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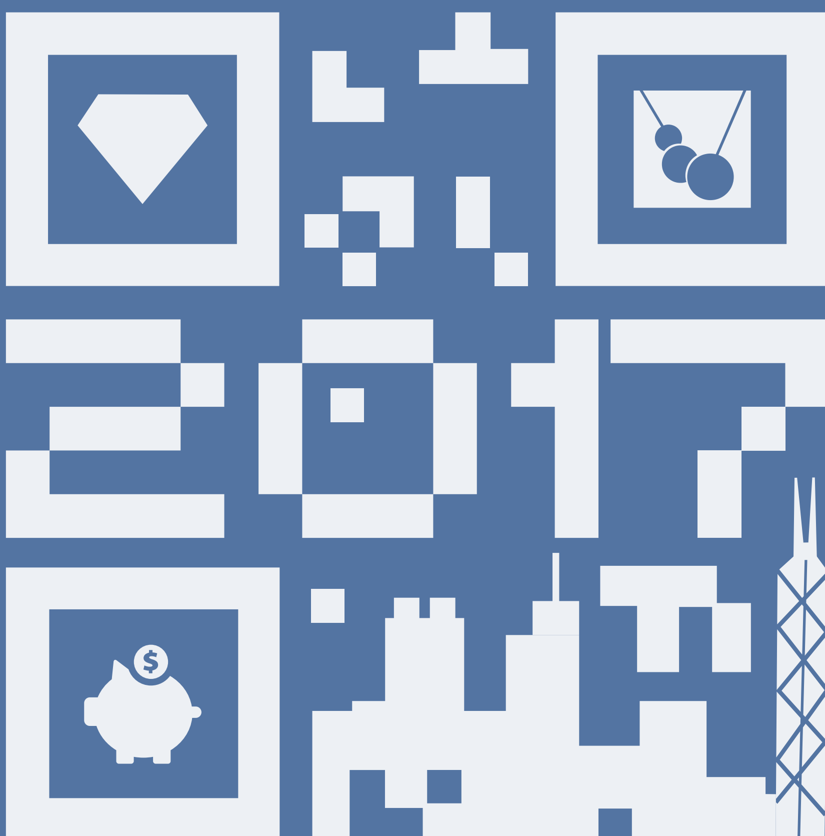
中國白銀集團
CHINA SILVER GROUP

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

Online | Offline

New Jewellery Retail

2017 ANNUAL REPORT



Contents

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 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
Sullivan and Cromwell (Hong Kong)

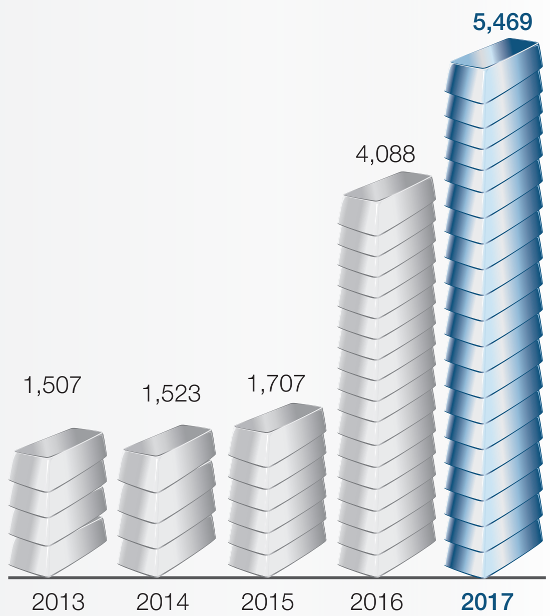
Cayman Islands law:
Conyers Dill & Pearman

Investors and media relations
Hill and Knowlton Strategies

Financial Highlights

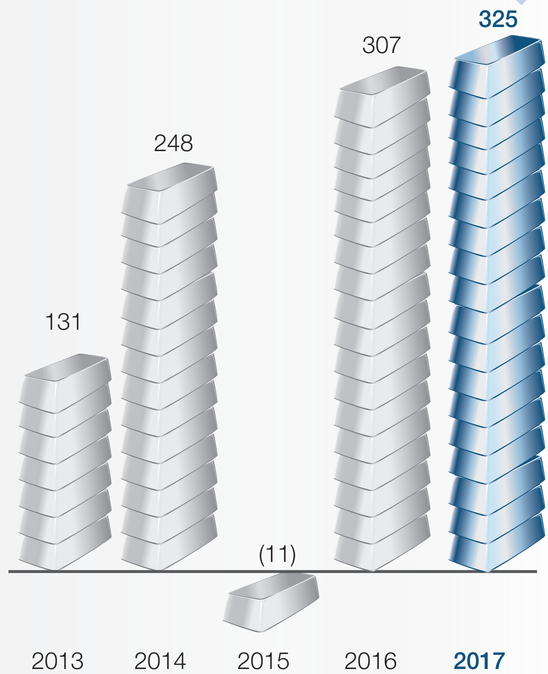
Revenue

RMB million



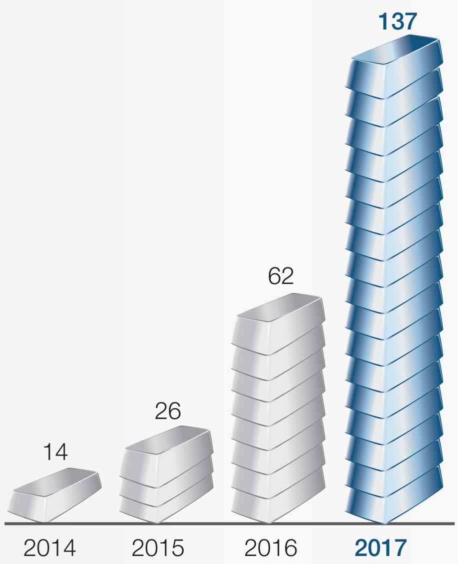
Profit (loss) for the year

RMB million

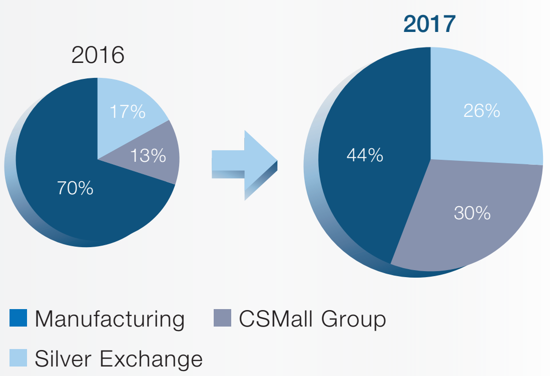


Segment Profit from CSMall Group

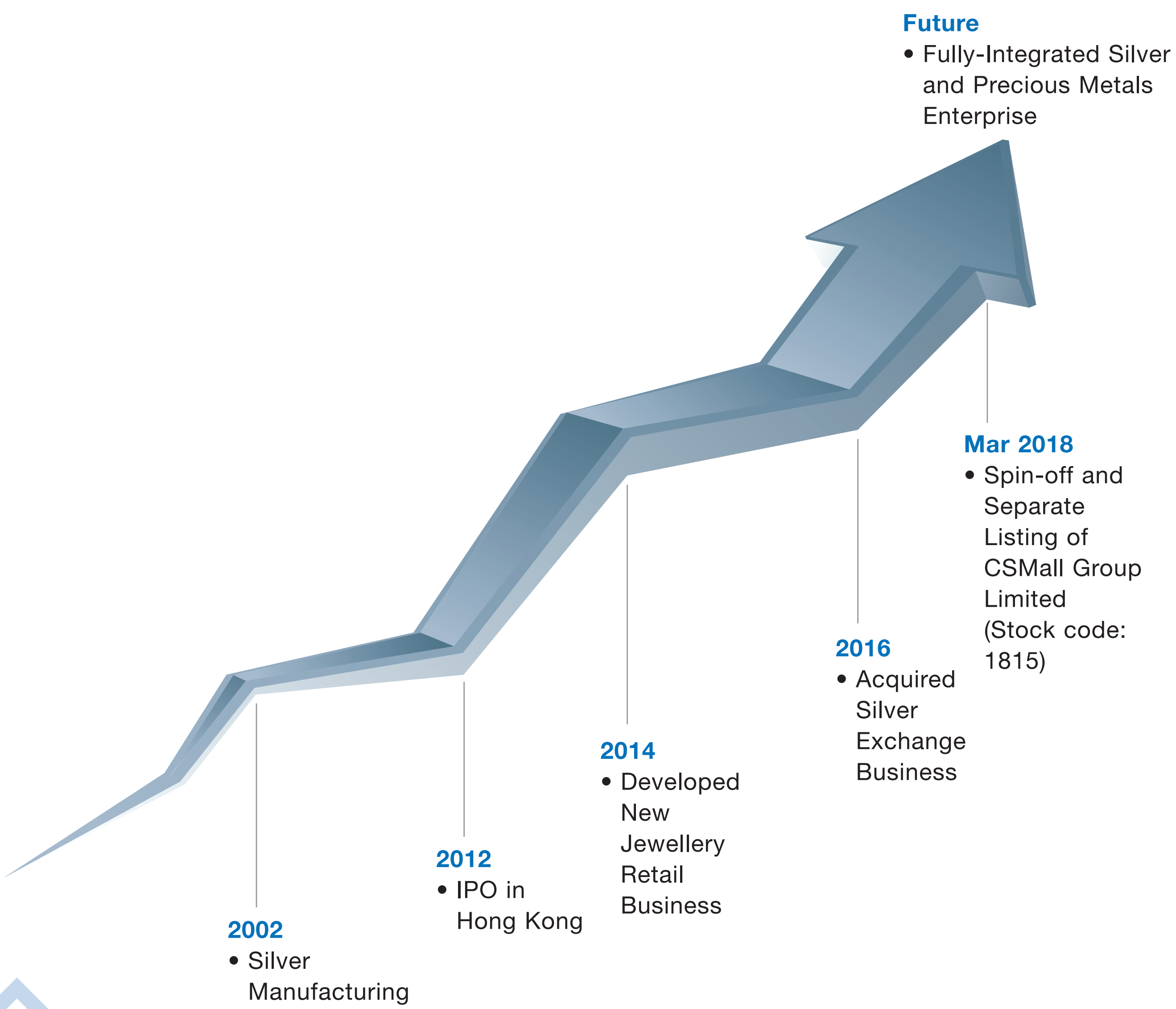
RMB million



Segment Profit Contribution from Different Businesses



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 directors (the "Directors") of China Silver Group Limited (the "Company", together with its subsidiaries, the "Group") 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 which is now operated under our subsidiary, CSMall Group Limited (Stock code: 1815) ("CSMall Group"). Leveraging our strength and resources in the upstream business as well as effective implementation of our strategies, CSMall Group continued to grow rapidly since its launch. Throughout 2017, CSMall Group achieved outstanding performance by implementing a series of business initiatives and marketing campaigns. The aggregate sales of CSMall Group amounted to RMB3,520 million, representing approximately 64.4% of our total revenue (2016: 60.3%), a significant increase of approximately 42.8% as compared to last year. Furthermore, CSMall Group contributed a segment profit of RMB137 million (2016: RMB62.1 million), representing the highest level since its launch. CSMall Group (Stock code: 1815) successfully completed a separate listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 March 2018.

In February 2016, the Group further expanded downstream 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 RMB119 million (2016: RMB80.3 million), representing an increase of approximately 48.2% as compared to last year.

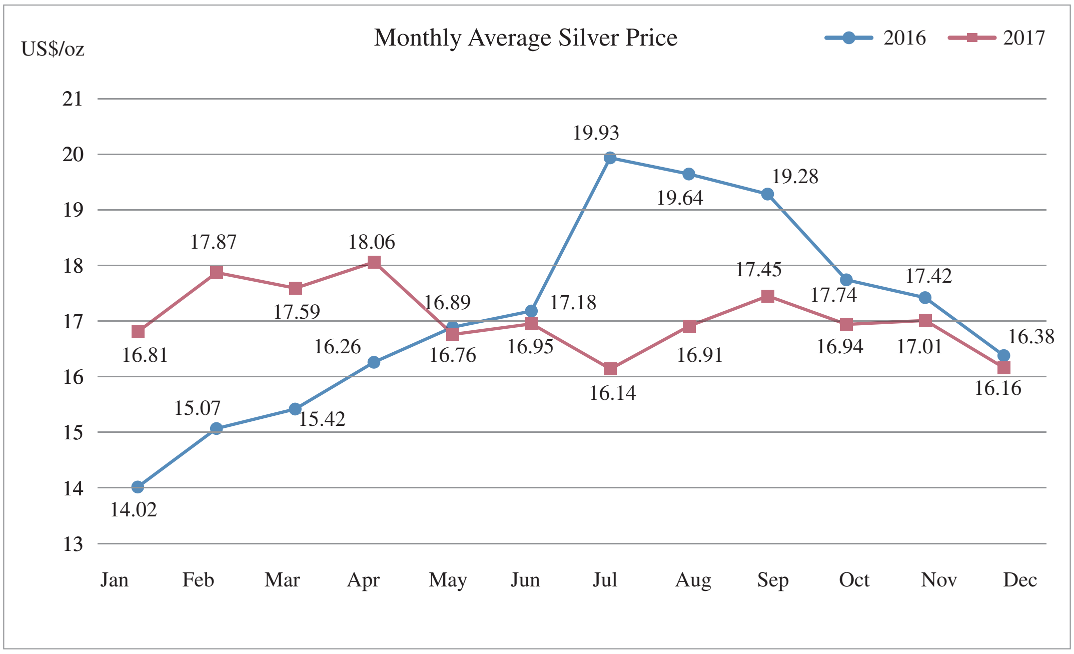
Fuelled by the strong growth in the new business segments as well as a tax concession granted to a major subsidiary, profit for the year increased to RMB325 million, representing a record-breaking profit for the Group since Listing.

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

Manufacturing Business

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

The Group applied a proprietary production model to manufacture high quality silver and other non-ferrous metals. In 2017, we sold 236 tonnes of silver ingot to our customers and used 108 tonnes of silver ingot for our downstream businesses. Throughout 2017, the global silver market remained relatively stable. The graph below shows the change in international silver price quoted on the London Bullion Market Association (LBMA) from January 2017 to December 2017:



Source: The London Bullion Market Association

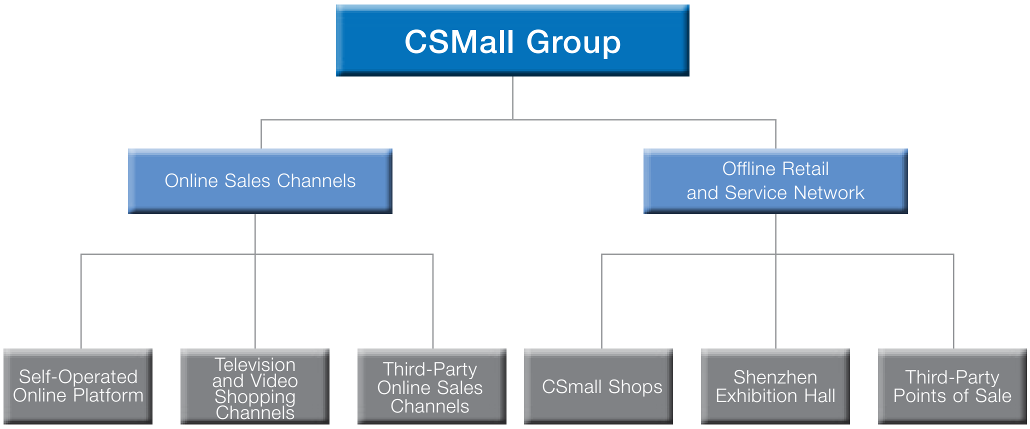
With the continual improvement of our production process, we began to extract new metal by-products such as palladium ingot during the year. As such, sale of other metal by-products significantly increased. However, as the environmental measures were further tightened in the second half of the year, total volume of silver production decreased from 427 tonnes to 344 tonnes.

Overall, we expect the manufacturing business to continue to generate stable cashflow to the Group.

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

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

During 2017, CSMall Group continued to perform well with both segment sales and profit achieved record levels.



Online Sales Channels

(i) *Self-operated online platform*

As of 31 December 2017, our self-operated online sales platform, www.CSmall.com (金貓銀貓) surpassed 7.5 million registered members, with over 848 million monthly page views (PV), 168 million unique visitors (UV) and 95 million internet protocols (IP). The platform now carries an aggregate of over 190 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 21 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*

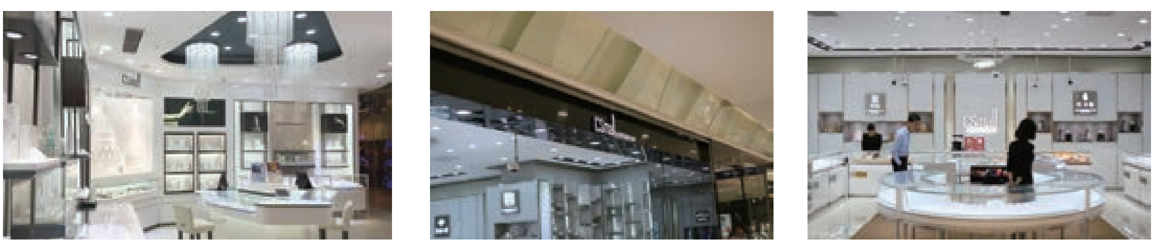
We offer intimate on-the-ground sales and services to our customers, including jewellery fitting and maintenance services, which we believe are essential and important in the jewellery shopping experience, at our CSmall shops.

As of 31 December 2017, we had over 100 outlets across the PRC with presence in Anhui, Beijing, Fujian, Guangdong, Hebei, Heilongjiang, Hubei, Inner Mongolia, Jiangsu, Jiangxi, Liaoning, Shanghai, Tianjin and Zhejiang.

Shops Distribution

38 in Zhejiang
12 in Jiangsu
10 in Guangdong
10 in Shanghai
7 in Anhui
7 in Hubei
6 in Beijing
5 in Liaoning
4 in Fujian
4 in Tianjin
2 in Hebei
2 in Heilongjiang
1 in Inner Mongolia
1 in Jiangxi

As of 31 December 2017, we had over 100 shops in 18 municipalities and provinces in the PRC.



Photos of CSmall shops

(ii) *Shenzhen exhibition hall*

Sales were generated from our Shenzhen exhibition hall with a gross floor area of approximately 2,000 square meters in Shuibei, Shenzhen. Shuibei in Shenzhen is home to PRC's largest and leading jewellery trading and wholesale market. Our Shenzhen exhibition hall showcases the product designs of our self-owned brands and certain third-party brands, and also serves as an interactive exhibition and sales platform primarily for our wholesale customers as well as our franchisees.

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

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

Silver Exchange Business

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.

Shanghai Huatong contributed a segment revenue of RMB161 million (2016: RMB166 million) and segment profit of RMB119 million (2016: RMB80.3 million) in 2017.

PROSPECTS

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

Following the stabilisation of international gold and silver prices, we continue to see 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 31 December 2017, we had net cash of approximately RMB602 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 our new business segments and will strive to the best to become a leading fully-integrated silver and precious metals enterprise in the PRC.

Chen Wantian
Chairman
Hong Kong, 28 March 2018

* For identification purpose only

Revenue

The revenue of the Group for the year ended 31 December 2017 was RMB5,469 million (2016: RMB4,088 million), representing an increase of approximately 33.8% from that of last year.

	Year ended 31 December,			
	2017		2016	
	Revenue (RMB'000)	**% of revenue**	Revenue (RMB'000)	% of revenue
Manufacturing segment				
Sales of silver ingot	**789,847**	**14.4%**	1,051,921	25.7%
Sales of other metal by-products	**998,970**	**18.3%**	405,177	9.9%
	1,788,817	**32.7%**	1,457,098	35.6%
New Jewellery Retail segment operated under CSMall Group				
Sales of gold, silver and jewellery products	**3,519,581**	**64.4%**	2,465,291	60.3%
Silver Exchange segment				
Trading and related service income	**160,630**	**2.9%**	165,806	4.1%
Total	**5,469,028**	**100%**	4,088,195	100%

Manufacturing segment

Sales of silver ingot decreased from RMB1,052 million to RMB790 million for the year ended 31 December 2017, representing a decrease of approximately 24.9% from that of last year. The decrease was mainly due to decrease in sales volume.

Following the stabilisation of international silver price, the average selling price of silver ingot stayed at RMB3.4 million (2016: RMB3.3 million) (value-added tax exclusive) per tonne. However, due to further tightening of the environmental measures in the second half of 2017, the production of silver ingot was adversely affected. As such, sales volume of silver ingot decreased from 322 tonnes to 236 tonnes. We have been working closely with the local authority on compliance with the regulatory requirement and have been developing ways to improve our production process in view of the tightening of environmental measures.

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 RMB405 million to RMB999 million for the year ended 31 December 2017. In particular, we began to extract palladium ingot in the current year.

New Jewellery Retail segment operated under CSMall Group

During 2017, CSMall Group recorded sales of RMB3,520 million (2016: RMB2,465 million), representing an increase of approximately 42.8% as our retail sales channels continued to expand rapidly.

Silver Exchange segment

During the year, the Silver Exchange segment recorded sales of RMB161 million (2016: RMB166 million), representing a decrease of approximately 3.1%. There was no trading income in current year as the proprietary trading business was closed down after we obtained full control in Shanghai Huatong last year. The decrease in trading income was offset by the increase in commission income as more customers were brought in.

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 inclusion of palladium as raw material.

New Jewellery Retail segment operated under CSMall Group

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

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 RMB604 million (2016: RMB627 million) for the year ended 31 December 2017, a decrease of approximately 3.7% as compared to that of last year as growth recorded in the New Jewellery Retail segment was offset by decrease in gross profit in the manufacturing segment. The overall gross profit margin decreased from 15.3% to 11% mainly due to margin contraction in the manufacturing segment after the tightening of environmental measures.

Administrative Expenses

Administrative expenses decreased by approximately 17.1% from RMB174 million to RMB144 million for the year ended 31 December 2017. The decrease was mainly due to a decrease in share-based payments of approximately RMB31.9 million.

Selling and Distribution Expenses

Selling and distribution expenses mainly represent advertising cost for brand promotion and transportation cost for product delivery. Amount remained stable during the year.

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. Amount increased as more professional fees were incurred in connection with the application for the spin-off and separate listing of CSMall Group on the Main Board of the Stock Exchange.

Income Tax Expense

Amount decreased as a major subsidiary was entitled to enjoy a concessionary EIT rate and an over-provision of RMB34.7 million was recorded for the year ended 31 December 2017.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company decreased from RMB304 million to RMB286 million for the year ended 31 December 2017 mainly due to the net result of a decrease in gross profit and a 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 year ended 31 December 2017, inventory turnover days increased to approximately 103 days (for the year ended 31 December 2016: 81 days) as more inventories were kept for anticipated future growth.

The turnover days for trade receivables for the year ended 31 December 2017 were approximately 3.5 days (for the year ended 31 December 2016: 8.6 days).

The turnover days for trade payables for the year ended 31 December 2017 were approximately 5.6 days (for the year ended 31 December 2016: 3.8 days).

Borrowings

As of 31 December 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 31 December 2017, the Group was in a net cash position with a net gearing ratio of -21.7% (as of 31 December 2016: -18.1%).

Pledge of Assets

As of 31 December 2017, the Group pledged property ownership rights in respect of buildings, land use rights and inventories with total carrying value of RMB56.7 million, RMB7.7 million and RMB565 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 year ended 31 December 2017, the Group invested RMB14.6 million in property, plant and equipment (2016: RMB10.5 million).

EMPLOYEES

As of 31 December 2017, the Group employed 1,159 staff (as of 31 December 2016: 1,049 staff) and the total remuneration for the year ended 31 December 2017 amounted to RMB117 million (2016: RMB138 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 2017, the cash and cash equivalents, net current assets and total assets less current liabilities were RMB712 million (as of 31 December 2016: RMB507 million), RMB2,077 million (as of 31 December 2016: RMB1,484 million) and RMB2,804 million (as of 31 December 2016: RMB2,222 million), respectively. As of 31 December 2017, the Group had bank borrowings amounting to RMB110 million (as of 31 December 2016: RMB110 million).

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION AND DISPOSAL

On 30 August 2017, the Company proposed to carry out a spin-off and separate listing of its New Jewellery Retail Business operated under CSMall Group on the Main Board of the Stock Exchange. The proposed spin-off constituted a deemed disposal of the Company's interest in CSMall Group under Rule 14.29 of the Listing Rules. The ordinary resolutions to approve the proposed spin-off were duly passed by the shareholders of the Company at the extraordinary general meeting held on 15 December 2017. Further details of the proposed spin-off are set out in the announcements of the Company dated 30 August 2017, 28 November 2017, 15 December 2017, 28 February 2018 and 12 March 2018 and the circular of the Company dated 28 November 2017.

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 year.

DIVIDEND

The Board does not recommend payment of a final dividend for the year ended 31 December 2017 (2016: HK$0.03 per share).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24 May 2018 to 29 May 2018 (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 2018 for registration of transfer.

EXECUTIVE DIRECTORS

Mr. Chen Wantian (陳萬天), aged 44, 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 non-ferrous 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 2017, 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 Executive's 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 46, 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 55, 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 2017, 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 Executive's 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 69, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Guo Bin (郭斌), aged 27, 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 49, 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 49, 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 46, 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 39, 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 an independent non-executive director of Chi Ho Development Holdings Limited (stock code: 8423) and Reach New Holdings Limited (stock code: 8471) respectively since 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 2017 to 31 December 2017 (the “Reporting Period” or “FY2017”).

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	• Waste Reduction in Daily Operation • Treatment of Waste Gas, Waste Water and Solid Waste
A2. Use of Resources	• Energy Saving • Saving of Other Resources
A3. The Environment and Natural Resources	• Management of Environmental Impacts
B. Social	
B1. Employment	• Encouragement of Career Development • Equal Employment System
B2. Health and Safety	• Improving the Health of Employees • Ensuring Work Safety
B3. Development and Training	• Internal and External Training for Employees
B4. Labour Standards	• Preventing Child or Forced Labour
B5. Supply Chain Management	• Quality Control of Supply Chain and Green Procurement
B6. Product Responsibility	• Quality Products • Quality Customer Services • Valuing Privacy
B7. Anti-corruption	• Prevention of Illegal Commercial Activities
B8. Community Investment	• 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.

Major emissions of the Group during the Reporting Period are set out as below:

Emission	Volume of emission
Sulphur dioxide	23 tons
Waste water	0.13 tons

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.

Resource type	Usage
Water	128,948 tons
Electricity	18,507,561 kWh
Diesel	194.89 tons
Coal	20,261.85 tons
Natural gas	14,608 cubic metre

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 a 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 and guide 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 advanced 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 advanced 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 operation 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 jewelleries, producing and manufacturing jewelleries, 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 (金貓銀貓), offers online customer services, which provides information on invoice of jewelleries 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.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). During the year ended 31 December 2017 and up to the date of this annual report, the Company has complied with the code provisions under the Code, except for the following deviation:

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 and the extraordinary general meeting held on 24 May 2017 and 15 December 2017 respectively.

Pursuant to code provision E.1.2 of the Code, the chairman of the Board should attend the annual general meeting. Due to other engagements, the chairman of the Board was unable to attend the annual general meeting and the extraordinary general meeting held on 26 May 2017 and 15 December 2017 respectively.

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 2017.

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 11 board meetings held, at which the Directors approved, among other things, the annual result of the Group for the year ended 31 December 2017.

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)	11/11	0/2
Mr. Sung Kin Man	11/11	2/2
Mr. Song Guosheng	11/11	0/2
Mr. Chen Guoyu	11/11	0/2
Independent non-executive Directors		
Mr. Guo Bin	11/11	0/2
Mr. Song Hongbing	11/11	0/2
Dr. Li Haitao	11/11	0/2
Dr. Zeng Yilong	11/11	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.

(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 2017 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 2017. 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.

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.

	Attendance at meetings
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 2017, the total fee paid/payable in respect of audit services to the external auditor of the Group, Deloitte Touche Tohmatsu, was approximately RMB3.29 million. In addition, approximately RMB0.43 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 2017, 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.

For the year ended 31 December 2017, 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.

	Attendance at meeting
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)	1/1
Mr. Chen Wantian	1/1
Mr. Song Hongbing	1/1

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 28 March 2018 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 2017.

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 2017.

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").

Our Company carried out a spin-off and separate listing of its New Jewellery Retail business, which is owned and operated by CSMall Group Limited (the "CSMall Group") and its subsidiaries, on the Main Board of the Stock Exchange. The shares of CSMall Group (stock code: 1815) were listed on the Stock Exchange on 13 March 2018. As at the date of this report, our Company held approximately 47.46% interest in the issued share capital of CSMall Group.

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 operated under CSMall Group, 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 2017 using financial key performance indicators are provided in the sections headed "Chairman's Statement" on pages 6 to 10 and "Management Discussion and Analysis" on pages 11 to 14 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 17 to 23 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 2017, 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.

(v) Events after the reporting period

(i) On 13 March 2018, the Group completed the spin-off and separate listing of CSMall Group (stock code:1815) on the Main Board of the Stock Exchange. CSMall Group has since become a non-wholly owned subsidiary of the Company. As at the date of this report, the Company held approximately 47.46% interest in the issued share capital of CSMall Group.

(ii) On 13 March 2018, 27,070,010 shares of CSMall Group were allotted and issued to the qualifying shareholders of the Company in the proportion of one share of CSMall Group for every 60 shares of the Company by way of a distribution in specie (the "Distribution"). Further details of the Distribution are set out in the announcements of the Company dated 30 August 2017, 28 November 2017, 11 December 2017, 15 December 2017, 6 February 2018 and 28 February 2018 and the circular of the Company dated 28 November 2017.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 59 of this report.

The Board has resolved not to recommend payment of a final dividend for the year ended 31 December 2017 (For the year ended 31 December 2016: HK$0.03 per Share).

FIVE YEARS' FINANCIAL SUMMARY

A financial summary of the Group for the last five years are set out on page 148 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 2017, the Group's sales to its five largest customers and its largest customer accounted for 42.0% (2016: 25.7%) and 27.2% (2016: 7.13%) of the Group's total sales respectively.

For the year ended 31 December 2017, the Group's five largest suppliers and the largest supplier accounted for 59.0% (2016: 55.3%) and 29.8% (2016: 25.9%) 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.

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 2017 are set out in page 62 of this report.

As of 31 December 2017, the reserves of our Company available for distribution to shareholders amounted to RMB1,064,074,000 (2016: RMB934,058,000).

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 2017 are set out in note 27 to the consolidated financial statements.

DIRECTORS

The Directors during the year ended 31 December 2017 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 15 to 16 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 of Hong Kong Limited (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 2017.

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 2017.

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 2017.

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 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 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[1]	411,422,187	25.34%
Mr. Song Guosheng	Beneficial Interest[2]	2,006,797	0.12%

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 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the year ended 31 December 2017 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 2017, in addition to the interests disclosed under the paragraph headed "Directors' and Chief Executive's 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	106,406,000	6.55%
FIL Limited	Investment Manager	82,028,000	5.05%

Except as disclosed above, as at 31 December 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 31 December 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 had been utilized 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 2017.

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 2017. 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 2017, 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. For the year ended 31 December 2017, the Group had not entered into any connected transactions nor continuing connected transactions which are required to be disclosed in this report pursuant to the Listing Rules.

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 2017, 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) Shenzhen Yinruiji Cultural Development Company Limited* (深圳銀瑞吉文化發展有限公司) ("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 41(ii) to the consolidated financial statements.

(i) VIE Structure

2014 Contractual Arrangements

The Group through its wholly owned subsidiary Shenzhen Guoyintongbao Company Limited* (深圳國銀通寶有限公司) ("SZ Silver") 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.

Following certain changes to applicable PRC laws and regulations in the first half of 2015, wholly foreign owned enterprises are now permitted to hold the relevant licence to engage in operating e-commerce transactions. Since such developments in PRC laws and regulations, the Group has sought to obtain, own and operate the relevant licences to allow it to operate the online retail business, including (i) establishing its wholly-owned subsidiary, Baiyin Town (Shanghai) Cultural Industry Company Limited* (白銀小鎮（上海）文化產業有限公司) ("Baiyin Town"), and (ii) through Baiyin Town, applying for the Value-Added Telecommunications Business Licence (the "VAT Business Licence").

On July 31, 2017, Baiyin Town obtained approval for the VAT Business Licence, which allows it to provide online data processing and transaction processing services (operating e-commerce) which in turn enables the Group to operate the online retail business through Baiyin Town without the VIE Structure.

In view of these developments, the Group entered into the contractual arrangement termination agreement (the "Contractual Arrangement Termination Agreement") to unwind the 2014 VIE Agreements and completed the unwinding of the 2014 Contractual Arrangements on 22 August 2017. Details of the Contractual Arrangement Termination Agreement are set out in the announcements of the Company dated 9 August 2017 and 22 August 2017.

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, Wenzhou Yintong Economic Information Consultation Company Limited* (溫州銀通經濟信息諮詢有限公司) ("WZ Yintong"), a wholly owned subsidiary of the Company, entered into a series of contractual agreements (the "2016 VIE Agreements") with Shanghai Huatong and/or its shareholders (the "2016 Contractual Arrangements"). As part of the acquisition for the 75% equity interest in Shanghai Huatong, all of the equity interest in Shanghai Huatong has been transferred to the nominees of the Company who are the registered equity-holders (the "Registered Equity-holders") of Shanghai Huatong. Shanghai Huatong is engaged in internet information service and e-commerce business, which fall into the value-added 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

During the year ended 31 December 2017, the Structured Entities were significant to the Group as they held relevant licenses to provide internet information services and other value-added telecommunications services. The following table sets out the Registered Equity-holders and business activities of each of the Structured Entities:

Name of the operating company	Registered Equity-holders	Business activities
SZ Yinruiji[1]	80% by Mr. Chen He 20% by Mr. Qian Pengcheng	Operation of online sales platform
Shanghai Huatong[2]	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. Under the Contractual Arrangement Termination Agreement, all domain names held by SZ Yinruiji (including csmall.cn; csmall.com.cn and csmall.com) have been transferred to Baiyin Town free of charge.

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:

	Revenue for the year ended 31 December 2016 (RMB million)	Revenue for the year ended 31 December 2017 (RMB million)	Assets as at 31 December 2017 (RMB million)
SZ Yinruiji	1,827	1,532*	N/A*
Shanghai Huatong	N/A	158	584

* 2014 VIE Arrangements were unwound on 22 August 2017.

(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 Shanghai Huatong fails 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 Shanghai Huatong. The exercise of the option to acquire the ownership of Shanghai Huatong may be subject to substantial costs. Under the Exclusive Option Agreement, WZ Yintong has the sole discretion to require the shareholders of Shanghai Huatong to transfer their equity interest in Shanghai Huatong to WZ Yintong at the lower of (i) the amount of the registered capital contributed by the shareholders in accordance with their respective percentage of equity interest in Shanghai Huatong and (ii) the lowest price permitted under the PRC laws. The relevant PRC authorities may require WZ Yintong 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.

(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 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 Shanghai Huatong's 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 Shanghai Huatong. 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 Shanghai Huatong, the Company will no longer be able to consolidate Shanghai Huatong. In case the Company is required to dispose of all the equity interest in Shanghai Huatong, the Company may record a substantial loss and the Company's financial condition and results of operation may be materially and adversely affected.

(d) The 2016 VIE Agreements may not provide control as effective as direct ownership. The Company has to rely on the rights of WZ Yintong under the 2016 VIE Agreements to effect changes in the management of Shanghai Huatong and make an impact on its business decision making, as opposed to exercising its rights directly as a registered equity-holder. If Shanghai Huatong or its Registered Equity-holders refuse to cooperate, the Company will face difficulties in effecting control over the Shanghai Huatong's operation of business through the VIE Structure, which may adversely affect the Company's business efficiency.

(e) The Registered Equity-holders of Shanghai Huatong 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 Shanghai Huatong to breach the 2016 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. Under the Exclusive Consultancy and Services Agreement, Shanghai Huatong is required to pay WZ Yintong a service fee for the services rendered by WZ Yintong. 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 Consultancy and Services Agreement entered into between SZ Silver and SZ Yinruiji contains similar 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 2016 VIE Agreements. 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.

(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 2016 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 2017, the Group did 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 Shanghai Huatong.

(iv) Material changes

Save as disclosed above, during the year ended 31 December 2017, 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 2017, other than the 2014 VIE Agreements which were unwound on 22 August 2017, none of the VIE Agreements has been unwound.

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.

Details of the movement of the share options granted under the 2012 Scheme during the year ended 31 December 2017 are as follows:

Name	Date of grant	Exercise price per share	Exercise period	Outstanding as of 1.1.2017	Exercised during the period	Outstanding as of 31.12.2017
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	(1,500,000)	3,150,000
	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	(516,000)	48,484,000
				84,150,000	(2,016,000)	82,134,000

The total number of Shares available for issue under the 2012 Scheme is 82,370,000 representing 5.07% of the Company's issued share capital as at 31 December 2017.

Details of the movement of the share options granted under the 2015 Scheme during the year ended 31 December 2017 are as follows:

Name	Date of grant	Exercise price per share	Exercise period	Outstanding as of 1.1.2017	Exercised during the Period	Outstanding as of 31.12.2017
Employees						
In aggregate	27 August 2015	HK$1.97	27 August 2015 – 26 August 2025	108,000,000	(7,062,000)	100,938,000
				108,000,000	(7,062,000)	100,938,000

The total number of Shares available for issue under the 2015 Scheme is 101,916,600 representing 6.28% of the Company's issued share capital as at 31 December 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: 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)

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 2017.

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 2017.

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 2017.

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 24 to 34 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, 28 March 2018

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 59 to 147, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") 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 ("HKSAs") 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 matter	How our audit addressed the key audit matter
Revenue recognition on sales of first hand gold bars with tailor-made specification to a specific customer	
We identified revenue recognition, in particular the revenue from sales of first hand gold bars with tailor-made specification to a specific customer through the Group's online platform as a key audit matter due to its significance to the consolidated statement of profit or loss and other comprehensive income and the significant judgments involved in recognising revenue, principally in respect of whether the Group is acting as a principal or an agent. In determining whether the Group is acting as a principal or as an agent, it requires judgement and consideration of all relevant facts and circumstances. The Group would be acting as a principal when the Group has exposure to the significant risk and rewards associated with the sales of goods. As disclosed in Note 4 to the consolidated financial statements, the Group purchased first hand gold bars from a supplier to manufacture the tailor-made gold bars through external original equipment manufacturing ("OEM") contractors, which the Group subsequently sold to this customer. The Group recognised revenue based on the agreed selling price when the gold bars are delivered and titles have passed to the customer. The management concluded the Group has exposure to the significant risk and rewards associated with the sale of first hand gold bars with tailor-made specification to the specific customer after considering the key factors including the Group's primary responsibility for making the sales, the Group's exposure to inventory risks and the Group's latitude in establishing prices. As set out in Note 5 to the consolidated financial statements, during the year ended 31 December 2017, the revenue generated from this customer was RMB1,488,385,000.	Our procedures in relation to revenue recognition on sales of first hand gold bars with tailor-made specification to a specific customer included: • Reviewing the master agreement to obtain an understanding of the terms of the sales transactions, including rights and obligations of each of the contractual parties, the terms of delivery and acceptance, the establishment of prices to evaluate the Group's primary responsibility for making the sales, the Group's exposure to inventory risks and the Group's latitude in establishing prices; • Discussing with the management and checking the supporting documents, including work orders issued to OEM contractors, and purchase orders to understanding how the management fulfills customer orders and determines the selling price; and • Verifying whether the transactions were carried out in accordance with the master agreement by: – Interviewing the customer; – Inspecting the documents including pick up advices, work orders issued to OEM contractors and good receipt notes endorsed by the customer; and – Checking the purchase price, subcontracting fee and selling price, on a sample basis, to suppliers' invoices and sales invoices.

Key audit matter	How our audit addressed the key audit matter
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 2017 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 2017.	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.

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 issued by the IASB 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 HKSAs 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 HKSAs, 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.

- 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 Chan Tsz Wai.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Revenue	5	**5,469,028**	4,088,195
Cost of sales and services provided		**(4,865,008)**	(3,461,038)
Gross profit		**604,020**	627,157
Other income	6a	**9,150**	11,349
Other gains and losses	6b	**(9,909)**	26,978
Administrative expenses		**(143,903)**	(173,504)
Selling and distribution expenses		**(43,985)**	(43,207)
Research and development expenses	7	**(2,106)**	(2,179)
Other expenses		**(19,846)**	(12,397)
Finance costs	8	**(5,432)**	(5,844)
Share of results of associates		**(209)**	57
Profit before tax		**387,780**	428,410
Income tax expense	9	**(62,587)**	(121,597)
Profit for the year	10	**325,193**	306,813
Other comprehensive income (expense), net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**538**	(1,592)
Release of exchange reserve upon disposal of a subsidiary		**–**	(908)
Release of exchange reserve upon termination of a deed of trust of a subsidiary		**29**	–
Total comprehensive income for the year		**325,760**	304,313
Profit for the year attributable to:			
Owners of the Company		**285,986**	304,078
Non-controlling interests		**39,207**	2,735
		325,193	306,813
Total comprehensive income for the year attributable to:			
Owners of the Company		**286,553**	301,578
Non-controlling interests		**39,207**	2,735
		325,760	304,313
		RMB	RMB
Earnings per share	13		
Basic		**0.181**	0.212
Diluted		**0.181**	0.205

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**167,680**	176,603
Prepaid lease payments	15	**17,700**	18,134
Goodwill	16	**407,321**	407,321
Intangible assets	17	**113,412**	120,862
Deferred tax assets	18	**2,032**	3,129
Interests in associates	19	**2,554**	2,763
Available-for-sale investment	20	**8,963**	8,963
Deposits paid on acquisition of property, plant and equipment		**6,920**	–
		726,582	737,775
CURRENT ASSETS			
Prepaid lease payments	15	**432**	432
Inventories	21	**1,436,818**	1,304,154
Trade receivables, loan receivables, deposits and prepayments	22	**203,122**	178,014
Trade deposits	23	**117,731**	28,115
Tax recoverable		**13,018**	–
Restricted bank balances	24	**339,511**	20,676
Bank balances and cash	24	**712,492**	506,873
		2,823,124	2,038,264
CURRENT LIABILITIES			
Trade and other payables	25	**605,238**	202,732
Customer receipts in advance	26	**2,249**	7,077
Deferred income	29	**1,043**	4,717
Contingent consideration	30	**–**	176,517
Income tax payable		**27,138**	53,087
Bank borrowing	27	**110,000**	110,000
		745,668	554,130
NET CURRENT ASSETS		**2,077,456**	1,484,134
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,804,038**	2,221,909

	NOTES	**2017** **RMB'000**	2016 RMB'000
CAPITAL AND RESERVES			
Share capital	28	**13,242**	11,821
Share premium and reserves		**2,610,510**	2,077,342
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**2,623,752**	2,089,163
Non-controlling interests		**148,697**	98,483
TOTAL EQUITY		**2,772,449**	2,187,646
NON-CURRENT LIABILITIES			
Deferred tax liabilities	18	**24,506**	26,465
Deferred income	29	**7,083**	7,798
		31,589	34,263
TOTAL EQUITY AND NON-CURRENT LIABILITIES		**2,804,038**	2,221,909

The consolidated financial statements on pages 59 to 147 were approved and authorised for issue by the board of directors on 28 March 2018 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 2017

	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	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	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 ("CSMall BVI") (Note 41(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 上海華通鉑銀交易市場有限公司 ("Shanghai Huatong") (Note 28(ii))	516	85,663	–	–	–	–	–	86,179	–	86,179
Dividends declared (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
Profit for the year	–	–	–	–	–	–	285,986	285,986	39,207	325,193
Exchange differences arising on translation of foreign operations	–	–	–	–	–	538	–	538	–	538
Release of exchange reserve upon termination of a deed of trust of a subsidiary	–	–	–	–	–	29	–	29	–	29

	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	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Total comprehensive income for the year	–	–	–	–	–	567	285,986	286,553	39,207	325,760
Recognition of equity-settled share-based payments (Note 32)	–	–	16,066	–	–	–	–	16,066	–	16,066
Transfer	–	–	–	–	28,537	–	(28,537)	–	–	–
Capital injection for non-controlling interests (Note 41(iv))	–	–	–	–	–	–	–	–	40,000	40,000
Issue of shares upon exercise of share options	76	18,257	(4,772)	–	–	–	–	13,561	–	13,561
Termination of a Structured Entity (Note 41(ii))	–	–	–	–	–	–	–	–	(48,234)	(48,234)
Disposal of partial interest in CSMall BVI (Note 41(iv))	–	–	–	54,303	–	–	–	54,303	18,659	72,962
Disposal of partial interest in 永豐縣通盛小額貸款股份有限公司 ("Tongsheng") (Note 41(iv))	–	–	–	18	–	–	–	18	582	600
Placing of shares	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 28(ii))	1,223	185,834	–	–	–	–	–	187,057	–	187,057
Dividends declared (Note 12)	–	(40,779)	–	–	–	–	–	(40,779)	–	(40,779)
At 31 December 2017	13,242	1,095,250	106,713	201,491	159,818	(1,663)	1,048,901	2,623,752	148,697	2,772,449

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; (c) RMB115,029,000 and RMB54,303,000 being the difference between the increase in the non-controlling interests and the consideration received from the disposal of partial interest in CSMall BVI in 2016 and 2017, respectively (as detailed in Note 41(iv)); and (d) RMB18,000 being the difference between the decrease in the non-controlling interests and the consideration received from the disposal of partial interest in Tongsheng in 2017 (as detailed in Note 41(iv)).

(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 2017

	NOTE	2017 RMB'000	2016 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**387,780**	428,410
Adjustments for:			
Amortisation of intangible assets		**19,821**	14,531
Bank interest income		**(3,862)**	(2,266)
Depreciation of property, plant and equipment		**22,308**	21,210
Expenses and professional fees for acquisition projects and fund raising activities		**125**	463
Fair value change on contingent consideration		**10,540**	17,020
Finance costs		**5,432**	5,844
Gain on deemed disposals of associates		**–**	(31,305)
Gain on disposals of subsidiaries		**–**	(12,371)
Gain on termination of a Structured Entity	41(ii)	**(3,656)**	–
Impairment loss on loan receivables		**900**	–
Loan interest income		**(832)**	–
Loss on disposals of property, plant and equipment		**119**	1,051
Loss on disposal of intangible assets		**514**	–
Loss on termination of a deed of trust of a subsidiary		**251**	–
Release of deferred income		**(715)**	(714)
Release of prepaid lease payments		**434**	434
Share-based payments		**16,066**	47,936
Share of results of associates		**209**	(57)
Operating cash flows before movements in working capital		**455,434**	490,186
Increase in inventories		**(132,664)**	(1,055,067)
Decrease in trade receivables, deposits and prepayments		**29,280**	53,525
Increase in trade deposits		**(89,616)**	(15,443)
Increase in restricted bank balances		**(318,835)**	(20,676)
Increase in trade and other payables		**410,775**	17,037
(Decrease) increase in customer receipts in advance		**(4,828)**	5,642
(Decrease) increase in deferred income		**(3,674)**	4,717
Cash generated from (used in) operations		**345,872**	(520,079)
Income tax paid		**(102,416)**	(78,075)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**243,456**	(598,154)

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
INVESTING ACTIVITIES			
Loan receivables new granted		**(90,000)**	–
Purchase of intangible assets	41(iv)	**(22,365)**	(12,949)
Purchase of property, plant and equipment		**(14,571)**	(7,676)
Deposits paid on acquisition of property, plant and equipment		**(6,920)**	–
Acquisition of asset through acquisition of a subsidiary		**(1,800)**	–
Net cash outflow upon termination of a deed of trust of a subsidiary	41(v)	**(119)**	–
Payment for acquisition projects		**(25)**	(463)
Net cash outflow from acquisitions of subsidiaries	30	**–**	(212,742)
Withdrawal of a short-term bank deposit		**–**	500,000
Repayment from an associate		**–**	39,610
Net cash inflow from disposals of subsidiaries	31	**–**	21,314
Proceed from disposal of an associate	19(ii)	**–**	197
Interest received		**4,694**	2,266
Proceeds from disposal of intangible assets		**2,200**	–
Proceeds from disposals of property, plant and equipment		**1,067**	49
Proceeds from termination of a Structured Entity	41(ii)	**947**	–
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(126,892)**	329,606
FINANCING ACTIVITIES			
New bank borrowing raised		**110,000**	110,000
Proceed on disposal of partial interest in subsidiaries that do not involve loss of control	41(iv), 41(v)	**73,562**	162,179
Capital contribution by non-controlling interests		**40,000**	–
Proceeds from placing of shares		**18,457**	117,731
Proceeds from issue of shares upon exercise of share options		**13,702**	–
Repayment of bank borrowing		**(110,000)**	(130,000)
Dividends paid		**(39,148)**	(22,846)
(Repayment to) advance from an investee		**(7,600)**	28,046
Interest paid		**(5,432)**	(5,844)
Repayment to a non-controlling shareholder of a subsidiary		**(4,236)**	–
Transaction costs attributable to issue of shares		**(647)**	(723)
NET CASH FROM FINANCING ACTIVITIES		**88,658**	258,543
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**205,222**	(10,005)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**506,873**	518,695
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**397**	(1,817)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**712,492**	506,873

1. GENERAL

China Silver Group Limited (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 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 business conducted through a subsidiary under contractual arrangement. Details of the business combination and the contractual arrangements are set out in Notes 30 and 41, respectively.

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

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

The International Accounting Standards Board ("IASB") has issued a number of amendments to IFRSs which are effective for the Group's financial year beginning on 1 January 2017. The Group has adopted, for the first time, these amendments to IFRSs in the current year.

Except as disclosed below, 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.

Amendments to IAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. 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 cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 40. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 40, the application of these amendments has had no impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

New and revised IFRSs in issue but not yet effective

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014 – 2016 Cycle[1]
Amendments to IAS 40	Transfer of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015 – 2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2021.

Except for the new IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and revised IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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 financial assets are measured at their fair value at 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.

- 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.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

IFRS 9 "Financial Instruments" (Continued)

Based on the Group's financial instruments and risk management policies at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of IFRS 9:

Classification and measurement:

- Trade receivables and loan receivables carried at amortised cost as disclosed in Note 22: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9.

- Unlisted equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in Note 20: these securities qualified for designation as measured at FVTOCI under IFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods. The directors of the Company anticipate the difference between cost less impairment and fair value related to this security would be insignificant.

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

Impairment:

In general, the directors of the Company anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost and other items that subject to the impairment provision upon application of IFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would not be materially different as compared to the accumulated amount recognised under IAS 39 at 31 December 2017.

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 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal 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 result in more disclosures, however, the directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

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.

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 while other operating lease payments are presented as operating cash flows. Upon application of 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 by the Group.

Furthermore, extensive disclosures are required by IFRS 16.

At 31 December 2017, the Group had non-cancellable operating lease commitments of RMB26,113,000 as disclosed in Note 38. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, 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.

In addition, the Group currently considers refundable rental deposits of RMB3,180,000 paid as rights under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 returns.

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.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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 item 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, 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, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. 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 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 to 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 under IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

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 are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets 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 financial assets 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.

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. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. 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 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) upon disposal of the relevant associate.

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.

Deferred revenue

Receipts in advance from gift credits, where the relevant goods have not been delivered and titles have not been passed, are deferred and recognised as deferred revenue in the consolidated statement of financial position, and are recognised as revenue when the relevant goods are delivered and titles have passed as described in the above accounting policy for revenue from the sale of goods.

Deferred revenue in relation to the unused gift credits is recognised as revenue generated from the course of the ordinary activities of the Group upon the contractual expiry date of the relevant credit packages.

Gift credits granted to customers as part of a sales transaction are to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the gift credits and the other components of the sale. The amount allocated to the gift credits is determined by reference to their fair value and taking into account the proportion of gift credits that are not expected to be redeemed by customers, and is deferred until the credits are redeemed or the liability is otherwise extinguished.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Exchanges 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 or 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 in associates.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign 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 prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (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. 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 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 directors, employees and others similar to 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 based on assessment of all relevant non-market vesting conditions. 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 bases 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, 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 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 relevant 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. 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.

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.

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 (or a cash-generating unit) 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 instrument.

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 (other than financial liabilities at fair value through profit or loss) 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 ("FVTPL"). 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 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, loan receivables, restricted bank balances 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. Financial assets 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 financial assets 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 0 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 Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at 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)

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables and bank borrowing) 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, 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 41(ii)) through entering into 2014 Contractual Agreements and 2016 Contractual Agreements (as defined in Note 41(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 41(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.

In August 2017, the Group lost the control over a Structured Entity following the termination of the 2014 Contractual Arrangements (as details in Note 41(ii)).

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

Critical judgements in applying accounting policies (Continued)

Revenue recognition on sales of first hand gold bars with tailor-made specification to a specific customer

The Group purchased first hand gold bars from a supplier to manufacture the tailor-made gold bars through external original equipment manufacturing contractors and subsequently sold to a specific customer through the Group's online platform. In determining whether the Group is acting as a principal or an agent, it requires judgement and consideration of all relevant facts and circumstances. The Group would be acting as a principal when it has exposure to the significant risks and rewards associated with the sales of goods. The management considers the key factors including the Group's primary responsibility for making the sales, the Group's exposure to inventory risks and the Group's latitude in establishing prices and concludes that the Group is acting as a principal. During the year, revenue generated from this customer was RMB1,488,385,000 (2016: Nil).

Recognition of restricted bank balances and deposits received

The Group maintains segregated trust bank accounts with authorised institutions to hold clients' monies in the course of trading in the silver exchange platform. The management of the Group has assessed and considered that the Group obtains benefit of income from holding the clients' monies as it entitles all relevant interest income from the restricted bank balances. The Group also bears the risk of holding the clients' monies as it is liable for any loss or misappropriation of clients' monies is a matter of judgement based on the estimation of the Group's management. Accordingly, the Group has recognised the clients' monies held in the banks as restricted bank balances under current assets with a corresponding deposits received included in other payables under current liabilities in the consolidated statement of financial position. As at 31 December 2017, the carrying amount of restricted bank balances and deposits were both RMB339,511,000 (2016: RMB20,676,000).

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.

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 2017, the carrying amounts of goodwill and trademarks were RMB407,321,000 (2016: RMB407,321,000) and RMB34,679,000 (2016: RMB34,679,000), respectively, and no impairment loss was recognised as at 31 December 2017 and 2016.

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

Key sources of estimation uncertainty (Continued)

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 2017, the carrying amount of inventories was RMB1,436,818,000 (2016: RMB1,304,154,000).

Estimated allowance for trade receivables and loan receivables

Management regularly reviews the recoverability of trade receivables and loan 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 2017, the carrying amount of trade receivables and loan receivables were RMB43,002,000 and RMB89,100,000 (2016: RMB63,257,000 and nil) respectively.

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 2017, the carrying amount of property, plant and equipment was RMB167,680,000 (2016: RMB176,603,000). Details of the useful lives of the property, plant and equipment are disclosed in Note 14.

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) designing and sales 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").

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 had 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 had been regarded as a separate operating segment of the Group.

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

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 2017

	Manufacturing segment RMB'000	New Jewellery Retail segment RMB'000	Silver Exchange segment RMB'000	Segment total RMB'000	Elimination RMB'000	Consolidated RMB'000
Revenue						
External sales	1,788,817	3,519,581	160,630	5,469,028	–	5,469,028
Inter-segment sales*	373,703	–	–	373,703	(373,703)	–
Total segment revenue	2,162,520	3,519,581	160,630	5,842,731	(373,703)	5,469,028
Results						
Segment results	202,147	137,340	118,999	458,486		458,486
Non-segment items						
Unallocated income, expenses, gains and losses						(65,065)
Finance costs						(5,432)
Share of results of associates						(209)
Profit before tax						387,780

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2016

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

* 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.

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:

	2017 RMB'000	2016 RMB'000
Manufacturing segment		
Sale of silver ingots	789,847	1,051,921
Sale of lead ingots	435,600	238,785
Sale of palladium	313,498	–
Sale of other metal by-products	249,872	166,392
	1,788,817	1,457,098
New Jewellery Retail segment		
Gold products	2,744,536	1,936,495
Silver products	568,588	503,303
Gem-set and other jewellery products	206,457	25,493
	3,519,581	2,465,291
Silver Exchange segment		
Trading income	–	43,995
Membership fee income	13,142	42,004
Commission income	147,488	79,807
	160,630	165,806
	5,469,028	4,088,195

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:

	2017 RMB'000	2016 RMB'000
Customer A (Note)	1,488,385	N/A

Note: Amount represented revenue from sales of first hand gold bars with tailor-made specification to Customer A through the Group's online platform in New Jewellery Retail segment. The Group did not generate any revenue from Customer A in 2016.

6a. OTHER INCOME

	2017 RMB'000	2016 RMB'000
Bank interest income	**3,862**	2,266
Government grant (Note)	**1,382**	2,001
Loan interest income	**832**	–
Release of deferred income	**715**	714
Others	**2,359**	6,368
	9,150	11,349

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

	2017 RMB'000	2016 RMB'000
Gain on remeasurement of previously held associates (Note 30(ii))	**–**	31,305
Gain on disposals of subsidiaries (Note 31)	**–**	12,371
Gain on termination of a Structured Entity (Note 41(ii))	**3,656**	–
Net exchange (loss) gain	**(2,141)**	1,373
Fair value change of contingent consideration (Note)	**(10,540)**	(17,020)
Loss on disposals of property, plant and equipment	**(119)**	(1,051)
Loss on disposal of intangible assets	**(514)**	–
Loss on termination of a deed of trust of a subsidiary (Note 41(v))	**(251)**	–
	(9,909)	26,978

Note: The amount represents the fair value change on contingent consideration in relation to the acquisition of Shanghai Huatong. Details 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 borrowing.

9. INCOME TAX EXPENSE

	2017 **RMB'000**	2016 RMB'000
PRC Enterprise Income Tax ("EIT")		
– current year	**98,156**	123,808
– (over)underprovision in respect of prior years	**(34,707)**	586
	63,449	124,394
Deferred taxation for the year (Note 18)	**(862)**	(2,797)
	62,587	121,597

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 the PRC EIT at the statutory rate of 25% for both years, 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. For the year ended 31 December 2016, Jiangxi Longtianyong adopted 25% as the tax rate as it had applied for the renewal but the review had not been completed. During the year ended 31 December 2017, the review has been completed such that Jiangxi Longtianyong was entitled to a concessionary tax rate of 15% for three consecutive years beginning from the year of 2016.

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:

	2017 **RMB'000**	2016 RMB'000
Profit before tax	**387,780**	428,410
Tax at the domestic income tax rate of 25%	**96,945**	107,102
Tax effect of expenses not deductible for tax purpose	**19,511**	28,200
Tax effect of income not taxable for tax purpose	**(1,500)**	(11,185)
Tax effect of share of results of associates	**52**	(14)
Tax effect of concessionary tax rate granted	**(17,156)**	–
Tax effect of utilisation of tax losses previously not recognised	**(2,031)**	(3,768)
Tax effect of tax losses not recognised	**1,473**	676
(Over)underprovision in respect of prior years	**(34,707)**	586
Tax charge for the year	**62,587**	121,597

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

10. PROFIT FOR THE YEAR

	2017 RMB'000	2016 RMB'000
Profit for the year has been arrived at after charging:		
Directors' emoluments (Note 11)	6,046	7,676
Other staff costs		
– salaries and wages	79,278	72,713
– retirement benefit scheme contributions	16,865	12,105
– share-based payments, excluding those of directors and a consultant	15,287	45,954
Total staff costs	117,476	138,448
Auditor's remuneration	3,286	3,164
Amortisation of intangible assets (included in administrative expenses and selling and distribution expenses)	19,821	14,531
Cost of inventories recognised as expenses	4,859,951	3,418,151
Depreciation of property, plant and equipment	22,308	21,210
Expenses and professional fees for acquisition projects and fund raising activities (included in other expenses)	18,770	6,128
Release of prepaid lease payments	434	434
Rental expenses	16,173	15,703
Share-based payment expenses in respect of consultancy services	467	989

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
For the year ended 31 December 2017					
Executive directors					
Mr. Chen Wantian	–	1,035	15	254	1,304
Mr. Song Guosheng	–	806	15	58	879
Mr. Chen Guoyu	–	649	–	–	649
Mr. Sung Kin Man*	–	2,594	15	–	2,609
	–	5,084	45	312	5,441

* Mr. Sung Kin Man is the chief executive officer of the Company.

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

	Directors' fees RMB'000	Salaries and allowances RMB'000	Retirement benefit scheme contributions RMB'000	Share-based payments RMB'000	Total RMB'000
Independent non-executive directors					
Dr. Li Haitao	173	–	–	–	173
Dr. Zeng Yilong	173	–	–	–	173
Mr. Guo Bin	86	–	–	–	86
Mr. Song Hongbing	173	–	–	–	173
	605	–	–	–	605
Total	605	5,084	45	312	6,046

The independent non-executive directors' emoluments shown above are for their services as directors of the Company.

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

Directors' and Chief Executive's emoluments (Continued)

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

* Mr. Sung Kin Man is the chief executive officer of the Company.

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

	Directors' fees RMB'000	Salaries and allowances RMB'000	Retirement benefit scheme contributions RMB'000	Share-based payments RMB'000	Total RMB'000
Independent non-executive directors					
Dr. Li Haitao	171	–	–	–	171
Dr. Zeng Yilong	171	–	–	–	171
Mr. Guo Bin	86	–	–	–	86
Mr. Song Hongbing	171	–	–	–	171
	599	–	–	–	599
Total	599	6,040	44	993	7,676

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

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

Employees

The Group's five highest paid individuals for the year ended 31 December 2017 included one (2016: one) director of the Company. The emoluments of the remaining four (2016: four) individuals are as follows:

	2017 RMB'000	2016 RMB'000
Salaries and allowances	5,334	5,458
Share-based payments	4,484	12,450
Retirement benefit scheme contributions	54	59
	9,872	17,967

Their emoluments were within the following bands:

	2017 Number of employees	2016 Number of employees
HK$2,500,001 to HK$3,000,000	4	–
HK$3,000,001 to HK$3,500,000	–	–
HK$3,500,001 to HK$4,000,000	–	–
HK$4,000,001 to HK$4,500,000	–	–
HK$4,500,001 to HK$5,000,000	–	1
HK$5,000,001 to HK$5,500,000	–	2
HK$6,000,001 to HK$6,500,000	–	1
	4	4

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

Employees (Continued)

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 of the Company waived or agreed to waive any emolument during both years.

12. DIVIDENDS

	2017 **RMB'000**	2016 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
Final dividend of HK$0.03 per share for the year ended 31 December 2016	**40,779**	–
	40,779	25,049

No final dividend for the year ended 31 December 2017 was proposed subsequent to the end of the reporting period (2016: HK$0.03 per share).

13. 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:

	2017 RMB'000	2016 RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	285,986	304,078
Effect of dilutive potential shares:		
Fair value change of contingent consideration	–	17,020
Earnings for the purpose of diluted earnings per share	285,986	321,098

	2017 '000	2016 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,576,798	1,434,723
Effects of dilutive potential ordinary shares:		
– Share options of the Company	3,480	3,435
– Contingent consideration shares	–	126,042
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,580,278	1,564,200

In calculating the diluted earnings per share for the year ended 31 December 2017, the potential issue of shares arising from certain of the Company's certain share options would decrease the earnings per share and has therefore been taken into account as they have a dilutive effect.

The computation of diluted earnings per share does not assume the issuance of the contingent consideration shares in respect of a business combination as set out in Note 30 since their assumed issuance would increase the earnings per share.

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 had therefore been taken into account as they had a dilutive effect.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
COST					
At 1 January 2016	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 (Note 31)	(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
Additions	3,244	3,582	4,792	2,953	14,571
Disposals	–	(527)	(1,030)	(98)	(1,655)
At 31 December 2017	154,360	112,557	14,450	12,479	293,846
DEPRECIATION					
At 1 January 2016	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 (Note 31)	(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
Provided for the year	8,590	9,675	2,810	1,233	22,308
Disposals	–	(374)	(2)	(93)	(469)
At 31 December 2017	52,152	60,019	7,449	6,546	126,166
CARRYING VALUES					
At 31 December 2017	102,208	52,538	7,001	5,933	167,680
At 31 December 2016	107,554	58,784	6,047	4,218	176,603

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%

15. PREPAID LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Analysed for reporting purposes as:		
Non-current asset	**17,700**	18,134
Current asset	**432**	432
	18,132	18,566

16. GOODWILL

	RMB'000
COST	
At 1 January 2016	–
Arising on acquisition of subsidiaries (Note 30)	407,321
At 31 December 2016 and 2017	407,321
IMPAIRMENT	
At 1 January 2016, 31 December 2016 and 31 December 2017	–
CARRYING VALUES	
At 31 December 2017	407,321
At 31 December 2016	407,321

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 and 2017.

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% (2016: 23.69%). The cash flows beyond the 5-year period are extrapolated using a steady growth rate of 3% (2016: 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.

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)	(Note v)	
COST						
At 1 January 2016	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
Additions	–	22,365	–	–	–	22,365
Acquisition of asset through acquisition of a subsidiary	–	–	–	–	1,800	1,800
Disposals	–	(2,833)	–	–	–	(2,833)
Termination of a Structured Entity (Note 41(ii))	–	(9,559)	–	–	–	(9,559)
At 31 December 2017	6,000	28,279	78,363	34,679	1,800	149,121
AMORTISATION						
At 1 January 2016	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
Provided for the year	362	11,623	7,836	–	–	19,821
Eliminated on disposals	–	(119)	–	–	–	(119)
Eliminated on termination of a Structured Entity (Note 41(ii))	–	(479)	–	–	–	(479)
At 31 December 2017	2,141	18,549	15,019	–	–	35,709
CARRYING VALUES						
At 31 December 2017	3,859	9,730	63,344	34,679	1,800	113,412
At 31 December 2016	4,221	10,782	71,180	34,679	–	120,862

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 2016 (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 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.

(v) The directors of the Company are of the opinion that the Group would renew the license acquired through acquisition of a subsidiary (Note 41(iv)) continuously and has the ability to do so at minimal cost. Various studies including market and competitive and environment trends have been performed by management of the Group, which supports that the license has no foreseeable limit to the period over which it is expected to generate net cash inflow for the Group.

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

18. DEFERRED TAXATION

The followings are tassets he major deferred tax assets (liabilities) 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 2016	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)
(Charged) credited to profit or loss	(1,097)	1,959	862
At 31 December 2017	2,032	(24,506)	(22,474)

At the end of the reporting period, the Group has unused tax loss of RMB5,892,000 (2016: RMB8,124,000) available for offset against future profits that will expire in 2018 to 2023. 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 the 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 RMB1,412.8 million as at 31 December 2017 (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.

19. INTERESTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Interests in associates		
Cost of unlisted investments in associates	**3,634**	3,634
Share of post-acquisition results	**(1,080)**	(871)
	2,554	2,763

19. INTERESTS IN ASSOCIATES (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 2017	2016	Principal activities
Directly held					
浙江聯合文化藝術品交易有限公司 ("Zhejiang United Culture")	The PRC	RMB50,000,000	**30%**	30%	Provision of platform for trading of cultural related products
Indirectly held					
上海華通白銀國際交易中心 ("Huatong International")	The PRC	RMB50,000,000	**N/A**	N/A (Note i)	Provision of trading platform and related supportive service for trading of precious metals
深圳市大溪地科技有限公司 ("Shenzhen Daxidi")	The PRC	RMB6,000,000	**N/A**	N/A (Note ii)	Inactive
Shanghai Huatong	The PRC	RMB50,000,000	**N/A**	N/A (Note iii)	Provision of professional electronic platform, related services for silver trading and trading of silver ingots

Notes:

(i) At 1 January 2016, the Group indirectly held 13.5% effective equity interest in Huatong International through its associate, Shanghai Huatong.

In February 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.

(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) 25% equity interest in Shanghai Huatong was acquired from two independent third parties in 2015. During the year ended 31 December 2016, the Group acquired the remaining 75% equity interest in this associate which became a wholly-owned subsidiary of the Group. Details are set out in Note 30.

19. INTERESTS IN ASSOCIATES (Continued)

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

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

	31.12.2017 Zhejiang United Culture RMB'000	31.12.2016 Zhejiang United Culture RMB'000
Current assets	8,587	9,043
Non-current assets	–	309
Current liabilities	(73)	(140)

	For the year ended 31 December 2017 RMB'000	For the year ended 31 December 2016 RMB'000
Revenue	–	243
Loss and total comprehensive expense for the year	(698)	(969)

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

	31.12.2017 Zhejiang United Culture RMB'000	31.12.2016 Zhejiang United Culture RMB'000
Net assets of the associates	8,514	9,212
Proportion of the Group's ownership interests in the associates	30%	30%
Carrying amount of the Group's interests in the associates	2,554	2,763

20. AVAILABLE-FOR-SALE INVESTMENT

	2017 RMB'000	2016 RMB'000
Unlisted investment:		
– equity securities	**8,963**	8,963

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

	2017 RMB'000	2016 RMB'000
Raw materials	**1,024,593**	908,591
Work in progress	**60,485**	45,197
Finished goods	**351,740**	350,366
	1,436,818	1,304,154

22. TRADE RECEIVABLES, LOAN RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2017 RMB'000	2016 RMB'000
Trade receivables	**43,002**	63,257
Loan receivables (Note)	**89,100**	–
Deposits and prepayments	**71,020**	114,757
	203,122	178,014

Note: Amounts represented unsecured fixed-rate loan receivables carried interest at 0.6% per month. All the loan receivables were either repayable on demand or within one year. At 31 December 2017, included in the carrying amount of loan receivables is accumulated impairment loss of RMB900,000 (2016: nil).

22. TRADE RECEIVABLES, LOAN RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

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

The 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:

	2017	2016
	RMB'000	RMB'000
0 – 30 days	**39,182**	59,502
31 – 60 days	**1,033**	3,238
61 – 90 days	**1,819**	517
Over 90 days	**968**	–
	43,002	63,257

Included in the Group's trade receivables amounting to RMB4,592,000 (2016: RMB3,748,000) 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

	2017	2016
	RMB'000	RMB'000
0 – 30 days	**3,245**	–
31 – 60 days	**702**	3,748
61 – 90 days	**476**	–
Over 90 days	**169**	–
	4,592	3,748

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.

23. TRADE DEPOSITS

The amount represents trade deposits paid to suppliers.

24. RESTRICTED BANK BALANCES/BANK BALANCES AND CASH

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 classified the clients' monies as restricted bank balances and recognised the corresponding deposits received in other payables. 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.

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

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

	2017	2016
Range of interest rates per annum		
Restricted bank balances and bank balances	**0.001% – 0.380%**	0.001% – 0.350%

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

	2017	2016
	RMB'000	RMB'000
United States dollar	**38**	7,708
Hong Kong dollar	**6,017**	6,322
	6,055	14,030

25. TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables	**138,477**	10,682
Other payables and accrued expenses	**54,196**	84,867
Deposits received for using the silver exchange platform	**339,511**	20,676
Amount due to Huatong International (Note)	**20,446**	28,046
Dividend payable	**3,834**	2,203
Value-added tax and other taxes payables	**48,774**	56,258
	605,238	202,732

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

During the year ended 31 December 2017, the Group launches a gift credits initiative. Sales of gift credits and goods that resulted in granting gift credits constitute multiple element revenue transactions and the fair value of the consideration received or receivable should be allocated between the goods supplied and the gift credits granted. The consideration allocated to the gift credits is to be measured by reference to the fair value of the gift credits for which they could be redeemed and such consideration is not recognised as revenue at the time of the initial sale transaction, but is deferred and recognised as revenue when the gift credits expired or are redeemed and the Group's obligations have been fulfilled.

The management of the Group has, for simplicity, decided not to defer the recognition of revenue in relation to gift credits since the fair value of the gift credits outstanding at 31 December 2017 amounted to RMB32,000 is considered to be insignificant. In August 2017, the Group has ceased to grant further gift credits from selling the goods.

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:

	2017 RMB'000	2016 RMB'000
0 – 30 days	**124,917**	8,976
61 – 90 days	**13,143**	–
91 – 180 days	**365**	–
181 – 365 days	**52**	1,706
	138,477	10,682

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.

26. CUSTOMER RECEIPTS IN ADVANCE

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

27. BANK BORROWING

	2017	2016
	RMB'000	RMB'000
Secured bank borrowing carrying interest at fixed rates, repayable within one year and without a repayment on demand clause	**110,000**	110,000

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

	2017	2016
Effective interest rates per annum	**6.53%**	4.79%

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

28. SHARE CAPITAL

The share capital as at 31 December 2017 represents the issued share capital of the Company, details of which are set out below:

	Number of shares	Share capital HK$'000	Share capital RMB'000
Ordinary share of HK$0.01 each:			
Authorised			
At 1 January 2016, 31 December 2016 and 31 December 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 (Note i)	80,000,000	800	678
Issue of new shares on acquisition of subsidiaries (Note ii)	62,500,000	625	516
At 31 December 2016	1,463,346,589	14,634	11,821
Placing of new shares (Note i)	13,800,000	138	122
Issue of new shares on acquisition of subsidiaries (Note ii)	137,500,000	1,375	1,223
Exercise of share options (Note iii)	9,078,000	90	76
At 31 December 2017	1,623,724,589	16,237	13,242

Notes:

(i) During the year ended 31 December 2017, the Company allocated and issued 13,800,000 placing shares of par value of HK$0.01 on 23 February 2017 at the placing price of HK$1.51 per share (2016: 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). 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 2016, 62,500,000 new ordinary shares of par value of HK$0.01 each of the Company was issued on 28 January 2016 as part of the consideration in acquiring 75% equity interests in Shanghai Huatong. The fair value of the share issued determined using the published price available at the date of issuance is approximately RMB86,179,000, of which RMB516,000 was credited to share capital and the remaining balance of approximately RMB85,663,000 was credited to the share premium account. Details of the acquisition are set out in Note 30.

During the year ended 31 December 2017, 137,500,000 new ordinary shares of par value HK$0.01 each of the Company was issued on 11 April 2017 as the final consideration in acquiring 75% equity interests in Shanghai Huatong. The fair value of the share issued determined using the published price available at the date of issuance is approximately RMB187,057,000, of which RMB1,223,000 was credited to share capital and the remaining balance of approximately RMB185,834,000 was credited to the share premium account.

(iii) During the year ended 31 December 2017, share options were exercised to subscribe for 1,500,000, 516,000 and 7,062,000 shares of the Company at exercise price per share of HK$0.96, HK$1.97 and HK$1.8, respectively. The total net proceeds from issue of these shares amounted to RMB13,561,000 were received by the Group.

29. DEFERRED INCOME

	2017 RMB'000	2016 RMB'000
Government subsidies (Note i)	**7,083**	7,798
Membership income (Note ii)	**1,043**	4,717
	8,126	12,515
Analysed for reporting purposes as:		
Current	**1,043**	4,717
Non-current	**7,083**	7,798
	8,126	12,515

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 2017, an amount of RMB715,000 (2016: 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 ended 31 December 2016.

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 41(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.

30. ACQUISITION OF SUBSIDIARIES (Continued)

	NOTES	RMB'000
Consideration transferred		
Cash		225,000
Issue of new shares of the Company, at fair value	28(ii)	86,179
Contingent consideration – consideration shares	(i)	159,497
Fair value of previously held interests in an associate	(ii)	92,000
		562,676
Assets acquired and liabilities recognised at the date of acquisition (Note)		
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
Goodwill on acquisition	(iii)	
Consideration transferred		562,676
Plus: non-controlling interests	(iv)	2,992
Less: net assets acquired		(158,347)
		407,321
Net cash outflow arising on acquisition		
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 ended 31 December 2016 was RMB80,028,000 attributable to Shanghai Huatong Group since it became subsidiaries of the Group. Revenue for the year ended 31 December 2016 included 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 2016, 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 2016, 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. On 11 April 2017, 137,500,000 new ordinary shares of par value HK$0.01 each of the company was issued as final consideration in acquiring 75% equity interests in Shanghai Huatong. The fair value of shares issued at the date of issuance is approximately RMB187,057,000 (being 137,500,000 shares valued at RMB1.36 each). The difference of the fair value at the date of issuance and 31 December 2017 of RMB10,540,000 is recognised as other loss.

(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 remeasurement of associates of RMB31,305,000 was recognised in the consolidated statement of profit or loss and other comprehensive income during the year ended 31 December 2016.

(iii) The goodwill arising on the acquisition of Shanghai Huatong Group is measured as the excess of the sum of the consideration transferred, the amount of non-controlling interests in Shanghai Huatong Group and the fair value of the Group's previously held equity interest 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.

31. DISPOSALS OF SUBSIDIARIES

In October 2016, the Group disposed of 76% equity interests in Huatong International to an independent third party at a consideration of RMB38,000,000, following which the Group holds 18% equity interests 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 interests in China Silver Securities Limited ("CSSL") to an independent third party at a consideration of RMB16,106,000.

	Huatong International RMB'000	CSSL RMB'000	Total RMB'000
Analysis of assets and liabilities over which control was lost:			
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)
Net assets disposed of	49,793	4,805	54,598
Gain on disposals of subsidiaries:			
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
Gain on disposals	162	12,209	12,371
Net cash inflow arising on disposals:			
Cash consideration	18,000	16,106	34,106
Less: bank balances and cash disposed of	(5,594)	(7,198)	(12,792)
	12,406	8,908	21,314

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.

32. SHARE OPTION SCHEME (Continued)

(I) The Scheme (Continued)

(b) At 31 December 2017, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 82,134,000 (2016: 84,150,000), representing 5.06% (2016: 5.75%) 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 1.1.2016 and 1.1.2017	Exercised during the year	Outstanding at 31.12.2017
3 July 2013	0.96	8,150,000	(1,500,000)	6,650,000
20 August 2014	2.20	27,000,000	–	27,000,000
2 January 2015	1.80	49,000,000	(516,000)	48,484,000
		84,150,000	(2,016,000)	82,134,000
Exercisable at 31 December 2016		39,050,000		
Exercisable at 31 December 2017				62,534,000
Weighted average exercise price		HK$1.85	HK$1.18	HK$1.86

In respect of the share option exercised during the year, the weighted average share price at the dates of exercise was HK$2.09.

The 6,650,000 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 (2,850,000 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)

32. SHARE OPTION SCHEME (Continued)

(I) The Scheme (Continued)

(b) (Continued)

The 48,484,000 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 (14,184,000 outstanding share options granted are exercisable)
- 2 January 2017 to 1 January 2025 (28,884,000 outstanding share options granted are exercisable)
- 2 January 2018 to 1 January 2025 (all share options granted are exercisable)

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:

Eligible participants	Outstanding at 1.1.2016 and 1.1.2017	Exercised during the year	**Outstanding at 31.12.2017**
Directors	6,200,000	–	**6,200,000**
Employees	72,950,000	(2,016,000)	**70,934,000**
Consultant	5,000,000	–	**5,000,000**
	84,150,000	(2,016,000)	**82,134,000**
Exercisable at 31 December 2016	39,050,000		
Exercisable at 31 December 2017			**62,534,000**

(c) The Group recognised the total expense of RMB6,143,000 for the year ended 31 December 2017 (2016: RMB14,259,000) 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.

32. SHARE OPTION SCHEME (Continued)

(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 2017, the number of shares in respect of which options had been granted and remained outstanding under the New Scheme was 100,938,000 (2016: 108,000,000), representing 6.22% (2016: 7.38%) 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 1.1.2016 and 1.1.2017	Exercised during the year	Outstanding at 31.12.2017
27 August 2015	1.97	108,000,000	(7,062,000)	**100,938,000**
Exercisable at 31 December 2016		54,000,000		
Exercisable at 31 December 2017				**100,938,000**
Weighted average exercise price		HK$1.97	HK$1.97	**HK$1.97**

In respect of the share option exercised during the year, the weighted average share price at the dates of exercise was HK$2.64.

The 100,938,000 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 (47,948,000 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.

(c) The Group recognised the total expense of RMB9,923,000 for the year ended 31 December 2017 (2016: RMB33,677,000) 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 participates 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 RMB16,910,000 (2016: RMB12,149,000) represents contributions paid or payable to the above schemes by the Group during the year.

34. RELATED PARTY DISCLOSURES

Compensation of key management personnel

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

	2017 **RMB'000**	2016 RMB'000
Short-term benefits	**7,978**	9,714
Post-employment benefits	**77**	74
Share-based payments	**2,532**	7,872
	10,587	17,660

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

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.

	2017 RMB'000	2016 RMB'000
Buildings	56,725	60,292
Prepaid lease payments – land use rights	7,726	7,904
Inventories	564,610	220,496
	629,061	288,692

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 borrowing 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

	2017 RMB'000	2016 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,184,105	590,806
Available-for-sale investment	8,963	8,963
Financial liabilities		
Amortised cost	665,577	249,308
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, loan receivables, restricted bank balances, bank balances and cash, trade and other payables, contingent consideration and bank borrowing. 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	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong dollar	**6,017**	6,322	**5,607**	3,207
United States dollar	**38**	7,708	**3,187**	–

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% (2016: 5%) increase and decrease in the relevant foreign currencies against RMB. 5% (2016: 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% (2016: 5%) change in foreign currency rates. A positive/negative number below indicates an increase/a decrease in post-tax profit where the relevant foreign currency strengthens 5% (2016: 5%) against RMB. For a 5% (2016: 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	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Post-tax profit	**15**	117	**(118)**	289

37. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

Interest rate risk

At 31 December 2016, the Group is exposed to fair value interest rate risk in relation to its fixed-rate bank borrowing (see Note 27 for details).

At 31 December 2017 and 2016, the Group is also exposed to cash flow interest rate risk in relation to its variable-rate restricted bank balances and bank balances (see Note 24 for details).

At 31 December 2017, the Group is exposed to fair value interest rate risk in relation to its fixed loan receivables (see Note 22 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 (2016: 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 (2016: 25 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2017 would increase/decrease by RMB1,965,000 (2016: RMB965,000).

37. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk

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

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

	2017	2016
Amount due from the largest debtor as a percentage to total trade receivables	19%	31%
Total amount due from the five largest debtors as a percentage to total trade receivables	53%	64%

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.

37. FINANCIAL INSTRUMENTS (Continued)

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

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 borrowing 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.

Liquidity and interest risk tables

	Weighted average effective interest rate	On demand or less than 1 month	1 – 3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2017						
Trade and other payables	–	555,577	–	–	555,577	555,577
Bank borrowing – fixed rate	6.53	–	–	113,282	113,282	110,000
		555,577	–	113,282	668,859	665,577
As at 31 December 2016						
Trade and other payables	–	139,308	–	–	139,308	139,308
Bank borrowing – fixed rate	4.79	–	–	115,068	115,068	110,000
		139,308	–	115,068	254,376	249,308

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 31/12/2017	Fair value as at 31/12/2016	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Contingent consideration in a business combination	–	Liabilities – HK$176,517,000	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 vendor for realisation.	DLOM of 16.11%.

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 31 December 2016	176,517
Fair value change	10,540
Issue of new shares (Note 28(ii))	(187,057)
At 31 December 2017	–

37. FINANCIAL INSTRUMENTS (Continued)

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

Fair value of the Group's financial assets and financial liabilities 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 RMB16,173,000 (2016: RMB15,703,000).

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:

	2017 RMB'000	2016 RMB'000
Within one year	15,091	11,742
In the second to fifth years inclusive	11,022	4,076
	26,113	15,818

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 five years and rentals are fixed during the lease period.

39. CAPITAL COMMITMENTS

	2017 RMB'000	2016 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	2,173	–

40. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Contingent consideration RMB'000	Advance from a non-controlling shareholder of a subsidiary (included in other payables) RMB'000	Bank borrowing RMB'000	Dividend payable RMB'000	Amount due to Huatong International RMB'000	Total RMB'000
At 1 January 2017	176,517	4,236	110,000	2,203	28,046	321,002
Financing cash flows	–	(4,236)	(5,432)	(39,148)	(7,600)	(56,416)
Non-cash changes						
Dividend declared	–	–	–	40,779	–	40,779
Finance costs recognised	–	–	5,432	–	–	5,432
Fair value change of contingent consideration	10,540	–	–	–	–	10,540
Issue of new shares on acquisition of Shanghai Huatong	(187,057)	–	–	–	–	(187,057)
At 31 December 2017	–	–	110,000	3,834	20,446	134,280

41. 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 the Company 2017	Attributable equity interest held by the Company 2016	Principal activities	Form of company
Directly owned						
CS Jewellery International Limited ("CSJ International") 金貓銀貓珠寶國際有限公司	Hong Kong	Ordinary shares HK$10,000	N/A (Note v)	100%	Inactive	Limited liability
CSMall Group Limited ("CSMall Cayman") 金貓銀貓集團有限公司	Cayman	Ordinary shares US$83,233	60.07% (Note iv)	N/A	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%	100%	Inactive	Limited liability
Ultimate Deal Group Limited	The BVI	Ordinary Shares US$50,000	100%	100%	Investment holding	Limited liability

41. 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 the Company 2017	2016	Principal activities	Form of company
Indirectly owned						
CSMall Group Limited^ ("CSMall BVI") 金貓銀貓集團有限公司	The BVI	Ordinary Shares US$83,233	60.07% (Note iv)	64.57%	Investment holding	Limited liability
CSMall Holdings Limited^ 金貓銀貓控股有限公司	The BVI	Ordinary shares US$50,000	60.07% (Note iv)	64.57%	Investment holding	Limited liability
China Silver Jewellery Group Limited^ 中國白銀珠寶集團有限公司	Hong Kong	Ordinary shares HK$10,000	60.07% (Note iv)	64.57%	Investment holding	Limited liability
China Silver Co., Limited 中國白銀有限公司	Hong Kong	Ordinary shares HK$10,000	100%	100%	Investment holding	Limited liability
江西吉銀實業有限公司^	The PRC	Registered capital US$99,800,000	60.07% (Note iv)	64.57%	Processing and wholesale of precious metal products	Wholly foreign owned
Jiangxi Longtianyong*	The PRC	Registered capital RMB110,000,000	100%	100%	Manufacture of silver and non-ferrous metals for sale	Wholly foreign owned
Shanghai Huatong*	The PRC	Registered capital RMB50,000,000	Note ii	Note ii	Provision of professional electronic platform, related services for silver trading and trading of silver ingots	Limited liability
深圳國金通寶有限公司^	The PRC	Registered capital RMB50,000,000#	60.07% (Note iv)	64.57%	Sale of jewellery products¥	Limited liability

41. 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 the Company 2017	2016	Principal activities	Form of company
Indirectly owned (Continued)						
深圳國銀通寶有限公司^	The PRC	Registered capital RMB500,000,000	**60.07% (Note iv)**	64.57%	Offline sale of jewellery products and operation of self-owned stores	Wholly foreign owned
Shenzhen Yinruiji^*	The PRC	Registered capital RMB1,000,000	**N/A (Note ii)**	Note ii	Online sales platform	Limited liability
Systematic Development Limited	Hong Kong	Ordinary Shares HK$10,000	**100%**	100%	Investment holding	Limited liability
Tongsheng*	The PRC	Registered capital RMB100,000,000	**40% (Note iv)**	N/A	Money lending	Limited liability
溫州銀通經濟信息諮詢有限公司	The PRC	Registered capital RMB1,000,000	**100%**	100%	Inactive	Limited liability
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 ("Jiangxi CSMall Payment")	The PRC	Registered capital RMB108,000,000	**N/A (Note ii)**	55%	Operation of online payment system¥	Limited liability
深圳雲鵬軟件開發有限公司^	The PRC	Registered capital RMB5,000,000#	**60.07% (Note iv)**	64.57%	Software development	Limited liability
景寧畲銀文化有限公司^	The PRC	Registered capital RMB10,000,000#	**60.07% (Note iv)**	64.57%	Planning of cultural events, design and sale of jewellery products	Limited liability

41. 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 the Company 2017	2016	Principal activities	Form of company
Indirectly owned (Continued)						
白銀小鎮(上海)文化產業有限公司^ ("Baiyin Town")	The PRC	Registered capital RMB100,000,000#	**60.07% (Note iv)**	64.57%	Online sales of jewellery products¥	Limited liability
上海華通銀寶鉑銀製品有限公司	The PRC	Registered capital RMB1,000,000	**100%**	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%**	100%	Provision of professional electronic platform	Limited liability
浙江金貓銀貓珠寶首飾有限公司^	The PRC	Registered capital RMB10,000,000#	**60.07% (Note iv)**	N/A	Sale of jewellery products	Limited liability
上海鷗亘商務信息咨詢有限公司	The PRC	Registered capital RMB1,000,000#	**100%**	N/A	Inactive	Limited liability
上海金孛信息科技有限公司	The PRC	Registered capital RMB10,000,000#	**100%**	N/A	Inactive	Limited liability
上海找銀網絡科技有限公司	The PRC	Registered capital RMB50,000,000#	**100%**	N/A	Inactive	Limited liability

* English translated names are for identification only.

\# At 31 December 2017, capital injection to the entity had not been fully paid.

^ Subsidiaries of CSMall Cayman.

¥ Not yet commence business.

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.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes: (Continued)

(ii) Consolidated structured entities

PRC laws and regulations restrict foreign investors from owning more than 50% equity interests 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 upon unwinding the 2016 Contractual Arrangements.

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.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes: (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.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes: (Continued)

(ii) Consolidated structured entities (Continued)

Share Pledge Agreement (Continued)

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

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 in the past 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(ii)).

Termination of a Structured Entity

On 31 July 2017, Baiyin Town, a subsidiary of the Group, 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, enables the Group to operate the online jewellery retail business through Baiyin Town without the contractual arrangement structure. In view of these developments, the parties to the 2014 Contractual Arrangement have entered into a termination agreement to unwind the contractual arrangement structure on 9 August 2017 and the contractual arrangements have been terminated and unwound on 22 August 2017. Since then, the Group lost its control over Shenzhen Yinruiji and its subsidiary, Jiangxi CSMall Payment, which ceased to be a consolidated structured entity of the Group.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes: (Continued)

(ii) Consolidated structured entities (Continued)

Termination of a Structured Entity (Continued)

Analysis of assets and liabilities of Shenzhen Yinruiji and its subsidiary over which control was lost:

	RMB'000
Intangible assets	9,080
Trade and other receivables	39,062
Amount due from the Group	5,110
Bank balances and cash	53
Trade and other payables	(2,871)
Amount due to the Group	(4,446)
Amount due to a fellow subsidiary	(410)
Net assets	45,578
Less: Non-controlling interests	(48,234)
Net liabilities disposed of	(2,656)
Gain on termination of a structured entity	
Consideration received	1,000
Net liabilities disposed of	2,656
	3,656
Net cash inflow arising from termination of a structured entity	
Cash consideration received	1,000
Less: Bank balances and cash disposed of	(53)
	947

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes: (Continued)

(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	
		31.12.2017	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
				RMB'000	RMB'000	**RMB'000**	RMB'000
CSMall Cayman and its subsidiaries	Cayman	**39.93%**	N/A	**40,107**	N/A	**138,234**	N/A
CSMall BVI#	The BVI	**N/A**	35.43%	**N/A**	2,735	**N/A**	49,885
Non-wholly owned subsidiary of CSMall BVI – Jiangxi CSMall Payment#	The PRC	**N/A**	45.00%	**(364)**	–	**N/A**	48,598
Individual immaterial subsidiaries with non-controlling interests				**(536)**	–	**10,463**	–
				39,207	2,735	**148,697**	98,483

became subsidiaries of CSMall Cayman in 2017

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes: (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 Cayman Group 31.12.2017 RMB'000	CSMall BVI Group 31.12.2016 RMB'000
Current assets	**883,303**	591,939
Non-current assets	**21,982**	11,607
Current liabilities	**(559,094)**	(414,148)
Equity attributable to owners of the Company	**346,191**	90,915
Non-controlling interests of CSMall Cayman Group/CSMall BVI Group	**138,234**	49,885
Non-controlling interests of CSMall BVI Group's subsidiaries	**–**	48,598
Revenue	**3,519,581**	2,437,471
Profit for the year attributable to owners of the Company	**101,305**	2,735
Net cash inflow (outflow) from operating activities	**155,519**	(147,282)
Net cash outflow from investing activities	**(18,133)**	(1,989)
Net cash inflow from financing activities	**75,735**	162,179
Net cash inflow	**213,121**	12,908

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes: (Continued)

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

CSMall BVI

In June 2016, the Group disposed of 30% of its equity interest in CSMall BVI, 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 BVI) 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 BVI, 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 BVI) 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.

In January 2017, CSMall BVI issued 58,000,000 shares to an independent third party, reducing the Group's continuing interest to 60.07%. The proceeds of RMB72,962,000 was received in cash. An amount of RMB18,659,000 (being the proportionate share of the carrying amount of the net assets of CSMall BVI) has been transferred to non-controlling interests. The difference of RMB54,303,000 between the increase in the non-controlling interests and the consideration received has been credited to capital reserve.

In February 2017, CSMall Cayman was incorporated and interspersed between the Company and CSMall BVI. Since then, CSMall Cayman had become the directly owned subsidiary of the Group.

Tongsheng

In March 2017, the Group and independent third parties entered into an agreement with the owners of Tongsheng to acquire the entire equity interest in Tongsheng, at a consideration of RMB3,000,000. The Group and the independent third parties paid RMB1,800,000 and RMB1,200,000, respectively. 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.

In August 2017, the Group disposed 20% of its interest in Tongsheng, reducing its continuing interest to 40%. The proceeds on disposal of RMB600,000 was received in cash. An amount of RMB582,000 (being the proportionate share of the carrying amount of the net assets of Tongsheng) has been transferred to non-controlling interests. The difference of RMB18,000 between the increase in non-controlling interests and the consideration received has been credited to capital reserve.

As the Group has the ability to direct the relevant activities of Tongseng and the practical right to appoint the majority members of the board of directors of Tongseng, therefore, the Group has control over Tongseng.

(v) In October 2016, an individual shareholder of CSJ International, an independent third party of the Group, signed a declaration of trust with the Company in which the Company is the legal and beneficial owner of the entire equity interest in CSJ International. Accordingly, CSJ International was accounted for as a consolidated entity of the Group. During the year ended 31 December 2017, a termination of a deed of trust was signed between this individual shareholder and the Company without consideration, since then, CSJ International ceased to be a consolidated entity of the Group. A loss on termination of a deed of trust of RMB251,000 was recognised in the consolidated statement of profit or loss and other comprehensive income and the net cash outflow upon termination of a deed of trust is RMB119,000.

42. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	NOTES	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSET			
Investments in subsidiaries			
– Unlisted investment, at cost		**488,399**	314,460
Amount due from subsidiaries		**411,723**	387,859
Interests in associates		**3,634**	3,634
		903,756	705,953
CURRENT ASSETS			
Amounts due from subsidiaries		**410,267**	416,064
Other receivables		**1,624**	17,910
Bank balances		**5,603**	4,734
		417,494	438,708
CURRENT LIABILITIES			
Other payables		**7,071**	4,898
Amounts due to subsidiaries		**236,863**	193,884
		243,934	198,782
NET CURRENT ASSETS		**173,560**	239,926
TOTAL ASSETS LESS CURRENT LIABILITY		**1,077,316**	945,879
CAPITAL AND RESERVES			
Share capital	28	**13,242**	11,821
Share premium and reserves	(i)	**1,064,074**	934,058
TOTAL EQUITY		**1,077,316**	945,879

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

Notes:

(i) Movements in share premium and reserves of the Company:

	Share premium RMB'000	Share options reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2016	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(ii))	85,663	–	–	85,663
Dividends paid (Note 12)	(25,049)	–	–	(25,049)
At 31 December 2016	914,250	95,419	(75,611)	934,058
Loss and total comprehensive expense for the year	–	–	(62,278)	(62,278)
Recognition of equity-settled share-based payments (Note 32)	–	16,066	–	16,066
Issue of shares upon exercise of share options	18,257	(4,772)	–	13,485
Placing of shares	18,335	–	–	18,335
Transaction costs attributable to issue of shares	(647)	–	–	(647)
Issue of new shares on acquisition of Shanghai Hautong (Note 28(ii))	185,834	–	–	185,834
Dividends paid (Note 12)	(40,779)	–	–	(40,779)
At 31 December 2017	1,095,250	106,713	(137,889)	1,064,074

43. COMPARATIVE FIGURES

Certain comparative figures in the consolidated financial statements have been reclassified to conform with the current year's presentation of the Group.

44. EVENTS AFTER THE REPORTING PERIOD

(i) On 13 March 2018, the Group completed the spin-off and separate listing of CSMall Group (stock code: 1815) on the Main Board of the Stock Exchange. As at the date of issuance of these financial statements, the Company held approximately 47.46% interest in the issued share capital of CSMall Group.

(ii) On 13 March 2018, 27,070,010 shares of CSMall Group were allotted and issued to the qualifying shareholders of the Company in the proportion of one share of CSMall Group for every 60 shares of the Company by way of a distribution in specie (the "Distribution"). Further details of the Distribution are set out in the announcements of the Company dated 30 August 2017, 28 November 2017, 11 December 2017, 15 December 2017, 6 February 2018 and 28 February 2018 and the circular of the Company dated 28 November 2017.

Five Years' Financial Summary

RESULTS

	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	**2017** **RMB'000**
Revenue	1,506,963	1,522,716	1,706,665	4,088,195	**5,469,028**
Profit before tax	180,123	276,794	7,004	428,410	**387,780**
Income tax expense	(48,785)	(28,454)	(17,975)	(121,597)	**(62,587)**
Profit (loss) for the year	131,338	248,340	(10,971)	306,813	**325,193**
Attributable to					
– Owners of the Company	131,338	248,340	(10,969)	304,078	**285,986**
– Non-controlling interests	–	–	(2)	2,735	**39,207**
	131,338	248,340	(10,971)	306,813	**325,193**

ASSETS AND LIABILITIES

	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	**2017** **RMB'000**
Total assets	738,651	1,165,051	1,757,221	2,776,039	**3,549,706**
Total liabilities	(203,645)	(411,160)	(262,141)	(588,393)	**(777,257)**
Total equity	535,006	753,891	1,495,080	2,187,646	**2,772,449**
Equity attributable to owners of the Company	535,006	753,891	1,446,482	2,089,163	**2,623,752**
Non-controlling interests	–	–	48,598	98,483	**148,697**
	535,006	753,891	1,495,080	2,187,646	**2,772,449**