Silver Base

Silver Base Group Holdings Limited

銀基集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 886)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

The board (the "Board") of directors (the "Directors") of Silver Base Group Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2013, together with the comparative figures for the previous corresponding period as follows:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2013

		For the six months ended 30 September	
		2013	2012
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	4	**113,729**	235,087
Cost of sales		**(191,874)**	(152,283)
Gross profit/(loss)		**(78,145)**	82,804
Other income and gains, net	4	**4,407**	1,077
Selling and distribution expenses		**(106,499)**	(168,515)
Administrative expenses		**(78,771)**	(57,912)
Other expenses, net		**(192)**	–
Loss from impairment		**(491,614)**	(26,434)
Finance costs	5	**(20,968)**	(6,614)
LOSS BEFORE TAX	6	**(771,782)**	(175,594)
Income tax expense	7	**(42)**	(1,531)
LOSS FOR THE PERIOD		**(771,824)**	(177,125)
ATTRIBUTABLE TO:			
ORDINARY EQUITY HOLDERS OF THE COMPANY		**(771,414)**	(177,082)
NON-CONTROLLING INTERESTS		**(410)**	(43)
		(771,824)	(177,125)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (HK cents)	8	**(56.94)**	(14.52)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2013

	For the six months ended 30 September	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Loss for the period	**(771,824)**	(177,125)
OTHER COMPREHENSIVE INCOME/(LOSS):		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**28,270**	(17,395)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(743,554)**	(194,520)
ATTRIBUTABLE TO:		
ORDINARY EQUITY HOLDERS OF THE COMPANY	**(743,144)**	(194,477)
NON-CONTROLLING INTERESTS	**(410)**	(43)
	(743,554)	(194,520)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2013

	Notes	**30 September 2013 (Unaudited)** ***HK$'000***	31 March 2013 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**27,964**	28,423
Investment property		**7,025**	7,129
Intangible asset		**8,300**	8,300
Deposits		**7,279**	7,901
Total non-current assets		**50,568**	51,753
CURRENT ASSETS			
Inventories		**1,123,540**	1,226,588
Trade receivables	9	**4,472**	426,056
Bills receivable	9	**1,434**	96,221
Prepayments, deposits and other receivables		**399,817**	518,866
Tax recoverable		**14,464**	14,464
Pledged deposits		**265,307**	252,142
Cash and cash equivalents		**60,185**	317,357
Total current assets		**1,869,219**	2,851,694
CURRENT LIABILITIES			
Trade payables	10	**167,918**	203,855
Deposits received, other payables and accruals		**238,214**	207,716
Bank advance for discounted bills		**–**	94,967
Interest-bearing bank borrowings		**770,710**	822,960
Due to related parties		**1,798**	–
Due to directors		**1,945**	124,904
Tax payable		**219,312**	215,433
Total current liabilities		**1,399,897**	1,669,835
NET CURRENT ASSETS		**469,322**	1,181,859
Net assets		**519,890**	1,233,612
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	11	**135,475**	135,475
Reserves		**384,796**	1,098,108
		520,271	1,233,583
Non-controlling interests		**(381)**	29
Total equity		**519,890**	1,233,612

NOTES TO UNAUDITED INTERIM FINANCIAL INFORMATION

30 September 2013

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 12 September 2007. The registered office of the Company is located at the office of Codan Trust Company (Cayman) Limited, whose address is 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 located at 27th Floor, Hysan Place, 500 Hennessy Road, Causeway Bay, Hong Kong.

The Group is principally engaged in the distribution of Wuliangye (五糧液) liquor series, National Cellar 1573 baijiu with 43% alcohol content, Kweichow Moutai Chiew products, Fen Wine with 55% alcohol content liquor series, Yaxi Classic liquor series and Old Vintage liquor series, wine, foreign liquor series and Chinese cigarettes.

2.1 BASIS OF PREPARATION

The unaudited interim financial information of the Company, which comprises the condensed consolidated statement of financial position as at 30 September 2013, and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months ended 30 September 2013, and explanatory notes, has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The unaudited interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2013.

Going concern basis

The Group recorded revenue and a consolidated net loss of HK$113,729,000 (period ended 30 September 2012: HK$235,087,000) and HK$771,824,000 (period ended 30 September 2012: HK$177,125,000), respectively, for the six months ended 30 September 2013. The Group's net loss for the period included (i) impairment allowance on trade and bills receivables amounting to HK$437,511,000 (period ended 30 September 2012: HK$26,434,000); (ii) impairment allowance on prepayments and other receivables amounting to HK$53,720,000 (period ended 30 September 2012: Nil); (iii) provision for inventories in respect of write-down to net realisable value amounting to HK$94,944,000 (period ended 30 September 2012: Nil); and (iv) share option expense amounting to HK$29,832,000 (period ended 30 September 2012: HK$15,237,000). These non-cash items had not affected the Group's operating cash flows. The Group had net cash inflows from operating activities of approximately HK$4,820,000 (period ended 30 September 2012: net cash outflows of approximately HK$57,948,000) and net cash outflows used in financing activities of approximately HK$249,965,000 (period ended 30 September 2012: net cash inflows of approximately HK$79,277,000) for the six months ended 30 September 2013.

As at 30 September 2013, the Group recorded net current assets of HK$469,322,000 (31 March 2013: HK$1,181,859,000), which included inventories of HK$1,123,540,000 (31 March 2013: HK$1,226,588,000), trade receivables of HK$4,472,000 (31 March 2013: HK$426,056,000), pledged deposits of HK$265,307,000 (31 March 2013: HK$252,142,000), cash and cash equivalents of HK$60,185,000 (31 March 2013: HK$317,357,000), and outstanding bank loans of HK$770,710,000 (31 March 2013: HK$822,960,000), which were due for repayment or renewal within the next twelve months after 30 September 2013.

In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group implemented or is in the process of implementing the following measures:

(1) *Bank facilities*

Subsequent to 30 September 2013, after the repayment of short-term bank loans of RMB370 million (equivalent to approximately HK$467 million) to banks in the People's Republic of China (the "PRC") in October and November 2013, the Group has successfully obtained a new short-term bank loan of RMB250 million (equivalent to approximately HK$315 million) from a PRC bank in November 2013, which will not be due for repayment within twelve months from the period end date. In addition, the Group is currently in the process of negotiating with two PRC banks to obtain new short-term bank loans in an aggregate amount of RMB100 million (equivalent to approximately HK$126 million) in order to improve the Group's liquidity position.

The Group will actively negotiate with PRC banks for the renewal of the Group's PRC bank borrowings when they fall due to secure necessary facilities to meet the Group's working capital and financial requirements in the near future. The directors of the Company have evaluated all the relevant facts available to them and are of the opinion that there have good track records or relationships with banks which will enhance the Group's ability to renew the Group's PRC bank loans upon expiry.

(2) *Financial support from a substantial shareholder of the Company*

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, Mr. Liang Guoxing ("Mr. Liang"), an executive director and a substantial shareholder of the Company, has agreed to provide continuous financial support to the Group.

(3) *Attainment of profitable and positive cash flow operations*

The Group is taking measures to tighten cost controls over various costs and expenses and to seek new investment and business opportunities with the aim to attain profitable and positive cash flow operations.

Subsequent to 30 September 2013, the Group announced that it would make an investment in an entity which is principally engaged in online sale of winery products in the PRC via the online platform "Zhong Jiu Wang". In the opinion of the directors of the Company, this investment will enhance the Group's online sale and marketing channels for its winery products.

In addition, the Group will actively expand its middle to low-end product lines for the existing national brand in order to enhance market position in the baijiu industry and diversify sources of revenue.

After taking into account the above measures, the directors of the Company consider that the Group will have sufficient working capital to finance its operations and financial obligations as and when they fall due, and accordingly, are satisfied that it is appropriate to prepare the unaudited interim financial information on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts and to provide for any further liabilities which might arise. The effect of these adjustments has not been reflected in this unaudited interim financial information.

2.2 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of this unaudited interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2013, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA for the first time for the current period's unaudited interim financial information:

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 *– Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

Other than as further explained below regarding the impact of amendments to HKAS 1 and HKFRS 13, the adoption of the new and revised HKFRSs has had no significant financial effect on this unaudited interim financial information.

The HKAS 1 Amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point of time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs.

As the carrying amounts of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate to their respective fair values, the adoption of HKFRS 13 has no impact on this unaudited interim financial information. HKFRS 13 has been applied prospectively.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its products and services and has three reportable operating segments as follows:

(i) the distribution of Wuliangye liquor series, National Cellar 1573 baijiu with 43% alcohol content, Kweichow Moutai Chiew products, Fen Wine with 55% alcohol content liquor series, Yaxi Classic liquor series and Old Vintage liquor series, wine and foreign liquor series ("Liquors");

(ii) the distribution of Chinese cigarettes ("Cigarettes"); and

(iii) the investment in a residential apartment for its rental income potential ("Property investment").

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment result, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that interest income, other gains and finance costs are excluded from such measurement.

Six months ended 30 September 2013 (Unaudited)

	Liquors *HK$'000*	**Cigarettes** *HK$'000*	**Property investment** *HK$'000*	**Total** *HK$'000*
Segment revenue:				
Sales to external customers	**103,778**	**9,951**	**–**	**113,729**
Other revenue	**–**	**–**	**23**	**23**
Total	**103,778**	**9,951**	**23**	**113,752**
Segment results	**(750,709)**	**(4,381)**	**(108)**	**(755,198)**
Reconciliation:				
Interest income				**4,292**
Other gains				**92**
Finance costs				**(20,968)**
Loss before tax				**(771,782)**
Other segment information:				
Depreciation	**4,382**	**208**	**104**	**4,694**
Impairment allowance of trade and bills receivables	**437,511**	**–**	**–**	**437,511**
Impairment allowance of prepayments and other receivables	**53,720**	**–**	**–**	**53,720**
Impairment loss on items of property, plant and equipment	**383**	**–**	**–**	**383**
Loss on disposal of items of property, plant and equipment	**431**	**–**	**–**	**431**
Provision for inventories in respect of write-down to net realisable value	**94,944**	**–**	**–**	**94,944**
Capital expenditure*	**4,599**	**107**	**–**	**4,706**

* Capital expenditure consists of additions to items of property, plant and equipment.

Six months ended 30 September 2012 (Unaudited)

	Liquors *HK$'000*	Cigarettes *HK$'000*	Property investment *HK$'000*	Total *HK$'000*
Segment revenue:				
Sales to external customers	218,393	16,694	–	235,087
Other revenue	–	–	22	22
Total	218,393	16,694	22	235,109
Segment results	(168,122)	(1,429)	(107)	(169,658)
Reconciliation:				
Interest income				351
Other gains				327
Finance costs				(6,614)
Loss before tax				(175,594)
Other segment information:				
Depreciation	3,062	106	105	3,273
Impairment allowance of trade and bills receivables	26,434	–	–	26,434
Capital expenditure*	19,763	1,438	–	21,201

* Capital expenditure consists of additions to items of property, plant and equipment.

4. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of other income and gains, net is as follows:

	For the six months ended 30 September	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Bank interest income	**4,292**	351
Gross rental income	**23**	22
Foreign exchange differences, net	**–**	377
Others	**92**	327
	4,407	1,077

5. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 September	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on discounted bills	**–**	3,616
Interest on bank loans and trust receipt loans wholly repayable within five years	**20,968**	2,998
	20,968	6,614

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	For the six months ended 30 September	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation:		
Property, plant and equipment	**4,590**	3,168
Investment property	**104**	105
	4,694	3,273
Cost of inventories sold**	**96,930**	152,283
Impairment allowance of trade and bills receivables*	**437,511**	26,434
Impairment allowance of prepayments and other receivables*	**53,720**	–
Impairment loss on items of property, plant and equipment*	**383**	–
Loss on disposal of items of property, plant and equipment	**431**	–
Provision for inventories in respect of write-down to net realisable value**	**94,944**	–

* Included in "Loss from impairment" on the face of the interim condensed consolidated income statement.

** Included in "Cost of sales" on the face of the interim condensed consolidated income statement.

7. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (period ended 30 September 2012: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	For the six months ended 30 September	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current:		
Elsewhere	**42**	1,255
Deferred	**–**	276
Total tax charge for the period	**42**	1,531

8. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share amount is based on the loss for the period attributable to ordinary equity holders of the Company of HK$771,414,000 (period ended 30 September 2012: HK$177,082,000) and the number of ordinary shares of 1,354,749,997 (period ended 30 September 2012: 1,219,749,997) in issue during the period.

No adjustment has been made to the basic loss per share amount presented for the six months ended 30 September 2013 in respect of a dilution as the share options outstanding had no dilutive effect on the basis loss per share amount presented.

No adjustment has been made to the basic loss per share amount presented for the six months ended 30 September 2012 in respect of a dilution as the share options outstanding had an anti-dilutive effect on the basic loss per share amount presented.

9. TRADE AND BILLS RECEIVABLES

	30 September 2013 (Unaudited) ***HK$'000***	31 March 2013 (Audited) *HK$'000*
Trade receivables	**984,499**	968,673
Impairment allowance#	**(980,027)**	(542,617)
	4,472	426,056
Bills receivable	**6,983**	101,669
Impairment allowance#	**(5,549)**	(5,448)
	1,434	96,221
	5,906	522,277

Included in the impairment allowance of trade and bills receivables is a provision for impaired trade and bills receivables in aggregate of HK$985,576,000 (31 March 2013: HK$548,065,000) with a carrying amount before provision in aggregate of HK$988,671,000 (31 March 2013: HK$938,544,000). The impairment allowance was recognised based on the Group's best estimate of amounts that are potentially uncollectible. This determination requires significant judgement. In making such judgement, the Group evaluates, among certain economic factors specific to each customer and other factors, the historical and current period payment pattern and creditworthiness of each customer, the default rates of current period and prior years, aging of receivables balances, and the latest communication with individual customers. The Group has launched a series of plans to communicate with individual customers and manage the credit risk of the customers. Management will closely monitor and continue to pursue collection of those receivables.

The Group normally allows a credit period of not more than 3 months to its customers except for certain identified major customers where longer credit terms may be granted upon approval by the management. The credit terms of bills receivable are generally 2 months to 6 months. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Over 72% (31 March 2013: 81%) of the trade and bills receivables balance represented receivables from five customers. The Group does not hold any collateral or other credit enhancement over its trade and bills receivables balances. Trade and bills receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	30 September 2013 (Unaudited) ***HK$'000***	31 March 2013 (Audited) *HK$'000*
Within 2 months	**2,689**	93,029
2 months to 6 months	**122**	8,233
6 months to 1 year	**–**	30,199
Over 1 year	**3,095**	390,816
	5,906	522,277

Included in the above trade and bills receivables as at 30 September 2013, nil (31 March 2013: HK$94,967,000) was discounted to banks in exchange for cash and included as "Bank advance for discounted bills" on the face of the interim condensed consolidated statement of financial position.

10. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 September 2013 (Unaudited) ***HK$'000***	31 March 2013 (Audited) *HK$'000*
Within 1 month	**–**	98,588
Over 3 months	**167,918**	105,267
	167,918	203,855

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

11. **SHARE CAPITAL**

	30 September 2013 (Unaudited) *HK$'000*	31 March 2013 (Audited) *HK$'000*
Authorised:		
100,000,000,000 (31 March 2013: 100,000,000,000) ordinary shares of HK$0.1 each	**10,000,000**	10,000,000
Issued and fully paid:		
1,354,749,997 (31 March 2013: 1,354,749,997) ordinary shares of HK$0.1 each	**135,475**	135,475

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

In 2013, with the implementation of Chinese government's economic strategies of "Structural Adjustment" and "Transformation and Upgrade", the Chinese economy has entered a phase of steady growth. For the first half of 2013, China's gross domestic product (GDP) increased by 7.6% year-on-year, representing a decrease of approximately 0.2 percentage point as compared to the same period last year. During the period under review, affected by the economic slowdown and multiple policies introduced by the PRC government to promote frugality, the operating environment of the PRC high-end retail market and baijiu industry have faced many challenges.

For the six months ended 30 September 2013, the Group recorded a total revenue of HK$113.7 million, representing a decrease of 51.6% compared to a total revenue of HK$235.1 million for the six months ended 30 September 2012. Loss attributable to ordinary equity holders of the Company was HK$771.4 million (corresponding period in 2012: HK$177.1 million). Loss per ordinary share was HK$0.5694 (corresponding period in 2012: HK$0.1452).

For the six months ended 30 September 2013, revenue derived from the PRC market accounted for 16.3% of the Group's total revenue (corresponding period in 2012: 37.1%), while revenue from the international market accounted for 83.7% of the total revenue (corresponding period in 2012: 62.9%).

Baijiu Business

With the relative slowdown of China's economic growth, the growth rate of China's overall consumption has also been relatively sluggish. According to National Bureau of Statistics of China, from January to August 2013, the total retail sales of consumer goods in China's urban area grew by 12.6% year-on-year, representing a decline of 1.7 percentage points compared to 14.3% for the corresponding period in 2012; the national total retail sales of consumer goods increased by 12.8% year-on-year, representing a decline of 1.3 percentage points compared to 14.1% for the corresponding period in 2012.

Since the Chinese New Year in 2012, the PRC baijiu industry has gradually entered a period of adjustment, and the high-end baijiu sector experienced the fastest slowdown in particular. The Group's operation was affected adversely by the rapidly deteriorated operating environment of the baijiu industry. The traditional low season of the PRC baijiu industry lasts from the end of Chinese New Year to the month before Mid-autumn Festival, during which the distributors' interests in procurement and stocking are generally low. With a continued sluggish high-end baijiu market, and a series of policies introduced by the Chinese central government to promote frugality, the market demand of high-end baijiu decreased further. Accordingly, even during the traditional peak season of the Mid-Autumn Festival and National Day, the distributors were still not eager to procure additional baijiu; this also affected the Group's sales performance significantly during the period under review.

Given the adjustment of the industry, and the structural changes of mass and commercial consumption gradually replacing government consumption to become the dominant support of the baijiu market, the Group has actively adjusted its operation strategy in response to the new consumption trend in the baijiu market during the period under review. On one hand, the Group has further implemented its middle and low-end product expansion strategy by introducing a number of middle and low-end baijiu products of the existing national brands which have high consumer awareness and quality assurance, in order to increase market share in the mass and commercial markets. On the other hand, the Group has streamlined its existing channels to the third- and fourth-tier cities to support the sales strategy of its middle and low-end products. During the period under review, the Group has not only actively developed new middle and low-end products of Guizhou Yaxi Cellar, but has also launched the Red Fen Shijia series jointly with 山西杏花村汾酒銷售有限責任公司 (Shanxi Xinghuacun Fenjiu Marketing Co., Ltd.). However, since the middle and low-end baijiu products were still in the introduction stage, they did not contribute substantially to our revenue during the period under review.

Furthermore, during the period, the Group continued to implement its product diversification strategy by obtaining the distribution right to sell 貴州茅台酒 (Kweichow Moutai Chiew) products to group purchase customers in Guangdong Province as well as at Wine Kingdom image stores of the Group. This has further enriched the Group's product portfolio of its sales network.

Wine and Cigarettes Businesses

During the period under review, the Group continued to develop the wine and cigarettes businesses steadily. The Group has been closely monitoring changes in the market and adopted an active and pragmatic approach to map out marketing plans for business opportunities developments.

E-commerce Business and Image Chain-Store

With the rise of the liquor e-commerce market, the Group has been continuously seeking for opportunities and exploring new operating models; it has initiated e-commerce cooperation with a number of large websites and banks in recent years. To further expand its online sales channels and e-commerce business, the Group announced its strategic investment in 中酒時代酒業(北京)有限公司 (Zhongjiu Shidai Winery (Beijing) Co., Ltd.) ("Zhongjiu Shidai Winery") on 3 November 2013. "Zhong Jiu Wang" (www.zhongjiu.cn), operated by Zhongjiu Shidai Winery is the first liquor online-offline sales platform in China. Zhong Jiu Wang integrated the offline market opportunities with the e-commerce market potential through a four-in-one operational model of "offline chain store + mobile-commerce + open platform + group distribution". The Group believes that the cooperation with Zhong Jiu Wang will not only supplement the Group's existing sales channels, but also further optimise the Group's business philosophy of "Unity of traditional channel, e-commerce and chain stores".

During the period under review, the Group consolidated certain resources after careful assessments on the operating performances of the image stores of authorised distributors, including rationalising the image chain-stores network. For the six months ended 30 September 2013, there were more than 300 Wine Kingdom image stores and authorised image stores.

OUTLOOK AND FUTURE DEVELOPMENT

As the PRC baijiu industry continues to adjust, the previous high-growth model of the high-end baijiu which has benefited from government spending will no longer exist and the baijiu market will gradually become more rational. Although the high-end baijiu sector is going through the most difficult time, the impact on the sales of middle and low-end baijiu products was relatively small as they were supported by mass and commercial consumption. According to National Bureau of Statistics of China, for the first six months of 2013, the sales of high-end baijiu fell by 37.8% compared to the corresponding period last year, while the sales of middle and low-end baijiu increased by 12.3% compared to the corresponding period last year.

The Chinese baijiu culture has well-established and long standing history. Baijiu has become the essential consumable item for wedding feasts, family dinners, friend gatherings and business entertainments. In addition, with the rapid development of urbanisation in China, the consumption power and living standards of Chinese citizens continue to improve, which result in the continuous growth in baijiu sales due to more frequent business activities. The outlook of the long-term development of the PRC baijiu industry remains bright, and the middle and low-end baijiu supported by the mass and commercial markets will become the primary growth momentum for the sustainable development in the future baijiu industry.

In response to the industry adjustment and market changes, the Group will strive to improve its operational performance by actively adjusting and optimising its product and channel strategies, while continue to enhance the capabilities of its own sales team. In respect of products, the Group will further enhance the product structure by speeding up the introduction of the new middle and low-end products to the market while promoting and enhancing its existing products. As for sales channels, with continuous efforts in maintaining and developing its existing channels, the Group will further penetrate into downward distribution channels and streamline the multi-layered sales channels in order to improve operational efficiency and reduce operating costs, with a view to improve product competitiveness in the end market. Meanwhile, the Group will further expand the e-commerce sales channels to better supplement its traditional sales channels. Furthermore, under the situation of a more intensely competitive market and during a period of in-depth adjustment of the baijiu industry, the Group will allocate resources in a more targeted and prudent manner, adopt more conservative financial management and more stringent costs control policies, strive for the best practices in every aspect of management, in order to grasp new development opportunities of the baijiu industry.

FINANCIAL REVIEW

Revenue and Gross Profit

The Group generates revenue primarily by selling high-end liquors. For the six months ended 30 September 2013, the Group recorded a total revenue of HK$113.7 million, representing a decrease of 51.6% compared to a total revenue of HK$235.1 million for the six months ended 30 September 2012. For the six months ended 30 September 2013, 16.3% of revenue was derived from the PRC market (corresponding period in 2012: 37.1%). The substantial decrease in revenue was affected by the downward adjustment in high-end baijiu industry during the period.

The Group's revenue derived from the distribution of liquors represented 91.3% of the total revenue for the six months ended 30 September 2013 (corresponding period in 2012: 92.9%) while the revenue derived from the distribution of cigarettes represented 8.7% of the total revenue for the six months ended 30 September 2013 (corresponding period in 2012: 7.1%).

The Group's gross loss for the six months ended 30 September 2013 was HK$78.1 million (corresponding period in 2012: gross profit of HK$82.8 million). The decrease in gross profit was mainly due to the reduction of selling price, the increase in the purchase costs and the provision of inventories in respect of write-down to net realisable value in accordance with the Group's plan to offer discount on certain products to enhance the clearance of the Group's inventories. Excluding the factor of provision for inventories, the Group's gross profit for the six months ended 30 September 2013 was HK$16.8 million, the gross profit ratio before provision for inventories was 14.8% (corresponding period in 2012: 35.2%).

Other Income and Gains, Net

Other income and gains, net amounted to HK$4.4 million for the six months ended 30 September 2013 (corresponding period in 2012: HK$1.1 million). Such increase was mainly due to the increase in bank interest income.

Selling and Distribution Expenses

Selling and distribution expenses mainly comprise salaries and welfare related to sales and marketing personnel, advertising and promotional expenses, transportation costs, rental expenses and miscellaneous expenses related to sales.

Selling and distribution expenses amounted to HK$106.5 million (corresponding period in 2012: HK$168.5 million) accounting for 93.6% (corresponding period in 2012: 71.7%) of the revenue of the Group for the six months ended 30 September 2013. Such decrease was mainly due to the decrease in sales and marketing personnel, advertising and promotional expenses.

Administrative Expenses

Administrative expenses mainly comprised of salaries and welfare, office rental expenses, professional fees and other administrative expenses.

Administrative expenses amounted to HK$78.8 million (corresponding period in 2012: HK$57.9 million) accounting for 69.3% (corresponding period in 2012: 24.6%) of the revenue of the Group for the six months ended 30 September 2013. The increase was mainly due to the increase in office rental expenses and share option expense.

Other Expenses, Net

Other expenses, net amount to HK$0.2 million (corresponding period in 2012: Nil) for the six months ended 30 September 2013. The other expenses, net was net amount of foreign exchange difference.

Loss From Impairment

Loss from impairment amount to HK$491.6 million (corresponding period in 2012: HK$26.4 million) for six months ended 30 September 2013. The loss from impairment mainly comprise impairment allowances of trade receivables, bills receivable, prepayments and other receivables and impairment loss on items of property, plant and equipment.

Finance Costs

Finance costs amounted to HK$21.0 million (corresponding period in 2012: HK$6.6 million) representing 18.4% (corresponding period in 2012: 2.8%) of the Group's revenue for the six months ended 30 September 2013. The finance costs include interest on discounted bills, trust receipt loans and short-term bank loans. Such increase was mainly due to the increase in bank loan interest.

Loss Attributable to Ordinary Equity Holders of the Company

Taking into account of the aforementioned, the loss attributable to ordinary equity holders of the Company for the six months ended 30 September 2013 amounted to HK$771.4 million (corresponding period in 2012: HK$177.1 million).

Dividends

The Company did not pay any interim dividend for the six months ended 30 September 2012 and any final dividend for the year ended 31 March 2013.

The Directors did not recommend the payment of an interim dividend for the six months ended 30 September 2013.

Trade and Bills Receivables

The Group has adopted stringent credit policy. Generally, the customers of the Group shall settle payment obligations in cash or bank's acceptance bill issued by reputable banks before delivery of the goods. The Group also granted a credit period of up to 1 year to some long-term or reliable customers.

The decrease in trade receivables was mainly due to the impairment of trade receivables.

All the Group's distributors have been selected after careful and serious consideration. They generally possess extensive distribution networks, considerable financial strengths and competitive market positions. After a careful assessment of the receivable balance's recoverability by taking into account of the current adverse operating environment, financial conditions of the distributors and aging of the balances, the Group recognised impairment of HK$437.5 million for certain trade and bills receivables in interim condensed consolidated income statement for the six months ended 30 September 2013. Together with impairment of HK$548.1 million made up to the year ended 31 March 2013, total impairment in aggregate of HK$985.6 million had been made as at 30 September 2013.

As at 30 September 2013, the trade and bills receivables net of provision were HK$5.9 million (31 March 2013: HK$522.3 million). 45.5% of the net trade and bills receivables were within two months as at 30 September 2013 (31 March 2013: 17.8%). All bills receivables were issued and accepted by banks.

In the current period, no improvement of the operating environment of high-end baijiu market in the PRC led to the decline in repayment capability of certain customers of the Group who have requested postponement in payment because of their accumulated inventories. Taking into account of the current market conditions and the repayment pattern of the Group's customers during the current period, the Group has further provided impairment provision on the long overdue trade receivables during the current period.

The Group will continue to adopt stringent credit control policy and will apply the following measures to manage and enhance the recoverability of the Group's trade and bills receivables:

(i) close and continuous communication and cooperation between the distributors and our sales managers in strengthening the sales channels and marketing strategies of the Group, which enables clearance of their accumulated inventories and settlements to the Group;

(ii) general assessment on the distributors' financial position before supply of products;

(iii) regular visit and meeting with distributors to discuss about their repayment schedules;

(iv) strengthen the relationships with distributors to better understand their current situation; and

(v) close monitoring of the credit exposure of the Group's distributors and where necessary, entering into of repayment schedule agreement with individual distributors.

Up to the date of this announcement, the Group's subsequent settlement of the trade and bills receivables was approximately HK$5.2 million. In addition, the Group recognised a total revenue of HK$104.0 million subsequently, which had been fully settled.

Trade Payables

As at 30 September 2013, the trade payables was HK$167.9 million (31 March 2013: HK$203.9 million). Such decrease was mainly due to partially settlement of trade payables by the Group during the period.

Inventories

The Group considers that, due to the scarcity of high-end liquors, the future prices of high-end baijiu will continue to rebound.

As at 30 September 2013, the Group's inventories was HK$1,123.5 million (31 March 2013: HK$1,226.6 million). Such decrease was mainly due to the provision of inventories in respect of write-down to net realisable value of HK$94.9 million after taking into account of the Group's plan to offer discount on certain products to enhance the clearance of the Group's inventories. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The Group will introduce business plan, including discount sales activities in order to stimulate the Group's sales, to speed up the inventory movement and to improve the cash inflow of the Group.

Liquidity and Financial Resources

As at 30 September 2013, the Group had cash and cash equivalents of HK$60.2 million (31 March 2013: HK$317.4 million). The decrease in cash and cash equivalents was mainly due to the repayment of bank loans, bank advance for discounted bills and amount due to a director. As at 30 September 2013, the Group's net current assets were HK$469.3 million (31 March 2013: HK$1,181.9 million).

Capital Structure of the Group

The Group's trust receipt loans denominated in United States dollars bore interest at a rate of 9% (31 March 2013: ranging from LIBOR + 2.25% to 8%) per annum. The Group's trust receipt loans as at 30 September 2013 were secured by the Group's pledged bank deposits of HK$65,407,000 (31 March 2013: HK$154,943,000), and were supported by corporate guarantee executed by the Company and guarantee provided by a director and a bank in Mainland China. The Group's bank loans denominated in United States dollars bore interest at the rate ranging from LIBOR + 2.75% to LIBOR + 3% (31 March 2013: LIBOR + 3%) per annum and would be repayable between October 2013 and December 2013 (31 March 2013: December 2013). As at 30 September 2013, the Group's bank loan of HK$94,335,000 (31 March 2013: HK$94,335,000) was secured by the Group's investment property with a carrying value of HK$7,025,000 as at 30 September 2013 (31 March 2013: HK$7,129,000). The Group's bank loans of HK$187,935,000 (31 March 2013: HK$94,335,000) as at 30 September 2013 were secured by the Group's pledged bank deposits of HK$199,900,000 (31 March 2013: HK$97,199,000), and were supported by a corporate guarantee executed by the Company and guarantees provided by banks in Mainland China. The Group's bank loans denominated in RMB were unsecured, bore interest at the rate ranging from PBOC to 115% of PBOC (31 March 2013: ranging from PBOC to 115% of PBOC) per annum and would be repayable between October 2013 and March 2014 (31 March 2013: repayable between April 2013 and March 2014). As at 30 September 2013, the Group's bank loans were supported by corporate guarantees executed by the Company and a subsidiary of the Company.

Up to the date of this announcement, the Group's subsequent repayment of the interest-bearing bank borrowings was approximately HK$592.2 million. The Group has successfully obtained a new short-term bank loan of RMB250.0 million (equivalent to approximately HK$315.3 million) from a PRC bank in November 2013, which will not be due for repayment within twelve months from the period end date. In addition, the Group is currently in the process of negotiating with two PRC banks to obtain new short-term bank loans in an aggregate amount of RMB100.0 million (equivalent to approximately HK$126.1 million) in order to improve the Group's liquidity position.

The Group's monetary assets, liabilities and transactions are principally denominated in Hong Kong dollars and RMB. Revenue derived and operating expenses incurred by the Group's subsidiaries in the PRC are mainly denominated in RMB. The Directors consider that a reasonably possible annual change of 5% in the exchange rate between Hong Kong dollars and RMB would have no material impact on the Group's results and therefore hedging through the use of derivative instruments is considered unnecessary.

The funding and treasury policies of the Group are centrally managed and controlled by the senior management in Hong Kong. The Group's financing activities are managed centrally by maintaining an adequate level of cash and cash equivalents to finance the Group's operations. The Group also ensures the availability of the bank credit facilities to address any short term funding requirements. The Group's cash and bank balances are placed with reputable financial institutions.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank borrowings, trade payables, deposits received, other payables and accruals, amounts due to related parties and amounts due to directors less cash and cash equivalents. Total capital represents equity attributable to the ordinary equity holders of the Company. As at 30 September 2013, the gearing ratio was 68.3% (31 March 2013: 48.0%).

Employment and Remuneration Policy

The Group had a total work force of 422 employees in Hong Kong and the PRC as at 30 September 2013 (31 March 2013: 493 employees). The Group has implemented the remuneration policy, bonus and share option schemes based on the achievements and performance of employees. The Group has also participated in the mandatory provident fund scheme in Hong Kong and the state managed retirement benefit scheme in the PRC. The Group continues to provide training courses for its staff to enable them to achieve self-improvement and to enhance their skill and knowledge.

Share Option Scheme

On 20 February 2009, the Company approved and adopted a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the growth of the Group. Eligible participants of the Share Option Scheme include, but not limited to, employees, Directors and any other eligible persons.

On 3 August 2012, 113,540,000 share options at an exercise price of HK$3.18 per share was granted to certain directors and employees of the Group under the Share Option Scheme. Due to the bonus shares issued by the Company on 31 August 2012, the exercise price of the outstanding share options granted under the Share Option Scheme and the number of shares to be allotted and issued upon full exercise of the outstanding share options were adjusted to HK$3.102 per share and 116,378,500 shares respectively with effect from 31 August 2012. As at 30 September 2013, the Company had 102,643,500 (31 March 2013: 116,378,500) outstanding share options. During the period, 13,735,000 share options were lapsed and no share option was granted, exercised or cancelled.

EXTRACT OF REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

The following is an extract of report on review of interim financial information issued by the Group's independent auditors on the Group's unaudited interim financial statements for the six months ended 30 September 2013:

"CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

EMPHASIS OF MATTER

Without qualifying our conclusion, we draw attention to note 2.1 to the interim financial information which indicates that the Group incurred a consolidated net loss of HK$771,824,000 during the six months ended 30 September 2013, and the Group had net cash inflows from operating activities of approximately HK$4,820,000 and net cash outflows used in financing activities of approximately HK$249,965,000. These conditions, along with other matters as set forth in note 2.1 to the interim financial information, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. As explained in note 2.1 to the interim financial information, the interim financial information has been prepared on a going concern basis, the validity of which is dependent on the Group's ability to extend its short-term borrowings upon maturity, source additional debt financing and refinance its existing indebtedness; and to improve its operation to generate adequate cash flows to meet the Group's financial obligations as and when they fall due in the foreseeable future."

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with the code provisions in the Corporate Governance Code contained in Appendix 14 to the Listing Rules on the Stock Exchange throughout the six months ended 30 September 2013, except for the following deviation:

Under code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Liang currently serves as the chairman and the chief executive officer of the Company. The Board believes that such arrangement is in the best interest of the Company and the Shareholders as a whole since Mr. Liang has substantial experience in sales of Chinese liquor in the PRC market and will strengthen the Group's sales and marketing capabilities. Notwithstanding the above, the Board meets regularly to consider matters relating to business operations of the Group. The Board is of the view that this arrangement will not impair the balance of power and authority of the Board and the executive management of the Company. The effectiveness of corporate planning and implementation of corporate strategies and decisions will not be affected.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 regarding Directors' securities transactions.

Having made specific enquires, all Directors confirmed that they have complied with the standard set out in the Model Code during the six months ended 30 September 2013.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises three members, all of whom are independent non-executive Directors, namely Mr. Hung Sui Kwan who possesses professional accounting qualifications, Mr. Ma Lishan and Mr. Zhang Min. Mr. Hung Sui Kwan is the chairman of the Audit Committee. The Audit Committee has adopted the terms of reference in line with the Corporate Governance Code issued by the Stock Exchange. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting and internal control process.

The Audit Committee along with the management of the Company has reviewed the unaudited interim financial statements for the six months ended 30 September 2013 including the accounting principles and practices adopted by the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities during the six months ended 30 September 2013.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2013 (for the six months ended 30 September 2012: Nil).

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.silverbasegroup.com). The interim report for the six months ended 30 September 2013 containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the aforesaid websites in due course.

By Order of the Board
Silver Base Group Holdings Limited
Liang Guoxing
Chairman

Hong Kong, 29 November 2013

As at the date of this announcement, the Board comprises Mr. Liang Guoxing (Chairman), Mr. Wang Jindong and Ms. Cheung Mei Sze as executive Directors; Mr. Wu Jie Si, Mr. Chen Sing Hung Johnny and Mr. Joseph Marian Laurence Ozorio as non-executive Directors; and Mr. Hung Sui Kwan, Mr. Ma Lishan and Mr. Zhang Min as independent non-executive Directors.

This announcement is prepared in both English and Chinese. In the event of inconsistency, the English text of this announcement shall prevail over the Chinese text.