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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 2014

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 2014, together with the comparative figures for the previous corresponding period as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2014

		For the six months ended 30 September	
		2014	2013
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	4	**189,164**	113,729
Cost of sales		**(137,039)**	(191,874)
Gross profit/(loss)		**52,125**	(78,145)
Other income and gains, net	4	**287**	4,407
Selling and distribution expenses		**(93,618)**	(106,499)
Administrative expenses		**(72,038)**	(78,771)
Other expenses, net		**(3,201)**	(192)
Gain from write-back of impairment/ (loss from impairment), net		**163,901**	(491,614)
Finance costs	5	**(15,222)**	(20,968)
PROFIT/(LOSS) BEFORE TAX	6	**32,234**	(771,782)
Income tax expense	7	**(223)**	(42)
PROFIT/(LOSS) FOR THE PERIOD		**32,011**	(771,824)
ATTRIBUTABLE TO:			
ORDINARY EQUITY HOLDERS OF THE COMPANY		**32,183**	(771,414)
NON-CONTROLLING INTERESTS		**(172)**	(410)
		32,011	(771,824)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (HK cents)	8	**2.38**	(56.94)

Details of dividends are disclosed in note 12.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 September 2014

	For the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit/(loss) for the period	**32,011**	(771,824)
OTHER COMPREHENSIVE INCOME:		
Other comprehensive income that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**690**	28,270
Net other comprehensive income that may be subsequently reclassified to profit or loss	**690**	28,270
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**690**	28,270
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**32,701**	(743,554)
ATTRIBUTABLE TO:		
ORDINARY EQUITY HOLDERS OF THE COMPANY	**32,873**	(743,144)
NON-CONTROLLING INTERESTS	**(172)**	(410)
	32,701	(743,554)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 September 2014

	Notes	30 September 2014 (Unaudited) HK$'000	31 March 2014 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**20,119**	23,982
Investment property		**6,816**	6,920
Intangible asset		**8,300**	8,300
Deposits		**3,742**	7,107
Total non-current assets		**38,977**	46,309
CURRENT ASSETS			
Inventories		**872,522**	796,264
Trade receivables	9	**17,938**	32,057
Bills receivable	9	**49,910**	18,157
Prepayments, deposits and other receivables		**395,379**	360,204
Tax recoverable		**–**	14,464
Pledged deposit		**15,142**	8,826
Cash and cash equivalents		**69,059**	82,340
Total current assets		**1,419,950**	1,312,312
CURRENT LIABILITIES			
Trade payables	10	**3,665**	3,675
Deposits received, other payables and accruals		**229,534**	206,991
Bank advance for discounted bills		**48,857**	20,805
Interest-bearing bank borrowings		**391,187**	354,548
Due to related parties		**2,291**	160
Due to directors		**926**	48,827
Tax payable		**219,598**	219,629
Total current liabilities		**896,058**	854,635
NET CURRENT ASSETS		**523,892**	457,677
Net assets		**562,869**	503,986
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	11	**134,921**	135,475
Reserves		**428,775**	369,166
		563,696	504,641
Non-controlling interests		**(827)**	(655)
Total equity		**562,869**	503,986

NOTES TO UNAUDITED INTERIM FINANCIAL INFORMATION

30 September 2014

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 12 September 2007. The registered office of the Company is located at the office of Codan Trust Company (Cayman) Limited, whose address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is located at 27th Floor, Hysan Place, 500 Hennessy Road, Causeway Bay, Hong Kong.

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

2.1 BASIS OF PREPARATION

The unaudited interim financial information of the Company, which comprises the condensed consolidated statement of financial position as at 30 September 2014, and the related condensed consolidated statement of profit or loss, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months ended 30 September 2014, and explanatory notes, has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The unaudited interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2014.

Going concern basis

The Group recorded revenue and a consolidated net profit of HK$189,164,000 (period ended 30 September 2013: HK$113,729,000) and HK$32,011,000 (period ended 30 September 2013: consolidated net loss of HK$771,824,000), respectively, for the six months ended 30 September 2014. Excluding the gain from write-back of impairment, net of HK$163,901,000, the Group recorded a consolidated net loss of HK$131,890,000. The Group's net loss of HK$131,890,000 for the period included (i) provision for inventories in respect of write-down to net realisable value amounting to HK$8,436,000 (period ended 30 September 2013: HK$94,944,000); and (ii) share option expense amounting to HK$31,796,000 (period ended 30 September 2013: HK$29,832,000). These non-cash items had not affected the Group's operating cash flows. The Group had net cash outflows used in operating activities of approximately HK$57,347,000 (period ended 30 September 2013: net cash inflows of approximately HK$4,820,000) for the six months ended 30 September 2014.

As at 30 September 2014, the Group recorded net current assets of HK$523,892,000 (31 March 2014: HK$457,677,000), which included inventories of HK$872,522,000 (31 March 2014: HK$796,264,000), trade receivables of HK$17,938,000 (31 March 2014: HK$32,057,000), pledged deposit of HK$15,142,000 (31 March 2014: HK$8,826,000), cash and cash equivalents of HK$69,059,000 (31 March 2014: HK$82,340,000), and outstanding bank loans of HK$391,187,000 (31 March 2014: HK$354,548,000), which were due for repayment or renewal within the next twelve months after 30 September 2014.

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

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

(1) *Bank facilities*

Subsequent to 30 September 2014, after the partial repayment of RMB5 million (equivalent to approximately HK$6 million) for a short-term bank loan to a bank in the People's Republic of China ("**PRC**"), the Group has successfully renewed the remaining balance of the short-term bank loan of RMB30 million (equivalent to approximately HK$38 million) from this PRC bank in October 2014, which will be due for repayment within twelve months from the period end date. In addition, the Group has successfully obtained a new loan of HK$12 million from a financial institution in Hong Kong in November 2014, which will not be due for repayment within twelve months from the period end date.

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

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

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

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

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

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

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

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

2.2 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of this unaudited interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2014, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA for the first time for the current period's unaudited interim financial information:

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*

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

3. OPERATING SEGMENT INFORMATION

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

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

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

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

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

Six months ended 30 September 2014 (Unaudited)

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

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

Six months ended 30 September 2013 (Unaudited)

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

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

4. REVENUE, OTHER INCOME AND GAINS, NET

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

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

	For the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Bank interest income	**136**	4,292
Gross rental income	**24**	23
Others	**127**	92
	287	4,407

5. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on discounted bills	**1,435**	–
Interest on bank loans and trust receipt loans wholly repayable within five years	**13,787**	20,968
	15,222	20,968

6. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation:		
Property, plant and equipment	**4,686**	4,590
Investment property	**104**	104
	4,790	4,694
Cost of inventories sold**	**128,603**	96,930
Impairment loss on items of property, plant and equipment*	**–**	383
Loss on disposal of items of property, plant and equipment	**4**	431
Impairment allowance of trade and bills receivables*	**504**	437,511
Write-back of impairment allowance of trade and bills receivables*	**(155,234)**	–
Impairment allowance of prepayments and other receivables*	**114**	53,720
Write-back of impairment allowance of prepayments and other receivables*	**(9,285)**	–
Provision for inventories in respect of write-down to net realisable value**	**8,436**	94,944

* Included in "Gain from write-back of impairment/(loss from impairment), net" on the face of the interim condensed consolidated statement of profit or loss.

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

7. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (period ended 30 September 2013: Nil). 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 the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current:		
Elsewhere	**223**	42

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

The calculation of basic earnings/(loss) per share amount is based on the profit for the period attributable to ordinary equity holders of the Company of HK$32,183,000 (period ended 30 September 2013: loss of HK$771,414,000), and the weighted average number of ordinary shares of 1,354,325,866 (period ended 30 September 2013: number of ordinary shares of 1,354,749,997) in issue during the period.

No adjustment has been made to the basic earnings/(loss) per share amount presented for the six months ended 30 September 2014 and 30 September 2013 in respect of a dilution as the share options outstanding had no dilutive effect on the basic earnings/(loss) per share amount presented for the six months ended 30 September 2014 and 30 September 2013.

9. **TRADE AND BILLS RECEIVABLES**

	30 September 2014 (Unaudited) *HK$'000*	31 March 2014 (Audited) *HK$'000*
Trade receivables	**239,023**	611,881
Impairment allowance#	**(221,085)**	(579,824)
	17,938	32,057
Bills receivable	**55,588**	30,766
Impairment allowance#	**(5,678)**	(12,609)
	49,910	18,157
	67,848	50,214

\# Included in the impairment allowance of trade and bills receivables is a provision for impaired trade and bills receivables in aggregate of HK$226,763,000 (31 March 2014: HK$592,433,000) with a carrying amount before provision in aggregate of HK$270,134,000 (31 March 2014: HK$615,635,000). The impairment allowance was recognised based on the Group's best estimate of amounts that are potentially uncollectible. This determination requires significant judgement. In making such judgement, the Group evaluates, among certain economic factors specific to each customer and other factors, the historical and current period payment pattern and creditworthiness of each customer, the default rates of current period and prior years, aging of receivables balances, and the latest communication with individual customers. The Group has launched a series of plans to communicate with individual customers and manage the credit risk of the customers. Management will closely monitor and continue to pursue collection of those receivables.

During the six months ended 30 September 2014 and up to the date of approval of this unaudited interim financial information, the Group has bought back inventories from one distributor and the purchase consideration of HK$141 million was offset with the Group's trade receivables due from this distributor which were previously impaired. Besides, during the six months ended 30 September 2014, settlements of HK$14 million were received by the Group from a few distributors for the previously impaired trade and bills receivables of the same amount. As such, the related impairment allowance on these trade and bills receivables of approximately HK$155 million in aggregate was reversed during the six months ended 30 September 2014.

The Group normally allows a credit period of not more than 3 months to its customers except for certain identified major customers where longer credit terms may be granted upon approval by the management. The credit terms of bills receivable are generally 2 months to 6 months. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Over 24% (31 March 2014: 61%) of the trade and bills receivables balance represented receivables from five customers. The Group does not hold any collateral or other credit enhancement over its trade and bills receivables balances. Trade and bills receivables are non-interest-bearing.

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

	30 September 2014 (Unaudited) ***HK$'000***	31 March 2014 (Audited) *HK$'000*
Within 2 months	**18,678**	22,517
2 months to 6 months	**36,011**	3,048
6 months to 1 year	**214**	–
Over 1 year	**12,945**	24,649
	67,848	50,214

Included in the above trade and bills receivables as at 30 September 2014, amounts totaling HK$48,857,000 (31 March 2014: HK$20,805,000) were discounted to banks in exchange for cash and included as "Bank advance for discounted bills" on the face of the interim condensed consolidated statement of financial position.

10. TRADE PAYABLES

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

	30 September 2014 (Unaudited) ***HK$'000***	31 March 2014 (Audited) *HK$'000*
Over 3 months	**3,665**	3,675

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

11. SHARE CAPITAL

	Note	**30 September 2014 (Unaudited)** ***HK$'000***	31 March 2014 (Audited) *HK$'000*
Authorised:			
100,000,000,000 (31 March 2014: 100,000,000,000) ordinary shares of HK$0.1 each		**10,000,000**	10,000,000
Issued and fully paid:			
1,349,205,997 (31 March 2014: 1,354,749,997) ordinary shares of HK$0.1 each	(a)	**134,921**	135,475

Note:

(a) During the six months ended 30 September 2014, the Company repurchased 5,544,000 shares of its own ordinary shares on The Stock Exchange of Hong Kong Limited. All ordinary shares repurchased during the six months ended 30 September 2014 were cancelled, and the issued share capital of the Company was reduced by the par value of the repurchased ordinary shares so cancelled.

12. DIVIDENDS

The Board did not recommend the payment of an interim dividend for the six months ended 30 September 2014 (2013: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

For the six months ended 30 September 2014, the Group recorded a total revenue of HK$189.2 million, representing an increase of 66.3% compared to a total revenue of HK$113.7 million for the six months ended 30 September 2013. During the period under review, profit attributable to ordinary equity holders of the Company was HK$32.2 million (corresponding period in 2013: loss of HK$771.4 million). Basic earnings per ordinary share was HK$0.0238 (corresponding period in 2013: loss of HK$0.5694).

For the six months ended 30 September 2014, revenue derived from the People's Republic of China (the "**PRC**") market accounted for 40.4% of the Group's total revenue (corresponding period in 2013: 16.3%), while revenue derived from the international market accounted for 59.6% of the total revenue (corresponding period in 2013: 83.7%).

Baijiu Business

In the first half of 2014, the adjustment in baijiu industry continued. Although the high-end baijiu sector is currently at the bottom of the industry cycle, the baijiu industry has started to show positive changes following the previous adjustment. After more than two years of market adjustment, the mass and commercial consumption gradually replaced the government consumption and became the primary support of baijiu market, the consumption structure and behavior of the baijiu market had become rational. Positive changes were seen in the demand and supply in the distribution channels with the channel inventories declined to a reasonable level. As a result, the high-end baijiu market and its retail prices maintained relatively stable during the period under review and the baijiu market was gradually recovering.

With the baijiu market becoming more rational, the mass and commercial consumption became the new growth momentum for the development of the baijiu industry. Its massive customer base and rapidly growing consumption power had brought huge driving force to the development of the "mass-targeted" middle and low-end baijiu sectors.

During the period under review, the inventory levels in the distribution channels had become rational. While Mid-Autumn Festival and the National Day holidays had brought a traditional peak season to the baijiu industry, sales in the PRC's baijiu market was improved, which brought positive effects on the Group's sales performance.

In response to the changing market and to seise the business opportunities, the Group actively optimised its product structure, distribution network, sales teams and operational management to improve operational efficiency during the period under review.

Firstly, in light of the baijiu industry adjustment and changes in consumption patterns, the Group continued to focus on developing the middle and low-end baijiu sectors during the period under review. In addition to enhancing the promotion and recruiting distributors of the new middle and low-end products, the Group also proactively worked with the existing suppliers to develop more high quality middle and low-end new products.

Secondly, in order to execute the Group's middle and low-end product lines development strategy, the Group strove to expand its existing traditional sales channels and proactively established new distribution network for the new products during the period under review. The Group also continued to develop the e-commerce channels which targeted the mass and commercial consumers. In addition to selling products through the major domestic online shopping platforms and TV shopping channels, the Group also entered into a strategic cooperation agreement with Shenzhen Shunfeng Commercial Limited to utilise Shunfeng Heike (順豐嘿客), an online and offline e-commerce platform of S.F. Express, in order to achieve synergies between e-commerce and traditional sales channels.

Furthermore, in addition to strengthening the existing sales team, the Group had, in response to its middle and low-end product lines and channels development strategy, established a new sales team with middle and low-end products sales experience in order to introduce the new products into the market more effectively. Lastly, the Group had continuously adopted a strict cost control policy and gradually improved its profitability.

Wine and Cigarettes Businesses

During the period under review, the Group continued to develop the wine and cigarettes businesses steadily. Cigarettes business remained stable in sales during the period under review. The Group had been closely monitoring changes in the market and adopted a proactive and pragmatic approach to map out marketing plans for business opportunities development.

E-commerce Business and Image Chain-Store

Benefited from the increasing popularity of internet and the fast growing number of internet users in China, the e-commerce has developed rapidly in recent years. Therefore, during the period under review, the Group expedited the development of e-commerce sales channel which was more cost-efficient. In addition to selling products through major online shopping platforms such as Jingdong Mall, Yihaodian, Tmall and Vip.com, the Group also cooperated with ten TV shopping channels, extensively covering e-commerce sales channels across the country, as well as established and developed its own independent e-commerce platform. During the period under review, the Group also entered into a ten-year strategic cooperation agreement with Shenzhen Shunfeng Commercial Limited to utilise Shunfeng Heike (順豐嘿客), an online and offline e-commerce platform of S.F. Express, to develop the e-commence business for the Group. Through this cooperation, the Group will have priority to promote and sell its liquor products through Shunfeng Heike's extensive sales network. The Group believes such cooperation will further improve the cost efficiency and develop a diversified sales channels and market coverage.

For the six months ended 30 September 2014, there were a total of 367 Wine Kingdom image stores and authorised image stores.

Outlook and Future Development

Looking into the second half of 2014, although the adjustment in baijiu industry has yet to complete, with the ending of destocking and stabilised retail price and market sales in baijiu market, the baijiu industry will gradually bottom out and the business environment is expected to improve accordingly.

With the baijiu market becoming more rational, the middle and low-end baijiu products have became the major product of market consumption. The existing customer base of the middle and low-end baijiu markets is massive, with the macroeconomic growth and urbanisation, the Group expects the demand for middle and low-end baijiu will increase further, and bring huge growth potential to the development of the middle and low-end baijiu sectors.

The Group will continue to adopt a proactive, practical and prudent approach to enhance its competitiveness by continuously optimising its product development, channel development and operational management.

(i) Product Development

The Group will strive to introduce the new middle and low-end products to all the markets throughout the country, and speed up product sales in order to expand its shares in the middle and low-end baijiu market.

In addition, the Group will continue to work with existing suppliers on the development of high quality middle and low-end products to meet the demands of different customers. The Group will also actively develop various types of low-alcohol beverages such as Alcopop to target the younger consumer group, enhance its capability in research and development, and rapidly expand its market share through the existing sales network.

(ii) Channel Development

The Group will continue to develop and expand its distribution channels for the middle and low-end products, and attract more potential customers and consumer groups by further cooperating with various e-commerce platforms, in order to better supplement its traditional distribution network.

Furthermore, the Group will strengthen the operation of its independent e-commerce platform by leveraging its understanding and experience of the consumption habit and spending pattern of the online shoppers in recent years, the Group will strive to meet consumer demands by providing customer-oriented services through interactive and enhanced marketing activities.

The Group will also proactively explore for further strategic alliances with channels such as Shunfeng Heike.

(iii) Operational Management

The Group will continue to strengthen internal control and maintain a healthy financial position, in order to achieve a long term sustainable development and to reward shareholders, employees and customers for their continuous support.

FINANCIAL REVIEW

Revenue and Gross Profit/(Loss)

The Group generates revenue primarily by selling high-end liquors. For the six months ended 30 September 2014, the Group recorded a total revenue of HK$189.2 million, representing an increase of 66.3% compared to a total revenue of HK$113.7 million for the six months ended 30 September 2013. For the six months ended 30 September 2014, 40.4% of revenue was derived from the PRC market (corresponding period in 2013: 16.3%).

The Group's revenue derived from the distribution of liquors represented 94.5% of the total revenue for the six months ended 30 September 2014 (corresponding period in 2013: 91.3%) while the revenue derived from the distribution of cigarettes represented 5.5% of the total revenue for the six months ended 30 September 2014 (corresponding period in 2013: 8.7%).

The Group's gross profit for the six months ended 30 September 2014 was HK$52.1 million (corresponding period in 2013: gross loss of HK$78.1 million). The increase in gross profit was mainly due to the sales of those inventories with provision for inventories in respect of write-down to net realisable value made for the year ended 31 March 2014, resulted in a reduction of average unit cost of goods sold and the decrease in amount provided for inventories in respect of write-down to net realisable value for the six months ended 30 September 2014 as compared to the corresponding period in 2013. Excluding the factor of provision for inventories, the Group's gross profit for the six months ended 30 September 2014 was HK$60.6 million (corresponding period in 2013: HK$16.8 million), the gross profit ratio before provision for inventories was 32.0% (corresponding period in 2013: 14.8%).

Other Income and Gains, Net

Other income and gains, net amounted to HK$0.3 million for the six months ended 30 September 2014 (corresponding period in 2013: HK$4.4 million). Such decrease was mainly due to the sharp decrease in bank interest income from pledged deposits.

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 HK$93.6 million (corresponding period in 2013: HK$106.5 million) accounting for 49.5% (corresponding period in 2013: 93.6%) of the revenue of the Group for the six months ended 30 September 2014. Such decrease was mainly due to the decrease in sales and marketing personnel expenses and rental expenses for warehouses and shops.

Administrative Expenses

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

Administrative expenses amounted to HK$72.0 million (corresponding period in 2013: HK$78.8 million) accounting for 38.1% (corresponding period in 2013: 69.3%) of the revenue of the Group for the six months ended 30 September 2014. Such decrease was mainly due to the decrease in management staff salaries and wages.

Other Expenses, Net

Other expenses, net amounted to HK$3.2 million (corresponding period in 2013: HK$0.2 million) for the six months ended 30 September 2014. Such increase was mainly due to significant increase in exchange loss in the international market.

Gain from Write-back of Impairment/(Loss from Impairment), Net

Gain recorded in this account amounted to HK$163.9 million (corresponding period in 2013: loss of HK$491.6 million) for the six months ended 30 September 2014. The change was mainly due to the write-back of impairment allowances of trade receivables, bills receivable, prepayments and other receivables.

Finance Costs

Finance costs amounted to HK$15.2 million (corresponding period in 2013: HK$21.0 million) representing 8.0% (corresponding period in 2013: 18.4%) of the Group's revenue for the six months ended 30 September 2014. The finance costs included interest on discounted bills, trust receipt loans and short-term bank loans and other loans. Such decrease was mainly due to the decrease in bank loan interest.

Profit/(Loss) 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 2014 amounted to HK$32.2 million (corresponding period in 2013: loss of HK$771.4 million).

Dividends

The Company did not pay any interim dividend for the six months ended 30 September 2013 and any final dividend for the year ended 31 March 2014.

The Directors did not recommend the payment of an interim dividend for the six months ended 30 September 2014.

Trade and Bills Receivables

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

The decrease in trade receivables was mainly due to the settlement of trade receivables made by 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 HK$226.8 million (31 March 2014: HK$592.4 million) had been made by the Group as at 30 September 2014.

As at 30 September 2014, the trade and bills receivables net of provision were HK$67.8 million (31 March 2014: HK$50.2 million). 27.5% of the net trade and bills receivables were aged within two months as at 30 September 2014 (31 March 2014: 44.8%). All bills receivables were issued and accepted by banks.

During the period under review, the adjustment in baijiu industry continued, resulting in the decline in repayment capability of certain customers of the Group who had requested postponement in payment because of their accumulated inventories. Taking into account of the current market conditions and the repayment pattern of the Group's customers during the period under review, the Group continued to provide impairment provision on the long overdue trade receivables during the current period.

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

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

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

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

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

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

Up to the date of this announcement, the Group's subsequent settlement of the trade and bills receivables was approximately HK$36.4 million.

Trade Payables

As at 30 September 2014, the trade payables was HK$3.7 million (as at 31 March 2014: HK$3.7 million). The balance remained almost unchanged during the period.

Inventories

As at 30 September 2014, the Group's inventories was HK$872.5 million (31 March 2014: HK$796.3 million). The increase in inventories was mainly due to the recovery of certain inventories from a distributor of the Group.

Liquidity and Financial Resources

As at 30 September 2014, the Group had cash and cash equivalents of HK$69.1 million (31 March 2014: HK$82.3 million). The decrease in cash and cash equivalents was mainly due to the increase in pledged deposit and repayment of amounts due to directors. As at 30 September 2014, the Group's net current assets were HK$523.9 million (31 March 2014: HK$457.7 million).

Capital Structure of the Group

Total interest-bearing bank borrowings as at 30 September 2014 was approximately HK$391.2 million (31 March 2014: HK$354.5 million), of which all were repayable within one year.

The Group's trust receipt loan denominated in United States dollars bore interest at a rate of LIBOR+3.5% (31 March 2014: Nil) per annum. The Group's trust receipt loan as at 30 September 2014 were secured by the Group's pledged bank deposits of HK$15.1 million (31 March 2014: Nil), and was supported by a guarantee provided by a bank in the PRC.

The Group's bank loans denominated in Renminbi ("**RMB**") were unsecured, bore interest at rates ranging from 115% of PBOC to 120% of PBOC (31 March 2014: ranging from 110% to 120% of PBOC) per annum and would be repayable between October 2014 and April 2015 (31 March 2014: repayable between April 2014 and November 2014). As at 30 September 2014, the Group's bank loans were supported by corporate guarantees executed by the Company, a subsidiary of the Company, a related company of the Group, which is beneficially owned by Mr. Liang, and an independent private company established in the PRC.

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

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

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank borrowings, trade payables, deposits received, other payables and accruals, bank advance for discounted bills and amounts due to a related party and directors less cash and cash equivalents. Total capital represents equity attributable to the ordinary equity holders of the Company. As at 30 September 2014, the gearing ratio was 51.9% (31 March 2014: 52.3%).

Employment and Remuneration Policy

The Group had a total work force of 254 employees in Hong Kong and the PRC as at 30 September 2014 (31 March 2014: 244 employees). The total salaries and related costs (including Directors' fee) amounted to approximately HK$68.0 million for the six month ended 30 September 2014 (31 March 2014: HK$130.3 million). The Group has implemented the remuneration policy, bonus and share option scheme based on the achievements and performance of employees. The Group has also participated in the mandatory provident fund scheme in Hong Kong and the state managed retirement benefit scheme in the PRC. The Group continues to provide training courses for its staff to enable them to achieve self-improvement and to enhance their skill and knowledge.

Share Option Scheme

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

On 3 August 2012, 113,540,000 share options at an exercise price of HK$3.18 per share was granted to certain Directors and certain employees of the Group under the Share Option Scheme. Due to the bonus shares issued by the Company on 31 August 2012, the exercise price of the outstanding share options granted under the Share Option Scheme and the number of shares to be allotted and issued upon full exercise of the outstanding share options were adjusted to HK$3.102 per share and 116,378,500 shares respectively with effect from 31 August 2012.

At the annual general meeting held on 22 August 2014 (the "**AGM**"), the shareholders of the Company duly approved to renew the total maximum number of shares of the Company which may be issued upon the exercise of options to be granted under the Share Option Scheme to be up to 10% of the Company's issued share capital as at the date of the AGM, which amounted to 135,474,999 shares of the Company.

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

During the period under review, 1,025,000 share options were lapsed and 74,558,500 share options were cancelled, and no share option was granted or exercised. As at 30 September 2014, there was no outstanding share option of the Company (31 March 2014: 75,583,500).

LITIGATION

In December 2013, a distributor of the Group (the "**Plaintiff**") filed a claim to the District People's Court in the PRC 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 in the sum of RMB20.1 million (equivalent to approximately HK$25.3 million). At the date of approval of these financial statements, two court hearings had been held but no verdict had been reached. Further to the disclosure in the annual report of the Company for the year ended 31 March 2014, with reference to the advice from the Group's legal counsel and having considered the aforesaid court hearings, the Directors of the Company maintained the view that the Group had grounds to contest the Claim. Since the outcome of the legal case and the amount of penalties required could not be predicted and measured with sufficient reliability at the moment, no provision regarding liabilities arising there from had been made by the Group in these financial statements as at 30 September 2014.

EXTRACT OF REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

"**CONCLUSION**

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

EMPHASIS OF MATTER

Without qualifying our conclusion, we draw attention to note 2.1 to the interim financial information which indicates that excluding the gain from write-back of impairment, net of HK$163,901,000, the Group incurred a consolidated net loss of HK$131,890,000 during the six months ended 30 September 2014, and the Group had net cash outflows used in operating activities of approximately HK$57,347,000. These conditions, along with other matters as set forth in note 2.1 to the interim financial information, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. As explained in note 2.1 to the interim financial information, the interim financial information has been prepared on a going concern basis, the validity of which is dependent on the Group's ability to extend its short-term borrowings upon maturity, source additional debt financing and refinance its existing indebtedness; and to improve its operation to generate adequate cash flows to meet the Group's financial obligations as and when they fall due in the foreseeable future."

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

Refer to the aforementioned consolidated net loss of HK$131,890,000 (if the gain from write-back of impairment, net is excluded), the amount included (i) provision for inventories in respect of write-down to net realisable value amounting to HK$8,436,000 (period ended 30 September 2013: HK$94,944,000); and (ii) share option expense amounting to HK$31,796,000 (period ended 30 September 2013: HK$29,832,000). These non-cash items had not affected the Group's operating cash flows.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with the code provisions in the Corporate Governance Code contained in Appendix 14 to the Listing Rules on the Stock Exchange throughout the six months ended 30 September 2014, except for the following deviation:

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

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

COMPLIANCE WITH VARIOUS LISTING RULES

Following the resignation of Mr. Zhang Min as an independent non-executive Director with effect from 1 April 2014, the number of independent non-executive Directors fell below the minimum number as required under Rule 3.10(1) of the Listing Rules and the number of independent non-executive Directors on the Board represented less than one-third of the members of the Board as required under Rule 3.10A of the Listing Rules. In addition, the number of members of the audit committee and the remuneration committee of the Company fell short of the requirements under Rule 3.21 and Rule 3.25 of the Listing Rules, and fell below the minimum number required under the terms of reference of the audit committee and the remuneration committee of the Company.

Following the appointment of Dr. Lee Kwok Keung Edward as an independent non-executive Director and member of the audit committee and the remuneration committee of the Company on 24 June 2014, the Company has re-complied with the requirements of Rule 3.10(1), Rule 3.10A, Rule 3.21 and Rule 3.25 of the Listing Rules as well as the terms of reference of the audit committee and the remuneration committee of the Company.

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 had complied with the standards set out in the Model Code during the six months ended 30 September 2014.

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

AUDIT COMMITTEE

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

The Audit Committee along with the management of the Company had reviewed the unaudited interim financial statements for the six months ended 30 September 2014 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 2014 had not been audited but had been reviewed by the independent auditors.

COMPLIANCE COMMITTEE

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

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

During the six months ended 30 September 2014, the Company repurchased a total of 5,544,000 shares of HK$0.10 each in the capital of its own shares on the Stock Exchange, details of which are as follows:

Date of repurchase	Number of shares repurchased	Highest price paid per share	Lowest price paid per share	Approximate aggregate consideration
		HK$	*HK$*	*HK$*
2 September 2014	1,000,000	0.99	0.99	993,544
3 September 2014	3,713,000	1.05	0.98	3,782,012
4 September 2014	831,000	1.04	1.02	859,677
	5,544,000			5,635,233

The issued share capital of the Company was reduced by the par value of the repurchased shares which had been cancelled on 17 September 2014. The repurchases of shares were effected by the Directors pursuant to the general mandate to repurchase shares which was duly approved by the shareholders at the AGM.

The repurchases were made for the benefit of the Company and its shareholders as a whole with a view to enhancing the net assets per share 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 2014.

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 September 2014 (for the six months ended 30 September 2013: 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 2014 containing all the information required by the Listing Rules will be published on the aforesaid websites and despatched to the shareholders of the Company in due course.

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

Hong Kong, 28 November 2014

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

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