



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

Interim Report 2017



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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
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Headquarters in the PRC

Rm 5A & 6 Floor
Baolin International Gold Trade Center
2nd Building, 3 Shuitian Second Street
Shuibei, 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

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

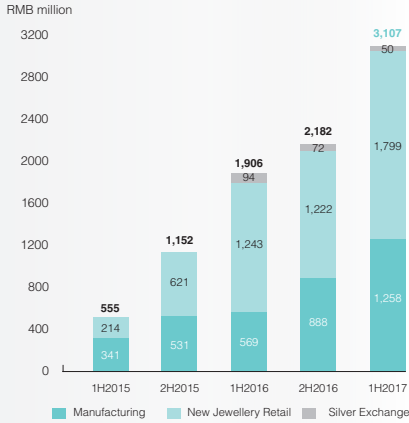
Investors and media relations

Hill and Knowlton Strategies

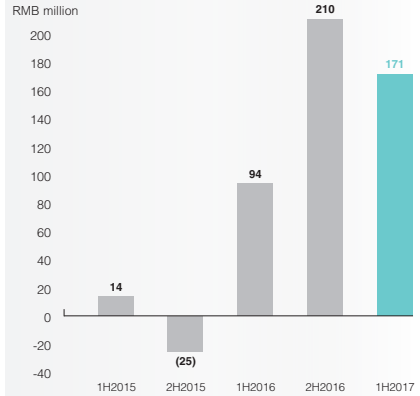
FINANCIAL HIGHLIGHTS



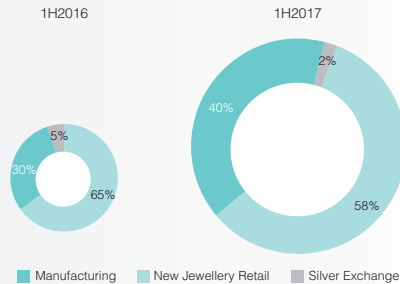
Revenue



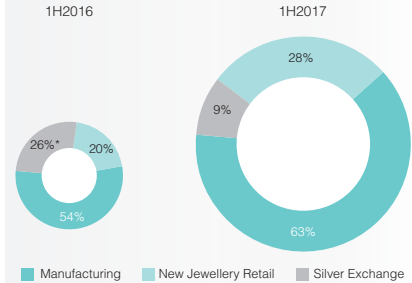
Profit (Loss) Attributable to Owners of the Company



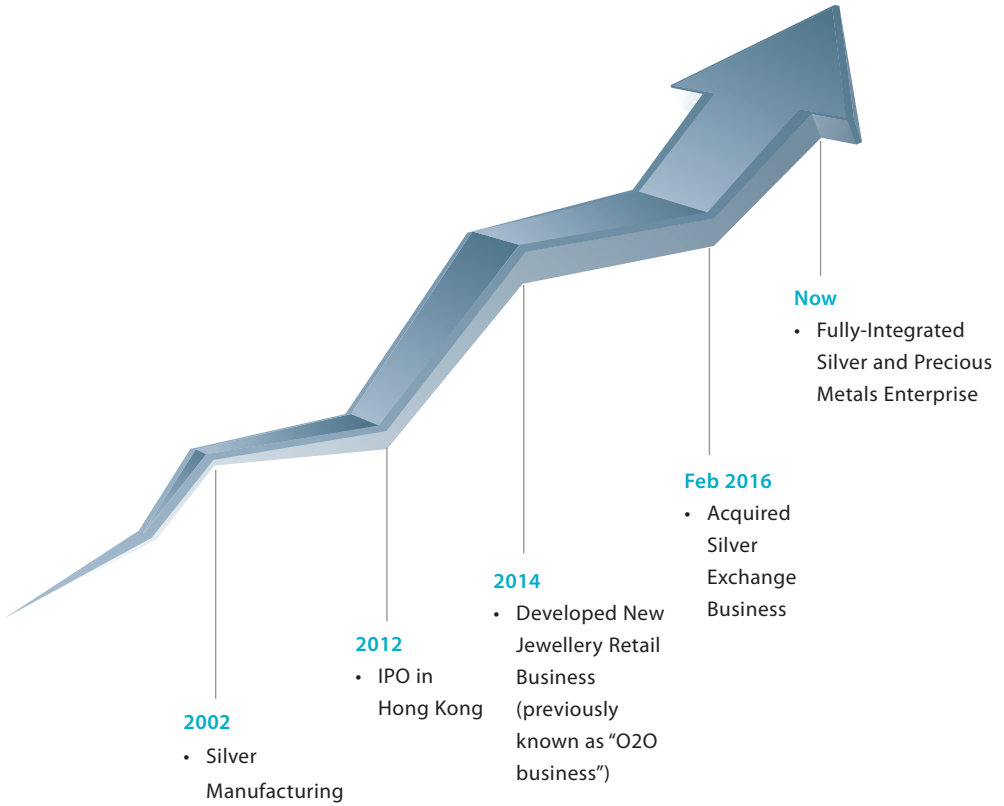
Revenue Breakdown



Segment Profit Breakdown



* Excluding one-off net gain resulting from the Shanghai Huatong acquisition of RMB23 million





Zun Fan Pure Silver Jewelleries (尊梵足銀)



Guo Yin Tong Bao Silver Collectibles (國銀通寶)





Business Review

In the first half of 2017, the Group continued to develop its various business segments as promised. The Directors are delighted to report our remarkable progress in becoming a leading fully-integrated silver and precious metals enterprise in the People's Republic of China (the "PRC").

In 2014, we diversified from the traditional manufacturing business to the downstream New Jewellery Retail business (previously known as "O2O business") and by leveraging our strength and resources in the upstream business as well as effective implementation of our strategies, the New Jewellery Retail business continued to grow rapidly since its launch. The aggregate sales in the New Jewellery Retail segment amounted to RMB1,799 million, representing a significant increase of approximately 44.7% as compared to the last period. Furthermore, the New Jewellery Retail segment contributed a segment profit of RMB60.8 million (1H2016: RMB29.6 million), representing the highest half-year profit since its launch.

In February 2016, the Group further expanded the downstream business by completing the acquisition of Shanghai White Platinum & Silver Exchange* (上海華通鉑銀交易市場有限公司) or "Shanghai Huatong", an operator of an integrated silver exchange platform in the PRC. The silver exchange business contributed a segment profit of RMB20.5 million during current period. We are confident that this new business will bring positive return to the Group in the long run.

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

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

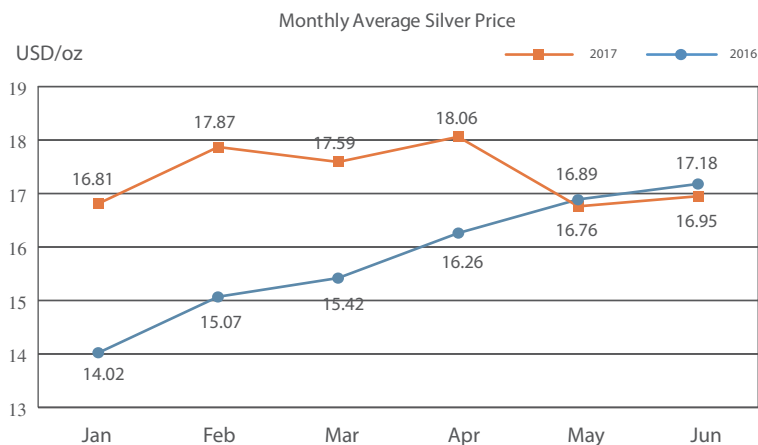
* For identification purpose only



Manufacturing Business

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

The Group applied a proprietary production model to manufacture high quality silver and other non-ferrous metals. During the first half of 2017, we sold 164 tonnes of silver ingot to our customers and used 35 tonnes of silver ingot for our downstream New Jewellery Retail business. Since the beginning of 2017, the global commodity market showed signs of recovery. As such, we recorded an increase in the average selling price of our silver ingots. The graph below shows the change in international silver price quoted on the London Bullion Market Association (LBMA) from January 2017 to June 2017:



Source: *The London Bullion Market Association*

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

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



New Jewellery Retail Business

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

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

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



Online Sales Channels

(i) Self-operated online platform

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



(ii) Television and video shopping channels

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



(iii) Third-party online marketplaces

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

Offline Retail and Service Network

(i) CSmall shops

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

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



Presence of CSmall Shops across the PRC



Shops Distribution

- 42 in Zhejiang
- 19 in Jiangsu
- 11 in Guangdong
- 9 in Shanghai
- 6 in Beijing
- 6 in Anhui
- 6 in Hubei
- 4 in Tianjin
- 4 in Liaoning
- 3 in Heilongjiang
- 3 in Hebei
- 2 in Hunan
- 2 in Shandong
- 2 in Jiangxi
- 1 in Inner Mongolia
- 1 in Henan



(ii) *Shenzhen exhibition hall*

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

(iii) Third-party offline points of sale

We also distribute our jewellery products through various third-party offline points of sale. For instance, we partnered with banking institutions such as Bank of Ganzhou to distribute tailored silver collectibles to high-net-worth customers through their bank branches across the PRC.



Silver Exchange Business

To fulfil our long term goal of becoming a leading fully-integrated silver and precious metals enterprise, we completed the acquisition of Shanghai Huatong last year.

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

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



Prospects

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

Following the stabilisation in international gold and silver prices, we saw a gradual recovery in the demand for high-quality gold and silver products in the market. While we expect the global financial market to remain highly uncertain in coming years, the flight-to-safety investment trend will continue to drive substantial interest in gold and silver products and be vastly beneficial to all our business segments.

As of 30 June 2017, we had net cash of approximately RMB756 million, signifying the Group's sufficient resources in potential acquisition. We have been considering various opportunities in the market and will disclose more details in accordance to the Listing Rules when appropriate.

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



Financial Review

Revenue

The revenue of the Group for the six months ended 30 June 2017 was approximately RMB3,107 million (1H2016: RMB1,906 million), representing an increase of approximately 63% from that of last period.

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



Manufacturing segment

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

The average selling price of silver ingot increased from RMB2.9 million (value-added tax exclusive) per tonne to RMB3.5 million per tonne due to rebound in the international silver price. Sales volume of silver ingot slightly increased from 149 tonnes to 164 tonnes. The aggregate production volume of silver ingot remained stable. We target to maintain similar production level of silver ingot throughout 2017.

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

New Jewellery Retail segment

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

Silver Exchange segment

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

Cost of Sales and Services Provided

Manufacturing segment

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



New Jewellery Retail segment

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

Silver Exchange segment

Cost of sales and services provided mainly represents cost of materials and direct expenses incurred for trading of silver and the operation of the online exchange platform. Amount decreased as the proprietary trading business was closed down.

Gross Profit and Gross Profit Margin

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

Administrative Expenses

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

Selling and Distribution Expenses

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

Gain on Deemed Disposal of Associates

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

Other Expenses

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



Income Tax Expense

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

Profit Attributable to Owners of the Company

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

Inventories, Trade Receivables and Trade Payables Turnover Cycle

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

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

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

Borrowings

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

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



Pledge of Assets

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

Capital Expenditures

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

Employees

As of 30 June 2017, the Group employed 1,141 staff (as of 31 December 2016: 1,049 staff) and the total remuneration for the six months ended 30 June 2017 amounted to RMB55.3 million (1H2016: RMB68.5 million). The Group's remuneration packages are in line with the current legislation in the relevant jurisdictions, the experience and qualifications of individual employees and the general market conditions. Bonuses are linked to the Group's financial results as well as to individual performances. The Group ensures that adequate training and professional development opportunities are provided to all employees so as to satisfy their career development needs.

Liquidity and Financial Resources

The Group maintained a healthy liquidity position during the period under review. The Group was principally financed by internal resources and bank borrowings. The Group's principal financial instruments comprise cash and cash equivalents, trade and other receivables, trade and other payables and bank borrowings. As of 30 June 2017, the cash and cash equivalents, net current assets and total assets less current liabilities were RMB866 million (as of 31 December 2016: RMB507 million), RMB1,920 million (as of 31 December 2016: RMB1,484 million) and RMB2,658 million (as of 31 December 2016: RMB2,222 million), respectively. As of 30 June 2017, the Group had bank borrowings amounting to RMB110 million (as of 31 December 2016: RMB110 million).



Significant Investment Held, Material Acquisition and Disposal

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

Interim Dividend

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

Event after the Reporting Period

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

Up to the date on the approval of these condensed consolidated financial statements, the directors of the Company are still assessing the financial impact of the termination of the VIE Agreement.



Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As of 30 June 2017, 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 of Hong Kong Limited (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") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") 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 ¹	411,422,187	25.47%
Mr. Song Guosheng	Beneficial Interest ²	2,006,797	0.12%

Note 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 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.

Note 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 of 30 June 2017, 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.



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 30 June 2017, 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
Luo Shandong	Beneficial Interest	114,968,000	7.12%
FIL Limited	Investment Manager	82,028,000	5.08%

Except as disclosed above, as of 30 June 2017, 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 30 June 2017
23 February 2017	Issue of 13,800,000 new ordinary shares at HK\$1.51 each under general mandate	Approximately HK\$20 million	All the net proceeds will be applied for general working capital	HK\$1.66	The entire amount (which is kept as bank deposits) 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 period ended 30 June 2017.



Share Option Schemes

The Company adopted a share option scheme on 5 December 2012 (the "**Scheme**") and 21 April 2015 (the "**New Scheme**") 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 14 to the condensed consolidated financial statements. No share option was granted, exercised, cancelled or lapsed under the Scheme and the New Scheme during the period ended 30 June 2017.

Details of the movement of the share options granted under the Scheme during the period ended 30 June 2017 are as follows:

Name	Date of grant	Exercise price per share	Exercise period	Outstanding of 1.1.2017	Granted during the period	Exercised during the period	Outstanding of 30.06.2017
Directors							
Mr. Chen Wantian	3 July 2013	HK\$0.96	3 July 2013 – 2 July 2023	2,450,000	-	-	2,450,000
	20 August 2014	HK\$2.20	20 August 2014 – 19 August 2024	2,200,000	-	-	2,200,000
Mr. Song Guosheng	3 July 2013	HK\$0.96	3 July 2013 – 2 July 2023	1,050,000	-	-	1,050,000
	20 August 2014	HK\$2.20	20 August 2014 – 19 August 2024	500,000	-	-	500,000
Employees							
In aggregate	3 July 2013	HK\$0.96	3 July 2013 – 2 July 2023	4,650,000	-	(700,000)	3,950,000
	20 August 2014	HK\$2.20	20 August 2014 – 19 August 2024	24,300,000	-	-	24,300,000
	2 January 2015	HK\$1.80	2 January 2015 – 1 January 2025	49,000,000	-	-	49,000,000
				84,150,000	-	(700,000)	83,450,000

The total number of shares available for issue under the Scheme is 83,686,000 representing 5.18% of the Company's issued share capital as of 30 June 2017.

Details of the movement of the share options granted under the New Scheme during the period ended 30 June 2017 are as follows:

Name	Date of grant	Exercise price per share	Exercise period	Outstanding as of 1.1.2017 and 30.6.2017
Employees				
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 New Scheme is 108,978,600 representing 6.75% of the Company's issued share capital as of 30 June 2017.

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: The 7,450,000 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 (2,650,000 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)

Note 3: 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)



Corporate Governance Code

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and responsibility. The Board comprises four executive Directors and four independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the “Code”) set out in Appendix 14 to the Listing Rules. During the six months ended 30 June 2017 and up to the date of this report, the Company has complied with the code provisions under the Code, except for the following deviation:

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

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct for Directors in their dealings in the securities of the Company. Having made specific enquiry to all the Directors, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the six months ended 30 June 2017.

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. The Audit Committee comprises all three independent non-executive Directors namely, Dr. Zeng Yilong (Chairman), Dr. Li Haitao and Mr. Song Hongbing. The terms of reference of the Audit Committee were revised and adopted on 30 December 2015. 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.

The Audit Committee has reviewed the financial reporting processes and risk management and internal control systems of the Group and discussed with the external auditors of the condensed consolidated financial statements for the six months ended 30 June 2017. The Audit Committee is of the opinion that these statements had complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures had been made.



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. The Nomination Committee comprises Mr. Chen Wantian (Chairman), Dr. Li Haitao and Mr. Song Hongbing, 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.

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. 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.

On behalf of the Board

Chen Wantian

Chairman

Hong Kong, 24 August 2017



Deloitte.

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TO THE BOARD OF DIRECTORS OF CHINA SILVER GROUP LIMITED
中國白銀集團有限公司
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of China Silver Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 28 to 52, which comprises the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 August 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017



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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017



	NOTES	Six months ended 30 June	
		2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Profit for the period attributable to:			
Owners of the Company		170,908	94,236
Non-controlling interests		17,714	–
		188,622	94,236
Total comprehensive income for the period attributable to:			
Owners of the Company		170,594	93,549
Non-controlling interests		17,714	–
		188,308	93,549
Earnings per share	7	RMB	RMB
Basic		0.112	0.066
Diluted		0.112	0.066

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2017



	NOTES	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	171,011	176,603
Prepaid lease payments		17,916	18,134
Goodwill		407,321	407,321
Intangible assets	8	127,194	120,862
Deferred tax asset		2,821	3,129
Interest in an associate		2,758	2,763
Available-for-sale investment		8,963	8,963
		737,984	737,775
CURRENT ASSETS			
Prepaid lease payments		432	432
Inventories		1,136,069	1,304,154
Trade receivables, deposits and prepayments	9	344,940	178,014
Trade deposits		27,454	28,115
Income tax recoverable		19,169	–
Restricted bank balances	10	550,478	20,676
Bank balances and cash		866,370	506,873
		2,944,912	2,038,264
CURRENT LIABILITIES			
Trade and other payables	11	870,064	202,732
Customer receipts in advance		24,819	7,077
Deferred income		3,844	4,717
Contingent consideration		–	176,517
Income tax payable		16,280	53,087
Bank borrowings	12	110,000	110,000
		1,025,007	554,130
NET CURRENT ASSETS		1,919,905	1,484,134
TOTAL ASSETS LESS CURRENT LIABILITIES		2,657,889	2,221,909

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2017



		30 June 2017	31 December 2016
	<i>NOTE</i>	RMB'000 (unaudited)	RMB'000 (audited)
CAPITAL AND RESERVES			
Share capital	13	13,172	11,821
Share premium and reserves		2,476,936	2,077,342
Equity attributable to owners of the Company		2,490,108	2,089,163
Non-controlling interests		134,856	98,483
TOTAL EQUITY		2,624,964	2,187,646
NON-CURRENT LIABILITIES			
Deferred tax liability		25,485	26,465
Deferred income		7,440	7,798
		32,925	34,263
TOTAL EQUITY AND NON-CURRENT LIABILITIES		2,657,889	2,221,909

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Attributable to owners of the Company							Non-controlling interests		
	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	RMB'000	Total RMB'000
At 1 January 2016 (audited)	10,627	737,306	47,483	32,141	101,483	270	517,172	1,446,482	48,598	1,495,080
Profit for the period	-	-	-	-	-	-	94,236	94,236	-	94,236
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(687)	-	(687)	-	(687)
Total comprehensive (expense) income for the period	-	-	-	-	-	(687)	94,236	93,549	-	93,549
Recognition of equity-settled share-based payments (note 14)	-	-	29,049	-	-	-	-	29,049	-	29,049
Placing of shares (note 13(ii))	421	71,112	-	-	-	-	-	71,533	-	71,533
Transaction costs attributable to issue of shares	-	(723)	-	-	-	-	-	(723)	-	(723)
Issue of new shares on acquisition of Shanghai Huatong (note 13(ii))	516	85,663	-	-	-	-	-	86,179	-	86,179
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	2,992	2,992
At 30 June 2016 (unaudited)	11,564	893,358	76,532	32,141	101,483	(417)	611,408	1,726,069	51,590	1,777,659
At 1 January 2017 (audited)	11,821	914,250	95,419	147,170	131,281	(2,230)	791,452	2,089,163	98,483	2,187,646
Profit for the period	-	-	-	-	-	-	170,908	170,908	17,714	188,622
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(314)	-	(314)	-	(314)
Total comprehensive (expense) income for the period	-	-	-	-	-	(314)	170,908	170,594	17,714	188,308
Recognition of equity-settled share-based payments (note 14)	-	-	11,373	-	-	-	-	11,373	-	11,373
Issue of shares upon exercise of share options (note 13(v))	6	905	(324)	-	-	-	-	587	-	587
Placing of shares (note 13(iii))	122	18,335	-	-	-	-	-	18,457	-	18,457
Transaction costs attributable to issue of shares	-	(647)	-	-	-	-	-	(647)	-	(647)
Issue of new shares on acquisition of Shanghai Huatong (note 13(iv))	1,223	185,834	-	-	-	-	-	187,057	-	187,057
Disposal of partial interest in CSMall (note 17)	-	-	-	54,303	-	-	-	54,303	18,659	72,962
Dividends recognised as distribution (note 6)	-	(40,779)	-	-	-	-	-	(40,779)	-	(40,779)
At 30 June 2017 (unaudited)	13,172	1,077,898	106,468	201,473	131,281	(2,544)	962,360	2,490,108	134,856	2,624,964

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017



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 in a prior year; (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 completed in 2012; and (c) RMB169,332,000 being the difference between the increase in the non-controlling interests and the consideration received from the disposal of partial interest in a subsidiary of the Group, CSsmall Group Limited (“CSsmall”) (note 17).

- (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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017



	NOTES	Six months ended 30 June	
		2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		297,360	(92,124)
INVESTING ACTIVITIES			
Purchase of intangible assets		(13,248)	(8,487)
Purchase of property, plant and equipment		(5,297)	(5,660)
Acquisition of an asset	16	(1,800)	-
Interest received		1,185	1,076
Withdrawal of a short-term bank deposit		-	500,000
Proceed from disposal of an associate		-	600
Proceeds from disposals of property, plant and equipment		-	10
Net cash outflow from acquisition of subsidiaries		-	(212,742)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(19,160)	274,797
FINANCING ACTIVITIES			
Proceeds from allotment of subscription shares	17	65,916	-
Proceeds from placing of shares		18,457	71,533
Proceeds from issue of shares upon exercise of share options		587	-
Interest paid		(2,702)	(3,156)
Transaction costs attributable to issue of shares		(647)	(723)
Repayment of bank borrowings		-	(20,000)
NET CASH FROM FINANCING ACTIVITIES		81,611	47,654
NET INCREASE IN CASH AND CASH EQUIVALENTS		359,811	230,327
CASH AND CASH EQUIVALENTS AT 1 JANUARY		506,873	518,695
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(314)	(709)
CASH AND CASH EQUIVALENTS AT 30 JUNE represented by bank balances and cash		866,370	748,313

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017



1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (“IAS 34”) “Interim Financial Reporting” issued by International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016.

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017



2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

Acquisition of a subsidiary not constituting a business

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

3. REVENUE AND SEGMENT INFORMATION

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

- (i) manufacturing and sales of silver ingots and other metal by-products in the PRC ("Manufacturing segment");
- (ii) retailing and wholesaling of gold, silver and jewellery products in the PRC ("New Jewellery Retail segment"); and
- (iii) providing professional electronic platform, related services for silver trading and trading of silver ingots ("Silver Exchange segment").

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017



3. REVENUE AND SEGMENT INFORMATION (Continued)

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

	Six months ended 30 June 2017					Consolidated RMB'000 (unaudited)
	Manufacturing segment RMB'000 (unaudited)	New Jewellery Retail segment RMB'000 (unaudited)	Silver Exchange segment RMB'000 (unaudited)	Segment total RMB'000 (unaudited)	Elimination RMB'000 (unaudited)	
Revenue						
External sales	1,258,319	1,798,717	49,734	3,106,770	-	3,106,770
Inter-segment sales	142,281	-	-	142,281	(142,281)	-
Total segment revenue	1,400,600	1,798,717	49,734	3,249,051	(142,281)	3,106,770
Results						
Segment results	138,336	60,790	20,534	219,660		219,660
Non-segment items						
Unallocated income, expenses, gains and losses						(19,204)
Share of result of an associate						(5)
Finance costs						(2,702)
Profit before tax						197,749

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017



3. REVENUE AND SEGMENT INFORMATION (Continued)

	Six months ended 30 June 2016						
	Manufacturing segment RMB'000 (unaudited)	New Jewellery		Exchange segment RMB'000 (unaudited)	Segment total RMB'000 (unaudited)	Elimination RMB'000 (unaudited)	Consolidated RMB'000 (unaudited)
		Retail segment RMB'000 (unaudited)	Silver				
Revenue							
External sales	569,232	1,242,666	93,616	1,905,514	-	1,905,514	
Inter-segment sales	117,110	-	-	117,110	(117,110)	-	
Total segment revenue	686,342	1,242,666	93,616	2,022,624	(117,110)	1,905,514	
Results							
Segment results	81,759	29,633	62,567	173,959		173,959	
Non-segment items							
Unallocated income, expenses, gains and losses						(37,645)	
Share of results of associates						253	
Finance costs						(3,156)	
Profit before tax						133,411	

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017



3. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information

The Group's revenue is derived from the PRC, based on the location of customers, and substantially all of its non-current assets are located in the PRC, based on the geographical location of assets. Therefore, no geographical information is presented.

Analysis of revenue by products and services

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017



4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
PRC Enterprise Income Tax ("EIT")		
– current period	44,734	38,930
– (over)underprovision in respect of prior years	(34,935)	156
	<hr/>	
	9,799	39,086
Deferred taxation for the period	(672)	89
	<hr/>	
	9,127	39,175
	<hr/>	

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

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

Under the EIT Law, withholding tax is imposed on dividends payable to non-PRC shareholders which is declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in these condensed consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries amounting to approximately RMB1,256.0 million as at 30 June 2017 (31 December 2016: RMB1,036.9 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017



5. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Profit for the period has been arrived at after charging (crediting):		
Cost of inventories recognised as expenses	2,799,986	1,687,472
Depreciation of property, plant and equipment	10,887	10,429
Fair value change of contingent consideration	10,540	8,584
Amortisation of intangible assets	8,716	6,947
Expenses and professional fees for acquisition projects and fund raising activities	6,615	463
Release of prepaid lease payments	217	217
Interest income	(1,185)	(1,076)
Net exchange loss (gain)	786	(859)
Loss (gain) on disposals of property, plant and equipment	2	(3)

6. DIVIDENDS

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

The directors of the Company do not recommend payment of an interim dividend for the current interim period. In prior interim period, an interim dividend of HK\$0.02 per share, totalling RMB25,049,000, was declared and approved in August 2016.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017



7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Earnings		
Profit for the period attributable to owners of the Company	170,908	94,236
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,526,207	1,418,305
Effect of dilutive potential ordinary shares:		
Share options of the Company	2,614	3,554
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,528,821	1,421,859

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

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT/INTANGIBLE ASSETS

During the current interim period, the Group acquired property, plant and equipment of RMB5,297,000 (six months ended 30 June 2016: RMB8,468,000) mainly for the expansion of its production scale and enhancement of production efficiency, of which nil (six months ended 30 June 2016: RMB2,808,000) was acquired through acquisition of subsidiaries.

In addition, during the current interim period, the Group acquired intangible assets amounting to RMB15,048,000 (six months ended 30 June 2016: RMB124,269,000) mainly represents system software for the expansion of the New Jewellery Retail segment, of which RMB1,800,000 was acquired through acquisition of asset through acquisition of a subsidiary (six months ended 30 June 2016: RMB115,781,000 was acquired through acquisition of subsidiaries).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017



9. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

Before accepting any new customer, other than those settling by cash or credit cards, the Group assesses the potential customer's credit quality and defines its credit limits based on reputation of the customer in the industry. The Group generally grants its customers a credit period ranging from 30 to 90 days and requires advance deposits from its customers before delivery of goods.

10. RESTRICTED BANK BALANCES

The Group receives and holds money deposited by clients in the course of trading in the silver exchange platform. These clients' monies are maintained in one or more trust bank accounts and bear interest at prevailing market rates. The Group has recognised the corresponding accounts payable to respective clients. However, the Group is not permitted to use these monies to settle its own obligations and currently does not have an enforceable right to offset those payables with the deposits placed.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017



11. TRADE AND OTHER PAYABLES

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

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

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

12. BANK BORROWINGS

During the current interim period, the Group did not obtain or repay any bank borrowings (six months ended 30 June 2016: repaid bank borrowings of RMB20,000,000).

Bank borrowings of RMB110,000,000 (31 December 2016: RMB110,000,000) carry interest at a fixed rate of 4.79% (31 December 2016: 4.79%) per annum and were secured by certain of the Group's assets as set out in note 18.

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13. SHARE CAPITAL

	Number of shares	Share capital	
		HK\$'000	RMB'000
Ordinary share of HK\$0.01 each:			
Authorised			
At 1 January 2016, 31 December 2016 and 30 June 2017	3,000,000,000	30,000	24,386
Issued			
At 1 January 2016	1,320,846,589	13,209	10,627
Placing of new shares (<i>note i</i>)	50,000,000	500	421
Issue of new shares on acquisition of subsidiaries (<i>note ii</i>)	62,500,000	625	516
At 30 June 2016	1,433,346,589	14,334	11,564
At 1 January 2017	1,463,346,589	14,634	11,821
Placing of new shares (<i>note iii</i>)	13,800,000	138	122
Issue of new shares on acquisition of subsidiaries (<i>note iv</i>)	137,500,000	1,375	1,223
Exercise of share options (<i>note v</i>)	700,000	7	6
At 30 June 2017	1,615,346,589	16,154	13,172

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13. SHARE CAPITAL (Continued)

Notes:

- (i) During the six months ended 30 June 2016, the Company allocated and issued 50,000,000 placing shares of par value HK\$0.01 each on 22 January 2016 at the placing price of HK\$1.70 per share. The net proceeds from the placing are to be applied for the Group's general working capital and other potential investments.
- (ii) During the six months ended 30 June 2016, 62,500,000 new ordinary shares of par value HK\$0.01 each of the Company were issued on 28 January 2016 as part of the consideration in acquiring 75% equity interest in 上海華通鉑銀交易市場有限公司 ("Shanghai Huatong"). Details of the acquisition are set out in note 15. The fair value of the shares issued determined using the published price available at the date of completion of acquisition approximated RMB86,179,000, of which RMB516,000 was credited to share capital and the remaining balance of RMB85,663,000 was credited to the share premium account.
- (iii) During the six months ended 30 June 2017, the Company allocated and issued 13,800,000 placing shares of par value HK\$0.01 each on 23 February 2017 at the placing price of HK\$1.51 per share. The net proceeds from the placing are to be applied for the Group's general working capital.
- (iv) During the six months ended 30 June 2017, 137,500,000 new ordinary shares of par value HK\$0.01 each of the Company were issued on 11 April 2017 as the final consideration in acquiring 75% equity interest in Shanghai Huatong. Details of the acquisition are set out in note 15. The fair value of the shares issued determined using the published price available at the date of issuance approximated RMB187,057,000, of which RMB1,223,000 was credited to share capital and the remaining balance of RMB185,834,000 was credited to the share premium account.
- (v) During current interim period, certain share options were exercised by holders to subscribe for 700,000 shares of the Company on 31 May 2017. The share option exercise price for those options was HK\$0.96 per share.

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14. 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.

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14. SHARE OPTION SCHEME (Continued)

(I) The Scheme (Continued)

(b) The following table discloses movements of Company's options under the Scheme held by the Group's directors, employees and consultants:

Date of grant	Exercise price per share HK\$	Outstanding at 1.1.2017	Granted during the period	Exercised during the period	Outstanding at 30.6.2017
3 July 2013	0.96	8,150,000	-	(700,000)	7,450,000
20 August 2014	2.20	27,000,000	-	-	27,000,000
2 January 2015	1.80	49,000,000	-	-	49,000,000
		84,150,000	-	(700,000)	83,450,000

The 7,450,000 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 (2,650,000 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)

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14. SHARE OPTION SCHEME (Continued)

(I) The Scheme (Continued)

(b) (Continued)

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)

- (c) The Group recognised the total expense of RMB3,681,000 for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB7,758,000) in relation to share options granted by the Company under the Scheme.

(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.

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14. SHARE OPTION SCHEME (Continued)

(II) The New Scheme (Continued)

(a) (Continued)

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.

(b) The following table discloses movements of Company's options under the New Scheme held by the Group's employees:

Date of grant	Exercise price per share HK\$	Outstanding at 1.1.2017 and 30.6.2017
27 August 2015	1.97	108,000,000

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)
- (c) The Group recognised the total expense of RMB7,692,000 for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB21,291,000) in relation to share options granted by the Company under the New Scheme.

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15. ACQUISITION OF SUBSIDIARIES

Acquisition of subsidiaries through purchase of additional interests in associates

During the six months ended 30 June 2016, the Group completed the acquisition of remaining 75% equity interest in its associate, Shanghai Huatong. 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. Details are set out in the Group's annual financial statements for the year ended 31 December 2016. During the current interim period, 137,500,000 new ordinary shares of par value HK\$0.01 each of the Company were issued on 11 April 2017 as the final consideration. Details of the issuance are set out in note 13.

16. ACQUISITION OF AN ASSET

During the six months ended 30 June 2017, the Group entered into an agreement with independent third parties to acquire 60% equity interest in 永豐縣通盛小額貸款股份有限公司 ("Tongsheng"), at a cash consideration of RMB1,800,000. The principal asset of Tongsheng is the money lending license and the Group did not take over the rights and obligations of the assets and liabilities of Tongsheng according to the terms stated in the agreement. The acquisition has been accounted for as acquisition of an asset through acquisition of a subsidiary.

17. CHANGE IN THE GROUP'S OWNERSHIP INTEREST IN A SUBSIDIARY

On 23 January 2017, CSMall, a subsidiary of the Group, principally engaged in the design and sale of gold, silver and jewellery products in the PRC, 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 had been received in prior year. An amount of RMB18,659,000 (being the proportionate share of the carrying amount of the net assets of CSMall) has been transferred to non-controlling interests. The difference between the increase in the non-controlling interests and the consideration received of RMB54,303,000 has been credited to capital reserve.

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18. 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.

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Buildings	58,509	60,292
Prepaid lease payments – land use rights	7,815	7,904
Inventories	95,605	220,496
	161,929	288,692

19. RELATED AND CONNECTED PARTY DISCLOSURES

Compensation of key management personnel

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

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Short-term benefits	4,640	4,915
Post-employment benefits	38	37
Share-based payments	1,490	3,955
	6,168	8,907

20. EVENT AFTER THE END OF THE REPORTING PERIOD

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

Up to the date on the approval of these condensed consolidated financial statements, the directors of the Company are still assessing the financial impact of the termination of the VIE Agreement.