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 2019

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 2019, together with the comparative figures for the previous corresponding period as follows:

FINANCIAL HIGHLIGHTS

- Revenue was approximately HK$1,168.3 million
- Gross profit was approximately HK$257.6 million
- Profit for the period attributable to ordinary equity holders of the Company was approximately HK$45.5 million
- Earnings per share (approximately)

Basic	HK2.01 cents
Diluted	HK2.01 cents

- The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2019

	Notes	**For the six months ended 30 September 2019** *HK$'000* **(Unaudited)**	For the six months ended 30 September 2018 *HK$'000* (Unaudited)
REVENUE	4	**1,168,321**	877,994
Cost of sales		**(910,718)**	(717,269)
Gross profit		**257,603**	160,725
Other income, gains and losses	4	**36,194**	10,328
Selling and distribution expenses		**(98,567)**	(124,063)
Administrative expenses		**(49,827)**	(42,991)
Other expenses		**–**	(4,601)
(Loss from impairment)/reversal of impairment, net		**(35,886)**	8,135
Finance costs	5	**(62,088)**	(47,473)
PROFIT/(LOSS) BEFORE TAX	6	**47,429**	(39,940)
Income tax expense	7	**–**	–
PROFIT/(LOSS) FOR THE PERIOD		**47,429**	(39,940)
ATTRIBUTABLE TO:			
ORDINARY EQUITY HOLDERS OF THE COMPANY		**45,497**	(40,046)
NON-CONTROLLING INTERESTS		**1,932**	106
		47,429	(39,940)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic (HK cents)	8	**2.01**	(1.76)
Diluted (HK cents)	8	**2.01**	(1.76)

Details of dividends are disclosed in note 11.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2019

	For the six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	**47,429**	(39,940)
OTHER COMPREHENSIVE EXPENSE		
Item that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(69,569)**	(131,077)
OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD, NET OF TAX	**(69,569)**	(131,077)
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD	**(22,140)**	(171,017)
ATTRIBUTABLE TO:		
ORDINARY EQUITY HOLDERS OF THE COMPANY	**(24,072)**	(171,123)
NON-CONTROLLING INTERESTS	**1,932**	106
	(22,140)	(171,017)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 September 2019

	Notes	**30 September 2019** ***HK$'000*** **(Unaudited)**	31 March 2019 *HK$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**24,674**	29,517
Right-of-use assets		**122,700**	–
Intangible asset		**8,300**	8,300
Financial assets at fair value through profit or loss ("FVTPL")		**122,324**	94,820
Deposits		**10,339**	8,290
Deferred tax assets		**4,000**	4,000
Total non-current assets		**292,337**	144,927
CURRENT ASSETS			
Inventories		**461,160**	1,028,129
Trade receivables	9	**202,697**	137,489
Prepayments, deposits and other receivables		**434,543**	981,827
Pledged deposits		**–**	58,466
Bank balances and cash		**483,088**	598,087
Total current assets		**1,581,488**	2,803,998
CURRENT LIABILITIES			
Trade and bills payables	10	**4,218**	518,994
Contract liabilities		**41,508**	236,822
Other payables and accruals		**191,780**	126,534
Interest-bearing bank and other borrowings		**125,701**	646,962
Lease liabilities		**30,766**	–
Bond payables		**458,387**	266,972
Amount due to a director		**1**	1
Tax payable		**56,303**	61,472
Total current liabilities		**908,664**	1,857,757
NET CURRENT ASSETS		**672,824**	946,241
TOTAL ASSETS LESS CURRENT LIABILITIES		**965,161**	1,091,168

	30 September 2019 HK$'000 (Unaudited)	31 March 2019 HK$'000 (Audited)
NON-CURRENT LIABILITIES		
Bond payables	**342,727**	542,417
Lease liabilities	**93,281**	–
Deferred tax liabilities	**5,000**	5,000
Total non-current liabilities	**441,008**	547,417
NET ASSETS	**524,153**	543,751
EQUITY		
Equity attributable to ordinary equity holders of the Company		
Issued capital	**226,010**	226,010
Reserves	**298,200**	319,730
	524,210	545,740
Non-controlling interests	**(57)**	(1,989)
TOTAL EQUITY	**524,153**	543,751

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2019

1. CORPORATE INFORMATION

Silver Base Group Holdings Limited (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 Conyers 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 Company and its subsidiaries (collectively referred to as the "**Group**") are 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, sugar, Chinese cigarettes and daily necessities.

Items included in the financial statement of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The interim condensed consolidated financial information is presented in Hong Kong dollars ("**HK$**"), rounded to the nearest thousand except when otherwise indicated. Hong Kong dollar is the Company's functional and the Group's presentation currency.

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information of the Group for the six months ended 30 September 2019 have been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 ("**HKAS 34**") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). This interim condensed consolidated financial information should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA.

Going concern basis

As at 30 September 2019, the Group's total bond payables and bank and other borrowings amounted to HK$926,815,000, of which HK$584,088,000 are classified as current liabilities. These current liabilities include the Group's bank and other borrowings of approximately HK$125,701,000 and bond payables of approximately HK$458,387,000 which are due for repayment within the next twelve months after 30 September 2019.

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 maintain 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) *Financing and fund raising activities*

The Group will actively negotiate with the banks and other financial institutions in the People's Republic of China ("**PRC**") to secure new financing arrangement to meet the Group's working capital and financial requirements in the near future. The Group will also 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 approximately HK$25,000,000 for the Group's working capital.

In the event that the Group cannot secure new financing arrangement for the repayment of bond payables and bank and other borrowings which will be due in the next twelve months after 30 September 2019, the Group plans to use its internal financial resources to repay the borrowings.

(2) *Maintaining profitable and positive cash flow operations*

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

In order to enhance the Group's online sale and marketing channels for its winery product, the Group has further upgraded its Business-to-Business platform to satisfy the demands of the market and to provide support to business members and for the promotion of the liquor products.

In addition, the Group will actively diversify its product mix for the existing national brand in order to enhance market position in the baijiu industry and diversify its 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 financial statements on a going concern basis.

2.2 PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2019, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are effective for the Group's financial year beginning on 1 April 2019.

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

The adoption of HKFRS 16 resulted in changes in the Group's accounting policies and adjustments to the amounts recognised in the interim condensed consolidated financial information. The application of other new and amendments to HKFRSs in the current interim period has had no material effects on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial information.

2.2.1 Impacts on adoption of HKFRS 16 *Leases*

HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The Group has applied HKFRS 16 *Leases* using the modified retrospective approach and has not restated comparatives information. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 17 *Leases*.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 April 2019.

The Group as lessee

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 *Leases* (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 ranged from 2.375% to 5.635%.

The Group recognises right-of-use assets and measures them at an amount equal to the lease liability.

The following table summarises the impact of transition to HKFRS 16 at 1 April 2019. Line items that were not affected by the adjustments have not been included.

	Note	**Carrying amount previously reported at 31 March 2019**	**Impact on adoption of HKFRS 16**	**Carrying amount as restated at 1 April 2019**
		HK$'000	*HK$'000*	*HK$'000*
		(Audited)		(Unaudited)
Right-of-use assets	(a)	–	155,832	155,832
Lease liabilities	(a)	–	(155,832)	(155,832)

Note:

(a) As at 1 April 2019, right-of-use assets were measured at an amount equal to the lease liability of approximately HK$155,832,000.

2.2.2 Practical expedients applied

On the date of initial application of HKFRS 16, the Group has used the following practical expedients permitted by the standard:

- not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*;

- reliance on previous assessments on whether leases are onerous by applying HKAS 37 as an alternative to performing an impairment review;

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases;

- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and

- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its products 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 sugar, Chinese cigarettes and others ("**Sugar, 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 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 2019 (Unaudited)

	Liquors *HK$'000*	Sugar, cigarettes and others *HK$'000*	Total *HK$'000*
Segment revenue:			
Sales to external customers	**1,165,391**	**2,930**	**1,168,321**
Foreign exchange losses, net	**(1,207)**	**–**	**(1,207)**
Changes in fair value of financial assets at FVTPL	**32,988**	**–**	**32,988**
Dividend income from financial assets at FVTPL	**2,144**	**–**	**2,144**
Total	**1,199,316**	**2,930**	**1,202,246**
Segment results	**107,161**	**310**	**107,471**
Reconciliation:			
Bank interest income			**1,225**
Gain on disposal of property, plant and equipment			**18**
Other gains			**803**
Finance costs			**(62,088)**
Profit before tax			**47,429**
Other segment information:			
Depreciation	**4,153**	**3**	**4,156**
Depreciation of right-of-use assets	**14,880**	**–**	**14,880**
Impairment allowance of trade receivables	**36,468**	**–**	**36,468**
Reversal of impairment allowance of prepayments and other receivables	**(582)**	**–**	**(582)**
Provision for inventories in respect of write-down to net realisable value	**1,628**	**–**	**1,628**
Capital expenditure*	**1,020**	**–**	**1,020**

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

Six months ended 30 September 2018 (Unaudited)

	Liquors *HK$'000*	Sugar, cigarettes and others *HK$'000*	Total *HK$'000*
Segment revenue:			
Sales to external customers	764,231	113,763	877,994
Foreign exchange gains, net	364	–	364
Changes in fair value of financial assets at FVTPL	7,108	–	7,108
Dividend income from financial assets at FVTPL	2,358	–	2,358
Total	774,061	113,763	887,824
Segment results	21,053	(9,417)	11,636
Reconciliation:			
Bank interest income			85
Other gains			413
Changes in fair value of derivative financial instrument			(4,601)
Finance costs			(47,473)
Loss before tax			(39,940)
Other segment information:			
Depreciation	3,418	7	3,425
Reversal of impairment allowance of prepayments and other receivables	(8,135)	–	(8,135)
Provision for inventories in respect of write-down to net realisable value	9,591	–	9,591
Capital expenditure*	8,600	–	8,600

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

4. REVENUE, OTHER INCOME, GAINS AND LOSSES

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue		
Types of goods		
Sales of liquor products	**1,165,391**	764,231
Sales of sugar, cigarettes and daily necessities	**2,930**	113,763
Total revenue from contracts with customers	**1,168,321**	877,994
Geographical location of customers		
Mainland China	**1,053,197**	648,620
Hong Kong and others	**115,124**	229,374
Total revenue from contracts with customers	**1,168,321**	877,994

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Other income, gains and losses		
Bank interest income	**1,225**	85
Dividend income from financial assets at FVTPL	**2,144**	2,358
Changes in fair value of financial assets at FVTPL	**32,988**	7,108
Foreign exchange difference, net	**(1,207)**	364
Gain on termination of a lease contract	**223**	–
Gain on disposal of property, plant and equipment	**18**	–
Others	**803**	413
	36,194	10,328

5. FINANCE COSTS

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings	**4,340**	1,151
Interest on bond payables	**53,893**	46,322
Interest on lease liabilities	**3,855**	–
	62,088	47,473

6. PROFIT/(LOSS) BEFORE TAX

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

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold**	**909,090**	707,678
Depreciation	**4,156**	3,425
Depreciation of right-of-use assets	**14,880**	–
Loss from impairment of trade receivables*	**36,468**	–
Reversal of impairment allowance of prepayments and other receivables*	**(582)**	(8,135)
Provision for inventories in respect of write-down to net realisable value**	**1,628**	9,591
Changes in fair value of financial instrument:		
Financial assets at FVTPL	**(32,988)**	(7,108)
Derivative financial instrument	**–**	4,601
Foreign exchange differences, net	**1,207**	(364)

* Included in "(Loss from impairment)/reversal of impairment, net"

** Included in "Cost of sales"

7. INCOME TAX EXPENSE

During the current period, no provision for Hong Kong profits tax and PRC Enterprise Income Tax was made as the Group had available tax losses brought forward from prior years to offset the assessable profits generated during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries or jurisdictions in which the Group operates.

8. EARNINGS/(LOSS) 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$45,497,000 (six months ended 30 September 2018: loss of HK$40,046,000), and the weighted average number of ordinary shares of 2,260,097,946 (six months ended 30 September 2018: 2,270,806,848) in issue during the period.

For the six months ended 30 September 2019 and 2018, the computation of diluted earnings/(loss) per share does not assume the exercise of the share options because the exercise price of those share options was higher than the average market price for the period.

9. TRADE RECEIVABLES

	30 September 2019	31 March 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**418,641**	326,359
Less: impairment allowance	**(215,944)**	(188,870)
Net trade receivables	**202,697**	137,489

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

	30 September 2019	31 March 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 2 months	**10,169**	44,548
2 to 6 months	**120,787**	28,726
6 months to 1 year	**23,468**	64,215
Over 1 year	**48,273**	–
	202,697	137,489

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 2019 *HK$'000* (Unaudited)	31 March 2019 *HK$'000* (Audited)
Within 1 month	**11**	2,779
1 month to 3 months	**174**	–
Over 3 months	**4,033**	516,215
	4,218	518,994

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 31 March 2019, the Group's bills payable amounted to HK$512,952,000 (30 September 2019: Nil) which were secured by the Group's pledged bank deposits of HK$58,466,000 (30 September 2019: Nil).

11. DIVIDENDS

The Company's directors do not recommend the payment of an dividend for the six months ended 30 September 2019 (six months ended 30 September 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

For the period ended 30 September 2019 (the "**Period under Review**"), the Group recorded a total revenue of approximately HK$1,168.3 million (corresponding period in 2018: HK$878.0 million), representing an increase of approximately 33.1% compared to the previous year. Excluding the provision for inventories, during the Period under Review, the Group's gross profit was approximately HK$259.2 million (corresponding period in 2018: HK$170.3 million). The gross profit margin before provision for inventories was approximately 22.2% (corresponding period in 2018: 19.4%), while the profit attributable to the ordinary equity holders of the Company was approximately HK$45.5 million (corresponding period in 2018: loss of HK$40.0 million). Basic earnings per share was approximately HK2.01 cents (corresponding period in 2018: basic loss per share of approximately HK1.76 cents).

During the Period under Review, the revenue generated from the PRC market and the international market accounted for approximately 90.1% (corresponding period in 2018: 73.9%) and approximately 9.9% (corresponding period in 2018: 26.1%) respectively.

Baijiu Business

According to the National Bureau of Statistics of the PRC (國家統計局), from January to August 2019, the accumulated sales revenue performance of sizable baijiu makers of the PRC was RMB360.2 billion, representing an increase of 11.0% compared to the corresponding period of the previous year; while cumulative total profit of sizable baijiu makers of the PRC was RMB88.2 billion, representing an increase of 22.3%[(1)] compared to the corresponding period of the previous year.

The demand for high-end baijiu has remained favourable throughout the year, and inventory is at a reasonably lower level compared to the corresponding period of the previous year. Household names have increased their allocation of resources in anticipation of peak season, which strengthened the visibility of financial results of liquor companies in 2019. In the meantime, liquor companies have adjusted their product mix and upgraded core products in recent years. Leading baijiu brands have increased their investment in the area of digitalisation to enhance the executive capabilities of their marketing teams and to improve the efficiency of channel management and consumer interaction, which consolidates the foundation for industrial development. As the trends of rejuvenation, fashionisation, globalisation and intellectualisation, it is expected that the Chinese baijiu market will enter a new "golden era."

[(1)] http://www.baijw.com/html/xwpd/xysj/31131.html

Wine and Cigarettes Business

The PRC is currently the world's fifth largest country in wine consumption. The demand for wine has continued to rise as wine has become more popular in the PRC. The Group expects China's wine market will continue to develop steadily and management will pay close attention to the development and changes in the market and make appropriate plans and adjustments. On the other hand, the revenue of the cigarette business during the Period under Review has increased when compared to the corresponding period of the previous year.

Non-alcohol Business

Since the fourth quarter of 2018, the Group has made relevant adjustments to this business after balancing cost, gross profit margin, and contribution to the total sales. The Group will continue to dedicate its resources mainly to its core alcohol business, and will undergo non-alcohol business operations after careful consideration of the best options available.

Wine Kingdom B2B Platform

Since 2016, a new retail concept has swept the business sector. From the initial B2C and B2B, to opening up "new retail" both online and offline with "smart features", the iterative update speed of alcohol e-commerce is continuing to accelerate. Opportunity for the development of new retail in the alcohol industry is indeed enormous. According to China Wine News Network, the total retail sales of alcohol in the PRC is approximately RMB1.5 trillion, however, the total market share of all alcohol e-commerce companies in the PRC is still less than 5% of the entire industry.

During the Period under Review, the Group has further upgraded the systems of its B2B platform to satisfy the demands of the market and our members. Through comprehensive services including increased collaboration with brands, recruitment of core members, and development of S2B2C product display and online transactions, the Group has built a new "Wine Kingdom" 2.0 smart business ecosystem, and will facilitate the alcohol industry to reach new heights by further adopting new media promotion and entertainment interaction.

Furthermore, the baijiu industry is exploring new markets, especially the market of new generations of customers. In order to attract new generations of customers and for them to acquire a taste for Chinese baijiu at an earlier stage, the Group has made a variety of attempts on the platform through utilising channels and means of communication which they are accustomed to, such as building "Wine Kingdom" self-media matrices and collaborating with online influencers.

Outlook and Future Development

After experiencing short-term pain from industry adjustments, market recovery, and a concentrated burst of new power in recent years, the traditional baijiu industry finally embraces positive trends. Since 2018, the rapid growth of the revenue and profit of the Chinese baijiu industry has continued to accelerate, which paints an imaginative picture for the industry.

Currently, under the background of digital economy, the economy lives in the era of smart city 3.0. The industry is no longer confined to internet interactions, but has expanded to deeper environments, to provide digitalised services for scenarios in real life. In the next three to five years, big data has profound implications and impact on the baijiu industry for developing brand name and increasing sales. As a national baijiu distributor in the PRC, the Group will continue to utilise the more established "Wine Kingdom" B2B platform empowered by big data, in order to create a scenario for baijiu e-commerce which better suits market needs and to increase overall revenue.

In addition, with overseas market becoming a new arena for Chinese baijiu, the Group will also strive to establish its footholds in other Eastern European countries, including the Czech Republic, Hungary, and Slovakia. In terms of management, the Group will continue to optimise organisational structure, increase per capita performance, and respond to ever-changing market conditions in a more flexible and nimble way.

With the optimisation of business composition, the upgrade of the B2B platform and business reputation and impact accumulated over many years, the Group is confident to remain in the leading position of baijiu operations.

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 2019, the Group recorded a total revenue of approximately HK$1,168.3 million, representing an increase of approximately 33.1% compared to a total revenue of approximately HK$878.0 million for the six months ended 30 September 2018. For the six months ended 30 September 2019, approximately 90.1% of revenue was derived from the PRC market (corresponding period in 2018: 73.9%).

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 2019 (corresponding period in 2018: 87.0%) while the revenue derived from the distribution of sugar, cigarettes and others represented approximately 0.3% of the total revenue for the six months ended 30 September 2019 (corresponding period in 2018: 13.0%).

The Group's gross profit for the six months ended 30 September 2019 approximately was HK$257.6 million (corresponding period in 2018: HK$160.7 million). The increase in gross profit was mainly due to the significant increase 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 2019 was approximately HK$259.2 million (corresponding period in 2018: HK$170.3 million), the gross profit ratio before provision for inventories approximately was 22.2% (corresponding period in 2018: 19.4%).

Other Income, Gains And Losses

Other income, gains and losses amounted to approximately HK$36.2 million for the six months ended 30 September 2019 (corresponding period in 2018: HK$10.3 million). Such increase was mainly due to dividend income from and changes in fair value of financial assets at fair value through profit or loss.

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$98.6 million (corresponding period in 2018: HK$124.1 million) accounting for approximately 8.4% (corresponding period in 2018: 14.1%) of the revenue of the Group for the six months ended 30 September 2019. Such decrease was mainly due to reasonable planning of resources allocated for marketing expenses and decrease in storage and transportation costs.

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$49.8 million (corresponding period in 2018: HK$43.0 million) accounting for approximately 4.3% (corresponding period in 2018: 4.9%) of the revenue of the Group for the six months ended 30 September 2019. Such increase was mainly due to the increase in salaries and wages for administrative personnel.

(Loss from Impairment)/Reversal of Impairment, Net

Loss recorded in this account amounted to approximately HK$35.9 million (corresponding period in 2018: HK$8.1 million) for the six months ended 30 September 2019. The change was mainly due to the increase in impairment of trade receivables during the period.

Finance Costs

Finance costs amounted to approximately HK$62.1 million (corresponding period in 2018: HK$47.5 million) representing approximately 5.3% (corresponding period in 2018: 5.4%) of the Group's revenue for the six months ended 30 September 2019. The finance costs include interest on bank and other loans, interest on bond payables and interest on lease liabilities. Such increase was mainly due to the increase in interest on bond payables and interest on lease liabilities.

Income Tax Expense

During the current period, no provision for Hong Kong profits tax and PRC Enterprise Income Tax was made as the Group had available tax losses brought forward from prior years to offset the assessable profits generated during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries or jurisdictions in which the Group operates.

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 2019 amounted to approximately HK$45.5 million (corresponding period in 2018: loss of HK$40.0 million).

Dividends

The Company did not pay any interim dividend for the six months ended 30 September 2018 and any final dividend for the year ended 31 March 2019.

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2019.

Inventories

As at 30 September 2019, the Group's inventories was approximately HK$461.2 million (31 March 2019: HK$1,028.1 million). The decrease was mainly due to the sharply increase in the sales volume during the period.

Trade Receivables

The Group has adopted stringent credit policy. In prior years, the Group 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 credit sales and credit terms granted by the Group to the customers.

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$215.9 million (31 March 2019: HK$188.9 million) had been made by the Group as at 30 September 2019.

As at 30 September 2019, the trade receivables, net of provision were approximately HK$202.7 million (31 March 2019: HK$137.5 million). Approximately 5.0% of the net trade receivables were aged within two months as at 30 September 2018 (31 March 2019: 32.4%).

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 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 and B2B business.

Up to the date of this announcement, the Group's subsequent settlement of the trade receivables was approximately HK$103.5 million.

Trade and Bills Payables

As at 30 September 2019, the trade and bills payables was approximately HK$4.2 million (as at 31 March 2019: HK$519.0 million). The decrease in trade and bills payables was due to the outstanding bills payables were settled during the period.

Liquidity and Financial Resources

As at 30 September 2019, the Group had bank balances and cash of approximately HK$483.1 million (31 March 2019: HK$598.1 million), approximately 90.7% (31 March 2019: 78.8%) of which was denominated in RMB, approximately 5.7% (31 March 2019: 17.1%) of which was denominated in Hong Kong dollars and approximately 3.6% (31 March 2019: 4.1%) of which was denominated in other currencies. The decrease in cash and cash equivalents was mainly due to the increase in cash in used operating activities. As at 30 September 2019, the Group's net current assets were approximately HK$672.8 million (31 March 2019: HK$946.2 million).

Capital Structure of the Group

Total interest-bearing bank and other borrowings as at 30 September 2019 was approximately HK$125.7 million (31 March 2019: HK$647.0 million) which were bank loan and other loan. All (31 March 2019: 100%) of which were denominated in RMB.

The Group's bank loan in the amount of HK$21.1 million (31 March 2019: HK$64.1 million) containing a repayment on demand clause and therefore included within current liabilities.

Based on the maturity terms of the bank loan, the amount is repayable in full within one year (31 March 2019: HK$64.1 million).

The Group's other loan was denominated in RMB. The amount is repayable in full within one year.

During the period ended 30 September 2019, the Group issued bonds with an aggregate principal amount of HK$27.0 million before related expenses of HK$4.7 million, to certain independent individuals. The 2019 Bonds bear interest at rates 7% per annum and will mature in the period from June 2022 to September 2022. 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, contract liabilities, other payables and accruals, amount due to a director, bond payables and lease liabilities less bank balances and cash. Total capital represents equity attributable to the ordinary equity holders of the Company. As at 30 September 2019, the gearing ratio was approximately 60.6% (31 March 2019: 76.1%).

Employment and Remuneration Policy

The Group had a total work force of 260 employees in Hong Kong and the PRC as at 30 September 2019 (31 March 2019: 293 employees). The total salaries and related costs (including Directors' fee) amounted to approximately HK$55.4 million for the six month ended 30 September 2019 (31 March 2019: HK$114.9 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 Schemes

On 20 February 2009, the Company approved and adopted a share option scheme (the "**2009 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 2009 Share Option Scheme include, but not limited to, employees, Directors and any other eligible persons.

The 2009 Share Option Scheme had expired on 19 February 2019. On 23 August 2019, the shareholders of the Company approved a new share option scheme (the "**2019 Share Option Scheme**"). Details of the 2019 Share Option Scheme are set out in the mandate circular of the Company dated 19 July 2019. As at 30 September 2019, the maximum number of share which may be issued upon exercise of all outstanding options granted under the 2009 Share Option Scheme and 2019 Share Option Scheme is 217,950,000 shares.

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 District People's 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 approximately RMB20.1 million (equivalent to approximately HK$22.3 million) in total.

According to a judgement dated 25 August 2015 issued by the PRC District People's Court, the Group was liable to buy back certain inventories from the Plaintiff with a total consideration of approximately RMB18.9 million (equivalent to approximately HK$21.0 million). The Group has filed an appeal for such judgement to the PRC District People's Court in September 2015. According to a judgement dated 7 January 2016 issued by the PRC District People's 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 interim condensed consolidated 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 financial statements to cover any potential liabilities arising from the Claim.

EXTRACT OF REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

"Material uncertainty related to going concern

We draw attention to note 2.1 to the interim condensed consolidated financial information, as at 30 September 2019, the Group recorded outstanding bond payables of HK$458,387,000 and bank and other borrowings of HK$125,701,000 which are due for repayment within the next twelve months after 30 September 2019. The Group's ability to continue as going concern is dependent on the ongoing availability of external finance to the Group and results of other measures as disclosed in note 2.1 to the interim condensed consolidated financial information. The above conditions indicated that a material uncertainty exists that may cast significant doubt on the Group's abilities to continue as a going concern. Our conclusion is not modified in respect of this matter."

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 2019.

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 2019.

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 2019 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 2019 had not been audited but had been reviewed by the independent auditors of the Company.

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. Chen Xiaoxu. Mr. Hung Sui Kwan is the chairman of the Compliance Committee.

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

Reference is made to the announcements of the Company dated 26 April 2018 and 9 August 2019. On 26 April 2018, the Group entered into an agreement (the "**Acquisition Agreement**") with Mr. Chen Xiaolong ("**Mr. Chen**"), an independent third party, pursuant to which Mr. Chen conditionally agreed to sell and the Group conditionally agreed to acquire 51% of the issued shares of the target company and its subsidiary at a maximum total consideration of RMB18,000,000, which will be satisfied by the issue of up to 12,000,000 consideration Shares.

However, as the Company and Mr. Chen could not reach a consensus on the adjustment of the adjustment of the consideration Shares for Performance Period I, the parties agreed to mutually terminate the Acquisition Agreement. Accordingly, on 9 August 2019, Mr. Chen and the Group entered into a termination agreement to terminate the Acquisition Agreement. As a result, all the antecedent obligations and liabilities of the parties were absolutely discharged. The Company is of the view that the termination of the Acquisition Agreement will have no material adverse impact on the financial position and business operation of the Company.

Save as disclosed above, 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 2019.

EVENTS AFTER BALANCE SHEET DATE

The Group has no significant subsequent events occurred after the balance sheet date.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2019 (corresponding period in 2018: 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 2019 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, 21 November 2019

As at the date of this announcement, the Board comprises Mr. Liang Guoxing (Chairman), Mr. Yan Jun (Chief Executive Officer) and Ms. Chen Xiaoxu as executive Directors; Mr. Wu Jie Si as non-executive Director; 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.