

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2020

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 2020, together with the comparative figures for the previous corresponding period as follows:

FINANCIAL HIGHLIGHTS

- Revenue was approximately HK\$674.9 million
- Gross profit was approximately HK\$174.9 million
- Profit for the period attributable to ordinary equity holders of the Company was approximately HK\$90.5 million
- Earnings per share (approximately)

Basic	HK4.00 cents
Diluted	HK4.00 cents
- The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2020

		For the six months ended	
		30 September	
		2020	2019
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Notes</i>	(Unaudited)	(Unaudited)
REVENUE	4	674,896	1,168,321
Cost of sales		<u>(499,982)</u>	<u>(910,718)</u>
Gross profit		174,914	257,603
Other income, gains and losses	4	138,771	36,194
Selling and distribution expenses		(106,861)	(98,567)
Administrative expenses		(41,942)	(49,827)
Impairment loss, net		(8,928)	(35,886)
Finance costs	5	(80,466)	(62,088)
Gain arising from modification of bonds		<u>15,864</u>	<u>–</u>
PROFIT BEFORE TAX	6	91,352	47,429
Income tax expenses	7	<u>–</u>	<u>–</u>
PROFIT FOR THE PERIOD		<u>91,352</u>	<u>47,429</u>
ATTRIBUTABLE TO:			
ORDINARY EQUITY HOLDERS			
OF THE COMPANY		90,515	45,497
NON-CONTROLLING INTERESTS		<u>837</u>	<u>1,932</u>
		<u>91,352</u>	<u>47,429</u>
EARNINGS PER SHARE ATTRIBUTABLE			
TO ORDINARY EQUITY HOLDERS OF			
THE COMPANY			
Basic (HK cents)	8	<u>4.00</u>	<u>2.01</u>
Diluted (HK cents)	8	<u>4.00</u>	<u>2.01</u>

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 2020

	For the six months ended	
	30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	91,352	47,429
OTHER COMPREHENSIVE INCOME/ (EXPENSES):		
<i>Item that may be reclassified subsequently to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	50,573	(69,569)
OTHER COMPREHENSIVE INCOME/ (EXPENSES) FOR THE PERIOD, NET OF NIL TAX	50,573	(69,569)
TOTAL COMPREHENSIVE INCOME/ (EXPENSES) FOR THE PERIOD	141,925	(22,140)
ATTRIBUTABLE TO:		
ORDINARY EQUITY HOLDERS OF THE COMPANY	141,088	(24,072)
NON-CONTROLLING INTERESTS	837	1,932
	141,925	(22,140)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

		30 September 2020 <i>HK\$'000</i> (Unaudited)	31 March 2020 <i>HK\$'000</i> (Audited)
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		12,610	14,571
Right-of-use assets		55,277	53,429
Intangible asset		8,300	8,300
Financial assets at fair value through profit or loss (“FVTPL”)		245,977	112,012
Deposits		163,451	153,125
Deferred tax assets		4,000	4,000
		489,615	345,437
CURRENT ASSETS			
Inventories		281,932	355,605
Other investments		86,514	–
Trade and bills receivables	9	88,344	93,387
Prepayments, deposits and other receivables		590,576	350,814
Pledged deposits		133,384	–
Bank balances and cash		607,698	698,525
		1,788,448	1,498,331
CURRENT LIABILITIES			
Trade and bills payables	10	483,520	3,783
Other payables and accruals		223,165	182,890
Contract liabilities		29,704	312,704
Interest-bearing bank and other borrowings		80,798	84,277
Lease liabilities		25,001	25,392
Bond payables		442,501	518,128
Amount due to a director		106,568	91,840
Tax payable		57,676	55,644
		1,448,933	1,274,658
NET CURRENT ASSETS		339,515	223,673
TOTAL ASSETS LESS CURRENT LIABILITIES		829,130	569,110

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
NON-CURRENT LIABILITIES		
Bond payables	241,077	209,948
Interest-bearing bank and other borrowings	82,100	–
Lease liabilities	57,516	56,252
Deferred tax liabilities	5,000	5,000
	<u>385,693</u>	<u>271,200</u>
NET ASSETS	<u>443,437</u>	<u>297,910</u>
EQUITY		
Equity attributable to ordinary equity holders of the Company		
Issued capital	226,010	226,010
Reserves	212,054	70,777
	<u>438,064</u>	<u>296,787</u>
Non-controlling interests	<u>5,373</u>	<u>1,123</u>
TOTAL EQUITY	<u>443,437</u>	<u>297,910</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 September 2020

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 shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). 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 25th Floor, One Hennessy, 1 Hennessy 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, Chinese cigarettes and others.

Items included in the financial statements 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 condensed consolidated interim financial information is presented in Hong Kong dollars (“**HK\$**”), rounded to the nearest thousand except when otherwise indicated. The functional currency of the Company and the presentation currency of the Group is HK\$.

2.1 BASIS OF PREPARATION

The condensed consolidated interim financial information of the Group for the six months ended 30 September 2020 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 and with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

Preparation of the condensed consolidated interim financial information requires the directors of the Company to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The condensed consolidated interim financial information includes an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 31 March 2020, and therefore, do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) which collective term includes all applicable individual HKFRSs, HKASs and Interpretations issued by HKICPA. It should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2020 (the “**2020 Audited Financial Statements**”).

In preparing the condensed consolidated interim financial information, significant judgements made by the directors of the Company in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those that applied in the 2020 Audited Financial Statements.

The condensed consolidated interim financial information is unaudited, but has been reviewed by the Company's audit committee and the Company's external auditor in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

Going concern basis

As at 30 September 2020, the Group's total bond payables and interest-bearing bank and other borrowings amounted to HK\$846,476,000, of which HK\$523,299,000 are classified as current liabilities. These current liabilities include the Group's interest-bearing bank and other borrowings of approximately HK\$80,798,000 and bond payables of approximately HK\$442,501,000 which are due for repayment within the next twelve months after 30 September 2020.

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 is actively negotiating with the banks and other financial institutions in the People's Republic of China (the "PRC") to secure new financing arrangement to meet the Group's working capital and financial requirements in the near future. The Group is also actively seeking opportunities to carry out fund raising activities including but not limited to issuance of bonds as alternative sources of funding. Subsequent to 30 September 2020, the Group has renewed certain bond payables with an aggregate principal amount of approximately HK\$144,400,000 for the Group's working capital and secured a new other borrowing of approximately HK\$56,900,000 with a financial institution in the PRC.

In the event that the Group cannot secure new financing arrangement for the repayment of bond payables and interest-bearing bank and other borrowings which will be due in the next twelve months after 30 September 2020, the Group plans to use its internal financial resources to repay the liabilities.

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

The Group is taking measures to tighten cost controls over various costs and expenses to diversify the Group's sales channels and product mix and to optimise the assets mix with the aim to maintain its profitable and positive cash flow operations.

(3) A director of the Company has agreed not to demand for any repayment due to him of HK\$106,568,000 as at 30 September 2020 within the next twelve months and until the Group is in a financial position to do so.

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 condensed consolidated interim financial information on a going concern basis.

2.2 PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated interim financial information for the six months ended 30 September 2020 are consistent with those followed in the preparation of the 2020 Audited Financial Statements except as described below.

In the current period, the Group has applied, for the first time, the following new/revised HKFRSs issued by the HKICPA which are effective for the Group's financial year beginning on 1 April 2020:

Amendments to HKASs 1 and 8	Definition of Material
Amendments to HKAS 39, HKFRSs 7 and 9	Interest Rate Benchmark Reform-Phase 1
Amendments to HKFRS 3	Definition of a Business

The adoption of the new/revised HKFRSs for current period does not have any significant impact on the Group's results and financial position for the current or prior periods and does not result in any significant change in accounting policies of the Group.

At the date of authorisation of the condensed consolidated interim financial information, the HKICPA has issued a number of new/revised HKFRSs that are not yet effective for the current period, which the Group has not early adopted. The directors of the Company do not anticipate that the adoption of the new/revised HKFRSs in future periods will have any material impact on the results and financial position of the Group.

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 Chinese cigarettes and others ("**Cigarettes and others**").

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

	Liquors <i>HK\$'000</i>	Cigarettes and others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 September 2020			
(Unaudited)			
Revenue from external customers and reportable segment revenue	674,896	–	674,896
Gross profit	174,914	–	174,914
Other income, gains and losses	136,938	–	136,938
Selling and distribution expenses	(106,861)	–	(106,861)
Administrative expenses	(41,942)	–	(41,942)
Impairment loss, net	(8,928)	–	(8,928)
Segment results	154,121	–	154,121
<i>Reconciliation:</i>			
Bank interest income			117
Interest income received from other investments			795
Other gains			921
Finance costs			(80,466)
Gain arising from modification of bonds			15,864
Profit before tax			91,352
Income tax expenses			–
Profit for the period			91,352
<i>Additional segment information:</i>			
Depreciation of property, plant and equipment	3,898	–	3,898
Depreciation of right-of-use assets	15,973	–	15,973
Loss from impairment of trade and bills receivables, net	5,869	–	5,869
Loss from impairment of prepayments and other receivables, net	3,059	–	3,059
Provision for inventories in respect of write-down to net realisable value	6,989	–	6,989
<i>Additions to non-current assets</i>			
– property, plant and equipment	1,233	–	1,233
– right-of-use assets	21,766	–	21,766

	Liquors <i>HK\$'000</i>	Cigarettes and others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 September 2019 (Unaudited)			
Revenue from external customers and reportable segment revenue	1,165,391	2,930	1,168,321
Gross profit	256,378	1,225	257,603
Other income, gains or losses	34,166	–	34,166
Selling and distribution expenses	(98,138)	(429)	(98,567)
Administrative and other operating expenses	(49,341)	(486)	(49,827)
Impairment loss, net	(35,886)	–	(35,886)
Segment results	107,179	310	107,489
<i>Reconciliation:</i>			
Bank interest income			453
Interest income received from other investments			772
Other gains			803
Finance costs			(62,088)
Profit before tax			47,429
Income tax expenses			–
Profit for the period			47,429
<i>Additional segment information:</i>			
Depreciation of property, plant and equipment	4,153	3	4,156
Depreciation of right-of-use assets	14,880	–	14,880
Loss from impairment of trade and bills receivables, net	36,468	–	36,468
Reversal of impairment allowance of prepayments and other receivables, net	(582)	–	(582)
Provision for inventories in respect of write-down to net realisable value	1,628	–	1,628
Additions to non-current assets			
– property, plant and equipment	1,020	–	1,020
– right-of-use assets	22,792	–	22,792

4. REVENUE AND OTHER INCOME, GAINS AND LOSSES

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All revenue from contracts with customers is recognised at a point in time.

	Six months ended	
	30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue		
<i>Disaggregated by type of goods</i>		
Sales of liquor products	674,896	1,165,391
Sales of cigarettes and others	–	2,930
	<hr/>	<hr/>
Total revenue from contracts with customers within the scope of HKFRS 15	674,896	1,168,321
	<hr/> <hr/>	<hr/> <hr/>
<i>Disaggregated by geographical location of customers</i>		
The PRC	513,455	1,053,197
Hong Kong and others	161,441	115,124
	<hr/>	<hr/>
Total revenue from contracts with customers within the scope of HKFRS 15	674,896	1,168,321
	<hr/> <hr/>	<hr/> <hr/>

The significant decrease in contract liabilities as at 30 September 2020 was mainly due to the successful delivery of liquor products to customers, which advanced payments to the Group as at 31 March 2020, during the six months ended 30 September 2020.

	Six months ended	
	30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Other income, gains and losses		
Bank interest income	117	453
Interest income received from other investments	795	772
Dividend income from financial assets at FVTPL	2,598	2,144
Changes in fair value of financial assets at FVTPL	133,965	32,988
Foreign exchange losses, net	(1,187)	(1,207)
Gain on termination of a lease contract	65	223
Gain on disposal of property, plant and equipment	–	18
Government grants (<i>Note</i>)	1,497	–
Others	921	803
	<hr/>	<hr/>
	138,771	36,194
	<hr/> <hr/>	<hr/> <hr/>

Note:

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the years necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account/recognised as a deduction from the carrying amount of the relevant asset and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

The government grants granted to the Group had no condition attached and were recognised in the profit or loss during the six months ended 30 September 2020.

5. FINANCE COSTS

	Six months ended	
	30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest on interest-bearing bank and other borrowings	2,755	4,340
Interest on bond payables	74,742	53,893
Interest on lease liabilities	2,969	3,855
	<u>80,466</u>	<u>62,088</u>

6. PROFIT BEFORE TAX

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

	Six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Employee benefit expenses (including directors' remuneration)		
– Wages, salaries, allowances and other benefits	39,855	47,815
– Contributions to defined contribution plans	1,836	4,997
– Equity-settled share option expenses	189	2,542
	<u>41,880</u>	<u>55,354</u>
Other items		
Cost of inventories sold**	492,993	909,090
Depreciation of property, plant and equipment	3,898	4,156
Depreciation of right-of-use assets	15,973	14,880
Expense relating to short-term leases	3,894	7,046
Loss from impairment of trade and bill receivables, net*	5,869	36,468
Loss/(reversal) of impairment allowance of prepayments and other receivables, net*	3,059	(582)
Provision for inventories in respect of write-down to net realisable value**	6,989	1,628
Changes in fair value of financial assets at FVTPL	(133,965)	(32,988)
Foreign exchange losses, net	1,187	1,207
	<u>1,187</u>	<u>1,207</u>

* Included in "Impairment loss, net"

** Included in "Cost of sales"

7. INCOME TAX EXPENSES

For the six months ended 30 September 2020 and 2019, no provision for Hong Kong Profits Tax and the 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 reporting 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 for both six months ended 30 September 2020 and 2019.

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

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the Company of approximately HK\$90,515,000 (six months ended 30 September 2019: approximately HK\$45,497,000), and the weighted average number of ordinary shares of 2,260,097,946 (six months ended 30 September 2019: 2,260,097,946) in issue during the current period.

For the six months ended 30 September 2020 and 2019, the computation of diluted earnings 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.

Diluted earnings per share were same as the basic earnings per shares as there were no potentially dilutive ordinary shares in existence during the six months ended 30 September 2020 and 2019.

9. TRADE AND BILLS RECEIVABLES

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Trade receivables	329,910	320,271
Less: impairment allowance	(241,566)	(229,237)
Net trade receivables	88,344	91,034
Bills receivables	–	2,353
	88,344	93,387

The Group normally allows a credit period of 3 months to 1 year to its customers except for certain major customers where longer credit terms may be granted upon approval by the management of the Group. The credit terms of bill receivables are generally 6 months. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management of the Group. Over 84% (31 March 2020: 87%) of the trade and bills receivables balances as at 30 September 2020 represented receivables from top 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.

The aging analysis of trade and bills receivables at the end of the reporting period, based on the invoice date and net of impairment allowance, is as follows:

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Within 2 months	16,618	12,667
2 to 6 months	5,958	5,423
6 months to 1 year	439	9,703
Over 1 year	65,329	65,594
	88,344	93,387

10. TRADE AND BILLS PAYABLES

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Trade payables	11,822	3,783
Bills payables	471,698	–
	483,520	3,783

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

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Within 1 month	1,531	147
1 month to 3 months	1,115	575
Over 3 months	9,176	3,061
	11,822	3,783

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

The bills payables are non-interest-bearing and repayable within two months to 1 year since its inception.

As at 30 September 2020, the Group's bills payables amounted to approximately HK\$29,016,000 and approximately RMB389,000,000 (equivalent to approximately HK\$442,682,000) (31 March 2020: Nil) which were secured by the Group's pledge bank deposits of approximately HK\$44,620,000 (31 March 2020: Nil).

11. DIVIDENDS

The directors of the Company do not recommend the payment of any dividend for the six months ended 30 September 2020 (six months ended 30 September 2019: Nil).

12. EVENTS AFTER THE REPORTING PERIOD

In November 2020, the Group has secured a new other borrowing of approximately RMB50,000,000 (equivalent to approximately HK\$56,900,000) with a financial institution in the PRC. The new other borrowing bear interest at 4.75% per annum and repayable within 1 year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

For the period ended 30 September 2020 (the “**Period under Review**”), the Group recorded a total revenue of approximately HK\$674.9 million (corresponding period in 2019: approximately HK\$1,168.3 million), representing a decrease of approximately 42.2% compared with the same period of last year. Excluding the provision for inventories, during the Period under Review, the Group’s gross profit was approximately HK\$181.9 million (corresponding period in 2019: approximately HK\$259.2 million). The gross profit margin before provision for inventories was approximately 27.0% (corresponding period in 2019: approximately 22.2%), while the profit attributable to the ordinary equity holders of the Company was approximately HK\$90.5 million (corresponding period in 2019: approximately HK\$45.5 million). Basic earnings per share was approximately HK4.00 cents (corresponding period in 2019: approximately HK2.01 cents). During the Period under Review, the revenue generated from the PRC market and the international market accounted for approximately 76.1% (corresponding period in 2019: approximately 90.1%) and approximately 23.9% (corresponding period in 2019: approximately 9.9%) respectively.

Baijiu Industry

According to the National Bureau of Statistics of the PRC, from January to June 2020, the output and sales revenue of baijiu enterprises above designated size amounted to 3,501,500 kiloliters and over RMB270.0 billion respectively, representing a decrease of 8.6% and 1.3% respectively. During the same period, 17 listed baijiu companies recorded revenue of over RMB120.0 billion, increased 2.3% year-on-year, and their net profit amounted to more than RMB47.0 billion, increased 8.1% year-on-year[^]. The statistics indicate that despite the impact of the COVID-19 pandemic, both the revenue and profits of listed baijiu companies are significantly higher than the industry average, implying increased market concentration.

The pandemic has led to significant changes in the economic environment, market demand and consumption patterns, at the same time, the baijiu consumption landscape has been facing restrictions under the anti-epidemic measures and regulations. As a result, the entire baijiu industry was under greater pressure in the first half of 2020. With significant achievements in the prevention and control of the epidemic, coupled with the launch of various programs to stimulate consumption across the country, dining and retailing industries gradually recovered. Under the celebrative atmosphere of the National Day and Mid-Autumn Festival, together with the increase in banquets for wedding and other occasions and family and friends gatherings, the sales of alcoholic beverages gained stronger momentum, high-end baijiu in particular has shown its profound advantage and strong resilience against risk during the unprecedented times.

From the medium-to-long-term perspective, the development trend of the baijiu industry and the intrinsic value of baijiu enterprises will not be significantly affected by the pandemic. A marked improvement is envisaged from the third quarter onwards.

[^] <https://finance.sina.com.cn/jjxw/2020-09-08/doc-iivhuipp3129417.shtml>

E-commerce Business

The COVID-19 pandemic has dealt a serious blow to the offline distribution channels of domestic liquor, and baijiu enterprises have been rushing to propose new internet-based marketing and new retail strategies and also actively promoted “online + offline” integration, which has brought the retail model of the baijiu industry into another era of fast-paced transformation. Since the launch of the Group’s Wine Kingdom B2B Platform in 2016, the Group has been relentless in optimising the platform’s functions to enhance user experience and provide business members with better services tailored to their specific needs. The Group has also kick-started various promotion campaigns targeting younger generations who pursue more energetic, more personalised and more diversified consumption experience.

Wine Business

The 2020 pandemic has caused a slowdown in sales momentum of wine as both supply and demand have declined. Meanwhile, the spread of the pandemic across the globe has brought uncertainty and impacted the production and transportation of imported wine. The Group expects the alcoholic beverages market in the PRC will recover gradually as the pandemic is temporarily under control, but it will remain challenging in the short term. Our management team will closely monitor market developments and changes and make appropriate plans and adjustments accordingly.

Outlook and Future Development

The impact of the pandemic on the industry was short-lived, as evidenced by the continuous containment of the COVID-19 pandemic in the PRC and the healthy recovery of the Chinese baijiu market. The impact of the pandemic accelerated the industry’s advancement into the information era, and as the PRC officially entered the 5G and big data era, the development of artificial intelligence accelerated, consumers will pursue a more satisfying shopping experience in terms of pace and visual enjoyment. The baijiu industry chain in the PRC will face more demanding challenges in the area of smarter applications.

With the gradual implementation of the new retail model and the integration of online and offline channels, the industry will embark on a new stage of development. Based on its established e-commerce business, the Group will continue to make appropriate adjustments and optimisations in terms of cost, efficiency, customer experience and structure so as to keep pace with market development. The Group is confident that with the adjustments to its business portfolio and the reputation and influence it has established and built up over the years, it will continue to strengthen its advantages and maintain its leading position in the baijiu industry despite adversities.

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 2020, the Group recorded a total revenue of approximately HK\$674.9 million, representing a decrease of approximately 42.2% compared to a total revenue of approximately HK\$1,168.3 million for the six months ended 30 September 2019. For the six months ended 30 September 2020, approximately 76.1% of revenue was derived from the PRC market (corresponding period in 2019: 90.1%) and approximately 23.9% of revenue was derived from the international market (corresponding period in 2019: 9.9%).

The Group's revenue derived from the distribution of liquors represented 100.0% of the total revenue for the six months ended 30 September 2020 (corresponding period in 2019: 99.7%) while the revenue derived from the distribution of cigarettes and others represented 0.0% of the total revenue for the six months ended 30 September 2020 (corresponding period in 2019: 0.3%).

The Group's gross profit for the six months ended 30 September 2020 was approximately HK\$174.9 million (corresponding period in 2019: approximately HK\$257.6 million). The decrease in gross profit was mainly due to the decrease in sales volume during the period due to the influence of COVID-19 pandemic. Excluding the factor of provision for inventories, the Group's gross profit for the six months ended 30 September 2020 was approximately HK\$181.9 million (corresponding period in 2019: approximately HK\$259.2 million), the gross profit ratio before provision for inventories was approximately 27.0% (corresponding period in 2019: approximately 22.2%).

Other Income, Gains and Losses

Other income, gains and losses amounted to approximately HK\$138.8 million for the six months ended 30 September 2020 (corresponding period in 2019: approximately HK\$36.2 million). Such increase was mainly due to the increase in changes in fair value of financial assets at fair value through profit or loss. The financial assets at fair value through profit or loss represents the subscription of 5.56% of an investment fund with original cost of HK\$26.3 million where the fund has participated in a share placement exercise initiated by Wuliangye Yibin Co., Ltd. This investment has a lock-up period of 3 years from the commencement date of the investment fund on 20 April 2018.

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\$106.9 million (corresponding period in 2019: approximately HK\$98.6 million) accounting for approximately 15.8% (corresponding period in 2019: approximately 8.4%) of the revenue of the Group for the six months ended 30 September 2020. Such increase was mainly due to the increase in marketing and promotion expenses.

Administrative Expenses

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

Administrative expenses amounted to approximately HK\$41.9 million (corresponding period in 2019: approximately HK\$49.8 million) accounting for approximately 6.2% (corresponding period in 2019: approximately 4.3%) of the revenue of the Group for the six months ended 30 September 2019. Such decrease was mainly due to the decrease in salaries and wages for administrative personnel and bank charges.

Impairment loss, Net

Loss recorded in this account amounted to approximately HK\$8.9 million (corresponding period in 2019: approximately HK\$35.9 million) for the six months ended 30 September 2020. The change was mainly due to the decrease in loss from impairment of trade and bills receivables during the period.

Finance Costs

Finance costs amounted to approximately HK\$80.5 million (corresponding period in 2019: approximately HK\$62.1 million) representing approximately 11.9% (corresponding period in 2019: approximately 5.3%) of the Group's revenue for the six months ended 30 September 2020. The finance costs include interest on interest-bearing bank and other borrowings, interest on bond payables and interest on lease liabilities. Such increase was mainly due to the increase in the interest on bond payables.

Income Tax Expenses

For the six months ended 30 September 2020 and 2019, no provision for Hong Kong profits tax and the 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 reporting 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 for both six months ended 30 September 2020 and 2019.

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 2020 amounted to approximately HK\$90.5 million (corresponding period in 2019: approximately HK\$45.5 million).

Dividends

The Company did not pay any interim dividend for the six months ended 30 September 2019 and any final dividend for the year ended 31 March 2020.

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2020.

Inventories

As at 30 September 2020, the Group's inventories was approximately HK\$281.9 million (31 March 2020: approximately HK\$355.6 million). The decrease in inventories was mainly due to increased sales of existing inventories during the period.

Other Investments

As at 30 September 2020, the Group's other investments was approximately HK\$86.5 million (31 March 2020: Nil). The other investments are the unlisted investments in principal unguaranteed funds (the "Funds"). The Funds were placed with a bank in the PRC. The Funds can be redeemed from time to time. The Funds are unlisted investment funds which mainly invested in bank deposit, bank debentures, standardised credit assets and other investments in the PRC with high credit rating.

Trade and Bills Receivables

The Group has adopted stringent credit policy. In recent years, the Group also granted a credit period of up to 1 year to some long-term or reliable customers. In view of the various adverse effects on the consumer market and the industry as a whole that have been brought about by the sudden outbreak of the COVID-19 pandemic, an extended credit period of 1 year were granted to the above-mentioned customers during the period.

The decrease in trade and bills receivables was mainly due to the increase in the total impairment allowance of trade and bills receivables during the period.

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 under the impact of COVID-19 pandemic, financial conditions of the distributors and aging of the balances, total impairment allowance in aggregate of approximately HK\$241.6 million (31 March 2020: approximately HK\$229.2 million) had been made by the Group as at 30 September 2020.

As at 30 September 2020, the trade receivables, net of provision were approximately HK\$88.3 million (31 March 2020: approximately HK\$93.4 million). Approximately 18.8% of the net trade receivables were aged within two months as at 30 September 2020 (31 March 2020: approximately 13.6%).

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\$1.5 million.

Trade and Bills Payables

As at 30 September 2020, the trade and bills payables was approximately HK\$483.5 million (31 March 2020: approximately HK\$3.8 million). Such significant increase was due to the presence of new outstanding bills for purchase purpose during the period.

Liquidity and Financial Resources

As at 30 September 2020, the Group bank balances and cash of approximately HK\$607.7 million (31 March 2020: approximately HK\$698.5 million), approximately 91.1% (31 March 2020: approximately 96.2%) of which was denominated in RMB, approximately 1.7% (31 March 2020: approximately 1.4%) of which was denominated in Hong Kong dollars and approximately 7.2% (31 March 2020: approximately 2.4%) of which was denominated in other currencies. The decrease in bank and cash was mainly due to the increase in cash used in investing activities. As at 30 September 2020, the Group's net current assets were approximately HK\$339.5 million (31 March 2020: approximately HK\$223.7 million).

Capital Structure of the Group

The interest-bearing bank and other borrowings under the current liabilities as at 30 September 2020 was approximately HK\$80.8 million (31 March 2020: approximately HK\$84.3 million) which were bank loan and other loan.

The Group's bank loan under the current liabilities was denominated in RMB. The amount is repayable in full in January 2021.

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

As at 30 September 2020, the Group's interest-bearing bank and other borrowings under the current liabilities were supported by corporate/personal guarantees executed by the Company, a director of the Company, subsidiaries of the Company and a related company of the Company.

During the period under review, the Group renewed bonds with an aggregate principal amount of approximately HK\$141.2 million.

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 bank balances and cash 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 trade and bills payables, other payables and accruals, interest-bearing bank and other borrowings, lease liabilities, bond payables and amount due to a director less bank balances and cash. Total capital represents equity attributable to the ordinary equity holders of the Company. As at 30 September 2020, the gearing ratio was approximately 72.1% (31 March 2020: approximately 61.5%).

Employment and Remuneration Policy

The Group had a total work force of 191 employees in Hong Kong, the PRC and Poland as at 30 September 2020 (31 March 2020: 222 employees). The total salaries and related costs (including Directors' fee) amounted to approximately HK\$41.9 million for the six month ended 30 September 2020 (31 March 2020: approximately HK\$109.7 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 23 August 2019, the shareholders of the Company approved a share option scheme (the "**Share Option Scheme**"). Details of the Share Option Scheme are set out in the mandate circular of the Company dated 19 July 2019. As at 30 September 2020, the maximum number of share which may be issued upon exercise of all outstanding options granted under the Share Option Scheme is 183,000,000 shares.

LITIGATION

- (a) 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 RMB20.1 million (equivalent to HK\$22.9 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 RMB18.9 million (equivalent to HK\$21.5 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 condensed consolidated interim financial information, the Group has not bought back any inventories from the Plaintiff. The Group has filed an application for enforcement opposition dated 9 June 2020 to the PRC District People’s Court to close the case due to the fact that the Plaintiff was found to have no more assets in its books and therefore the Group was unable to buy back any inventories from the Plaintiff. The directors of the Company are of the opinion that adequate provision in the sum of approximately RMB10.0 million (equivalent to approximately HK\$11.3 million) has been made in the condensed consolidated interim financial information to cover any potential liabilities arising from the Claim.

- (b) In March 2020, the Group’s certain previous business partners (the “**Plaintiffs**”) filed a claim against the Group for compensation of profits arising from certain previous business relationships in the sum of approximately RMB25.3 million. As of the date of this announcement, the claim is still in the early stage of legal proceedings. Based on the legal opinions obtained by the directors of the Company and in view of all the current facts and circumstances, the directors of the Company are of the opinion that the outflow of economic benefits arising from the claim is not probable.

EXTRACT OF INDEPENDENT AUDITOR’S REVIEW REPORT ON INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

The following is an extract of the independent auditor’s review report issued by Mazars CPA Limited, the external auditor of the Group, on the Group’s interim financial information for the six months ended 30 September 2020.

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.

“Material uncertainty related to going concern

We draw attention to the “Going concern basis” section in note 2.1 to the interim financial information concerning the adoption of the going concern basis on which the interim financial information has been prepared. As at 30 September 2020, the Group recorded outstanding bond payables of HK\$442,501,000 and interest-bearing bank and other borrowings of HK\$80,798,000 which are due for repayment within the next twelve months after 30 September 2020. 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 financial information. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group’s abilities to continue as a going concern. The directors of the Company, having considered the measures being taken by the Group, are of the opinion that the Group would be able to continue as a going concern. Our conclusion is not modified in respect of this matter.”

Other matter

The interim financial information of the Group for the six months ended 30 September 2019, was reviewed by another auditor who expressed an unmodified conclusion with a “Material Uncertainty Related to Going Concern” paragraph on that interim financial information on 21 November 2019.

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 2020, 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 Guoxing (“**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 can strengthen the Group’ 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 2020.

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 2020 including the accounting principles and practices adopted by the Group.

The condensed consolidated interim financial statements of the Company for the six months ended 30 September 2020 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

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company’s listed securities during the period under review.

EVENTS AFTER THE REPORTING PERIOD

In November 2020, the Group has secured a new other borrowing of approximately RMB50.0 million (equivalent to approximately HK\$56.9 million) with a financial institution in the PRC. The new other borrowing bear interest at 4.75% per annum and repayable within 1 year.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2020 (corresponding period in 2019: Nil).

PUBLICATON 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 2020 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, 27 November 2020

As at the date of this announcement, the Board comprises Mr. Liang Guoxing (Chairman and 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.