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 2016

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 2016, together with the comparative figures for the previous corresponding period as follows:

FINANCIAL HIGHLIGHTS

- Revenue was approximately HK$392.5 million
- Gross profit was approximately HK$70.1 million
- Loss for the period attributable to ordinary equity holders of the Company was approximately HK$130.6 million
- Loss per share (approximately)
  Basic HK5.75 cents
  Diluted HK5.75 cents
- The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2016

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 September 2016

		For the six months ended 30 September	
		2016	2015
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	4	**392,528**	610,985
Cost of sales		**(322,418)**	(518,603)
Gross profit		**70,110**	92,382
Other income and gains, net	4	**2,166**	10,435
Selling and distribution expenses		**(149,943)**	(73,338)
Administrative expenses		**(35,214)**	(47,352)
Other expenses, net		**–**	(264)
Write-back of impairment, net		**4,532**	5,881
Finance costs	5	**(22,151)**	(14,480)
LOSS BEFORE TAX	6	**(130,500)**	(26,736)
Income tax credit/(expense)	7	**(82)**	102,436
PROFIT/(LOSS) FOR THE PERIOD		**(130,582)**	75,700
ATTRIBUTABLE TO:			
ORDINARY EQUITY HOLDERS OF THE COMPANY		**(130,582)**	75,846
NON-CONTROLLING INTERESTS		**–**	(146)
		(130,582)	75,700
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic (HK cents) (2015 restated)	8	**(5.75)**	3.61
Diluted (HK cents) (2015 restated)	8	**(5.75)**	3.54

Details of dividend are disclosed in note 12.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 September 2016

	For the six months ended 30 September	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT/(LOSS) FOR THE PERIOD	**(130,582)**	75,700
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(32,885)**	(29,951)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(32,885)**	(29,951)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(32,885)**	(29,951)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**(163,467)**	45,749
ATTRIBUTABLE TO:		
ORDINARY EQUITY HOLDERS OF THE COMPANY	**(163,467)**	45,895
NON-CONTROLLING INTERESTS	**–**	(146)
	(163,467)	45,749

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2016

	Notes	30 September 2016 (Unaudited) HK$'000	31 March 2016 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**13,363**	9,674
Intangible asset		**8,300**	8,300
Deposits		**2,277**	2,561
Total non-current assets		**23,940**	20,535
CURRENT ASSETS			
Property held for sale		**–**	9,606
Inventories		**1,030,441**	692,837
Trade receivables	9	**7,266**	23,013
Bills receivable	9	**4,739**	48,249
Prepayments, deposits and other receivables		**435,944**	853,956
Pledged deposits		**97,328**	75,000
Cash and cash equivalents		**384,782**	300,709
Total current assets		**1,960,500**	2,003,370
CURRENT LIABILITIES			
Trade payables	10	**2,924**	10,143
Bills payable	10	**595,218**	615,000
Deposits received, other payables and accruals		**152,487**	240,544
Bank advance for discounted bills		**–**	28,800
Interest-bearing bank and other borrowings		**423,911**	222,000
Bond payables		**2,163**	–
Due to a related party		**160**	160
Due to directors		**51**	1,251
Tax payable		**63,120**	64,841
Total current liabilities		**1,240,034**	1,182,739
NET CURRENT ASSETS		**720,466**	820,631
TOTAL ASSETS LESS CURRENT LIABILITIES		**744,406**	841,166

	Notes	30 September 2016 (Unaudited) HK$'000	31 March 2016 (Audited) HK$'000
NON-CURRENT LIABILITY			
Bond payables		**74,862**	13,997
Net assets		**669,544**	827,169
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	11	**227,281**	151,521
Reserves		**443,316**	676,701
		670,597	828,222
Non-controlling interests		**(1,053)**	(1,053)
Total equity		**669,544**	827,169

NOTES TO UNAUDITED INTERIM FINANCIAL INFORMATION

30 September 2016

1. CORPORATE AND GROUP 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 2016, 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 2016, 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 2016.

Going concern basis

The Group recorded revenue and a consolidated loss before tax of HK$392,528,000 (period ended 30 September 2015: HK$610,985,000) and HK$130,500,000 (period ended 30 September 2015: HK$26,736,000), respectively, for the six months ended 30 September 2016. Excluding the write-back of impairment, net of HK$4,532,000, the Group recorded a consolidated loss before tax of HK$135,032,000 for the period, which included (i) provision for inventories in respect of write-down to net realisable value amounting to HK$5,660,000 (period ended 30 September 2015: HK$16,547,000); and (ii) share option expense amounting to HK$5,842,000 (period ended 30 September 2015: HK$9,090,000). 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$131,037,000 (period ended 30 September 2015: HK$90,991,000) for the six months ended 30 September 2016.

As at 30 September 2016, the Group recorded net current assets of HK$720,466,000 (31 March 2016: HK$820,631,000), which included inventories of HK$1,030,441,000 (31 March 2016: HK$692,837,000), trade receivables of HK$7,266,000 (31 March 2016: HK$23,013,000), pledged deposits of HK$97,328,000 (31 March 2016: HK$75,000,000), cash and cash equivalents of HK$384,782,000 (31 March 2016: HK$300,709,000), and outstanding bank and other borrowings of HK$423,911,000 (31 March 2016: HK$222,000,000) and bills payable of HK$595,218,000 (31 March 2016: HK$615,000,000), which were due for repayment or renewal within the next twelve months after 30 September 2016.

The bills payable of HK$595,218,000 were arranged in respect of the Group's purchase prepayments to a supplier and are due for repayment in January 2017 and March 2017. In the event that the cash flows generated from the operating activities of the Group are insufficient to pay the bills payables on the due dates, the Group will negotiate with the grantor bank in the People's Republic of China ("**PRC**") for the extension or renewal of the facilities.

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 and other borrowings*

Subsequent to 30 September 2016, in October 2016, the Group has successfully renewed the short-term other loan of RMB200 million (equivalent to HK$232 million) which will be due for repayment within twelve months from the end of the reporting period.

The Group will actively negotiate with the PRC banks and other lender for the renewal of the Group's PRC bank and other borrowings and bills payable 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 a good track record or relationship with the banks and the lender which will enhance the Group's ability to renew the Group's PRC bank and other facilities upon expiry.

(2) *Fund raising activities*

The Group will actively seek opportunities to carry out fund raising activities including but not limited to issuance of bonds as alternative sources of funding. Subsequent to the end of the reporting period, the Group has issued unlisted bonds with an aggregate principal amount of HK$95,200,000 for the Group's working capital.

(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. Besides, the Group has launched a liquor industry oriented Business-to-Business platform in the PRC in May 2016 to enhance the Group's services and support to business members and promotion of the liquor 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 2016, except for the adoption of the following 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 HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

The adoption of the above 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 two 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**"); and

(ii) the distribution of Chinese cigarettes and the investment in a residential apartment for its rental income potential ("**Cigarettes and others**").

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.

During the period ended 30 September 2016, the financial results of the cigarettes and property investment segments, which were reported as separate segments in prior years' financial statements, are reported in aggregate under the "Cigarettes and others" segment. Comparative figures of the segment information have been reclassified to conform with the current period's presentation.

Six months ended 30 September 2016 (Unaudited)

	Liquors *HK$'000*	Cigarettes and others *HK$'000*	Total *HK$'000*
Segment revenue:			
Sales to external customers	**389,368**	**3,160**	**392,528**
Gain on disposal of property held for sale	**1,651**	**–**	**1,651**
Gain on disposal of items of property, plant and equipment	**100**	**–**	**100**
Foreign exchange gains, net	**287**	**–**	**287**
Total	**391,406**	**3,160**	**394,566**
Segment results	**(109,170)**	**693**	**(108,477)**
Reconciliation:			
Interest income			**121**
Other gains			**7**
Finance costs			**(22,151)**
Loss before tax			**(130,500)**
Other segment information:			
Depreciation	**2,144**	**19**	**2,163**
Write-back of impairment allowance of trade and bills receivables	**(7,479)**	**–**	**(7,479)**
Impairment allowance of prepayments and other receivables	**2,947**	**–**	**2,947**
Provision for inventories in respect of write-down to net realisable value	**5,660**	**–**	**5,660**
Capital expenditure*	**6,141**	**–**	**6,141**

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

Six months ended 30 September 2015 (Unaudited)

	Liquors *HK$'000*	Cigarettes and others *HK$'000*	Total *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	11,886	621,291
Segment results	(23,083)	10,698	(12,385)
Reconciliation:			
Interest income			129
Finance costs			(14,480)
Loss before tax			(26,736)
Other segment information:			
Depreciation	5,370	29	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.

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	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Gain on disposal of an investment property	**–**	10,306
Gain on disposal of property held for sale	**1,651**	–
Gain on disposal of items of property, plant and equipment	**100**	–
Bank interest income	**121**	129
Foreign exchange gains, net	**287**	–
Others	**7**	–
	2,166	10,435

5. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 September	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on discounted bills	**–**	1,516
Interest on bank and other loans	**19,252**	12,178
Interest on bond payables	**1,697**	353
Others	**1,202**	433
	22,151	14,480

6. LOSS BEFORE TAX

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

	For the six months ended 30 September	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation:		
Property, plant and equipment	**2,163**	5,382
Investment property	**–**	17
	2,163	5,399
Cost of inventories sold**	**316,758**	502,056
Loss/(gain) on disposal of items of property, plant and equipment	**(100)**	691
Write-back of impairment allowance of trade and bills receivables*	**(7,479)**	(7,212)
Impairment allowance of prepayments and other receivables*	**2,947**	1,850
Write-back of impairment allowance of prepayments and other receivables*	**–**	(519)
Provision for inventories in respect of write-down to net realisable value**	**5,660**	16,547
Foreign exchange differences, net	**(287)**	264

* 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 did not generate any assessable profits arising in Hong Kong during the period. During the six months ended 30 September 2015, no provision for Hong Kong profits tax had been made as the Group had available tax losses brought forward from prior years to offset the assessable profit for that period. Taxes on profits assessable elsewhere have 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	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Elsewhere		
Charge for the period	**82**	–
Overprovision in prior years	**–**	(102,436)
Total tax charge/(credit) for the period	**82**	(102,436)

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share amount is based on the loss for the period attributable to ordinary equity holders of the Company of HK$130,582,000 (period ended 30 September 2015: profit of HK$75,846,000), and the number of the ordinary shares of 2,272,808,946 (period ended 30 September 2015 (restated): the weighted average number of ordinary shares of 2,098,645,015) in issue during the period.

The number of ordinary shares for the six months ended 30 September 2015 for the purpose of calculating basic earnings/(loss) per share amount has been retrospectively adjusted for the bonus share issue on the basis that one bonus share for every two existing ordinary shares (the "**Bonus Issue**") held by the Company's shareholders which took place on 2 August 2016. Details of the Bonus Issue are set out in note 11.

No adjustment has been made to the basic loss per share amount presented for the six months ended 30 September 2016 in respect of a dilution as the share options outstanding had no dilutive effect on the basic loss per share amount presented for the six months ended 30 September 2016.

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

The calculations of basic and diluted earnings/(loss) per share are based on:

	For the six months ended 30 September	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	***HK$'000***
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the Company	**(130,582)**	75,846

	Number of shares For the six months ended 30 September	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation (2015: restated to reflect the effect of the Bonus Issue)	**2,272,808,946**	2,098,645,015
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 (2015: restated to reflect the effect of the Bonus Issue)	**–**	44,661,769
	2,272,808,946	2,143,306,784

9. TRADE AND BILLS RECEIVABLES

	30 September 2016 (Unaudited) *HK$'000*	31 March 2016 (Audited) *HK$'000*
Trade receivables	**195,330**	220,388
Impairment allowance	**(188,064)**	(197,375)
	7,266	23,013
Bills receivable	**4,739**	48,249
	12,005	71,262

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 6 months. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Over 52% (31 March 2016: 25%) of the trade and bills receivables balance as at 30 September 2016 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 2016 (Unaudited) *HK$'000*	31 March 2016 (Audited) *HK$'000*
Within 2 months	**12,005**	28,010
2 months to 6 months	**–**	43,252
	12,005	71,262

Included in the above trade and bills receivables as at 31 March 2016, amounts totalling HK$28,800,000 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 AND BILLS PAYABLES

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

	30 September 2016 (Unaudited)	31 March 2016 (Audited)
	HK$'000	*HK$'000*
Within 1 month	**–**	546,986
1 month to 3 months	**–**	75,000
Over 3 months	**598,142**	3,157
	598,142	625,143

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

The bills payable are non-interest-bearing and with 365 days settlement terms.

As at 30 September 2016, the Group's bills payable of HK$595,218,000 (31 March 2016: HK$615,000,000) were secured by the Group's inventories and prepayment in aggregate of RMB409,147,000 (equivalent to HK$475,183,000) (31 March 2016: RMB427,352,000 (equivalent to HK$512,822,000)) and the Group's pledged bank deposits of HK$97,328,000 (31 March 2016: HK$75,000,000).

11. SHARE CAPITAL

	Notes	**30 September 2016 (Unaudited)**	31 March 2016 (Audited)
	Notes	***HK$'000***	*HK$'000*
Authorised:			
100,000,000,000 (31 March 2016: 100,000,000,000) ordinary shares of HK$0.1 each		**10,000,000**	10,000,000
Issue and fully paid:			
2,272,808,946 (31 March 2016: 1,515,205,997) ordinary shares of HK$0.1 each	(a & b)	**227,281**	151,521

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.

(b) On 14 June 2016, the board of directors of the Company proposed to make to the shareholders of the Company whose names appear on the register of members of the Company on the record date of 25 July 2016 (the "**Record Date**") on the basis of one bonus share for every two existing ordinary shares held by the Company's shareholders by capitalising the share premium of the Company. The Bonus Issue was approved by the Company's shareholders on 15 July 2016. Based on a total of 1,515,205,997 shares in issue and on the basis of one bonus share for every two existing ordinary shares held by the Company's shareholders on the Record Date, 757,602,949 bonus shares were issued by the Company on 2 August 2016.

12. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2016 (period ended 30 September 2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

For the six months ended 30 September 2016 (the "**Period under Review**"), the Group recorded a total revenue of approximately HK$392.5 million (corresponding period in 2015: HK$611.0 million), representing a decrease of 35.8%. Excluding the provision for inventories, during the Period under Review, the Group's gross profit was approximately HK$75.8 million (corresponding period in 2015: HK$108.9 million). The gross profit margin before provision for inventories was approximately 19.3% (corresponding period in 2015: 17.8%), while the loss attributable to the ordinary equity holders of the Company was approximately HK$130.6 million (corresponding period in 2015: profit of HK$75.8 million). Basic loss per ordinary share was approximately HK5.75 cents (corresponding period in 2015 (restated): basic earnings per ordinary share of HK3.61 cents).

During the Period under Review, the revenues generated from the PRC market and the international market accounted for 71.6% (corresponding period in 2015: 30.0%) and 28.4% (corresponding period in 2015: 70.0%) of the Group's total revenue respectively. There was a drop of revenue from international market by 74.0% to HK$111.3 million which was mainly due to the delayed shipment from suppliers. Nonetheless, the revenue derived from the PRC market for the Period under Review recorded an increase of 53.2% to HK$281.2 million.

Baijiu Business

During the Period under Review, China's baijiu industry has been experiencing a stable growth with a surge in both sales volume and price, a phenomena that's rarely seen in recent years. And in which the competitive advantages of high-end and well-known baijiu brands such as Moutai and Wuliangye have been expanding at the expense of other brands in the baijiu industry and squeezed out the market share of second-tier and third-tier brands. For well-known baijiu brands such as Moutai and Wuliangye, both the circulation price and retail price have become market-driven, i.e., the prices jump before the peak season and resume to normal after peak holidays. The natural mechanism of price adjustment is favorable for distributors in anticipating market demand and managing their inventories. Due to the precise market positioning of the baijiu market in China, Moutai, Wuliangye and other well-known baijiu brands which targeting mass consumption have formed each of their own stable customer groups. In the future, the aggregation effect towards low-end and high-end well-known baijiu brands will become increasingly evident, therefore the market share of baijiu will be concentrating towards these brands, creating a strong getting stronger situation, while the concentration of Chinese baijiu manufacturers will also be significantly increased.

Significant Transformation of Baijiu Distribution Model

During the Period under Review, the management of the Group has made substantial changes in the baijiu sales model which was being used since listing.

Since 29 May 2016, the management of the Group initiated a mission of recruiting baijiu retail operators from all cities within China as members of the Group's B2B sales platform – *Wine Kingdom B2B Platform*. After registered as a member of the B2B platform, baijiu retail operators from every city will be able to procure, place orders and make payments on the platform. The Group has designated city partners in each city to deliver the purchased products directly to the members' liquor and tobacco speciality stores. The Group chooses one or more qualified liquor distributors, who possess their own self-operated sales terminal as well as qualified warehousing and logistics facilities to be the city partners of the Group in different cities. Based on the order placed by the registered members, the Group will pay commissions to the city partners on a per-box-ordered basis as remunerations for the warehousing and logistics services provided by the city partners. Therefore, the Group does not have to pay for the warehouse and logistics service fees incurred by the orders placed by the registered members. City partners are also members of the Group's B2B platform. The Group will do regular assessment on the city partners and promptly replace anyone who fails to meet our requirements.

Since the establishment of the Group's *Wine Kingdom B2B Platform* business, the original distribution model in each city will not be in use anymore. Hereafter, the Group will not further adopt the traditional distribution model for the sales of the Group's products. With this Wine *Kingdom B2B Platform*, the Group is able to achieve direct delivery of products to the retail operators. As registered members, they can use "First Tier Wholesale Price" to purchase products on the *Wine Kingdom B2B Platform* at a significantly lower procurement costs. Not only is this model beneficial to the customers of retail operators; it also helps to boost the sales for them.

Since the debut of *Wine Kingdom B2B Platform* in late May 2016, work progress has far exceeded the Group's expectation. A lot of baijiu retail operators have been competing to become city partners. The policy of selling products to retail operators at "First Tier Wholesale Price" with door-to-door delivery service is highly recognised by upstream suppliers and retailers. The Group kick started the *Wine Kingdom B2B Platform* in Beijing on 6 August 2016, which attracted nearly 4,000 local retail operators. The key management of Moutai Group, Wuliangye Group, Luzhou Laojiao Group, Fen Wine Group and Jiannanchun Group also participated at the ceremony and made supportive speeches in celebration of the Group's success in introducing a brand-new sales model in the baijiu industry.

As at 30 September 2016, the *Wine Kingdom B2B Platform* was launched in 86 cities with a total of 53,000 baijiu retail operators registered as members.

During the Period under Review, all registered members from the *Wine Kingdom B2B Platform* are liquors and tobacco speciality stores. The Group will take a proactive yet pragmatic approach in expanding the membership to shopping malls, supermarkets, retail key accounts and sizeable retail chain stores.

In 2011, the Group collaborated with the Bank of Communications Credit Card Center in launching B2C business by allowing cardholders to redeem the Group's products with credit card points. However, from the operation, the Group encountered several problems of B2C baijiu business which include unpacking, re-packing, anti-breakage, and high delivery cost; meanwhile, the management was alert to the difficulties its peers were facing for their online B2C business. The management believes that the Group's competitive advantages lie in its extensive distribution network across China and the exclusive distribution rights for certain products. In China, the Group possesses unique upstream products resources and nationwide downstream distribution networks that are rarely found in other industry peers. By leveraging internet as a tool to combine those resources, the Group realizes its long-term goal in flatting distribution channel and providing meticulous services.

Wine Kingdom B2B Platform uses the internet to realize direct contact with retail operators in doing wholesaling business. This business model does not only exert the local sales advantages of retailers, but also resolves the difficulties associated with the "Last Mile" delivery. The integration between the Group's B2B business model and the business members' B2C offline business allows both parties to demonstrate one own's strengths. The Group will also plan to open the B2B platform to upstream manufacturers in order to attract more potential consignment products and achieve a win-win relationship.

Management of the Group believes that a large liquor B2B platform player in the China market will emerge who could be able to integrate resources of retail operators together with product resources of upstream manufacturers. And we aim to work in a proactive yet measured way to achieve this goal.

Wine and Cigarettes Business

The demand for wine in China market has been accelerating rapidly in the past few years; however, the Chinese consumers do not have an in depth knowledge about wine, and due to various factors affecting the wine industry including grape yields, grape varieties and production capacity of wineries, it's hardly to see any highly recognizable brands from the China's wine industry which are comparable to the status of Moutai and Wuliangye. On the other hand, the increasing number of wine distributors has made the market more fragmented; as a result, the market share of each player is barely enough to support its costs and expenses. The Group is optimistic about the future development of the wine market; the management will keep a close eye on market developments and changes, in order to make appropriate plans and adjustments. The revenue from the cigarettes business for the Period under Review was similar to that of the corresponding period in the previous year.

E-Commerce Business

During the Period under Review, in addition to *Wine Kingdom B2B Platform*, the Group continued to maintain good cooperation relationships with the mainstream e-commerce shopping platforms and TV shopping platforms in China, such as Jingdong Mall, Yihaodian, T-mall, Vip.com, Rongyigou, Shunfeng Heike, Amazon, Hunnan Happigo and Anhui Jiajiamall etc.

Outlook and Future Development

Since the occurrence of intensive restructuring in the industry, the use of internet has changed towards the traditional multi-tiers distribution channels and stimulated the transformation, upgrading and optimization of traditional channels; whereas the restriction on use of public expense and upgrade of consumption have led to divergence in products within the industry. Looking forward, the Group will continue to seize the rare opportunity from market correction as well as building a healthier and a more sustainable liquor industry ecosystem through better integration of internet achieved by the Group's B2B platform and traditional channels.

In terms of cost-effectiveness and supply chain efficiency, the Group's *Wine Kingdom B2B Platform* is in the midst of disintermediation, other than substantially streamlining the distribution process and enhancing efficiency of the supply chain, which helped achieving the objective of supplying the retail operators at "First Tier Wholesale Price", effectively lowering the retail price of baijiu products and bringing the greatest benefit towards its customers. Furthermore, the new model also benefits city partners to develop direct contact with more high quality local business associates and further expand their sales through the Group's platform.

In terms of products, B2B platform enables the Group to closely follow market changes. By analyzing and interpreting the big data collected through the platform, the Group can have an in-depth and throughout understanding about the regional baijiu consumption pattern and trend, which helps the Group to launch regional mass consumption brand's products on a flexible basis to enrich our product line and expand our market share as well as income sources.

In terms of channel development, the Group will utilize the B2B platform to actively strengthen our communication with different partners and explore more in-depth cooperation feasibility. By enhancing the Group's advanced channel development, the Group aims at diversifying our sales channels and reaching out to more potential consumers for higher market penetration for different products, for a greater market share as well as a better return for shareholders of the Company. The Group will not exclude the possibility of adopting the existing baijiu B2B model to further expand its wine business.

In terms of operation management, the Group successfully reallocated resources during the Period under Review, to develop B2B platform and strengthen existing business for systematic expansion. To maintain a stable financial foundation for the Group's sustainable growth, the Group will continue reinforce its internal control; adopt a more prudent financial management and cost control policy.

The management believes that the new sales model will bring huge benefits to the Group, as well as to the industry as a whole. The Group is devoted in making the *Wine Kingdom B2B Platform* the largest B2B platform in Chinese liquor industry. While promoting industry reform and innovation, the Group is also putting a lot of efforts in maintaining the long-term symbiotic and cooperative partnership with baijiu manufacturers, for both parties to rise and shine under the brand new business environment.

Being the only nationwide distributor in Chinese baijiu industry, management of the Group has always focused on the development of baijiu business in China. Upon the recovery of baijiu market, together with the maturing B2B platform, the Group is confident in generating a brilliant financial result by achieving significant increase in total sales in China in order to reward our shareholders of the Company, 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 2016, the Group recorded a total revenue of approximately HK$392.5 million, representing a decrease of approximately 35.8% compared to a total revenue of approximately HK$611.0 million for the six months ended 30 September 2015. For the six months ended 30 September 2016, approximately 71.6% of revenue was derived from the PRC market (corresponding period in 2015: 30.0%).

The Group's revenue derived from the distribution of liquors represented approximately 99.2% of the total revenue for the six months ended 30 September 2016 (corresponding period in 2015: 99.7%) while the revenue derived from the distribution of cigarettes represented approximately 0.8% of the total revenue for the six months ended 30 September 2016 (corresponding period in 2015: 0.3%).

The Group's gross profit for the six months ended 30 September 2016 approximately was HK$70.1 million (corresponding period in 2015: HK$92.4 million). The decrease in gross profit was mainly due to the decrease in sales volume during the period. Excluding the factor of provision for inventories, the Group's gross profit for the six months ended 30 September 2016 was approximately HK$75.8 million (corresponding period in 2015: HK$108.9 million), the gross profit ratio before provision for inventories approximately was 19.3% (corresponding period in 2015: 17.8%).

Other Income and Gains, Net

Other income and gains, net amounted to approximately HK$2.2 million for the six months ended 30 September 2016 (corresponding period in 2015: HK$10.4 million). Such decrease was mainly due to the presence of disposal of an investment property for the six months ended 30 September 2015.

Selling and Distribution Expenses

Selling and distribution expenses mainly comprised 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$149.9 million (corresponding period in 2015: HK$73.3 million) accounting for approximately 38.2% (corresponding period in 2015: 12.0%) of the revenue of the Group for the six months ended 30 September 2016. Such significant increase was mainly due to the increase in advertising expenses, conference and promotion expenses for the B2B events and staff headcount, hence, the increase in salaries and wages. In addition, expenses related to the construction of the B2B platform were recognized in the Period under Review, which are one-off in nature. The management of the Group believes that the B2B platform will have positive impact to the operating results of the Group in the future.

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$35.2 million (corresponding period in 2015: HK$47.4 million) accounting for approximately 9.0% (corresponding period in 2015: 7.8%) of the revenue of the Group for the six months ended 30 September 2016. Such decrease was mainly due to the decrease in management staff costs and office rental expenses.

Write-back of Impairment, Net

Gain recorded in this account amounted to approximately HK$4.5 million (corresponding period in 2015: HK$5.9 million) for the six months ended 30 September 2016. The change was mainly due to the increase in impairment allowance of prepayments and other receivables.

Finance Costs

Finance costs amounted to approximately HK$22.2 million (corresponding period in 2015: HK$14.5 million) representing approximately 5.6% (corresponding period in 2015: 2.4%) of the Group's revenue for the six months ended 30 September 2016. The finance costs include interest on discounted bills, bank loans and other loans. Such increase was mainly due to the increase in other loan interest, bond interest and bond arrangement fee.

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. During the six months ended 30 September 2015, no provision for Hong Kong profits tax had been made as the Group had available tax losses brought forward from prior years to offset the assessable profits for that period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries or jurisdictions in which the Group operated.

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 2016 amounted to approximately HK$130.6 million (corresponding period in 2015: profit of HK$75.8 million).

Dividends

The Company did not pay any interim dividend for the six months ended 30 September 2015 and any final dividend for the year ended 31 March 2016.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2016.

Bonus Issue of Shares and Change in Board Lot Size

On 14 June 2016, the Company announced its proposals to issue one bonus share for every two existing shares of the Company and change in board lot size from 1,000 shares to 3,000 shares. The proposed issue of bonus shares was approved by the shareholders at the extraordinary general meeting of the Company held on 15 July 2016.

757,602,949 Shares were issued on 2 August 2016. The total number of issued shares of the Company increased to 2,272,808,946 shares as a result of such issue.

For details of the issue of bonus shares, please refer to the announcements of the Company dated 14 June 2016 and 2 August 2016, and the circular of the Company dated 24 June 2016.

Inventories

As at 30 September 2016, the Group's inventories was approximately HK$1,030.4 million (31 March 2016: HK$692.8 million). The increase in inventories level was mainly due to the increase in purchase in the PRC market and decrease in the sales volume during the period.

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. In prior year, 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 decrease in credit sales not yet settled by the customers. 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$188.1 million (31 March 2016: HK$197.4 million) had been made by the Group as at 30 September 2016.

As at 30 September 2016, the trade and bills receivables net of provision were approximately HK$12.0 million (31 March 2016: HK$71.3 million). Approximately 100.0% of the net trade and bills receivables were aged within two months as at 30 September 2016 (31 March 2016: 39.3%). 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 TV shopping and B2B business.

Up to the date of this announcement, the Group's subsequent settlement of the trade and bills receivables was approximately HK$7.3 million.

Trade and Bills Payables

As at 30 September 2016, the trade and bills payables was approximately HK$598.1 million (31 March 2016: HK$625.1 million). The decrease in trade and bills payables was mainly due to the decrease in outstanding trade payables as at 30 September 2016.

As at 30 September 2016, the Group's bills payable of HK$595.2 million (31 March 2016: HK$615.0 million) were secured by the Group's inventories and prepayment in aggregate of RMB409.1 million (equivalent to HK$475.2 million) (31 March 2016: RMB427.4 million (equivalent to HK$512.8 million)) and the Group's pledged bank deposits of HK$97.3 million (31 March 2016: HK$75.0 million).

Liquidity and Financial Resources

As at 30 September 2016, the Group had cash and cash equivalents of approximately HK$384.8 million (31 March 2016: HK$300.7 million), approximately 92.3% (31 March 2016: 93.2% of which was denominated in Renminbi ("**RMB**"), approximately 7.7% (31 March 2016: 6.7%) of which was denominated in Hong Kong dollars and none (31 March 2016: approximately 0.1%) of which was denominated in other currencies. The increase in cash and cash equivalents was mainly due to proceeds from issue of bonds. As at 30 September 2016, the Group's net current assets were approximately HK$720.5 million (31 March 2016: HK$820.6 million).

Capital Structure of the Group

Total interest-bearing bank and other borrowings as at 30 September 2016 was approximately HK$423.9 million (31 March 2016: HK$222.0 million). 100.0% (31 March 2016: 100.0%) of the total interest-bearing bank and other borrowings was denominated in RMB.

As at 30 September 2016, the Group's bank loan denominated in RMB in the amount of approximately HK$191.6 million, containing a repayment on demand clause and bore interest at a rate of 120% of PBOC per annum are included within current interest-bearing bank and other borrowings. Based on the maturity terms of the bank loan, the amounts repayable in respect of the bank loan are: HK$46.5 million payable within one year and HK$145.1 million payable over one year.

As at 30 September 2016, the Group's other loan denominated in RMB in the amount of approximately HK$232.3 bore interest at a rate of 15% per annum and would be repayable in October 2016.

As at 30 September 2016, the Group's interest-bearing bank and other borrowings are secured by the Group's inventories with cost in aggregate of RMB450.0 million (equivalent to HK$522.6 million).

As at 30 September 2016, the Group's secured bank borrowing was supported by corporate guarantees executed by the Company, a subsidiary of the Company and a related company of the Company.

During the Period under Review, the Group issued bonds with an aggregate principal amount of HK$74.3 million, before related expense of HK$13.2 million to certain independent entities. These bonds bear interest at rates ranging from 5.5% to 7% per annum and will mature in the period from June 2019 to September 2020. The interest will be repayable by the Group semi-annually from the issue dates of the respective bonds 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 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 and bills payables, deposits received, other payables and accruals, bank advance for discounted bills, amounts due to a related party 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 2016, the gearing ratio was approximately 56.4% (31 March 2016: 50.1%).

Employment and Remuneration Policy

The Group had a total work force of 454 employees in Hong Kong and the PRC as at 30 September 2016 (31 March 2016: 203 employees). The total salaries and related costs (including Directors' fee) amounted to approximately HK$42.4 million for the six month ended 30 September 2016 (31 March 2016: HK$80.8 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 28 September 2016 (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 151,300,000 ordinary shares of HK$0.10 each in the capital of the Company under the Share Option Scheme. The exercise price is HK$0.64 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.

As at 30 September 2016, the number of share options outstanding of the Company was 304,150,000, representing approximately 13.4% of the number of issued ordinary shares of the Company as the date of this announcement.

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 and related compensation from the Group of RMB20.1 million (equivalent to HK$23.3 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$22.0 million). The Group has filed an appeal for such judgement to the PRC Court in September 2015. According to a judgement dated 7 January 2016 issued by the PRC Court, the appeal from the Group was dismissed and the original judgement dated 25 August 2015 was sustained.

At the date of approval of the condensed consolidated interim financial information, the Group and the Plaintiff are under the negotiation for the buy back arrangement of the inventories and the Group has not bought back any inventories from the Plaintiff. The directors of the Company are in the opinion that adequate provision has been made in the condensed consolidated interim financial information to cover any potential liabilities arising from the Claim.

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$4,532,000, the Group incurred a consolidated loss before tax of HK$135,032,000 during the six months ended 30 September 2016, and the Group had net cash outflows used in operating activities of approximately HK$131,037,000. 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 ("**Code Provision**") in the Corporate Governance Code contained in Appendix 14 to the Listing Rules on the Stock Exchange throughout the six months ended 30 September 2016, 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 standards set out in the Model Code during the six months ended 30 September 2016.

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 inside 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, internal control process and risk management system.

The Audit Committee along with the management of the Company has reviewed the unaudited interim financial statements for the six months ended 30 September 2016 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 2016 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.

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 2016.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2016 (for the six months ended 30 September 2015: 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 2016 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, 28 November 2016

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.