit Committee in overseeing the Group's risk management and internal control systems on an ongoing basis. The RMTF is responsible for leading and coordinating risk assessment activities including risk identification, risk assessment, actions taken to monitor and mitigate risks and risk reporting at least once a year. The risk inventory of the Group is developed and will be updated based on the results of the risk assessment. The risk assessment report is prepared based on the results of the risk assessment and the progress of risk management processes. The risk assessment report is submitted to the Audit Committee for review and approved by the Board.

The Board is ultimately responsible for determining and evaluating the risks it is willing to take in achieving its objectives, and ensuring it establishes and maintains effective risk management and internal control systems for the Group. The Group maintains risk management and internal control systems that are designed to provide reasonable, but not absolute assurance against material misstatement or loss in the achievement of its objectives. The Board also has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems. The main features of these systems include a clear governance structure, defined roles and responsibilities, reporting procedures and clear risk management and internal control procedures, ascertaining its staff to achieve the Group's strategic objectives by implementing effective risk management and internal control systems and fulfilling the respective compliance requirements.



The Group also established an internal audit function to provide the Board and the management with useful information and recommendations on the adequacy and effectiveness of the risk management and internal control systems. The internal audit function is authorised by the Board to have access to all records, people and physical properties relevant to the performance of internal audit. The head of internal audit has unrestricted access to the chairman of the Audit Committee and reports directly to the Audit Committee for direction and accountability. During the year, the Group engaged an external professional consultant to provide internal audit services to assist the Group to identify weakness as well as review the effectiveness of the design and implementation of the risk management and internal control systems and make appropriate recommendations for improvement. Significant internal control deficiencies are reported to the Audit Committee and the Board on a timely basis to ensure prompt remediation actions are taken.

The management of the Group is committed to taking appropriate remedial actions promptly in respect of the internal control deficiencies and ensure the Group maintains an adequate and effective risk management and internal control systems.

The Board conducts an annual review on the effectiveness of risk management and internal control systems, covering but not limited to:

- Review the changes in the nature and extent of significant risks since last year's review, and the Group's ability to respond to changes in its business and the external environment;
- Review the extent and frequency of communication of monitoring results to the Board and the Audit Committee, and effectiveness of the risk management, financial reporting and Listing Rules compliance;
- Address any significant control failings or weakness that have been identified during the review; and
- Review on the accounting, financial reporting and internal audit function, including the adequacy of resources, staff qualifications and experience, the quality of training programmes, and budget.

The risk management and internal controls systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

## PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Group complies with requirements of Securities & Futures Ordinance ("SFO") and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the Safe Harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

During the year ended 31 December 2016, the Audit Committee carried out an annual review of the implemented system and procedures, including areas covering financial, operational and legal compliance controls and risk management functions and discussed with the internal audit team on the effectiveness and adequacy of the Company's system and procedures.

## Corporate Governance Report

For the year ended 31 December 2016, the Board and the Audit Committee considered that the risk management and internal control systems of the Group were adequate and effective.

### NOMINATION COMMITTEE

The Board established a nomination committee (the “Nomination Committee”) on 5 December 2012 with written terms of reference in compliance with the Code. Under the code provision A.5.1 of the Code, a majority of the members of the nomination committee should be independent non-executive directors and the nomination committee should be chaired by the chairman of the Board or an independent non-executive director. The Nomination Committee comprises Mr. Chen Wantian (Chairman), Mr. Song Hongbing and Dr. Li Haitao, with the latter two being independent non-executive Directors.

The Nomination Committee considers and recommends to the Board suitably qualified persons to become Directors and is responsible for reviewing the structure, size and composition of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company’s corporate strategies.

Before a prospective Director’s name is formally proposed, the opinions of the existing Directors (including the independent non-executive Directors) are sought. The selection criteria of the qualified candidates are mainly based on assessments of their qualifications, experiences and expertise as well as the requirements under the Listing Rules. The Nomination Committee selects and recommends candidates for directorship with regards to balancing skills and experiences appropriate to the Group’s businesses.

During the period under review, the Nomination Committee held one meeting. The members of Nomination Committee reviewed and discussed the current structure, size and composition of the Board and the remuneration of the senior management.

The following is the attendance record of the committee meeting held by the Nomination Committee.

	<b>Attendance at meeting</b>
Mr. Chen Wantian (Chairman)	1/1
Mr. Song Hongbing	1/1
Dr. Li Haitao	1/1

### REMUNERATION COMMITTEE

The Board established a remuneration committee (the “Remuneration Committee”) on 5 December 2012 with written terms of reference in compliance with the Code. Under Rule 3.25 of the Listing Rules, a majority of the members of the remuneration committee should be independent non-executive directors and the remuneration committee should be chaired by an independent non-executive director. The Remuneration Committee comprises Dr. Li Haitao (Chairman), Mr. Chen Wantian and Mr. Song Hongbing in which Dr. Li Haitao and Mr. Song Hongbing are independent non-executive Directors.

The primary responsibilities of the Remuneration Committee are to make recommendations to the Board on the remuneration packages of the Directors and senior management personnel of the Group and to ensure that no Director or any of his associates is involved in deciding his own remuneration.

## EMOLUMENT POLICIES

The emolument policies of the Group are formulated on performance of individual employees and on the basis of salary trends in Hong Kong and the PRC, and will be reviewed regularly. Subject to the profitability of the Group, the Group may also distribute discretionary bonuses to its employees as incentives for their contributions to the Group.

During the period under review, the Remuneration Committee held two meetings. The members of Remuneration Committee reviewed and discussed the policies for the remuneration of executive Directors, the performances of executive Directors during the period under review.

The following is the attendance record of the committee meetings held by the Remuneration Committee.

	Attendance at meetings
Dr. Li Haitao (Chairman)	2/2
Mr. Chen Wantian	2/2
Mr. Song Hongbing	2/2

## MEETING WITH INDEPENDENT NON-EXECUTIVE DIRECTORS

The Chairman of the Board held one meeting with the independent non-executive Directors without the presence of the other executive Directors on 16 March 2017 to review and discuss, among other things, the independence of the independent non-executive Directors and confirmed that the independent non-executive Directors can express their views at the Board meetings without restrictions.

## COMMUNICATION WITH SHAREHOLDERS

The Company endeavors to develop and maintain continuing relationships and effective communications with its shareholders and investors. In an effort to facilitate and enhance the relationships and communication, the Company has established the following various channels:

1. The annual general meeting provides a forum for shareholders of the Company to raise comments and exchange views with the Board. The Chairman and the Directors are available at the annual general meetings of the Company to address shareholders' queries;
2. Separate resolutions are proposed at the general meetings on each substantially separate issue and procedures for demanding a poll in general meetings are included in the circulars to the shareholders of the Company to facilitate enforcement of shareholders' rights;
3. Interim and annual results are announced as early as possible, to keep shareholders of the Company informed of the Group's performances and operations; and
4. Updated key information of the Group is available on the Company's website to enable shareholders of the Company and investors to have timely access to information about the Group.

## THE WAY BY WHICH SHAREHOLDERS CAN CONVENE AN EXTRAORDINARY GENERAL MEETING (THE “EGM”)

The Directors, notwithstanding anything in the Articles shall, on the requisition of shareholders holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company having the right of voting at general meetings of the Company, forthwith proceed duly to convene an EGM.

The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited to the Company Secretary at the Company's principal place of business at Unit 1416, China Merchants Tower, 168-200 Connaught Road Central, Sheung Wan, Hong Kong and may consist of several documents in like form each signed by one or more requisitionists.

The request will be verified with the Company's share registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the EGM.

If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of two months from the said date.

## THE PROCEDURES FOR SENDING ENQUIRIES TO THE BOARD

The enquiries must be in writing with contact information of the requisitionists and deposited at the Company Secretary at the Company's principal place of business at Unit 1416, China Merchants Tower, 168-200 Connaught Road Central, Sheung Wan, Hong Kong.

## THE PROCEDURES FOR MAKING PROPOSALS AT SHAREHOLDERS' MEETINGS

To put forward proposals at an annual general meeting or EGM, the shareholders should submit a written notice of those proposals with detailed contact information to the Company Secretary at the Company's principal place of business at Unit 1416, China Merchants Tower, 168-200 Connaught Road Central, Sheung Wan, Hong Kong. The request will be verified with the Company's share registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

## CONSTITUTIONAL DOCUMENTS

There were no changes in the constitutional documents of the Company during the year ended 31 December 2016.

## Report of the Directors



The directors of our Company (the “Directors”) are pleased to report the audited consolidated financial statements of our Company and its subsidiaries (the “Group”) for the year ended 31 December 2016.

### REORGANISATION AND GLOBAL OFFERING

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 19 July 2012 under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation, as fully explained in the section of “History, Reorganization and Group Structure” in the prospectus of the Company dated 14 December 2012 (the “Prospectus”) in connection with the proposed listing of the Company’s shares (the “Shares”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the companies now comprising the Group. The Shares were listed on the Stock Exchange on 28 December 2012 (the “Listing”).

### PRINCIPAL ACTIVITIES

The principal activity of our Company is investment holding and the Group is principally engaged in three principal operating segments, including (i) the manufacturing segment, being the manufacturing and sales of silver ingots and other non-ferrous metals in the People’s Republic of China (the “PRC”), (ii) the New Jewellery Retail segment, being the retailing and wholesaling of silver jewellery and collectibles in the PRC, and (iii) the silver exchange segment, being the operation of Shanghai White Platinum & Silver Exchange (上海華通鉑銀交易市場有限公司), “Shanghai Huatong”, an integrated precious metal and non-ferrous metal exchange in the PRC.

### BUSINESS REVIEW

A fair review of the business of the Group as well as a discussion on the Group’s future business development and an analysis of the Group’s performance during the year ended 31 December 2016 using financial key performance indicators are provided in the sections headed “Chairman’s Statement” on pages 6 to 12 and “Management Discussion and Analysis” on pages 13 to 17 of this annual report which form part of this report.

#### (i) Principal risks and uncertainties


The Board is ultimately responsible for ensuring that the risk management practices of the Group are sufficient to mitigate the risks present in its businesses and operations as efficiently and effectively as possible. The Board delegates some of this responsibility to various operational departments.

The Group’s principal business activities comprise the manufacturing business, New Jewellery Retail business and silver exchange business. It will be exposed to a variety of key risks including credit risk, interest risk, liquidity risk, operational risk, regulatory and market risk. There may be other risks and uncertainties which are not known to the Group or which may not be material.

#### (ii) Environmental policies and performance

The Group recognizes the importance of proper adoption of environmental policies which is essential to the attainability of corporate growth. The Group generates dust, sulfur dioxide, wastewater and noise during the production process of silver and other non-ferrous metals. To minimise the impact of such production emission, the Group has installed equipment to process and dispose of industrial waste pursuant to the requirements under the relevant PRC laws and regulations. The management has also formulated environment management policy for the Group based on applicable environmental laws, regulations and standards and environmental facilities inspection policies. The environmental protection and work safety department is responsible for designing and reviewing the environmental protection management systems and internal control measures to ensure compliance with applicable environmental laws and regulations.

Further discussion of the environmental policies and performance is provided in the section headed “Environmental, Social and Governance Report” on pages 20 to 26 of this annual report.



### (iii) Compliance with laws and regulations

The Group has compliance and risk management policies and procedures, and members of the senior management are delegated with the continuing responsibility to monitor compliance with all significant legal and regulatory requirements. These policies and procedures are reviewed regularly. As far as the Company is aware, during the year ended 31 December 2016, there was no material breach of or non-compliance with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

### (iv) Relationships with key stakeholders

The Group's success also depends on the support from key stakeholders which comprise employees, customers, suppliers and shareholders.

#### (a) Employees

Employees are regarded as the most important and valuable assets of the Group. The objective of the Groups' human resource management is to reward and recognize performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement.

#### (b) Customers

The Group's principal customers are downstream manufacturers and traders of manufacturing business and silver exchange business, and consumers of New Jewellery Retail business. The Group has the mission to provide excellent service and products whilst maintain our long-term profitability, business and asset growth. Various means have been established to strength the communication between the customers and the Group in the provision of excellent service and products.

#### (c) Suppliers

Sound relationships with key suppliers of the Group are important in supply chain which can derive cost effectiveness and foster long-term business benefits. The key suppliers comprise the raw material suppliers of manufacturing business and business partners of New Jewellery Retail business and silver exchange business which provide value-added services to the Group.

#### (d) Shareholders

One of the Group's corporate goals is to enhance corporate value to shareholders. The Group is poised to foster business developments for achieving the sustainability of earnings growth and rewarding shareholders by stable dividend payouts taking into account capital adequacy levels, liquidity positions and business expansion needs of the Group.





## Report of the Directors

### (v) Events 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.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 61 of this report.

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.

An interim dividend of HK\$0.02 per Share amounting to HK\$29.3 million (approximately RMB25.6 million) was paid during the year ended 31 December 2016.

## FIVE YEARS' FINANCIAL SUMMARY

A financial summary of the Group for the last five years are set out on page 144 of this report. This summary does not form part of the audited consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, the Group's sales to its five largest customers and its largest customer accounted for 25.7% (2015: 43.5%) and 7.13% (2015: 11.3%) of the Group's total sales respectively.

For the year ended 31 December 2016, the Group's five largest suppliers and the largest supplier accounted for 55.3% (2015: 51.7%) and 25.9% (2015: 12.4%) of the Group's total purchases respectively.

None of the Directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers or suppliers.



## Report of the Directors

## PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 28 to the consolidated financial statements.

## RESERVES

Movements in reserves of the Group during the year ended 31 December 2016 are set out in page 64 of this report.

As of 31 December 2016, the reserves of our Company available for distribution to shareholders amounted to RMB923,058,000 (2015: RMB723,599,000).

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum and articles of association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's article of association, dividends shall be distributed out of the retained profits or other reserve, representing the share premium account of the Company.

## BORROWINGS

Details of bank borrowings of the Group as of 31 December 2016 are set out in note 27 to the consolidated financial statements.

## DIRECTORS

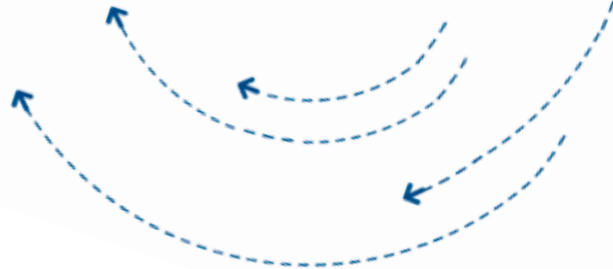
The Directors during the year ended 31 December 2016 and up to the date of this report were:

### Executive Directors:

Mr. Chen Wantian (Chairman)  
Mr. Sung Kin Man (Chief Executive Officer)  
Mr. Song Guosheng  
Mr. Chen Guoyu

### Independent Non-Executive Directors:

Mr. Guo Bin  
Mr. Song Hongbing  
Dr. Li Haitao  
Dr. Zeng Yilong



## **BOARD OF DIRECTORS AND SENIOR MANAGEMENT**

Biographical details of the Directors and senior management of the Group are set out on pages 18 to 19 of this annual report.

## **CONFIRMATION OF INDEPENDENCE OF INDEPENDENT OF NON-EXECUTIVE DIRECTORS**

The Company has received an annual confirmation of independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") from each of the independent non-executive Directors and the Company, based on such confirmations, considers such Directors to be independent for the year ended 31 December 2016.

## **DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT**

Each of the executive Directors has entered into a service agreement with the Company for a term of three years. Each of the independent non-executive Directors has signed a letter of appointment with the Company for a term of three years. None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## **DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE**

Save as otherwise disclosed in this report, no Director had a material interest in, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2016.

## **MANAGEMENT CONTRACTS**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2016.

## **EMOLUMENT POLICY**

A remuneration committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance of the directors and senior management and comparable market practices.

The Company has adopted share option schemes as incentive to eligible employees, details of the schemes are set out in the section headed "Share Option Schemes" below.

## **REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS**

Details of the emoluments of the Directors, chief executive and five highest paid individuals are set out in note 11 to the consolidated financial statements.



## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of 31 December 2016, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Name of director	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in our Company
Mr. Chen Wantian	Interest in controlled corporation/ Beneficial Interest <sup>1</sup>	411,422,187	28.12%
Mr. Song Guosheng	Beneficial Interest <sup>2</sup>	2,006,797	0.14%

Notes:

1. Mr. Chen Wantian is deemed to be interested in 405,722,187 Shares owned by Rich Union Enterprises Limited as the legal owner of the entire issued share capital of Rich Union Enterprises Limited. Mr. Chen Wantian was granted share options to subscribe for 4,650,000 Shares, details of which are disclosed under the section headed "Share Option Schemes" below. Further, Mr. Chen Wantian is the beneficial owner of 1,050,000 Shares.
2. Mr. Song Guosheng was granted share options to subscribe for 1,550,000 Shares, details of which are disclosed under the section headed "Share Option Schemes" below. Further, Mr. Song Guosheng is the beneficial owner of 456,797 Shares.

Save as disclosed above, as at 31 December 2016, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the year ended 31 December 2016 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The register of substantial shareholders required to be kept by our Company under Section 336 of Part XV of the SFO shows that as of 31 December 2016, in addition to the interests disclosed under the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures", our Company was notified of the following substantial shareholders' interests and short positions in the Shares and underlying Shares, being interests of 5% or more.

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Mr. Luo Shandong	Beneficial interest	132,996,000	9.09%

Except as disclosed above, as at 31 December 2016, our Company has not been notified by any person or corporation who had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by our Company under Section 336 of Part XV of the SFO.

## 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	Actual use of net proceeds as of 31 December 2016
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	Approximately 60% had been utilized for general working capital and approximately 40% (which is kept as bank deposits in the PRC/Hong Kong) remained unutilized and will be used as intended
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	Approximately 70% had been utilized for the development of the downstream silver exchange business and approximately 30% (which are kept as bank deposits in the PRC/Hong Kong) remained unutilized and will be used as intended

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.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands where the Company was incorporated, which would oblige the Company to offer new Shares on a pro rata basis to existing shareholders.

## NON-COMPETITION UNDERTAKING

As disclosed in the Prospectus, each of Mr. Chen Wantian, Ms. Zhou Peizhen and Rich Union Enterprises Limited (the "Controlling Shareholders") has executed a deed of non-competition in favor of the Company (the "Deed of Non-Competition") through which they have jointly and severally undertaken to the Company not to, and will procure that none of their respective associates, (a) directly or indirectly engage, participate or hold any right or interest in or otherwise be involved in any business in competition with or likely to be in competition with our existing business activity or any principal business activity of any member of the Group or be in competition with us in any business activities which we may undertake in the future (the "Restricted Business") save for (i) the holding of not more than 5% shareholding interests (individually or any of the Controlling Shareholders with their associates collectively) in any listed company in Hong Kong; or (ii) the holding of shares in any listed company in Hong Kong where the Restricted Business conducted or engaged in by such company accounts for less than 10% of the relevant company's consolidated turnover or consolidated assets, or (iii) where the Controlling Shareholders are already, directly or indirectly, interested or invested in the operations of companies which are engaging in Restricted Business and details of which have been specifically disclosed in the Prospectus, or (b) take any direct or indirect action which constitutes an interference with or a disruption to our business activities including, but not limited to, solicitation of our customers, suppliers or staff.

To the best knowledge and belief of the Directors, the Deed of Non-Competition ceased to have any effect on Ms. Zhou Peizhen as she ceased to be a controlling shareholder (as defined under the Listing Rules) of the Company on 11 July 2014.

Each of Mr. Chen Wantian and Rich Union Enterprises Limited has provided a written confirmation to the Company confirming that he/it has complied with the terms of the Deed of Non-Competition for the year ended 31 December 2016. The independent non-executive Directors have also reviewed the status of compliance by each of Mr. Chen and Rich Union Enterprises Limited and confirmed that, as far as they can ascertain, each of Mr. Chen and Rich Union Enterprises Limited has complied with the terms of the Deed of Non-Competition.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this report, as of 31 December 2016, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

## CONNECTED TRANSACTION

Details of the related party transactions are set out in note 34 to the consolidated financial statements. Those related party transactions did not constitute connected transactions under the Listing Rules. The following are connected transactions of the Company which were subject to reporting, announcement and, if appropriate, independent shareholders' approval requirements under Chapter 14A of the Listing Rules.



## Report of the Directors

As disclosed, among others, in the announcements of the Company dated 6 June 2016 and 8 July 2016 and in its circular dated 12 July 2016, CSMall Group Limited (“CSMall”), a direct wholly-owned subsidiary of the Company, entered into a subscription agreement with each of Blaze Loop Limited (“Blaze Loop”), Silver Apex Holdings Limited (“Silver Apex”) and Treasure Delight International Limited (“Treasure Delight”). Pursuant to the subscription agreements, CSMall agreed to allot and issue, and Blaze Loop, Silver Apex and Treasure Delight agreed to subscribe for 178,525,000 shares (“Blaze Loop Issuance”), 21,250,000 shares (“Silver Apex Issuance”) and 14,500,000 shares (“Treasure Delight Issuance”, together with Blaze Loop Issuance and Silver Apex Issuance, the “Issuances”) respectively at the subscription price of RMB0.4 per share for an aggregate consideration of RMB85,710,000 which constituted a deemed disposal of an approximately 30% interest in CSMall by the Company. Through the Issuances, certain New Jewellery Retail employees can together enjoy the growth in the New Jewellery Retail segment with the Company by way of share entitlement while the Company can continue to consolidate the financial results of CSMall. The Board also considers that the Issuances can strengthen the capital base of CSMall which can help meet capital needs and facilitate growth in the future. Completion of the subscription agreements took place in August 2016.

The sole shareholder of Silver Apex is Mr. Chen He, who is (i) a substantial shareholder of Shenzhen Yinruiji Cultural Development Company Limited\* (深圳銀瑞吉文化發展有限公司, “SZ Yinruiji”), which is treated as an indirect subsidiary of the Company by virtue of certain contractual arrangements, (ii) a director of Shenzhen Guoyintongbao Limited\* (深圳國銀通寶有限公司, “SZ Silver”), an operating subsidiary of CSMall, and (iii) the nephew of Mr. Chen Wantian, an executive Director and the sole director of CSMall. The sole shareholder of Treasure Delight is Mr. Qian Pengcheng, who is a substantial shareholder of SZ Yinruiji. Accordingly, each of Silver Apex, Mr. Chen He, Treasure Delight and Mr. Qian Pengcheng is a connected person of the Company. Each of the Silver Apex Issuance and Treasure Delight Issuance therefore constituted a non-exempt connected transaction of the Company and was subject to the announcement, circular, shareholders’ approval and reporting requirements under Chapter 14A of the Listing Rules.

At the extraordinary general meeting of the Company held on 27 July 2016, each of the Silver Issuance and Treasure Delight Issuance, among others, was approved by the independent shareholders.

## CONTRACTUAL ARRANGEMENTS

On 11 December 2001, the State Council adopted the Regulations on the Administration of Foreign-invested Telecommunication Enterprises (the “FITE Regulations”), which came into effect on 1 January 2002 and was amended on 10 September 2008. According to the FITE Regulations, the ratio of investment by foreign investors in a foreign-invested telecommunication enterprise which engages in the operation of value-added telecommunication business shall not ultimately exceed 50%, and the foreign investor in a foreign-invested telecommunication enterprise engaging in value-added telecommunication businesses shall have a good business record and experience in operating value-added telecommunication business (the “Qualification Requirement”). Currently, none of the applicable PRC laws, regulations or rules provides clear guidance on the interpretation of the good business record and experience in operating value-added telecommunication business.

On 19 January 2015, the Ministry of Commerce released Foreign Investment Law of the PRC (Draft for Comment) (the “Draft Foreign Investment Law”) and Notes to the Foreign Investment Law of the PRC (Draft for Comment) (the “Notes”). The Draft Foreign Investment Law (i) expressly stipulates that foreign investments include situations where foreign investors obtain direct or indirect control or interests in the PRC enterprises through structured contracts, trust or other ways and (ii) specifies the restrictions on foreign investments under the prohibited and restricted lists (the “Negative List”).

During the year ended 31 December 2016, certain business activities of the Group which were/are categorised as “restricted” business under the PRC laws and regulations have been carried out by the Group through a series of contractual agreements (the “VIE Agreements”) with certain PRC nationals to control (a) SZ Yinruiji, and (b) Shanghai Huatong (together with SZ Yinruiji, “Structured Entities”), each a limited liability company established in the PRC, pursuant to which the economic benefits and control of the Structured Entities are transferred to the relevant subsidiaries of the Company (the “VIE Structure”). Major terms of the VIE Agreements are set out in note 39(ii) to the consolidated financial statements.

### (i) VIE Structure

#### 2014 Contractual Arrangements

The Group entered into a series of contractual agreements (the “2014 VIE Agreements”) with SZ Yinruiji and/or its shareholders on 20 May 2014 (the “2014 Contractual Arrangements”) which allows the Group to exercise full control of SZ Yinruiji.

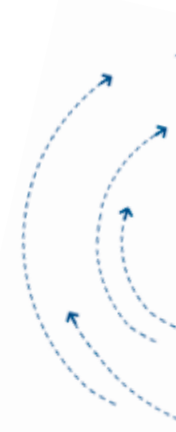
The online retail business that SZ Yinruiji is engaged in falls under the category of “value-added telecommunications services” in the PRC and is regarded as a “restricted” business according to the Guiding Catalogue of Industries for Foreign Investment Industries promulgated in 2011. The primary purpose for the Group to adopt the 2014 Contractual Arrangements is to enable the Group to formally operate an online proprietary sales platform (www.CSmall.com) (the “Online Platform”) owned by SZ Yinruiji. Since New Jewellery Retail business is a key business objective of the Group, the formation of an online sales platform is essential.

However, owing to certain restrictions under the laws and regulations relating to the telecommunication business in the PRC, the equity-owned subsidiaries of the Company were prohibited from operating the Online Platform directly without first adopting the 2014 Contractual Arrangements. After seeking advice from the PRC legal adviser that a VIE structure is a commonly used structure by foreign internet companies to overcome the barrier, the Group entered into the 2014 VIE Agreements.

#### 2016 Contractual Arrangements

SZ Yinruiji acquired an aggregate of 25% equity interest in Shanghai Huatong for an aggregate consideration of RMB40 million on 6 July 2015. To acquire the remaining 75% equity interest in Shanghai Huatong, on 28 January 2016, the Group entered into a series of contractual agreements (the “2016 VIE Agreements”) with Shanghai Huatong and/or its shareholders (the “2016 Contractual Arrangement”). Shanghai Huatong is engaged in internet information service and e-commerce business, which fall into the value-add telecommunications services and are considered restricted according to the Guiding Catalog of Industries for Foreign Investment Industries promulgated in 2015.

Through Shanghai Huatong's trading platform, the Group will be able to gather all valuable information of the entire industry chain and can provide the best one-stop services, including trading, storage, logistics, etc. to their customers. Shanghai Huatong seeks to link together the national and international spot markets of silver so as to further strengthen the fairness and recognition of the integrated price which will be the core pricing criteria for silver in the near future. It is expected more Renminbi-priced commodities such as platinum and palladium will be introduced to the customers of Shanghai Huatong.





**(ii) Significance and financial contribution of the Structured Entities to the Group**

The Structured Entities are significant to the Group as they hold relevant licenses to provide internet information services and other value-added telecommunications services. The following table sets out the registered equity-holders (the “Registered Equity-holders”) and business activities of each of the Structured Entities:

<b>Name of the operating company</b>	<b>Registered Equity-holders as at 31 December 2016</b>	<b>Business activities</b>
SZ Yinruiji <sup>1</sup>	80% by Mr. Chen He 20% by Mr. Qian Pengcheng	Operation of online sales platform
Shanghai Huatong <sup>2</sup>	80% by Mr. Zhou Peiliang 20% by Mr. Chen Zhiyong	Internet information service and e-commerce business

Notes:

1. SZ Yinruiji was granted an internet content provider licence by the relevant PRC authorities on 9 June 2014.
2. Shanghai Huatong was granted an internet content provider licence by the relevant PRC authorities on 4 January 2016.

The following table sets out the respective financial contribution of each of the Structured Entities to the Group:

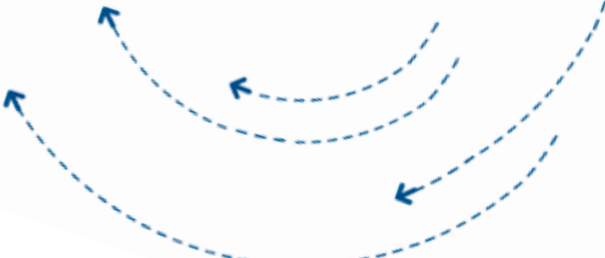

	<b>Revenue for the year ended 31 December 2015</b> (RMB million)	<b>Revenue for the year ended 31 December 2016</b> (RMB million)	<b>Assets as at 31 December 2016</b> (RMB million)
2014 VIE Arrangements	199	1,827	Immaterial
2016 VIE Arrangements	N/A	122	46

**(iii) Risks and mitigation relating to the VIE Structure**

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

- (a) If any of the Structured Entities fail to obtain the requisite licenses and approvals to continually operate its online sales or trading business in the PRC, the Group’s business and financial position may be adversely affected.

- (b) Foreign direct investment in value-added telecommunications business is governed by the FITE Regulations, which require a foreign investor who would like to acquire any equity interest in the value-added telecommunications business to meet the Qualification Requirement. The Group has been taking steps to build up its business record and experience, but given the lack of guidelines in this unclear area of the law, there is no guarantee that the steps taken will be sufficient to enable the Company to ultimately acquire the ownership in the Structured Entities. In respect of the 2014 Contractual Arrangements, under the Exclusive Option Agreement, SZ Silver has the sole discretion to require the shareholders of the SZ Yinruiji to transfer their equity interest in SZ Yinruiji to SZ Silver at the lower of (aa) the amount of the registered capital contributed by the shareholders in accordance with their respective percentage of equity interest in SZ Yinruiji and (bb) the lowest price permitted under the PRC laws. The relevant PRC authorities may require SZ Silver to pay a substantial amount of enterprise income tax for the income from the ownership transfer if the purchase price is set below the market value. The Exclusive Option Agreement entered into by Wenzhou Yintong Economic Information Consultation Company Limited\* (溫州銀通經濟信息諮詢有限公司, "WZ Yintong") with Shanghai Huatong and shareholders of Shanghai Huatong contains similar same provisions. The exercise of the option to acquire the ownership of the SZ Yinruiji and/or Shanghai Huatong may therefore be subject to substantial costs.
- (c) Although the PRC legal adviser to the Company expressed the view that the VIE Structure is in compliance with the relevant PRC laws and regulations, uncertainties exist regarding the interpretation and application of the PRC laws and regulations, especially in the area of value-added telecommunications business. The PRC legal adviser to the Company cannot assure that the PRC regulatory authorities will not determine that the Company's corporate structure and the VIE Structure violate the PRC laws, rules or regulations. The PRC legal adviser to the Company also cannot rule out the possibility that there may be amendments to the Draft Foreign Investment Laws and the Notes before promulgation and implementation of the New Foreign Investment Law which may have a material adverse impact on the Group at the time when they take effect. If the PRC government determines that the VIE Agreements do not comply with the applicable laws and regulations of the PRC or SZ Yinruiji or Shanghai Huatong is found to be in violation of any future PRC foreign investment laws or regulation and/or any other laws or regulation, the relevant PRC regulatory authorities would have broad discretion in dealing with such violation including levying fines, confiscating the income, revoking the Structured Entities' business or operating licence(s), to restructure the relevant ownership structure or operations, and to dispose of all or some of its equity interest in the Structured Entities. Any of these actions could cause material and adverse effect in the Group's ability to conduct business. In addition, if the imposition of any of these penalties causes the Company to lose the rights to receive its economic benefits from the Structured Entities, the Company will no longer be able to consolidate the Structured Entities. In case the Company is required to dispose of all the equity interest in the Structured Entities, the Company may record a substantial loss and the Company's financial condition and results of operation may be materially and adversely affected.

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- (d) The VIE Agreements may not provide control as effective as direct ownership. The Group has to rely on the respective rights of SZ Silver and WZ Yintong under the VIE Agreements to effect changes in the management of SZ Yinruiji and Shanghai Huatong and make an impact on its business decision making, as opposed to exercising its rights directly as a registered equity-holder. If the Structured Entities or their Registered Equity-holders refuse to cooperate, the Company will face difficulties in effecting control over the Structured Entities' operation of business through the VIE Structure, which may adversely affect the Company's business efficiency.
- (e) The Registered Equity-holders of each of the Structured Entities may have potential conflicts of interest with the Group. Although there are provisions under the Exclusive Option Agreement to prevent those situations, conflicts of interest may still arise when the interest of any Registered Equity-holder does not align with that of the Company, and such Registered Equity-holder may breach or cause the Structured Entities to breach the VIE Agreements. If the Group fails to resolve this internally, it may have to resort to formal dispute resolution proceedings, which may be costly and time-consuming and which outcome is uncertain. If ultimately any Registered Equity-holder has to be removed, it may be difficult for the Company to maintain investors' confidence in the VIE Structure.
- (f) The VIE Agreements may be subject to scrutiny by the tax authorities and additional tax may be imposed. In respect of the 2014 Contractual Arrangements, under the Exclusive Consultancy and Services Agreement, SZ Yinruiji is required to pay SZ Silver a service fee for the services rendered by SZ Silver. Such service fee payments between related parties may be subject to scrutiny or challenge by the PRC tax authorities within ten years after the taxable year during which such transactions are conducted. The Exclusive Option Agreement entered into by WZ Yintong with Shanghai Huatong contains similar same provisions.
- (g) Although the Company intends to take the steps as described above to meet the Qualification Requirement and the Company's PRC legal adviser has confirmed that the overseas business experience can be counted towards the Qualification Requirement, there is no assurance that those steps will be sufficient to satisfy the Qualification Requirement, especially when the relevant PRC authorities have not issued any clear guidance as to the interpretation of the Qualification Requirement. Thus, there is a risk that when the foreign ownership restrictions are lifted in the future, the Group may be required to unwind the VIE Structure before it is in a position to comply with the Qualification Requirement.
- (h) The Company has put in place internal controls to safeguard its assets held through the VIE Agreements. For instance, in respect of the 2014 Contractual Arrangements, the Share Pledge Agreement contains a power of attorney, under which each of Mr. Chen and Mr. Qian irrevocably appoints SZ Silver (including its successors) or any person(s) designated by SZ Silver as his attorney-in-fact to sign on his behalf all the documents necessary for the enforcement by SZ Silver of its obligations under the Share Pledge Agreement, for instance, to handle the transfer of the pledged assets. In respect of the 2016 Contractual Arrangements, Shanghai Huatong is required to make available monthly management accounts and submits key operating data after each month end and provide explanations on any material fluctuations to WZ Yintong. Shanghai Huatong assists and facilitates WZ Yintong to conduct quarterly on-site internal audit on Shanghai Huatong and if required, legal advisers and, or other professionals will be retained to deal with specific issues arising from the 2016 VIE Agreements and to ensure that the operation of Shanghai Huatong will comply with applicable laws and regulations.
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## Report of the Directors



- (i) As the Draft Foreign Investment Law and the Notes are not formally promulgated and no Negative List is formulated or promulgated by the State Council according to the Draft Foreign Investment Law and the Notes, there is uncertainty as to whether the business of Shanghai Huatong will fall into the restricted list or prohibited list of the Negative List. According to current Draft Foreign Investment Law and the Notes, with respect to investment arrangement through VIE structure before the New Foreign Investment Law taking effect, if the relevant investment still falls within restricted or prohibited industries for foreign investment, it will be subject to (i) reporting; (ii) verification; or (iii) access permission requirements. There is uncertainty as to which one of the three possible regimes will be finally adopted in the New Foreign Investment Law. Taking into account the facts that the consultation stage for public comment of the Draft Foreign Investment Law and the Notes ended in February 2015 and a number of legislative stages have to be undergone before the promulgation and implementation of the New Foreign Investment Law, and the undertaking provided by Mr. Chen Wantian in respect of the VIE structure of Shanghai Huatong, the Directors consider that proper arrangement has been made at this stage to mitigate against the risk to the minimal risk level that, the business under the 2016 Contractual Arrangements may become non-compliance with the Draft Foreign Investment Law and the Notes.
- (j) The Board will review the VIE Structure regularly and determine if the Group encounters any issues in safeguarding its assets held through the VIE Agreements. If any major issues or difficulties arise in doing so, the Board will engage legal advisers and/or other professionals to assist the Group to tackle such issues or difficulties.

Up to 31 December 2016, the Group does not maintain any insurance to cover the risks relating to the VIE Agreements.

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

### **(iv) Material changes**

During the year ended 31 December 2016, there was no material change in the VIE Agreements and/or the circumstances under which they were adopted.

### **(v) Unwinding of the VIE Agreements**

Up to 31 December 2016, none of the VIE Agreements has been unwound as none of the restrictions that led to the adoption of VIE Agreements has been removed.

## SHARE OPTION SCHEMES

The Company adopted a share option scheme on 5 December 2012 (the “2012 Scheme”) and 21 April 2015 (the “2015 Scheme” together with the 2012 Scheme, the “Share Option Schemes”) respectively. The purpose of the Share Option Schemes is to reward participants who have contributed to our Group and to encourage participants to work towards enhancing the value of our Group. Further details of the Share Options Schemes are set out in note 32 to the consolidated financial statements. No share option was granted, exercised, cancelled or lapsed under the 2012 Scheme or the 2015 Scheme during the year ended 31 December 2016.

Details of the movement of the share options granted under the 2012 Scheme during the year ended 31 December 2016 are as follows:

Name	Date of grant	Exercise price per Share	Exercise period	Outstanding as at 1.1.2016 and 31.12.2016
<b>Directors</b>				
Mr. Chen Wantian	3 July 2013	HK\$0.96	3 July 2013 – 2 July 2023	2,450,000
	20 August 2014	HK\$2.20	20 August 2014 – 19 August 2024	2,200,000
Mr. Song Guosheng	3 July 2013	HK\$0.96	3 July 2013 – 2 July 2023	1,050,000
	20 August 2014	HK\$2.20	20 August 2014 – 19 August 2024	500,000
<b>Employees</b>				
In aggregate	3 July 2013	HK\$0.96	3 July 2013 – 2 July 2023	4,650,000
	20 August 2014	HK\$2.20	20 August 2014 – 19 August 2024	24,300,000
	2 January 2015	HK\$1.80	2 January 2015 – 1 January 2025	49,000,000
				84,150,000

The total number of Shares available for issue under the 2012 Scheme is 84,386,000 representing 5.77% of the Company’s issued share capital as at 31 December 2016.

## Report of the Directors

Details of the movement of the share options granted under the 2015 Scheme during the year ended 31 December 2016 are as follows:

Name	Date of grant	Exercise price per Share	Exercise period	Outstanding as at 1.1.2016 and 31.12.2016
<b>Employees</b>				
In aggregate	27 August 2015	HK\$1.97	27 August 2015 – 26 August 2025	108,000,000
				108,000,000

The total number of Shares available for issue under the 2015 Scheme is 108,978,600 representing 7.45% of the Company's issued share capital as at 31 December 2016.

Note 1: The closing price per Share immediately before 3 July 2013, 20 August 2014, 2 January 2015 and 27 August 2015 (the date on which the share options were granted) was HK\$0.95, HK\$2.20, HK\$1.80 and HK\$1.87 respectively.

Note 2: Share options granted under the 2012 Scheme on 3 July 2013 are exercisable during the period from 3 July 2014 to 2 July 2023 in three batches, being:

- 3 July 2014 to 2 July 2023 (up to 30% of the share options granted are exercisable)
- 3 July 2015 to 2 July 2023 (up to 60% of the share options granted are exercisable)
- 3 July 2016 to 2 July 2023 (all share options granted are exercisable)

Share options granted under the 2012 Scheme on 20 August 2014 are exercisable during the period from 20 August 2015 to 19 August 2024 in three batches, being:

- 20 August 2015 to 19 August 2024 (up to 30% of the share options granted are exercisable)
- 20 August 2016 to 19 August 2024 (up to 60% of the share options granted are exercisable)
- 20 August 2017 to 19 August 2024 (all share options granted are exercisable)

## Report of the Directors

Share options granted under the 2012 Scheme on 2 January 2015 are exercisable during the period from 2 January 2016 to 1 January 2025 in three batches, being:

- 2 January 2016 to 1 January 2025 (up to 30% of the share options granted are exercisable)
- 2 January 2017 to 1 January 2025 (up to 60% of the share options granted are exercisable)
- 2 January 2018 to 1 January 2025 (all share options granted are exercisable)

Note 3: Share options granted under the 2015 Scheme on 27 August 2015 are exercisable during the period from 27 August 2016 to 26 August 2025 in two batches, being:

- 27 August 2016 to 26 August 2025 (up to 50% of the share options granted are exercisable)
- 27 August 2017 to 26 August 2025 (all share options granted are exercisable)

## EQUITY-LINKED AGREEMENTS

Save as the Share Option Schemes disclosed above, no equity-linked agreements that will or may result in the Company issuing Shares or requiring the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company during the year or subsisted at the end of the year.

## AUDIT COMMITTEE

The Audit Committee had reviewed together with the management and external auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year.

## CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES AND SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code contained in the Listing Rules. Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with such code of conduct for the year ended 31 December 2016.



## Report of the Directors

### PERMITTED INDEMNITY PROVISION

Pursuant to article 164 of the Company's articles of associations, every Director is entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of the duties of his office or otherwise in relation thereto (except such is incurred or sustained through his own fraud or dishonesty). Such provision is currently in force and was in force throughout the year ended 31 December 2016.

The Company has taken out and maintained appropriate directors' and officers' liability insurance coverage for the directors and officers of the Company throughout the year ended 31 December 2016.

### TAX RELIEF

The Company is not aware of any relief from taxation available to the shareholders by reason of their holding of the Shares.

### CORPORATE GOVERNANCE

The Company is committed to the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 27 to 37 of this annual report.

### SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, are held by the public at all times as of the date of this report.

### AUDITOR

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as our auditor.

On behalf of the Board  
**Chen Wantian**  
*Chairman*

Hong Kong, 16 March 2017



# Deloitte.

# 德勤

### TO THE MEMBERS OF CHINA SILVER GROUP LIMITED

中國白銀集團有限公司

*(incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of China Silver Group Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 61 to 143, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

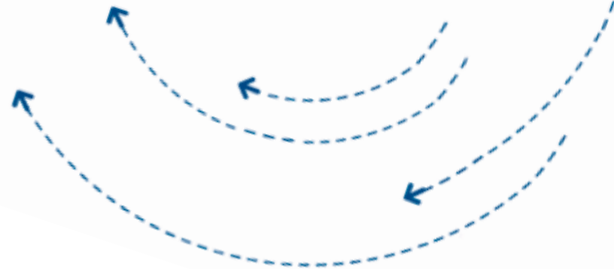
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



### Key audit matters

#### ***Valuation of customer relationship and trademarks acquired through acquisition of subsidiaries and determination of fair value of previously held interests in an associate***

We identified the valuation of customer relationship and trademarks acquired through acquisition of subsidiaries and determination of fair value of previously held interests in an associate as a key audit matter due to its significance, and the significant judgment and estimation associated in the fair value.

Refer to note 30 to the consolidated financial statements, the Group completed the acquisition of the remaining 75% equity interests in its associate, 上海華通鎊銀交易市場有限公司 ("Shanghai Huatong"), following which Shanghai Huatong Group became a wholly-owned subsidiary of the Group. The customer relationship of HK\$78,363,000 and the trademarks of HK\$34,679,000 were purchased as part of the acquisition of Shanghai Huatong and its subsidiaries (together, the "Shanghai Huatong Group") and were recognised at fair values at the date of acquisition. The consideration transferred included a fair value of previously held interests in Shanghai Huatong Group of approximately RMB92,000,000.

Refer to note 4 to the consolidated financial statements, the management of the Group estimates the fair values of customer relationship and trademarks purchased as part of the acquisition of the remaining 75% equity interests in Shanghai Huatong Group and the fair value of previously held interests in an associate as part of consideration transferred associated with the acquisition of Shanghai Huatong Group with reference to fair values determined by the external valuer using business valuation technique.

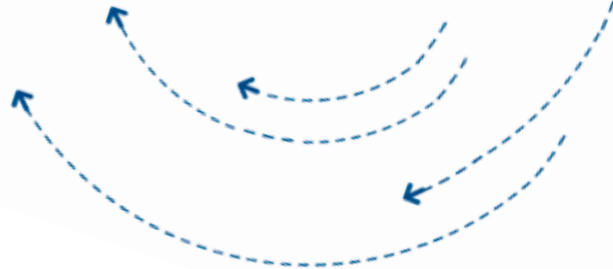
The fair value of customer relationship was determined based on estimation of profits attributable to the customer relationships, with a suitable discount rate to derive the present value. The fair value of trademarks was determined by discounting the future after-tax royalty attributable to the trademarks to the present value using a suitable discount rate. The fair value of previous held interests in Shanghai Huatong Group was determined based on the estimation of cash inflows/outflows, growth rates in future cash flow, with a discount rate to derive the present value.

### How our audit addressed the key audit matters

Our procedures in relation to valuation of customer relationship and trademarks acquired through acquisition of subsidiaries and determination of fair value of previously held interests in an associate included:

- Understanding how the Group determined the fair values of customer relationship and trademarks purchased as part of the acquisition of the remaining 75% equity interests in Shanghai Huatong Group and the fair value of previously held interests in an associate as part of consideration transferred associated with the acquisition of Shanghai Huatong Group, including the methodologies adopted and key assumptions used, and the involvement of an external valuer engaged by the Group;
- Evaluating the historical accuracy of the cash flow forecasts prepared by the management by comparing the historical cash flow forecast with the actual performance; and
- Assessing the appropriateness of methodologies adopted and the reasonableness of the key assumptions used based on the entity-specific information, and available industry and market data with the involvement of our internal valuation expert.





### Key audit matters

#### ***Impairment of goodwill and trademarks allocated to operating segment of providing professional electronic platform, related services for silver trading and trading of silver ingots ("Silver Exchange segment")***

We identified impairment of goodwill and trademarks allocated to Silver Exchange segment as a key audit matter due to the significant management judgements involved in the impairment testing.

As disclosed in notes 4 and 16 to the consolidated financial statements, in determining whether goodwill and trademarks were impaired required an estimation of the value in use of Silver Exchange segment. The value in use was determined by the management based on the cash flows of this cash-generating unit discounted to its present value. This required the use of key assumptions including the estimation of cash inflows/outflows, terminal growth rate and discount rate applied.

As disclosed in notes 16 and 17 to the consolidated financial statements, the carrying amounts of goodwill and trademarks allocated to Silver Exchange segment as at 31 December 2016 were approximately RMB407,321,000 and RMB34,679,000, respectively. Management of the Group has determined that no impairment of the goodwill and trademarks allocated to Silver Exchange segment was recognised as at 31 December 2016.

### How our audit addressed the key audit matters

Our procedures in relation to evaluating the appropriateness of the impairment of goodwill and trademarks allocated to Silver Exchange segment included:

- Understanding the Group's impairment assessment process, including the valuation model adopted and the key assumptions used;
- Evaluating the appropriateness of valuation model adopted and the key assumptions used;
- Evaluating the historical accuracy of the cash flow forecasts of Silver Exchange segment prepared by the management by comparing the historical cash flow forecast with the actual performance; and
- Evaluating the potential impact of the impairment assessment based on the reasonably possible changes of the key assumptions used.

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.



## Independent Auditor's Report



In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.


In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
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## Independent Auditor's Report

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Ip Chiu Yin.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

16 March 2017

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Revenue	5	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	6a	11,349	6,203
Other gains and losses	6b	26,978	12,358
Administrative expenses		(173,504)	(134,900)
Selling and distribution expenses		(43,207)	(18,404)
Research and development expenses	7	(2,179)	(2,027)
Other expenses		(12,397)	(22,867)
Finance costs	8	(5,844)	(7,932)
Share of results of associates		57	(239)
Profit before tax		428,410	7,004
Income tax expense	9	(121,597)	(17,975)
Profit (loss) for the year	10	306,813	(10,971)
<b>Other comprehensive income (expense), net of income tax</b>			
<i>Items that may reclassified subsequently to profit or loss:</i>			
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	13		
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
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	<b>176,603</b>	189,632
Prepaid lease payments	15	<b>18,134</b>	18,568
Goodwill	16	<b>407,321</b>	–
Intangible assets	17	<b>120,862</b>	7,091
Deferred tax asset	18	<b>3,129</b>	2,128
Interests in associates	19	<b>2,763</b>	63,598
Available-for-sale investment	20	<b>8,963</b>	–
		<b>737,775</b>	281,017
<b>CURRENT ASSETS</b>			
Prepaid lease payments	15	<b>432</b>	432
Inventories	21	<b>1,304,154</b>	236,447
Trade receivables, deposits and prepayments	22	<b>178,014</b>	168,348
Trade deposits	23	<b>28,115</b>	12,672
Amount due from an associate	19	–	39,610
Short-term bank deposit	24	–	500,000
Bank balances and cash	24	<b>527,549</b>	518,695
		<b>2,038,264</b>	1,476,204
<b>CURRENT LIABILITIES</b>			
Trade and other payables	25	<b>202,732</b>	115,473
Customer receipts in advance	26	<b>7,077</b>	1,388
Deferred income	29	<b>4,717</b>	–
Contingent consideration	37(c)	<b>176,517</b>	–
Income tax payable		<b>53,087</b>	6,768
Bank borrowings	27	<b>110,000</b>	130,000
		<b>554,130</b>	253,629
<b>NET CURRENT ASSETS</b>		<b>1,484,134</b>	1,222,575
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,221,909</b>	1,503,592

## Consolidated Statement of Financial Position

At 31 December 2016

	NOTES	2015 RMB'000	2014 RMB'000
<b>CAPITAL AND RESERVES</b>			
Share capital	28	<b>11,821</b>	10,627
Share premium and reserves		<b>2,077,342</b>	1,435,855
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>			
Non-controlling interests		<b>98,483</b>	48,598
<b>TOTAL EQUITY</b>			
		<b>2,187,646</b>	1,495,080
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liability	18	<b>26,465</b>	–
Deferred income	29	<b>7,798</b>	8,512
		<b>34,263</b>	8,512
<b>TOTAL EQUITY AND NON-CURRENT LIABILITIES</b>			
		<b>2,221,909</b>	1,503,592

The consolidated financial statements on pages 61 to 143 were approved and authorised for issue by the board of directors on 16 March 2017 and are signed on its behalf by:

**CHEN WANTIAN**  
DIRECTOR

**SUNG KIN MAN**  
DIRECTOR



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the Company									
	Share capital RMB'000	Share premium RMB'000	Share options reserve RMB'000	Capital reserve RMB'000 (note i)	Statutory reserve RMB'000 (note ii)	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2015	7,362	76,887	7,877	32,141	91,435	-	538,189	753,891	-	753,891
Loss for the year	-	-	-	-	-	-	(10,969)	(10,969)	(2)	(10,971)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	270	-	270	-	270
Total comprehensive income (expense) for the year	-	-	-	-	-	270	(10,969)	(10,699)	(2)	(10,701)
Recognition of equity-settled share-based payments (note 32)	-	-	41,144	-	-	-	-	41,144	-	41,144
Transfer	-	-	-	-	10,048	-	(10,048)	-	-	-
Incorporation of a non-wholly owned subsidiary	-	-	-	-	-	-	-	-	48,600	48,600
Issue of shares upon exercise of share options	30	4,450	(1,538)	-	-	-	-	2,942	-	2,942
Placing of shares	3,134	685,936	-	-	-	-	-	689,070	-	689,070
Transaction costs attributable to issue of shares	-	(9,928)	-	-	-	-	-	(9,928)	-	(9,928)
Issue of shares pursuant to scrip dividend scheme for 2014 final dividend	101	33,415	-	-	-	-	-	33,516	-	33,516
Dividends paid (note 12)	-	(53,454)	-	-	-	-	-	(53,454)	-	(53,454)
At 31 December 2015	10,627	737,306	47,483	32,141	101,483	270	517,172	1,446,482	48,598	1,495,080
Profit for the year	-	-	-	-	-	-	304,078	304,078	2,735	306,813
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(1,592)	-	(1,592)	-	(1,592)
Release of exchange reserve upon disposal of a subsidiary (note 31)	-	-	-	-	-	(908)	-	(908)	-	(908)
Total comprehensive (expense) income for the year	-	-	-	-	-	(2,500)	304,078	301,578	2,735	304,313
Recognition of equity-settled share-based payments (note 32)	-	-	47,936	-	-	-	-	47,936	-	47,936
Transfer	-	-	-	-	29,798	-	(29,798)	-	-	-
Acquisition of subsidiaries (note 30)	-	-	-	-	-	-	-	-	2,992	2,992
Disposal of subsidiaries (note 31)	-	-	-	-	-	-	-	-	(2,992)	(2,992)
Disposal of partial interest in CSMall Group Limited (note 39(iv))	-	-	-	115,029	-	-	-	115,029	47,150	162,179
Placing of shares	678	117,053	-	-	-	-	-	117,731	-	117,731
Transaction costs attributable to issue of shares	-	(723)	-	-	-	-	-	(723)	-	(723)
Issue of new shares on acquisition of Shanghai Huatong (note 28(iv))	516	85,663	-	-	-	-	-	86,179	-	86,179
Dividends paid (note 12)	-	(25,049)	-	-	-	-	-	(25,049)	-	(25,049)
At 31 December 2016	11,821	914,250	95,419	147,170	131,281	(2,230)	791,452	2,089,163	98,483	2,187,646

notes:

- (i) The capital reserve represents the sum of (a) RMB31,487,000 being the excess of the consideration paid by an independent investor to acquire 10% interest in the Group over the par value of the share capital subscribed; (b) RMB654,000 being the excess of the share capital of a subsidiary acquired by the Company over the nominal consideration of US\$1 paid, as part of the group reorganisation prior to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 December 2012 (the "Listing"); and (c) RMB115,029 being the difference between the increase in the non-controlling interests and the consideration received from the disposal of partial interest in CSMall Group Limited.
- (ii) According to the relevant laws of the People's Republic of China (the "PRC"), the Company's subsidiaries established in the PRC have to transfer a portion of their profits after taxation to the statutory reserve. The transfer to this reserve must be made before the distribution of a dividend to the equity owners. The transfer can cease when the balance of the reserve reaches 50% of the registered capital of the respective subsidiaries. The reserve can be applied either to set off accumulated losses or to increase capital.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
<b>OPERATING ACTIVITIES</b>			
Profit before tax		<b>428,410</b>	7,004
Adjustments for:			
Amortisation of intangible assets		<b>14,531</b>	900
Bank interest income		<b>(2,266)</b>	(5,365)
Depreciation of property, plant and equipment		<b>21,210</b>	17,554
Expenses and professional fees for acquisition projects and fund raising activities		<b>463</b>	13,733
Fair value change on contingent consideration		<b>17,020</b>	–
Finance costs		<b>5,844</b>	7,932
Gain on disposals of subsidiaries		<b>(12,371)</b>	–
Gain on deemed disposals of associates		<b>(31,305)</b>	–
Loss (gain) on disposals of property, plant and equipment		<b>1,051</b>	(178)
Release of deferred income		<b>(714)</b>	(714)
Release of prepaid lease payments		<b>434</b>	435
Share-based payments		<b>47,936</b>	41,144
Share of results of associates		<b>(57)</b>	239
Operating cash flows before movements in working capital		<b>490,186</b>	82,684
Increase in inventories		<b>(1,055,067)</b>	(100,055)
Decrease (increase) in trade receivables, deposits and prepayments		<b>53,525</b>	(115,469)
Increase in trade deposits		<b>(15,443)</b>	(7,439)
Increase in trade and other payables		<b>45,083</b>	72,314
Increase in customer receipts in advance		<b>5,642</b>	1,010
Increase in deferred income		<b>4,717</b>	–
Cash used in operations		<b>(471,357)</b>	(66,955)
Income tax paid		<b>(78,075)</b>	(24,082)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		<b>(549,432)</b>	(91,037)
<b>INVESTING ACTIVITIES</b>			
Net cash outflow from acquisitions of subsidiaries	30	<b>(212,742)</b>	–
Purchase of intangible assets		<b>(12,949)</b>	(2,548)
Purchase of property, plant and equipment		<b>(7,676)</b>	(24,484)
Payment for expenses on acquisition projects		<b>(463)</b>	(12,864)
Placement of a short-term bank deposit		–	(500,000)
Investment to associates		–	(63,637)
Withdrawal of a pledged bank deposit		–	20,100
Withdrawal of a short-term bank deposit		<b>500,000</b>	–
Repayment from (advance to) an associate		<b>39,610</b>	(39,610)
Net cash inflow from disposals of subsidiaries	31	<b>21,314</b>	–
Interest received		<b>2,266</b>	5,365
Proceed from disposal of an associate	19(ii)	<b>197</b>	–
Proceeds from disposals of property, plant and equipment		<b>49</b>	283
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>		<b>329,606</b>	(617,395)

## Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	NOTE	2016 RMB'000	2015 RMB'000
<b>FINANCING ACTIVITIES</b>			
Proceed on disposal of partial interest in a subsidiary that do not involve loss of control	39(iv)	<b>162,179</b>	–
Proceeds from placing of shares		<b>117,731</b>	473,984
New bank borrowings raised		<b>110,000</b>	130,000
Capital contribution by non-controlling interests		–	48,600
Proceeds from issue of shares upon exercise of share options		–	2,915
Repayment of bank borrowings		<b>(130,000)</b>	(130,139)
Dividends paid		<b>(22,846)</b>	(20,039)
Transaction costs attributable to issue of shares		<b>(723)</b>	(10,797)
Interest paid		<b>(5,844)</b>	(7,932)
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>230,497</b>	486,592
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>10,671</b>	(221,840)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>518,695</b>	740,434
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>		<b>(1,817)</b>	101
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash</b>		<b>527,549</b>	518,695

# 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 addresses of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section to the annual report.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are (i) the manufacture and sale of silver ingots and other non-ferrous metals in the PRC; (ii) retail and wholesale of gold, silver and jewellery products in the PRC and (iii) provide professional electronic platform, related services for silver trading and trading of silver ingots, which is a new business conducted through a subsidiary under contractual arrangement acquired by the Group during the year. Details of the business combination and the contractual arrangements are set out in notes 30 and 39, respectively.

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 IFRSs which are effective for the Group’s financial year beginning on 1 January 2016. The Group has adopted, for the first time, these amendments to IFRSs in the current year.

The application of these amendments to 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.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2017.

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

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

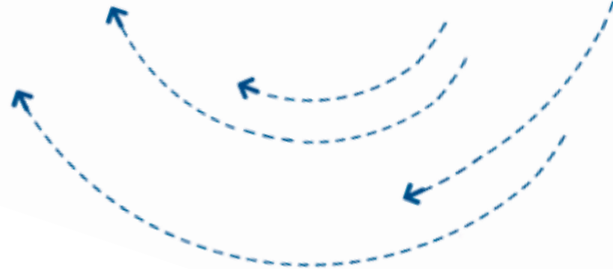
### IFRS 9 “Financial Instruments”

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (“FVTOCI”). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss (“FVTPL”), IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.
- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Application of IFRS 9 in the future may have an impact on the classification and measurement of the Group’s financial assets. The Group’s available-for-sale investment, including those currently stated at cost less impairment, will either be measured as FVTPL or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group performs a detailed review.



## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

### IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 “Revenue”, IAS 11 “Construction Contracts” and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued clarifications to IFRS 15 in relation to the identification of performance obligations, principals versus agent considerations, as well as licensing application guidance.

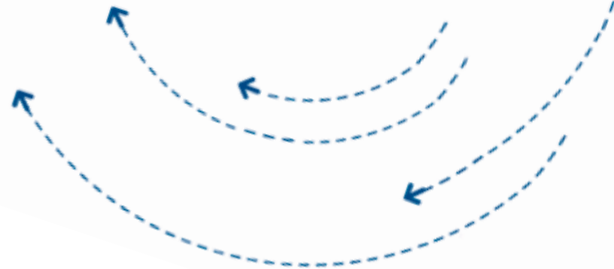
The directors of the Company anticipate that the application of IFRS 15 in the future may have an impact on the amounts reported (e.g. recognition of sales return) as the timing of revenue recognition may be affected and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

### IFRS 16 “Leases”

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 “Leases” and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.





## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

### IFRS 16 “Leases” (Continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB15,818,000 as disclosed in note 38. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

### Amendments to IAS 7 “Disclosure Initiative”

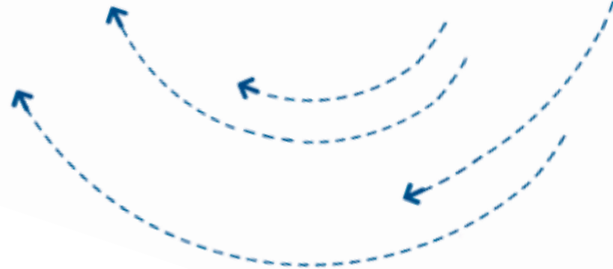
The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other business; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair value; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosure of the Group’s financing activities, specifically reconciliation between the opening and closing balances in the consolidation statement of financial position for liabilities arising from financing activities will be provided on application.

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. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 “Share-based Payment”, leasing transactions that are within the scope of IAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 “Inventories” or value in use in IAS 36 “Impairment of Assets”.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

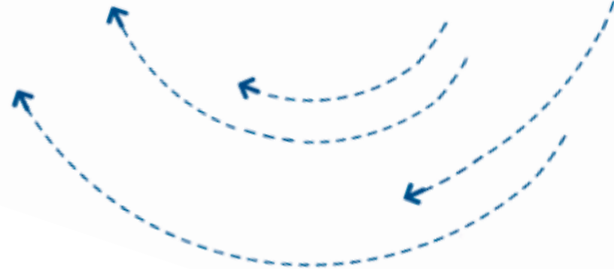
The principal accounting policies are set out below.

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its return.





### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of consolidation (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

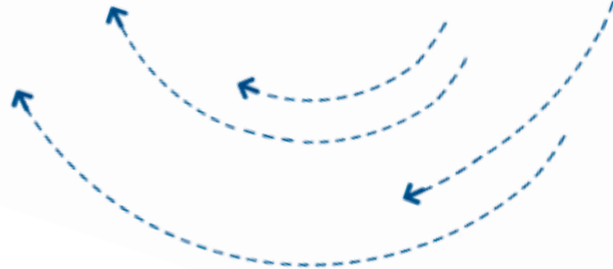
All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

#### Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.





### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

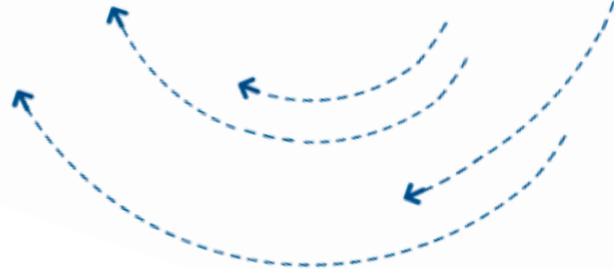
- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 “Income Taxes” and IAS 19 “Employee Benefits” respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 “Share-based Payment” at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognised amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the “measurement period” (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.





### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Business combinations (Continued)

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

#### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

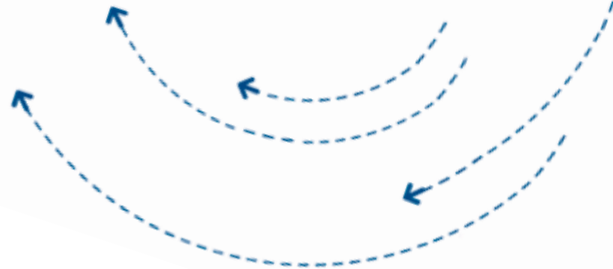
A cash-generating unit (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

#### Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.





### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Investments in associates (Continued)

Investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

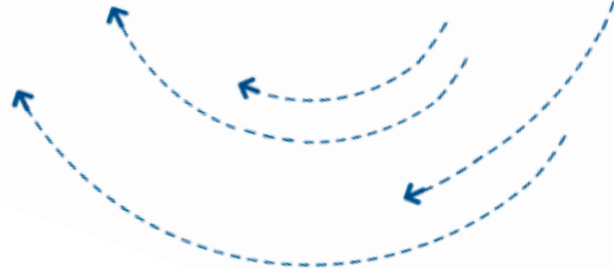
The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.





### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Service and commission income is recognised when services are provided.

Initial membership fee is recognised when the contract signed. Annual membership fee income is recognised on a straight-line basis over the relevant contract period.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

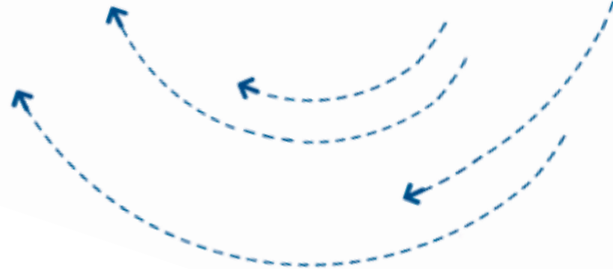
#### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownerships to the lessee. All other leases are classified as operating leases.

#### The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.





### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

#### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items recoverable from payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case, the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

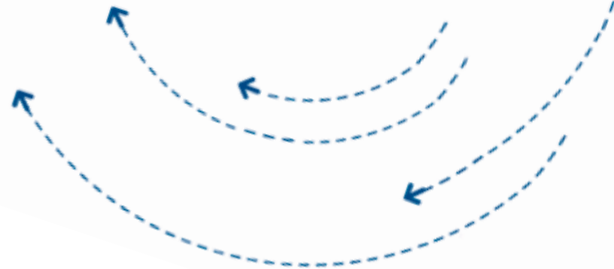
On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposal of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

#### Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.





### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

#### Intangible assets

##### Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

##### Research and development expenditure

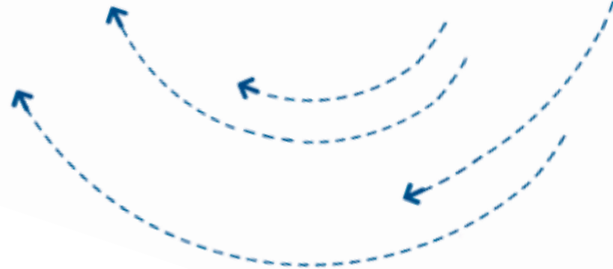
Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.







### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Intangible assets (Continued)

##### Research and development expenditure (Continued)

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

##### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

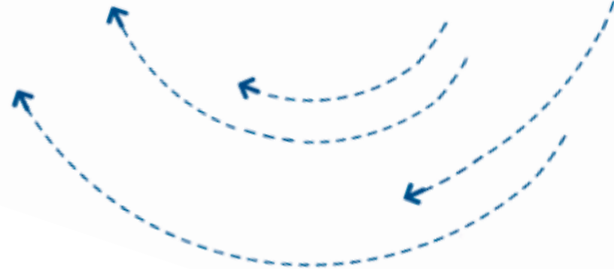
Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss in the period when the asset is derecognised.

##### Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are dealt with as payments to defined contribution scheme where the Group's obligations under the schemes are equivalent to those arising in a defined contributed retirement benefit plan.





### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Equity-settled share-based payment transactions

##### Share options granted to directors and employees

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of each reporting period, the Group revises its estimate of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

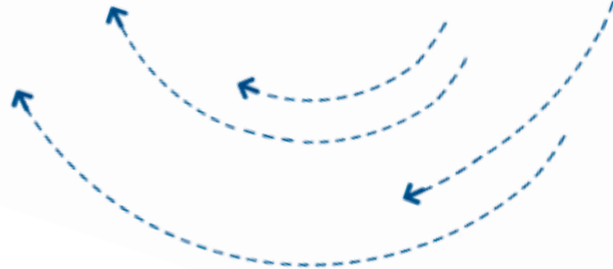
#### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before tax” as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arise from the initial recognition of goodwill.





### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

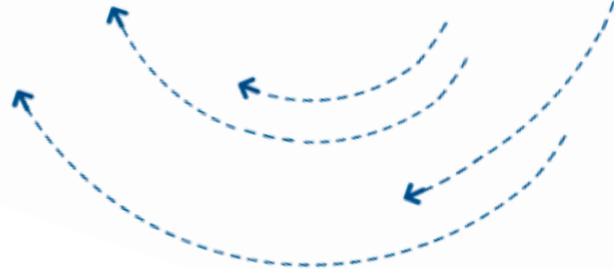
#### Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whether there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.





### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) (Continued)**

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

#### **Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

#### **Financial assets**

The Group's financial assets are classified as available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.



### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### Financial assets (Continued)

##### *AFS financial assets*

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. The Group designated unlisted equity securities as AFS financial assets.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, amount due from an associate, short-term bank deposit and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on loans and receivables below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

##### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the loans and receivables have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period ranging from 30 to 90 days and observable changes in national or local economic conditions that correlate with default on receivables.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### Financial assets (Continued)

##### *Impairment of financial assets (Continued)*

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the loans and receivables at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

##### Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

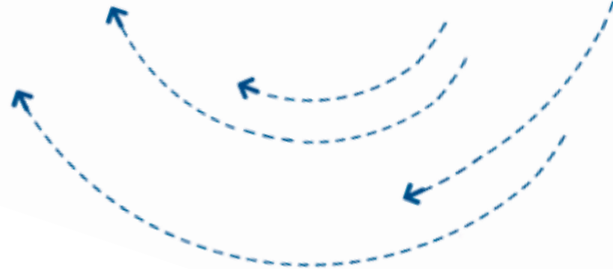
##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

##### *Financial liabilities at fair value through profit or loss ("FVTPL")*

Financial liabilities are classified as at FVTPL when the financial liability is contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.



### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### Financial liabilities and equity instruments (Continued)

##### *Other financial liabilities*

Other financial liabilities (including trade and other payables and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

##### *Effective interest method*

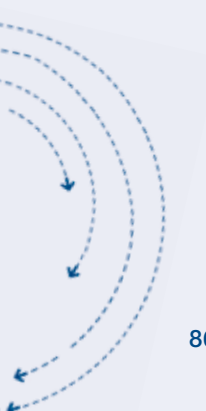
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

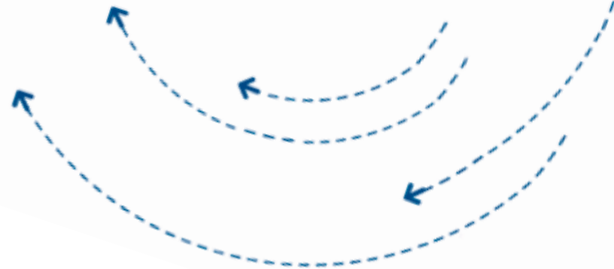
##### **Derecognition**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial assets and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.





## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

#### Consolidation of structured entities

PRC laws and regulations limit foreign ownership for enterprises engaging in value-added telecommunication business, the Group operates its own online sales and trading platform by means of setting up Structured Entities (as defined in note 39(ii)) through entering into 2014 Contractual Agreements and 2016 Contractual Agreements (as defined in note 39(ii)).

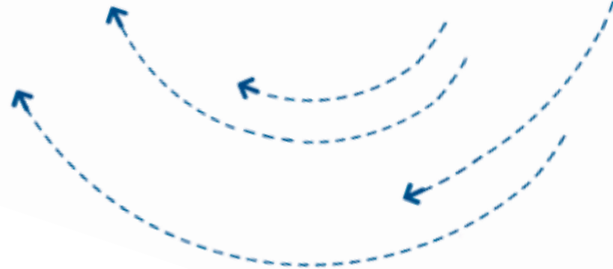
The directors of the Company assessed whether or not the Group has control over the Structured Entities based on whether or not the Group has power to direct the relevant activities of Structured Entities unilaterally, rights to variable returns from its involvement, and has the ability to use its power to affect its returns. In making their judgement, the directors of the Company considered the terms of the 2014 and 2016 Contractual Agreements as detailed in note 39(ii).

The directors of the Company, after consulting legal opinion, are of the view that the terms of the Contractual Arrangements have in substance enabled the Group to exercise full control over and enjoy all economic benefits of the Structured Entities, despite the absence of formal legal equity interest held by the Group therein. Accordingly, Structured Entities are accounted for as consolidated structured entities of the Group.

In the opinion of the directors of the Company, with reference to opinion of legal counsel, the Contractual Arrangements are in compliance with existing PRC laws and regulations, valid, binding and enforceable, and do not result in any violation of PRC laws or regulations currently in effect in all material respects. However, uncertainties in the PRC legal system could cause the Group's current contractual arrangement structure to be found in violation of any existing and/or future PRC laws or regulations and could limit the Company's ability to enforce its rights under the Contractual Arrangements.







## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Key sources of estimation uncertainty

The key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are disclosed below.

#### **Valuation of customer relationship and trademarks and determination of fair value of previously held interests in an associate**

The management of the Group estimates the fair value of customer relationship and trademarks purchased as part of a business combination, and, fair value of previously held interests in an associate as part of consideration transferred associated with the acquisition of subsidiaries through purchase of additional interests in associates, with reference to fair value determined by the external valuer using business valuation technique. The determination of fair value involve estimation of profits attributable to the customer relationships, future after-tax royalty attributable to trademarks, cash inflows/outflows, growth rates in future cash flow and discount rate. These estimations and assumptions impact the profit or loss over the useful life of the intangible assets and amount of goodwill on acquisition. At the date of acquisition, the fair value of customer relationship, trademarks and previously held interests in an associate were RMB78,363,000, RMB34,679,000 and RMB92,000,000, respectively.

#### **Estimated impairment of goodwill and trademarks**

In determining whether goodwill and trademarks are impaired requires an estimation of the value in use of the cash-generating unit ("CGU") to which goodwill and trademarks have been allocated. The value in use was determined by the management based on the cash flows of this CGU discounted to its present value. This required the use of key assumptions including the estimation of cash inflows/outflows, terminal growth rate and discount rate applied. Where the expected future cash flows arising from the relevant CGU differ from the original estimation, an impairment loss may arise. As at 31 December 2016, the carrying amounts of goodwill and trademarks were RMB407,321,000 (2015: nil) and RMB34,679,000 (2015: nil), respectively, and no impairment loss was recognised as at 31 December 2016 and 2015.

#### **Allowance for inventories**

Inventories are valued at the lower of cost and net realisable value. The Group regularly reviews its inventory levels in order to identify slow-moving inventories. When the Group identifies items of inventories which have a market price that is lower than its carrying amount, the Group estimates the amount of write-down of inventories as allowance for inventories. As at 31 December 2016, the carrying amount of inventories was RMB1,304,154,000 (2015: RMB236,447,000).

#### **Estimated allowance for trade receivables**

Management regularly reviews the recoverability of trade receivables. Allowance for these receivables is made based on evaluation of collectability and on management's judgement by reference to the estimation of the future cash flows discounted at an effective interest rate to calculate the present value. A considerable amount of judgement is required in assessing the ultimate realisation of these debtors, including their current creditworthiness. If the actual future cash flows were less than expected, allowance may be required. As at 31 December 2016, the carrying amount of trade receivables was RMB63,257,000 (2015: RMB128,736,000).



## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Key sources of estimation uncertainty (Continued)

#### Estimated useful life of property, plant and equipment

Plant and machinery included in property, plant and equipment are depreciated over their useful economic lives. The assessment of estimated useful lives is a matter of judgement based on the experience of the Group's management, taking into account factors such as technological progress, conditions of the plant and machinery and changes in market demand. Useful lives are periodically reviewed for continued appropriateness. As at 31 December 2016, the carrying amount of property, plant and equipment was RMB176,603,000 (2015: RMB189,632,000). Details of the useful lives of the property, plant and equipment are disclosed in note 14.

#### Share-based payments

The Group recognises share-based compensation expense on options granted. Share-based compensation expense is based on the estimated fair value of each option at its grant date, the estimation of which requires management to make assumptions about future volatility of the Group's stock price, future interest rates and the timing with respect to exercise of the options. The effects of a change in one or more of these variables could result in a different fair value.

## 5. 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 Huatong as detailed in note 30. 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 the Silver Exchange segment has been regarded as a separate operating segment of the Group.

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 5. REVENUE AND SEGMENT INFORMATION (Continued)

#### 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
<b>Revenue</b>						
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
<b>Results</b>						
Segment results	338,508	62,095	80,270	480,873		480,873
<b>Non-segment items</b>						
Unallocated income, expenses, gains and losses						(46,676)
Finance costs						(5,844)
Share of results of associates						57
Profit before tax						428,410

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 5. REVENUE AND SEGMENT INFORMATION (Continued)

#### Segment revenue and results (Continued)

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

\* 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 described in note 3. 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 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 5. REVENUE AND SEGMENT INFORMATION (Continued)

#### Analysis of revenue by products and services

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

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 6a. OTHER INCOME

	2016 RMB'000	2015 RMB'000
Bank interest income	2,266	5,365
Government grant (note)	2,001	–
Release of deferred income	714	714
Others	6,368	124
	<b>11,349</b>	6,203

note: Government grant was received from the local government of the PRC as incentive for foreign capital injection by the Group. There is no specified condition attached to the grant.

### 6b. OTHER GAINS AND LOSSES

	2016 RMB'000	2015 RMB'000
Gain on deemed disposals of associates (note 30(ii))	31,305	–
Gain on disposals of subsidiaries (note 31)	12,371	–
Net exchange gain	1,373	12,180
Fair value change of contingent consideration (note)	(17,020)	–
(Loss) gain on disposals of property, plant and equipment	(1,051)	178
	<b>26,978</b>	12,358

note: The amount represents the fair value change on contingent consideration in relation to the acquisition of Shanghai Huatong. Details of the acquisition are set out in note 30.

### 7. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses mainly represent expenses for specific research, staff costs and technical consultation fees incurred for the enhancement of production techniques.

### 8. FINANCE COSTS

The amount represents interest on bank borrowings.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 9. INCOME TAX EXPENSE

	2016 RMB'000	2015 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 (note 18)	(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 RMB'000	2015 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

Details of deferred tax recognised are set out in note 18.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 10. PROFIT (LOSS) FOR THE YEAR

	2016 RMB'000	2015 RMB'000
Profit (loss) for the year has been arrived at after charging:		
Directors' emoluments (note 11)	<b>7,676</b>	14,094
Other staff costs		
– salaries and wages	<b>72,713</b>	59,162
– retirement benefit scheme contributions	<b>12,105</b>	9,967
– share-based payments, excluding those of directors and a consultant	<b>45,954</b>	37,167
Total staff costs	<b>138,448</b>	120,390
Auditor's remuneration	<b>3,164</b>	1,974
Amortisation of intangible assets	<b>14,531</b>	900
Cost of inventories recognised as expenses	<b>3,418,151</b>	1,531,853
Depreciation of property, plant and equipment	<b>21,210</b>	17,554
Expenses and professional fees for acquisition projects and fund raising activities	<b>6,128</b>	13,733
Release of prepaid lease payments	<b>434</b>	435
Rental expenses	<b>15,703</b>	7,036
Share-based payment expenses in respect of consultancy services	<b>989</b>	1,903



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

#### Directors' and Chief Executive's emoluments

	Directors' fees RMB'000	Salaries and allowances RMB'000	Retirement benefit scheme contributions RMB'000	Share-based payments RMB'000	Total RMB'000
<b>For the year ended 31 December 2016</b>					
<b>Executive directors</b>					
Mr. Chen Wantian (note i)	-	1,035	14	791	1,840
Mr. Song Guosheng	-	873	15	202	1,090
Mr. Chen Guoyu	-	709	-	-	709
Mr. Sung Kin Man (note ii)	-	3,423	15	-	3,438
	-	6,040	44	993	7,077

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

#### Independent non-executive directors

Dr. Li Haitao	171	-	-	-	171
Dr. Zeng Yilong	171	-	-	-	171
Mr. Guo Bin (note iv)	86	-	-	-	86
Mr. Song Hongbing (note v)	171	-	-	-	171
	599	-	-	-	599
<b>Total</b>	<b>599</b>	<b>6,040</b>	<b>44</b>	<b>993</b>	<b>7,676</b>

The non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

#### Directors' and Chief Executive's emoluments (Continued)

	Directors' fees	Salaries and allowances	Retirement benefit scheme contributions	Share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2015					
<b>Executive directors</b>					
Mr. Chen Wantian (note i)	–	4,998	13	1,637	6,648
Mr. Song Guosheng	–	872	13	437	1,322
Mr. Chen Guoyu	–	703	–	–	703
Mr. Sung Kin Man (note ii)	–	4,804	80	–	4,884
	–	11,377	106	2,074	13,557

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

#### Independent non-executive directors

Dr. Li Haitao	161	–	–	–	161
Dr. Jiang Tao (note iii)	159	–	–	–	159
Dr. Zeng Yilong	161	–	–	–	161
Mr. Guo Bin (note iv)	54	–	–	–	54
Mr. Song Hongbing (note v)	2	–	–	–	2
	537	–	–	–	537
<b>Total</b>	<b>537</b>	<b>11,377</b>	<b>106</b>	<b>2,074</b>	<b>14,094</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

#### Directors' and Chief Executive's emoluments (Continued)

The non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries.

notes:

- (i) Mr. Chen Wantian resigned as chief executive officer in April 2015.
- (ii) Mr. Sung Kin Man was appointed as chief executive officer and executive director in April 2015.
- (iii) Dr. Jiang Tao resigned as independent non-executive director in December 2015.
- (iv) Mr. Guo Bin was appointed as independent non-executive director in April 2015.
- (v) Mr. Song Hongbing was appointed as independent non-executive director in December 2015.

#### Employees

The Group's five highest paid individuals for the year ended 31 December 2016 included one (2015: two) directors of the Company. The emoluments of the remaining four (2015: three) individuals are as follows:

	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
Salaries and allowances	<b>5,458</b>	8,381
Share-based payments	<b>12,450</b>	6,745
Retirement benefit scheme contributions	<b>59</b>	35
	<b>17,967</b>	15,161

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

#### Employees (Continued)

Their emoluments were within the following bands:

	2016 Number of employees	2015 Number of employees
HK\$4,500,001 to HK\$5,000,000	1	–
HK\$5,000,001 to HK\$5,500,000	2	1
HK\$6,000,001 to HK\$6,500,000	1	1
HK\$7,500,001 to HK\$8,000,000	–	1
	<b>4</b>	<b>3</b>

During the year, certain non-director and non-chief executive highest paid employees were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option schemes are set out in note 32.

No emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during both years. None of the directors waived or agreed to waive any emolument during both years.

### 12. DIVIDENDS

	2016 RMB'000	2015 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
	<b>25,049</b>	<b>53,454</b>

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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 13. 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 RMB'000	2015 RMB'000
<b>Earnings (loss)</b>		
Profit (loss) for the year attributable to owners of the Company for the purpose of basic earnings (loss) per share	<b>304,078</b>	(10,969)
Effect of dilutive potential shares:		
Fair value change of contingent consideration	<b>17,020</b>	–
<b>Earnings (loss) for the purpose of diluted earnings (loss) per share</b>	<b>321,098</b>	(10,969)
	<b>2016 '000</b>	2015 '000
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	<b>1,434,723</b>	1,229,474
Effect of dilutive potential ordinary shares:		
– Share options of the Company	<b>3,435</b>	–
– Contingent consideration shares	<b>126,042</b>	–
<b>Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share</b>	<b>1,564,200</b>	1,229,474

In calculating the diluted earnings per share for the year ended 31 December 2016, the potential issue of shares arising from certain of the Company's share options and contingent consideration shares in respect of a business combination as set out in note 30 would decrease the earnings per share and has therefore been taken into account as they have a dilutive effect.

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
<b>COST</b>					
At 1 January 2015	142,140	97,470	5,285	6,473	251,368
Additions	8,484	10,680	1,766	3,554	24,484
Disposals	–	–	(77)	(1,845)	(1,922)
Exchange realignment	74	–	17	–	91
At 31 December 2015	150,698	108,150	6,991	8,182	274,021
Additions	2,500	2,092	2,148	936	7,676
Acquired on acquisition of subsidiaries (note 30)	–	–	2,203	605	2,808
Disposal of a subsidiary	(1,214)	–	(492)	–	(1,706)
Disposals	(963)	(740)	(193)	(99)	(1,995)
Exchange realignment	95	–	31	–	126
At 31 December 2016	151,116	109,502	10,688	9,624	280,930
<b>DEPRECIATION</b>					
At 1 January 2015	28,392	32,591	1,901	5,764	68,648
Provided for the year	7,005	9,166	948	435	17,554
Disposals	–	–	(64)	(1,753)	(1,817)
Exchange realignment	4	–	–	–	4
At 31 December 2015	35,401	41,757	2,785	4,446	84,389
Provided for the year	8,555	9,525	2,076	1,054	21,210
Disposal of a subsidiary	(289)	–	(107)	–	(396)
Disposals	(119)	(564)	(118)	(94)	(895)
Exchange realignment	14	–	5	–	19
At 31 December 2016	43,562	50,718	4,641	5,406	104,327
<b>CARRYING VALUES</b>					
At 31 December 2016	107,554	58,784	6,047	4,218	176,603
At 31 December 2015	115,297	66,393	4,206	3,736	189,632

The Group's buildings are erected on land held under medium-term land use rights in the PRC.

The above items of property, plant and equipment are depreciated on a straight-line method, at the following rates per annum:

Buildings	Over 20 years or the term of the relevant land lease, whichever is shorter
Plant and machinery	10%
Office equipment	20%
Motor vehicles	20%

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 15. PREPAID LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Analysed for reporting purposes as:		
Non-current asset	18,134	18,568
Current asset	432	432
	<b>18,566</b>	19,000

### 16. GOODWILL

	RMB'000
COST	
At 1 January 2015 and 31 December 2015	–
Arising on acquisition of subsidiaries (note 30)	407,321
At 31 December 2016	407,321
IMPAIRMENT	
At 1 January 2015, 31 December 2015 and 31 December 2016	–
CARRYING VALUES	
At 31 December 2016	407,321
At 31 December 2015	–

For the purposes of impairment testing, goodwill and trademarks with indefinite useful lives arising on business combinations as set out in note 17 have been allocated, at the date of acquisition, to a CGU, Silver Exchange segment.

Management of the Group determines that there is no impairment of the CGU as at 31 December 2016.

The recoverable amount of the CGU has been determined based on a value in use calculation.

The value in use calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period using a discount rate of 23.69%. The cash flows beyond the 5-year period are extrapolated using a steady growth rate of 3%. 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.

Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the relevant CGU.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 17. INTANGIBLE ASSETS

	Patent	System software	Customer relationship	Trademarks	Licence	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note i)	(note ii)	(note iii)	(note iv)		
<b>COST</b>						
At 1 January 2015	6,000	498	–	–	–	6,498
Additions	–	2,548	–	–	–	2,548
At 31 December 2015	6,000	3,046	–	–	–	9,046
Additions	–	12,521	–	–	428	12,949
Acquired on acquisition of subsidiaries (note 30)	–	2,739	78,363	34,679	–	115,781
Disposal of subsidiaries (note 31)	–	–	–	–	(447)	(447)
Exchange realignment	–	–	–	–	19	19
At 31 December 2016	6,000	18,306	78,363	34,679	–	137,348
<b>AMORTISATION</b>						
At 1 January 2015	1,055	–	–	–	–	1,055
Provided for the year	362	538	–	–	–	900
At 31 December 2015	1,417	538	–	–	–	1,955
Provided for the year	362	6,986	7,183	–	–	14,531
At 31 December 2016	1,779	7,524	7,183	–	–	16,486
<b>CARRYING VALUES</b>						
At 31 December 2016	4,221	10,782	71,180	34,679	–	120,862
At 31 December 2015	4,583	2,508	–	–	–	7,091



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 17. INTANGIBLE ASSETS (Continued)

notes:

- (i) The intangible asset represents a patent acquired for certain production techniques with a registered life up to August 2028. The intangible asset is amortised on a straight-line basis over the remaining useful life, i.e. 16.5 years.
- (ii) System software represents software internally developed for online trading and exchange platform. The system software is amortised on a straight-line basis over a period of 2 to 10 years.
- (iii) Customer relationship associated with the provision of professional electronic silver trading platform services is purchased as part of a business combination in the current year (note 30). The fair value at the date of acquisition was determined by the external valuer using business valuation technique which involve estimation of profits attributable to the customer relationships and discount rate to derive the present value. Customer relationship is amortised on a straight-line basis over its estimated useful life of 10 years.
- (iv) Trademarks acquired as part of a business combination (note 30) have a legal life of 10 years and are renewable upon expiry. The fair value at the date of acquisition was determined by the external valuer by discounting the future after-tax royalty attributable to the trademarks to present value using a discount rate. The directors of the Company are of the opinion that the Group will renew the trademarks continuously and has the ability to do so at minimal cost. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which supports that the trademarks have no foreseeable limit to the period over which the trademarked products are expected to generate net cash inflow for the Group.

As a result, the trademarks are considered by management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademarks will not be amortised until their useful lives are determined to be finite. Instead, it will be tested for impairment annually and whenever there is an indication that it may be impaired.

For the purpose of impairment testing, trademarks with indefinite useful life set out above have been allocated to the individual CGU, Silver Exchange segment as detailed in note 16.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 18. DEFERRED TAXATION

The followings are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Deferred income RMB'000	Fair value adjustments on business combination RMB'000	Total RMB'000
At 1 January 2015	2,307	–	2,307
Charged to profit or loss	(179)	–	(179)
At 31 December 2015	2,128	–	2,128
Credited to profit or loss	1,001	1,796	2,797
Acquisition of subsidiaries (note 30)	–	(28,261)	(28,261)
At 31 December 2016	3,129	(26,465)	(23,336)

At the end of the reporting period, the Group has unused tax loss of RMB5,012,000 (2015: RMB17,380,000) available for offset against future profits that will expire in 2017 to 2022. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit.

Under the EIT Law, withholding tax is imposed on dividends payable to non-PRC shareholders which is declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries amounting to approximately RMB1,036.9 million as at 31 December 2016 (2015: RMB693.2 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

### 19. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE

	2016 RMB'000	2015 RMB'000
Interests in associates		
Cost of unlisted investments in associates	3,634	64,237
Share of post-acquisition results	(871)	(639)
	2,763	63,598
Amount due from an associate (note)	–	39,610

note: The amount was unsecured, interest-free and fully repaid during the year ended 31 December 2016.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 19. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE (Continued)

Details of the Group's associates at the end of the reporting period are as follows:

Name of associate	Place of incorporation/ operation	Registered capital	Proportion of nominal value of issued share capital held by the Group		Principal activities
			2016	2015	
<i>Directly held</i>					
浙江聯合文化藝術品 ("Zhejiang United Culture")	The PRC	RMB12,000,000	30%	30%	Provision of platform for trading of cultural related products
上海華通白銀國際交易中心 ("Huatong International") (note i)	The PRC	RMB50,000,000	N/A	40%	Provision of trading platform and related supportive service for trading of precious metals
<i>Indirectly held</i>					
深圳市大溪地科技有限公司 ("Shenzhen Daxidi") (note ii and note 39(ii))	The PRC	RMB6,000,000	N/A	30%	Inactive
Shanghai Huatong (note iii)	The PRC	RMB50,000,000	N/A	25%	Provision of professional electronic platform, related services for silver trading and trading of silver ingots

notes:

- (i) At 31 December 2015, the Group also indirectly held 13.5% effective equity interest in Huatong International through its associate, Shanghai Huatong.

During the year ended 31 December 2016, the Group completed the acquisition of remaining 75% equity interest in Shanghai Huatong, following which Huatong International became a wholly-owned subsidiary of the Group. Since then, the Group held a total of 94% equity interest in Huatong International.

In October 2016, the Group disposed of 76% equity interest in Huatong International with a total consideration of RMB38,000,000 and classified it as an available-for-sale investment thereafter. Details of the disposal are set out in note 31 to the consolidated financial statements.

- (ii) During the year ended 31 December 2016, 深圳銀瑞吉文化發展有限公司("Shenzhen Yinruiji"), a subsidiary of the Company, disposed of its 30% equity interest in Shenzhen Daxidi to an independent third party at a consideration of RMB197,000.
- (iii) This associate was acquired from two independent third parties at total consideration of RMB40 million in July 2015. During the year ended 31 December 2016, the Group acquired the remaining 75% equity interest in this associate. Details are set out in note 30 to the consolidated financial statements.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 19. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE (Continued)

The summarised financial information below represents amount shown in the associates' financial statement prepared in accordance with IFRSs.

All of the above associates are accounted for using equity method in these consolidated financial statements.

	<b>31.12.2016</b>	31.12.2015				
	<b>Zhejiang United Culture RMB'000</b>	Shenzhen Daxidi RMB'000	Shanghai Huatong RMB'000	Zhejiang United Culture RMB'000	Huatong International RMB'000	Total RMB'000
Current assets	<b>9,043</b>	587	87,993	11,219	49,860	149,659
Non-current assets	<b>309</b>	69	33,934	292	–	34,295
Current liabilities	<b>(140)</b>	–	(71,376)	(1,331)	–	(72,707)
The above amounts of assets and liabilities including the following:						
Cash and bank balances	<b>6,786</b>	587	2,672	10,655	12	13,926
Current financial liabilities (excluding trade and other payables and provision)	<b>–</b>	–	477	841	–	1,318
	<b>For the year ended 31 December 2016</b>	For the year ended 31 December 2015				
Revenue	<b>243</b>	–	158,506	9,027	–	167,533
(Loss) profit and total comprehensive (expense) income for the year	<b>(969)</b>	(11)	1,614	(1,934)	(149)	(480)
The above (loss) profit for the year include the following:						
Depreciation and amortisation	<b>69</b>	15	506	34	–	555
Interest income	<b>46</b>	1	4	–	1	6
Interest expense	<b>7</b>	–	–	–	–	–
Income tax expense	<b>–</b>	–	389	–	–	389

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 19. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interests in associates recognised in the consolidated financial statements:

	31.12.2016	31.12.2015				
	Zhejiang United Culture RMB'000	Shenzhen Daxidi RMB'000	Shanghai Huatong RMB'000	Zhejiang United Culture RMB'000	Huatong International RMB'000	Total RMB'000
Net assets of the associates	<b>9,212</b>	656	50,551	10,180	49,860	111,247
Proportion of the Group's ownership interests in the associates	<b>30%</b>	30%	25%	30%	40%	N/A
Goodwill	<b>-</b>	-	27,765	-	-	27,765
Carrying amount of the Group's interests in the associates	<b>2,763</b>	197	40,403	3,054	19,944	63,598

### 20. AVAILABLE-FOR-SALE INVESTMENT

	2016 RMB'000	2015 RMB'000
Unlisted investment: – equity securities	<b>8,963</b>	-

The above unlisted equity investment represents investment in Huatong International, a former associate of the Group. Details of Huatong International are set out in note 19(i). The investment is measured at cost less impairment at the end of the reporting period because the directors of the Company are of the opinion that the fair value cannot be measured reliably.

### 21. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	<b>908,591</b>	129,680
Work in progress	<b>45,197</b>	41,785
Finished goods	<b>350,366</b>	64,982
	<b>1,304,154</b>	236,447

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 22. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2016 RMB'000	2015 RMB'000
Trade receivables	63,257	128,736
Deposits and prepayments	114,757	39,612
	<b>178,014</b>	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 approximates the respective revenue recognition dates is as follows:

	2016 RMB'000	2015 RMB'000
0 – 30 days	59,502	126,873
31 – 60 days	3,238	1,526
61 – 90 days	517	337
	<b>63,257</b>	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 RMB'000	2015 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 23. TRADE DEPOSITS

The amount represents trade deposits paid to suppliers.

### 24. SHORT TERM BANK DEPOSIT/BANK BALANCES AND CASH

The short-term bank deposit represented a deposit with maturity of more than three months.

Bank balances and cash of the Group comprise cash and short-term bank deposits with maturity of three months or less.

The bank balances carry interest at prevailing market rates as follows:

	2016	2015
Range of interest rates per annum		
Short-term bank deposit	-	2%
Bank balances	<b>0.001% – 0.350%</b>	0.001% – 0.380%

The above bank balances and cash that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2016 RMB'000	2015 RMB'000
United States dollar	<b>7,708</b>	2,811
Hong Kong dollar	<b>6,322</b>	12,141
	<b>14,030</b>	14,952

## Notes to the Consolidated Financial Statements

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### 25. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	<b>10,682</b>	61,402
Other payables and accrued expenses	<b>87,070</b>	29,348
Deposits received from customer for using the silver exchange platform	<b>20,676</b>	–
Amount due to Huatong International (note)	<b>28,046</b>	–
Value-added tax and other taxes payables	<b>56,258</b>	24,723
	<b>202,732</b>	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 RMB'000	2015 RMB'000
0 – 30 days	<b>8,976</b>	45,839
61 – 90 days	–	13,536
181 – 365 days	<b>1,706</b>	2,027
	<b>10,682</b>	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.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 26. CUSTOMER RECEIPTS IN ADVANCE

The amounts represent deposits received in advance of delivery of goods to customers.

### 27. BANK BORROWINGS

	2016 RMB'000	2015 RMB'000
Secured bank borrowings carrying interest at fixed rates, repayable within one year and without a repayment on demand clause	110,000	110,000
Secured bank borrowing carrying interest at variable rate, repayable within one year and without a repayment on demand clause	-	20,000
	<b>110,000</b>	130,000

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

	2016	2015
Effective interest rates per annum	4.79%	3.71% – 5.1%

Details of the Group's assets pledged to secure the above bank borrowings are set out in note 35.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 28. SHARE CAPITAL

The share capital as at 31 December 2016 represents the issued share capital of the Company, details of which are set out below:

	Number of shares	Share capital	
		HK\$'000	RMB'000
Ordinary share of HK\$0.01 each:			
<b>Authorised</b>			
At 1 January 2015, 31 December 2015 and 31 December 2016	3,000,000,000	30,000	24,386
<b>Issued</b>			
At 1 January 2015	906,186,000	9,062	7,362
Placing of new shares (note i)	397,956,000	3,980	3,134
Exercise of share option (note ii)	3,850,000	39	30
Scrip dividend (note iii)	12,854,589	128	101
At 31 December 2015	1,320,846,589	13,209	10,627
Placing of new shares (note i)	80,000,000	800	678
Issue of new shares on acquisition of subsidiaries (note iv)	62,500,000	625	516
At 31 December 2016	1,463,346,589	14,634	11,821

notes:

- (i) During the year ended 31 December 2016, the Company allocated and issued 50,000,000 and 30,000,000 placing shares of par value HK\$0.01 each on 22 January 2016 and 14 September 2016 at the placing price of HK\$1.70 and HK\$1.80 per share, respectively (2015: 180,000,000, 200,000,000 and 17,956,000 placing shares of par value of HK\$0.01 each on 2 January 2015, 22 May 2015 and 1 June 2015 at the placing price of HK\$1.51, HK\$2.64 and HK\$4.25 per share), respectively. The net proceeds from the placings are to be applied for the development of the Company's downstream silver exchange business, other potential investments and general working capital.
- (ii) During the year ended 31 December 2015, share options were exercised to subscribe for 3,600,000 and 250,000 shares of the Company on 17 March 2015 and 16 December 2015, respectively. The share option exercise price was HK\$0.96 per share.
- (iii) During the year ended 31 December 2015, pursuant to the scrip dividend scheme which was announced by the Company on 29 May 2015, the Company issued 12,854,589 new ordinary shares of HK\$0.01 each in the Company to the shareholders, representing dividends in the aggregate amount of approximately HK\$33,516,000, who elected to receive scrip dividend in respect of the final dividend for the year ended 31 December 2014.
- (iv) During the year ended 31 December 2016, 62,500,000 new ordinary shares of par value HK\$0.01 each of the Company was issued on 28 January 2016 as part of the consideration in acquiring 75% equity interest in Shanghai Huatong. Details of the acquisition are set out in note 30. The fair value of the shares issued determined using the published price available at the date of completion of acquisition is approximately RMB86,179,000, of which approximately RMB516,000 was credited to share capital and the remaining balance of approximately RMB85,663,000 was credited to the share premium account.

## Notes to the Consolidated Financial Statements

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### 29. DEFERRED INCOME

	2016 RMB'000	2015 RMB'000
Government subsidies (note i)	7,798	8,512
Membership income (note ii)	4,717	–
	<b>12,515</b>	8,512
Analysed for reporting purposes as:		
Current	4,717	–
Non-current	7,798	8,512
	<b>12,515</b>	8,512

notes:

- (i) The amount represents government subsidy of RMB10,000,000 received in respect of the Group's investment in a project for comprehensive use of scarce metal resources in the form of certain property, plant and equipment. The government subsidy has been recognised as income over the useful lives of the related assets upon the fulfilment of the conditions stated by respective authority in 2013. During the year ended 31 December 2016, an amount of RMB714,000 (2015: RMB714,000) was transferred to as other income.
- (ii) The deferred income arises in respect of the membership income from the electronic silver exchange platform.

### 30. ACQUISITION OF SUBSIDIARIES

Acquisition of subsidiaries through purchase of additional interests in associates during the year.

During the year ended 31 December 2016, the Group completed the acquisition of remaining 75% equity interest in its associate, Shanghai Huatong. The Group obtained control over Shanghai Huatong through the 2016 Contractual Agreements (as detailed in note 39(ii)). Shanghai Huatong and its subsidiaries (collectively referred to as "Shanghai Huatong Group") are principally engaged in providing professional electronic platform, related services for silver trading and trading of silver ingots. The acquisition can strengthen its leading position in the national silver market and fulfil its long-term strategy to become a leading vertically-integrated silver enterprise.

The consideration for the acquisition is RMB470,676,000 which includes: 1) the initial consideration of RMB311,179,000 which was settled in cash of RMB225,000,000 and an aggregate of RMB86,179,000 by the issue of 62,500,000 new shares of the Company; and 2) the contingent consideration of RMB159,497,000 which will be settled by the allotment and issue of a variable number up to of 137,500,000 new shares of the Company to the vendors subject to Shanghai Huatong's financial performance for the year ended 31 December 2016.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 30. ACQUISITION OF SUBSIDIARIES (Continued)

	NOTES	RMB'000
<b>Consideration transferred</b>		
Cash		225,000
Issue of new shares of the Company, at fair value	28(iv)	86,179
Contingent consideration – consideration shares	(i)	159,497
Fair value of previously held interests in an associate	(ii)	92,000
		562,676
<b>Assets acquired and liabilities recognised at the date of acquisition (note)</b>		
Property, plant and equipment		2,808
Intangible assets		115,781
Inventories		12,640
Trade receivables, deposits and prepayments		88,958
Bank balances and cash		12,258
Trade and other payables		(45,790)
Customer receipts in advance		(47)
Deferred tax liability		(28,261)
		158,347
<b>Goodwill on acquisition</b>		
	(iii)	
Consideration transferred		562,676
Plus: non-controlling interests	(iv)	2,992
Less: net assets acquired		(158,347)
		407,321
<b>Net cash outflow arising on acquisition</b>		
Cash consideration paid		225,000
Less: bank balances and cash acquired		(12,258)
		212,742

note: The fair values of the assets acquired and liabilities recognised at the date of acquisition were determined by reference to valuations conducted by an independent external valuer using business valuation techniques.

### 30. ACQUISITION OF SUBSIDIARIES (Continued)

#### Impact of acquisition on the results of the Group

Included in the profit for the year is RMB80,028,000 attributable to Shanghai Huatong Group since it became subsidiaries of the Group. Revenue for the year includes RMB165,806,000 generated from Shanghai Huatong Group since it became subsidiaries of the Group.

Had the acquisition of Shanghai Huatong been effected at the beginning of the year, the total amount of revenue of the Group for the year ended 31 December 2016 would have been RMB4,115,044,000 and the amount of the profit for the year would have been RMB308,319,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the year, nor is it intended to be a projection of future results.

notes:

- (i) The fair value of the contingent consideration (consideration shares) is estimated with reference to the trading price of the Company's shares, the latest financial information of Shanghai Huatong Group, Shanghai Huatong Group's financial performance forecast and other relevant indicators. The directors of the Company consider it is probable that 137,500,000 new shares of the Company would be required to be allotted and therefore, contingent consideration at a fair value of approximately RMB159,497,000 (being 137,500,000 shares valued at RMB1.16 each) was recognised at the date of acquisition.
- (ii) As at the acquisition date, the fair value of Shanghai Huatong Group held by the Group was re-measured to RMB92,000,000 which was determined by the external valuer using business valuation techniques which involved estimation of cash inflows/outflows, growth rates in future cash flow and discount rate. Compared with its carrying amount of RMB60,695,000, the gain on deemed disposal of associates of RMB31,305,000 was recognised in the consolidated statement of profit or loss and other comprehensive income.
- (iii) The goodwill arising on the acquisition of Shanghai Huatong Group is measured as the excess of the sum of the consideration transferred and the amount of non-controlling interests in Shanghai Huatong Group, over the identifiable assets acquired and the liabilities assumed at the date of acquisition.  
  
None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.
- (iv) The non-controlling interests of 6% in Huatong International, a non-wholly owned subsidiary of Shanghai Huatong, recognised at the acquisition date was measured at their proportionate share of net assets of Huatong International.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 31. DISPOSALS OF SUBSIDIARIES

In October 2016, the Group disposed of 76% equity interest in Huatong International to an independent third party at a consideration of RMB38,000,000, following which the Group holds 18% equity interest in Huatong International and it became an available-for-sale investment of the Group.

In addition, in December 2016, the Group disposed of its entire equity interest in China Silver Securities Limited ("CSSL") to an independent third party at a consideration of RMB\$16,016,000.

	<b>Huatong International</b>	<b>CSSL</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000
<b>Analysis of assets and liabilities over which control was lost:</b>			
Property, plant and equipment	–	1,310	1,310
Intangible assets	–	447	447
Trade and other receivables	44,199	1,674	45,873
Bank balances and cash	5,594	7,198	12,792
Trade and other payables	–	(5,824)	(5,824)
<b>Net assets disposed of</b>	<b>49,793</b>	<b>4,805</b>	<b>54,598</b>
<b>Gain on disposals of subsidiaries:</b>			
Consideration received	18,000	16,106	34,106
Consideration receivables	20,000	–	20,000
Fair value of retained interests			
classified as available-for-sale investment	8,963	–	8,963
Release of exchange reserve	–	908	908
Net assets disposed of	(49,793)	(4,805)	(54,598)
Non-controlling interests	2,992	–	2,992
<b>Gain on disposals</b>	<b>162</b>	<b>12,209</b>	<b>12,371</b>
<b>Net cash inflow arising on disposals:</b>			
Cash consideration	18,000	16,106	34,106
Less: bank balances and cash disposed of	(5,594)	(7,198)	(12,792)
	<b>12,406</b>	<b>8,908</b>	<b>21,314</b>

## **32. SHARE OPTION SCHEME**

### **(I) The Scheme**

- (a) The principal terms of the Company's share option scheme adopted on 5 December 2012 (the "Scheme") are set out below.

The Scheme was adopted pursuant to a resolution passed on 5 December 2012 for the primary purpose of providing incentives to eligible directors and employees, and will expire on 2 July 2023. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

The exercise price is determined by the directors of the Company and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 as consideration.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 32. SHARE OPTION SCHEME (Continued)

#### (I) The Scheme (Continued)

- (b) At 31 December 2016, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 84,150,000 (2015: 84,150,000), representing 5.75% (2015: 6.37%) of the shares of the Company in issue at that date.

The following table discloses movements of Company's options under the Scheme held by the Group's directors, employees and consultants during the current and prior years:

Date of grant	Exercise price per share HK\$	Outstanding at 1.1.2015	Granted during the year	Exercised during the year	Outstanding
					at 31.12.2015 and 31.12.2016
3 July 2013	0.96	12,000,000	–	(3,850,000)	8,150,000
20 August 2014	2.20	27,000,000	–	–	27,000,000
2 January 2015	1.80	–	49,000,000	–	49,000,000
		39,000,000	49,000,000	(3,850,000)	84,150,000
Exercisable at 31 December 2015					11,450,000
Exercisable at 31 December 2016					39,050,000
Weighted average share price				HK\$2.59	



## **32. SHARE OPTION SCHEME (Continued)**

### **(I) The Scheme (Continued)**

(b) (Continued)

The 8,150,000 outstanding share options granted on 3 July 2013 with the exercise price of HK\$0.96 per share are exercisable during the period from 3 July 2014 to 2 July 2023 in two batches, being:

- 3 July 2015 to 2 July 2023 (3,350,000 outstanding share options granted are exercisable)
- 3 July 2016 to 2 July 2023 (all share options granted are exercisable)

The 27,000,000 outstanding share options granted on 20 August 2014 with exercise price at HK\$2.20 per share are exercisable during the period from 20 August 2015 to 19 August 2024 in three batches, being:

- 20 August 2015 to 19 August 2024 (8,100,000 outstanding share options granted are exercisable)
- 20 August 2016 to 19 August 2024 (16,200,000 outstanding share options granted are exercisable)
- 20 August 2017 to 19 August 2024 (all share options granted are exercisable)

The 49,000,000 outstanding share options granted on 2 January 2015 with the exercise price of HK\$1.80 per share are exercisable during the period from 2 January 2016 to 1 January 2025 in three batches, being:

- 2 January 2016 to 1 January 2025 (14,700,000 outstanding share options granted are exercisable)
- 2 January 2017 to 1 January 2025 (29,400,000 outstanding share options granted are exercisable)
- 2 January 2018 to 1 January 2025 (all share options granted are exercisable)

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 32. SHARE OPTION SCHEME (Continued)

#### (I) The Scheme (Continued)

##### (b) (Continued)

The closing prices of the Company's shares immediately before 3 July 2013, 20 August 2014 and 2 January 2015, the dates of grant, were HK\$0.95, HK\$2.2 and HK\$1.80 respectively.

The following table discloses movements of the Company's share options held by directors, employees and a consultant under the Scheme during the current and prior years:

	Outstanding at 1.1.2015	Granted during the year	Exercised during the year	Outstanding at 31.12.2015 and 31.12.2016
Eligible participants				
Directors	7,700,000	–	(1,500,000)	6,200,000
Employees	31,300,000	44,000,000	(2,350,000)	72,950,000
Consultant	–	5,000,000	–	5,000,000
	39,000,000	49,000,000	(3,850,000)	84,150,000
Exercisable at 31 December 2015				11,450,000
Exercisable at 31 December 2016				39,050,000

- (c) The estimated fair values of the options granted on 2 January 2015 amounted to RMB27,786,000. The fair value was calculated using the Binomial model. The inputs into the model were as follows:

	2015
Weighted average share price	HK\$1.77
Exercise price	HK\$1.80
Expected volatility	60.94%
Expected life	10 years
Risk-free rate	1.90%
Expected dividend yield	5.26%

Expected volatility was determined by using the historical volatility of Company's comparables over the previous 10 years. The expected life used in the model has been developed based on management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations.

## **32. SHARE OPTION SCHEME (Continued)**

### **(I) The Scheme (Continued)**

- (d) The Group recognised the total expense of RMB14,259,000 for the year ended 31 December 2016 (2015: RMB26,941,000) in relation to share options granted by the Company under the Scheme.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

### **(II) The New Scheme**

- (a) The principal terms of the Company's new share option scheme adopted on 21 April 2015 (the "New Scheme") are set out below.

The New Scheme was adopted pursuant to a resolution passed on 21 April 2015 for the primary purpose of providing incentives to eligible directors and employees, and will expire on 26 August 2025. Under the New Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the New Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

The exercise price is determined by the directors of the Company and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 as consideration.

## 32. SHARE OPTION SCHEME (Continued)

### (II) The New Scheme (Continued)

- (b) At 31 December 2015 and 2016, the number of shares in respect of which options had been granted and remained outstanding under the New Scheme was 108,000,000, representing 8.18% of the shares of the Company in issue at that date.

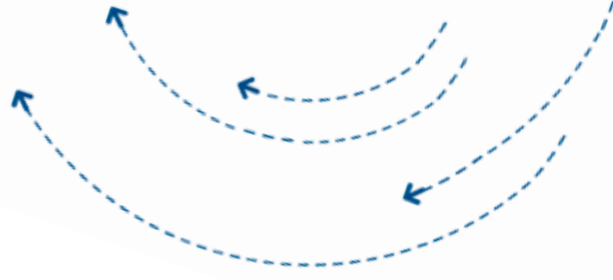
The following table discloses movements of Company's options under the New Scheme held by the Group's employees during the current and prior years:

Date of grant	Exercise price per share HK\$	Outstanding at 1.1.2015	Granted during the year	Outstanding at 31.12.2015 and 31.12.2016
27 August 2015	1.97	–	108,000,000	<b>108,000,000</b>
Exercisable at 31 December 2015				–
Exercisable at 31 December 2016				<b>54,000,000</b>

The 108,000,000 outstanding share options granted on 27 August 2015 with the exercise price of HK\$1.97 per share are exercisable during the period from 27 August 2016 to 26 August 2025 in two batches, being:

- 27 August 2016 to 26 August 2025 (54,000,000 outstanding share options granted are exercisable)
- 27 August 2017 to 26 August 2025 (all share options granted are exercisable)

The closing prices of the Company's shares immediately before 27 August 2015 was HK\$1.87.



## 32. SHARE OPTION SCHEME (Continued)

### (II) The New Scheme (Continued)

- (c) The estimated fair values of the options granted on 27 August 2015 amounted to RMB56,563,000. These fair values were calculated using the Binomial model. The inputs into the model were as follows:

	2015
Weighted average share price	HK\$1.86
Exercise price	HK\$1.97
Expected volatility	55.48%
Expected life	10 years
Risk-free rate	1.75%
Expected dividend yield	5.29%

Expected volatility was determined by using the historical volatility of the Company's comparables over the previous 10 years. The expected life used in the model has been developed based on management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations.

- (d) The Group recognised the total expense of RMB33,677,000 for the year ended 31 December 2016 (2015: RMB14,203,000) in relation to share options granted by the Company under the New Scheme.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

## 33. RETIREMENT BENEFIT PLAN

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the local government in the PRC. The Group is required to contribute a specified percentage of the payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to this scheme is to make the specified contributions.

The total expense recognised in profit or loss amounting to RMB12,149,000 (2015: RMB10,073,000) represents contributions paid or payable to the above schemes by the Group during the year.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 34. RELATED AND CONNECTED PARTY DISCLOSURES

#### (i) Related party transaction

The Group entered into the following transaction with a related party:

Name of company	Relationship	Nature of transaction	2016 RMB'000	2015 RMB'000
Shanghai Huatong (note)	Associate	Sale of silver ingots	-	121,442

note: The Group acquired 25% equity interest in Shanghai Huatong in July 2015. The amount represented the sale of silver ingots to Shanghai Huatong subsequent to the acquisition. The Group further acquired the remaining 75% equity interest during the current year and Shanghai Huatong became a subsidiary of the Group. Details of the acquisition are set out in note 30.

#### (ii) Related party balance

Details of the amount due from an associate are set out in note 19.

#### (iii) Compensation of key management personnel

The emoluments of directors and members of key management of the Group are as follows:

	2016 RMB'000	2015 RMB'000
Short-term benefits	9,714	19,889
Post-employment benefits	74	151
Share-based payments	7,872	7,309
	17,660	27,349

The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 35. PLEDGE OF ASSETS

At the end of the reporting period, assets with the following carrying amounts were pledged to secure the general banking facilities granted to the Group.

	2016 RMB'000	2015 RMB'000
Buildings	60,292	63,860
Prepaid lease payments – land use rights	7,904	10,918
Inventories	220,496	118,895
	<b>288,692</b>	193,673

### 36. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the companies comprising the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank borrowings as disclosed in note 27, net of cash and cash equivalents and equity, comprising share capital and various reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital, and will take appropriate actions to balance its overall capital structure.

### 37. FINANCIAL INSTRUMENTS

#### (a) Categories of financial instruments

	2016 RMB'000	2015 RMB'000
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	590,806	1,150,335
Available-for-sale investment	8,963	–
<b>Financial liabilities</b>		
Amortised cost	249,308	193,658
FVTPL	176,517	–

## 37. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies

The Group's financial instruments include available-for-sale investment, trade receivables, bank balances and cash, trade and other payables, contingent consideration and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### Market risk

##### Currency risk

The carrying amounts of the Group's foreign currency denominated monetary assets (i.e. bank balances and cash) and monetary liabilities (i.e. other payables) at the end of the reporting period are as follows:

	Assets		Liabilities	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Hong Kong dollar	6,322	12,141	3,207	–
United States dollar	7,708	2,811	–	–

The Group currently does not have a foreign currency hedging policy. However, management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

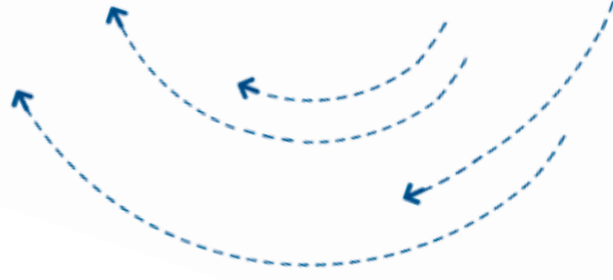
##### Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2015: 5%) increase and decrease in the relevant foreign currencies against RMB. 5% (2015: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate.

The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2015: 5%) change in foreign currency rates. A positive/negative number below indicates an increase/a decrease in post-tax profit (2015: a decrease/an increase in post-tax loss) where the relevant foreign currency strengthens 5% (2015: 5%) against RMB. For a 5% (2015: 5%) weakening of the relevant foreign currency against RMB, there would be an equal and opposite impact on the post-tax profit.

	Hong Kong dollar		United States dollar	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Post-tax profit	117	455	289	105





## 37. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

#### Market risk (Continued)

##### Interest rate risk

At 31 December 2015, the Group is exposed to fair value interest rate risk in relation to its fixed-rate bank borrowings (see note 27 for details).

At 31 December 2016 and 2015, the Group is also exposed to cash flow interest rate risk in relation to its variable-rate bank balances (see note 24 for details).

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

##### Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank balances at the end of the reporting period. The analysis is prepared assuming the bank balances outstanding at the end of the reporting period were outstanding for the whole year. A 25 basis points (2015: 25 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points (2015: 25 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2016 would increase/decrease (2015: post-tax loss decrease/increase) by RMB965,000 (2015: RMB916,000).

##### Credit risk

At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group has concentration of credit risk in relation to its trade receivables as follows:

	2016	2015
Amount due from the largest debtor as a percentage to total trade receivables	31%	69%
Total amount due from the five largest debtors as a percentage to total trade receivables	64%	90%



## 37. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

#### Credit risk (Continued)

The Group has implemented the following procedures to minimise its credit risk:

- (i) A delegated team is responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.
- (ii) Because of the nature of the Group's products, the Group generally requires a substantial amount of customer deposit in advance of delivery of goods.
- (iii) Management regularly visits the Group's key customers to understand their latest financial position and to ensure that there is no dispute on the amounts due.
- (iv) Management reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

In this regard, the directors of the Company consider that the Group's credit risk on trade receivables is significantly reduced. In addition, the Group keeps exploring new customers to diversify and strengthen its customer base and thus, reduce the concentration of credit risk.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

#### Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following tables detail the Group's remaining contractual maturity for its financial liabilities except for contingent consideration which will be settled by the allotment and issue of new shares of the Company. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The tables include both interest and principal cash flows.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 37. FINANCIAL INSTRUMENTS (Continued)

#### (b) Financial risk management objectives and policies (Continued)

##### Liquidity risk (Continued)

##### Liquidity and interest risk tables

	Weighted average effective interest rate %	On demand or less than 1 month RMB'000	1 – 3 months RMB'000	3 months to 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
<b>As at 31 December 2016</b>						
Trade and other payables	-	146,472	-	-	146,472	146,472
Bank borrowings – fixed rate	4.79	-	-	115,068	115,068	110,000
		146,472	-	115,068	261,540	256,472
<b>As at 31 December 2015</b>						
Trade and other payables	-	63,658	-	-	63,658	63,658
Bank borrowings – fixed rate	4.83	-	-	135,529	135,529	130,000
		63,658	-	135,529	199,187	193,658

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 37. FINANCIAL INSTRUMENTS (Continued)

#### (c) Fair value measurements of financial instruments

##### Fair value of the Group's financial liability that are measured at fair value on a recurring basis

The Group's contingent consideration is measured at fair value at the end of the each reporting period. The following table gives information about how the fair value of this financial liability is determined (in particular, the valuation technique and inputs used).

Financial liability	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	31/12/2016	31/12/2015			
Contingent consideration in a business combination	<b>Liabilities – HK\$</b> <b>176,517,000</b>		– Level 3	Reference to the profit forecast of Shanghai Huatong Group for the year ended 31 December 2016 and the discount for lack of marketability (“DLOM”) of the shares of the Company until these shares are issued to the tender for realisation.	DLOM of 16.11%. (note)

note: An increase in the DLOM used in isolation may result in a significant decrease in the fair value measurement of the contingent consideration, and vice versa. A 10% increase/decrease in the DLOM holding all other variables constant would decrease/increase the carrying amount of the contingent consideration by RMB4,101,000 and RMB5,327,000 respectively.

##### Reconciliation of Level 3 fair value measurement

	Contingent consideration RMB'000
Recognised at the date of business combination (note 30(i))	159,497
Fair value change	17,020
At the end of the year	176,517

### 37. FINANCIAL INSTRUMENTS (Continued)

#### (c) Fair value measurements of financial instruments (Continued)

##### Fair value of the Group's financial liability that are not measured at fair value on a recurring basis

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

### 38. OPERATING LEASES

Minimum lease payments paid to third parties under operating lease during the year in respect of the Group's rented office premises amounted to RMB15,703,000 (2015: RMB7,036,000).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	11,742	11,331
In the second to fifth years inclusive	4,076	4,946
	<b>15,818</b>	16,277

Operating leases payments represent rentals paid or payable by the Group for certain of its offices shops, showrooms and warehouses. Leases are negotiated for terms of one to three years and rentals are fixed during the lease period.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The Company has equity interests in the following subsidiaries:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by		Principal activities	Form of company
			the Company 2016	2015		
<i>Directly owned</i>						
CS Jewellery International Limited 金貓銀貓珠寶國際有限公司	Hong Kong	Ordinary shares HK\$10,000	100%	100%	Inactive	Limited liability
CSMall Group Limited ("CSMall") 金貓銀貓集團有限公司	The BVI	Ordinary Shares US\$83,233	64.57% (note iv)		– Investment holding	Limited liability
China Silver Financial Group Limited 中國白銀金融集團有限公司	Hong Kong	Ordinary shares HK\$10,000	100%	100%	Investment	Limited liability
China Silver Holdings Limited 中國白銀控股有限公司	The BVI	Ordinary shares US\$100,000	100%	100%	Investment holding	Limited liability
China Silver Mining Group Limited 中國白銀礦業集團有限公司	The BVI	Ordinary Shares US\$50,000	100%		– Inactive	Limited liability
Ultimate Deal Group Limited	The BVI	Ordinary Shares	100%		– Investment holding	Limited liability
<i>Indirectly owned</i>						
CSMall Holdings Limited* 金貓銀貓控股有限公司	The BVI	Ordinary shares US\$50,000	64.57% (note iv)	100%	Inactive	Limited liability

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by		Principal activities	Form of company
			the Company 2016	2015		
China Silver Jewellery Group Limited <sup>^</sup> 中國白銀珠寶集團有限公司	Hong Kong	Ordinary shares HK\$10,000	<b>64.57%</b> <b>(note iv)</b>	100%	Investment holding	Limited liability
China Silver Co., Limited 中國白銀有限公司	Hong Kong	Ordinary shares HK\$10,000	<b>100%</b>	100%	Investment holding	Limited liability
Jiangxi Jiying Company Limited <sup>^*</sup> 江西吉銀實業有限公司	The PRC	Registered capital US\$99,800,000	<b>64.57%</b> <b>(note iv)</b>	100%	Inactive	Wholly foreign owned
Jiangxi Longtianyong <sup>*</sup> 江西龍天勇有色金屬有限公司	The PRC	Registered capital RMB110,000,000	<b>100%</b>	100%	Manufacture of silver and non-ferrous metals for sale	Wholly foreign owned
Shanghai Huatong <sup>*</sup> 上海華通鎊銀交易市場有限公司	The PRC	Registered capital RMB50,000,000	<b>note ii</b>	–	Provision of professional electronic platform, related services for silver trading and trading of silver ingots	Limited liability
Shenzhen Guojintongbao Limited <sup>^*</sup> 深圳國金通寶有限公司	The PRC	Registered capital RMB50,000,000#	<b>64.57%</b> <b>(note iv)</b>	100%	Inactive	Wholly foreign owned
Shenzhen Guoyintongbao Limited <sup>^*</sup> 深圳國銀通寶有限公司	The PRC	Registered capital RMB500,000,000	<b>64.57%</b> <b>(note iv)</b>	100%	Retail and wholesale of silver jewellery and collectibles	Wholly foreign owned
Shenzhen Yinruiji <sup>*</sup> 深圳銀瑞吉文化發展有限公司	The PRC	Registered capital RMB1,000,000	<b>note ii</b>	note ii	Provision of internet services	Limited liability
Systematic Development Limited	Hong Kong	Ordinary Shares HK\$10,000	<b>100%</b>	–	Investment holding	Limited liability

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by		Principal activities	Form of company
			the Company 2016	2015		
<i>Indirectly owned – continued</i>						
Wenzhou Yintong Economic Information Consultation Company Limited* 溫州銀通經濟信息諮詢有限公司	The PRC	Registered capital RMB1,000,000	100%		– Inactive	Limited liability
Zhejiang Fuyin Silver Co., Ltd.* 浙江富銀白銀有限公司	The PRC	Registered capital US\$20,000,000	100%	100%	Investment holding and trading of silver ingots	Wholly foreign owned
江西金貓銀貓支付有限公司	The PRC	Registered capital RMB108,000,000	55%	55%	Inactive	Limited liability
深圳雲鵬軟件開發有限公司#^	The PRC	Registered capital RMB5,000,000	64.57% (note iv)		– Inactive	Limited liability
景宁畚銀文化有限公司#^	The PRC	Registered capital RMB10,000,000	64.57% (note iv)		– Inactive	Limited liability
白銀小鎮(上海)文化產業有限公司#^	The PRC	Registered capital RMB100,000,000	64.57% (note iv)		– Inactive	Limited liability
上海華通銀寶鉑銀製品有限公司	The PRC	Registered capital RMB1,000,000	100%		– Inactive	Limited liability
江西華通鉑銀資訊諮詢有限公司#	The PRC	Registered capital RMB10,000,000	100%		– Provision of professional electronic platform	Limited liability

\* English translated names are for identification only.

# At 31 December 2016, capital injection to the entity was not yet started.

^ Subsidiary of CSMall.

notes:

(i) None of the subsidiaries had issued any debt securities outstanding at the end of the year or at any time during the year.



### 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

#### (ii) Consolidated structured entities

PRC laws and regulations restrict foreign investors from owning more than 50% equity interest in any enterprise engaged in value-added telecommunication business (the "Restricted Business").

During the year ended 31 December 2014, the Group decided to step into online retailing and wholesaling business and set up its own online sales platform which is categorised under the Restricted Business. Therefore, Shenzhen Yinruiji was established and under the legal ownership of two independent third parties. A series of agreements (the "2014 Contractual Arrangements") were entered into between the Group and the legal owners on 20 May 2014.

During the year ended 31 December 2016, the Group decided to engage in the provision of professional electronic platform which is categorised under the Restricted Business. Therefore, Shanghai Huatong was under the legal ownership of two independent third parties. Therefore, a series of agreements (the "2016 Contractual Arrangements") were entered into between the Group and the legal owners on 28 January 2016.

Shenzhen Yinruiji and Shanghai Huatong are collectively referred to as the "Structured Entities".

The 2014 and 2016 Contractual Arrangements both comprised of (a) option agreement, (b) proxy agreement, (c) consultancy and services agreement and (d) share pledge agreement. Key provisions of the Contractual Arrangements are as follows:

#### Option Agreement

The Group, the Structured Entities and the legal owners entered into an exclusive option agreement (the "Option Agreement") whereby the legal owners have irrevocably and unconditionally agree, to the extent permitted under the laws of the PRC, to transfer to the Group or any other entities or persons designated by the Group their equity interests in the Structured Entities. The Group may exercise, at its sole discretion, its rights at any time and in any manner permitted under the laws of the PRC. The exercise price of the rights payable to each of the legal owners is the lower of (a) the amount of registered capital contributed by the respective legal owner in accordance with their respective percentage of equity interest in the Structured Entities and (b) the lowest price permitted under the laws of the PRC. The entire consideration received by the legal owners in exercising the option would be transferred to the Group within 10 days. In respect of the 2016 Contractual Arrangements, the Option Agreement contains an undertaking from Shanghai Huatong's legal owners to return to the Company any consideration they received when the Company acquires the equity interest of Shanghai Huatong when unwinding the 2016 Contractual Agreement.

The Option Agreement will be terminated when all the rights and assets in the Structured Entities are transferred to the Group and/or other entities or persons designated by the Group in accordance with the terms of the Option Agreement and the laws of the PRC.

#### Proxy Agreement

The Group, the Structured Entities and the legal owners entered into a proxy agreement (the "Proxy Agreement") whereby the legal owners have irrevocably undertake that they will authorise persons designated by the Group to exercise on their behalf the rights as a shareholder of the Structured Entities under the articles of association of the Structured Entities, including but not limited to (a) the right to convene and attend shareholders' meeting; and (b) the right to vote as shareholders.

The Proxy Agreement will be valid until terminated in writing by all parties.

### 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

#### (ii) Consolidated structured entities (Continued)

##### Consultancy and Services Agreement

The Group and the Structured Entities entered into an exclusive consultancy and services agreement (“Consultancy and Services Agreement”) whereby the Structured Entities engage the Group on an exclusive basis to provide consultancy services in relation to technology approval (技術審批), technology support, technology consultation and other related corporate consultation services.

In consideration of the provision of the aforementioned services by the Group, the Structured Entities will pay the Group (a) a service fee equivalent to the entire profit after taxation of the Structured Entities, with calculation in accordance to IFRSs, after setting off any accumulated loss after taxation in the prior years; and (b) another service fee agreed separately between the Structured Entities and the Group for specific technology services provided by the Group on the request of the Structured Entities.

The Consultancy and Services Agreement will be valid until terminated in writing by both parties or in accordance with the requirements by the laws of the PRC.

##### Share Pledge Agreement

The Group, the Structured Entities and the legal owners entered into a share pledge agreement (the “Share Pledge Agreement”) whereby the legal owners have irrevocably and unconditionally agree that the Group shall be entitled to enforce the pledge in accordance with the terms of the Share Pledge Agreement.

The Share Pledge Agreement will remain in effect until the later to occur of the following: (a) all of the obligations of the legal owners and the Structured Entities under the Option Agreement, the Consultancy and Services Agreement and the Proxy Agreement are satisfied in full or (b) all the direct, indirect or incidental loss suffered by the Group as a result of the breach by the legal owners or the Structured Entities under the Option Agreement, the Proxy Agreement and/or the Consultancy and Services Agreement has been discharged in full.

The directors of the Company, after consulting their legal counsel, are of the view that the Contractual Arrangements are in compliance with existing PRC laws and regulations and are valid, binding and enforceable, and do not result in any violation of PRC laws or regulations currently in effect in all material aspects. The Contractual Arrangements have in substance enabled the Group to exercise full control over and enjoy all economic benefits of the Structured Entities despite the absence of formal legal equity interest held by the Group therein and the legal owners are, in substance, the nominees of the Group. Accordingly, the Structured Entities are accounted for as a consolidated structured entities of the Group.

Shenzhen Yinruiji and Shanghai Huatong are principally engaged in operation of online sales platform in the PRC.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

#### (ii) Consolidated structured entities (Continued)

In addition, Shenzhen Yinruiji entered into agreements with three other parties to set up Shenzhen Daxidi in the PRC. Shenzhen Yinruiji owns 30% interest in Shenzhen Daxidi and represents the largest shareholder amongst all the shareholders. The directors assessed whether or not the Group has significant influence over Shenzhen Daxidi based on the voting rights of respective shareholders and the Group's ability to influence the relevant activities of Shenzhen Daxidi which were determined at the level of its shareholders' meetings and concluded that the Group had significant influence over Shenzhen Daxidi. Accordingly, it was classified as an associate of the Group over the past few years. During the year ended 31 December 2016, Shenzhen Daxidi was disposed of to an independent third party at a consideration of RMB197,000 (note 19).

#### (iii) Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CSMall 金貓銀貓集團有限公司	The BVI	35.43%	N/A	2,735	–	49,885	–
Non-wholly owned subsidiary of CSMall – 江西金貓銀貓支付有限公司	The PRC	45.00%	45.00%	–	(2)	48,598	48,598
						98,483	48,598

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

#### (iii) Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

Summarised financial information in respect of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	CSMall and subsidiaries	
	31.12.2016 RMB'000	31.12.2015 RMB'000
Current assets	591,939	N/A
Non-current assets	11,607	N/A
Current liabilities	(414,148)	N/A
Equity attributable to owners of the Company	90,915	N/A
Non-controlling interests of CSMall Group	49,885	N/A
Non-controlling interests of CSMall Group's subsidiaries	48,598	–
Revenue	2,437,471	N/A
Profit for the year attributable to owners of the Company	2,735	N/A
Net cash outflow from operating activities	(147,282)	N/A
Net cash outflow from investing activities	(1,989)	N/A
Net cash inflow from financing activities	162,179	N/A
Net cash inflow	12,908	N/A

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

#### (iv) Change in the Group's ownership interests in a subsidiary

In June 2016, the Group disposed of 30% of its equity interest in CSmall Group Limited, reducing its equity interest to 70%. The proceeds on disposal of RMB85,710,000 was received in cash. An amount of RMB16,952,000 (being the proportionate share of the carrying amount of the net assets of CSmall Group Limited) has been transferred to non-controlling interests. The difference of RMB68,758,000 between the increase in the non-controlling interests and the consideration received has been credited to capital reserve.

In December 2016, the Group further disposed 5.43% of its interest in CSmall Group Limited, reducing its continuing interest to 64.57%. The proceeds on disposal of RMB76,469,000 was received in cash. An amount of RMB30,198,000 (being the proportionate share of the carrying amount of the net assets of CSmall Group Limited) has been transferred to non-controlling interests. The difference of RMB46,271,000 between the increase in the non-controlling interests and the consideration received has been credited to capital reserve.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 40. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	NOTE	2016 RMB'000	2015 RMB'000
<b>NON-CURRENT ASSET</b>			
Investments in subsidiaries			
– Unlisted investment, at cost		<b>314,460</b>	120,728
Amount due from a subsidiary		<b>387,859</b>	23,350
Interests in associates		<b>3,634</b>	23,637
		<b>705,953</b>	169,715
<b>CURRENT ASSETS</b>			
Amounts due from subsidiaries		<b>416,064</b>	556,997
Other receivables		<b>17,910</b>	–
Bank balances		<b>4,734</b>	11,107
		<b>438,708</b>	568,104
<b>CURRENT LIABILITY</b>			
Other payables		<b>4,898</b>	3,267
Amounts due to subsidiaries		<b>193,884</b>	326
		<b>198,782</b>	3,593
<b>NET CURRENT ASSETS</b>		<b>239,926</b>	564,511
<b>TOTAL ASSETS LESS CURRENT LIABILITY</b>		<b>945,879</b>	734,226
<b>CAPITAL AND RESERVES</b>			
Share capital (note 28)		<b>11,821</b>	10,627
Share premium and reserves	(i)	<b>934,058</b>	723,599
<b>TOTAL EQUITY</b>		<b>945,879</b>	734,226

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 40. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

notes:

(i) Movements in share premium and reserves:

	Share premium RMB'000	Share options reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2015	76,887	7,877	(39,442)	45,322
Loss and total comprehensive expense for the year	–	–	(21,748)	(21,748)
Recognition of equity-settled share-based payments (note 32)	–	41,144	–	41,144
Issue of shares upon exercise of share options	4,450	(1,538)	–	2,912
Placing of shares	685,936	–	–	685,936
Transaction costs attributable to issue of shares	(9,928)	–	–	(9,928)
Issue of shares pursuant to scrip dividend scheme for 2014	33,415	–	–	33,415
Dividends (note 12)	(53,454)	–	–	(53,454)
At 31 December 2015	737,306	47,483	(61,190)	723,599
Loss and total comprehensive expense for the year	–	–	(14,421)	(14,421)
Recognition of equity-settled share-based payments (note 32)	–	47,936	–	47,936
Placing of shares	117,053	–	–	117,053
Transaction costs attributable to issue of shares	(723)	–	–	(723)
Issue of new shares on acquisition of Shanghai Hautong (note 28(iv))	85,663	–	–	85,663
Dividends paid (note 12)	(25,049)	–	–	(25,049)
At 31 December 2016	914,250	95,419	(75,611)	934,058

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 41. EVENTS AFTER THE REPORTING PERIOD

- (i) On 23 January 2017, CSMall, a subsidiary of the Company, allotted and issued 58,000,000 subscription shares to an independent third party at a total consideration of RMB73,080,000, of which RMB7,164,000 was received in advance (included in other payables in note 25) as at 31 December 2016.
- (ii) On 23 February 2017, the Company allotted and issued 13,800,000 placing shares to five placees at the placing price of HK\$1.51 per share (the "Placing"). The net proceed from the Placing (after deducting the placing commission and other expenses incurred in the Placing) was approximately HK\$20,000,000 and will be used for general working capital.



## Five Years' Financial Summary

### RESULTS

	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
Revenue	1,540,039	1,506,963	1,522,716	1,706,665	<b>4,088,195</b>
Profit before tax	220,552	180,123	276,794	7,004	<b>428,410</b>
Income tax expense	(62,810)	(48,785)	(28,454)	(17,975)	<b>(121,597)</b>
Profit (loss) for the year	157,742	131,338	248,340	(10,971)	<b>306,813</b>
Attributable to					
– Owners of the Company	157,742	131,338	248,340	(10,969)	<b>304,078</b>
– Non-controlling interests	–	–	–	(2)	<b>2,735</b>
	157,742	131,338	248,340	(10,971)	<b>306,813</b>

### ASSETS AND LIABILITIES

	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
Total assets	587,805	738,651	1,165,051	1,757,221	<b>2,773,582</b>
Total liabilities	(193,501)	(203,645)	(411,160)	(262,141)	<b>(580,639)</b>
Total equity	394,304	535,006	753,891	1,495,080	<b>2,192,943</b>
Equity attributable to					
owners of the Company	394,304	535,006	753,891	1,446,482	<b>2,077,242</b>
Non-controlling interests	–	–	–	48,598	<b>115,701</b>
	394,304	535,006	753,891	1,495,080	<b>2,192,943</b>