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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

HIGHLIGHTS OF 2021 INTERIM RESULTS

- Revenue for 1H2021 increased to approximately RMB1,990.1 million, representing an increase of approximately 10.0% as compared to those for 1H2020.
- Loss attributable to owners of the Company for 1H2021 was approximately RMB2,394.4 million, as compared to a profit attributable to owners of the Company for 1H2020 of approximately RMB114.7 million. Such turnaround from profit to loss is mainly attributable to the write-off of inventories of approximately RMB2,408.5 million recorded for 1H2021, which has far outweighed (i) the decrease in administrative expenses as well as selling and distribution expenses primarily as a result of the gradual workforce downsizing of the New Jewellery Retail segment between 1H2020 and 1H2021; (ii) the net reversal of impairment loss recognised in respect of trade receivables of approximately RMB10.1 million for 1H2021, as compared to the provision for impairment loss in this respect of approximately RMB2.3 million for 1H2020; and (iii) the absence in 1H2021 of the one-off net loss on termination of assignment contract in relation to acquisition of a land use right of approximately RMB26.7 million recorded in 1H2020.

The board of directors (individually, a “**Director**”, or collectively, the “**Board**” or the “**Directors**”) of China Silver Group Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**” or “**we**”) for the six months ended 30 June 2021 (“**1H2021**”) together with the comparative figures for the corresponding period in 2020 (“**1H2020**”). The results for the current interim period have been reviewed by the audit committee of the Company (the “**Audit Committee**”) with no disagreement.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED 30 JUNE 2021

		Six months ended 30 June	
		2021	2020
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(unaudited)
Revenue	4	1,990,089	1,809,845
Cost of sales and services provided		<u>(1,898,369)</u>	<u>(1,588,429)</u>
Gross profit		91,720	221,416
Other income		4,724	7,073
Other gains and losses		(65)	822
Write-off of inventories	10	(2,408,511)	–
Reversal of (provision for) impairment loss under expected credit loss model, net	12	10,058	(2,307)
Impairment loss recognised in respect of property, plant and equipment	5	(6,800)	–
Selling and distribution expenses		(10,451)	(14,310)
Administrative expenses		(40,483)	(47,487)
Research and development expenses		(1,001)	(1,086)
Other expenses		(1,550)	(4,858)
Net loss on termination of assignment contract in relation to acquisition of a land use right	11(v)	–	(26,656)
Finance costs		<u>(6,139)</u>	<u>(5,185)</u>
(Loss) profit before tax		(2,368,498)	127,422
Income tax expense	6	<u>(14,210)</u>	<u>(24,024)</u>
(Loss) profit for the period	7	(2,382,708)	103,398
Other comprehensive expense			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value loss on investment in an equity instrument at fair value through other comprehensive income (“FVTOCI”)		<u>(16)</u>	<u>(1,544)</u>
Total comprehensive (expense) income for the period		<u><u>(2,382,724)</u></u>	<u><u>101,854</u></u>

		Six months ended 30 June	
		2021	2020
	<i>NOTES</i>	RMB'000	RMB'000
		(unaudited)	(unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company		(2,394,372)	114,661
Non-controlling interests		11,664	(11,263)
		<u>(2,382,708)</u>	<u>103,398</u>
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(2,399,388)	113,117
Non-controlling interests		11,664	(11,263)
		<u>(2,387,724)</u>	<u>101,854</u>
(Loss) earnings per share			
	<i>9</i>	RMB	RMB
Basic		(1.470)	0.070
Diluted		(1.470)	0.070
		<u>(1.470)</u>	<u>0.070</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2021

		30 June	31 December
		2021	2020
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment		154,312	147,032
Right-of-use assets		25,724	25,515
Intangible assets		95,580	100,938
Deferred tax assets		9,849	15,966
Refundable rental deposits		919	1,096
Equity instrument at FVTOCI		7,391	7,407
Deposits paid on acquisition of non-current assets		13,294	19,749
		307,069	317,703
CURRENT ASSETS			
Inventories	<i>10</i>	1,470,506	2,577,583
Trade and other receivables	<i>11</i>	102,026	304,155
Restricted bank balances		85,925	76,370
Pledged bank deposits		40,057	47,008
Bank balances and cash		7,541	1,192,989
		1,706,055	4,198,105
CURRENT LIABILITIES			
Trade, bills and other payables	<i>13</i>	417,450	529,583
Trade loans	<i>14</i>	–	10,000
Lease liabilities – current portion		3,447	6,659
Contract liabilities		23,481	53,284
Deferred income		2,066	2,066
Income tax payable		13,558	27,074
Bank borrowings	<i>15</i>	252,000	205,000
		712,002	833,666
NET CURRENT ASSETS		994,053	3,364,439
TOTAL ASSETS LESS			
CURRENT LIABILITIES		1,301,122	3,682,142

	30 June	31 December
	2021	2020
	RMB'000	RMB'000
<i>NOTES</i>	(unaudited)	(audited)
CAPITAL AND RESERVES		
Share capital	13,284	13,284
Share premium and reserves	406,369	2,800,757
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Non-controlling interests	419,653	2,814,041
	844,351	832,687
TOTAL EQUITY	1,264,004	3,646,728
NON-CURRENT LIABILITIES		
Deferred tax liabilities	17,343	18,260
Lease liabilities – non-current portion	5,768	2,114
Deferred income	14,007	15,040
	37,118	35,414
TOTAL EQUITY AND NON-CURRENT LIABILITIES	1,301,122	3,682,142

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

1. BASIS OF PREPARATION

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

1A. Significant events and transactions in the current interim period

On 23 April 2021 and 20 May 2021, the Ji'an City Yongfeng Ecology and Environment Bureau (吉安市永豐生態環境局)(the “**Bureau**”) issued two administrative penalty notices and a rectification notice (collectively, the “**Notices**”) to Jiangxi Longtianyong Nonferrous Metals Co., Ltd. (江西龍天勇有色金屬有限公司)(“**Jiangxi Longtianyong**”), a wholly-owned subsidiary of the Company. Pursuant to the Notices, the Bureau has ordered Jiangxi Longtianyong to suspend its production activities from 26 April 2021 onwards pending completion of certain rectification measures. The implementation of the aforesaid rectification measures have the following impact on the Group: i) certain of Jiangxi Longtianyong’s inventory of raw materials which has previously been refined for production purposes has been deemed to be hazardous waste pursuant to the Notices and was ordered to be disposed of. Accordingly, the carrying value of such inventory, which as of 30 June 2021 amounted to RMB2,408,511,000, is reduced to zero; and ii) Jiangxi Longtianyong has demolished non-compliant facilities in accordance with the competent governmental authorities’ requirements, which results in a reduction in the value of the Group’s property, plant and equipment of approximately RMB6,800,000 and therefore reducing the Group’s total assets.

For the six months ended 30 June 2021, a subsidiary in the New Jewellery Retail segment (as defined in Note 3) entered into several agreements with an independent third party jewellery enterprise to procure certain crushed colored gemstones (predominantly rubies, and also small quantities of sapphires and emeralds) (the “**Colored Gemstones**”) for an aggregate consideration of approximately RMB810,000,000.

1B. Going concern assessment

The Group adopts the going concern basis in preparing its condensed consolidated financial statements.

For the six months ended 30 June 2021, the Group incurred a loss of approximately RMB2,382,708,000 which is mainly attributable to the write-off of inventories in the amount of approximately RMB2,408,511,000 as a result of certain of inventory of raw materials of Jiangxi Longtianyong being deemed to be hazardous waste and ordered to be disposed of and the impairment loss in the amount of approximately RMB6,800,000 recognised in regard to the rectification measure of demolition of non-compliant facilities and construction of compliant facilities. As at 30 June 2021, the Group had net current assets and net assets of approximately RMB994,053,000 and RMB1,264,004,000, respectively.

As at 30 June 2021, most of the consideration for the Colored Gemstones had been settled in cash, resulting in a significantly lower level of bank balances and cash of the Group as compared to that as at 31 December 2020. The Group's bank balances and cash amounted to approximately RMB7,541,000, in contrast to its total current liabilities of approximately RMB712,002,000 which are repayable within the next twelve months from the end of the reporting period.

With the resurgence of COVID-19 (especially the highly contagious Delta variant) in various parts of the world in recent months, overseas watch manufacturers were practically unable to travel to China to physically inspect the Colored Gemstones and negotiate potential purchases with the Group. In addition, with the sharp increase in the number of COVID-19 cases in China in recent weeks, the economic growth of China and hence the sales volumes of the Group's jewellery products are expected to be adversely affected. As a result, it has become increasingly difficult for the Group to sell and monetise the Colored Gemstones in the short run.

The directors of the Company are of the opinion that the Group will have adequate funds to finance its future financing requirements and working capital based on the following considerations:

- (a) In light of the circumstances of Group's production halt of Jiangxi Longtianyong, the Group is in a timely manner to obtain and create all conditions in fixing and rectifying facilities and environment so as to enable Jiangxi Longtianyong to resume production as soon as possible, and currently the Group has reduced and minimised the operating cash outflows by actively mitigating of the work flows of the staffs;
- (b) On 24 August 2021, the local environmental protection authority notified Jiangxi Longtianyong that, following the adoption of rectification measures by Jiangxi Longtianyong, such as the demolition of non-compliant facilities and construction of compliant facilities, the relevant authorities have approved in principle the resumption of production of Jiangxi Longtianyong's silver electrolysis production line;

- (c) Subsequent to the end of the current interim period, the Group agreed with the original seller to return part of the Colored Gemstones amounting to approximately RMB344,817,000 for a refund of the corresponding portion of the original consideration, including approximately RMB284,307,000 by way of cash refund and approximately RMB60,510,000 by way of set-off against the unsettled consideration. Subsequent to the end of the current interim period, both the return of such Colored Gemstones and the cash refund have been completed, thereby restoring the Group's bank balances and cash to a healthy level; and
- (d) The Group has maintained long business relationship with its principal banker and the principal banker has confirmed their willingness to provide banking facilities of not less than approximately RMB240,000,000 and available at least to the next financial year ending 31 December 2022.

In view of the above, the directors of the Company are confident that there will be sufficient financial resources available to the Group to enable it to meet its immediate obligation and liabilities as and when they fall due and to continue to operate for at least the next twelve months from the date of issuance of these condensed consolidated financial statements. Accordingly, the directors of the Company have prepared the condensed consolidated interim financial statements on a going concern basis. The condensed consolidated interim financial statements do not include any adjustments relating to the carrying amounts and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2020.

Application of amendments to IFRSs

In the current interim period, the Group has applied the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2
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In addition, the Group has early applied the Amendment to IFRS 16 “Covid-19-Related Rent Concessions beyond 30 June 2021”.

Except as described below, the application of the amendments to IFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impacts on early application of Amendment to IFRS 16 “Covid-19-Related Rent Concessions beyond 30 June 2021”

The Group has early applied the amendment in the current interim period. The application of this amendment has had no impact on the Group’s financial positions and performance for the current and prior periods.

3. SEGMENT INFORMATION

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

- (i) manufacturing, sales and trading of silver ingots, palladium and other non-ferrous metals in the People’s Republic of China (the “**PRC**”) (“**Manufacturing segment**”);
- (ii) designing and sales of gold, silver, gem-set and other jewellery products in the PRC (“**New Jewellery Retail segment**”); and
- (iii) providing professional electronic platform and related services for trading of silver ingots (“**Silver Exchange segment**”).

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

Segment revenue and results

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

	Six months ended 30 June 2021					
	Manufacturing segment RMB'000 (unaudited)	New Jewellery Retail segment RMB'000 (unaudited)	Silver Exchange segment RMB'000 (unaudited)	Segment total RMB'000 (unaudited)	Elimination RMB'000 (unaudited)	Consolidated RMB'000 (unaudited)
Revenue						
External sales	1,748,658	215,907	25,524	1,990,089	-	1,990,089
Inter-segment sales*	129,811	-	-	129,811	(129,811)	-
Total segment revenue	1,878,469	215,907	25,524	2,119,900	(129,811)	1,990,089
Results						
Segment results	(2,402,143) [#]	28,259	19,109	(2,354,775)		(2,354,775)
Non-segment items						
Unallocated income, expenses, gains and losses						(7,777)
Unallocated finance costs						(5,946)
Loss before tax						(2,368,498)

Included the write-off of inventories of RMB2,408,511,000.

	Six months ended 30 June 2020					
	Manufacturing segment RMB'000 (unaudited)	New Jewellery Retail segment RMB'000 (unaudited)	Silver Exchange segment RMB'000 (unaudited)	Segment total RMB'000 (unaudited)	Elimination RMB'000 (unaudited)	Consolidated RMB'000 (unaudited)
Revenue						
External sales	1,568,322	216,701	24,822	1,809,845	-	1,809,845
Inter-segment sales*	125,118	44	-	125,162	(125,162)	-
Total segment revenue	1,693,440	216,745	24,822	1,935,007	(125,162)	1,809,845
Results						
Segment results	136,781	10,374	19,026	166,181		166,181
Non-segment items						
Unallocated income, expenses, gains and losses						(7,673)
Net loss on termination of assignment contract in relation to acquisition of a land use right						(26,656)
Unallocated finance costs						(4,430)
Profit before tax						127,422

* Inter-segment sales are carried out on terms agreed between counterparties.

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

Geographical information

The Group's operations are located in the PRC. All of the Group's revenue during the six months ended 30 June 2021 and 2020 are generated in the PRC.

4. REVENUE

Disaggregation of revenue from contracts with customers

Segments	Six months ended 30 June	
	2021	2020
– By types of goods and services	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Manufacturing segment		
– Sales of silver ingots	161,325	43,555
– Sales of palladium	1,448,152	1,351,991
– Sales of lead ingots	57,472	75,992
– Sales of zinc oxide	–	1,990
– Sales of other metal by-products	81,709	94,794
	<u>1,748,658</u>	<u>1,568,322</u>
New Jewellery Retail segment		
– Sales of gold products	103,773	63,610
– Sales of silver products	111,429	150,624
– Sales of gem-set and other jewellery products	705	2,467
	<u>215,907</u>	<u>216,701</u>
Silver Exchange segment		
– Commission income	25,524	24,822
	<u>25,524</u>	<u>24,822</u>
Total	<u>1,990,089</u>	<u>1,809,845</u>

All of the revenue are recognised at a point in time during the six months ended 30 June 2021 and 2020.

5. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF PROPERTY, PLANT AND EQUIPMENT

In regard to the impairment loss on property, plant and equipment of Jiangxi Longtianyong, the amount of approximately RMB6,800,000 was recognised during the six months ended 30 June 2021 (30 June 2020: nil) as part of the rectification measure of demolition of non-compliant facilities and construction of compliant facilities, certain plant and equipment were demolished and impaired.

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
PRC Enterprise Income Tax (“EIT”)		
– Current period	7,551	32,504
– Underprovision in respect of prior periods	1,459	204
	<u>9,010</u>	<u>32,708</u>
Deferred taxation for the period	5,200	(8,684)
	<u>14,210</u>	<u>24,024</u>

The Group had no assessable profits subject to tax in any jurisdictions other than the PRC for both periods.

Under the Law of the PRC on EIT (the “EIT Law”) and its related implementation regulations, the Group’s PRC subsidiaries are subject to the PRC EIT at the statutory rate of 25% for both periods, except for two subsidiaries of the Company, namely Jiangxi Longtianyong was recognised as a High and New Technology Enterprise by the PRC tax authorities such that it is entitled to a concessionary tax rate of 15% for three consecutive years beginning from the year of 2019 to 2021 (30 June 2020: 2019 to 2021) and was subject to review once every three years. Shanghai Huatong Silver Exchange Company Limited (上海華通鈕銀交易市場有限公司) (“Shanghai Huatong”) has been recognised as a High and New Technology Enterprise during the current interim period, such that it is entitled to a concessionary tax rate of 15% for three consecutive years beginning from the year of 2020 to 2022 and was subject to review once every three years. Shenzhen Yunpeng Software Development Company Limited (深圳雲鵬軟件開發有限公司) (“Shenzhen Yunpeng”), a former indirect non wholly-owned subsidiary of the Group, was disposed of on 28 December 2020 and it was recognised as a Software Enterprise by the PRC tax authorities and it was entitled to an exemption of PRC EIT for the first two consecutive years beginning from 2016 and a 50% reduction for the following three consecutive years. For the six months ended 30 June 2020, Shenzhen Yunpeng was subject to PRC EIT at a rate of 12.5%.

At the end of the reporting period, the Group has unused tax losses of RMB36,251,000 (31 December 2020: RMB34,462,000) available for offset against future profits. Included in unrecognised tax losses are losses of RMB32,008,000 (31 December 2020: RMB30,165,000) that will expire in various dates in 2021 to 2026 (31 December 2020: 2020 to 2025). Other losses may be carried forward indefinitely. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

Under the EIT Law, withholding tax is imposed on dividends payable to non-PRC shareholders which is declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in these condensed consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries amounting to RMB776.2 million as at 30 June 2021 (31 December 2020: RMB2,355.6 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

7. (LOSS) PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
(Loss) profit for the period has been arrived at after charging (crediting):		
Cost of inventories recognised as expenses	1,896,990	1,587,325
Write-off of inventories	2,408,511	–
Net loss on termination of assignment contract in relation to acquisition of a land use right	–	26,656
Impairment loss recognised in respect of property, plant and equipment	6,800	–
Depreciation of property, plant and equipment	8,618	9,281
Depreciation of right-of-use assets	3,857	4,812
Amortisation of intangible assets (included in administrative expenses and selling and distribution expenses)	5,358	4,839
Bank interest income	(861)	(1,236)
Net exchange loss (gain)	63	(822)
Gain on disposal of property, plant and equipment	(19)	–
Expenses on short-term leases in respect of office premises, warehouse and retail shops	2,901	2,638
	<u>2,901</u>	<u>2,638</u>

8. DIVIDENDS

No dividends were paid, declared or proposed for the ordinary shareholders of the Company during the current interim period (six months ended 30 June 2020: nil). The directors of the Company have determined that no dividend will be paid in respect of the both interim periods.

9. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2021	2020
	(unaudited)	(unaudited)
(Loss) earnings		
(Loss) profit for the period attributable to owners of the Company		
for the purpose of basic (loss) earnings per share <i>(RMB'000)</i>	<u>(2,394,372)</u>	<u>114,661</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of		
basic and diluted (loss) earnings per share <i>(in thousand)</i>	<u>1,628,400</u>	<u>1,627,351</u>

For the six months ended 30 June 2021 and 2020, the computation of diluted (loss) earnings per share does not assume the exercise of the Company's outstanding options because the effect of exercise of these options was anti-dilutive.

10. INVENTORIES

During the current interim period, certain of Jiangxi Longtianyong's inventory of raw materials with an amount of approximately RMB2,408,511,000 which previously being refined for production purposes was deemed to be hazardous waste pursuant to the Notices and ordered to be disposed of. As a result, there was a write-off of inventories of RMB2,408,511,000 recognised in profit or loss during the six months ended 30 June 2021.

During the current interim period, the Group entered into several agreements with an independent third party jewellery enterprise to procure the Colored Gemstones for an aggregate consideration of approximately RMB810,000,000. However, with the resurgence of COVID-19 (especially the highly contagious Delta variant) in various parts of the world in recent months, overseas watch manufacturers were practically unable to travel to China to physically inspect the Colored Gemstones and negotiate potential purchases with the Group. In addition, with the sharp increase in the number of COVID-19 cases in China in July 2021, in the opinion of the directors of the Company, the economic growth of China and hence the sales volumes of the Group's jewellery products are expected to be adversely affected. As a result, it has become increasingly difficult for the Group to sell and monetize the Colored Gemstones in the short run. Hence, subsequent to the end of the current interim period, the Group agreed with the original seller to return part of the Colored Gemstones amounting to approximately RMB344,817,000 for a refund of the corresponding portion of the original consideration, including approximately RMB284,307,000 by way of cash refund and approximately RMB60,510,000 by way of set-off against the unsettled consideration. Subsequent to the end of the current interim period, both the return of such Colored Gemstones and the cash refund have been completed.

11. TRADE AND OTHER RECEIVABLES

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Trade receivables for contracts with customers (<i>Note i</i>)	50,206	115,710
Less: allowance for credit losses	(10,964)	(21,022)
	39,242	94,688
Deposits and prepayments	13,130	17,521
Prepayments to suppliers (<i>Note ii</i>)	16,239	76,763
Value-added tax (“VAT”) recoverable	33,415	28,587
VAT rebate receivable (<i>Notes i and iv</i>)	–	41,822
Amount due from a former subsidiary, Shenzhen Yunpeng (<i>Note iii</i>)	–	19,499
Other receivable arising from termination of assignment contract of a land use right from the PRC government (<i>Note v</i>)	–	25,275
	102,026	304,155

Notes:

- (i) The Group has pledged trade receivables with a carrying value of nil at 30 June 2021 (31 December 2020: RMB75,000,000) and VAT rebate receivable with a carrying value of nil (31 December 2020: RMB41,822,000) to secure banking facilities of the Group.
- (ii) The balance represents prepayments for purchase of inventories under the Group’s Manufacturing segment and New Jewellery Retail segment.
- (iii) Amount due from a former subsidiary, Shenzhen Yunpeng, was fully received during the current interim period.
- (iv) Pursuant to the Notice on Issuing the Value-added Tax Preferential Catalogue on Products and Services Applying Integrated Use of Resources by the Ministry of Finance and the State Administration of Taxation (Cai Shui [2015] No. 78), Jiangxi Longtianyong utilises recycled materials in the course of production of metal products and is therefore subject to a preferential policy of an immediate VAT refund of 30%.

- (v) In September 2018, Huzhou Baiyin Property Co., Ltd. (湖州白銀置業有限公司) (“**Huzhou Baiyin**”), an indirect non wholly-owned subsidiary of the Group entered into an assignment contract (the “**Contract**”) with Huzhou South Taihu New District Management Committee (the “**Committee**”) and Huzhou Municipal Bureau of Natural Resources and Planning (the “**Bureau**”) in relation to the acquisition of the land use right over a piece of land located in Huzhou, the PRC (the “**Acquisition**”). The total consideration for the land use right was RMB285,000,000.

On 29 and 30 June 2020, Huzhou Baiyin entered into a termination agreement (the “**Termination Agreement**”) with the Committee and the Bureau, and a compensation agreement with the Committee, pursuant to which the Committee and the Bureau agreed to terminate the Contract and the Committee agreed to refund the deposits received amounting to RMB270,875,000 (the “**Compensation Sum**”) and compensate for (i) the capital expenditure and other expenses incurred by the Group in connection with the exploration, design and pre-construction works on the land; and (ii) certain taxes paid by another indirect non wholly-owned subsidiary of the Group. As a result of the termination of the Contract, there was a net loss of RMB26,656,000 recognised in the condensed consolidated statement of profit or loss and other comprehensive income during the six months ended 30 June 2020.

Up to 31 December 2020, the Group had already paid an aggregate amount of RMB232,500,000 of deposits and other direct costs of RMB26,713,000 in relation to the Acquisition. An amount of RMB245,600,000 arising from the Compensation Sum was received by the Group during the year ended 31 December 2020 and the remaining RMB25,275,000 of the Compensation Sum was recorded and included in other receivables at 31 December 2020, which has been fully received during the current interim period. As at 30 June 2021, however, certain pre-construction costs had been incurred before the termination of the Acquisition remained payable by the Group and provision had been made of RMB8,362,000 (31 December 2020: RMB39,103,000) as set out in Note 13.

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

The ageing analysis of the Group's trade receivables net of allowance for credit losses based on the invoice dates at the end of the reporting period is as follows:

	30 June	31 December
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(audited)
0 – 30 days	32,592	41,788
31 – 60 days	1,112	42,972
61 – 90 days	907	1,789
Over 90 days	4,631	8,139
	39,242	94,688

In order to minimise credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Details of impairment assessment of trade and other receivables for the six months ended 30 June 2021 and 2020 are set out in Note 12.

12. REVERSAL OF (PROVISION FOR) IMPAIRMENT LOSS UNDER EXPECTED CREDIT LOSS MODEL, NET

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Reversal of (provision for) impairment loss recognised in respect of trade receivables, net	10,058	(2,307)

The basis of determining the inputs and assumptions and the estimation techniques used in estimation of expected credit loss in respect of trade receivables in these condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2020.

In determining the expected credit loss for other receivables and deposits, the management of the Group has taken into account the historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The management believes that there are no significant increase in credit risk of these amounts since initial recognition. For the six months ended 30 June 2021 and 2020, the Group assessed the ECL for other receivables and deposits are insignificant and thus no loss allowance is recognised.

13. TRADE, BILLS AND OTHER PAYABLES

The ageing analysis of the Group's trade payables based on the invoice dates at the end of the reporting period is as follows:

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Trade payables		
0 - 30 days	65,541	103,517
31 - 60 days	371	9,896
61 - 90 days	76	347
Over 90 days	33,277	17,283
	99,265	131,043
Other payables and accrued expenses	93,566	59,305
Bills payables (<i>Note i</i>)	80,000	94,000
Deposits received for using the silver exchange platform	85,925	76,370
Amount due to 上海華通白銀國際交易中心 ("Huatong International") (<i>Note ii</i>)	19,338	19,373
VAT and other tax payables	17,965	95,899
Customer receipts in advance	403	1,864
Provision for environmental pollution rectification	12,626	12,626
Provision for termination of assignment contracts (<i>Note iii and Note 11(v)</i>)	8,362	39,103
	417,450	529,583

Notes:

- (i) As at 30 June 2021, bills payables amounting to RMB40,000,000 were secured by pledged bank deposits of RMB40,000,000. The remaining bills payables amounting to RMB40,000,000 were secured by machinery with a carrying value of approximately RMB7,440,000. All bills payables were issued to a supplier of the Manufacturing segment for repayment in February 2022. In addition, the bill payables were secured by personal guarantees executed by Mr. Chen Wantian (a director of the Company).

As at 31 December 2020, bills payables amounting to RMB47,000,000 were secured by pledged bank deposits of RMB47,000,000. The remaining bills payables amounting to RMB47,000,000 were secured by machinery with a carrying value of approximately RMB15,934,000. All bills payables were issued to a supplier of the Manufacturing segment for repayment in February 2021. During the current interim period, the bills payables were fully settled by the Group and the pledged bank deposits and the pledge of machinery were released.

- (ii) Huatong International is a company which the Group held 18% equity interest and accounted for as an equity investment at FVTOCI. The amount was non-trade in nature, unsecured, interest-free and repayable on demand.
- (iii) Included in the balance has an amount of nil (31 December 2020: RMB20,650,000) payable to Zhejiang Jifeng Geotechnical Technology Co., Ltd. (浙江績豐岩土技術股份有限公司) (“**Zhejiang Jifeng Geotechnical**”) which represented pre-construction costs incurred in relation to the land use right. During the six months ended 30 June 2021, total pre-construction costs incurred to Zhejiang Jifeng Geotechnical amounted to nil (six months ended 30 June 2020: RMB37,514,000). Mr. Chen Wantian, a director of the Company is also a director (out of the twelve directors) of Zhejiang Jifeng Geotechnical and holds 5.44% equity interest therein.

The credit period of purchase of goods and subcontracting costs generally ranges from 1 to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled.

14. TRADE LOANS

During the year ended 31 December 2020, the Group obtained a new trade loan of RMB9,428,000. The trade loans carried interest at a fixed rate of 5.66% per annum. The amounts has been repaid during the six months ended 30 June 2021.

In addition, the trade loans were secured by personal guarantees executed by Mr. Chen Wantian (a director of the Company) and Mr. Chen He (a director of CSMall Group Limited) and their respective spouses.

15. BANK BORROWINGS

During the six months ended 30 June 2021, the Group repaid bank borrowings of RMB117,500,000 (six months ended 30 June 2020: RMB90,000,000) and obtained new bank borrowings of RMB164,500,000 (six months ended 30 June 2020: RMB147,500,000).

Included in the balances, Jiangxi Longtianyong has an amount of RMB230,000,000 (31 December 2020: RMB25,500,000) with personal guarantees given by Mr. Chen Wantian, a director of the Company and his spouse.

Bank borrowings of RMB242,000,000 as at 30 June 2021 (31 December 2020: RMB202,000,000) carry interest at fixed rates, ranging from 5.25% to 6.09% (31 December 2020: 5.80% to 6.09%) per annum and RMB10,000,000 (31 December 2020: RMB3,000,000) carry interest at loan prime rate plus 2.68% (31 December 2020: loan prime rate plus 2.48%) per annum and are secured by certain of the Group’s assets.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

We are pleased to see that, despite the unstable global economy and the downturn of the Chinese economy due to multiple factors, the Group's Manufacturing segment and Silver Exchange segment still managed to maintain stable growth in sales during the period.

For the six months ended 30 June 2021 (“1H2021”) the Group's Manufacturing segment generated sales of approximately RMB1,748.7 million, representing an increase of approximately 11.5% as compared to the six months ended 30 June 2020 (“1H2020”) of approximately RMB1,568.3 million. During the current period, sale of palladium increased by approximately 7.1% as compared to that for 1H2020, accounting for approximately 82.8% of the revenue of the Manufacturing segment. The revenue from sales of silver ingots increased significantly by approximately 270.4% over the last period, while the revenue from sales of other metal by-products decreased by approximately 13.8% over the last period.

Since 2014, we have diversified from the traditional Manufacturing segment to the downstream New Jewellery Retail segment which is now operated under our subsidiary, CSMall Group Limited (Stock code: 1815) (together with its subsidiaries, collectively referred to as “**CSMall Group**”). Apart from leveraging our strength and resources in the upstream business, CSMall Group has optimized its sales and marketing strategies since 2018 and gradually shifted its focus to high-margin silver jewellery products. For the 1H2021, external sales of CSMall Group amounted to approximately RMB215.9 million, representing approximately 10.8% of the Group's total revenue of the current period (1H2020: 12.0%), and the New Jewellery Retail segment recorded a segment profit of approximately RMB28.3 million (1H2020: RMB10.4 million).

In 2016, the Group further expanded the downstream business by acquiring Shanghai Huatong Silver Exchange Company Limited (“**Shanghai Huatong**”), an operator of an integrated silver exchange platform in the PRC. For 1H2021, the Silver Exchange segment remained stable and recorded a segment profit of approximately RMB19.1 million (1H2020: RMB19.0 million).

The Group recorded gross profit of approximately RMB91.7 million for 1H2021 (1H2020: RMB221.4 million), a significant decrease of approximately 58.6% as compared to that for 1H2020, mainly due to the decrease in gross profit of our Manufacturing segment and New Jewellery Retail segment operated under CS Mall Group. The overall gross profit margin decreased from approximately 12.2% for 1H2020 to approximately 4.6% for 1H2021 mainly due to the significant increase of the purchase cost of the raw material for 1H2021 as compared to those for 1H2020 of our Manufacturing segment and the increase of sale of relatively low-margin gold products under the New Jewellery Retail segment operated under CS Mall Group for 1H2021.

For 1H2021, the Group recorded loss attributable to owners of the Company of approximately RMB2,394.4 million (1H2020: profit of approximately RMB114.7 million). Such turnaround from profit to loss is mainly attributable to the write-off of inventories of approximately RMB2,408.5 million recorded for 1H2021, which has far outweighed (i) the significant decrease in administrative expenses as well as selling and distribution expenses primarily as a result of the gradual workforce downsizing of New Jewellery Retail segment between 1H2020 and 1H2021; (ii) the net reversal of impairment loss recognised in respect of trade receivables of approximately RMB10.1 million for 1H2021, as compared to the provision of impairment loss recognised in this respect of approximately RMB2.3 million for 1H2020; and (iii) the absence in 1H2021 of the one-off net loss on termination of assignment contract in relation to acquisition of a land use right of approximately RMB26.7 million recorded in 1H2020.

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

Manufacturing Segment

Between 23 April 2021 and 20 May 2021, the Ji'an City Yongfeng Ecology and Environment Bureau (吉安市永豐生態環境局) (the "**Bureau**") issued two administrative penalty notices and a rectification notice (collectively, the "**Notices**") to Jiangxi Longtianyong Nonferrous Metals Co., Ltd. (江西龍天勇有色金屬有限公司) ("**Jiangxi Longtianyong**"), a wholly-owned subsidiary of the Company. Pursuant to the Notices, the Bureau has ordered Jiangxi Longtianyong to suspend its production activities from 26 April 2021 onwards pending completion of certain rectification measures.

According to the Notices, between 22 April 2021 and 8 May 2021, the Central Ecological and Environmental Protection Inspection Group (中央生態環境保護督察組) and the Bureau inspected Jiangxi Longtianyong's premises and found that the production and storage facilities of Jiangxi Longtianyong had been in contravention of certain national environmental laws.

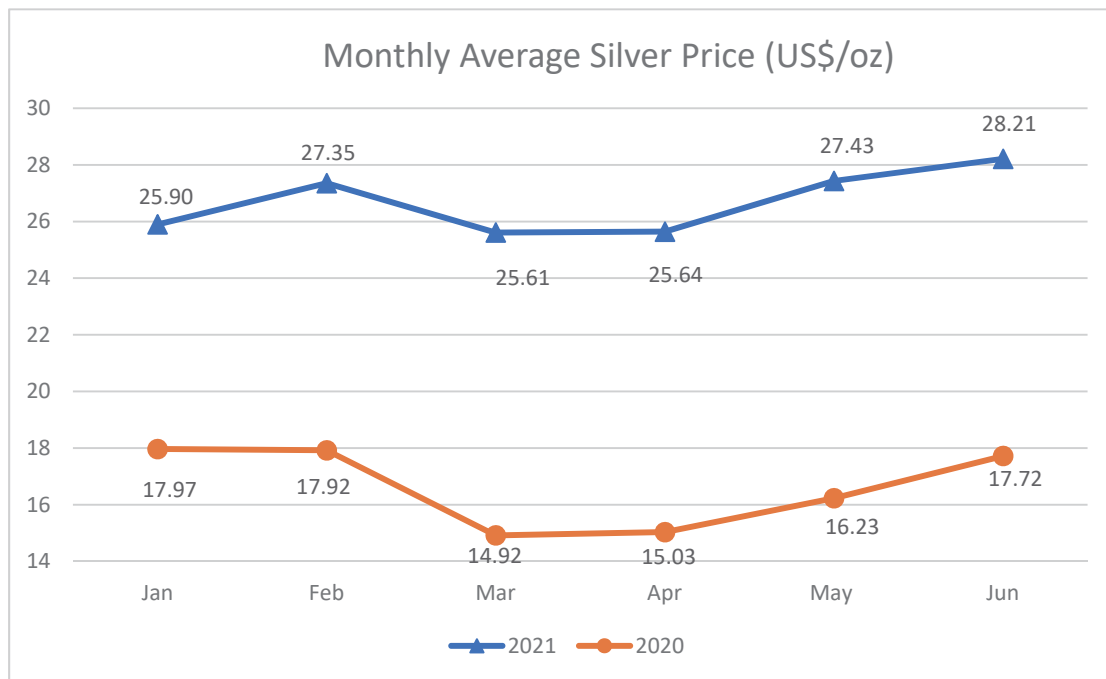
As a result of the Contraventions, the Bureau ordered Jiangxi Longtianyong to carry out certain rectification works on its production and storage facilities. Jiangxi Longtianyong has been closely communicating with the Bureau since the end of April 2021 with a view to reach an understanding on the rectification measures required to be implemented in order to restore Jiangxi Longtianyong's production. In addition, Jiangxi Longtianyong has engaged an environmental specialist to provide recommendations on the appropriate rectification measures to address the Bureau's concerns.

These rectification measures included (i) the disposal of certain hazardous waste stored in production workshops and warehouses; and (ii) the demolition of certain existing non-compliant facilities and construction of certain new compliant facilities according to the recommendations of the environmental specialist and with the approval of the competent governmental authorities.

Further details of the suspension set out in the announcement published on 7 June 2021.

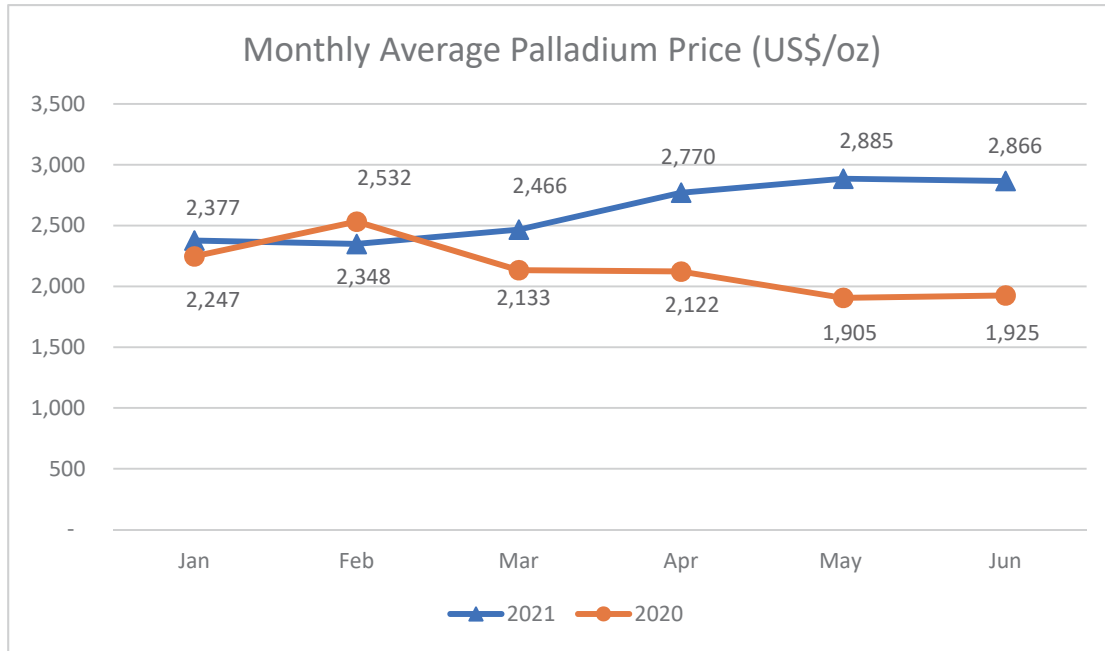
On 24 August 2021, the local environmental protection authority notified Jiangxi Longtianyong that, following the adoption of rectification measures by Jiangxi Longtianyong, such as the demolition of non-compliant facilities and construction of compliant facilities, the relevant authorities have approved in principle the resumption of production of Jiangxi Longtianyong's silver electrolysis production line (the "**Resumption of Production Notice**"). Pursuant to the Resumption of Production Notice, after conducting environmental compliance assessment on the silver workshop, the relevant authorities were of the view that the pollution prevention and control measures of Jiangxi Longtianyong after rectification were in compliance with the relevant environmental requirements. The Resumption of Production Notice also requires Jiangxi Longtianyong to further enhance its pollution prevention and control facilities and strictly implement its environmental protection management system, with a view to ensure that the discharge of pollutants consistently meet the required targets. Jiangxi Longtianyong will continue to closely communicate with the competent governmental authorities with a view to fully resume its production activities.

The Group applied a proprietary production model to manufacture high quality silver ingots, gold products, palladium and other precious metals and the metal by-products derived therefrom. During 1H2021, we sold approximately 33 tonnes (1H2020: 13 tonnes) of silver ingots to our customers and produced approximately 22 tonnes (1H2020: 36 tonnes) of silver ingots. During 1H2021, the global silver market fluctuated somewhat. The graph below shows the change in international silver price quoted on the London Bullion Market Association from January 2021 to June 2021 and for the corresponding period of last year:



Source: The London Bullion Market Association

The Group recorded sales of approximately RMB1,448.2 million for 1H2021 (1H2020: RMB1,352.0 million) following the strong growth recorded continuously in the sales of palladium in the previous year. The Group's sales under the Manufacturing segment increased to approximately RMB1,748.7 million (1H2020: RMB1,568.3 million), up by approximately 11.5% over 1H2020. The graph below shows the change in international palladium price quoted on the London Bullion Market Association from January 2021 to June 2021 and for the corresponding period of last year:



Source: The London Bullion Market Association

New Jewellery Retail Segment Operated under CSMall Group (stock code: 1815)

During 1H2021, CSMall Group recorded sales of approximately RMB215.9 million (1H2020: RMB216.7 million), representing a slight decrease of approximately 0.4% as compared to that for the corresponding period in 2020.

As the epidemic in the PRC has entered a period of normalized prevention and control in the year and the large-scale vaccination is also underway, the impact of the epidemic will gradually fade. In light of the significant impact of the epidemic on jewellery retail consumption throughout last year, the CSMall Group also implemented a number of measures to deal with the crisis in the first half of the year, including slowing down the plan on expansion of offline stores, adjusting the strategy of offline business outlets, closing 47 stores, and carefully choosing sites for opening another 11 new stores. The Group also reduced staff and cut down its administrative expenses by approximately 42.4%; and greatly reduced operation and promotion through self-operated online platform and instead relied on third-party sales channels. In 1H2021, the CSMall Group achieved turnaround from loss into profit and recorded a net profit attributable to owners of CSMall Group of approximately RMB20.1 million.

Online Sales Channels

(1) Self-operated online platform

As of 30 June 2021, the number of registered members on our self-operated online jewellery platform, which consists of www.csmall.com, m.csmall.com and the mobile app of “金貓銀貓CSmall”, surpassed approximately 9.9 million. On this basis, in 1H2021, the Group suspended the promotion of the self-operated online platform to reduce expenses and instead relied on third party platforms.

(2) Third-party online sales channels

In 1H2021, the Group enhanced its online sales through new marketing models including short video marketing, e-commerce live streaming and online celebrity (KOL), relying on the strong traffic of third-party platforms. As of 30 June 2021, our third-party online platforms include JD.com (京東), Suning (蘇寧), Tmall (天貓), WeChat (微信), Tik Tok (抖音), Xiaohongshu (小紅書) and 15 television and video shopping channels in the PRC to promote and sell our jewellery products. We became a core supplier of gold, silver and jewellery category of all top television channels, which enabled us to achieve satisfactory sales performance. With a daily coverage of over 100 million home viewers in the PRC, our brand awareness among Chinese viewers of television and video shopping channels was enhanced substantially.

Short-video promotion and KOL promotion are a standard part of our brand marketing. Their content becomes the core of every aspect of our brand marketing, sales and operation. In 1H2021, the Group has cooperated with top anchors and celebrities including Xue Li (雪梨), Wei Ya (薇婭) and Jin Xing (金星), and will continue to cooperate more closely with top anchors including Wei Ya (薇婭) and Li Jiaqi (李佳琪) in the second half of the year to achieve more exposure and sales of its brand.

Offline Retail and Service Network

(1) *CSmall Shops*

We offer intimate on-the-ground sales and services to our customers, including jewellery fitting and maintenance services, which we believe are indispensable to the jewellery shopping experience, at our CSMall Shops. In 1H2021, the Group optimised its strategic layout, closed 47 stores and opened 11 new stores. As of 30 June 2021, we had 62 CSMall Shops located in 15 provinces and municipalities in the PRC, consisting of 3 self-operated CSMall Shops and 59 franchised CSMall Shops with presence in Beijing, Chongqing, Fujian, Gansu, Heilongjiang, Henan, Hubei, Inner Mongolia, Jiangsu, Shaanxi, Shanghai, Shanxi, Sichuan, Xinjiang and Zhejiang.

(2) *Shenzhen Exhibition Hall*

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

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

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

Silver Exchange Segment

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

Prospects

Since 2020, due to the continuous impact of the COVID-19, the economy of all countries has slowed down to varying degrees. In order to revitalize the economy, countries including China have adopted relatively loose monetary policies, resulting in a strong demand for safe-haven assets including silver and gold products. Therefore, we still have full confidence in the manufacturing and sales of silver, gold products and other precious metals in the PRC. The Group will continue to focus on the production and sales of silver, gold and other precious metals as its main core businesses.

In addition, while pursuing business performance, the Group will emphasise business sustainability and strive to maintain higher standards of business practices in respect of environmental protection. The strict enforcement of the Central Ecological and Environmental Protection Inspection Group has greatly raised the industry's entry barriers of environmental protection. The Group expects to gradually resume production of its various production lines in a relatively short period of time, and endeavour to meet environmental requirements as soon as possible through rectification to fully resume its manufacturing operations. In the second half of the year, the Group will also proactively communicate with the local environmental protection authority, and proceed with rectification such as demolition of non-compliant facilities, etc. The rectification will be further implemented in accordance with the rectification requirements of the Central Ecological and Environmental Protection Inspection authorities. Meanwhile, environmental specialists will also be hired to conduct assessments and provide recommendations to ensure that the production pollution discharge meets the national environmental protection requirements and standards. On 24 August 2021, Jiangxi Longtianyong received the approval from the local environmental protection authority to resume production of its silver electrolysis production line, marking a critical step in the resumption of the Group's manufacturing business.

Due to the continuing impact of the COVID-19, we will always remain vigilant in the tough retail environment. Although we still pay attention to the layout of offline channels, we need to adjust our future plan on expansion of the offline retail network depending on market conditions. For retail business, the Group will continue to plan and improve its business in accordance with the layout for the first half of the year and suspend the promotion of online self-operated platform to reduce expenses. It will accelerate digital marketing and rely on the operation of new marketing models including short video marketing, e-commerce live streaming, etc. on third-party platforms. In the future, the Group's retail business will also take the sales of rubies as a new growth point for the Company's business. Prior to entering into the agreements to procure the Colored Gemstones, the Group had, through an overseas jewellery enterprise, reached out to a number of overseas watch manufacturers, which had expressed interest in purchasing the Colored Gemstones. In the future, the Group will sell the processed Colored Gemstones to customers such as watch manufacturers on a wholesale basis; and set the processed Colored Gemstones into jewellery products such as earrings and rings for sale through the Group's online and offline retail channels. The Group will also explore and consider suitable business opportunities outside the jewellery industry, so that the Group can extend its experience, capabilities and resources in the field of new Internet retail to other Internet fields to make its business more diversified, with a view to enhancing the Group's ability to resist risks and profitability in the retail sector.

Based on the above, the Group will proactively respond to the impact of unfavorable factors including the COVID-19, economic slowdown and other emergencies, conduct its operations steadily, and give full play to its advantages, so as to maintain sustained profitability. We believe that with the gradual easing of the epidemic, the Chinese and global economy will regain normal growth trends. The Group's manufacturing segment has also seen the sign of resumption of production. In light of the multiple shocks caused by the high threshold for environmental protection policies of the central government, as well as the epidemic and the international environment, many inferior enterprises in the industry will have to withdraw from the industry as it is difficult for them to meet environmental requirements. This will lead to an equilibrium of production capacity in the industry. In the long run, this will be more conducive to the consolidation of industry position and enhancement of market share of the Company's precious metal manufacturing business. We remain confident of the future.

Financial Review

Revenue

The revenue of the Group for 1H2021 was approximately RMB1,990.1 million (1H2020: RMB1,809.8 million), representing an increase of approximately 10.0% from that of 1H2020.

	1H2021		1H2020	
	Revenue <i>RMB'000</i>	% of revenue	Revenue <i>RMB'000</i>	% of revenue
Manufacturing segment				
Sale of silver ingots	161,325	8.1%	43,555	2.4%
Sale of palladium	1,448,152	72.8%	1,351,991	74.7%
Sale of lead ingots, zinc oxide and other metal by-products	<u>139,181</u>	<u>7.0%</u>	<u>172,776</u>	<u>9.5%</u>
	<u>1,748,658</u>	<u>87.9%</u>	<u>1,568,322</u>	<u>86.6%</u>
New Jewellery Retail segment operated under CS Mall Group				
Sale of gold, silver, gem-set and other jewellery products	<u>215,907</u>	<u>10.8%</u>	<u>216,701</u>	<u>12.0%</u>
Silver Exchange segment				
Commission income	<u>25,524</u>	<u>1.3%</u>	<u>24,822</u>	<u>1.4%</u>
Total	<u>1,990,089</u>	<u>100%</u>	<u>1,809,845</u>	<u>100.0%</u>

Manufacturing segment

Sales of silver ingots increased from approximately RMB43.6 million for 1H2020 to approximately RMB161.3 million for 1H2021, representing a significant increase of approximately 270.4% as compared to that for 1H2020, mainly due to the significant increase in demand of silver ingots.

The average selling price of silver ingots (value-added tax exclusive) significantly increased from approximately RMB3.4 million per tonne for 1H2020 to approximately RMB4.9 million per tonne for 1H2021. Sales volume of silver ingots increased from approximately 13 tonnes for 1H2020 to approximately 33 tonnes for 1H2021 due to the increase in demand.

Due to the continued strong market price of and demand for palladium, the Group recorded sales of palladium of approximately RMB1,448.2 million for 1H2021 (1H2020: RMB1,352.0 million), representing an increase of approximately 7.1% as compared to that for 1H2020. The growth in sales of palladium and silver ingots has led to an increase in the Group's sales for the Manufacturing segment to approximately RMB1,748.7 million (1H2020: RMB1,568.3 million), up by approximately 11.5% over 1H2020.

Other metal products such as lead ingots, zinc oxide, bismuth ingots and antimony ingots are produced during the production of silver ingots and palladium. Sales of other metal products decreased from approximately RMB172.8 million for 1H2020 to approximately RMB139.2 million for 1H2021.

New Jewellery Retail segment operated under CS Mall Group

During 1H2021, CS Mall Group recorded sales of approximately RMB215.9 million (1H2020: RMB216.7 million), representing a slight decrease of approximately 0.4% as compared to that for 1H2020.

Silver Exchange segment

During 1H2021, the Silver Exchange segment recorded sales of approximately RMB25.5 million (1H2020: RMB24.8 million), representing a slight increase of approximately 2.8% as compared to 1H2020, mainly due to the increase in transaction volume.

Cost of Sales and Services Provided

Manufacturing segment

Cost of sales mainly represents the cost of raw materials consumed, direct labor and manufacturing overhead. Cost of raw materials consumed accounted for over 90% of cost of sales during the current period. The purchase cost of raw materials is determined by the content levels of silver, lead and palladium at market prices at the time of purchase; other types of minerals or metals are generally not taken into account when determining the purchase price. The amount increased mainly due to the increase in the purchase and usage of raw materials for production during 1H2021.

New Jewellery Retail segment operated under CS Mall Group

Cost of sales mainly represents cost of materials used for the production of gold, silver and jewellery products. Except for silver, materials like gold, amber and diamond are sourced from independent third parties.

Silver Exchange segment

Cost of sales and services provided mainly represents direct expenses incurred for trading of silver and the operation of the online exchange platform. The amount increased mainly due to the increase in transaction volume during 1H2021.

Gross Profit and Gross Profit Margin

We recorded gross profit of approximately RMB91.7 million (1H2020: RMB221.4 million) for 1H2021, a significant decrease of approximately 58.6% as compared to that for 1H2020, mainly due to the decrease in gross profit of our Manufacturing segment and New Jewellery Retail segment operated under CS Mall Group. The overall gross profit margin decreased from approximately 12.2% for 1H2020 to approximately 4.6% for 1H2021 mainly due to the significant increase of the purchase cost of the raw materials for 1H2021 as compared to those for 1H2020 of Manufacturing segment and the increase of sale of relatively low-margin gold products under the New Jewellery Retail segment operated under CS Mall Group for 1H2021.

Selling and Distribution Expenses

Selling and distribution expenses decreased by approximately 26.6% from approximately RMB14.3 million to approximately RMB10.5 million for 1H2021, mainly due to the gradual workforce downsizing of the New Jewellery Retail segment between 1H2020 and 1H2021.

Administrative Expenses

Administrative expenses decreased by approximately 14.7% from approximately RMB47.5 million for 1H2020 to approximately RMB40.5 million for 1H2021, mainly due to the decrease in staff cost as a result of a decrease in the average number of staff members in 1H2021.

Write-off of Inventories/Impairment loss recognised in respect of Property, Plant and Equipment

Between 23 April and 20 May 2021, the Ji'an City Yongfeng Ecology and Environment Bureau (吉安市永豐生態環境局)(the “**Bureau**”) issued two administrative penalty notices and a rectification notice (collectively, the “**Notices**”) to Jiangxi Longtianyong. Pursuant to the Notices, the Bureau inspected Jiangxi Longtianyong’s premises and found that the production and storage facilities of Jiangxi Longtianyong had been in contravention of certain national environmental laws and has ordered Jiangxi Longtianyong to suspend its production activities from 26 April 2021 onwards pending completion of certain rectification measures. These rectification measures included (i) the disposal of certain hazardous waste stored in production workshops and warehouses; and (ii) the demolition of certain existing non-compliant facilities and construction of certain new compliant facilities according to the recommendations of the environmental specialist and with the approval of the competent governmental authorities. Further details are set out in the announcement published on 7 June 2021.

In regard to the rectification measure of disposal of hazardous waste stored in production workshops and warehouses, certain of Jiangxi Longtianyong’s inventory of raw materials which has previously been refined for production purposes has been deemed to be hazardous waste pursuant to the Notices and was ordered to be disposed of. Accordingly, a write-off of inventories of approximately RMB2,408.5 million was recorded for 1H2021.

In regard to the rectification measure of demolition of non-compliant facilities and construction of compliant facilities, certain plant and equipment were demolished and impaired. Accordingly, an impairment loss on property, plant and equipment of approximately RMB6.8 million was recorded for 1H2021.

Net Loss on Termination of Assignment Contract in relation to Acquisition of a Land Use Right

During 1H2020, Huzhou Baiyin Property Co., Ltd. (湖州白銀置業有限公司) (“**Huzhou Baiyin**”), an indirect wholly-owned subsidiary under CS Mall Group, entered into a termination agreement and a compensation agreement to terminate the acquisition of the land use right over a piece of land located in Huzhou, the PRC (please refer to the paragraph headed “Significant Investment Held, Material Acquisition and Disposal” below for details). In accordance with the terms of the agreements, Huzhou South Taihu New District Management Committee (湖州市南太湖新區管理委員會) (the “**Committee**”) agreed to refund the deposits received of approximately RMB270.9 million and compensate Huzhou Baiyin for certain capital expenditure, other related expenses and certain taxes paid. A net loss on termination of assignment contract in relation to the acquisition of a land use right of approximately RMB26.7 million was recorded 1H2020. No such loss existed in 1H2021.

Income Tax Expense

Income tax expenses decreased by approximately 40.9% from approximately RMB24.0 million for 1H2020 to approximately RMB14.2 million for 1H2021 mainly due to a decrease in assessable profit.

(Loss) Profit Attributable to Owners of the Company

For 1H2021, we recorded a loss attributable to owners of the Company of approximately RMB2,394.4 million (1H2020: profit of approximately RMB114.7 million). Such turnaround from profit to loss is mainly attributable to the write-off of inventories of approximately RMB2,408.5 million recorded for 1H2021, which has far outweighed (i) the decrease in administrative expenses as well as selling and distribution expenses primarily as a result of the gradual workforce downsizing of New Jewellery Retail segment between 1H2020 and 1H2021; (ii) the net reversal of impairment loss recognised in respect of trade receivables of approximately RMB10.1 million for 1H2021, as compared to the provision for impairment loss in this respect of approximately RMB2.3 million for 1H2020; and (iii) the absence in 1H2021 of the one-off net loss on termination of assignment contract in relation to acquisition of a land use right of approximately RMB26.7 million recorded in 1H2020.

Inventories, Trade Receivables and Trade Payables Turnover Cycle

The Group's inventories mainly comprise silver bars, Colored Gemstones, jewellery products and gold bars. For 1H2021, inventory turnover days were approximately 195.1 days (for the year ended 31 December 2020: 206.0 days), the decrease was mainly due to the significant decrease in inventories from the manufacturing segment as a result of write-off of inventories which partially net off by the increase in inventories as a result of the procurement of the Colored Gemstones under the New Jewellery Retail segment in April and May 2021 as mentioned under the paragraph headed "Liquidity and Financial Resources".

The turnover days for trade receivables for 1H2021 were approximately 6.2 days (for the year ended 31 December 2020: 17.6 days) mainly due to the decrease of trade receivable for 1H2021.

The turnover days for trade payables for 1H2021 were approximately 11.1 days (for the year ended 31 December 2020: 8.9 days).

Borrowings

As of 30 June 2021, the Group's bank borrowings balance amounted to approximately RMB252.0 million (as of 31 December 2020: RMB205.0 million). The amounts are secured by certain assets of the Group and will be due for repayment within one year. Among them, approximately RMB242.0 million carried at fixed interest rates, and approximately RMB10.0 million carried at floating interest rates.

As of 31 December 2020, the Group also had trade loans carried at fixed interest rates amounting to approximately RMB10.0 million which are secured by certain assets of the Group. The trade loans have been fully settled during 1H2021.

The Group's net gearing ratio was calculated on the basis of total bank borrowings and trade loans less bank balances and cash as a percentage of total equity. As of 30 June 2021, the Group has a net gearing ratio of approximately 19.3% (as of 31 December 2020: -26.8%).

Pledge of Assets

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

	30 June 2021 <i>RMB'000</i> (unaudited)	31 December 2020 <i>RMB'000</i> (audited)
– Property, plant and equipment	69,836	82,440
– Leasehold lands (included in right-of-use assets)	16,610	–
– Inventories	–	270,859
– Trade receivables	–	75,000
– Pledged bank deposit	40,057	47,008
– VAT rebate receivable	–	41,822
	<u>126,503</u>	<u>517,129</u>

Capital Expenditures

For 1H2021, the Group invested approximately RMB22.7 million in property, plant and equipment (1H2020: RMB10.1 million).

Capital Commitments

	30 June 2021 <i>RMB'000</i> (unaudited)	31 December 2020 <i>RMB'000</i> (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	<u>3,699</u>	<u>15,307</u>

Contingent Liabilities

As at 30 June 2021 and 31 December 2020, the Group did not have any contingent liabilities.

Employees

As of 30 June 2021, the Group employed 390 staff members (as of 31 December 2020: 914 staff members) and the total remuneration for 1H2021 amounted to approximately RMB17.5 million (1H2020: RMB28.8 million). The Group's remuneration packages are in line with the current legislation in the relevant jurisdictions, the experience and qualifications of individual employees and the general market conditions. Bonuses are linked to the Group's financial results as well as to individual performances. The Group ensures that adequate training and professional development opportunities are provided to all employees so as to satisfy their career development needs.

Liquidity and Financial Resources

Between April and May 2021, the Group entered into several agreements with an independent third party jewellery enterprise to procure certain crushed colored gemstones (predominantly rubies, and also small quantities of sapphires and emeralds) (the "**Colored Gemstones**") for an aggregate consideration of approximately RMB810.0 million under the New Jewellery Retail segment. The Group intended to arrange the Colored Gemstones to be processed, and then (i) sell the processed Colored Gemstones to customers such as watch manufacturers on a wholesale basis; and (ii) set the processed Colored Gemstones into jewellery products such as earrings and rings for sale through the Group's online and offline retail channels. Prior to entering into the agreements to procure the Colored Gemstones, the Group had, through an overseas jewellery enterprise, reached out to a number of overseas watch manufacturers, which had expressed interest in purchasing the Colored Gemstones. As at 30 June 2021, most of the consideration for the Colored Gemstones had been settled in cash, resulting in a significantly lower level of bank balances and cash of the Group as compared to that as at 31 December 2020.

However, with the resurgence of COVID-19 (especially the highly contagious Delta variant) in various parts of the world in recent months, overseas watch manufacturers were practically unable to travel to China to physically inspect the Colored Gemstones and negotiate potential purchases with the Group. In addition, with the sharp increase in the number of COVID-19 cases in China in recent weeks, the economic growth of China and hence the sales volume of the Group's jewellery products are expected to be adversely affected. As a result, it has become increasingly difficult for the Group to sell and monetize the Colored Gemstones in the short run. To reduce the Group's working capital risk and inventory risk, the Group recently agreed with the original seller to return part of the Colored Gemstones amounting to approximately RMB344.8 million for a refund of the corresponding portion of the original consideration, including approximately RMB284.3 million by way of cash refund and approximately RMB60.5 million by way of set-off against the unsettled consideration. Subsequent to the reporting period, both the return of such Colored Gemstones and the cash refund have been completed, thereby restoring the Group's bank balances and cash to a healthy level.

The Group was principally financed by internal resources and bank borrowings. The Group's principal financial instruments comprise bank balances and cash, pledged bank deposits, restricted bank balances, trade and other receivables, trade, bills and other payables and bank borrowings. As of 30 June 2021, the bank balances and cash, net current assets and total assets less current liabilities were approximately RMB7.6million (as of 31 December 2020: RMB1,193.0 million), RMB994.1 million (as of 31 December 2020: RMB3,364.4 million) and RMB1,301.1 million (as of 31 December 2020: RMB3,682.1 million), respectively. During 1H2021, the trade loans have been fully settled (as of 31 December 2020: RMB10.0 million).

Interim Dividend

The Board has resolved not to declare an interim dividend for 1H2021 (1H2020: Nil).

Significant Investment Held, Material Acquisition and Disposal

Between 29 and 30 June 2020, Huzhou Baiyin, an indirect wholly-owned subsidiary under CS Mall Group, entered into a termination agreement with the Committee and Huzhou Municipal Bureau of Natural Resources and Planning (湖州市自然資源和規劃局)(the “**Bureau**”), and a compensation agreement with the Committee, pursuant to which (a) the Committee and the Bureau agreed to terminate the Acquisition; and (b) the Committee agreed to (i) refund the deposits received amounting to approximately RMB270.9 million; (ii) compensate Huzhou Baiyin for the capital expenditure and other expenses incurred by the Group in connection with the exploration, design and construction works on the land; and (iii) compensate Huzhou Baiyin for certain taxes paid by another indirect wholly-owned subsidiary under CS Mall Group.

Up to 31 December 2020, the Group paid an aggregate amount of approximately RMB232.5 million of deposits and other direct costs of approximately RMB26.7 million in relation to the Acquisition. Deposits of approximately RMB245.6 million were received by the Group during the year ended 31 December 2020 and a refundable amount of approximately RMB25.3 million was accounted as other receivables at 31 December 2020. Respective net loss on termination of assignment contract in relation to the Acquisition of approximately RMB26.7 million was recognised in the condensed consolidated statement of profit or loss and other comprehensive income for 1H2020. During 1H2021, a refund of approximately RMB25.3 million has been further received in full.

The Group did not hold any significant investment nor did the Group carry out any material acquisition and disposal during 1H2021.

Significant Events After the Reporting Period

Subsequent to 30 June 2021, in regard to the procurement of Colored Gemstones mentioned under the paragraph headed “Liquidity and Financial Resources” above, the return of part of Colored Gemstones of approximately RMB344.8 million have been completed and the cash refund of approximately RMB284.3 million have been received in full.

On 24 August 2021, the local environmental protection authority notified Jiangxi Longtianyong that, following the adoption of rectification measures by Jiangxi Longtianyong, such as the demolition of non-compliant facilities and construction of compliant facilities, the relevant authorities have approved in principle the resumption of production of Jiangxi Longtianyong’s silver electrolysis production line.

On 29 August 2021, Shenzhen Guojintongbao Company Limited* (深圳國金通寶有限公司) (“**Guojintongbao**”) (a wholly-owned subsidiary of CSMall Group and a non wholly-owned subsidiary of the Company) entered into an acquisition agreement (the “**Acquisition Agreement**”) with Bric (Suzhou) Agriculture Information Technology Co., Ltd.* (布瑞克(蘇州)農業互聯網股份有限公司) (“**Bric**”), pursuant to which Guojintongbao has agreed to acquire, and Bric has agreed to sell, 94% effective ownership in Jiangsu Nongmuren Electronic Business Corp.* (江蘇農牧人電子商務股份有限公司) (“**Nongmuren**”), through a series of contracts (the “**VIE Agreements**”) to be entered into between Guojintongbao, Bric, Nongmuren and certain individual(s) and/or entity(ies) designated by Guojintongbao to hold equity interest in Nongmuren, for a consideration of RMB94,000,000 (equivalent to approximately HK\$112,867,000) to be satisfied by the allotment and issue of 100,000,000 new CSMall Group Shares (the “**Consideration Shares**”).

The Consideration Shares will be allotted and issued under the General Mandate at the issue price of RMB0.94 (equivalent to approximately HK\$1.13) per Consideration Share. The Consideration Shares will, upon issue, represent (i) approximately 8.08% of the issued share capital of CSMall Group as of 29 August 2021; and (ii) approximately 7.47% of the issued share capital of CSMall Group as enlarged by the allotment and issue of the Consideration Shares, subject to the completion of the transactions contemplated under the Acquisition Agreement (the “**Completion**”) and assuming that there will be no change in the issued share capital of CSMall Group save for the allotment and issue of the Consideration Shares.

Pursuant to the Acquisition Agreement, Bric and Nongmuren have conditionally agreed to enter into the VIE Agreements. Upon Completion, the VIE Agreements will allow Guojintongbao to consolidate Nongmuren as a non wholly-owned subsidiary and obtain 94% effective ownership in Nongmuren.

Immediately after the allotment and issue of the Consideration Shares, the percentage shareholding of the Company in CSMall Group will be diluted from approximately 40.39% to approximately 37.37%. It is expected that CSMall Group will be deconsolidated and no longer remain a subsidiary of the Company following completion of the allotment and issue of the Consideration Shares, and will merely be accounted for as an associate of the Company using the equity method. As such, the CSMall Group’s financial results, assets, liabilities and cash flows will no longer be consolidated in the Company’s consolidated financial statements, yet the Company’s approximately 37.37% share of the CSMall Group’s post-tax profits or losses will be recognized as the Company’s income from investments accounted for using the equity method and hence effectively added back to the profits or losses attributable to owners of the Company.

On the basis of the above and that Nongmuren will become a non wholly-owned subsidiary of CSMall Group, it is expected that Nongmuren will be consolidated by CSMall Group and CSMall Group will be accounted for as an associate of the Company using the equity method upon Completion.

Further details are set out in the Company's joint announcement with CSMall Group published on 29 August 2021 as clarified by the joint clarification announcement dated 30 August 2021.

Code of Corporate Governance Practice

The Company is committed to maintaining a high standard of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and responsibility. The Board comprises three executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the “**CG Code**”) set out in Appendix 14 to the Listing Rules. During 1H2021, the Company had complied with the code provisions under the CG Code, except for the following deviations:

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Following the resignation of Mr. Sung Kin Man, former chief executive officer of the Company, on 1 January 2019, Mr. Chen Wantian has served as both the chairman and the chief executive officer of the Company. The Board will continue to review the situation and consider splitting the roles of chairman and chief executive officer of the Company in due course after taking into account of the then overall circumstances of the Group.

Pursuant to code provision A.6.7 of the CG Code, the independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Due to other business engagements, two independent non-executive Directors were unable to attend the annual general meeting held on 15 June 2021.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in the securities of the Company. Having made specific enquiry with all the Directors, all the Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code during 1H2021.

Purchase, Sale or Redemption of the Listed Securities of the Company

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during 1H2021.

Audit Committee

The Audit Committee has reviewed the financial reporting processes, risk management and internal control systems and the unaudited condensed consolidated financial statements for 1H2021 of the Group. The Audit Committee is of the opinion that these statements had complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures had been made.

Acknowledgement

Gratitude is expressed to the management and all of our staff for their hard work and dedication, as well as our shareholders and customers for their continuous support to the Group.

Publication of Interim Results Announcement and Interim Report

This announcement is published on the websites of the Company (www.chinasilver.hk) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The 2021 interim report of the Company will be dispatched to the shareholders of the Company and made available on the same websites in due course.

By order of the Board
China Silver Group Limited
Chen Wantian
Chairman

Hong Kong, 30 August 2021

As at the date of this announcement, the executive directors of the Company are Mr. Chen Wantian, Mr. Song Guosheng and Mr. Liu Jiandong; and the independent non-executive directors of the Company are Mr. Song Hongbing, Dr. Li Haitao and Dr. Zeng Yilong.

* *For identification purpose only*