
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Silver Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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The implementation of the Proposed Spin-Off and the Global Offering (each as defined herein) is subject to, among other things, the Stock Exchange granting approval for the listing of, and permission to deal in, all of the CSmall Shares (as defined herein). There is no certainty as to whether, and if so when, the Proposed Spin-Off and the Global Offering will take place. Accordingly, shareholders, holders of other securities of the Company and potential investors in the securities of the Company should exercise caution when dealing in or investing in the shares or other securities of the Company.

This circular is for information purposes only and does not constitute an invitation or offer, for securities of the Company.



中國白銀集團
CHINA SILVER GROUP

CHINA SILVER GROUP LIMITED

中國白銀集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 815)

**MAJOR TRANSACTION AND DEEMED DISPOSAL
IN RELATION TO THE PROPOSED SPIN-OFF AND
SEPARATE LISTING OF CSMALL GROUP LIMITED
ON THE MAIN BOARD OF
THE STOCK EXCHANGE OF HONG KONG LIMITED**

**Independent Financial Adviser to the Independent Board Committee
and the Shareholders**

 **SOMERLEY CAPITAL LIMITED**

A letter from the Board is set out on pages 7 to 23 of this circular. A letter from the Independent Board Committee is set out on page 24 of this circular. A letter from Somerley, the Independent Financial Adviser to the Independent Board Committee and the Shareholders, containing its advice in relation to the Proposed Spin-Off is set out on pages 25 to 45 of this circular.

A notice convening the EGM to be held on 15 December 2017 and a form of proxy for use at the EGM is enclosed herein. Whether or not you are able to attend the meeting, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

28 November 2017

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EXPECTED TIMETABLE

EVENTS

2017

Despatch of circular and notice of the EGM	Tuesday, 28 November
Latest time for lodging transfers of Shares in order to be entitled to attend and vote at the EGM	4:30 p.m., Monday, 11 December
Latest time for return of proxy forms in respect of the EGM	2:30 p.m., Wednesday, 13 December
Closure of the register of members of the Company for determining the entitlements to attend and vote at the EGM	Tuesday, 12 December to Friday, 15 December
EGM	2:30 p.m., Friday, 15 December
Announcement of the results of the EGM	Friday, 15 December
Register of members of the Company re-opens	Monday, 18 December
Last day for dealing in Shares cum-entitlement to the Distribution	Monday, 18 December
First day for dealing in Shares ex-entitlement to the Distribution	Tuesday, 19 December
Latest time for lodging transfers of Shares to qualify for the Distribution	4:30 p.m., Wednesday, 20 December
Closure of the register of members of the Company for determining entitlement to the Distribution	Thursday, 21 December to Friday, 22 December
Record Date for determining the entitlement to the Distribution	Friday, 22 December
Register of members of the Company re-opens	Wednesday, 27 December

2018

Completion and despatch of share certificates of the CSMall Shares to the Qualifying Shareholders	Wednesday, 3 January
Despatch of cheques for cash entitlements to the Overseas Excluded Shareholders pursuant to the Distribution on or before	Monday, 22 January

All times refer to Hong Kong time. Please note that the expected timetable above is indicative only and may be extended or varied. If there is any change to the expected timetable above, the Company will publish an announcement as soon as possible.

DEFINITIONS

In this circular, unless the context requires otherwise, the following expressions shall have the following meanings:

“Applicable Percentage Ratios”	the percentage ratios stipulated in Rule 14.07 of the Listing Rules as applicable to the Proposed Spin-Off, as more particularly described in the section headed “Implications under the Listing Rules” of this circular
“Application Proof”	the redacted form of application proof of CSMall’s listing document
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Baiyin Town”	Baiyin Town (Shanghai) Cultural Industry Company Limited* (白銀小鎮(上海)文化產業有限公司), a limited liability company established in the PRC on 10 November 2016 and a wholly-owned subsidiary of CSMall
“Best Conduct”	Best Conduct Investments Limited, a company incorporated in the BVI on 21 September 2007 and held as to 70% by Mr. SHI Jinglei (石勁磊) and 30% by Mr. HUANG Yuanzhe (黃遠哲)
“Blaze Loop”	Blaze Loop Limited, a company incorporated in the British Virgin Islands with limited liability
“Board”	the board of Directors
“business day”	a day (other than a Saturday or a Sunday) on which banks in Hong Kong are open for normal banking business
“BVI”	the British Virgin Islands
“Caitong Funds SPC”	Caitong Funds SPC (on behalf of and for the benefit of Caitong Pine Ocean New Economy Fund SP), a segregated portfolio company incorporated in the Cayman Islands on 21 October 2013 and managed by Caitong International Asset Management Co., Limited
“CEO”	chief executive officer
“China Silver Jewellery”	China Silver Jewellery Group Limited (中國白銀珠寶集團有限公司) (formerly known as China Silver Group Co., Limited (中國白銀集團有限公司) before 11 September 2012), a limited liability company established in Hong Kong on 23 November 2011 and a wholly-owned subsidiary of CSMall
“close associate(s)”	has the meaning ascribed thereto in the Listing Rules

DEFINITIONS

“Company”	China Silver Group Limited (中國白銀集團有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“controlling shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“CSMall”	CSMall Group Limited (金貓銀貓集團有限公司), a company incorporated in the Cayman Islands with limited liability and a subsidiary of the Company
“CSMall Group”	CSMall and its subsidiaries
“CSMall Group BVI”	CSMall Group Limited, a limited liability company incorporated in the BVI on 22 February 2016 and a wholly owned subsidiary of CSMall
“CSMall Holdings BVI”	CSMall Holdings Limited, a limited liability company incorporated in the BVI on 24 December 2015 and a wholly owned subsidiary of CSMall
“CSMall Share(s)”	share(s) in CSMall
“Deed of Non-Competition”	the deed of non-competition to be executed by the Company in favour of CSMall, details of which are set out in the sub-section headed “Business Overview of the Group and Delineation of Businesses after the Proposed Spin-Off” in this circular
“Diamond Port”	Diamond Port Holdings Limited, a company incorporated in the BVI on 18 January 2017 and whose sole shareholder is Mr. Zhang
“Directors”	the directors of the Company
“Distribution”	a conditional special interim dividend declared by the Company to be satisfied: <ul style="list-style-type: none">(i) by way of a distribution in specie of such number of CSMall Shares to the Qualifying Shareholders in the proportion of one CSMall Share for every 60 Shares held on the Record Date; and(ii) by way of cash payment (after deducting expenses) to the Overseas Excluded Shareholders for such amount which equals to the net proceeds of the sale by the Company on their behalf of the CSMall Shares to which such Overseas Excluded Shareholders would otherwise be entitled to receive

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened and held on 15 December 2017 for the purpose of considering and, if thought fit, approving the Proposed Spin-Off
“Form A1 Application”	the listing application form (Form A1) submitted to the Stock Exchange on 28 August 2017 in respect of the Proposed Spin-Off
“Global Offering”	the Hong Kong public offering (being the issue and offer for subscription to the public in Hong Kong) and the international offering (being the placing to institutional, professional and other investors) of new CSMA Shares
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company comprising four independent non-executive Directors formed to advise the Shareholders in respect of the terms of the Proposed Spin-Off
“Somerville” or “Independent Financial Adviser”	Somerville Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Shareholders in respect of the Proposed Spin-Off
“Jiangxi Ji Yin”	Jiangxi Ji Yin Company Limited* (江西吉銀實業有限公司), a company established in the PRC on 12 November 2013 and a wholly-owned subsidiary of CSMA
“Jingning Sheyin”	Jingning Sheyin Culture Company Limited* (景寧余銀文化有限公司), a company established in the PRC on 22 August 2016 and a wholly-owned subsidiary of CSMA
“Latest Practicable Date”	24 November 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing”	the listing of CSMA Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing committee of the Stock Exchange

DEFINITIONS

“Listing Date”	the date on which dealings in the CS Mall Shares first commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Capitalisation Issue”	the issuance of new CS Mall Shares to the Company by CS Mall to capitalise part (and not all) of the outstanding amount due from CS Mall Group to the Company prior to the Proposed Spin-Off
“Mr. Chen”	Mr. CHEN He (陳和), a director and co-CEO of CS Mall
“Mr. Lin”	Mr. LIN Ting (林挺), an employee of CS Mall Group
“Mr. Qian”	Mr. QIAN Pengcheng (錢鵬程), a director of CS Mall
“Mr. Zhang”	Mr. ZHANG Jinpeng (張金鵬), a director and co-CEO of CS Mall
“New Jewellery Retail Business”	the business owned and operated by the CS Mall Group, being one of the business segments of the Company, which comprise CS Mall Group’s (i) e-commerce platform, (ii) offline sales and service network, (iii) data mining and utilisation capabilities, and (iv) crossover sales and marketing initiatives
“New Jewellery Retail Model”	a retail model which CS Mall adopts to sell jewellery products. Such a model is based on an integrated online and offline retail structure and incorporates four complementary elements, being (i) a comprehensive e-commerce platform, (ii) easily accessible offline sales and service network, (iii) data mining and utilisation capabilities, and (iv) innovative crossover sales and marketing initiatives
“Overseas Excluded Shareholder”	a Shareholder whose address on the register of members of the Company is in a jurisdiction outside Hong Kong on the Record Date who is excluded from the entitlement to receive Shares under the Distribution as the Directors, having made relevant enquiries, have resolved such exclusion to be necessary or expedient on account that such jurisdiction or jurisdictions, in the absence of a registration statement or other special formalities, would or might, in their opinion, be unlawful or impracticable
“PN 15”	Practice Note 15 of the Listing Rules

DEFINITIONS

“PRC” or “China”	the People’s Republic of China, which, for the purpose of this circular only, shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan
“Proposed Spin-Off”	the proposed spin-off and separate listing of CSMall on the Main Board of the Stock Exchange, to be effected by the Distribution and the Global Offering
“Qualifying Shareholder(s)”	Shareholder(s) whose names appear on the register of members of the Company as at the close of business on the Record Date other than the Overseas Excluded Shareholders
“Record Date”	Friday, 22 December 2017, being the record date for the Shareholders to ascertain entitlements to the Distribution
“Remaining Group”	the Company and its subsidiaries after completion of the Proposed Spin-Off, which excludes the CSMall Group
“Retained Businesses”	the business segments of the Group other than the New Jewellery Retail Business, including the manufacturing business (being the manufacturing of high-grade silver ingots for industrial and trading purposes in China) and the silver exchange business (being the operation of Shanghai Huatong, an integrated precious metal exchange platform in China)
“Reorganisation”	the reorganisation of the Group in preparation for the listing of the CSMall Shares
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong (as amended from time to time)
“Shanghai Huatong”	Shanghai White Platinum & Silver Exchange* (上海華通銷銀交易市場有限公司), a limited liability company established in the PRC on 22 January 2003, which is an integrated precious metal exchange platform in China
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)” or “China Silver Shareholders”	holder(s) of Share(s)
“Shenzhen Guojintongbao”	Shenzhen Guojintongbao Company Limited* (深圳國金通寶有限公司), a limited liability company established in the PRC on 25 August 2014 and a wholly-owned subsidiary of CSMall
“Shenzhen Guoyintongbao”	Shenzhen Guoyintongbao Company Limited* (深圳國銀通寶有限公司), a wholly foreign owned enterprise established on 25 October 2013 and a wholly-owned subsidiary of CSMall

DEFINITIONS

“Shenzhen Yunpeng”	Shenzhen Yunpeng Software Development Company Limited* (深圳雲鵬軟件開發有限公司), a limited liability company established in the PRC on 12 June 2016 and a wholly-owned subsidiary of CSMall
“Silver Apex”	Silver Apex Holdings Limited, a company incorporated in the BVI on 16 December 2015 and whose sole shareholder is Mr. Chen
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in the Listing Rules
“Track Record Period”	the financial years of CSMall ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017
“Treasure Delight”	Treasure Delight International Limited, a company incorporated in the BVI on 16 December 2015 and whose sole shareholder is Mr. Qian
“%”	per cent

LETTER FROM THE BOARD



中國白銀集團
CHINA SILVER GROUP

CHINA SILVER GROUP LIMITED

中國白銀集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 815)

Executive Directors:

Mr. Chen Wantian (*Chairman*)

Mr. Sung Kin Man

Mr. Song Guosheng

Mr. Chen Guoyu

Independent Non-executive Directors:

Mr. Guo Bin

Mr. Song Hongbing

Dr. Li Haitao

Dr. Zeng Yilong

Registered Office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman

KY1-1111

Cayman Islands

*Head office and principal place of
business in the PRC:*

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Baolin International Gold Trade Center

2nd Building, 3 Shuitian Second Street

Shuibe Luohu District

Shenzhen, PRC

*Principal Place of Business
in Hong Kong:*

Unit 1416

China Merchants Tower

168-200 Connaught Road Central

Hong Kong

28 November 2017

To the Shareholders

Dear Sir/Madam,

**MAJOR TRANSACTION AND DEEMED DISPOSAL
IN RELATION TO THE PROPOSED SPIN-OFF AND
SEPARATE LISTING OF CSMALL GROUP LIMITED
ON THE MAIN BOARD OF
THE STOCK EXCHANGE OF HONG KONG LIMITED**

LETTER FROM THE BOARD

1. INTRODUCTION

Reference is made to the announcement of the Company dated 30 August 2017 in relation to the Proposed Spin-Off.

The purposes of this circular are to: (i) provide the Shareholders with information on the reasons for, and the benefits of, the Proposed Spin-Off (together with such other information relating to the Proposed Spin-Off as required by the Listing Rules for a major transaction of the Company); (ii) set out the recommendation of the Independent Board Committee to the Shareholders regarding the Proposed Spin-Off; (iii) set out the letter of advice from Somerley containing its recommendation to the Independent Board Committee and the Shareholders regarding the Proposed Spin-Off; and (iv) give to the Shareholders notice of the EGM at which an ordinary resolution will be proposed to approve the Proposed Spin-Off.

2. THE PROPOSED SPIN-OFF

The Board proposes to carry out a spin-off and separate listing of its New Jewellery Retail Business, which is owned and operated by the CSMall Group, on the Main Board of the Stock Exchange. In this regard, the Company submitted a spin-off proposal to the Stock Exchange pursuant to PN15 and announced on 30 August 2017 that the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-Off.

On 28 August 2017, the Form A1 Application was submitted to the Stock Exchange for the listing of and permission to deal in the CSMall Shares. The Application Proof of CSMall's listing document submitted with the Form A1 Application is available for viewing and downloading on the Stock Exchange's website at <http://www.hkexnews.hk/app/sehkappmainindex.htm>. The Application Proof contains, among other things, certain business and financial information relating to CSMall Group.

The Proposed Spin-Off involves the spin-off and separate listing of the CSMall, which as of the Latest Practicable Date is a subsidiary of the Company. CSMall is an exempted company with limited liability incorporated in the Cayman Islands on 19 January 2017. Upon completion of the Reorganisation on 16 February 2017, CSMall became the new holding company of the CSMall Group. As at the Latest Practicable Date, CSMall had 832,334,000 CSMall Shares in issue.

The Proposed Spin-Off will be effected by way of (i) a Distribution in specie of the CSMall Shares to be issued to the Company pursuant to the Loan Capitalisation Issue and (ii) the Global Offering of new CSMall Shares. It is expected that immediately after the Proposed Spin-Off, CSMall will have a public float of not less than 25% of its enlarged issued share capital. The new CSMall Shares to be issued pursuant to the Global Offering will rank pari passu in all respects with all other CSMall Shares then in issue.

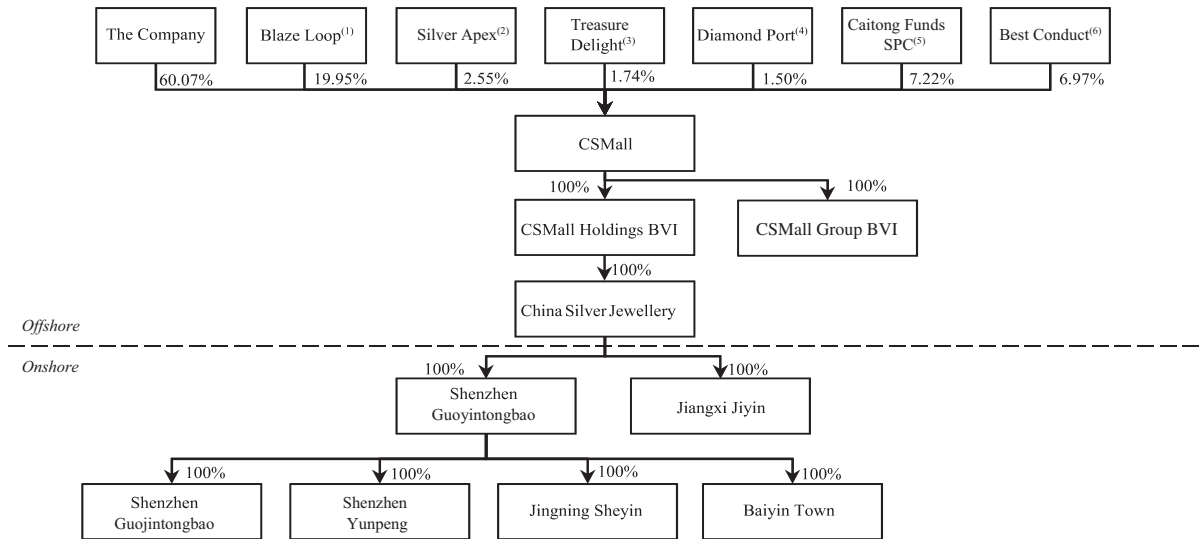
The Company confirms that to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, under the Global Offering, the CSMall Shares are expected to be offered to third parties independent of the Company, CSMall and their respective connected persons.

LETTER FROM THE BOARD

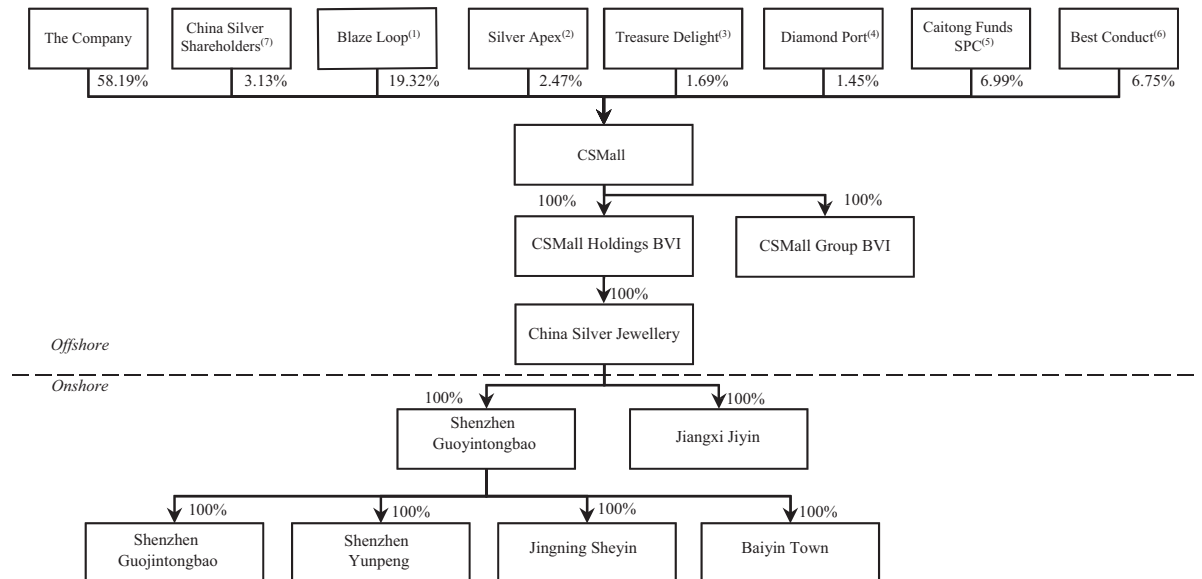
Shareholding Effects of the Proposed Spin-Off

The following charts set out shareholding and corporate structure of CS Mall Group (i) immediately after the Reorganisation but before the Loan Capitalisation Issue and the Distribution; (ii) immediately after the Loan Capitalisation Issue and the Distribution; and (iii) immediately after completion of the Loan Capitalisation Issue, the Distribution and the Global Offering (assuming the over-allotment option is not exercised), respectively:

(i) *Immediately after the Reorganisation but before the Loan Capitalisation Issue and the Distribution*

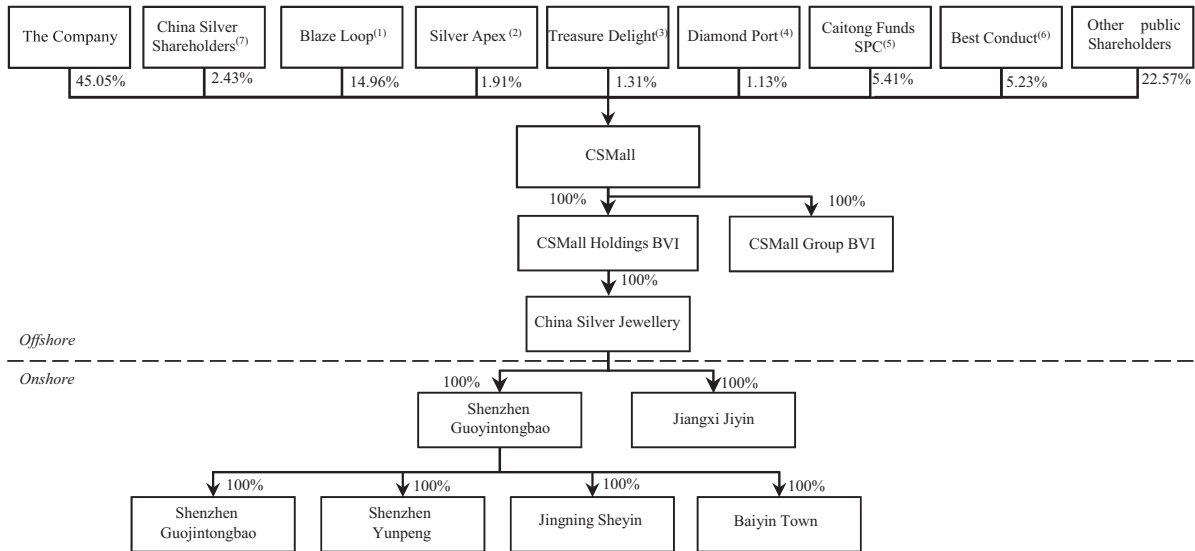


(ii) *Immediately after the Loan Capitalisation Issue and the Distribution*



LETTER FROM THE BOARD

(iii) immediately after completion of the Loan Capitalisation Issue, the Distribution and the Global Offering (assuming the over-allotment option is not exercised)



Notes:

- (1) As at the Latest Practicable Date, Blaze Loop is wholly owned by Mr. Lin. As at the Latest Practicable Date, Blaze Loop (as settlor) and Mr. Lin (as trustee) held 166,025,000 CSMall Shares on behalf of 58 employees of CSMall Group.
- (2) As at the Latest Practicable Date, Silver Apex is wholly owned by Mr. Chen.
- (3) As at the Latest Practicable Date, Treasure Delight is wholly owned by Mr. Qian.
- (4) As at the Latest Practicable Date, Diamond Port is wholly owned by Mr. Zhang.
- (5) As at the Latest Practicable Date, Caitong Funds SPC is a segregated portfolio company and is owned and managed by Caitong International Asset Management Co., Limited, which is in turn wholly owned by Caitong Securities Co., Limited (財通證券股份有限公司, formerly known as 財通證券有限責任公司) (“**Caitong Securities PRC**”), an independent third party. Caitong Securities PRC is directly owned as to approximately 36.60% by Zhejiang Provincial Financial Holdings Co., Ltd. (浙江省金融控股有限公司) (“**Zhejiang Financial Holdings**”) and as to approximately 63.40% by certain shareholders, none of which is entitled to exercise or control the exercise of one third or more of the voting rights of Caitong Securities PRC. Zhejiang Financial Holdings is directly wholly owned by Zhejiang Provincial Financial Development Company (浙江省財務開發公司) (“**Zhejiang Financial Development**”), which is in turn directly wholly owned by the Department of Finance of Zhejiang Province (浙江省財政廳). Caitong Funds SPC’s investment in CSMall was made on behalf and for the benefit of one of its segregated portfolios, Caitong Pine Ocean New Economy Fund SP. The investors in the Caitong Pine Ocean New Economy Fund SP are independent third parties of the CSMall Group.
- (6) As at the Latest Practicable Date, Best Conduct is an investment holding vehicle incorporated in the BVI, which is beneficially owned as to 70% by Mr. SHI Jinglei (石勁磊) and 30% by Mr. HUANG Yuanzhe (黃遠哲), who are independent third parties of the CSMall Group.
- (7) Assuming, for illustration purposes only, that both the Qualifying Shareholders and the Overseas Excluded Shareholders received CSMall Shares as their entitlement to the Distribution and have not disposed of such CSMall Shares.

LETTER FROM THE BOARD

It is expected that upon completion of the Proposed Spin-Off, the shareholding percentage of the Company in CSMall may be diluted from approximately 60.07% at present to approximately 45.05%. Having regard to the circumstances as of the date of this circular, our Directors are of the view that the Company will be able to continue to account for CSMall as its subsidiary.

Intended Use of Proceeds

CSMall estimates that the aggregate net proceeds from the Global Offering (after deducting underwriting fees and estimated expenses payable by CSMall in connection with the Global Offering, and assuming an offer price of HK\$4.00 per new CSMall Share, being the mid-point of the indicative price range) will be approximately HK\$945.5 million (assuming the over-allotment option is not exercised). CSMall currently intends to use the net proceeds of the Global Offering for the following purposes:

- (i) approximately 50% will be used to expand and optimise its integrated online and offline retail structure and enhance the online and offline synergies, of which: (1) approximately 30% will be used to implement its CSMall Gift initiatives and other crossover marketing initiatives, including procuring adequate inventory establishing its CSMall gift shops and increasing its staff size; (2) approximately 10% will be used to develop its online sales channels, including to improve its sales and services offered through its self-operated online platform, primarily by upgrading its IT systems and enhancing the interface of its self-operated online jewellery platform; and (3) approximately 10% will be used to develop its offline sales and service network, including to selectively expand the geographic footprint of its CSMall shops in the more developed cities in the PRC with strong purchasing power.
- (ii) approximately 20% will be used to strengthen its data collection, mining and utilisation capabilities, primarily by upgrading its IT infrastructure and data management systems, expanding its data analysis team and enhancing its software development capabilities.
- (iii) approximately 10% will be used to improve its product design and development capabilities and enhance its inventory, order fulfilment and logistics management, primarily by expanding its in-house design team and expanding its warehouse and upgrading its order fulfilment facilities commensurate with the business needs.
- (iv) approximately 10% will be used for its brand development and targeted sales and marketing campaigns.
- (v) the remaining amount of approximately 10% of the net proceeds, will be used for working capital and other general corporate purposes.

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, CSMall intends to place the same in short-term deposits with licensed banks or financial institutions in the PRC or Hong Kong as permitted by the relevant laws and regulations.

LETTER FROM THE BOARD

Restrictions on the Disposal of the CSMAI Shares

Pursuant to Rule 10.07(1) of the Listing Rules, the Company, as CSMAI's controlling shareholder, shall not:

- (i) in the period commencing on the date by reference to which disclosure of the shareholding of the Company is made in the listing document of CSMAI and ending on the date which is six months from the Listing Date (the "**First Six-month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of CSMAI Shares or securities in respect of which he or it is shown by the listing document of CSMAI to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules); or
- (ii) in the period of six months commencing on the date on which the First Six-month Period expires (the "**Second Six-month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the CSMAI Shares or securities of CSMAI referred to in the preceding paragraph, if immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it would cease to be a "controlling shareholder" (as defined in the Listing Rules) of CSMAI.

Further, pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, the Company will undertake to CSMAI and to the Stock Exchange that, during the First Six-month Period and the Second Six-month Period, it will:

- (i) when it pledges or charges any of CSMAI Shares or securities beneficially owned by it in favor of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform CSMAI of such pledge or charge together with the number of such CSMAI Shares or securities of CSMAI so pledged or charged; and
- (ii) when it receives indications, either verbal or written, from the pledgee or chargee that any of its pledged or charged CSMAI Shares or securities of CSMAI will be disposed of, immediately inform CSMAI of such indications.

Business Overview of the Group and Delineation of Businesses after the Proposed Spin-Off

As of the Latest Practicable Date, the Company, together with its subsidiaries (including CSMAI and its subsidiaries), operates three principal businesses:

- (i) **Manufacturing Business:** the Company engages in the manufacturing of high-grade silver ingots for industrial and trading purposes (the "**Manufacturing Business**") and is one of the leading silver producers in China.

LETTER FROM THE BOARD

- (ii) **Silver Exchange Business:** the Company completed its acquisition of Shanghai Huatong in February 2016 and has generated revenue from providing spot goods supply, trading and logistics services through such exchange platform (the “**Silver Exchange Business**”) since then.
- (iii) **New Jewellery Retail Business:** CSMall Group engaged in the design and sale of gold, silver and jewellery products in China leveraging on the New Jewellery Retail Model.

Immediately after the Listing, the Company will continue to operate the Retained Businesses, being the Manufacturing Business and the Silver Exchange Business.

1. *Delineation of businesses*

Following the Listing and the Proposed Spin-Off, the Company will continue to operate the Retained Businesses. There is a clear delineation between the Retained Businesses and the Business of CSMall in terms of the nature of business, source of revenue, products or services offered, target customers and nature of suppliers as tabulated below:

	Retained Business		
	Manufacturing Business	Silver Exchange Business	The Business of CSMall
Nature of business	Production of metal ingots	Operation of metal exchange platform	Retailing and wholesaling of gold, silver and jewellery products
Source of revenue	Sales of silver ingots and other non-ferrous metals	Trading-related service income such as commissions and membership fees	Sales of gold, silver and jewellery products
Products or services offered	Silver ingots and other non-ferrous metals for industrial use	Spot supply, trading and logistics services in relation to silver trading	Gold, silver and jewellery products
Target customers	Industrial users of metal ingots as raw materials	Industrial users of silver as raw materials, and traders trading in silver as a commodity	Retail and wholesale customers of gold, silver and jewellery products as end products
Nature of suppliers	Silver refineries, mines and trading companies; chemical manufacturers and trading companies	Silver producers and silver consuming companies; warehouses and logistics service providers	The Group and other silver producers; OEM contractors; logistics service providers

LETTER FROM THE BOARD

The Company will execute a Deed of Non-Competition in favour of CSMall, pursuant to which the Company will undertake to CSMall that it will not, and that it will procure that its subsidiaries and parties controlled by it either solely or jointly with any other party (the “**Affiliates**”) will not, solely or jointly or in cooperation with other parties, without CSMall’s prior written consent, hold and/or be interested in, either directly or indirectly, any shares or securities or interest in any company or other business entity which is engaged or involved in, directly or indirectly, any activity or business which competes or is likely to compete, directly or indirectly, with the existing businesses of any member of CSMall Group after the Listing (the “**Restricted Business**”).

The non-competition undertaking does not apply to the holding of securities in a company that is engaged in the Restricted Business, provided that the Company or its close associates does not individually and in aggregate hold or control the voting rights in respect of 10% or more of the issued share capital of such company.

Pursuant to the Deed of Non-Competition, the Company will also undertake that if it or any of its Affiliates become aware of any business opportunity relating to any Restricted Business (the “**Business Opportunity**”), it will notify CSMall of such Business Opportunity as soon as they become aware of the same, and will use commercially reasonable efforts to assist CSMall Group in pursuing such Business Opportunity. To the extent that the Business Opportunity is being made available by a third party to any of the Company or its Affiliates, the Company will use commercially reasonable efforts to procure that such Business Opportunity is first offered to CSMall Group as soon as practicable on terms and conditions which are no less favourable than those offered to it or its Affiliates. CSMall will seek approval from its independent non-executive directors who do not have a material interest in the matter for consideration as to whether to pursue or decline such Business Opportunity. The Company will ensure that it or its Affiliates will be entitled to pursue the Business Opportunity only if: (i) it has received a notice from CSMall declining such Business Opportunity and confirming that such Business Opportunity would not constitute competition with its core business; or (ii) it has not received any notice from CSMall within a period of 10 business days (the “**Offer Notice Period**”) of CSMall being notified by it of such Business Opportunity. The Offer Notice Period shall be extended to not more than 30 business days at the request of CSMall’s independent non-executive directors who do not have a material interest in the matter.

The undertakings to be given by the Company under the Deed of Non-Competition shall be effective from the Listing Date and terminate on the earlier of: (i) the date on which the Company ceases to be CSMall’s controlling shareholder; (ii) the date on which the CSMall Shares cease to be listed on the Stock Exchange; and (iii) the date on which CSMall Group ceases to engage in the Restricted Business.

CSMall’s independent non-executive directors will consider on an annual basis whether or not the Company has complied with the terms set forth in the Deed of Non-Competition. CSMall’s independent non-executive directors may appoint independent advisers and other professional advisers as they consider appropriate to advise them on any matter relating to the Deed of Non-Competition at the cost of CSMall. CSMall will disclose in its annual report decisions or determinations, with basis, in relation to matters reviewed by its independent non-executive directors regarding: (i) the Business Opportunities offered by any of the Company or its Affiliates to CSMall; and (ii) whether any activity or business or proposed activity or business of the Company or its Affiliates competes or is likely to compete, either directly or indirectly, with the Restricted Business.

LETTER FROM THE BOARD

To ensure CSMall's independent non-executive directors are able to monitor the compliance with the Deed of Non-Competition, the Company will undertake in the Deed of Non-Competition to provide and to procure the provision to CSMall all information necessary for the enforcement of the undertakings contained therein. The Company will further undertake to make a statement in its annual report confirming its compliance with the terms of the Deed of Non-Competition.

2. Independence of directorship and management

Immediately after the Listing, it is expected that the board of directors of CSMall will comprise three executive directors and three independent non-executive directors. Immediately after the Listing, members of CSMall's core management team, namely Mr. Chen, Mr. Zhang, Mr. Qian and Mr. Lee Jackie Kai Yat, will not assume directorship or any senior management roles in the Company. There will not be any common directors sitting on both the Company and CSMall boards of directors, nor will there be any person with overlapping senior management roles of both the Company and CSMall Group.

In addition, directors of CSMall shall not vote on any board resolution approving any contract or arrangement or any other proposal in which he or she or any of his or her close associates has a material interest and shall not be counted in the quorum present at the relevant board meeting.

Based on the above, directors of CSMall are satisfied that board of directors of CSMall, together with its senior management team, is able to perform the managerial role in CSMall Group independently.

3. Operational Independence

CSMall has full rights to make all decisions regarding, and to carry out, its own business operations independently. CSMall holds or enjoys the benefit of the relevant licenses necessary to carry out its business, and has sufficient capital, equipment and employees to operate its business independently from the Company. CSMall does not rely on the Company for any operational or administration resources and does not share office space with it. CSMall's financial reporting system is independent from that of the Company. In addition, CSMall organizational structure is made up of individual departments, each with specific areas of responsibilities. CSMall has also established a set of internal controls to facilitate the effective operation of its business.

CSMall anticipates that CSMall Group will continue to procure silver ingots (as raw materials for producing jewellery products) from the Company after the Listing, which will constitute continuing connected transactions under the Listing Rules. Directors of CSMall are of the view that CSMall Group does not rely on the Company for the procurement of silver ingots for the following reasons:

- (1) Silver is a widely traded commodity with standard specification, and CSMall Group is able to source silver from other suppliers in the market at prevailing market rates.
- (2) There are no exclusivity arrangements or preferential treatment granted the Company to CSMall Group (or vice versa) in the sale and purchase of silver ingots by CSMall Group from the Company.

LETTER FROM THE BOARD

During the Track Record Period, the percentage of purchase (based on prevailing market price) by CS Mall from the Company out of its total purchase (based on prevailing market price) continued to decrease from 36.9% in 2014 to 24.6% in 2015, further to 11.4% in 2016 and further to 9.6% in the six months ended 30 June 2017.

During the Track Record Period, there were certain overlapping suppliers and customers of the CS Mall Group on the one hand, and the Manufacturing Business and the Silver Exchange Business of the Company, on the other hand, details of which are set out below.

Year	Entity	Details of Overlap with the Manufacturing Business/Silver Exchange Business	Products Transacted with CS Mall Group	Products transacted with the Manufacturing Business/Silver Exchange Business
2014	Company A	Overlapping supplier with the Silver Exchange Business and overlapping customer with the Manufacturing Business	Silver bars (銀條)	Silver ingots (銀錠)
	Company B	Overlapping customer with the Manufacturing Business	Silver bars and molded silver bars (銀元寶)	Silver ingots
	Company C	Overlapping supplier with the Manufacturing Business	Gold	Mineral powders
2015	Company B	Overlapping customer with the Manufacturing Business	Silver bars and molded silver bars	Silver ingots
	Company C	Overlapping supplier with the Manufacturing Business	Gold	Silver ingots
	Company D	Overlapping customer with the Silver Exchange Business	Silver bars, molded silver bars and jewellery products	Mineral powders
2016	Company E	Overlapping customer with the Silver Exchange Business and the Manufacturing Business	Silver bars and molded silver bars	Silver ingots
	Company F	Overlapping customer with the Manufacturing Business	Silver bars and molded silver bars	Silver ingots

LETTER FROM THE BOARD

CSMall Group and the Company have not entered into joint framework agreements or any other joint purchase or joint procurement agreements with the overlapping customers and suppliers during the Track Record Period. Each order from or to these overlapping customers and suppliers are received or given separately by CSMall Group and the Manufacturing Business and/or the Silver Exchange Business of the Company.

Based on the above, directors of CSMall are satisfied that they have been operating independently from the Company and its close associates during the Track Record Period and will continue to operate in such manner after the Listing.

4. *Financial independence*

Following the Listing, CSMall will have an independent financial system and make financial decisions according to its own business needs, and will have sufficient capital to operate its business independently and adequate internal resources to support its daily operations. As of the Latest Practicable Date, CSMall has no outstanding bank borrowings. As of 30 June 2017, CSMall owes the Company a net amount of RMB368.0 million which will be settled in the following manner prior to Listing: (1) the Renminbi equivalent of HK\$121,150,998 will be settled by way of the Loan Capitalisation Issue; and (2) the remaining net outstanding amount of approximately HK\$311.18 million owed to the Company will be settled by way of a capital contribution from the Company which will be reflected in CSMall's reserves. Following the Listing, CSMall expects to be capable of obtaining financing from third parties, if necessary, for the general operation of its business in its ordinary course without relying on financial assistance from the Company.

Based on the above, directors of CSMall believe that CSMall is able to maintain financial independence from the Company and its close associates after the Listing.

Financial information of CSMall

Set out below is certain selected financial information of CSMall Group based on the consolidated financial statements of CSMall Group for each of the years ended 31 December 2015 and 31 December 2016 and six months ended 30 June 2017:

	For the year ended 31 December 2015 <i>RMB'000</i>	For the year ended 31 December 2016 <i>RMB'000</i>	For the six months ended 30 June 2017 <i>RMB'000</i>
Revenue	835,345	2,465,291	1,798,717
Profit before tax	41,851	64,676	60,790
Profit for the year/period	32,954	50,264	45,455

The net asset value of the CSMall Group attributable to owners of CSMall as at 31 December 2016 and as at 30 June 2017 were approximately RMB173 million and RMB291 million, respectively.

LETTER FROM THE BOARD

Financial effects of the Proposed Spin-Off

Upon completion of the Proposed Spin-Off, the shareholding percentage of the Company in CSMall may be diluted from approximately 60.07% at present to approximately 45.05%. Having regard to the circumstances as of the date of this circular, our Directors are of the view that the Company will be able to continue to account for CSMall as its subsidiary.

The following estimates the financial impact of the Proposed Spin-Off on the Group on the basis of the current structure of the Proposed Spin-Off that CSMall will offer 25% of the enlarged issued share capital of pursuant to the Global Offering.

Effect on the Group's net assets

The audited consolidated net assets of the Group was approximately RMB2,188 million as at 31 December 2016. The Proposed Spin-off will increase the Group's cash on hand, consolidated current assets and net assets ("**Increase in Net Assets**") by the amount of the net proceeds from the Global Offering since CSMall Group is and continues to be consolidated in the Group's consolidated statement of financial position before and after the Proposed Spin-off. The Global Offering has no impact on the Group's current and non-current liabilities except for the transaction costs in the amount of RMB41.5 million, which will be recorded as current liabilities. In addition, in accordance with the International Financial Reporting Standards, the Increase in Net Assets which constitutes changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, is accounted for within equity. Therefore, there will be no gain or loss arising from the deemed disposal by the Company of the interest in CSMall under the Global Offering to be recognised in the consolidated statement of profit or loss and other comprehensive income of the Company given that CSMall will remain as a subsidiary of the Company immediately upon completion of the Proposed Spin-Off and the Global Offering.

As discussed above, the net amount of RMB368 million at 30 June 2017 owed by CSMall to the Company will be settled in the following manner prior to Listing: (1) the Renminbi equivalent of HK\$121,150,998 will be settled by way of the Loan Capitalisation Issue; and (2) the remaining net outstanding amount of approximately HK\$311.18 million owed to the Company will be settled by way of a capital contribution from the Company which will be reflected in CSMall's reserves. As such, the Group's assets and net assets will be reduced by amount of RMB368 million.

Effect on the Group's earnings

The effect of the Proposed Spin-Off on the future earnings of the Group will depend on, among others, the return generated from the proceeds raised from the Global Offering as well as the growth of the business operations of CSMall Group.

Based on the audited consolidated financial statements of the Group for each of the two years ended 31 December 2015 and 31 December 2016, the audited consolidated profits before taxation of the Group were approximately RMB7 million and RMB428 million respectively. The audited total

LETTER FROM THE BOARD

comprehensive expense for the year ended 31 December 2015 and the audited total comprehensive income for the year ended 31 December 2016, after taxation and non-controlling interests of the Group, attributable to owners of the Company were approximately RMB11 million and RMB302 million, respectively.

Following completion of the Proposed Spin-Off, the Group's profit attributable to owners of the Company are expected to be reduced as the Company's interest in CSMall will be reduced to 45.05% and CSMall will continue to be regarded as a subsidiary of the Group. Consequently, the financial results of CSMall Group will continue to be consolidated into the accounts of the Group and profit attributable to the non-controlling interests of the Group are expected to increase.

Reasons for and benefits of the Proposed Spin-Off

The Directors believe that the Proposed Spin-Off is in the interest of the Company, CSMall and the Shareholders for the following reasons:

- (i) Clarity and fairness of valuation. The nature of business, source of revenue, products or services offered, target customers and nature of suppliers of the Retained Businesses and the New Jewellery Retail Business are vastly different. The separate listing of CSMall will enable investors to appraise the performance and potential of the Retained Businesses and the New Jewellery Retail Business separately, thereby achieving a clear and fair valuation of both the Remaining Group and CSMall Group.
- (ii) Enhancement of value. The Company believes that the Proposed Spin-Off will unlock the CSMall Group's shareholder value as a result of the increased financial reporting transparency of the New Jewellery Retail Business, and enhance access to capital by virtue of CSMall's separate listing status so as to support its expansion plans in the years to come. At the same time, as the Company will remain CSMall's controlling shareholder, the Shareholders will also be able to enjoy the benefits of its development.
- (iii) More defined focus and effective resource allocation. The Retained Businesses and the New Jewellery Retail Business will be clearly delineated and will function independently after the Proposed Spin-Off. This will allow the management teams of both the Remaining Group and CSMall Group to focus on their respective business operations and expertise as well as allocate resources only with regard to their respective needs. This is important given the CSMall Group's rapid growth rate.
- (iv) Alignment with appropriate investor bases. The Proposed Spin-Off will strengthen the existing investor base of the Company and create a new investor base for CSMall. With the divestment of the CSMall Group, shares in the Company will prove more attractive to investors who specifically seek to invest in the traditional businesses of silver ingot and non-ferrous metal manufacturing and commodity exchange, many of whom are existing Shareholders. On the other hand, shares in CSMall will appeal to "new economy" investors who are interested in e-commerce and Internet-based companies as well as other companies in the technology and innovation-based sectors.

LETTER FROM THE BOARD

Conditions Precedent to the Proposed Spin-Off

The Proposed Spin-Off is conditional upon, among other things, the following:

- (i) the approval of the Shareholders at the EGM;
- (ii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the CSMall Shares in issue and any CSMall Shares which may be issued pursuant to the Proposed Spin-Off;
- (iii) the terms of the Global Offering being agreed among the Company, CSMall and the underwriter(s);
- (iv) the final decision of the Directors and the board of directors of CSMall; and
- (v) market conditions and other considerations.

If any of these and other applicable conditions are not fulfilled or waived, if applicable, prior to the dates and times to be specified, the Proposed Spin-Off will not proceed and an announcement will be published by the Company as soon as practicable thereafter.

3. LOAN CAPITALISATION ISSUE AND DISTRIBUTION

As part of the Proposed Spin-Off, CSMall will undertake the Loan Capitalisation Issue, pursuant to which, aggregate of 26,922,444 CSMall Shares will be allotted and issued to the Company upon the capitalisation of the Renminbi equivalent of HK\$121,150,998 outstanding liabilities owed by CSMall Group to the Company. In addition, the Company plans to settle the remaining net outstanding amount due from CSMall Group to the Company by way of a capital contribution of such amount by the Company to CSMall which will be reflected in the reserves of CSMall.

Under PN15, the Company is required to give due regard to the interests of the Shareholders by providing them with an assured entitlement to the CSMall Shares. The Distribution will be satisfied wholly by way of a distribution in specie to the Qualifying Shareholders of an aggregate of 26,922,444 CSMall Shares to be issued to the Company pursuant to the Loan Capitalisation Issue, representing approximately 3.13% of the then issued share capital of CSMall immediately following completion of the Loan Capitalisation Issue and Distribution and before completion of the Global Offering, in proportion to their respective shareholdings in the Company on the Record Date. Pursuant to the Distribution, the Qualifying Shareholders will be entitled to one CSMall Share for every 60 Shares held on the Record Date.

The Distribution is conditional upon the Global Offering becoming unconditional in all respects. Subject to the Distribution becoming unconditional, CSMall expects to despatch share certificates to Qualifying Shareholders who are entitled to receive the CSMall Shares under the Distribution on or before 3 January 2018. Share certificates will only become valid if the Distribution becomes unconditional.

LETTER FROM THE BOARD

Overseas Excluded Shareholders (if any) will be entitled to the Distribution but will not receive the CSMall Shares. Instead, the CSMall Shares which they would otherwise receive pursuant to the Distribution will be sold by the Company on their behalf as soon as reasonably practicable after commencement of dealings in the CSMall Shares on the Stock Exchange and they will receive a cash amount equal to the net proceeds of such sale. The proceeds of such sale, net of expenses, will be paid to the Overseas Excluded Shareholders in Hong Kong dollars. Such payment is expected to be made on or before 22 January 2018.

4. CLOSE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 December 2017 to 15 December 2017 for the purpose of determining the entitlement to vote at the EGM. No transfer of the Shares may be registered during such book close period. In order to qualify for the entitlement to vote at the EGM, all forms for transfer of Shares duly accompanied by the relevant certificates must be lodged with Company's branch 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 by no later than 4:30 p.m. on 11 December 2017.

Based on the expected timetable, the register of members of the Company will be closed from 21 December 2017 to 22 December 2017 (both dates inclusive) for the purpose of determining the entitlement to the Distribution. No transfer of the Shares may be registered during such book close period. In order to qualify for the entitlement to the Distribution, all forms for transfers of Shares duly accompanied by the relevant certificates must be lodged with the Company's branch 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 by no later than 4:30 p.m. on 20 December 2017.

5. LISTING RULES IMPLICATIONS

When completed, the Proposed Spin-Off will constitute a deemed disposal of the Company's interest in CSMall under Rule 14.29 of the Listing Rules. Based on the indicative terms of the Distribution and the Global Offering, it is expected that certain of the Applicable Percentage Ratios may exceed 25% but all of the Applicable Percentage Ratios will be less than 75%, and hence the Proposed Spin-Off, if proceeded, will constitute a major transaction of the Company under Chapter 14 of the Listing Rules. The Proposed Spin-Off is therefore subject to, among other things, the approval of the Shareholders under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

The Proposed Spin-Off is subject to, among other things, the approval of the Shareholders, the approval of the Stock Exchange, the final decision of the Directors and the board of directors of CSMall, as well as market conditions and other considerations. Accordingly, Shareholders and potential investors should be aware that there is no assurance that the Proposed Spin-Off will take place and, if so, when it will take place. If the Proposed Spin-Off does not proceed for any reason, the Distribution will not be made. Shareholders and potential investors should exercise caution when dealing in or investing in the securities of the Company. If in any doubt, Shareholders and potential investors are recommended to consult their professional advisers.

LETTER FROM THE BOARD

6. EGM

The Company will convene the EGM at 2:30 p.m. on 15 December 2017 at 35/F, Central Plaza, Regus Conference Center, 18 Harbour Road, Hong Kong at which a resolution will be proposed for the purpose of considering and if thought fit, approving the Proposed Spin-Off. The notice of the EGM is set out on pages III-1 and III-2 of this circular. Any Shareholder with a material interest in the Proposed Spin-Off and his/her/its close associates will abstain from voting on the ordinary resolution approving the Proposed Spin-Off. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder is required to abstain from voting at the EGM.

Pursuant to Rule 13.39(4) of the Listing Rules (except for administrative matters) and the articles of association of the Company currently in force, any vote of the Shareholders at a general meeting must be taken by poll. An announcement on the poll vote results will be published by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

A form of proxy for use at the EGM is enclosed herein. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch 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 as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment(s) thereof if you so wish.

7. RECOMMENDATION

The Directors (excluding the independent non-executive Directors) are of the view that the terms of the Proposed Spin-Off are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

An Independent Board Committee has been formed to advise the Shareholders in connection with the Proposed Spin-Off. Somerley has been appointed as an independent financial adviser to advise the Independent Board Committee and the Shareholders on the same. Somerley considers that the Proposed Spin-Off is in the interest of the Company and the Shareholders as a whole and the terms thereof are fair and reasonable as far as the Company and the Shareholders are concerned. Accordingly, Somerley advises the Independent Board Committee to recommend, and Somerley itself recommends, that the Shareholders vote in favour of the relevant resolution in the EGM to be held to consider and if thought fit, to approve the Proposed Spin-Off. The letter from Somerley containing its advice in relation to the Proposed Spin-Off, together with the factors and reasons it has considered in arriving at its opinion, is set out on pages 25 to 45 of this circular.

The Independent Board Committee, having taken into account the advice of Somerley, considers that the terms of the Proposed Spin-Off are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends that the Shareholders vote in favour of the relevant resolution in the EGM held to consider and if thought fit, to approve the Proposed Spin-Off.

LETTER FROM THE BOARD

8. ADDITIONAL INFORMATION

This circular is being distributed to the Shareholders. This circular does not constitute an offer or invitation to subscribe for or purchase any securities nor is it calculated to invite any such offer or invitation. Neither this circular nor anything contained therein shall form the basis of any contract or commitment whatsoever.

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
China Silver Group Limited
Chen Wantian
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



中國白銀集團
CHINA SILVER GROUP

CHINA SILVER GROUP LIMITED

中國白銀集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 815)

28 November 2017

To the shareholders of the Company,

Dear Sir or Madam,

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We refer to the circular dated 28 November 2017 of the Company (the “**Circular**”), of which this letter forms part. Terms defined in the Circular bear the same meanings in this letter unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider and advise the Shareholders on the terms of the Proposed Spin-Off. Somerley has been appointed as the independent financial adviser to advise the Independent Board Committee and the Shareholders in respect of the terms of the Proposed Spin-Off.

We wish to draw your attention to the letter from the Board, as set out on pages 7 to 23 of the Circular which contains details of the terms of Proposed Spin-Off, and the letter of advice from Somerley as set out on pages 25 to 45 which contains its advice and recommendations in respect thereof.

Having taken into account the advice and recommendations of Somerley, we are of the opinion that the terms of the Proposed Spin-Off are fair and reasonable so far as the Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole. We therefore recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Proposed Spin-Off.

Yours faithfully,

For and on behalf of

the Independent Board Committee

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

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the letter of advice from Somerley Capital Limited, the Independent Financial Adviser, to the Independent Board Committee and the Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

28 November 2017

To: the Independent Board Committee and the Shareholders

Dear Sirs,

**MAJOR TRANSACTION AND DEEMED DISPOSAL
IN RELATION TO THE PROPOSED SPIN-OFF AND
SEPARATE LISTING OF CSMALL GROUP LIMITED
ON THE MAIN BOARD OF
THE STOCK EXCHANGE OF HONG KONG LIMITED**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Shareholders in relation to the Proposed Spin-Off. Details of the Proposed Spin-Off are set out in the "Letter from the Board" contained in the circular of the Company to the Shareholders dated 28 November 2017 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

The Company has submitted a spin-off proposal to the Stock Exchange pursuant to PN15 and the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-Off. The Proposed Spin-Off is expected to be effected by way of (a) a Distribution in specie of the CSMall Shares to be issued to the Company pursuant to the Loan Capitalisation Issue; and (b) the Global Offering of new CSMall Shares. On 28 August 2017, the Form A1 Application was submitted to the Stock Exchange for the listing of and permission to deal in the CSMall Shares. The Proposed Spin-Off, when completed, will constitute a deemed disposal of the Company's interest in CSMall under Rule 14.29 of the Listing Rules. Based on the indicative terms of the Distribution and the Global Offering, it is expected that certain of the Applicable Percentage Ratios may exceed 25% but all of the Applicable Percentage Ratios will be less than 75%, and hence the Proposed Spin-Off, if proceeded, will constitute a major transaction of the Company and is subject to, among other things, the approval by the Shareholders under PN15 and Chapter 14 of the Listing Rules.

The Independent Board Committee, comprising all four independent non-executive Directors, namely Mr. Guo Bin, Mr. Song Hongbing, Dr. Li Haitao and Dr. Zeng Yilong, has been formed to make a recommendation to the Shareholders in connection with the Proposed Spin-Off. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Shareholders in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

There have been no engagements between the Company and Somerley Capital Limited during the past two years, or there were no relationships or interests between Somerley Capital Limited and the Group as at the Latest Practicable Date that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Shareholders in respect of the Proposed Spin-Off as detailed in the Circular.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and we have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects and will remain so up to the time of the EGM. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group (including the CS Mall Group), nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion with respect to the Proposed Spin-Off, we have taken into account the principal factors and reasons set out below.

1. Business of the Group and the CS Mall Group

(a) Business of the Group

As set out in the sub-section headed “Business Overview of the Group and Delineation of Businesses after the Proposed Spin-Off” in the “Letter from the Board” contained in the Circular, as of the Latest Practicable Date, the Company, together with its subsidiaries (including CS Mall and its subsidiaries), operates three principal businesses:

- (i) Manufacturing Business: manufacturing of high-grade silver ingots for industrial and trading purposes (the “**Manufacturing Business**”);
- (ii) Silver Exchange Business: providing spot goods supply, trading and logistics services through exchange platform of Shanghai Huatong (the “**Silver Exchange Business**”); and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) New Jewellery Retail Business: design and sale of gold, silver and jewellery products in China leveraging on the New Jewellery Retail Model through the CS Mall Group.

Immediately after the Listing, the Company will continue to operate the Retained Businesses, being the Manufacturing Business and the Silver Exchange Business.

Set out below is a summary of financial information of the Group for the two years ended 31 December 2016 and 2015 (both as extracted from the 2016 annual report of the Company) and for the six months ended 30 June 2017 and 2016 (both as extracted from the 2017 interim report of the Company):

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2016 RMB'000	For the six months ended 30 June 2016 RMB'000	For the six months ended 30 June 2017 RMB'000
Revenue (<i>note</i>)	1,706,665	4,088,195	1,905,514	3,106,770
<i>Comprised of:</i>				
Manufacturing Business	871,320	1,457,098	569,232	1,258,319
Silver Exchange Business	—	165,806	93,616	49,734
New Jewellery Retail Business	835,345	2,465,291	1,242,666	1,798,717
Gross profit	174,812	627,157	211,910	303,038
Profit before tax	7,004	428,410	133,411	197,749
(Loss)/profit for the year/period	(10,971)	306,813	94,236	188,622

Note: only external sales are included

As shown in the above table, the Group's revenue showed a general upward trend and all segments showed positive growth in 2016. As set out in the 2016 annual report of the Company, throughout 2016, the Company implemented a series of business initiatives and marketing campaigns in its New Jewellery Retail Business. Revenue in the New Jewellery Retail Business experienced a significant increase from approximately RMB835.3 million in 2015 to approximately RMB2,465.3 million in 2016, representing a year-on-year growth of approximately 195%. The Manufacturing Business also showed strong growth during the same year, and revenue in 2016 was approximately RMB1,457.1 million, comparing to approximately RMB871.3 million in 2015, representing a year-on-year growth of approximately 67%. The Group turned around the loss-making position in 2015 and recorded a net profit of approximately RMB306.8 million in 2016.

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The growth momentum continued in the first half of 2017. Total revenue recorded in the first half of 2017 amounted to approximately RMB3,106.8 million, which represents a growth of approximately 63% compared to the same period in 2016. Revenue in the New Jewellery Retail Business and Manufacturing Business in the first half of 2017 recorded growth of approximately 45% and 121% respectively compared to the same period in 2016. Net profit in the first half of 2017 grew by approximately 100% from approximately RMB94.2 million in first half of 2016 to approximately RMB188.6 million.

As at 30 June 2017, total assets of the Group amounted to approximately RMB3,682.9 million. The net asset value of the Group attributable to owners of the Company was approximately RMB2,490.1 million.

(b) Business of the CSMall Group

CSMall Group is principally engaged in the design and sale of gold, silver and jewellery products in China. As of the Latest Practicable Date, CSMall is owned as to approximately 60.07% by the Company. As set out in the Application Proof, CSMall is the largest integrated online and offline internet-based jewellery retailer in China in terms of sales revenue in 2016 and the number of online registered user accounts as of 31 December 2016, according to an industry report prepared by an independent global market research and consulting company. CSMall integrates online and offline jewellery sales channels and develops a retail model which consists of (i) e-commerce platform; (ii) offline sales and service network; (iii) data mining and utilisation capabilities; and (iv) crossover sales and marketing initiatives. CSMall maintains its online presence primarily through its self-operated online platform, comprising its internet website, mobile website and mobile app. Third-party online sales channels such as television and video shopping channels and third-party online marketplaces are also used as a supplement to CSMall's self-operated platform. Offline sales and service network of CSMall comprised (i) its physical shops; (ii) its jewellery products exhibition hall in Shenzhen; and (iii) third-party offline points of sale.

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Set out below is a summary of financial information of the CSMall Group for the two years ended 31 December 2016 and 2015 and for the six months ended 30 June 2017 (as extracted from the Application Proof):

	For the year ended 31 December 2015	For the year ended 31 December 2016	For the six months ended 30 June 2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	835,345	2,465,291	1,798,717
Profit for the year/period <i>(note)</i>	32,954	50,264	45,455
Adjustments to historical cost of production and corresponding effect on income tax expense <i>(note)</i> :	(11,500)	(2,204)	—
Adjusted net profit for the year/period <i>(note)</i>	21,454	48,060	45,455

Note: As set out in the section headed “Explanatory statement on the presentation of our group’s cost of sales and profitability” in the Application Proof, the CSMall Group’s cost of sales for silver products reflected the historical cost of production of silver ingots incurred by a connected person of CSMall (being a subsidiary of the Company) before April 2016. The directors of CSMall are of the view that, using the then prevailing market rates as the basis of transfers of silver ingots to CSMall will better reflect the profit generating capabilities of CSMall. As a result, in order to present a meaningful picture to the Shareholders, the relevant adjustments have been made in the table above. Further details are set out in the above-mentioned section in the Application Proof.

As set out in the paragraph headed “Business of the Group” of this letter above, the revenue in the New Jewellery Retail Business, which is operated by the CSMall Group, experienced a significant increase from approximately RMB835.3 million in 2015 to approximately RMB2,465.3 million in 2016 after a series of business initiatives and marketing campaigns were implemented through the year, representing a year-on-year growth of approximately 195%. As set out in the 2017 interim report of the Company, by leveraging its strength and resources in the upstream business as well as effective implementation of the Group’s strategies, revenue in the New Jewellery Retail Business in the first half of 2017 recorded a growth of approximately 45% comparing to the same period in 2016, from approximately RMB1,242.7 million in the first half of 2016 to approximately RMB1,798.7 million in the first half of 2017.

The adjusted net profit of the CSMall Group grew significantly from approximately RMB21.5 million in 2015 to approximately RMB48.1 million in 2016, representing a year-on-year growth of approximately 124%. The adjusted net profit recorded in the first half of 2017 amounted to approximately RMB45.5 million, which represents approximately 95% of the adjusted net profit for the whole year of 2016.

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As set out in the Application Proof, as at 30 June 2017, total assets of the CSMall Group amounted to approximately RMB895.8 million. The net asset value of the CSMall Group attributable to owners of the company was approximately RMB290.5 million.

The CSMall Group has been a major revenue driver of the Group which has contributed approximately 60% and 58% of total revenue for the year ended 31 December 2016 and the six months ended 30 June 2017 respectively. In view of the strong growth in the CSMall Group in recent years and its growth prospects, the executive Directors are of the view that the Proposed Spin-Off will allow both the Remaining Group and CSMall Group to release business value, and ultimately benefit the Shareholders. Further details of the benefits of the Proposed Spin-Off are discussed in the paragraph headed “Reasons for and benefits of the Proposed Spin-Off” in the sub-section below.

2. Background to and reasons for the Proposed Spin-Off

(a) Background to the Proposed Spin-Off

The Group is principally engaged in three businesses, including (i) the Manufacturing Business; (ii) the Silver Exchange Business; and (iii) the New Jewellery Retail Business. As set out in the paragraph headed “Business of the CSMall Group” of this letter above, the Group’s New Jewellery Retail Business is operated by the CSMall Group and has been a major revenue driver of the Group which has contributed approximately 60% and 58% of total revenue for the year ended 31 December 2016 and the six months ended 30 June 2017 respectively.

The New Jewellery Retail Business is different from the Retained Businesses of the Group (being the Manufacturing Business and the Silver Exchange Business) in terms of nature of business, source of revenue, products or services offered, target customers and nature of suppliers. Further details are set out in the sub-section headed “Business overview of the Group and delineation of businesses after the Proposed Spin-Off” in the “Letter from the Board” contained in the Circular.

Given the differences in the businesses, the executive Directors are of the view that the Proposed Spin-Off will provide a delineation of the Group’s New Jewellery Retail Business and the Group’s Retained Businesses and promote an alignment with an appropriate investor base for each of them.

(b) Reasons for and benefits of the Proposed Spin-Off

The separate listing of CSMall will enable investors to appraise the performance and potential of the Retained Businesses and the New Jewellery Retail Business separately. The executive Directors also believe that shares in the Company will prove more attractive to investors who specifically seek to invest in the traditional businesses of silver ingot and non-ferrous metal manufacturing and commodity exchange, while shares in CSMall will appeal to “new economy” investors who are interested in e-commerce and Internet-based companies as well as other companies in the technology and innovation-based sectors, thereby achieving a clear valuation of both the Remaining Group and the CSMall Group.

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The executive Directors also believe that the Proposed Spin-Off will unlock the CSMall Group's shareholder value as a result of the increased financial reporting transparency of the New Jewellery Retail Business, and enhance access to capital by virtue of CSMall's separate listing status so as to support its expansion plans in the years to come, which will also benefit the Shareholders with Company remaining as CSMall's controlling shareholder.

Further, the executive Directors are of the view that the Retained Businesses and the New Jewellery Retail Business will be clearly delineated and will function independently after the Proposed Spin-Off, which will allow the management teams of both the Remaining Group and the CSMall Group to focus on their respective business operations and expertise as well as allocate resources only with regard to their respective needs. Further details of the independent functionality of the Remaining Group and the CSMall Group are set out in the paragraph headed "Corporate governance" in the sub-section headed "Deed of Non-competition and corporate governance" of this letter below and further details of the reasons and benefits of the Proposed Spin-Off are set out in the sub-section headed "Reasons for and benefits of the Proposed Spin-Off" in the "Letter from the Board" contained in the Circular.

(c) Intended use of proceeds

As advised by the executive Directors, assuming the over-allotment option is not exercised, the expected net proceeds from the Global Offering will range from approximately HK\$823.9 million to HK\$1,067.1 million, depending on the final offer price. Based on the mid-point of the offer price range, the expected net proceeds from the Global Offering are approximately HK\$945.5 million.

As set out in the sub-section headed "Intended use of proceeds" in the "Letter from the Board" contained in the Circular, CSMall currently intends to use the net proceeds from the Global Offering for the following purposes:

- approximately 50% will be used to expand and optimise its integrated online and offline retail structure and enhance the online and offline synergies, of which: (1) approximately 30% will be used to implement its CSMall gift initiatives and other crossover marketing initiatives, including procuring adequate inventory and increasing its staff size; (2) approximately 10% will be used to develop its online sales channels, including to improve its sales and services offered through its self-operated online platform, primarily by upgrading its IT systems and enhancing the interface of its self-operated online jewellery platform; and (3) approximately 10% will be used to develop its offline sales and service network, including to selectively expand the geographic footprint of its CSMall shops in the more developed cities in the PRC with strong purchasing power;
- approximately 20% will be used to strengthen its data collection, mining and utilisation capabilities, primarily by upgrading its IT infrastructure and data management systems, expanding its data analysis team and enhancing its software development capabilities;

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- approximately 10% will be used to improve its product design and development capabilities and enhance its inventory, order fulfilment and logistics management, primarily by expanding its in-house design team and expanding its warehouse and upgrading its order fulfilment facilities commensurate with the business needs;
- approximately 10% will be used for its brand development and targeted sales and marketing campaigns; and
- the remaining amount of approximately 10% of the net proceeds, will be used for working capital and other general corporate purposes.

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, CSMall intends to place the same in short-term deposits with licensed banks or financial institutions in the PRC or Hong Kong as permitted by the relevant laws and regulations.

3. Structure of the Proposed Spin-Off

As set out in the “Letter from the Board” contained in the Circular, the Proposed Spin-Off will be effected by way of (i) a Distribution in specie of the CSMall Shares to be issued to the Company pursuant to the Loan Capitalisation Issue; and (ii) the Global Offering of new CSMall Shares. As part of the Proposed Spin-Off, CSMall will undertake the Loan Capitalisation Issue, pursuant to which, aggregate of 26,922,444 CSMall Shares will be allotted and issued to the Company upon the capitalisation of the Renminbi equivalent of HK\$121,150,998 outstanding liabilities owed by the CSMall Group to the Company. In addition, the Company plans to settle the remaining net outstanding amount of approximately HK\$311.18 million due from the CSMall Group to the Company by way of a capital contribution of such amount by the Company to CSMall which will be reflected in the reserves of CSMall. We understand from the executive Directors that the amount of Loan Capitalisation Issue of approximately HK\$121.15 million is determined based on (i) the number of new CSMall Shares to be issued to the Company in the Proposed Spin-Off, which will be distributed to the Qualifying Shareholders in the Distribution; and (ii) the expected maximum offer price of the CSMall Shares in the Global Offering. The remaining net outstanding amount of approximately HK\$311.18 million will be settled by way of a capital contribution on a dollar-to-dollar basis. We understand from the executive Directors that such arrangement to settle the outstanding amount owed by CSMall to the Company would enhance the financial independence between the Remaining Group and the CSMall Group upon completion of the Proposed Spin-Off. We concur with the executive Directors that such arrangement can help to achieve a clear delineation of financial functions of the Remaining Group and the CSMall Group. Further, under such arrangement, the CSMall Group could avoid cash outlay using its internal resources or proceeds from the Global Offering, so that proceeds from the Global Offering can be used to develop its businesses as set out in the sub-section headed “Background to and reasons for the Proposed Spin-Off” of this letter above.

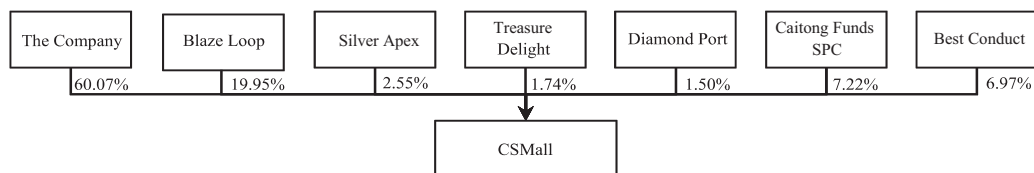
The Distribution will be satisfied wholly by way of a distribution in specie to the Qualifying Shareholders of an aggregate of 26,922,444 CSMall Shares to be issued to the Company pursuant to the Loan Capitalisation Issue, representing approximately 3.13% of the then issued share capital of CSMall immediately following completion of the Loan Capitalisation Issue and Distribution and before completion of the Global Offering, in proportion to their respective shareholdings in the Company on the Record Date. Pursuant to the Distribution, the Qualifying Shareholders will be entitled to one CSMall Share for every sixty Shares held on the Record Date.

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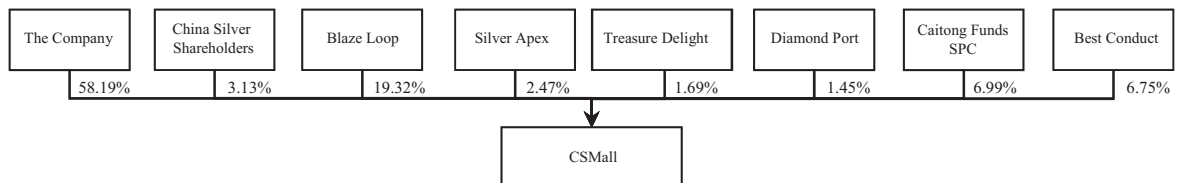
The Global Offering is expected to comprise the Hong Kong public offering and the international offering. The Hong Kong public offering is expected to be made available for subscription by the members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The international offering is expected to comprise CSMall Shares to be made available for subscription by institutional and professional investors and other investors.

Set out below is the simplified shareholding structure of CSMall (i) immediately after the Reorganisation (completed on 16 February 2017 for preparation of the listing of the CSMall Shares) but before the Loan Capitalisation Issue and the Distribution; (ii) immediately after the Loan Capitalisation Issue and the Distribution; and (iii) immediately after completion of the Loan Capitalisation Issue, the Distribution and the Global Offering (based on the expected number of shares to be issued assuming the over-allotment option is not exercised):

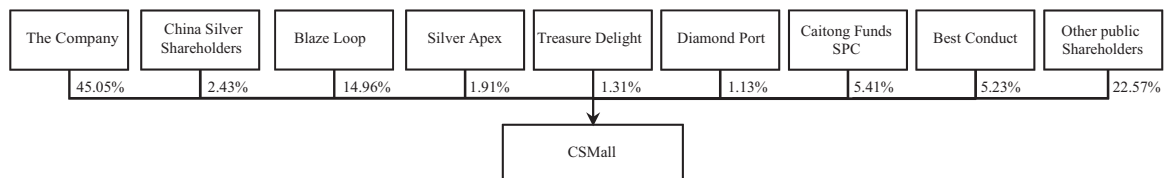
(i) *immediately after the Reorganisation but before the Loan Capitalisation Issue and the Distribution*



(ii) *immediately after the Loan Capitalisation Issue and the Distribution*



(iii) *immediately after completion of the Loan Capitalisation Issue, the Distribution and the Global Offering (based on the expected number of shares to be issued assuming the over-allotment option is not exercised)*



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Further details and notes to the shareholding and corporate structure of the CSMall Group are set out in the sub-section headed “Shareholding effects of the Proposed Spin-Off” in the “Letter from the Board” contained in the Circular.

It is expected that upon completion of the Proposed Spin-Off, the shareholding percentage of the Company in CSMall may be diluted from approximately 60.07% at present to approximately 45.05%. Further details are discussed in the paragraph headed “Dilution of interest in the CSMall Group” of this letter below. As set out in the sub-section headed “Shareholding effects of the Proposed Spin-Off” in the “Letter from the Board” contained in the Circular, having regard to the circumstances as of the date of the Circular, the Directors are of the view that the Company will be able to continue to account for CSMall as its subsidiary.

4. Effects of the Proposed Spin-Off on the Group

As advised by the executive Directors, the market capitalisation of CSMall upon completion of the Loan Capitalisation Issue and the Proposed Spin-Off will be in the range of approximately HK\$3,884.2 million to approximately HK\$4,994.0 million. The analysis of the financial effects of the Proposed Spin-Off as illustrated below is based on the current structure of the Proposed Spin-Off that CSMall will offer an aggregate of 25% of the enlarged issued share capital pursuant to the Global Offering and the Distribution.

(a) Effect on net asset value

It is expected that immediately after completion of the Loan Capitalisation Issue and the Proposed Spin-off (assuming the over-allotment option is not exercised), the Company will have approximately 45.05% shareholding interest in CSMall. As set out in the sub-section headed “Shareholding effects of the Proposed Spin-Off” in the “Letter from the Board” contained in the Circular, the Directors are of the view that the Company will be able to continue to account for CSMall as its subsidiary. Therefore, the financials of CSMall Group will continue to be consolidated into the Group’s financial statements following the completion of the Proposed Spin-Off.

The unaudited consolidated net assets attributable to owners of the Company was approximately RMB2,490.1 million as at 30 June 2017. As set out in the sub-section headed “Financial effects of the Proposed Spin-Off” in the “Letter from the Board” contained in the Circular, since the CSMall Group is and continues to be consolidated in the Group’s consolidated statement of financial position before and after the Proposed Spin-Off, it is estimated by the executive Directors that the Proposed Spin-Off will increase the Group’s cash on hand, consolidated current assets and net assets by the amount of the net proceeds from the Global Offering in a range of approximately HK\$823.9 million to HK\$1,067.1 million (equivalent to a range of approximately RMB696.8 million to RMB902.5 million at an exchange rate of RMB0.84575 = HK\$1), assuming the over-allotment option is not exercised and after deduction of underwriting fees and commissions and estimated expenses payable by the Company in connection with the Global Offering, which accounts for approximately 28.0% to 36.2% of the unaudited consolidated net assets attributable to owners of the Company as at 30 June 2017. As set out in the sub-section headed “Financial effects of the Proposed Spin-Off” in the “Letter from the Board” contained in the Circular, the Global Offering has no impact on the Group’s current

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and non-current liabilities except for the transaction costs in the amount of RMB41.5 million, which will be recorded as current liabilities. In addition, in accordance with the International Financial Reporting Standards, the increase in net assets which constitutes changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, is accounted for within equity. Therefore, there will be no gain or loss arising from the deemed disposal by the Company of the interest in CSMall under the Global Offering to be recognised in the consolidated statement of profit or loss and other comprehensive income of the Group given that CSMall will remain as a subsidiary of the Company immediately upon completion of the Proposed Spin-Off and the Global Offering.

As stated in the sub-section headed "Financial effects of the Proposed Spin-Off" in the "Letter from the Board" contained in the Circular, the net amount of RMB368.0 million at 30 June 2017 owed by CSMall to the Company will be settled in the following manner prior to Listing: (1) the Renminbi equivalent of HK\$121,150,998 will be settled by way of the Loan Capitalisation Issue; and (2) the remaining net outstanding amount of HK\$311.18 million owed to the Company will be settled by way of a capital contribution from the Company which will be reflected in CSMall's reserves. As such, the Group's assets and net assets will be reduced by an amount of RMB368.0 million.

The estimated change in the Group's net assets as mentioned above is based on, among others, the terms of the Proposed Spin-Off. Accordingly, the actual change in the Group's net assets, which will be calculated based on the final structure of the Proposed Spin-Off and the financial position of the CSMall Group immediately upon the completion of the Proposed Spin-Off, may be different from the above estimation.

(b) Effect on earnings

As mentioned in paragraph (a) above, the CSMall Group will continue to be accounted for as a subsidiary of the Company upon completion of the Proposed Spin-Off and the financial results of the CSMall Group will continue to be consolidated into the accounts of the Group. The effect of the Proposed Spin-Off on the future earnings of the Group will depend on, among others, the return generated from the proceeds raised from the Global Offering as well as the growth of the business operations of the CSMall Group. For details of the benefits to be brought about by the Proposed Spin-Off, please refer to the sub-section headed "Background to and reasons for the Proposed Spin-Off" of this letter above.

Following completion of the Proposed Spin-Off, the Group's profit attributable to owners of the Company are expected to be reduced as the Company's interest in CSMall will be reduced to approximately 45.05% and consequently, profit attributable to the non-controlling interests of the Group are expected to increase.

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(c) Effect on working capital of the Group

As disclosed in this letter above, the market capitalisation of CSMall upon completion of the Loan Capitalisation Issue and the Proposed Spin-Off will be in the range of approximately HK\$3,884.2 million to approximately HK\$4,994.0 million. In view of the significant cash proceeds to be received by CSMall which will remain a subsidiary of the Company, we are of the view that the working capital position of the Group would improve as a result of the Proposed Spin-Off.

As set out in the Company's 2017 interim report, total liabilities of the Group less bank balances and cash amounted to approximately RMB191.6 million as at 30 June 2017. Taking into account the expected net proceeds of approximately HK\$945.5 million (equivalent to approximately RMB799.7 million at an exchange rate of RMB0.84575 = HK\$1), based on the mid-point of the offer price range of HK\$4.00 per offer share and assuming the over-allotment option is not exercised and after deduction of underwriting fees and commissions and estimated expenses payable by Company in connection with the Global Offering, bank balances and cash of the Group is expected to exceed total liabilities upon the completion of the Proposed Spin-Off.

(d) Remaining business of the Group

As set out in the sub-section headed "Business of the Group and the CSMall Group" in this letter above, following the Proposed Spin-Off, the Group will continue to engage in the Retained Businesses (being the Manufacturing Business and the Silver Exchange Business). For the year ended 31 December 2016, the Group and the CSMall Group recorded a revenue of approximately RMB4,088.2 million and RMB2,465.3 million respectively. On this basis, the revenue of the Remaining Group (excluding the CSMall Group) for the year ended 31 December 2016 represented approximately 40% of the total revenue of the Group.

The Group and the CSMall Group had net assets attributable to owners of the company of approximately RMB2,490.1 million and RMB290.5 million as at 30 June 2017. On this basis, the Remaining Group's net assets attributable to owners of the company as at 30 June 2017 represent approximately 88.3% of that of the Group.

On the basis set out above, we consider that the Remaining Group will continue to have a substantial business and assets after completion of the Proposed Spin-Off.

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(e) Dilution of interest in the CSMall Group

Based on the current expected structure of the Proposed Spin-Off, the Group's interest in CSMall will be diluted from approximately 60.07% to 45.05% immediately after completion of the Loan Capitalisation Issue, the Distribution and the Global Offering (assuming the over-allotment option is not exercised). In our opinion, such dilution, albeit not immaterial, is acceptable to the Shareholders taking into consideration the benefits to be derived from the Proposed Spin-Off as discussed in the sub-section headed "Background to and reasons for the Proposed Spin-Off" above.

In addition, the Qualifying Shareholders will be entitled to the CSMall Shares by way of a distribution in specie. Details of the Distribution are set out in the sub-section headed "Loan Capitalisation Issue and Distribution" of this letter below.

5. Loan Capitalisation Issue and Distribution

As stated in the section headed "Loan Capitalisation Issue and Distribution" in the "Letter from the Board" contained in the Circular, as part of the Proposed Spin-Off, CSMall will undertake the Loan Capitalisation Issue, pursuant to which, aggregate of 26,922,444 CSMall Shares will be allotted and issued to the Company upon the capitalisation of the Renminbi equivalent of HK\$121,150,998 outstanding liabilities owed by CSMall Group to the Company. In addition, the Company plans to settle the remaining net outstanding amount due from CSMall Group to the Company by way of a capital contribution of such amount by the Company to CSMall which will be reflected in the reserves of CSMall.

According to PN15, in the case of a separate listing, assured entitlements to shares in the spun-off entity are expected to be provided to existing shareholders of the parent company. The Distribution will be satisfied wholly by way of a distribution in specie to the Qualifying Shareholders of an aggregate of 26,922,444 CSMall Shares to be issued to the Company pursuant to the Loan Capitalisation Issue, representing approximately 3.13% of the then issued share capital of CSMall immediately following completion of the Loan Capitalisation Issue and the Distribution and before completion of the Global Offering, in proportion to their respective shareholdings in the Company on the Record Date. Pursuant to the Distribution, the Qualifying Shareholders will be entitled to one CSMall Share for every sixty Shares held on the Record Date. The Distribution is conditional upon the Global Offering becoming unconditional in all respects.

Overseas Excluded Shareholders (if any) will be entitled to the Distribution but will not receive the CSMall Shares. Instead, the CSMall Shares which they would otherwise receive pursuant to the Distribution will be sold by the Company on their behalf as soon as reasonably practicable after commencement of dealings in the CSMall Shares on the Stock Exchange and they will receive a cash amount equal to the net proceeds of such sale. The proceeds of such sale, net of expenses, will be paid to the Overseas Excluded Shareholders in Hong Kong dollars. Such payment is expected to be made on or before 22 January 2018.

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Regarding the ratio of the Distribution of one CS Mall Share for every sixty Shares (the “**Distribution Ratio**”), we have enquired with and understand from the Company that the Distribution Ratio was determined mainly with reference to (a) the minimum funds to be raised from the Global Offering; and (b) the requirement for CS Mall to maintain a minimum public float of not less than 25%.

As a comparison, we have searched the website of the Stock Exchange on a best effort basis to identify the following spin-off exercises (the “**Spin-off Exercises**”) (excluding companies that were spun-off and listed by way of introduction) on the Main Board of the Stock Exchange (1) with assured entitlement; (2) completed by companies listed on the Main Board of the Stock Exchange; and (3) with the prospectus of the spun-off companies published since 1 January 2015 up to the date immediately prior to the Latest Practicable Date. The Spin-off Exercises represent an exhaustive list of spin-off exercises meeting the criteria set out above. The table below illustrates the details of the Spin-off Exercises:

Prospectus date	Stock code	Company name	Assured entitlement	Size of the assured entitlement	Size of the global/public offering and the placing (excluding the exercise of any over-allotment option)	Assured entitlement as % of the global/public offering and the placing (excluding the exercise of any over-allotment option) <i>(approximate)</i>
26 October 2017	772	China Literature Limited	Preferential offering	7,568,600	151,371,800	5.0%
5 September 2017	1696	Sisram Medical Ltd	Preferential offering	5,500,000	110,000,000	5.0%
19 June 2017	1932	CMP Group Limited	Preferential offering	25,000,000	250,000,000	10.0%
5 May 2017	3329	BOCOM International Holdings Company Limited	Preferential offering	70,024,000	666,680,000	10.5%
21 April 2017	1257	China Everbright Greentech Limited	Preferential offering	56,000,000	560,000,000	10.0%
26 January 2017	1627	Able Engineering Holdings Limited	Preferential offering	50,400,000	500,000,000	10.1%
30 March 2016	1243	Wang On Properties Limited	Preferential offering	34,200,000	380,000,000	9.0%
24 March 2016	1469	Get Nice Financial Group Limited	Distribution in specie	167,755,348	507,554,481	24.8% <i>(Note 1)</i>

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Prospectus date	Stock code	Company name	Assured entitlement	Size of the assured entitlement	Size of the global/public offering and the placing (excluding the exercise of any over-allotment option)	Assured entitlement as % of the global/public offering and the placing (excluding the exercise of any over-allotment option) <i>(approximate)</i>
30 October 2015	1556	Chinney Kin Wing Holdings Limited	Preferential offering	34,425,000	382,500,000	9.0%
Mean (simple average)						10.4%
Median						10.0%
Maximum						24.8%
Minimum						5.0%
The Distribution						9.7% <i>(Note 2)</i>

Source: relevant prospectus of the spun-off companies relating to the Spin-off Exercises

Notes:

1. The percentage represents the assured entitlement as a percentage of the aggregate number of shares comprising shares offered by the spun-off company under the global offering (excluding the exercise of any over-allotment option) and the shares under the distribution in specie
2. The percentage represents the assured entitlement under the Distribution as a percentage of the aggregate number of shares comprising shares offered by CSMall under the Global Offering (excluding the exercise of any over-allotment option) and the shares under the Distribution

As set out in the table above, the assured entitlements offered to shareholders under the Spin-off Exercises as a percentage of the respective number of shares offered under the global/public offering and the placing (excluding the exercise of any over-allotment option) range from approximately 5.0% to 24.8%, with a mean and median of approximately 10.4% and 10.0%. The assured entitlements under the Proposed Spin-Off of approximately 9.7% is within the range of the Spin-Off Exercises. On this basis, we consider the size of the Distribution to be acceptable. Unlike assured entitlement arrangements by way of a preferential offering, under the Distribution, the Qualifying Shareholders will be entitled to the CSMall Shares in proportion to their respective shareholdings in the Company on the Record Date without paying any subscription money. We regard this as a favourable feature of the Proposed Spin-Off.

For more details of the Loan Capitalisation Issue and the Distribution, please refer to the section headed “Loan Capitalisation Issue and Distribution” in the “Letter from the Board” contained in the Circular.

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6. Deed of Non-competition and corporate governance

(a) Deed of Non-Competition

As set out in the sub-section headed “Business overview of the Group and delineation of businesses after the Proposed Spin-Off” in the “Letter from the Board” contained in the Circular, the Company will execute a Deed of Non-Competition in favour of CSMall, pursuant to which the Company will undertake to CSMall that it will not, and that it will procure that its subsidiaries and parties controlled by it either solely or jointly with any other party (the “**Affiliates**”) will not, solely or jointly or in cooperation with other parties, without CSMall’s prior written consent, hold and/or be interested in, either directly or indirectly, any shares or securities or interest in any company or other business entity which is engaged or involved in, directly or indirectly, any activity or business which competes or is likely to compete, directly or indirectly, with the existing businesses of any member of the CSMall Group after the Listing (the “**Restricted Business**”).

The undertakings to be given by the Company under the Deed of Non-Competition shall be effective from the Listing Date and terminate on the earlier of: (i) the date on which the Company ceases to be CSMall’s controlling shareholder; (ii) the date on which the CSMall Shares cease to be listed on the Stock Exchange; and (iii) the date on which the CSMall Group ceases to engage in the Restricted Business.

Further details of the Deed of Non-Competition are set out in the aforesaid sub-section in the “Letter from the Board” contained in the Circular. We consider that the Deed of Non-Competition will help minimise the potential competition between the Remaining Group and the CSMall Group and is reasonable in the context of a separate listing of CSMall.

(b) Corporate governance

It is proposed that the following corporate governance measures will be put in place to reinforce the delineation of businesses between the Remaining Group and the CSMall Group. Further details of such measures are set out in the sub-section headed “Business Overview of the Group and delineation of businesses after the Proposed Spin-Off” in the “Letter from the Board” contained in the Circular.

(i) Independence of directorship and management

Members of CSMall’s core management team, namely Mr. Chen, Mr. Zhang, Mr. Qian and Mr. Lee Jackie Kai Yat, will not assume directorship or any senior management roles in the Company immediately after the Listing. There will not be any common directors sitting on both the Company and CSMall boards of directors, nor will there be any person with overlapping senior management roles of both the Company and the CSMall Group. Based on the above, directors of CSMall are satisfied that board of directors of CSMall, together with its senior management team, is able to perform the managerial role in the CSMall Group independently.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) Operational independence

CSMall has full rights to make all decisions regarding, and to carry out, its own business operations independently. CSMall holds or enjoys the benefit of the relevant licenses necessary to carry out its business, and has sufficient capital, equipment and employees to operate its business independently from the Company, including different operational or administration resources, different financial reporting system and its own set of internal control measures.

It is anticipated that the CSMall Group will continue to procure silver ingots (as raw materials for producing jewellery products) from the Company after the Listing, which will constitute continuing connected transactions under Chapter 14A of the Listing Rules. Directors of CSMall are of the view that the CSMall Group does not rely on the Company for the procurement of silver ingots for the following reasons:

- (1) Silver is a widely traded commodity with standard specification, and the CSMall Group is able to source silver from other suppliers in the market at prevailing market rates;
- (2) There are no exclusivity arrangements or preferential treatment regarding sale and purchase of silver ingots between the Company and the CSMall Group.

The percentage of purchase of silver ingots (based on prevailing market price) by CSMall from the Company out of its total purchase of silver ingots (based on prevailing market price) continued to decrease from 36.9% in 2014 to 24.6% in 2015, further to 11.4% in 2016 and further to 9.6% in the six months ended 30 June 2017. In addition, although there are certain overlapping customers and suppliers during the Track Record Period, each order from or to those overlapping customers and suppliers are received or given separately by the CSMall Group and the Manufacturing Business and/or the Silver Exchange Business of the Company. Directors of CSMall are satisfied that they have been operating independently from the Company and its close associates during the Track Record Period and will continue to operate in such manner after the Listing.

(iii) Financial independence

Following the Listing, CSMall will have an independent financial system and make financial decisions according to its own business needs, and will have sufficient capital to operate its business independently and adequate internal resources to support its daily operations. The net amount of RMB368.0 million owed by CSMall to the Company as of 30 June 2017 will be settled prior to the Listing in the manner as stated in the sub-section headed “Effects of the Proposed Spin-Off on the Group” of this letter above. As of the Latest Practicable Date, CSMall has no outstanding bank borrowings. Following the Listing, CSMall expects to be capable of obtaining financing from third parties, if necessary, for the general operation of its business in its ordinary course without relying on financial assistance from the Company. Directors of CSMall believe that CSMall is able to maintain financial independence from the Company and its close associates after the Listing.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that the corporate governance measures will facilitate the Remaining Group and the CS Mall Group to achieve a delineation of business and maintain independence, which in turn allows their management teams to have better allocation of resources with regard to their respective needs.

7. Valuation of the CS Mall Group

As mentioned in the sub-section headed “Business of the Group and the CS Mall Group” above of this letter, the CS Mall Group is principally engaged in the New Jewellery Retail Business, being design and sale of gold, silver and jewellery products in China leveraging on the New Jewellery Retail Model.

Based on the estimated minimum market capitalisation of approximately HK\$3,884.2 million and the adjusted audited profit for the year ended 31 December 2016 of approximately RMB48.1 million (equivalent to approximately HK\$56.9 million at an exchange rate of RMB0.84575 = HK\$1), the estimated profit-to-earnings ratio (“P/E”) of the CS Mall Group is approximately 68.26 times. In order to assess the fairness and reasonableness of the valuation of the CS Mall Group, we have conducted a search on Bloomberg on best effort basis for companies (the “Comparable Companies”) primarily listed on the Main Board of the Stock Exchange with revenue mainly generated from the sales of jewellery products based on information as set out in their latest published annual reports available as at the date immediately prior to the Latest Practicable Date and with online sales platforms mentioned therein. As noted from the annual reports of the respective Comparable Companies, only a small portion of the total revenue of the Comparable Companies was generated from e-commerce business. Due to the difference in business models of the CS Mall Group and the Comparable Companies, the table below is provided for illustrative purposes only and does not form a material basis in our assessment of the Proposed Spin-Off. To the best of our knowledge, the Comparable Companies set out in the table below represent all the companies comparable to CS Mall based on the above criteria:

Comparable Companies	Closing share price as at the Latest Practicable Date (HK\$) (Note 1)	Basic earnings per share (HK\$) (Note 2)	Historical P/E (Approximate times) (Note 3)
Chow Tai Fook Jewellery Group Limited (stock code: 1929)	8.96	0.306	29.28
Luk Fook Holdings (International) Limited (stock code: 590)	33.50	1.73	19.36
Chow Sang Sang Holdings International Limited (stock code: 116)	18.00	1.096	16.42
Tse Sui Luen Jewellery (International) Limited (stock code: 417)	2.28	0.11	20.73
		Simple average	21.45
		Estimated minimum P/E of the CS Mall Group	68.26

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. Closing share prices of the Comparable Companies are sourced from Bloomberg.
2. Figures are extracted from the latest published annual report of the Comparable Companies available as at the date immediately prior to the Latest Practicable Date.
3. The historical P/E of the Comparable Companies are calculated based on their respective basic earnings per share set out in note 2 above and their respective closing price as at the Latest Practicable Date set out in note 1 above.
4. Hong Kong Resources Holdings Company Limited (stock code: 2882) would have met our selection criteria for Comparable Companies as set out above. As it recorded a net loss per share for the latest financial year ended 30 June 2017, we are unable to calculate a meaningful historical P/E for this company. Accordingly, it is excluded from our analysis above.

As set out in the table above, the estimated minimum P/E of the CSMall Group of approximately 68.26 times is higher than the range of the historical P/Es of the Comparable Companies, which represents an attractive pricing of CSMall in the Proposed Spin-Off. As mentioned above, the Comparable Companies have a different business model compared to the CSMall Group. In addition, the CSMall Group recorded a significant growth in both revenue and net profits in 2016 and first half of 2017. If the growth in first half of 2017 is maintained, the P/E based on 2017 earnings should be lower.

8. Conditions of the Proposed Spin-Off

As set out in the sub-section headed “Conditions precedent to the Proposed Spin-Off” in the “Letter from the Board” contained in the Circular, the Proposed Spin-Off will be conditional upon, among other things, (i) the approval of the Shareholders at the EGM; (ii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the CSMall Shares in issue and any CSMall Shares which may be issued pursuant to the Proposed Spin-Off; (iii) the terms of the Global Offering being agreed among the Company, CSMall and the underwriter(s); (iv) the final decision of the Directors and the board of directors of CSMall; and (v) market conditions and other considerations.

Shareholders and potential investors should be aware that there is no assurance that the Proposed Spin-Off will take place, and, if so, when it will take place. If the Proposed Spin-Off does not proceed for any reason, the Distribution will not be made. Shareholders and potential investors should exercise caution when dealing in or investing in the securities of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

DISCUSSION

As discussed above, the Group has three principal businesses, the Manufacturing Business and the Silver Exchange Business, which will remain in the Group, and the CSMall Group, which is the subject of the Proposed Spin-Off. CSMall is the largest integrated online and offline internet-based jewellery retailer in China and as such it is clearly delineated from the Retained Businesses of the Group. The business of CSMall is specialised and growing rapidly and is likely to appeal to a different investor base from the Retained Businesses of the Group.

Under the expected structure of the Proposed Spin-Off, the net proceeds of the Global Offering will be between approximately HK\$823.9 million to HK\$1,067.1 million. The intended use of the net proceeds is set out in the Circular with approximately 50% being used to expand and optimise CSMall's integrated online and offline retail structure and enhance online and offline synergies. After completion of the Proposed Spin-Off, it is expected that the Company will retain approximately 45% of CSMall (assuming no exercise of the over-allotment option). Having regard to the circumstances as of the date of the Circular, the Directors are of the view that the Company will be able to continue to account for CSMall as its subsidiary. On this basis, the working capital position of the Group would improve as a result of the Proposed Spin-Off.

Based on the expected minimum market capitalisation of CSMall and its 2016 adjusted earnings, the estimated minimum P/E of the CSMall Group would be over 60 times. This compares with the Group's P/E based on 2016 earnings of approximately 9.9 times as at the Latest Practicable Date. It should be borne in mind that CSMall's earnings for the first half of 2017 grew rapidly and that if this growth is maintained, the P/E based on 2017 earnings should be lower. Nevertheless, the pricing of the Proposed Spin-Off appears attractive and for illustrative purposes is significantly over the P/Es of certain Comparable Companies, which however do not have a similar emphasis on e-commerce business to CSMall.

As required by PN15, the Proposed Spin-Off includes arrangements for the Distribution of approximately 27 million CSMall Shares to the Qualifying Shareholders. This represents approximately 9.7% of the Global Offering (plus the shares under the Distribution) which is in line with the preferential offerings noted in the Spin-off Exercises we have reviewed. However, in the case of the preferential offerings reviewed, the relevant shareholders have to pay for their shares whereas under the Distribution the CSMall Shares will be received by the Qualifying Shareholders free of charge. We regard this as a favourable feature of the Proposed Spin-Off.

Overall, we are of the view that the Proposed Spin-Off will provide a separate listing for CSMall, which operates a different kind of business from the Remaining Group, on pricing expected to be favourable to the Group and on terms, through the Distribution, which we consider favourable to the Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons which are summarised in the section headed “Discussion” above, we are of the view that the terms of the Proposed Spin-Off are fair and reasonable so far as the Company and the Shareholders are concerned, and that the Proposed Spin-Off is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Proposed Spin-Off.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Stephanie Chow
Director

Ms. Stephanie Chow is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. She has over nine years' experience in the corporate finance industry.

1. FINANCIAL SUMMARY

The published audited consolidated financial statements of the Group (i) for the year ended 31 December 2014 are disclosed on pages 36 to 87 of the 2014 annual report of the Company released on 18 March 2015; (ii) for the year ended 31 December 2015 are disclosed on pages 46 to 107 of the 2015 annual report of the Company released on 22 April 2016; and (iii) for the year ended 31 December 2016 are disclosed on pages 61 to 143 of the 2016 annual report of the Company released on 25 April 2017. The published unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2017 is disclosed on pages 28 to 52 of the 2017 interim report of the Company released on 25 September 2017. All these financial statements have been published on the website of the Stock Exchange at *www.hkexnews.hk* and the Company's website at *www.chinasilver.hk*.

2. WORKING CAPITAL

After taking into account the present internal financial resources, net proceeds from the listing of CSMall and in the absence of unforeseen circumstances, the Directors, after due and careful enquiry, are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular. The Directors would like to note that Jiangxi Longtianyong Nonferrous Metals Co., Ltd. (江西龍天勇有色金屬有限公司), a subsidiary of the Company, has entered into a loan agreement with Ganzhou Bank, Ji'an Branch of an aggregate amount of approximately RMB110 million, of which the reporting accountants of the Group have not received confirmations but have performed alternative procedures by checking to the corresponding loan agreement.

3. INDEBTEDNESS

At the close of business on 30 September 2017, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had secured borrowings of approximately RMB110,000,000.

Save as aforesaid and apart from the intra-group liabilities and guarantees, the Group did not have any outstanding loan capital issued, outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptances credits, debentures, mortgages, charges, hire purchase or finance lease commitments or other material contingent liabilities as at the close of business on 30 September 2017.

The Directors confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 30 September 2017.

4. FINANCIAL AND TRADING PROSPECTS

The principal activity of the 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 PRC, (ii) the New Jewellery Retail segment, being the retailing and wholesaling of silver jewellery and collectibles in the PRC, and (iii) the silver exchange segment, being the operation of Shanghai Huatong, an integrated precious metal and non-ferrous metal exchange in the PRC. The Group's long-term vision is to become a leading fully-integrated silver and precious metals enterprise in the PRC.

The Group recorded a revenue of approximately RMB3,107 million for the six months ended 30 June 2017 (1H2016: RMB1,906 million), representing an increase of approximately 63% from that of last period. Profit attributable to owners of the Company increased significantly from RMB94.2 million for the six months ended 30 June 2016 to RMB171 million for the six months ended 30 June 2017 mainly due to increase in gross profit and decrease in income tax expense.

Looking ahead, the Group is confident about the future of the silver, precious metals and jewellery market in the PRC. Following the stabilisation in international gold and silver prices, it is expected a gradual recovery in the demand for high-quality gold and silver products in the market. While the Group expects the global financial market to remain highly uncertain in coming years, the flight-to-safety investment trend will continue to drive substantial interest in gold and silver products and be vastly beneficial to all the Group's business segments.

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

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company

As at the Latest Practicable Date, the interests and short positions of the Director or chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) 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 they 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 in the register maintained by the Company; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Name of Director	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of interests in the Company
Mr. Chen Wantian	Interest in controlled corporation/ Beneficial interest ⁽¹⁾	411,422,187	25.35%
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, 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. Further, Mr. Song Guosheng is the beneficial owner of 456,797 Shares.

Save as disclosed above, as at the Latest Practicable Date, 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.

(b) Substantial shareholders' interests and short positions in shares and underlying shares of the Company

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 the Latest Practicable Date, in addition to the interests disclosed under the paragraph headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company", the Company was notified of the following substantial shareholders' interests and short positions in the shares and underlying shares of the Company, being interests of 5% or more.

Name	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of interests in the Company
Mr. Luo Shandong	Beneficial interest	106,406,000	6.56%
FIL Limited	Investment manager	82,028,000	5.05%

Except as disclosed above, as at the Latest Practicable Date, the 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.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation other than statutory compensation.

4. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and their respective close associates was interested in any business which competes or was likely to compete, whether directly or indirectly, with the business of the Group.

5. DIRECTORS' INTEREST IN ASSETS AND/OR ARRANGEMENT

None of the Directors had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any members of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Company were made up.

As at the Latest Practicable Date, there is no contract or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Group as a whole.

6. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, were entered into by the members of the Group within two years preceding the Latest Practicable Date and are or may be material:

- (a) the sale and purchase agreement entered into between, among others, Silver Universe Investments Limited and the Company on 11 December 2015 in respect of the Company's acquisition of the remaining 75% equity interest in Shanghai Huatong;
- (b) the subscription agreement dated 6 June 2016 entered into between, among others, CSMall Group BVI (as issuer) and Blaze Loop (as subscriber), pursuant to which CSMall Group BVI agreed to allot and issue 178,525,000 shares in CSMall Group BVI to Blaze Loop at the subscription price of RMB0.40 per share for a consideration of RMB71,410,000 in cash;
- (c) the subscription agreement dated 6 June 2016 entered into between, among others, CSMall Group BVI (as issuer) and Silver Apex (as subscriber), pursuant to which CSMall Group BVI agreed to allot and issue 21,250,000 shares in CSMall Group BVI to Silver Apex at the subscription price of RMB0.40 per share for a consideration of RMB8,500,000 in cash;
- (d) the subscription agreement dated 6 June 2016 entered into between, among others, CSMall Group BVI (as issuer) and Treasure Delight (as subscriber), pursuant to which CSMall Group BVI agreed to allot and issue 14,500,000 shares in CSMall Group BVI to Treasure Delight at the subscription price of RMB0.40 per share for a consideration of RMB5,800,000 in cash;
- (e) the trust deed dated 6 June 2016 entered into between CSMall Group BVI, Blaze Loop (as settlor) and Mr. Lin (as trustee), whereby Mr. Lin agreed to hold the 178,525,000 shares in CSMall Group BVI and any cash and non-cash income arising therefrom on trust for 61 employees of CSMall Group;
- (f) the subscription agreement dated 2 December 2016 entered into between, among others, CSMall Group BVI (as issuer) and Caitong Funds SPC (as subscriber), pursuant to which CSMall Group BVI agreed to allot and issue 60,059,000 shares in CSMall Group BVI to Caitong Funds SPC at the subscription price of RMB1.26 per share for a consideration of RMB75,674,340 in cash;

- (g) the subscription agreement dated 2 December 2016 entered into between, among others, CSMall Group BVI (as issuer) and Best Conduct (as subscriber), pursuant to which CSMall Group BVI agreed to allot and issue 58,000,000 shares in CSMall Group BVI to Best Conduct at the subscription price of RMB1.26 per share for a consideration of RMB73,080,000 in cash;
- (h) the subscription and transfer agreement dated 16 February 2017 entered into between, among others, CSMall (as issuer and transferee) and the Company (as subscriber and transferor), pursuant to which CSMall agreed to allot and issue 499,999,999 CSMall Shares to the Company in consideration for all of its 500,000,000 shares in CSMall Group BVI;
- (i) the employee subscription and transfer agreement dated 16 February 2017 entered into, among others, CSMall and the Company, pursuant to which 178,525,000 CSMall Shares, 21,250,000 CSMall Shares and 14,500,000 CSMall Shares were respectively issued by CSMall to each of Blaze Loop, Silver Apex and Treasure Delight in consideration for all of their respective interests in CSMall Group BVI;
- (j) the subscription and transfer agreement dated 16 February 2017 entered into between, among others, CSMall (as issuer and transferee) and Caitong Funds SPC (as subscriber and transferor), pursuant to which CSMall agreed to allot and issue 60,059,000 CSMall Shares to Caitong Funds SPC in consideration for all of its 60,059,000 shares in CSMall Group BVI;
- (k) the subscription and transfer agreement dated 16 February 2017 entered into between, among others, CSMall (as issuer and transferee) and Best Conduct (as subscriber and transferor), pursuant to which CSMall agreed to allot and issue 58,000,000 CSMall Shares to Best Conduct in consideration for all of its 58,000,000 shares in CSMall Group BVI;
- (l) the a new trust deed dated 16 February 2017 entered into between CSMall, Blaze Loop (as settlor) and Mr. Lin (as trustee) whereby Mr. Lin agreed to hold the 178,525,000 CSMall Shares and any cash and non-cash income arising therefrom on trust for 59 employees of CSMall Group; and
- (m) the contractual arrangement termination agreement dated 9 August 2017 entered into between Shenzhen Guoyintongbao, Shenzhen Yinruiji Cultural Development Company Limited (“Shenzhen Yinruiji”), Mr. Chen, Mr. Qian and Baiyin Town to terminate the contractual arrangements between Shenzhen Guoyintongbao and Shenzhen Yinruiji.

7. EXPERT AND CONSENT

The following are the qualifications of the expert who has been named in this circular or has given opinions or advice which are contained in this circular:

Name	Qualification
Somerley Capital Limited	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Somerley Capital Limited has confirmed that as at the Latest Practicable Date, it did not have any beneficial shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any direct or indirect interests in any assets which have since 31 December 2016 (being the date to which the latest published audited consolidated financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Somerley Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its opinion prepared for the purpose of incorporation in this circular, and the references to its name and opinion in the form and context in which they respectively appear.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

9. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited consolidated accounts of the Group have been made up.

10. GENERAL

- i. The secretary of the Company is Mr. Moy Yee Wo Matthew, who is a member of Hong Kong Institute of Certified Public Accountants.
- ii. The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is at Unit 1416, China Merchants Tower, 168-200 Connaught Road Central, Hong Kong.
- iii. The share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- iv. In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's principal place of business in Hong Kong at Unit 1416, China Merchants Tower, 168-200 Connaught Road Central, Hong Kong during normal business hours on any business day from the date of this circular up to 14 days thereafter:

- i. the memorandum and articles of association of the Company;
- ii. the letter from the Independent Board Committee, the text of which is set out on page 24 of this circular;
- iii. the letter of from the Independent Financial Adviser to the Independent Board Committee and the Shareholders, the text of which is set out on pages 25 to 45 of this circular;
- iv. the written consent as referred to under the section headed "Expert and Consent" in this appendix;
- v. the material contacts referred to under the section headed "Material Contracts" in this appendix;
- vi. the annual reports of the Company for the two years ended 31 December 2015 and 31 December 2016; and
- vii. this circular.



中國白銀集團
CHINA SILVER GROUP

CHINA SILVER GROUP LIMITED

中國白銀集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 815)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “EGM”) of China Silver Group Limited (the “Company”) will be held at 2:30 p.m. on Friday, 15 December 2017 at 35/F, Central Plaza, Regus Conference Center, 18 Harbour Road, Hong Kong to consider and, if thought fit, to pass the following resolution, with or without modifications, as an ordinary resolution:

ORDINARY RESOLUTION

“**THAT** subject to and conditional upon (among other things) (i) the Listing Committee of The Stock Exchange of Hong Kong Limited granting approval for the listing of, and permission to deal in, all the shares of CS Small Group Limited in issue and to be issued in connection with the Proposed Spin-Off (as defined in the circular of the Company dated 28 November 2017, the “Circular”); and (ii) the obligations of the underwriters under underwriting agreement(s) in respect of the Global Offering (as defined in the Circular) becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by, or on behalf of, the underwriters) and not being terminated in accordance with the respective term of such agreements or otherwise:

- (a) the Proposed Spin-Off and all relevant documents or agreements in connection therewith or contemplated thereunder, be and is hereby approved; and
- (b) the board of directors of the Company be and is hereby authorised to implement the Proposed Spin-Off including, without limitation, the Distribution (as defined in the Circular) and all incidental matters and to take all actions in connection therewith or arising therefrom relating to the Proposed Spin-Off as they shall think fit.

By order of the Board
China Silver Group Limited
Moy Yee Wo Matthew
Company Secretary

Hong Kong, 28 November 2017

Notes:

1. Every member entitled to attend and vote at the above EGM (or at any adjournment thereof) is entitled to appoint another person as his proxy. Any member who holds two or more Shares may appoint more than one proxy. A proxy need not be a member of the Company. The number of proxies appointed by a clearing house (or its nominee) is not subject to the aforesaid limitation.
2. Where there are joint holders of any Share, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share will alone be entitled to vote in respect thereof.
3. A form of proxy for use at the EGM is enclosed. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of that power or authority), must be deposited at the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the EGM (i.e. no later than 2:30 p.m. on Wednesday, 13 December 2017 (Hong Kong time)). Completion and return of the form of proxy will not preclude a member from attending the EGM and voting in person if he so wishes. In the event of a member who has lodged a form of proxy attending the EGM, the form of proxy will be deemed to have been revoked.
4. The register of members of the Company will be closed from Tuesday, 12 December 2017 to Friday, 15 December 2017 (both days inclusive), during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 11 December 2017.

As at the date of this notice, the executive directors of the Company are Mr. Chen Wantian, Mr. Sung Kin Man, Mr. Song Guosheng and Mr. Chen Guoyu; and the independent non-executive directors of the Company are Mr. Guo Bin, Mr. Song Hongbing, Dr. Li Haitao and Dr. Zeng Yilong.

** For identification purpose only*