中國白銀集團
CHINA SILVER GROUP

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 815

Annual Report 2018

CONTENTS

CORPORATE INFORMATION

Executive directors

Chen Wantian (陳萬天)
Song Guosheng (宋國生)
Chen Guoyu (陳國裕)

Independent non-executive directors

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

Yan Ho Yin (忻浩賢), HKICPA

Authorised representatives

Chen Wantian
Yan Ho Yin

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:

Sullivan and Cromwell (Hong Kong) LLP

Cayman Islands law:

Conyers Dill & Pearman

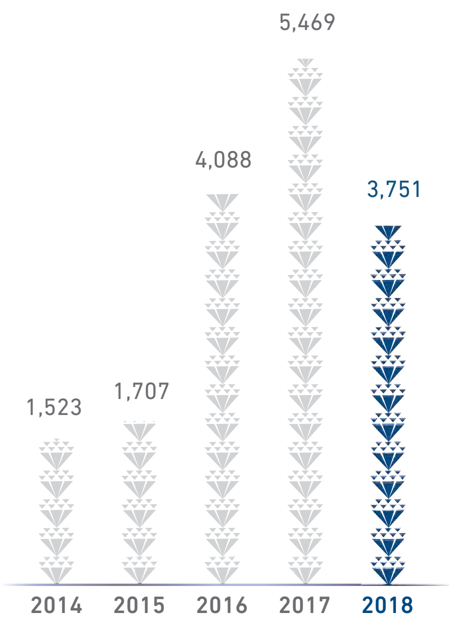
Investors and media relations

Hill and Knowlton Strategies

FINANCIAL HIGHLIGHTS

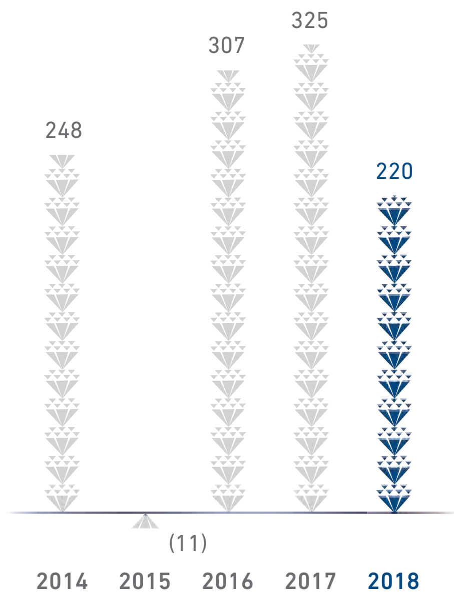
Revenue

RMB million



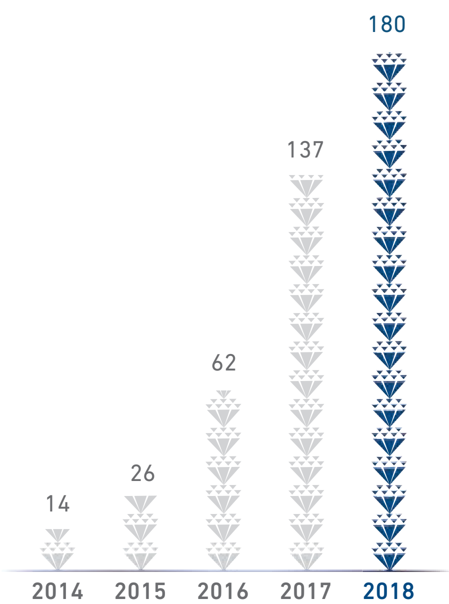
Profit (loss) for the year

RMB million

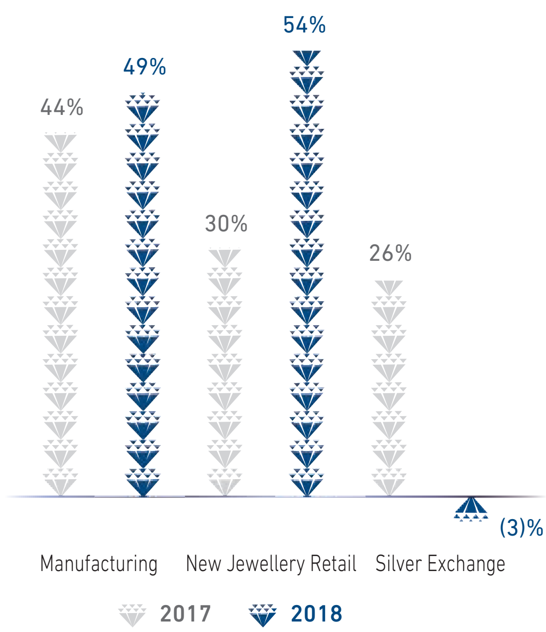


Segment Profit from CSMall Group

RMB million



Segment Profit Contribution



FINANCIAL HIGHLIGHTS

Our Milestones

2020
- Hazardous Waste Treatment capacity expected to reach 1 million tonnes

3Q 2018
- Announced the entry into the Hazardous Waste Treatment Business

MAR 2018
- Spin-off listing of CSMall Group (Stock code: 1815)

MAR 2017
- Acquired Silver Exchange Business

2014
- Developed New Jewellery Retail Business

2012
- IPO in Hong Kong

2002
- Silver Manufacturing

FINANCIAL HIGHLIGHTS

SELECTED BRANDS AND PRODUCTS

CHAIRMAN'S STATEMENT

The board of directors (the "Board", its member(s), the "Director(s)") 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").

Since 2014, we have diversified from the traditional Manufacturing segment to the downstream New Jewellery Retail segment which is now operated under our subsidiary, CSMall Group Limited (Stock code: 1815) ("CSMall Group"). CSMall Group successfully completed a separate listing on the Main Board of the Stock Exchange on 13 March 2018. Aside from leveraging our abundant resources in the upstream business, CSMall Group has changed its original marketing strategy since 2018. Through a series of promotion and marketing campaigns, it has gradually shifted its focus from gold products to silver jewellery which enjoys a relatively higher margin. During the year, the aggregate sales of CSMall Group amounted to RMB2,497 million, representing approximately 66.6% of our total revenue (2017: 64.4%). Although the segment revenue of the New Jewellery Retail segment fell by approximately 29.0% compared with 2017, its segment profit increased by approximately 31.2% compared with 2017, indicating that CSMall Group has carried out a successful transformation of its marketing strategy and achieved resounding results.

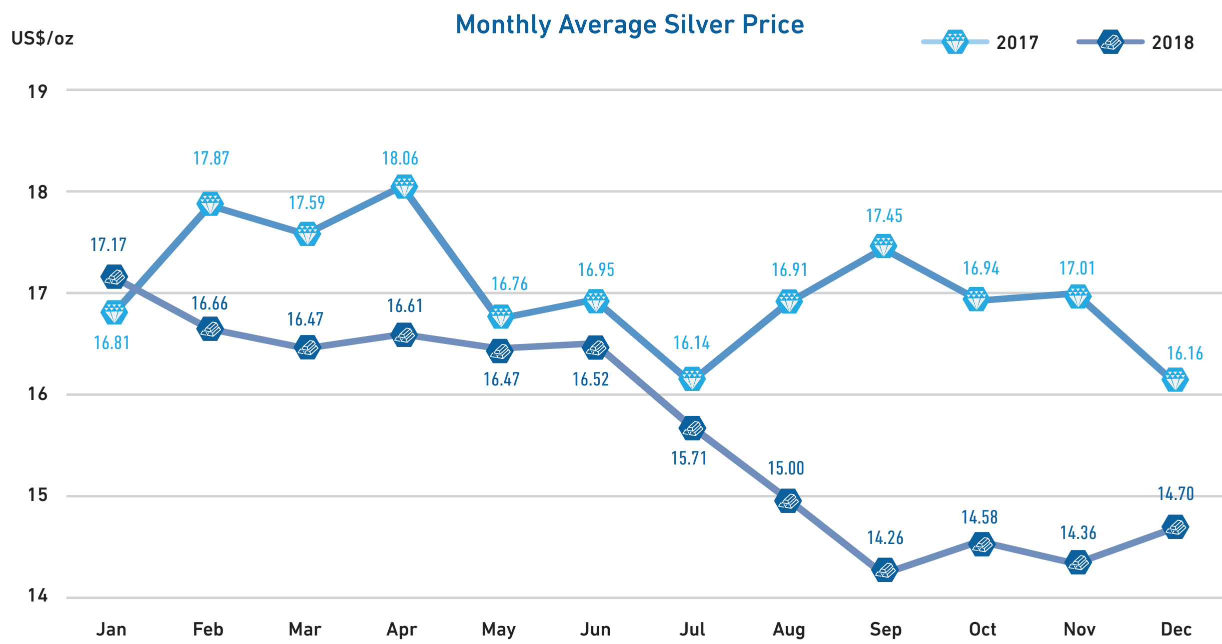
Affected by the uncertainties of the global market and the depreciation of certain assets of the Group, our profit for the year decreased to RMB220 million (2017: RMB325 million).

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

As one of the leading silver producers in the PRC, we 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 2018, we sold 67 tonnes of silver ingots to our customers and produced 258 tonnes of silver ingots for our downstream businesses. Throughout 2018, the global silver market fluctuated considerably. The graph below shows the change in international silver price quoted on the London Bullion Market Association (LBMA) from January 2017 to December 2018:



Source: The London Bullion Market Association

During the year, the Group refined its production process, resulting in a gradual uplifting in the techniques of extracting lead and new metal by-products. Accordingly, our sales of lead and other metal by-products increased significantly.

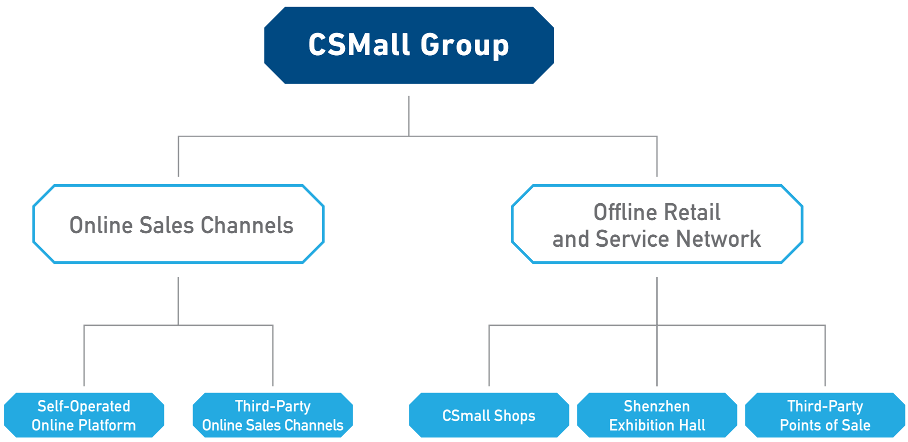
On the whole, we expect that the Manufacturing segment will continue to generate stable cash flow for the Group.

CHAIRMAN'S STATEMENT

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.

In 2018, CSMall Group recorded solid performance with both of its segment revenue and segment profit maintaining a steady growth.



Online Sales Channels

(i) Self-operated online platform

As of 31 December 2018, the number of registered members on our self-operated online sales platform, which consists of www.csmall.com, m.csmall.com and the mobile App of "金貓銀貓CSmall", surpassed 9.7 million, with over 850 million aggregate page views (PV), 210 million unique visitors (UV) and 127 million internet protocols (IP) for the whole year of 2018. As of 31 December 2018, the platform carried an aggregate of 192 self-owned and third-party brands which offer a comprehensive range of products to customers.

(ii) Television and video shopping channels

As of 31 December 2018, we cooperated with a total of 22 television and video shopping channels to promote and sell our jewellery products and become a core supplier of gold, silver and jewellery category of all top television channels, which enabled us to achieve satisfactory sales performance. With a daily coverage of over 100 million home viewers in the PRC, our brand awareness among Chinese viewers of television and video shopping channels was enhanced substantially.

(iii) Third-party online marketplaces

We cooperate with third-party online marketplaces and retail platforms such as Tmall (天貓), JD.com (京東), Suning (蘇寧), Gome (國美), Yihaodian (1號店) and WeChat (微信), etc., to promote our jewellery products.

CHAIRMAN'S STATEMENT

Offline Retail and Service Network

(i) CSmall shops

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

As of 31 December 2018, we had 98 CSmall Shops located in 18 provinces and municipalities in the PRC, consisting of 15 self-operated CSmall Shops and 83 franchised CSmall Shops with presence in Anhui, Beijing, Fujian, Guangdong, Hebei, Heilongjiang, Hubei, Hunan, Inner Mongolia, Jiangsu, Jiangxi, Liaoning, Shaanxi, Shandong, Shanghai, Tianjin, Xinjiang and Zhejiang.

Shops Distribution

34 in Zhejiang
9 in Shanghai
8 in Guangdong
8 in Jiangsu
6 in Anhui
6 in Beijing
5 in Tianjin
4 in Hubei
3 in Heilongjiang
3 in Hunan
3 in Liaoning
3 in Shandong
1 in Fujian
1 in Hebei
1 in Inner Mongolia
1 in Jiangxi
1 in Shaanxi
1 in Xinjiang

Photos of CSmall Shops

CHAIRMAN'S STATEMENT

(ii) Shenzhen exhibition hall

We sell products at our Shenzhen Exhibition Hall with a gross floor area of approximately 1,500 square meters in Shuibei, Shenzhen, which is generally believed to be home to PRC's largest and leading jewellery trading and wholesale market. Our Shenzhen Exhibition Hall showcases the product designs of our self-owned brands and certain third-party brands, and also serves as an interactive exhibition and sales platform primarily for our wholesale customers as well as our franchisees.

(iii) Third-party offline points of sale

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

Silver Exchange Business

Shanghai Huatong is the operator of an integrated silver exchange platform in the PRC which provides professional and standardized spot goods supply, trading, logistic and e-commerce services. Its official website, www.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.

In 2018, Shanghai Huatong contributed a segment revenue of RMB105 million (2017: RMB161 million) and segment loss of RMB10 million (2017: segment profit of RMB119 million).

PROSPECTS

2018 was a year of global economic and political turmoil. US Federal Reserve interest rate hikes, Brexit and the Sino-US trade war were all surrounded by uncertainties, which resulted in a substantial fluctuation in silver price. These developments, however, were in line with our predictions for the global financial market.

Looking forward, with a heightening global risk-aversion sentiment, the demand for hedge assets such as precious metals will gradually emerge in the market and we therefore remain confident about the future of the silver, precious metals and jewellery retail market in the PRC.

CHAIRMAN'S STATEMENT

Furthermore, as China stipulated the development strategy of "Reform for Promoting Ecological Progress", hazardous waste treatment is generally recognized to be the focus of the environmental technology industry. Due to high technical requirements, there is a big gap between supply and demand in this area. Since the Group is well-equipped with nationally leading and sophisticated technologies of hazardous waste treatment and recycling, this business segment is becoming an important aspect of our future development strategies. As disclosed in the Company's 2018 interim results announcement, the Group planned to enter the hazardous waste treatment business. We shall expand our business scale and leverage the opportunity brought by the national strategy of "One Belt, One Road" initiative, aiming to build the Group into a globally influential environmental technology industry leader in the next three years.

The Group is reviewing the situation and will adopt a pragmatic and enterprising attitude to seize development opportunities. More details will be disclosed in accordance with the Listing Rules when appropriate.

In summary, we are pleased with the positive news and future development of the business segments and will strive to pave the way for becoming a leading fully-integrated silver and precious metals enterprise in the PRC.

Chen Wantian
Chairman

Hong Kong, 28 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

The revenue of the Group for the year ended 31 December 2018 was RMB3,751 million (2017: RMB5,469 million), representing a decrease of approximately 31.4% from that of 2017.

	Year ended 31 December,			
	2018		2017	
	Revenue *(RMB'000)*	% of revenue	Revenue *(RMB'000)*	% of revenue
Manufacturing segment				
Sales of silver ingot	**219,847**	**5.8%**	789,847	14.4%
Sales of lead ingots	**493,111**	**13.1%**	435,600	8.0%
Sales of palladium	**—**	**0.0%**	313,498	5.7%
Sales of zinc oxide	**159,630**	**4.3%**	80,473	1.5%
Sales of other metal by-products	**277,079**	**7.4%**	169,399	3.1%
	1,149,667	**30.6%**	1,788,817	32.7%
New Jewellery Retail segment operated under CSMall Group				
Sales of gold products, except for first-hand gold bars	**1,322,595**	**35.3%**	1,256,151	23.0%
Sales of first-hand gold bars	**255,778**	**6.8%**	1,488,385	27.2%
Sales of silver products	**694,108**	**18.5%**	568,588	10.4%
Sales of gem-set and other jewellery products	**196,150**	**5.2%**	206,457	3.8%
Sales of diamonds	**28,230**	**0.8%**	—	0.0%
	2,496,861	**66.6%**	3,519,581	64.4%
Silver Exchange segment				
Membership fee income	**—**	**0.0%**	13,142	0.2%
Commission income	**104,688**	**2.8%**	147,488	2.7%
	104,668	**2.8%**	160,630	2.9%
Total	**3,751,216**	**100%**	5,469,028	100%

MANAGEMENT DISCUSSION AND ANALYSIS

Manufacturing segment

Sales of silver ingot decreased from RMB790 million to RMB220 million for the year ended 31 December 2018, representing a decrease of approximately 72.2% from that 2017. The decrease was mainly due to decrease in sales volume.

Following the fluctuation of international silver price, the average selling price of silver ingot was RMB3.1 million (2017: RMB3.4 million) (value-added tax exclusive) per tonne. Due to further tightening of the environmental measures of the PRC government, the production of silver ingot was adversely affected. As such, sales volume of silver ingot decreased from 236 tonnes to 67 tonnes. We have been working closely with the local authorities on compliance with the regulatory requirements and have been devising ways to improve our production process in view of the tightening of environmental measures.

Other metal products such as lead ingot, palladium ingot, zinc oxide, bismuth ingot and antimony ingot are produced during the production of silver ingot. Due to the decrease of sales volume, sales of other metal products slightly decreased from RMB999 million to RMB930 million for the year ended 31 December 2018.

New Jewellery Retail segment operated under CSMall Group

During 2018, CSMall Group recorded sales of RMB2,497 million (2017: RMB3,520 million), representing a decrease of approximately 29.1%, mainly due to the change of marketing strategy by focusing on retail products with higher margin.

Silver Exchange segment

During the year, the Silver Exchange segment recorded sales of RMB105 million (2017: RMB161 million), representing a decrease of approximately 34.8%. The decrease were mainly due to the waiver of membership fees during the year and the downsizing of commission income.

MANAGEMENT DISCUSSION AND ANALYSIS

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 decrease was mainly due to the downsizing of sales of silver ingots.

New Jewellery Retail segment operated under CSMall Group

Cost of sales mainly represents cost of materials used for the production of gold, silver and jewellery products. Except for silver, other materials like gold, amber and diamond are sourced from independent third parties. The amount decreased as the sales of CSMall Group decreased 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. The amount decreased as membership fees were waived during the year.

GROSS PROFIT AND GROSS PROFIT MARGIN

We recorded gross profit of RMB596 million (2017: RMB604 million) for the year ended 31 December 2018, a decrease of approximately 1.3% as compared to that of 2017 as the improved gross profit recorded in the New Jewellery Retail segment was offset by the decrease in gross profit in the Manufacturing segment and Sliver Exchange segment. The overall gross profit margin increased from 11% to 15.9% mainly due to the contribution from the higher segment margin of the New Jewellery Retail segment after its change of product sales composition.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by approximately 3.5% from RMB144 million to RMB149 million for the year ended 31 December 2018. The increase was mainly due to an increase in staff cost of RMB7.3 million.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses increased by approximately 13.6% from RMB44 million to RMB50 million for the year ended 31 December 2018, mainly representing advertising cost for brand promotion, staff cost and transportation cost for product delivery.

OTHER EXPENSES

Other expenses mainly represent professional fees incurred in connection with the application for the spin-off and separate listing of CSMall Group on the Main Board of the Stock Exchange, which significantly decreased from RMB19 million for 2017 to RMB9 million for 2018 due to the completion of listing at the early stage of 2018; as well as a donation of RMB10 million made by the Group in 2018 for establishment and daily operation of a museum.

INCOME TAX EXPENSE

The amount increased as the magnitude of reversal of the over-provision for a major subsidiary entitled to enjoy a concessionary EIT rate decreased from RMB34.7 million for the year ended 31 December 2017 to RMB7.1 million for the year ended 31 December 2018.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to owners of the Company decreased from RMB286 million to RMB149 million for the year ended 31 December 2018 mainly due to the net result of RMB77 million impairment in goodwill, increase in selling and distribution expenses and income tax expense, and dilutive effect of CSMall Group shares issued to non-controlling shareholders through public offering and loan capitalisation for the year ended 31 December 2018.

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 2018, inventory turnover days increased to approximately 205 days (for the year ended 31 December 2017: 103 days) as more inventories were kept for anticipated future growth.

The turnover days for trade receivables for the year ended 31 December 2018 were approximately 13.7 days (for the year ended 31 December 2017: 3.5 days).

The turnover days for trade payables for the year ended 31 December 2018 were approximately 22 days (for the year ended 31 December 2017: 5.6 days).

BORROWINGS

As of 31 December 2018, the Group's bank borrowing balance amounted to RMB60 million (as of 31 December 2017: 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 borrowing less bank balances and cash as a percentage of total equity. As of 31 December 2018, the Group was in a net cash position with a net gearing ratio of -14.4% (as of 31 December 2017: -21.7%).

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

As of 31 December 2018, the Group pledged property ownership rights in respect of buildings and land use rights with total carrying value of RMB53.2 million and RMB17.7 million, respectively (as of 31 December 2017: RMB56.7 million for buildings, RMB7.7 million for land use rights, and RMB565 million for inventories) to secure the general banking facilities granted to the Group.

CAPITAL EXPENDITURES

For the year ended 31 December 2018, the Group invested RMB14.2 million in property, plant and equipment (2017: RMB14.6 million).

EMPLOYEES

As of 31 December 2018, the Group employed 1,165 staff members (as of 31 December 2017: 1,159 staff members) and the total remuneration for the year ended 31 December 2018 amounted to RMB117 million (2017: RMB117 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 borrowing. The Group's principal financial instruments comprise cash and cash equivalents, restricted bank balances, trade and other receivables, trade and other payables and bank borrowing. As of 31 December 2018, the cash and cash equivalents, net current assets and total assets less current liabilities were RMB541 million (as of 31 December 2017: RMB712 million), RMB2,621 million (as of 31 December 2017: RMB2,077 million) and RMB3,376 million (as of 31 December 2017: RMB2,804 million), respectively. As of 31 December 2018, the Group had bank borrowings amounting to RMB60 million (as of 31 December 2017: RMB110 million).

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION AND DISPOSAL

On 23 August 2018, a bid-winning confirmation letter was entered into by Huzhou Baiyin Property Co., Ltd. (湖州白銀置業有限公司), an indirect non-wholly-owned subsidiary of the Company, with Huzhou Municipal Bureau of Land and Resources (湖州市國土資源局) in relation to our preferred bid for the land use rights over a land parcel in Huzhou, Zhejiang, the PRC. Subsequently, on 3 September 2018, an assignment contract in relation to the acquisition of the said land use rights was entered into by the said parties. Further details of the said arrangements are set out in the announcements of the Company dated 23 August 2018 and 3 September 2018. Completion of the said acquisition of land use rights had not taken place as of 31 December 2018.

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 2018 (2017: HK$0.03 per share).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 29 May 2019 to Monday, 3 June 2019 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the right to attend and vote at the annual general meeting to be held on Monday, 3 June 2019, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Tuesday, 28 May 2019 for registration of transfer.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chen Wantian (陳萬天), aged 45, 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 Jiangxi Longtianyong Nonferrous Metals Co., Ltd. (江西龍天勇有色金屬有限公司). He is responsible for the overall corporate strategies, management, planning and business development of the Group.

As at 31 December 2018, Mr. Chen Wantian had an interest in the shares of the Company and of CSMall Group, 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. Song Guosheng (宋國生), aged 56, 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 20 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 2018, 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 70, is the vice president and an executive Director of the Company. Mr. Chen joined the Group in 2011 and was appointed to the Board on 16 August 2012. He is responsible for strategic and development planning, management and human resources development of the Group.

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

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Song Hongbing (宋鴻兵), aged 50, 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 50, 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 47, was appointed as an independent non-executive Director on 5 December 2012. Dr. Zeng has approximately 20 years of experience in accounting, auditing and financial management. Dr. Zeng is the partner of Oriental Fortune Capital Investment Management 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. Yan Ho Yin (忻浩賢), aged 30, is the chief financial officer and company secretary of the Company. Mr. Yan is responsible for the supervision of financial management, investor relations and company secretarial functions of the Company. Mr. Yan has over 8 years of experience in the accounting and finance field.

Mr. Yan graduated with a Bachelor's degree in Business Administration with Honours in Accounting from The Open University of Hong Kong in 2010. Mr. Yan is a member of the Hong Kong Institute of Certified Public Accountants with practising qualification. Mr. Yan served as the company secretary, an Authorised Representative and the financial controller of China Investment Development Limited (a company listed on the Main Board of the Stock Exchange, stock code: 204) from January 2017 to July 2018, and served as the chief operating officer of China Financial Leasing Group Limited (a company listed on the Main Board of the Stock Exchange, stock code: 2312) from September 2018 to January 2019.

CORPORATE GOVERNANCE REPORT

CODE OF CORPORATE GOVERNANCE PRACTICE

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and responsibility. The Board comprises three executive Directors and three independent non-executive Directors as at the date of this report. 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 2018, 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 Directors were unable to attend the annual general meeting held on 29 May 2018.

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 held on 29 May 2018.

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 2018.

BOARD OF DIRECTORS

(i) Board Composition

Throughout the year ended 31 December 2018, the board of directors of the Company (the "Board") comprised four Executive Directors and four Independent Non-Executive Directors.

On 1 January 2019, Mr. Sung Kin Man resigned from his positions as an Executive Director and the Chief Executive Officer due to his desire to pursue other career opportunities, and Mr. Guo Bin resigned from his position as an Independent Non-Executive Director due to his desire to focus on his other career commitments. For details of the aforesaid changes, please refer to the announcement of the Company published on 1 January 2019.

As at the date of this report, the Board comprised three Executive Directors and three Independent Non-Executive Directors as follows:

Executive Directors

Mr. Chen Wantian (Chairman and Chief Executive Officer)
Mr. Song Guosheng
Mr. Chen Guoyu

Independent Non-Executive Directors

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

To the best knowledge of the Company, there is no 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 and continuously reviewing and improving the corporate governance practices within the Group.

(iv) Board Meetings

During the year under review, there were 11 board meetings held, at which the Directors approved, among other things, the annual results 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. During the year under review, the then company secretary of the Company 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 Directors at board meetings and the annual general meeting of the Company during the year:

	Attendance at meetings	
	Board meeting	**General meeting**
Executive Director		
Mr. Chen Wantian (Chairman)	11/11	0/1
Mr. Sung Kin Man (Resigned on 1 January 2019)	11/11	1/1
Mr. Song Guosheng	11/11	0/1
Mr. Chen Guoyu	11/11	0/1
Independent non-executive Directors		
Mr. Guo Bin (Resigned on 1 January 2019)	11/11	0/1
Mr. Song Hongbing	11/11	0/1
Dr. Li Haitao	11/11	0/1
Dr. Zeng Yilong	11/11	0/1

(vi) Independent Non-executive Directors

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors as at the date of this report. 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 three 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 any new Director 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 of the Company (the "Nomination Committee") is responsible for reviewing the Board composition, monitoring the appointment, re-election and succession planning of Directors.

(viii) Directors' Remuneration

The remuneration committee of the Company (the "Remuneration Committee") 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 Company has adopted a board diversity policy (the "Board Diversity Policy") which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in supporting the attainment of the Company's strategic objectives and sustainable development.

Pursuant to the Board Diversity Policy, the composition, structure and size of the Board are reviewed at least annually by the Nomination Committee 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. In relation to reviewing and assessing the Board composition, the Nomination Committee will consider a number of aspects, including but not limited to professional qualifications, regional and industry experience, cultural and educational background, skills, industry knowledge and reputation, gender, ethnicity, language skills and length of service.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

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) Director Nomination

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee.

The Company has adopted a director nomination policy (the "Director Nomination Policy") which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity；
- Qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy；
- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service；
- Requirements of independent non-executive directors on the Board and independence of the proposed independent non-executive directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the year, there was no change in the composition of the Board.

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

(xi) 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 to 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 2018 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 2 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 2018, the total fee paid/payable in respect of audit services to the external auditor of the Group, Deloitte Touche Tohmatsu, was approximately RMB3.4 million. In addition, approximately RMB0.8 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.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the external auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out in the independent auditors' report on pages 50 to 53.

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 2018, 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 2018, 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 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.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Board Diversity Policy, including but not limited to professional qualifications, regional and industry experience, cultural and educational background, skills, industry knowledge and reputation, gender, ethnicity, language skills and length of service. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

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 1 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 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 1 meeting. 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

Details of the remuneration of the senior management by band are set out below:

	2018 Number of individuals	2017 Number of individuals
HK$1,000,001 to HK$1,500,000	2	—
HK$1,500,001 to HK$2,000,000	—	—
HK$2,000,001 to HK$2,500,000	1	—
HK$2,500,001 to HK$3,000,000	1	4
	4	4

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision D.3.1 of the Code.

During the year ended 31 December 2018, the Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance with the Model Code and Employees Written Guidelines, and the Company's compliance with the Code and disclosure in this Corporate Governance Report.

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 2019 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.

COMPANY SECRETARY

Mr. Moy Yee Wo, Matthew, the company secretary of the Company, resigned on 1 February 2019. On the same day, Mr. Yan Ho Yin was appointed as the company secretary of the Company. For details of the aforesaid changes, please refer to the announcement of the Company published on 31 January 2019.

During the year ended 31 December 2018, Mr. Yan Ho Yin undertook not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules while serving other listed companies.

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 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 extraordinary general meeting.

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 extraordinary general meeting.

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

After the publication of the notice of a general meeting by the Company, according to the Articles of Association, if a shareholder of the Company wishes to propose a person (the "Candidate") for election as a Director at a general meeting, he/she shall deposit a written notice (the "Notice") at the principal place of business in Hong Kong at Unit 1416, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong or at the office of the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. The Notice (a) must include the personal information of the Candidate as required by Rule 13.51(2) of the Listing Rules; and (b) must be signed by the shareholder concerned and signed by the Candidate indicating his/her willingness to be elected and consent of publication of his/her personal information. The period for lodgement of the Notice shall commence on the day after the despatch of the notice of general meeting and end no later than seven days prior to the date of such general meeting. In order to allow the Company's shareholders to have sufficient time to consider the proposal of election of the Candidate as a Director, shareholders who wish to make the proposal are urged to submit and lodge the Notice as early as practicable before the relevant general meeting.

POLICY RELATING TO SHAREHOLDERS

The Company has in place a shareholders' communication policy to ensure that shareholders' views and concerns are appropriately addressed.

The Company has adopted a dividend policy (the "Dividend Policy") on payment of dividends. The Company does not have any pre-determined dividend payout ratio. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the Dividend Policy, dividends may be proposed and/or declared by the Board for a financial year and any final dividend for a financial year will be subject to the shareholders' approval. Such details have been disclosed in the annual report of the Company.

CONSTITUTIONAL DOCUMENTS

There were no changes in the constitutional documents of the Company during the year ended 31 December 2018.

On behalf of the Board
Chen Wantian
Chairman

Hong Kong, 28 March 2019

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 2018.

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 2018 using financial key performance indicators are provided in the sections headed "Chairman's Statement" on pages 6 to 11 and "Management Discussion and Analysis" on pages 12 to 18 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.

(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 2018, 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.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 54 of this report.

The Board has resolved not to recommend payment of a final dividend for the years ended 31 December 2017 and 2018.

FIVE YEARS' FINANCIAL SUMMARY

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the Group's sales to its five largest customers and its largest customer accounted for 35.7% (2017: 42.0%) and 11.9% (2017: 27.2%) of the Group's total sales respectively.

For the year ended 31 December 2018, the Group's five largest suppliers and the largest supplier accounted for 48.3% (2017: 59.0%) and 12.3% (2017: 29.8%) 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 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 31 to the consolidated financial statements.

REPORT OF THE DIRECTORS

RESERVES

Movements in reserves of the Group during the year ended 31 December 2018 are set out in page 57 of this report.

As of 31 December 2018, the reserves of our Company available for distribution to shareholders amounted to RMB1,040,288,000 (2017: RMB1,064,074,000).

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 2018 are set out in note 30 to the consolidated financial statements.

DIRECTORS

The Directors during the year ended 31 December 2018 and up to the date of this report were:

Executive Directors:

Mr. Chen Wantian
Mr. Sung Kin Man (Resigned on 1 January 2019)
Mr. Song Guosheng
Mr. Chen Guoyu

Independent Non-Executive Directors:

Mr. Guo Bin (Resigned on 1 January 2019)
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 19 to 20 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 3.13 of 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 2018.

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 2018.

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 2018.

EMOLUMENT POLICY

The 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 12 to the consolidated financial statements.

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

As of 31 December 2018, 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 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:

(i) Interests in Shares of the Company

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.

(ii) Interests in shares of CSMall Group, an associated corporation of the Company

Name of director	Capacity/Nature of interest	Number of shares	Approximate percentage of interest in CSMall Group
Mr. Chen Wantian	Interest in controlled corporation/Beneficial interest[3]	10,479,536	0.99%

Note:

3. Mr. Chen Wantian is deemed to be interested in 10,462,036 shares of CSMall Group owned by Rich Union Enterprises Limited as the legal owner of the entire issued share capital of Rich Union Enterprises Limited. Further, Mr. Chen Wantian is the beneficial owner of 17,500 shares of CSMall Group.

Save as disclosed above, as at 31 December 2018, 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 2018 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 2018, 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.

Interests in Shares of the Company

Name of shareholder	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in our Company
Pandanus Associates Inc.	Interest in controlled corporation[4]	123,720,000	7.62%
Pandanus Partners L.P.	Interest in controlled corporation[4]	123,720,000	7.62%
FIL Limited	Interest in controlled corporation[4]	123,720,000	7.62%

Note:

4. Pandanus Associates Inc. is a general partner of Pandanus Partners L.P., which owns or controls approximately 37.51% of the voting rights in FIL Limited, which in turn is interested in 123,720,000 Shares through various wholly-owned subsidiaries.

Except as disclosed above, as at 31 December 2018, 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

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 2018.

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 2018. 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 2018, 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 35 to the consolidated financial statements. Those related party transactions did not constitute connected transactions under the Listing Rules. For the year ended 31 December 2018, 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 2018, 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 2018, 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 2017 (RMB million)	Revenue for the year ended 31 December 2018 (RMB million)	Assets as at 31 December 2018 (RMB million)
SZ Yinruiji	1,532*	N/A	N/A
Shanghai Huatong	158	103	464

* 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 2018, 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 2018, 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 2018, 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 33 to the consolidated financial statements.

Details of the movement of the share options granted under the 2012 Scheme during the year ended 31 December 2018 are as follows:

Name	Date of grant	Exercise price per share	Exercise period	Outstanding as of 1.1.2018	Exercised during the period	Outstanding as of 31.12.2018
Directors						
Mr. Chen Wantian	3 July 2013	HK$0.96	3 July 2014 — 2 July 2023	2,450,000	—	2,450,000
	20 August 2014	HK$2.20	20 August 2015 — 19 August 2024	2,200,000	—	2,200,000
Mr. Song Guosheng	3 July 2013	HK$0.96	3 July 2014 — 2 July 2023	1,050,000	—	1,050,000
	20 August 2014	HK$2.20	20 August 2015 — 19 August 2024	500,000	—	500,000
Employees						
In aggregate	3 July 2013	HK$0.96	3 July 2014 — 2 July 2023	3,150,000	—	3,150,000
	20 August 2014	HK$2.20	20 August 2015 — 19 August 2024	24,300,000	—	24,300,000
	2 January 2015	HK$1.80	2 January 2016 — 1 January 2025	48,484,000	—	48,484,000
				82,134,000	—	82,134,000

REPORT OF THE DIRECTORS

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 2018.

Details of the movement of the share options granted under the 2015 Scheme during the year ended 31 December 2018 are as follows:

Name	Date of grant	Exercise price per share	Exercise period	Outstanding as of 1.1.2018	Exercised during the Period	Outstanding as of 31.12.2018
Employees						
In aggregate	27 August 2015	HK$1.97	27 August 2016 — 26 August 2025	100,938,000	(476,000)	100,462,000
				100,938,000	(476,000)	100,462,000

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 2018.

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 ended 31 December 2018 or subsisted at the end of the year.

CHARITABLE DONATIONS

During the year ended 31 December 2018, the Group (i) made a charitable donation of HK$1 million in connection with the stock code balloting for the listing of CSMall Group; and (ii) made a charitable donation of RMB10 million to a museum which aims to promote silver products in the PRC, namely Jingning She Autonomous County Sheyin Museum (景寧畲族自治縣畲銀博物館), pursuant to a co-operation agreement entered into between the Group and the People's Government of the Jingning She Autonomous County (景寧畲族自治縣人民政府) regarding the museum (2017: Nil).

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 2018.

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 as of the date of this report and was in force throughout the year ended 31 December 2018.

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 2018.

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 21 to 32 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, have been held by the public at all times from 1 January 2018 up to 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 2019

INDEPENDENT AUDITOR'S REPORT

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 54 to 143, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 MATTER

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was 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 the matter.

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 17 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 17 and 18 to the consolidated financial statements, the carrying amounts of goodwill and trademarks allocated to Silver Exchange segment as at 31 December 2018 were approximately RMB330,262,000 and RMB34,679,000, respectively, and impairment loss of RMB77,059,000 (2017: nil) was recognised as at 31 December 2018.	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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- 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 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Revenue	5	**3,751,216**	5,469,028
Cost of sales and services provided		**(3,154,867)**	(4,865,008)
Gross profit		**596,349**	604,020
Other income	7a	**10,731**	9,150
Impairment loss on financial assets, net of reversal	11	**(3,849)**	(900)
Impairment loss on goodwill	17	**(77,059)**	—
Other gains and losses	7b	**(869)**	(9,909)
Administrative expenses		**(148,737)**	(143,903)
Selling and distribution expenses		**(49,551)**	(43,985)
Research and development expenses	8	**(2,897)**	(2,106)
Other expenses		**(20,093)**	(18,946)
Finance costs	9	**(5,492)**	(5,432)
Share of result of an associate		**(280)**	(209)
Profit before tax		**298,253**	387,780
Income tax expense	10	**(77,912)**	(62,587)
Profit for the year	11	**220,341**	325,193
Other comprehensive (expense) income, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(1,073)**	538
Release of exchange reserve upon termination of a deed of trust of a subsidiary		**—**	29
Total comprehensive income for the year		**219,268**	325,760
Profit for the year attributable to:			
Owners of the Company		**148,950**	285,986
Non-controlling interests		**71,391**	39,207
		220,341	325,193
Total comprehensive income for the year attributable to:			
Owners of the Company		**147,877**	286,553
Non-controlling interests		**71,391**	39,207
		219,268	325,760
		RMB	RMB
Earnings per share	14		
Basic		**0.092**	0.181
Diluted		**0.092**	0.181

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**156,752**	167,680
Prepaid lease payments	16	**17,266**	17,700
Goodwill	17	**330,262**	407,321
Intangible assets	18	**101,004**	113,412
Deferred tax assets	19	**3,419**	2,032
Interest in an associate	20	**—**	2,554
Equity instrument at fair value through other comprehensive income	21	**8,963**	—
Available-for-sale investment	22	**—**	8,963
Deposits paid on acquisition of property, plant and equipment		**—**	6,920
Deposits paid on acquisition of a land use right	23	**138,046**	—
		755,712	726,582
CURRENT ASSETS			
Prepaid lease payments	16	**432**	432
Inventories	24	**2,107,302**	1,436,818
Trade receivables, loan receivables, deposits and prepayments	25	**440,163**	320,853
Tax recoverable		**6,364**	13,018
Restricted bank balances	26	**162,052**	339,511
Bank balances and cash	26	**541,242**	712,492
		3,257,555	2,823,124
CURRENT LIABILITIES			
Trade and other payables	27	**532,201**	605,238
Contract liabilities	28	**24,063**	—
Customer receipts in advance	29	**2,966**	2,249
Deferred income	32	**715**	1,043
Income tax payable		**16,831**	27,138
Bank borrowing	30	**60,000**	110,000
		636,776	745,668
NET CURRENT ASSETS		**2,620,779**	2,077,456
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,376,491**	2,804,038

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
CAPITAL AND RESERVES			
Share capital	31	13,246	13,242
Share premium and reserves		2,684,470	2,610,510
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		2,697,716	2,623,752
Non-controlling interests		650,575	148,697
TOTAL EQUITY		3,348,291	2,772,449
NON-CURRENT LIABILITIES			
Deferred tax liability	19	22,547	24,506
Deferred income	32	5,653	7,083
		28,200	31,589
TOTAL EQUITY AND NON-CURRENT LIABILITIES		3,376,491	2,804,038

The consolidated financial statements on pages 54 to 143 were approved and authorised for issue by the board of directors on 28 March 2019 and are signed on its behalf by:

CHEN WANTIAN
DIRECTOR

SONG GUOSHENG
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	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 2017	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 disposal of a subsidiary	–	–	–	–	–	29	–	29	–	29
Total comprehensive income for the year	–	–	–	–	–	567	285,986	286,553	39,207	325,760
Recognition of equity-settled share-based payments (Note 33)	–	–	16,066	–	–	–	–	16,066	–	16,066
Transfer	–	–	–	–	28,537	–	(28,537)	–	–	–
Capital injection for non-controlling interests (Note 42(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 42(ii))	–	–	–	–	–	–	–	–	(48,234)	(48,234)
Disposal of partial interest in CSMall BVI (Note 42(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 42(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 上海華通鉑銀交易市場有限公司 ("Shanghai Huatong") (Note 31(ii))	1,223	185,834	–	–	–	–	–	187,057	–	187,057
Dividends declared (Note 13)	–	(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
Profit for the year	–	–	–	–	–	–	148,950	148,950	71,391	220,341
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(1,073)	–	(1,073)	–	(1,073)
Total comprehensive income/(expenses) for the year	–	–	–	–	–	(1,073)	148,950	147,877	71,391	219,268
Recognition of equity-settled share-based payments (Note 33)	–	–	11	–	–	–	–	11	–	11
Transfer	–	–	–	–	23,919	–	(23,919)	–	–	–
Issue of shares upon exercise of share options	4	1,010	(246)	–	–	–	–	768	–	768
Deemed disposal of partial interest in CSMall Group arising from spin-off (Note 42(iv))	–	–	–	(74,692)	–	–	–	(74,692)	430,487	355,795
At 31 December 2018	13,246	1,096,260	106,478	126,799	183,737	(2,736)	1,173,932	2,697,716	650,575	3,348,291

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

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 Group Limited BVI ("CSMall BVI") in 2016 and 2017, respectively (as detailed in Note 42(iv)); (d) RMB18,000 being the difference between the increase in the non-controlling interests and the consideration received from the increase of partial interest in Tongsheng in 2017 (as detailed in Note 42(iv)) and (e) negative amount in RMB74,692,000 being the difference between the increase in the non-controlling interests and the net proceed received from the initial listing of shares in a Group's subsidiary, CSMall Group Limited ("CSMall Cayman") in March 2018 (as detailed in Note 42(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 2018

	NOTE	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**298,253**	387,780
Adjustments for:			
Amortisation of intangible assets		**12,957**	19,821
Bank interest income		**(4,003)**	(3,862)
Depreciation of property, plant and equipment		**23,673**	22,308
Expenses and professional fees for acquisition projects and fund raising activities		**—**	125
Fair value change on contingent consideration		**—**	10,540
Finance costs		**5,492**	5,432
Gain on termination of a Structured Entity	42(ii)	**—**	(3,656)
Impairment loss on financial assets, net of reversal		**3,849**	900
Impairment loss on goodwill		**77,059**	—
Loan interest income		**(4,705)**	(832)
Loss on disposals of property, plant and equipment		**157**	119
Loss on written off of property, plant and equipment		**971**	—
Loss on disposal of intangible assets		**—**	514
Loss on deregistration of an associate		**635**	—
Loss on termination of a deed of trust of a subsidiary		**—**	251
Release of deferred income		**(715)**	(715)
Release of prepaid lease payments		**434**	434
Share-based payments		**11**	16,066
Share of results of an associate		**280**	209
Operating cash flows before movements in working capital		**414,348**	455,434
Increase in inventories		**(670,484)**	(132,664)
Increase in trade receivables, deposits and prepayments		**(163,232)**	(60,336)
(Decrease)/increase in trade and other payables		**(90,994)**	410,775
Decrease/(increase) in restricted bank balances		**177,459**	(318,835)
Increase/(decrease) in customer receipts in advance		**2,966**	(4,828)
Increase in contract liabilities		**20,771**	—
Decrease in deferred income		**—**	(3,674)
Cash (used in) generated from operations		**(309,166)**	345,872
Income tax paid		**(84,911)**	(102,416)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(394,077)**	243,456

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
INVESTING ACTIVITIES			
Deposits and other direct costs incurred on acquisition of a land use right		**(138,046)**	—
Purchase of property, plant and equipment		**(7,243)**	(14,571)
Purchase of intangible assets		**(549)**	(22,365)
Repayment of loan receivables		**39,000**	—
Interest received		**8,708**	4,694
Proceeds from deregistration of an associate	20	**1,639**	—
Proceeds from disposals of property, plant and equipment		**290**	1,067
Loan receivables newly granted		**—**	(90,000)
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	42(v)	**—**	(119)
Payment for acquisition projects		**—**	(25)
Proceeds from disposal of intangible assets		**—**	2,200
Proceeds from termination of a Structured Entity	42(ii)	**—**	947
NET CASH USED IN INVESTING ACTIVITIES		**(96,201)**	(126,892)
FINANCING ACTIVITIES			
Proceeds from issue of shares of a subsidiary arising from spin-off		**355,795**	—
New bank borrowing raised		**60,000**	110,000
Advances from third parties		**22,631**	—
Proceeds from issue of shares upon exercise of share options		**768**	13,702
Repayment of bank borrowing		**(110,000)**	(110,000)
Interest paid		**(5,492)**	(5,432)
Dividends paid		**(3,834)**	(39,148)
Repayment to 上海華通白銀國際交易中心("Huatong International")		**(840)**	(7,600)
Proceed on disposal of partial interest in subsidiaries that do not involve loss of control	42(iv)	**—**	73,562
Capital contribution by non-controlling interests		**—**	40,000
Proceeds from placing of shares		**—**	18,457
Repayment to a non-controlling shareholder of a subsidiary		**—**	(4,236)
Transaction costs attributable to issue of shares		**—**	(647)
NET CASH FROM FINANCING ACTIVITIES		**319,028**	88,658
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(171,250)**	205,222
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**712,492**	506,873
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**—**	397
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH		**541,242**	712,492

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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) design and sale of gold, silver and jewellery products in Hong Kong and 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 contractual arrangements are set out in Note 42.

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

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

New and Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRS issued by the International Accounting Standards Board ("IASB") for the first time in the current year.

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014 - 2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

Except as disclosed below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

2.1 IFRS 15 "Revenue from Contracts with Customers"

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 "Revenue" and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- manufacturing and sales of silver ingots and other non-ferrous metals in the PRC;
- designing and sales of gold, silver, gem-set and jewellery products in the PRC; and
- providing professional electronic platform, related services for silver trading and trading of silver ingots.

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in Notes 5 and 3 respectively.

Summary of effects arising from initial application of IFRS 15

There was no impact of transition to IFRS 15 on retained profits at 1 January 2018.

As at 1 January 2018, customer receipts in advance of RMB2,249,000 and deferred income of RMB1,043,000 were reclassified to contract liabilities.

Without application of IFRS 15, contract liabilities of RMB24,063,000 would be classified as customer receipts in advance as at 31 December 2018.

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

2.1 IFRS 15 "Revenue from Contracts with Customers" (Continued)

Impact on the consolidated statement of cash flows

	As reported RMB'000	Adjustments RMB'000	Amounts without application of IFRS15 RMB'000
Included in operating activities			
Increase in customer receipts in advance	2,966	21,814	24,780
Increase in contract liabilities	20,771	(20,771)	—
Decrease in deferred income	—	(1,043)	(1,043)

Other than the reclassification of contract liabilities, the application of IFRS 15 has no material impact on the amounts reported in the consolidated financial statements.

2.2 IFRS 9 "Financial Instruments"

In the current year, the Group has applied IFRS 9 "Financial Instruments" and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of IFRS 9 are disclosed in note 3.

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

2.2 IFRS 9 "Financial Instruments" (Continued)

Summary of effects arising from initial application of IFRS 9

All financial assets previously classified as loans and receivable are now classified as financial assets at amortised costs. The table below illustrates the classification and measurement of other financial assets at the date of initial application, 1 January 2018.

		Available-for-sale investment RMB'000	Equity instrument at fair value through other comprehensive income ("FVTOCI") RMB'000
Closing balance at 31 December 2017 – IAS 39		8,963	—
Effect arising from initial application of IFRS 9			
Reclassification			
From available-for-sale investment	Note	(8,963)	8,963
Opening balance at 1 January 2018		—	8,963

Note: Available-for-sale ("AFS") investments

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB8,963,000 were reclassified from available-for-sale investment to equity instrument at FVTOCI, of which RMB8,963,000 related to unquoted equity investments previously measured at cost less impairment under IAS 39. No fair value gains/losses relating to those unquoted equity investments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and FVTOCI reserve as at 1 January 2018.

Impairment under ECL model

Upon adoption of IFRS 9 on 1 January 2018, the Group applies the simplified approach to provide for ECL for trade receivables. Except for those which had been determined as credit impaired under IAS 39. Trade receivables with significant outstanding balances have been assessed individually, the remaining balances are assessed for impairment allowance based on a provision matrix.

At 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS9. No impairment allowance is recognised as the amount involved is insignificant.

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

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (audited) RMB'000	IFRS 15 RMB'000	IFRS 9 RMB'000	1 January 2018 (Restated) RMB'000
Non-current assets				
Available-for-sale investment	8,963	—	(8,963)	—
Equity instrument at FVTOCI	—	—	8,963	8,963
Current liabilities				
Customer receipts in advance	2,249	(2,249)	—	—
Deferred income	1,043	(1,043)	—	—
Contract liabilities	—	3,292	—	3,292

For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

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

New and Amendments to IFRSs in issue but not yet effective

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

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[4]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[3]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to IAS 1 and IAS 8	Definition of Material[2]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015-2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
4 Effective for annual periods beginning on or after 1 January 2021
5 Effective for annual periods beginning on or after a date to be determined

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

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. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

IFRS 16 "Leases" (Continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payment 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, while upfront lease payment will continue to be presented as investing cash flows in accordance to the nature.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB18,751,000 as disclosed in Note 39. 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 paid of RMB3,778,000 as right 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. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

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 at the end of reporting period, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

Non-controlling interest in subsidiary are presented separately from the Group's entity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in 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 IFRS9/IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

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

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

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

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation 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.

When the consideration transferred by the Group in a business combination includes 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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

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

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).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in an associate

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 the associate 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.

An 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 Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When an objective evidence exists, 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 IFRS 9/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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in an associate (Continued)

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.

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in Note 2)

Under IFRS 15, the Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in Note 2) (Continued)

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Revenue recognition (prior to 1 January 2018)

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 Company and when specific criteria have been met for each of the Company's activities, as described below.

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

Service income is recognised when services are provided.

Initial membership fee is recognised when the contract is 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lease

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.

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 the 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).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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.

Borrowing costs

All borrowing costs not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss in the period in which they are incurred.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Internally-generated intangible assets-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.

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, 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

Equity-settled share-based payment transactions

Share options granted to directors, employees and a consultant

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.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses (unless the goods or services qualify for recognition as assets).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

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.

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 these 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 whenever there is an indication that the asset may be impaired.

The recoverable amount of tangible and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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. All regular way purchase or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales of financial assets are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. 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.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 with transitions in accordance in Note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of IFRS 9 with transitions in accordance in Note 2) (Continued)

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 "Business Combinations" applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of IFRS 9 with transitions in accordance in Note 2) (Continued)

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance in Note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables, loan and interest receivables, refundable rental deposits, restricted bank balances and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets that are credit-impaired or with significant outstanding balance is assessed individually. The ECL on the remaining balance is assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance in Note 2) (Continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance in Note 2) (Continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance in Note 2) (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Past-due status; and
- Nature, size and industry of debtors;

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets are classified as loans and receivables and AFS investment. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of IFRS9 on 1 January 2018) (Continued)

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, refundable rental deposits, restricted bank balances and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

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 (before application of IFRS 9 on 1 January 2018)

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 AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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.

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.

For financial assets carried at amortised cost, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of IFRS 9 on 1 January 2018) (Continued)

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.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of AFS revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

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.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the FVTOCI reserve is not reclassified to profit or loss, but is transferred to retained profits.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the AFS revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Equity instruments

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities including trade payables, other payables and bank borrowing are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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.

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. The Group recognised revenue based on the agreed selling price when the gold bars are delivered and titles have passed to customer. 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 ended 31 December 2018, revenue generated from this customer amounted to RMB255,778,000 (2017: RMB1,488,385,000).

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

Critical judgements in applying accounting policies (Continued)

Control over CSMall Cayman and its subsidiaries

Note 42 describes that CSMall Group are subsidiaries of the Group although the Group has only 47.46% ownership interest and voting rights in CSMall Cayman. CSMall Cayman is listed on the Stock Exchange. The Group has the 47.46% ownership since 13 March 2018 and the remaining 52.54% of shareholdings are owned by thousands of shareholders that are unrelated to the Group. Details of CSMall Cayman are set out in Note 42.

The directors of the Group assessed whether or not the Group has control over CSMall Cayman based on whether the Group has the practical ability to direct the relevant activities of CSMall Cayman unilaterally. In making the judgement, the directors of the Group considered the Group's absolute size of holding in CSMall Cayman and the relative size of and dispersion of the shareholdings owned by the other shareholders. After assessment, the directors of the Group concluded that the Group has sufficiently dominant voting interest to direct the relevant activities of CSMall Cayman and therefore the Group has control over CSMall Cayman.

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 directors of the Company have 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. 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. Whether such restricted bank balances and the corresponding deposits received should be recognised on the consolidated statement of financial position and presented on a gross basis is a matter of judgement by the Group's management. As at 31 December 2018, the carrying amount of restricted bank balances and corresponding deposits received included in other payables were both RMB162,052,000 (2017: RMB339,511,000).

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

Key sources of estimation uncertainty

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

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 2018, the carrying amounts of goodwill and trademarks were RMB330,262,000 (2017: RMB407,321,000) and RMB34,679,000 (2017: RMB34,679,000), respectively, and impairment loss of RMB77,059,000 (2017: nil) on goodwill was recognised as at 31 December 2018, and no impairment loss on trademark recognised.

Allowance for inventories

Inventories are valued at the lower of cost and net realisable value. The management regularly reviews its inventory levels and ageing analysis in order to identify slow-moving inventories. The management estimates the net realisable value of all inventories based primarily on the current market conditions and subsequent selling price. The Group makes allowance for inventory when the Group identifies items of inventories which have a net realisable value that is lower than its carrying amount. As at 31 December 2018, the carrying amount of inventories is RMB2,107,302,000 (2017: RMB1,436,818,000), without any allowance recognised on inventories.

Provision of ECL for trade and loan receivables

The Group uses provision matrix to calculate ECL for certain of trade receivables and loan receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables that are credit impaired or with significant outstanding balances are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the trade and loan receivables and the Group's ECL are disclosed in Notes 25 and 38, respectively.

Estimated useful life of property, plant and equipment

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 2018, the carrying amount of property, plant and equipment was RMB156,752,000 (2017: RMB167,680,000). Details of the useful lives of the property, plant and equipment are disclosed in Note 15.

5. REVENUE

(i) Disaggregation of revenue from contracts with customers

Segments	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2017 RMB'000
Types of goods and services		
Manufacturing Segment		
– Sales of silver ingots	219,847	789,847
– Sales of lead ingots	493,111	435,600
– Sales of palladium	—	313,498
– Sales of zinc oxide	159,630	80,473
– Sales of other metal by-products	277,079	169,399
	1,149,667	1,788,817
New Jewellery Retail Segment		
– Sales of gold products, except for first-hand gold bars	1,322,595	1,256,151
– Sales of first-hand gold bars	255,778	1,488,385
– Sales of silver products	694,108	568,588
– Sales of gem-set and other jewellery products	196,150	206,457
– Sales of diamonds	28,230	—
	2,496,861	3,519,581
Silver Exchange Segment		
– Membership fee income	—	13,142
– Commission income	104,688	147,488
	104,688	160,630
Total	3,751,216	5,469,028
Geographical markets		
PRC	3,722,896	5,469,028
Hong Kong	28,320	—
Total	3,751,216	5,469,028

All of the revenue are recognised at a point in time during the year ended 31 December 2018.

5. REVENUE (Continued)

(ii) Performance obligations for contracts with customers

Manufacturing Segment

The Group sells silver ingots and other non-ferrous metals directly to customers.

Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following the delivery, the customer has the primary responsibility in selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 30 days upon delivery date.

Under the Group's standard contract terms, customers have a right to exchange for dissimilar products within 10 days. The Group uses its accumulated historical experience to estimate the number of exchange on a portfolio level using the expected value method. Revenue is recognised for sales which are considered highly probable that a significant reversal in the cumulative revenue recognised will not occur. A contract liability is recognised for sales in which revenue has yet been recognised. The Group's right to recover the product when customers exercise their right is recognised as a right to returned goods asset and corresponding adjustment to cost of sales.

New Jewellery Retail Segment

– **Sales of gold products, except for sales of first-hand gold bars, sales of silver products, sales of gem-set and other jewellery products**

The Group sells gold products, except for first-hand gold bars, silver products, gem-set and other jewellery products to (i) the wholesale market and (ii) directly to customers through self-operated online platform and third-party online sales channels.

For sales to the wholesale market, revenue is recognised when control of the goods is transferred, being the time when products are delivered to the wholesaler's specific location. Upon delivery, the wholesalers have full discretion over the manner of distribution and pricing to sell the goods, and they also bear the risks of obsolescence and loss in relation to the goods. The credit term granted to the wholesalers is 30 to 60 days from invoice date, and deposits received in advance are recognised as contract liabilities.

For sales directly to customers, revenue is recognised when goods are delivered or picked up, being the time when customers obtain control over the good. Other than gold bars and silver bars which are not returnable unless they are proved inauthentic, the customers have a seven-day free return for jewellery products provided that the products are returned in their original state without damage. The group uses its accumulated historical experience to estimate the number of return and considered that it is insignificant. Cash payments from the customers are made immediately upon delivery of the products.

5. REVENUE (Continued)

(ii) Performance obligations for contracts with customers (Continued)

New Jewellery Retail Segment (Continued)

– **Sales of first-hand gold bars**

The Group sells first-hand gold bars with tailor-made specification to a specific customer. Revenue is recognised when control of the goods is transferred, being at the point of time when the goods are picked up by the customer at the Group's exhibition hall at Shenzhen. Full amount of deposit in advance is required. Under the Group's standard contract terms, the customer have no rights to exchange or refund once the customer verified the quality at the time of pick up.

– **Sales of diamonds**

The Group sells diamonds to customers. Revenue is recognised when control of the goods is transferred to the customer. According to contracts signed or before July 2018, the ownership of the diamonds remained with the Group until payment is received in full. The control of diamond is transferred upon full payment. For contracts signed after July 2018, ownership of diamonds will be transferred to customers once they verified the quality at time of pick up. The normal credit terms granted is 60 days upon pick up by the customers and there is no rights to exchange or return.

Silver Exchange Segment

The Group operates a professional electronic platform for its customer to trade silver ingots. Commission income is recognised when the transaction made by the customer on the platform is completed.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

All contracts with customers for the Group are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision maker ("CODM") (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, gem-set and jewellery products in the PRC ("New Jewellery Retail segment"); and

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. 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 2018

	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	1,149,667	2,496,861	104,688	3,751,216	—	3,751,216
Inter-segment sales*	407,448	988	—	408,436	(408,436)	—
Total segment revenue	1,557,115	2,497,849	104,688	4,159,652	(408,436)	3,751,216
Results						
Segment results	163,698	180,252	(10,154)	333,796		333,796
Non-segment items						
Unallocated income, expenses, gains and losses						(27,928)
Impairment loss on loan receivables, net of reversal						(1,843)
Finance costs						(5,492)
Share of result of an associate						(280)
Profit before tax						298,253

6. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

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 result of an associate						(209)
Profit before tax						387,780

* 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, certain impairment loss, certain other expenses, finance costs and share of result of an associate. This is the measure reported to the Company's executive directors for the purposes of resource allocation and performance assessment.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION (Continued)

Geographical information

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

	Revenue from external customers		Non-current assets	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
The PRC	**3,722,986**	5,469,028	**743,153**	714,697
Hong Kong	**28,230**	—	**177**	890
	3,751,216	5,469,028	**743,330**	715,587

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

Information about major customers

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

	2018 RMB'000	2017 RMB'000
Customer A[1]	**N/A[2]**	1,488,385
Customer B[3]	**445,656**	N/A[2]

Notes:

1 Revenue is generated from sales of first-hand gold bars through the Group's online platform in New Jewellery Retail Segment.

2 The corresponding revenue did not contribute over 10% of the total revenue of the Group.

3 Revenue is generated from sales of lead ingots in Manufacturing Segment.

7a. OTHER INCOME

	2018 RMB'000	2017 RMB'000
Bank interest income	**4,003**	3,862
Government grant (Note)	**1,105**	1,382
Loan interest income	**4,705**	832
Release of deferred income (Note 32)	**715**	715
Others	**203**	2,359
	10,731	9,150

Note: Government grant was received from the local government of the PRC as incentive for brand promotion and foreign capital injection by the Group. There is no unfulfilled condition attached to the grant.

7b. OTHER GAINS AND LOSSES

	2018 RMB'000	2017 RMB'000
Net exchange gain (loss)	**894**	(2,141)
Loss on written off of property, plant and equipment	**(971)**	—
Loss on disposal of property, plant and equipment	**(157)**	(119)
Loss on deregistration of an associate	**(635)**	—
Loss on disposal of intangible assets	**—**	(514)
Loss on termination of a deed of trust of a subsidiary (Note 42(v))	**—**	(251)
Gain on termination of a Structured Entity (Note 42(ii))	**—**	3,656
Fair value change of contingent consideration	**—**	(10,540)
	(869)	(9,909)

8. 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.

9. FINANCE COSTS

The amount represents interest on bank borrowing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

10. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
PRC Enterprise Income Tax ("EIT")		
— current year	88,365	98,156
— over provision in respect of prior years	(7,107)	(34,707)
	81,258	63,449
Deferred taxation – current year (Note 19)	(3,346)	(862)
	77,912	62,587

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 year except for two 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 such that it was entitled to a concessionary tax rate of 15% for three consecutive years beginning from the year of 2016 to 2018 and was subject to review once every three years. Another major subsidiary, 深圳雲鵬軟件開發有限公司, which is recognised as a Software Enterprise ("軟件企業") by the PRC tax authorities and it is entitled to an exemption for the first two consecutive years beginning from 2016 and a 50% reduction for the following three consecutive years, and is subject to review once every year.

The income tax expense 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:

	2018 RMB'000	2017 RMB'000
Profit before tax	298,253	387,780
Tax at the domestic income tax rate of 25%	74,563	96,945
Tax effect of expenses not deductible for tax purpose	37,013	19,511
Tax effect of income not taxable for tax purpose	(15,890)	(1,500)
Tax effect of share of result of an associate	70	52
Tax effect of concessionary tax rate granted	(16,352)	(17,156)
Tax effect of utilisation of tax losses previously not recognised	(17)	(2,031)
Tax effect of tax losses not recognised	5,632	1,473
Over provision in respect of prior years	(7,107)	(34,707)
Income tax expense for the year	77,912	62,587

Details of deferred tax recognised are set out in Note 19.

11. PROFIT FOR THE YEAR

	2018 RMB'000	2017 RMB'000
Profit for the year has been arrived at after charging:		
Directors' emoluments (Note 12)	**5,526**	6,046
Other staff costs		
— salaries and wages	**90,029**	79,278
— retirement benefit scheme contributions	**21,034**	16,865
— share-based payments, excluding those of directors and a consultant	**10**	15,287
Total staff costs	**116,599**	117,476
Auditor's remuneration	**3,403**	3,286
Amortisation of intangible assets (included in administrative expenses and selling and distribution expenses)	**12,957**	19,821
Depreciation of property, plant and equipment	**23,673**	22,308
Cost of inventories recognised as expenses	**3,151,655**	4,859,951
Expenses and professional fees for acquisition projects and fund raising activities (included in other expenses)	**—**	18,770
Release of prepaid lease payments	**434**	434
Rental Expense	**19,529**	16,173
Share-based payment expenses in respect of consultancy services	**1**	467
Impairment losses, net of reversal, recognised on:		
— Trade receivables for sales of goods and service	**2,006**	—
— Loan receivables	**1,843**	900

Details of impairment assessment for the year ended 31 December 2018 are set out in Note 38.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. 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 2018					
Executive directors					
Mr. Chen Wantian	—	935	6	—	941
Mr. Song Guosheng	—	800	6	—	806
Mr. Chen Guoyu	—	649	—	—	649
Mr. Sung Kin Man*	—	2,523	15	—	2,538
	—	4,907	27	—	4,934

* Mr. Sung Kin Man was the executive director and the chief executive of the Company for the years ended 31 December 2017 and 2018 until resigned from the both positions on 1 January 2019.

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	169	—	—	—	169
Dr. Zeng Yilong	169	—	—	—	169
Mr. Guo Bin#	85	—	—	—	85
Mr. Song Hongbing	169	—	—	—	169
	592	—	—	—	592
Total	592	4,907	27	—	5,526

Mr. Guo Bin resigned from the position of independent non-executive director of the Company since 1 January 2019.

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

12. 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 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

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	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 were for their services as directors of the Company.

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

Employees

The Group's five highest paid individuals for the year ended 31 December 2018 included one (2017: one) director of the Company. The emoluments of the remaining four (2017: four) individuals are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and allowances	6,456	5,334
Share-based payments	2	4,484
Retirement benefit scheme contributions	60	54
	6,518	9,872

Their emoluments were within the following bands:

	2018 Number of employees	2017 Number of employees
HK$1,000,001 to HK$1,500,000	2	—
HK$1,500,001 to HK$2,000,000	—	—
HK$2,000,001 to HK$2,500,000	1	—
HK$2,500,001 to HK$3,000,000	1	4
	4	4

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 33.

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.

13. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Dividends recognised as distribution during the year:		
Final dividend of HK$0.03 per share for the year ended 31 December 2016	—	40,779
	—	40,779

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

14. 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:

	2018 RMB'000	2017 RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	148,950	285,986

	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousand)	1,624,179	1,576,798
Effects of dilutive potential ordinary shares:		
— Share options of the Company (in thousand)	2,099	3,480
Weighted average number of ordinary shares for the purpose of diluted earnings per share (in thousand)	1,626,278	1,580,278

In calculating the diluted earnings per share for the years ended 31 December 2018 and 2017, the potential issue of shares arising from certain of the Company's share options would decrease the earnings per share and has therefore been taken into account as they have a dilutive effect.

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For the year ended 31 December 2018

15. 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 2017	151,116	109,502	11,515	10,344	282,477
Additions	3,244	3,582	3,760	3,985	14,571
Disposals	—	(527)	(1,030)	(98)	(1,655)
At 31 December 2017	154,360	112,557	14,245	14,231	295,393
Additions	5,657	4,212	1,674	2,620	14,163
Disposals	—	(258)	—	(1,353)	(1,611)
Written-off	—	(436)	(1,857)	—	(2,293)
At 31 December 2018	160,017	116,075	14,062	15,498	305,652
DEPRECIATION					
At 1 January 2017	43,562	50,718	5,466	6,128	105,874
Provided for the year	8,590	9,675	2,812	1,231	22,308
Disposals	—	(374)	—	(95)	(469)
At 31 December 2017	52,152	60,019	8,278	7,264	127,713
Provided for the year	8,910	9,898	2,795	2,070	23,673
Disposals	—	(237)	—	(927)	(1,164)
Written-off	—	(28)	(1,294)	—	(1,322)
At 31 December 2018	61,062	69,652	9,779	8,407	148,900
CARRYING VALUES					
At 31 December 2018	98,955	46,423	4,283	7,091	156,752
At 31 December 2017	102,208	52,538	5,967	6,967	167,680

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

The Group has pledged buildings with a net book value of approximately RMB53,158,000 (31 December 2017: RMB56,725,000) to secure general banking facilities granted to the Group.

16. PREPAID LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Analysed for reporting purposes as:		
Non-current asset	**17,266**	17,700
Current asset	**432**	432
	17,698	18,132

The Group has pledged prepaid lease payment - land use rights with a net book value of approximately RMB17,698,000 (31 December 2017: RMB7,726,000) to secure general banking facilities granted to the Group.

17. GOODWILL

	RMB'000
COST	
At 1 January 2017, 31 December 2017 and 31 December 2018	407,321
IMPAIRMENT	
At 1 January 2017 and 31 December 2017	—
Impairment loss recognised in the year	77,059
At 31 December 2018	77,059
CARRYING VALUES	
At 31 December 2018	330,262
At 31 December 2017	407,321

For the purposes of impairment testing, goodwill and trademarks with indefinite useful lives arising on business combinations as set out in Note 18 have been allocated, at the date of acquisition, to a cash-generating unit, Silver Exchange Segment.

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation.

The value in use calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period using a pre-tax discount rate of 21.2% (2017: 23.7%). The cash flows beyond the 5-year period are extrapolated using a steady growth rate of 3% (2017: 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.

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For the year ended 31 December 2018

17. GOODWILL (Continued)

During the year, due to strengthen of PRC government policy for monitoring and compliance and recession of silver trading market leads to the decrease in expected results, the directors have consequently determined impairment of goodwill directly related to Silver Exchange Segment amounting to RMB77,059,000. No other write-down of the assets of Silver Exchange Segment is considered necessary.

18. INTANGIBLE ASSETS

	Patent RMB'000 (Note i)	System software RMB'000 (Note ii)	Customer relationship RMB'000 (Note iii)	Trademarks RMB'000 (Note iv)	Licence RMB'000 (Note v)	Total RMB'000
COST						
At 1 January 2017	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 42(ii))	—	(9,559)	—	—	—	(9,559)
At 31 December 2017	6,000	28,279	78,363	34,679	1,800	149,121
Additions	—	549	—	—	—	549
At 31 December 2018	6,000	28,828	78,363	34,679	1,800	149,670
AMORTISATION						
At 1 January 2017	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 42(ii))	—	(479)	—	—	—	(479)
At 31 December 2017	2,141	18,549	15,019	—	—	35,709
Provided for the year	362	4,759	7,836	—	—	12,957
At 31 December 2018	2,503	23,308	22,855	—	—	48,666
CARRYING VALUES						
At 31 December 2018	3,497	5,520	55,508	34,679	1,800	101,004
At 31 December 2017	3,859	9,730	63,344	34,679	1,800	113,412

18. 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. 9.7 years.

(ii) System software represents software acquired 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. 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 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 the directors of the Company 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 17.

(v) The directors of the Company are of the opinion that the Group would renew the license acquired through acquisition of a subsidiary (Note 42(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 directors of the Company 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 be finite. Instead, it will be tested for impairment annually and whenever there is an indication that it may be impaired, to the extent that the carrying amount of the license exceeds its recoverable amount. The recoverable amount of the license has been determined based on the higher of value in use and fair value less cost to disposal. The management determines the recoverable amounts using the recent market transaction prices of the license which far exceeds the carrying amount of the license for both accounting years. The management therefore determines that during the years ended 31 December 2018 and 31 December 2017, there is no impairment on the license and any reasonably possible change in the market transaction price would not cause the aggregate carrying amount of the license to exceed its recoverable amount.

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19. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018 RMB'000	2017 RMB'000
Deferred tax assets	**3,419**	2,032
Deferred tax liabilities	**(22,547)**	(24,506)
	(19,128)	(22,474)

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

	Deferred income RMB'000	Unrealised profit RMB'000	ECL provision RMB'000	Fair value adjustments on business combination RMB'000	Total RMB'000
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)
(Charged) credited to profit or loss	(440)	1,140	687	1,959	3,346
At 31 December 2018	1,592	1,140	687	(22,547)	(19,128)

At the end of the reporting period, the Group has unused tax loss of RMB28,349,000 (2017: RMB5,892,000) available for offset against future profits that will expire in various date in the next five years (2017: five years). 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 RMB1,761.7 million as at 31 December 2018 (2017: RMB1,412.8 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.

20. INTEREST IN AN ASSOCIATE

	2018 RMB'000	2017 RMB'000
Interest in an associate		
Cost of unlisted investment in associate	—	3,634
Share of post-acquisition results	—	(1,080)
	—	2,554

Prior to July 2018, the Group held a 30% interest in 浙江聯合文化藝術品交易有限公司 ("Zhejiang United Culture") and accounted for the investment as an associate. In July 2018, Zhejiang United Culture was deregistered, and proceeds of RMB1,639,000 is expected to be received in 2019. This transaction has resulted in the recognition of a loss in profit or loss, calculated as follows.

	RMB'000
Proceeds from deregistration	1,639
Less: carrying amount of the 30% interest on the date of loss of significant influence	(2,274)
Loss recognised	(635)

21. EQUITY INSTRUMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 RMB'000
Unlisted equity interest (Note)	8,963

Note: The above unlisted equity investment represent the Group's equity interest in Huatong International established in the PRC. The principal activities of Huatong International is provision of trading platform and related supportive service for trading of precious metals. The directors of the Company have elected to designate these investments in equity instrument at FVTOCI as this investment is not held for trading and not expected to be sold in the foreseeable future.

22. AVAILABLE-FOR-SALE INVESTMENT

	2017 RMB'000
Unlisted equity interest (Note)	8,963

Note: The above unlisted equity investment represents investment in Huatong International. 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.

23. DEPOSITS PAID ON ACQUISITION OF A LAND USE RIGHT

During the year ended 31 December 2018, the Group paid deposits of RMB132,500,000 and the transaction cost in relation to the acquisition of the land use right over a piece of land located in Huzhou, the PRC. The total consideration for the land use right is RMB285,000,000. The unsettled amount of RMB152,500,000 is disclosed as capital commitment as per Note 40.

24. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	**1,505,537**	1,024,593
Work in progress	**50,850**	60,485
Finished goods	**550,915**	351,740
	2,107,302	1,436,818

The Group has pledged inventories with a carrying value of approximately RMB564,610,000 at 31 December 2017 to secure general banking facilities granted to the Group.

25. TRADE RECEIVABLES, LOAN RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Trade receivables for goods and services	**240,942**	43,002
Loss: allowance for credit loss	**(2,006)**	—
	238,936	43,002
Loan receivables (Note)	**48,463**	89,100
Deposits and prepayments	**152,764**	188,751
	440,163	320,853

Note: Amounts represents unsecured fixed-rate loan receivables carrying interest at 0.6% per month which was lent by Tongsheng with its principal activity as money lending. All the loan receivables were either repayable on demand or within one year. At 31 December 2018, included in the carrying amount of loan receivables is accumulated impairment loss of RMB2,537,000 (2017: RMB900,000).

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customer amounted to RMB238,936,000 and RMB43,002,000, respectively.

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.

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

The aged analysis of the Group's trade receivables net of allowance for credit losses based on the invoice dates at the end of the reporting period, which approximates the respective revenue recognition dates is as follows:

	2018 RMB'000	2017 RMB'000
0 – 30 days	**185,245**	39,182
31 – 60 days	**12,552**	1,033
61 – 90 days	**13,713**	1,819
Over 90 days	**27,426**	968
	238,936	43,002

As at 31 December 2018, included in the Group's trade receivables net of allowance for credit losses balance are debtors with aggregate carrying amount of RMB54,009,000 which are past due as at the reporting date. Out of the past due balances, RMB13,286,000 has been past due 90 days or more and is not considered as in default as the Group considered such balances could be recovered based on repayment history, the financial conditions and the current credit worthiness of each customer. The Group does not hold any collateral over these balances.

As at 31 December 2017, included in the Group's trade receivable balance were debtors with aggregate carrying amount of RMB4,592,000 which were past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

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

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.

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

Details of impairment assessment of trade receivables, loan receivables and refundable rental deposits for the year ended 31 December 2018 are set out in Note 38.

26. 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:

	2018	2017
Range of interest rates per annum		
Restricted bank balances and bank balances	**0.001%-0.350%**	0.001% – 0.380%

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

	2018 RMB'000	2017 RMB'000
United States dollar	**637**	38
Hong Kong dollar	**1,453**	6,017
	2,090	6,055

27. TRADE AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	**242,467**	138,477
Other payables and accrued expenses	**67,541**	54,196
Deposits received for using the silver exchange platform	**162,052**	339,511
Amount due to Huatong International (Note)	**19,606**	20,446
Dividend payable	**—**	3,834
Value-added tax and other tax payables	**40,535**	48,774
	532,201	605,238

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

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

	2018 RMB'000	2017 RMB'000
0 – 30 days	**121,069**	124,917
61 – 90 days	**121,071**	13,143
91 – 180 days	**—**	365
181 – 365 days	**327**	52
	242,467	138,477

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

28. CONTRACT LIABILITIES

	31/12/2018 RMB'000	1/1/2018* RMB'000
Amounts received in advance for sales of silver ingots, non-ferrous metals and jewellery products	**24,063**	3,292
	24,063	3,292

* The amounts in this column are after the adjustments from the application of IFRS 15.

28. CONTRACT LIABILITIES (Continued)

The following table shows how much of the revenue recognised in the current year that was include in the contract liabilities balance at the beginning of the year.

	Amounts received in advance for sales of silver ingots, non-ferrous metals and jewellery products RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	3,292

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

The Group receives 30% to 100% of the contract value as amounts from customers when the sale order is issued. The entire amount of contract liabilities will be recognised as revenue when the customers obtained the control of silver ingots, non-ferrous metals and jewellery products.

29. CUSTOMER RECEIPTS IN ADVANCE

For 31 December 2018, the amounts represent the deposit from customers before inception of the sales contracts. For 31 December 2017, the amounts represent deposits received in advance of delivery of goods to customers. Under application of IFRS 15, it is included as contract liabilities as at 1 January 2018. Detail of application are set out in Note 2.

30. BANK BORROWING

	2018 RMB'000	2017 RMB'000
Secured bank borrowing carrying interest at fixed rate, repayable within one year and without a repayment on demand clause	60,000	110,000

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

	2018	2017
Effective interest rate per annum	7.2%	6.53%

Details of the Group's assets pledged to secure above bank borrowing are set out in Note 36.

31. SHARE CAPITAL

	Number of shares	Share capital HK$'000	Share capital RMB'000
Ordinary share of HK$0.01 each:			
Authorised			
At 1 January 2017, 31 December 2017 and 31 December 2018	3,000,000,000	30,000	24,386
Issued			
At 1 January 2017	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
Exercise of share options (Note iv)	476,000	5	4
At 31 December 2018	1,624,200,589	16,242	13,246

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.

(ii) 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 shares 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.

(iv) During the year ended 31 December 2018, certain share options were exercised by holders to subscribe for 476,000 shares of the Company. The share option exercise price for those options was HK$1.97 per share.

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32. DEFERRED INCOME

	2018 RMB'000	2017 RMB'000
Government subsidies (Note i)	6,368	7,083
Membership income (Note ii)	—	1,043
	6,368	8,126
Analysed for reporting purposes as:		
Current	715	1,043
Non-current	5,653	7,083
	6,368	8,126

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 2018, an amount of RMB715,000 (2017: RMB715,000) was transferred to as other income.

(ii) The deferred income arises in respect of the membership income from the electronic silver exchange platform.

33. 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 consultants and 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.

33. SHARE OPTION SCHEME (Continued)

(I) The Scheme (Continued)

(b) At 31 December 2018, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 82,134,000 (2017: 82,134,000), representing 5.06% (2017: 5.06%) 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 1.1.2018	Exercised during the year	Outstanding at 31.12.2018
3 July 2013	0.96	6,650,000	—	6,650,000
20 August 2014	2.20	27,000,000	—	27,000,000
2 January 2015	1.80	48,484,000	—	48,484,000
		82,134,000	—	82,134,000
Exercisable at 1 January 2018		62,534,000		
Exercisable at 31 December 2018				82,134,000
Weighted average exercise price		HK$1.86	—	HK$1.86

Date of grant	Exercise price per share HK$	Outstanding at 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 1 January 2017		39,050,000		
Exercisable at 31 December 2017				62,534,000
Weighted average exercise price		HK$1.85	HK$1.18	HK$1.86

33. SHARE OPTION SCHEME (Continued)

(I) The Scheme (Continued)

(b) (Continued)

No share option under the Scheme was exercised during the year.

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 the exercise price of HK$2.20 per share are exercisable during the period from 20 August 2015 to 19 August 2024 in three batches, being:

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

The 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 1.1.2018	Exercised during the year	Outstanding at 31.12.2018
Directors	6,200,000	—	6,200,000
Employees	70,934,000	—	70,934,000
Consultant	5,000,000	—	5,000,000
	82,134,000	—	82,134,000
Exercisable at 1 January 2018	62,534,000		
Exercisable at 31 December 2018			82,134,000

33. SHARE OPTION SCHEME (Continued)

(I) The Scheme (Continued)

(b) (Continued)

Eligible participants	Outstanding at 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 1 January 2017	39,050,000		
Exercisable at 31 December 2017			62,534,000

(c) The Group recognised the total expense of RMB11,000 in relation to share options granted by the Company under the Scheme for the year ended 31 December 2018 (2017: RMB6,143,000).

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

(II) The New Scheme

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

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

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

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

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

33. SHARE OPTION SCHEME (Continued)

(II) The New Scheme (Continued)

(b) At 31 December 2018, the number of shares in respect of which options had been granted and remained outstanding under the New Scheme was 100,462,000 (2017: 100,938,000), representing 6.19% (2017: 6.22%) of the shares of the Company in issue at that date.

The following table discloses movements of the 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 1.1.2018	Exercised during the year	Outstanding at 31.12.2018
27 August 2015	1.97	100,938,000	(476,000)	100,462,000
Exercisable at 1 January 2018		100,938,000		
Exercisable at 31 December 2018				100,462,000
Weighted average exercise price		HK$1.97	HK$1.97	HK$1.97

Date of grant	Exercise price per share HK$	Outstanding at 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 1 January 2017		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$2.40 (2017: HK$2.64).

The 100,462,000 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 (47,748,000 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) No expense was recognised for the year ended 31 December 2018 (2017: RMB9,923,000) 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.

34. 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 RMB21,061,000 (2017: RMB16,910,000) represents contributions paid or payable to the above schemes by the Group during the year.

35. RELATED PARTY DISCLOSURES

Compensation of key management personnel

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

	2018 RMB'000	2017 RMB'000
Short-term benefits	**9,645**	7,978
Post-employment benefits	**58**	77
Share-based payments	**1**	2,532
	9,704	10,587

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

36. 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.

	2018 RMB'000	2017 RMB'000
Buildings	**53,158**	56,725
Prepaid lease payments – land use rights	**17,698**	7,726
Inventories	**—**	564,610
	70,856	629,061

37. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in 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 30, net of cash and cash equivalents and equity attributable to owners of the Company, 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.

38. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial assets at amortised cost	**998,408**	—
Loans and receivables (including cash and cash equivalents)	**—**	1,184,105
Equity instrument at FVTOCI	**8,963**	—
Available-for-sale investment	**—**	8,963
Financial liabilities		
Amortised cost	**551,666**	665,577

(b) Financial risk management objectives and policies

The Group's financial instruments include available-for-sale investment, equity instrument at FVTOCI, trade receivables, loan receivables, refundable rental deposits, restricted bank balances, bank balances and cash, trade and other payables, 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.

38. FINANCIAL INSTRUMENTS (Continued)

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

Market risk

Currency risk

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

	Assets		Liabilities	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Hong Kong dollar	**1,453**	6,017	**19,405**	5,607
United States dollar	**12,226**	38	**—**	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% (2017: 5%) increase and decrease in the relevant foreign currencies against RMB. 5% (2017: 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% (2017: 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% (2017: 5%) against RMB. For a 5% (2017: 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	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Post-tax profit	**(673)**	15	**458**	(118)

38. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to its fixed-rate bank borrowing (see Note 30 for details).

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 26 for details).

The Group is exposed to fair value interest rate risk in relation to its fixed-rate loan receivables (see Note 25 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 restricted bank balances and 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 (2017: 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 (2017: 25 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would increase/decrease by RMB1,316,000 (2017: RMB1,965,000).

Credit risk and impairment assessment

At the end of the reporting period, the carrying amount of the respective recognised financial assets stated in the consolidated statement of financial position as trade receivables, loan and interest receivables, refundable rental deposits (included in deposits and prepayments), restricted bank balances and bank balances represents the Group's maximum exposure to credit risk which will cause of financial loss due to failure to discharge an obligation by the counterparties.

38. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

Trade receivables

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed regularly. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Loan and interest receivables

In order to minimise the credit risk, the Group uses an internal credit scoring system to assess the counterparties' credit quality and defines credit limits by counterparties. Limits and scoring attributed to counterparties are reviewed regularly. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on these balances based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Refundable rental deposits

The credit risk arising from refundable rental deposits is limited as the Group may utilise such amount for the payment of outstanding rental expenses.

Restricted bank balances / bank balances

The credit risks on restricted bank balances and bank balances are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk except for trade receivables as below.

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

	2018	2017
Amount due from the largest debtor as a percentage to total trade receivables	14%	19%
Total amount due from the five largest debtors as a percentage to total trade receivables	50%	53%

38. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets/ other items
Low risk	The counterparty has a low risk of default and may have any past-due amounts but usually settle after due date	Lifetime ECL - not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL - not credit-impaired	Lifetime ECL - not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

31 December 2018	Notes	Internal credit rating	12m or lifetime ECL	Gross carrying amount	
				RMB'000	RMB'000
Financial assets at amortised cost					
Trade receivables	25	(Note 2)	Lifetime ECL (provision matrix)	120,347	
	25	(Note 2)	Lifetime ECL (individual assessment)	118,589	
	25	Loss	Credit-impaired	2,006	240,942
Loan and interest receivables	25	(Note 3)	12m ECL		55,143#
Refundable rental deposits (included in deposits and prepayments)	25	(Note 1)	12m ECL		3,778
Restricted bank balances	26	(Note 4)	12m ECL		162,052
Bank balances	26	(Note 4)	12m ECL		540,854

38. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

The amount included loan receivables and interest receivables included in deposits and repayments set out in Note 25.

Notes:

1. For refundable rental deposits, the Group measures the loss allowance equal to 12m ECL. The Group applies internal credit risk management to assess whether credit risks has increased significantly since initial recognition, in which case the Group recognises lifetime ECL. The credit risk on refundable rental deposits is limited having considered the credit quality of the counterparties and the probability of default is negligible. Therefore, no impairment allowance is made on these balances.

2. For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors that are credit-impaired or with significant outstanding balances, the Group determines the ECL on these items by using a provision matrix, grouped by internal credit rating.

   During the year ended 31 December 2018, no impairment allowance on trade receivables is provided based on the ECL assessment other than credit-impaired debtors as the amount is considered insignificant. Impairment allowance of RMB2,006,000 was made on credit-impaired debtors.

   The following table shows reconciliation of loss allowances that has been recognised for trade receivables under the simplified approach.

	Credit-impaired RMB'000
As at 31 December 2017 under IAS 39	—
Adjustment upon application of IFRS 9	—
As at 1 January 2018	**—**
New financial assets originated	
– Impairment losses recognised	**2,006**
As at 31 December 2018	**2,006**

   Changes in the loss allowance for trade receivables are mainly due to certain trade debtors with a gross carrying amount of RMB2,006,000 which the management of the Group considers the debtors are in financial difficulties and not probable to repay the trade receivables in foreseeable future. These trade receivables are assessed to be credit-impaired as at 31 December 2018.

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38. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

3. For loan and interest receivables, the Group has applied the general approach in IFRS 9 to measure the loss allowance at 12m ECL. The Group determines the ECL on these items by using a provision matrix, grouped by internal credit rating.

   As part of the Group's credit risk management, the Group applies internal credit rating for its borrower in relation to its loan borrowing operation. The following table provides information about the exposure to credit risk for loan and interest receivables which are assessed based on provision matrix as at 31 December 2018 using 12m ECL.

   Gross carrying amount

Internal credit rating	Average loss rate	Loan receivables and interest receivables RMB'000
Low risk	4.97%	55,143

   The estimated loss rates are estimated based on historical observed default rates over the expected life of the borrowers and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific borrowers is updated.

   During the year ended 31 December 2018, the Group provided RMB2,233,000 impairment allowance for loan and interest receivables based on provision matrix.

   The following table shows reconciliation of loss allowances that has been recognised for loan and interest receivables under the general approach.

	12m ECL RMB'000
As at 31 December 2017 under IAS 39	**900**
Adjustment upon application of IFRS 9	—
As at 1 January 2018	**900**
– Impairment losses reversed	(390)
– Impairment losses recognised	2,233
As at 31 December 2018	2,743

38. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

The following table shows the movement in gross amounts of loan and interest receivables.

	12m ECL RMB'000
As at 31 December 2017 under IAS 39	90,858
Adjustment upon application of IFRS 9	—
As at 1 January 2018	90,858
Change due to financial instruments recognised as at 1 January:	
– Repayment	(40,575)
New financial assets originated	4,860
As at 31 December 2018	55,143

4. Restricted bank balances and bank balances are deposited with financial institutions with high credit rating and are considered low credit risk financial assets. The directors of the Company consider these assets are short-term in nature and the probability of default is negligible on the basis of high-credit ratings. Therefore, no impairment allowance are made on theses balances.

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 directors to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The directors monitor 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. 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 RMB'000	1 – 3 months RMB'000	3 months to 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2018						
Trade and other payables	—	491,666	—	—	491,666	491,666
Bank borrowing – fixed rate	7.20	—	—	62,173	62,173	60,000
		491,666	—	62,173	553,839	551,666
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

38. FINANCIAL INSTRUMENTS (Continued)

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

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

The Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial liability	Fair value as at 31 December 2018	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Equity instrument at FVTOCI	RMB 8,963,000.	Level 3	Adjusted net asset approach - In this approach, the share of the net asset value has been used to capture the present value of the expected future economic benefits to be derived from the ownership of Huatong International.	Discount factor of lack of control, the higher the discount factor, the lower the fair value

There was no change of fair value hierarchy during the year ended 31 December 2018.

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

The directors of the Company 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.

39. OPERATING LEASES

Minimum lease payments paid to third parties under operating lease during the year in respect of the Group's rented office premises showrooms, warehouses and retail shops amounted to RMB19,529,000 (2017: RMB16,173,000).

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:

	2018 RMB'000	2017 RMB'000
Within one year	**14,368**	15,091
In the second to fifth year inclusive	**4,339**	11,022
Over five years	**44**	—
	18,751	26,113

Leases are negotiated for terms of one to seven years and rentals are fixed during the lease period.

40. CAPITAL COMMITMENTS

	2018 RMB'000	2017 RMB'000
Capital expenditure		
contracted for but not provided in the consolidated financial statements		
– Land use right	182,932	—
– Property, plant and equipment	—	2,173
	182,932	2,173

41. 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	Amounts due to third parties (included in other payable) 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
Financing cash flows	–	–	(55,492)	(3,834)	(840)	22,631	(37,535)
Non-cash charges							
Finance cost recognised	–	–	5,492	–	–	–	5,492
At 31 December 2018	–	–	60,000	–	19,606	22,631	102,237

42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

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		Principal activities	Form of company
			2018	2017		
Directly owned						
CSMall Cayman 金貓銀貓集團有限公司	The Cayman Islands	Ordinary shares US$83,233	**47.46% (Notes iii and iv)**	60.07% (Notes iii and iv)	Investment holding	Limited liability
China Silver Financial Group Limited 中國白銀金融集團有限公司	Hong Kong	Ordinary shares HK$10,000	**100%**	100%	Investment	Limited liability
China Silver Holdings Limited 中國白銀控股有限公司	The BVI	Ordinary shares US$100,000	**100%**	100%	Investment holding	Limited liability
China Silver Mining Group Limited 中國白銀礦業集團有限公司	The BVI	Ordinary Shares US$50,000	**100%**	100%	Inactive	Limited liability
Ultimate Deal Group Limited	The BVI	Ordinary Shares US$50,000	**100%**	100%	Investment holding	Limited liability
Indirectly owned						
CSMall BVI^ 金貓銀貓集團有限公司	The BVI	Ordinary Shares US$83,233	**47.46% (Note iv)**	60.07% (Note iv)	Investment holding	Limited liability
CSMall Holdings Limited^ 金貓銀貓控股有限公司	The BVI	Ordinary shares US$50,000	**47.46% (Note iv)**	60.07% (Note iv)	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	**47.46% (Note iv)**	60.07% (Note iv)	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

42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Form of company
			2018	2017		
Indirectly owned (Continued)						
江西吉銀實業有限公司^	The PRC	Registered capital US$99,800,000	**47.46% (Note iv)**	60.07% (Note iv)	Processing and wholesale of precious metal products owned	Wholly foreign
國融通寶(深圳)融資租貸有限公司	The PRC	Registered capital RMB200,000	**47.46%**	N/A	Finance leasing service of foreign assets[α]	Limited liability
Jiangxi Longtianyong*	The PRC	Registered capital RMB110,000,000	**100%**	100%	Manufacture of silver and non-ferrous metals for sale owned	Wholly foreign
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
浙江千杭珠寶有限公司	The PRC	Registered capital RMB50,000	**100%**	N/A	Sale of jewellery products[α]	Limited liability
深圳國金通寶有限公司^	The PRC	Registered capital RMB50,000,000[#]	**47.46%**	60.07%	Sale of jewellery products[α]	Limited liability
深圳國銀通寶有限公司^	The PRC	Registered capital RMB500,000,000	**47.46%**	60.07%	Offline sale of jewellery products and operation of self-owned stores	Wholly foreign owned
深圳銀瑞吉文化發展有限公司 ("Shenzhen Yinruiji")^*	The PRC	Registered capital RMB1,000,000	**N/A (Note ii)**	N/A (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)**	40% (Note iv)	Money lending	Limited liability

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42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company 2018	Attributable equity interest held by the Company 2017	Principal activities	Form of company
Indirectly owned (Continued)						
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)**	N/A (Note ii)	Operation of online payment system[α]	Limited liability
深圳雲鵬軟件開發有限公司^	The PRC	Registered capital RMB5,000,000[#]	**47.6%**	60.07%	Software development	Limited liability
景寧畲銀文化有限公司^	The PRC	Registered capital RMB10,000,000[#]	**47.6%**	60.07%	Planning of cultural events, design and sale of jewellery products	Limited liability
白銀小鎮(上海)文化產業有限公司^ ("Baiyin Town")	The PRC	Registered capital RMB100,000,000[#]	**47.6% (Note ii)**	60.07% (Note ii)	Online sales of jewellery products	Limited liability
湖州白銀置業有限公司	The PRC	Registered capital RMB50,000,000	**47.46%**	N/A	Property development	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[#]	**47.6%**	60.07%	Sale of jewellery products	Limited liability
上海鷗亘商務信息諮詢有限公司	The PRC	Registered capital RMB1,000,000[#]	**100%**	100%	Inactive	Limited liability

42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Form of company
			2018	2017		
Indirectly owned (Continued)						
上海金孛信息科技有限公司	The PRC	Registered capital RMB10,000,000#	**100%**	100%	Inactive	Limited liability
上海找銀網絡科技有限公司	The PRC	Registered capital RMB50,000,000#	**100%**	100%	Inactive	Limited liability

* English translated names are for identification only.

\# At 31 December 2018, capital injection to the entity had not been fully paid.

^ Subsidiaries of CSMall Cayman.

α 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.

(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 acquired and 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.

42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

Notes: (Continued)

(ii) **Consolidated structured entities (Continued)**

Option Agreement (Continued)

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.

Consultancy and Services Agreement

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

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

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

Share Pledge Agreement

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

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

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

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

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.

42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (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:

	2017 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

(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	
		2018	2017	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
CSMall Cayman and its subsidiaries	The Cayman Islands	**52.54%**	39.93%	**71,413**	40,107	**641,006**	138,234
Non-wholly owned subsidiary of CSMall BVI-Jiangxi CSMall Payment #	The PRC	**N/A**	N/A	**N/A**	(364)	**N/A**	N/A
Individual immaterial subsidiaries with non-controlling interests				**(22)**	(536)	**9,569**	10,463
				71,391	39,207	**650,575**	148,697

became subsidiaries of CSMAll Cayman in 2017

42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (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 Group 31.12.2018 RMB'000	CSMall Group 31.12.2017 RMB'000
Current assets	1,371,500	883,303
Non-current assets	156,633	21,982
Current liabilities	308,098	559,094
Equity attributable to owners of CSMall Group	1,220,035	346,191
Non-controlling interests of CSMall Group	641,006	138,234
Revenue	2,497,849	3,519,581
Profit for the year attributable to owners of CSMall Group	142,677	101,305
Net cash (outflow) inflow from operating activities	(285,235)	155,519
Net cash outflow from investing activities	(147,553)	(18,133)
Net cash inflow from financing activities	363,789	75,735
Net cash (outflow) inflow	(68,999)	213,121

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

CSMall BVI

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.

42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

Notes: (Continued)

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

CSMall Cayman

On 13 March 2018, the Group completed the spin-off and separate listing of CSMall Cayman on the Main Board of the Stock Exchange. On the same day, CSMall Cayman issued a total of 194,183,990 ordinary shares of US$0.0001 each at HK$2.38 each for cash by way of public offer. Based on the offer price of HK$2.38 per share, the net proceed received by the Company was RMB355,795,000. An amount of RMB430,487,000 (being the proportionate share of the carrying amount of the net assets value of CSMall Cayman) has been transferred to non-controlling interests. The difference of RMB74,692,000 between the increase in the non-controlling interests and the consideration received has been debited to capital reserve. As at the date of this report, the Company does not lose control and held approximately 47.46% interest in the issued share capital of CSMall Cayman.

(v) In October 2016, an individual shareholder of CS Jewellery International Limited ("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.

43. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	NOTES	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSET			
Investments in subsidiaries			
– Unlisted investment, at cost		1,300,824	488,399
Amount due from subsidiaries		—	411,723
Interest in an associate		—	3,634
		1,300,824	903,756
CURRENT ASSETS			
Amounts due from subsidiaries		6,578	410,267
Other receivables		1,640	1,624
Bank balances		756	5,603
		8,974	417,494
CURRENT LIABILITIES			
Other payables		18,880	7,071
Amounts due to subsidiaries		237,384	236,863
		256,264	243,934
NET CURRENT (LIABILITIES) ASSETS		(247,290)	173,560
TOTAL ASSETS LESS CURRENT LIABILITIES		1,053,534	1,077,316
CAPITAL AND RESERVES			
Share capital	31	13,246	13,242
Share premium and reserves	(i)	1,040,288	1,064,074
TOTAL EQUITY		1,053,534	1,077,316

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

Note:

(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 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 33)	—	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	185,834	—	—	185,834
Dividends paid (Note 13)	(40,779)	—	—	(40,779)
At 31 December 2017	1,095,250	106,713	(137,889)	1,064,074
Loss and total comprehensive expense for the year	—	—	(24,561)	(24,561)
Recognition of equity-settled share-based payments (Note 33)	—	11	—	11
Issue of shares upon exercise of share options	1,010	(246)	—	764
At 31 December 2018	1,096,260	106,478	(162,450)	1,040,288

FIVE YEARS' FINANCIAL SUMMARY

RESULTS

	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018 RMB'000**
Revenue	1,522,716	1,706,665	4,088,195	5,469,028	**3,751,216**
Profit before tax	276,794	7,004	428,410	387,780	**298,253**
Income tax expense	(28,454)	(17,975)	(121,597)	(62,587)	**(77,912)**
Profit (loss) for the year	248,340	(10,971)	306,813	325,193	**220,341**
Attributable to					
– Owners of the Company	248,340	(10,969)	304,078	285,986	**148,950**
– Non-controlling interests	–	(2)	2,735	39,207	**71,391**
	248,340	(10,971)	306,813	325,193	**220,341**

ASSETS AND LIABILITIES

	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018 RMB'000**
Total assets	1,165,051	1,757,221	2,776,039	3,549,706	**4,013,267**
Total liabilities	(411,160)	(262,141)	(588,393)	(777,257)	**(664,976)**
Total equity	753,891	1,495,080	2,187,646	2,772,449	**3,348,291**
Equity attributable to owners of the Company	753,891	1,446,482	2,089,163	2,623,752	**2,697,716**
Non-controlling interests	—	48,598	98,483	148,697	**650,575**
	753,891	1,495,080	2,187,646	2,772,449	**3,348,291**