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 2015

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 2015, together with the comparative figures for the previous corresponding period as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2015

		For the six months ended 30 September	
		2015	2014
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	4	**610,985**	189,164
Cost of sales		**(518,603)**	(137,039)
Gross profit		**92,382**	52,125
Other income and gains, net	4	**10,435**	287
Selling and distribution expenses		**(73,338)**	(93,618)
Administrative expenses		**(47,352)**	(72,038)
Other expenses, net		**(264)**	(3,201)
Write-back of impairment, net		**5,881**	163,901
Finance costs	5	**(14,480)**	(15,222)
PROFIT/(LOSS) BEFORE TAX	6	**(26,736)**	32,234
Income tax credit/(expense)	7	**102,436**	(223)
PROFIT FOR THE PERIOD		**75,700**	32,011
ATTRIBUTABLE TO:			
ORDINARY EQUITY HOLDERS OF THE COMPANY		**75,846**	32,183
NON-CONTROLLING INTERESTS		**(146)**	(172)
		75,700	32,011
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic (HK cents)	8	**5.42**	2.38
Diluted (HK cents)	8	**5.31**	2.38

Details of dividends are disclosed in note 12.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2015

	For the six months ended 30 September	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit for the period	**75,700**	32,011
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	**(29,951)**	690
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**(29,951)**	690
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**(29,951)**	690
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**45,749**	32,701
ATTRIBUTABLE TO:		
ORDINARY EQUITY HOLDERS OF THE COMPANY	**45,895**	32,873
NON-CONTROLLING INTERESTS	**(146)**	(172)
	45,749	32,701

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 September 2015

	Notes	**30 September 2015 (Unaudited)** *HK$'000*	31 March 2015 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**9,168**	12,829
Investment property		**–**	6,711
Intangible asset		**8,300**	8,300
Deposits		**2,074**	3,277
Total non-current assets		**19,542**	31,117
CURRENT ASSETS			
Inventories		**671,299**	758,305
Trade receivables	9	**42,915**	1,155
Bills receivable	9	**72,268**	74,613
Prepayments, deposits and other receivables		**418,103**	366,263
Pledged deposit		**–**	15,150
Cash and cash equivalents		**123,253**	170,058
Total current assets		**1,327,838**	1,385,544
CURRENT LIABILITIES			
Trade payables	10	**3,031**	3,857
Deposits received, other payables and accruals		**145,058**	168,254
Bank advance for discounted bills		**40,204**	73,540
Interest-bearing bank and other borrowings		**278,991**	453,897
Due to related parties		**160**	4,313
Due to directors		**22,160**	28,872
Tax payable		**65,624**	171,954
Total current liabilities		**555,228**	904,687
NET CURRENT ASSETS		**772,610**	480,857
TOTAL ASSETS LESS CURRENT LIABILITIES		**792,152**	511,974
NON-CURRENT LIABILITY			
Bond payables		**13,320**	–
Net assets		**778,832**	511,974
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	11	**151,521**	134,921
Reserves		**628,451**	378,047
		779,972	512,968
Non-controlling interests		**(1,140)**	(994)
Total equity		**778,832**	511,974

NOTES TO UNAUDITED INTERIM FINANCIAL INFORMATION

30 September 2015

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 Room 1802-03, 18th Floor, Far East Finance Centre, 16 Harcourt Road, 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, Red Fen Shijia 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 2015, and the related condensed consolidated statement of profit or loss, 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 2015, 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 on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

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 2015.

Going concern basis

The Group recorded revenue and a consolidated loss before tax of HK$610,985,000 (period ended 30 September 2014: HK$189,164,000) and HK$26,736,000 (period ended 30 September 2014: consolidated profit before tax of HK$32,234,000), respectively, for the six months ended 30 September 2015. Excluding the write-back of impairment, net of HK$5,881,000, the Group recorded a consolidated loss before tax of HK$32,617,000 for the period, which included (i) provision for inventories in respect of write-down to net realisable value amounting to HK$16,547,000 (period ended 30 September 2014: HK$8,436,000); and (ii) share option expense amounting to HK$9,090,000 (period ended 30 September 2014: HK$31,796,000). These non-cash items had not affected the Group's operating cash flows. The Group had net cash outflows used in operating activities of approximately HK$90,991,000 (period ended 30 September 2014: HK$57,347,000) for the six months ended 30 September 2015.

As at 30 September 2015, the Group recorded net current assets of HK$772,610,000 (31 March 2015: HK$480,857,000), which included inventories of HK$671,299,000 (31 March 2015: HK$758,305,000), trade receivables of HK$42,915,000 (31 March 2015: HK$1,155,000), cash and cash equivalents of HK$123,253,000 (31 March 2015: HK$170,058,000), and outstanding bank and other loans of HK$278,991,000 (31 March 2015: HK$453,897,000), which were due for repayment or renewal within the next twelve months after 30 September 2015.

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*

The Group will actively negotiate with banks in the People's Republic of China ("**PRC**") 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.

In order to enhance the Group's online sale and marketing channels for its winery products, the Group has entered into various service agreements with certain e-commerce platform service providers, and operated an online store.

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 2015, 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:

Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs

The adoption of the new and revised HKFRSs has had no significant financial effect on this unaudited interim financial information.

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, Red Fen Shijia 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 profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, other gains and finance costs are excluded from such measurement.

Six months ended 30 September 2015 (Unaudited)

	Liquors	Cigarettes	Property investment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:				
Sales to external customers	**609,405**	**1,580**	**–**	**610,985**
Gain on disposal of an investment property	**–**	**–**	**10,306**	**10,306**
Total	**609,405**	**1,580**	**10,306**	**621,291**
Segment results	**(23,083)**	**606**	**10,092**	**(12,385)**
Reconciliation:				
Interest income				**129**
Finance costs				**(14,480)**
Loss before tax				**(26,736)**
Other segment information:				
Depreciation	**5,370**	**12**	**17**	**5,399**
Loss on disposal of items of property, plant and equipment	**691**	**–**	**–**	**691**
Write-back of impairment allowance of trade and bills receivables	**(7,212)**	**–**	**–**	**(7,212)**
Impairment allowance of prepayments and other receivables	**1,850**	**–**	**–**	**1,850**
Write-back of impairment allowance of prepayments and other receivables	**(519)**	**–**	**–**	**(519)**
Provision for inventories in respect of write-down to net realisable value	**16,547**	**–**	**–**	**16,547**
Capital expenditure*	**2,668**	**–**	**–**	**2,668**

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

Six months ended 30 September 2014 (Unaudited)

	Liquors *HK$'000*	Cigarettes *HK$'000*	Property investment *HK$'000*	Total *HK$'000*
Segment revenue:				
Sales to external customers	178,795	10,369	–	189,164
Other revenue	–	–	24	24
Total	178,795	10,369	24	189,188
Segment results	47,749	(446)	(110)	47,193
Reconciliation:				
Interest income				136
Other gains				127
Finance costs				(15,222)
Profit before tax				32,234
Other segment information:				
Depreciation	4,594	92	104	4,790
Loss on disposal of items of property, plant and equipment	4	–	–	4
Impairment allowance of trade and bills receivables	504	–	–	504
Write-back of impairment allowance of trade and bills receivables	(155,234)	–	–	(155,234)
Impairment allowance of prepayments and other receivables	114	–	–	114
Write-back of impairment allowance of prepayments and other receivables	(9,285)	–	–	(9,285)
Provision for inventories in respect of write-down to net realisable value	8,436	–	–	8,436
Capital expenditure*	820	–	–	820

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

4. REVENUE, OTHER INCOME AND GAINS, NET

Revenue 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	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Gain on disposal of an investment property	**10,306**	–
Bank interest income	**129**	136
Gross rental income	**–**	24
Others	**–**	127
	10,435	287

5. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 September	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on discounted bills	**1,516**	1,435
Interest on bank and other loans and trust receipt loans wholly repayable within five years	**12,178**	13,787
Interest on bond payables	**353**	–
Others	**433**	–
	14,480	15,222

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	For the six months ended 30 September	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation:		
Property, plant and equipment	**5,382**	4,686
Investment property	**17**	104
	5,399	4,790
Cost of inventories sold**	**502,056**	128,603
Loss on disposal of items of property, plant and equipment	**691**	4
Impairment allowance of trade and bills receivables*	**–**	504
Write-back of impairment allowance of trade and bills receivables*	**(7,212)**	(155,234)
Impairment allowance of prepayments and other receivables*	**1,850**	114
Write-back of impairment allowance of prepayments and other receivables*	**(519)**	(9,285)
Provision for inventories in respect of write-down to net realisable value**	**16,547**	8,436
Foreign exchange differences, net	**264**	2,760

* Included in "Write-back of impairment, net" on the face of the interim condensed consolidated statement of profit or loss.

** Included in "Cost of sales" on the face of the interim condensed consolidated statement of profit or loss.

7. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group has available tax losses brought forward from prior years to offset the assessable profits for the period. During the six months ended 30 September 2014, no provision for Hong Kong profits tax had been made as the Group did not generate any assessable profits arising in Hong Kong during that period. Taxes on profits assessable elsewhere for the six months ended 30 September 2014 had been calculated at the rates of tax prevailing in the countries or jurisdictions in which the Group operated.

	For the six months ended 30 September	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Elsewhere		
Charge for the period	**–**	223
Overprovision in prior years	**(102,436)**	–
Total tax charge/(credit) for the period	**(102,436)**	223

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

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the Company of HK$75,846,000 (period ended 30 September 2014: HK$32,183,000), and the weighted average number of the ordinary shares of 1,399,096,707 (period ended 30 September 2014: 1,354,325,866) in issue during the period.

The calculation of the diluted earnings per share amount presented for the six months ended 30 September 2015 is based on the profit for the period attributable to ordinary equity holders of the Company of HK$75,846,000 (period ended 30 September 2014: HK$32,183,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment had been made to the basic earnings per share amount presented for the six months ended 30 September 2014 in respect of a dilution as the share options outstanding had no dilutive effect on the basic earnings per share amount presented for the six months ended 30 September 2014.

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 September	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the Company	**75,846**	32,183

	Number of shares For the six months ended 30 September	
	2015	2014
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,399,096,707**	1,354,325,866
Effect of dilution		
Weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period	**29,774,513**	N/A
	1,428,871,220	1,354,325,866

9. TRADE AND BILLS RECEIVABLES

	30 September 2015 (Unaudited) *HK$'000*	31 March 2015 (Audited) *HK$'000*
Trade receivables	**242,959**	208,216
Impairment allowance#	**(200,044)**	(207,061)
	42,915	1,155
Bills receivable	**77,628**	80,168
Impairment allowance#	**(5,360)**	(5,555)
	72,268	74,613
	115,183	75,768

Included in the impairment allowance of trade and bills receivables is a provision for impaired trade and bills receivables in aggregate of HK$205,404,000 (31 March 2015: HK$212,616,000) with a carrying amount before provision in aggregate of HK$205,404,000 (31 March 2015: HK$212,661,000). 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 3 months to 12 months. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Over 35% of the trade and bills receivables balance as at 30 September 2015 represented receivables from five customers. As at 31 March 2015, in view of the fact that the Group's trade and bills receivables relate to a number of diversified customers, there was no significant concentration of credit risk. 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 2015 (Unaudited)	31 March 2015 (Audited)
	HK$'000	*HK$'000*
Within 2 months	**103,398**	38,471
2 months to 6 months	**11,785**	37,180
6 months to 1 year	**–**	69
Over 1 year	**–**	48
	115,183	75,768

Included in the above trade and bills receivables as at 30 September 2015, amounts totalling HK$40,204,000 (31 March 2015: HK$73,540,000) were 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 2015 (Unaudited)	31 March 2015 (Audited)
	HK$'000	*HK$'000*
1 month to 3 months	**–**	716
Over 3 months	**3,031**	3,141
	3,031	3,857

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

11. SHARE CAPITAL

	Note	**30 September 2015 (Unaudited)** *HK$'000*	31 March 2015 (Audited) *HK$'000*
Authorised:			
100,000,000,000 (31 March 2015: 100,000,000,000) ordinary shares of HK$0.1 each		**10,000,000**	10,000,000
Issued and fully paid:			
1,515,205,997 (31 March 2015: 1,349,205,997) ordinary shares of HK$0.1 each	(a)	**151,521**	134,921

Notes:

(a) On 27 July 2015, the Company entered into a placing agreement with a placing agent, pursuant to which the Company has agreed to place up to 276,493,999 new ordinary shares of the Company of HK$0.1 each through the placing agent at HK$1.31 per share.

On 7 August 2015, 166,000,000 ordinary shares of HK$0.1 each were issued for cash at HK$1.31 per share pursuant to the placing agreement dated 27 July 2015 for a total cash consideration, before related expenses, of HK$217,460,000.

During the six months ended 30 September 2014, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited. All ordinary shares repurchased during the six months ended 30 September 2014 were cancelled, and the issued share capital of the Company was reduced by the par value of the repurchased ordinary shares so cancelled. The premium of HK$5,060,000 paid for the repurchase of the ordinary shares was charged to the share premium account. An amount equivalent to the par value of the ordinary shares cancelled was transferred to the capital redemption reserve as set out in the consolidated statement of changes in equity.

12. DIVIDENDS

The Board did not recommend the payment of an interim dividend for the six months ended 30 September 2015 (2014: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

For the six months ended 30 September 2015, the Group recorded a total revenue of approximately HK$611.0 million, representing an increase of 223.0% compared to a total revenue of approximately HK$189.2 million for the six months ended 30 September 2014. During the period under review, profit attributable to ordinary equity holders of the Company was approximately HK$75.8 million (corresponding period in 2014: HK$32.2 million). Basic earnings per ordinary share was HK$0.0542 (corresponding period in 2014: HK$0.0238).

For the six months ended 30 September 2015, revenue derived from the PRC market accounted for 30.0% of the Group's total revenue (corresponding period in 2014: 40.4%), while revenue derived from the international market accounted for 70.0% of the total revenue (corresponding period in 2014: 59.6%).

Baijiu Business

In the first half of 2015, there were significant changes in baijiu industry. Prices of high-end baijiu such as Moutai and Wuliangye remained stable as their present prices have been recognised by the market. Moutai and Wuliangye products have become the top choice for business dinners, gatherings, gifts and family consumption. The operating income and net profit of Moutai and Wuliangye recorded increases in the third quarter of this year compared with the corresponding period of last year. The brand value of Moutai and Wuliangye products is becoming more prominent in the baijiu industry. The rational price fall of Moutai and Wuliangye products have squeezed the rooms of the second-tier and third-tier brands in the baijiu market. As a result, some of the consumers who used to support second-tier and third-tier brands baijiu have turned to Moutai and Wuliangye products. This change in consumption pattern is consistent with the consumption upgrade in the market of Mainland China. Expected by industry professionals, the current differentiation phenomenon will be going on in the baijiu industry. Moutai and Wuliangye products will grow mildly and the baijiu market of those second-tier and third-tier brands will continue to shrink.

With the gradual recovery of the market, mass and commercial consumptions have become a driving force for developing the whole baijiu industry. As Moutai and Wuliangye products and low-end baijiu consumed by mass public have clear market position and stable consumer group, their future development will be more promising than that of the middle-end baijiu, which has numerous market players and unclear market position and demographic.

During the period under review, the revenue of the Group exceeded that of the last whole financial year due to the above factors.

During the period under review, the inventory level in the market channels has become reasonable. Situation of stocking up by distributors became rare. These will bring positive impacts for the healthy development of the industry.

In order to respond to the market change, the Group proactively adjusted the product structure, distribution network, sales team and optimised the operation management. The effects of all of these actions began apparent in the period under review. The Group will continue to stabilise the current product structure, distribution network and sales team.

During the period under review, the Group's self-operated e-commerce website – pinhui001.com has initiated online operation. The Group will proactively explore the ways of operating e-commerce website, targeted to be the leading wine website in Mainland China.

Wine and Cigarettes Businesses

During the period under review, the Group has recognised the future room for development in the wine market and will enthusiastically develop wine business. The revenue from the cigarettes business for the period under review recorded a decrease as compared to that for the corresponding period in the previous year.

E-commerce Business

The e-commerce has developed rapidly in recent years. Therefore, the Group has carried out a comprehensive collaboration with all domestic major online shopping platforms such as Jingdong Mall, Yihaodian, T-mall, Vip.com, mall.icbc.com.cn, Shunfeng Heike and Amazon.com in the previous year. The Group has also cooperated with more than 10 TV shopping channels in Mainland China, extensively covered those domestic e-commerce sales channels. The Group promotes and sells its products via an extensive e-commerce sales network, taking advantage of the synergy therefrom, in order to achieve diversified sales channels and market layout.

Outlook and Future Development

During the period under review, the Group's operating condition has been fundamentally improved due to strong rebound in the Group's sales as well as the completion of appropriate financing in the capital market.

Looking forward to the second half of 2015, with the clearer picture of baijiu market's development and the ending of destocking, the retail price of high-end baijiu remains stable; sales of high and low-end baijiu resume significantly; baijiu industry begins to structure out from the bottom of the industry cycle, and the operating environment of high and low-end baijiu will be further improved.

Following the gradual recovery of baijiu market, high and low-end baijiu have become major consumer products in baijiu market. The Group expects the consumption upgrade in Mainland China will bring more room for the development of Moutai and Wuliangye products.

The Group will continue to adopt a proactive, practical and prudent approach to enhance its competitiveness by continuously optimising its product development, channel development and operational management; and attract more potential customers or consumers group. In respect of operation management, the Group will continue to strengthen internal control and maintain healthy financial fundamentals in order to achieve sustainable development and eventually reward shareholders, employees and customers for their continuous support.

FINANCIAL REVIEW

Revenue and Gross Profit

The Group generates its revenue primarily from sales of high-end liquors. For the six months ended 30 September 2015, the Group recorded a total revenue of approximately HK$611.0 million, representing an increase of approximately 223.0% compared to the total revenue of approximately HK$189.2 million for the six months ended 30 September 2014. For the six months ended 30 September 2015, approximately 30.0% of revenue was derived from the PRC market (corresponding period in 2014: 40.4%).

The Group's revenue derived from the distribution of liquors represented approximately 99.7% of the total revenue for the six months ended 30 September 2015 (corresponding period in 2014: 94.5%) while the revenue derived from the distribution of cigarettes represented approximately 0.3% of the total revenue for the six months ended 30 September 2015 (corresponding period in 2014: 5.5%).

The Group's gross profit for the six months ended 30 September 2015 approximately was HK$92.4 million (corresponding period in 2014: HK$52.1 million). The decrease in gross profit ratio was mainly due to the lowering of the selling price of products. Excluding the factor of provision for inventories, the Group's gross profit for the six months ended 30 September 2015 was approximately HK$108.9 million (corresponding period in 2014: HK$60.6 million), the gross profit ratio before provision for inventories approximately was 17.8% (corresponding period in 2014: 32.0%).

Other Income and Gains, Net

Other income and gains, net amounted to approximately HK$10.4 million for the six months ended 30 September 2015 (corresponding period in 2014: HK$0.3 million). Such increase was mainly due to the gain on the disposal of an investment property during the period under review.

Selling and Distribution Expenses

Selling and distribution expenses are mainly comprised of 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 approximately HK$73.3 million (corresponding period in 2014: HK$93.6 million) accounting for approximately 12.0% (corresponding period in 2014: 49.5%) of the revenue of the Group for the six months ended 30 September 2015. Such decrease was mainly due to the decrease in sales and marketing personnel expenses, advertising expenses and travelling expenses.

Administrative Expenses

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

Administrative expenses amounted to approximately HK$47.4 million (corresponding period in 2014: HK$72.0 million) accounting for approximately 7.8% (corresponding period in 2014: 38.1%) of the revenue of the Group for the six months ended 30 September 2015. Such decrease was mainly due to the decrease in management staff salaries and wages, office expenses and entertainment expenses for business purpose.

Write-back of Impairment, Net

Gain recorded in this account amounted to approximately HK$5.9 million (corresponding period in 2014: HK$163.9 million) for the six months ended 30 September 2015. The change was mainly due to the decrease in write-back of impairment allowances of trade receivables, bills receivable, prepayments and other receivables.

Finance Costs

Finance costs amounted to approximately HK$14.5 million (corresponding period in 2014: HK$15.2 million) representing approximately 2.4% (corresponding period in 2014: 8.0%) of the Group's revenue for the six months ended 30 September 2015. The finance costs include interest on discounted bills, trust receipt loans and short-term bank loans and other loans. Such decrease was mainly due to the decrease in bank loan interest.

Income Tax Credit/(Expense)

No provision for Hong Kong profits tax has been made as the Group has available tax losses brought forward from prior years to offset the assessable profits for the period. During the six months ended 30 September 2014, no provision for Hong Kong profits tax had been made as the Group did not generate any assessable profits arising in Hong Kong during that period. Taxes on profits assessable elsewhere for the six months ended 30 September 2014 had been calculated at the rates of tax prevailing in the countries or jurisdictions in which the Group operated.

After due and careful considerations, the Group revisited its tax exposure by performing a detailed assessment on the Group's Corporation Income Tax ("**CIT**") payable brought forward from prior years. After considering the low practical risk of payment, certain of the prior year's CIT provision was reversed in the current period. In the future, the Group will continue to perform regular reassessment.

Profit Attributable to Ordinary Equity Holders of the Company

Taking into account of the aforementioned, the profit attributable to ordinary equity holders of the Company for the six months ended 30 September 2015 amounted to approximately HK$75.8 million (corresponding period in 2014: HK$32.2 million).

Dividends

The Company did not pay any interim dividend for the six months ended 30 September 2014 and any final dividend for the year ended 31 March 2015.

The Directors did not recommend the payment of an interim dividend for the six months ended 30 September 2015.

Trade and Bills Receivables

The Group has adopted stringent credit policy. Generally, most of 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. In prior year, the Group also granted a credit period of up to 1 year to some long-term or reliable customers.

The increase in trade receivables was mainly due to the increase in trade receivables made by the customers and short credit terms were granted by the Group to the customers. However, all of the trade receivables was settled up to the date of this announcement.

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 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, total impairment allowance in aggregate of approximately HK$205.4 million (31 March 2015: HK$212.6 million) had been made by the Group as at 30 September 2015.

As at 30 September 2015, the trade and bills receivables net of provision were approximately HK$115.2 million (31 March 2015: HK$75.8 million). Approximately 89.8% of the net trade and bills receivables were aged within two months as at 30 September 2015 (31 March 2015: 50.8%). All bills receivables were issued and accepted by banks.

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; and

(ii) actively pursue cash-transaction business such as e-commerce and TV shopping.

Up to the date of this announcement, the Group's subsequent settlement of the trade and bills receivables was approximately HK$43.3 million.

Trade Payables

As at 30 September 2015, the trade payables was approximately HK$3.0 million (31 March 2015: HK$3.9 million). The balance remained almost unchanged during the period under review.

Inventories

As at 30 September 2015, the Group's inventories was approximately HK$671.3 million (31 March 2015: HK$758.3 million). The decrease in inventories level was mainly due to the significant increase in the sales volume during the period under review.

Liquidity and Financial Resources

As at 30 September 2015, the Group had cash and cash equivalents of approximately HK$123.3 million (31 March 2015: HK$170.1 million), approximately 41.2% (31 March 2015: 90.2%) of which was denominated in Renminbi ("**RMB**"), approximately 52.6% (31 March 2015: 9.7%) of which was denominated in Hong Kong dollars and approximately 6.2% (31 March 2015: 0.1%) of which was denominated in other currencies. The decrease in cash and cash equivalents was mainly due to the repayment of interest-bearing bank and other borrowings and the increase in purchases of products. As at 30 September 2015, the Group's net current assets were approximately HK$772.6 million (31 March 2015: HK$480.9 million).

On 7 August 2015, 166,000,000 ordinary shares of HK$0.1 each were issued for cash at HK$1.31 per share pursuant to the placing agreement dated 27 July 2015 for a total cash consideration, after related expenses, of HK$212.0 million.

During the six months ended 30 September 2015, the Group issued bonds with an aggregate principal amount of HK$15.0 million, before related expenses of HK$2.2 million, to certain independent individuals.

Capital Structure of the Group

Total interest-bearing bank and other borrowings as at 30 September 2015 was approximately HK$279.0 million (31 March 2015: HK$453.9 million), of which all were repayable within one year or on demand and bore floating and fixed interest rate. Approximately 100% (31 March 2015: 94.6%) of the total interest-bearing bank and other borrowings was denominated in RMB, none (31 March 2015: 2.6%) of which was denominated in Hong Kong dollars and none (31 March 2015: 2.8%) of which was denominated in United States dollars.

During the six months ended 30 September 2015, the Group issued bonds with an aggregate principal amount of HK$15.0 million, before related expenses of HK$2.2 million, to certain independent individuals. The bonds bear interest at rates ranging from 6% to 7% per annum and will mature in July 2017 to December 2022. The interest will be repayable by the Company annually on the anniversary of the issue date of the respective bond and up to the maturity date.

No particular seasonality trend for the borrowing requirements of the Group observed for the period under review.

The Group's bank loans denominated in RMB amounted to approximately HK$17.1 million were unsecured, bore interest at a rate of 120% of PBOC (31 March 2015: a rate of 120% of PBOC) per annum and would be repayable between November 2015 and March 2016 (31 March 2015: repayable in April 2015). As at 30 September 2015, the Group's bank loan was supported by corporate guarantees executed by the Company and a subsidiary of the Company. As at 31 March 2015, the Group's bank loans were supported by corporate guarantees executed by the Company and a subsidiary of the Company.

The Group's bank loan denominated in RMB amounted to approximately HK$261.9 million bore interest at a rate of 130% of PBOC per annum (31 March 2015: Nil) and would be repayable between February 2016 and April 2016. As at 30 September 2015, the Group's bank loan was secured by certain inventories of the Group, and supported by corporate guarantees executed by the Company and a subsidiary of the Company.

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 its capital using the gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables, deposits received, other payables and accruals, bank advance for discounted bills, amounts due to related parties and directors and bond payables less cash and cash equivalents. Total capital represents equity attributable to the ordinary equity holders of the Company. As at 30 September 2015, the gearing ratio was approximately 32.7% (31 March 2015: 52.3%).

Employment and Remuneration Policy

The Group had a total work force of 179 employees in Hong Kong and the PRC as at 30 September 2015 (31 March 2015: 165 employees). The total salaries and related costs (including Directors' fee) amounted to approximately HK$38.1 million for the six months ended 30 September 2015 (31 March 2015: HK$101.6 million). The Group has implemented the remuneration policy, bonus and share option scheme 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 22 April 2015 (the "**Date of Grant**"), the Company granted share options to certain Directors, a substantial Shareholder and employees of the Group to subscribe for a total of 134,900,000 ordinary shares of HK$0.10 each in the capital of the Company under the Share Option Scheme. The exercise price is HK$1.09 per share. Details of the grant of share options, including the validity of the share options can be referred to the announcement of the Company on the Date of Grant. Accordingly, options to subscribe for a total of 574,999 shares in the Company, representing approximately 0.04% of the total number of issued shares in the Company, may still be granted under the Share Option Scheme as at the Date of Grant.

At the annual general meeting held on 21 August 2015 (the "**2015 AGM**"), the shareholders of the Company duly approved to renew the total maximum number of shares of the Company which may be issued upon the exercise of options to be granted under the Share Option Scheme to be up to 10% of the Company's issued share capital as at the date of the 2015 AGM, which amounted to 134,920,599 shares of the Company.

The Listing Committee of the Stock Exchange subsequently granted the approval for the listing of, and permission to deal in, the shares to be issued pursuant to the renewed Share Option Scheme mandate.

Since the Date of Grant and up to the date of this announcement, the number of share options to subscribe 25,000,000 shares of the Company were lapsed and no share option was exercised or cancelled. As at 30 September 2015, the number of share options outstanding of the Company was 109,900,000.

LITIGATION

In December 2013, one distributor of the Group (the "**Plaintiff**") filed a claim to a District People's Court in the PRC (the "**PRC Court**") against one of the Group's subsidiaries in the PRC in relation to the Group's obligation to buy back certain inventories from the Plaintiff (the "**Claim**"). The Plaintiff demanded the purchase consideration of RMB20.1 million (equivalent to HK$24.5 million) in total.

According to a judgement dated 25 August 2015 issued by the PRC Court, the Group was liable to buy back certain inventories from the Plaintiff with a total consideration of RMB18.9 million (equivalent to HK$23.0 million). The Group has filed an appeal for such judgement to the PRC Court in September 2015, and the court hearing for the appeal is still in progress up to the date of approval of this condensed consolidated interim financial information.

The Directors of the Company are in the opinion that the Group has grounds to contest the Claim. Accordingly, no provision regarding liabilities arising therefrom had been made by the Group in this condensed consolidated interim financial information.

EXTRACT OF REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

The following is an extract of report on review of interim financial information by the Group's independent auditors:

"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 excluding the write-back of impairment, net of HK$5,881,000, the Group incurred a consolidated loss before tax of HK$32,617,000 during the six months ended 30 September 2015, and the Group had net cash outflows used in operating activities of approximately HK$90,991,000. 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."

NOTES TO THE EXTRACT OF REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

The amount of consolidated profit for the period of approximately HK$69,819,000 (if the gain from write-back of impairment, net is excluded), included (i) provision for inventories in respect of write-down to net realisable value amounting to approximately HK$16,547,000 (period ended 30 September 2014: HK$8,436,000); and (ii) share option expense amounting to HK$9,090,000 (period ended 30 September 2014: HK$31,796,000). These non-cash items had not affected the Group's operating cash flows.

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 2015, except for the following deviations:

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 able to 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.

Under code provision C.1.2, the management should provide all members of the Board with monthly updates for giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. The provision of the updates to all members of the Board was delayed by the management during the period under review due to the relocation of the head office of the Company in Hong Kong. The management has undertaken to the Board that they would ensure the compliance with this code provision in the future.

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 standards set out in the Model Code during the six months ended 30 September 2015.

The Company has adopted written guideline, "Code for Securities Transactions by Relevant Employees", on no less exacting terms than the Model Code for securities transactions by relevant employees who are likely to be in possession of unpublished price-sensitive information of the Company.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") currently 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 Dr. Lee Kwok Keung Edward. 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 2015 including the accounting principles and practices adopted by the Group.

The interim condensed consolidated financial statements of the Company for the six months ended 30 September 2015 had not been audited but had been reviewed by the independent auditors.

COMPLIANCE COMMITTEE

The compliance committee of the Company (the "**Compliance Committee**") currently comprises four members, including all independent non-executive Directors, namely Mr. Hung Sui Kwan, Mr. Ma Lishan, Dr. Lee Kwok Keung Edward and one executive Director, Ms. Cheung Mei Sze. Mr. Hung Sui Kwan is the chairman of the Compliance Committee.

PLACING OF NEW SHARES

On 7 August 2015, the Company raised net proceeds of approximately HK$212.0 million through the placing of 166,000,000 new shares at a price of HK$1.31 per share. The Group intends to use the net proceeds from the placing for future business development (which include expansion of distribution network, development of new products, enhancement of marketing and promotion efforts, etc.), repayment of bank loans and general working capital purposes. Details of the shares placement were disclosed in the announcements of the Company dated 27 July 2015 and 7 August 2015.

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 2015.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2015 (for the six months ended 30 September 2014: 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 2015 containing all the information required by the Listing Rules will be published on the aforesaid websites and despatched to the shareholders of the Company in due course.

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

Hong Kong, 25 November 2015

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. Lee Kwok Keung Edward 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.