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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2018

FINANCIAL HIGHLIGHTS

- Revenue was approximately HK$2,321.7 million
- Gross profit was approximately HK$225.7 million
- Loss for the year attributable to ordinary equity holders of the Company was approximately HK$136.0 million
- Loss per share (approximately)

Basic	HK5.98 cents
Diluted	HK5.98 cents

- The Board does not recommend the payment of a final dividend for the year ended 31 March 2018

RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Silver Base Group Holdings Limited (the "**Company**") hereby announce the consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 March 2018, together with the comparative figures for the previous year in 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 March 2018

	Notes	**2018** **HK$'000**	2017 HK$'000
REVENUE	5	**2,321,680**	1,499,636
Cost of sales		**(2,096,013)**	(1,089,403)
Gross profit		**225,667**	410,233
Other income and gains, net	5	**766**	8,406
Selling and distribution expenses		**(198,675)**	(294,870)
Administrative expenses		**(87,017)**	(80,686)
Other expenses, net		**(215)**	–
Write-back of impairment/(loss from impairment), net		**(8,825)**	11,817
Finance costs	6	**(64,211)**	(48,698)
PROFIT/(LOSS) BEFORE TAX	7	**(132,510)**	6,202
Income tax expense	8	**(3,529)**	(52)
PROFIT/(LOSS) FOR THE YEAR		**(136,039)**	6,150
ATTRIBUTABLE TO:			
ORDINARY EQUITY HOLDERS OF THE COMPANY		**(135,977)**	6,150
NON-CONTROLLING INTERESTS		**(62)**	–
		(136,039)	6,150
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic (HK cents)	10	**(5.98)**	0.27
Diluted (HK cents)	10	**(5.98)**	0.27

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2018

	2018	2017
	HK$'000	*HK$'000*
PROFIT/(LOSS) FOR THE YEAR	**(136,039)**	6,150
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**119,209**	(67,707)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**119,209**	(67,707)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(16,830)**	(61,557)
ATTRIBUTABLE TO:		
ORDINARY EQUITY HOLDERS OF THE COMPANY	**(16,767)**	(61,557)
NON-CONTROLLING INTERESTS	**(63)**	–
	(16,830)	(61,557)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**21,684**	12,236
Intangible asset		**8,300**	8,300
Deposits		**36,012**	4,024
Deferred tax assets		**4,000**	–
Total non-current assets		**69,996**	24,560
CURRENT ASSETS			
Inventories		**904,436**	697,771
Trade receivables	11	**61,954**	42,851
Bills receivable	11	**1,232**	56,771
Prepayments, deposits and other receivables		**500,957**	801,992
Pledged deposits		**492,915**	85,000
Cash and cash equivalents		**418,917**	356,939
Total current assets		**2,380,411**	2,041,324
CURRENT LIABILITIES			
Trade payables	12	**24,864**	4,290
Bills payable	12	**487,465**	439,968
Deposits received, other payables and accruals		**372,273**	256,582
Bank advance for discounted bills		**–**	56,771
Interest-bearing bank borrowings		**74,880**	213,310
Bond payables		**51,233**	10,529
Due to a director		**1**	1
Tax payable		**69,453**	61,334
Total current liabilities		**1,080,169**	1,042,785
NET CURRENT ASSETS		**1,300,242**	998,539
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,370,238**	1,023,099
NON-CURRENT LIABILITIES			
Bond payables		**580,638**	240,501
Deferred tax liabilities		**5,000**	–
Total non-current liabilities		**585,638**	240,501
Net assets		**784,600**	782,598
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	13	**227,281**	227,281
Reserves		**558,435**	556,370
		785,716	783,651
Non-controlling interests		**(1,116)**	(1,053)
Total equity		**784,600**	782,598

NOTES TO AUDITED FINANCIAL INFORMATION

31 March 2018

1. CORPORATE AND GROUP INFORMATION

Silver Base Group Holdings Limited (the "**Company**") was incorporated as an exempted company with limited liability in the Cayman Islands on 12 September 2007. The registered office of the Company is located at the office of Conyers Trust Company (Cayman) Limited, whose address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is located at Room 1802-03, 18th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

The Company and its subsidiaries (collectively referred to as the "**Group**") 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, sugar, Chinese cigarettes and daily necessities.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern basis

The Group recorded revenue and a consolidated loss before tax of HK$2,321,680,000 (2017: HK$1,499,636,000) and HK$132,510,000 (2017: consolidated profit before tax of HK$6,202,000), respectively, for the year ended 31 March 2018.

As at 31 March 2018, the Group recorded outstanding bank loans of HK$74,880,000 (2017: HK$213,310,000) and bills payable of HK$487,465,000 (2017: HK$439,968,000), which are due for repayment or renewal within the next twelve months after 31 March 2018. The bills payable of HK$487,465,000 were arranged in respect of the Group's purchase prepayments to a supplier and were settled by the Group in April 2018.

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

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

(1) Bank facilities

The Group will actively negotiate with the banks in the People's Republic of China ("**PRC**") for the renewal of the Group's PRC bank borrowings and bills payable when they fall due to secure necessary facilities to meet the Group's working capital and financial requirements in the near future. The directors of the Company have evaluated all the relevant facts available to them and are of the opinion that there have a good track record or relationship with the banks which will enhance the Group's ability to renew the Group's PRC bank loans and facilities upon expiry. In the event that the Group cannot renew its PRC bank borrowings which will be due in the next twelve months after 31 March 2018, the Group plans to use its internal financial resources to repay the borrowings.

In addition, subsequent to 31 March 2018, in April 2018, the Group has arranged with a PRC bank to issue a bill of RMB440 million (equivalent to approximately HK$539 million) for the Group's purchase prepayments to a supplier which is due for repayment in April 2019.

(2) Fund raising activities

The Group will actively seek opportunities to carry out fund raising activities including but not limited to issuance of bonds as alternative sources of funding. Subsequent to the end of the reporting period, the Group has issued unlisted bonds with an aggregate principal amount of HK$70,600,000 for the Group's working capital.

(3) Attainment of profitable and positive cash flow operations

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

In order to enhance the Group's online sale and marketing channels for its winery products, the Group has entered into various service agreements with certain e-commerce platform service providers, and has commenced operating an online store. The Group has also commenced operating a liquor industry oriented Business-to-Business platform in the PRC to enhance the Group's services and support to business members and for the promotion of the liquor products.

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 March 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the ordinary equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or accumulated losses, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

(ii) the distribution of sugar, Chinese cigarettes and others ("**Sugar, cigarettes and others**").

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource 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.

Year ended 31 March 2018

	Liquors *HK$'000*	Sugar, cigarettes and others *HK$'000*	Total *HK$'000*
Segment revenue:			
Sales to external customers	**1,484,267**	**837,413**	**2,321,680**
Segment results	**(79,829)**	**10,764**	**(69,065)**
Reconciliation:			
Interest income			**760**
Other gains			**6**
Finance costs			**(64,211)**
Loss before tax			**(132,510)**
Other segment information:			
Depreciation	**5,100**	**17**	**5,117**
Loss on disposal of items of property, plant and equipment	**293**	**–**	**293**
Impairment loss on items of property, plant and equipment	**3,872**	**–**	**3,872**
Write-back of impairment allowance of trade receivables	**(2,537)**	**–**	**(2,537)**
Impairment allowance of prepayments and other receivables	**7,490**	**–**	**7,490**
Provision for inventories in respect of write-down to net realisable value	**56,308**	**–**	**56,308**
Capital expenditure*	**17,009**	**–**	**17,009**

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

Year ended 31 March 2017

	Liquors *HK$'000*	Sugar, cigarettes and others *HK$'000*	Total *HK$'000*
Segment revenue:			
Sales to external customers	1,492,736	6,900	1,499,636
Gain on disposal of property held for sale	1,626	–	1,626
Gain on disposal of items of property, plant and equipment	100	–	100
Foreign exchange gains, net	575	–	575
Total	1,495,037	6,900	1,501,937
Segment results	46,949	1,846	48,795
Reconciliation:			
Interest income			1,420
Other gains			4,685
Finance costs			(48,698)
Profit before tax			6,202
Other segment information:			
Depreciation	4,766	28	4,794
Write-back of impairment allowance of trade receivables	(12,830)	–	(12,830)
Impairment allowance of prepayments and other receivables	1,013	–	1,013
Provision for inventories in respect of write-down to net realisable value	1,444	–	1,444
Capital expenditure*	7,903	–	7,903

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

Geographical information

	Hong Kong *HK$'000*	Mainland China *HK$'000*	Total *HK$'000*
Year ended 31 March 2018			
Revenue from external customers*	**430,492**	**1,891,188**	**2,321,680**
Non-current assets**	**9,033**	**20,951**	**29,984**
Year ended 31 March 2017			
Revenue from external customers*	305,935	1,193,701	1,499,636
Non-current assets**	10,060	10,476	20,536

* The revenue information is based on the locations of the customers.

** The non-current assets information is based on the locations of the assets and excludes financial instruments.

Information about major customers

Revenue from major customers contributing to 10% or more of the Group's revenue is set out below:

	Operating segment	**2018** ***HK$'000***	2017 *HK$'000*
Customer A*	Liquors segment and sugar, cigarettes and others segment	524,491	N/A#
Customer B**	Liquors segment and sugar, cigarettes and others segment	343,780	305,822
Customer C	Sugar, cigarettes and others segment	304,345	N/A#
Customer D	Liquors segment	N/A^	343,991

* Revenue from Customer A including sales to three entities which are known to be under common control of one major customer.

** Revenue from Customer B including sales to two entities which are known to be under common control of one major customer.

\# Revenue from Customer A and Customer C for the year ended 31 March 2017 was individually less than 10% of the Group's revenue for that year.

^ Revenue from Customer D for the year ended 31 March 2018 was less than 10% of the Group's revenue for that year.

5. REVENUE, OTHER INCOME AND GAINS, NET

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

An analysis of the Group's other income and gains, net is as follows:

	2018	2017
	HK$'000	*HK$'000*
Gain on disposal of property held for sale	**–**	1,626
Gain on disposal of items of property, plant and equipment	**–**	100
Bank interest income	**760**	1,420
Foreign exchange gains, net	**–**	575
Others	**6**	4,685
	766	8,406

6. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on discounted bills	**–**	1,348
Interest on bank, trust receipt and other loans	**6,665**	32,722
Interest on bond payables	**57,546**	14,628
	64,211	48,698

7. PROFIT/(LOSS) BEFORE TAX

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

	Note	**2018** *HK$'000*	2017 *HK$'000*
Cost of inventories sold**		**2,039,705**	1,087,959
Depreciation		**5,117**	4,794
Minimum lease payments under operating leases		**35,797**	33,404
Loss/(gain) on disposal of items of property, plant and equipment		**293**	(100)
Impairment loss on items of property, plant and equipment*		**3,872**	–
Write-back of impairment allowance of trade receivables*	11	**(2,537)**	(12,830)
Impairment allowance of prepayments and other receivables*		**7,490**	1,013
Provision for inventories in respect of write-down to net realisable value**		**56,308**	1,444
Auditor's remuneration		**3,150**	2,768
Employee benefit expense (including directors' remuneration):			
Wages, salaries, allowances and benefits in kind		**90,140**	77,611
Pension scheme contributions		**8,467**	8,665
Equity-settled share option expense		**18,832**	16,986
		117,439	103,262
Foreign exchange differences, net		**215**	(575)

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

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

The employee benefit expense (including directors' remuneration) includes housing benefit with aggregate rentals of HK$9,640,000 (2017: HK$7,410,000), which is also included in the total amount disclosed separately above.

At 31 March 2018, the Group had no forfeited contributions available to reduce its contribution to the pension schemes in future years (2017: Nil).

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. In prior years, no provision for Hong Kong profits tax had been made as the Group had available tax losses brought forward from prior years to offset the assessable profits generated during that year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries or jurisdictions in which the Group operates.

	2018	2017
	HK$'000	*HK$'000*
Current – charge for the year		
Hong Kong	**2,529**	–
Elsewhere	**–**	52
Deferred	**1,000**	–
Total tax charge for the year	**3,529**	52

9. DIVIDENDS

The Company's directors do not recommend the payment of any dividend for the year ended 31 March 2018 (2017: Nil).

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

The calculation of basic earnings/(loss) per share amount is based on the loss for the year attributable to ordinary equity holders of the Company of HK$135,977,000 (2017: profit of HK$6,150,000) and the number of ordinary shares of 2,272,808,946 (2017: 2,272,808,946) in issue during the year.

No adjustment has been made to the basic loss per share amount presented for the year ended 31 March 2018 in respect of a dilution as the share options outstanding had an anti-dilutive effect on the basic loss per share amount presented for the year ended 31 March 2018.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 March 2017 in respect of a dilution as the share options outstanding had no dilutive effect on the basic earnings per share amount presented for the year ended 31 March 2017.

11. TRADE AND BILLS RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**260,225**	225,591
Less: impairment allowance	**(198,271)**	(182,740)
Net trade receivables	**61,954**	42,851
Bills receivable	**1,232**	56,771
	63,186	99,622

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 management. The credit terms of bills receivable are generally 6 months. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Over 42% (2017: 41%) of the trade and bills receivables balances as at 31 March 2018 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 aging 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:

	2018	2017
	HK$'000	*HK$'000*
Within 2 months	**28,049**	83,046
2 to 6 months	**35,118**	16,576
6 months to 1 year	**19**	–
	63,186	99,622

Included in the above trade and bills receivables as at 31 March 2017, amounts totalling HK$56,771,000 were discounted to a bank in exchange for cash and included as "Bank advance for discounted bills" on the face of the consolidated statement of financial position.

The movements in impairment allowance of trade and bills receivables are as follows:

	2018	2017
	HK$'000	*HK$'000*
At beginning of the year	**182,740**	197,375
Impairment losses reversed *(note 7)*	**(2,537)**	(12,830)
Written off as uncollectible	**–**	(1,805)
Exchange realignment	**18,068**	–
At end of the year	**198,271**	182,740

Included in the above impairment allowance of trade receivables is a provision for impaired trade receivables in aggregate of HK$198,271,000 (2017: HK$182,740,000) with a carrying amount before provision in aggregate of HK$198,271,000 (2017: HK$182,740,000). 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 year payment pattern and creditworthiness of each customer, the default rates of current 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.

12. TRADE AND BILLS PAYABLES

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

	2018	2017
	HK$'000	*HK$'000*
Within 1 month	**21,388**	440,034
1 month to 3 months	**134**	530
Over 3 months	**490,807**	3,694
	512,329	444,258

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

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

As at 31 March 2018, the Group's bills payable of HK$487,465,000 (2017: HK$439,968,000) were secured by the Group's inventories and prepayment in aggregate of nil (2017: RMB450,000,000 (equivalent to HK$506,880,000)) and the Group's pledged bank deposits of HK$492,915,000 (2017:HK$50,480,000).

13. SHARE CAPITAL

	2018	2017
	HK$'000	*HK$'000*
Authorised:		
100,000,000,000 (2017: 100,000,000,000) ordinary shares of HK$0.1 each	**10,000,000**	10,000,000
Issue and fully paid:		
2,272,808,946 (2017: 2,272,808,946) ordinary shares of HK$0.1 each	**227,281**	227,281

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

For the year ended 31 March 2018 (the "**Year under Review**"), the Group recorded a total revenue of approximately HK$2,321.7 million (2017: HK$1,499.6 million), representing an increase of approximately 54.8%. Excluding the provision for inventories, during the Year under Review, the Group's gross profit was approximately HK$282.0 million (2017: HK$411.7 million). The gross profit margin before provision for inventories was approximately 12.1% (2017: 27.5%), while the loss attributable to the ordinary equity holders of the Company was approximately HK$136.0 million (2017: profit of HK$6.2 million). Basic loss per ordinary share was approximately HK5.98 cents (2017: basic earnings of HK0.27 cents). During the Year under Review, the revenue generated from the PRC market and the international market accounted for approximately 81.5% (2017: 79.6%) and approximately 18.5% (2017: 20.4%) of the Group's total revenue respectively.

Baijiu Business

Baijiu industry rebounded in 2015 with its upward trend continued in 2016 and 2017, market sentiment remained hot. During the Year under Review, business consumption and personal consumption have gradually improved and has replaced government consumption to become a new driving force for consumption. The industry recovery in 2017 mainly concentrated on high-end baijiu. Both the volume and price of Kweichow Moutai and Wuliangye went up. As a result, high-end baijiu continued to outperform the market leading to an increasingly concentrated market with brand name effect getting more apparent. At the same time, the e-commerce for the baijiu industry continued to develop rapidly. This drove the product sales and price transparency, pushed wine manufacturers and distributors to actively strengthen channel construction and enhance consumer experience for boosting competitiveness. The industry has entered an era dominated by consumers. The consumption upgrade led to the integration, mergers and acquisitions within the baijiu distribution industry and putting the industry participants at a severe situation.

As a national baijiu distributor in China, the Group has been closely following changes in the supply and demand in the Chinese baijiu market in order to push forward the broader development of the industry. Baijiu industry entered critical development stage during the past few years. Upon the recovery of domestic consumption and the progress of inventory destocking, the Group began to make changes two years ago and made major and decisive adjustments in the product structure. During the Year under Review, the Group continued to focus on its high-end baijiu development strategy, adding the distribution rights (Guangdong Province) for 53-degree Feitian Maotai 500ml and global exclusive distribution rights for Wuliangye new products "Tribute to the 80s" (52- and 39-degrees), and also renewed the distribution rights for 45-degrees and 68-degrees Wuliangye as well as Yongfu series. At the same time, the Group actively seeks for suitable mid to low end baijiu partners. In 2016, the Group's "Wine Kingdom • Cloud Partnership" platform ("**B2B Platform**"), successfully revolutionised the traditional industry distribution model, achieving flat sales channels and transparent pricing. The platform has been in operations since then and is gradually getting more stable and mature. Its development progress is in line with our expectation.

Wine Kingdom B2B Platform

The Group's B2B Platform was officially launched in May 2016 and has operated for nearly two years. The main purpose of setting up the platform is to substantially reduce excessive procedures in the Group's product sales chain and achieved direct sales to retail operators at "First Tier Wholesale Price". It also solved problems associated with the baijiu sales model including layered pricing and low efficiency.

During the Year under Review, the B2B Platform has steady development. Apart from putting resources into optimising platform system and staff training, the management also introduced a variety of value-added services, including the We-wallet with payment function and We-finance with financial functions and "Zui Xinyi" with social functions to further improve consumer experience and enhance their loyalty to the platform.

During the Year under Review, the Group continued to focus on cultivating the existing distribution network of 260 cities and approximately 130,000 business members. Besides, the Group had moderate system upgrades. Apart from optimising the original B2B model, it also added F2B (Factory-to-Business) and P2C (Manufacturer-to-Consumer) models, and gradually open up the B2B platform to allow more product suppliers to participate in the baijiu ecosystem. In addition, the Group has also begun deploying "Wine Kingdom Path Finder" based on Internet of Things ("**IoT**") which is a product that senses the operational information of goods through intelligent terminals, and by leveraging cloud computing framework of the big data platform for IoT data storage, calculation, management, monitoring, analysis, mining and application. This would allow companies to monitor operational data in relation to marketing and inventory to solve four major issues within baijiu industry namely "loss, anti-counterfeiting, inventory, traceability".

In addition, B2B Platform launched a series of promotional activities during the Year under Review, such as 919 events, membership days, and year-end sales promotion to boost online sales. All these activities successfully enhanced the brand influence of the platform, promoted user loyalty, and stimulated platform sales.

Wine and Cigarettes

As consumers nowadays are more knowledgeable about wines, they have higher requirements for variety and quality. We expect that wine will become more popular, which implies huge growth potential. The management will pay close attention to the development and changes in the market and make appropriate plans and adjustments. The revenue of the cigarette business during the Year under Review was similar to that of the same period last year.

E-Commerce Business

During the Year under Review, Wine Kingdom continued to maintain good cooperation relationships with the mainstream e-commerce shopping platforms such as Jingdong Mall, Yihaodian, T-mall, Vip.com and Amazon etc.

Non-alcohol business

High-end liquor has established stronger brand influence since 2017. Since then, the polarisation of the baijiu industry has become more obvious, which intensified the industry competition among distributors. In response to the uncertainties brought by the industry changes, during the Year under Review, the Group gradually opened up the B2B Platform through its national network, besides the newly introduced sugar products, our business members could also introduce more baijiu products and non-alcoholic products to maximise the platform efficiency. The Group believes that the development of non-alcoholic business can effectively cushion the adverse effects of the competition in the baijiu industry, and at the same time, it will also be able to generate more sales through product diversification. We will adopt a prudent strategy to develop non-alcoholic business to ensure our main baijiu business and operating cash flow will not be affected.

Outlook and Future Development

China baijiu industry signaled its recovery since second half of 2017 under the push of the sizeable wine manufacturers. China baijiu industry is expected to enter new definitive growth and development period. Upon the promising industry sentiment, Silver Base Group being the national baijiu distributor in China, will continue to actively develop and promote B2B Platform business for moderate expansion.

Looking ahead, the Group will make strategic adjustments in four areas.

In terms of channel construction, the Group will form respective dedicated channel deployment team in each province and district and establish a flat distribution network through local distributors to stay closer to the market.

In respect of products, the Group will continue to upgrade its existing products, and expects to introduce more mid to low end liquor brands and products at appropriate times to meet with the needs of consumers, and to leverage the trading experience to further expand non-alcoholic products for product enrichment, B2B Platform value maximisation, as well as for broader development and profits.

In terms of B2B Platform construction, the Group will continue to optimise the platform for allowing members to enjoy better consumer experience. Besides, the Group will gradually open up the B2B Platform by integrating and introducing more product suppliers, and to attract more downstream customers to make purchases on the platform through more marketing events.

In terms of operation management, the Group will further strengthen its internal control and adopt a more prudent financial management and cost control strategy to strictly control its operating expenses and maintain a sound financial foundation in order to achieve sustainable long-term growth.

The Group is confident in building a Chinese baijiu B2B ecosystem based on the increasingly mature B2B Platform. the Group is also putting a lot of efforts in maintaining the long-term symbiotic and cooperative partnership with baijiu manufacturers, for both parties to rise and shine under the brand-new business environment. Upon the recovery of baijiu market, together with the maturing B2B Platform, the Group is confident in generating a brilliant financial result by achieving significant increase in total sales in China through better services and enriched product lines in order to reward our shareholders, employees and customers for their continuous support.

FINANCIAL REVIEW

Revenue and Gross Profit

The Group generates its revenue primarily from sales of high-end liquors. For the year ended 31 March 2018, the Group recorded a total revenue of approximately HK$2,321.7 million, representing an increase of approximately 54.8% compared to a total revenue of HK$1,499.6 million for the year ended 31 March 2017. For the year ended 31 March 2018, approximately 81.5% of revenue was derived from the PRC market (2017: 79.6%).

The Group's revenue derived from the distribution of liquors represented approximately 63.9% of the total revenue for the year ended 31 March 2018 (2017: 99.5%) while the revenue derived from the distribution of sugar, cigarettes and others represented approximately 36.1% of the total revenue for the year ended 31 March 2018 (2017: 0.5%).

The Group's gross profit for the year ended 31 March 2018 was approximately HK$225.7 million (2017: HK$410.2 million). The decrease in gross profit was mainly due to the increase in sales volume of non-alcoholic products during the year and the gross profit of such products was relatively low. Excluding the factor of provision for inventories, the Group's gross profit for the year ended 31 March 2018 was approximately HK$282.0 million (2017: HK$411.7 million), the gross profit ratio before provision for inventories was approximately 12.1% (2017: 27.5%).

Other Income and Gains, Net

Other income and gains, net amounted to approximately HK$0.8 million for the year ended 31 March 2018 (2017: HK$8.4 million). Such decrease was mainly due to the decrease in bank interest income and other income.

Selling and Distribution Expenses

Selling and distribution expenses comprised mainly 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$198.7 million (2017: HK$294.9 million) accounting for approximately 8.6% (2017: 19.7%) of the revenue of the Group for the year ended 31 March 2018. Such decrease was mainly due to the effective expense control during the year and the one-off expenses incurred in relation to the establishment of the B2B Platform and B2B conference events during the year ended 31 March 2017.

Administrative Expenses

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

Administrative expenses amounted to approximately HK$87.0 million (2017: HK$80.7 million) accounting for approximately 3.7% (2017: 5.4%) of the revenue of the Group for the year ended 31 March 2018. Such increase was mainly due to the increase in equity-settled share option expense and legal and professional fees for general advisory services.

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

Loss from impairment, net amounted to approximately HK$8.8 million (2017: write-back of impairment, net of HK$11.8 million) for the year ended 31 March 2018. The change was mainly due to the increase in impairment allowances of property, plant and equipment.

Finance Costs

Finance costs amounted to approximately HK$64.2 million (2017: HK$48.7 million) representing approximately 2.8% (2017: 3.2%) of the Group's revenue for the year ended 31 March 2018. The finance costs include interest on discounted bills, interest on bank, trust receipt and other loans and interest on bond payables. Such increase was mainly due to the increase in interest on bond payables.

Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. In prior years, no provision for Hong Kong profits tax had been made as the Group had available tax losses brought forward from prior years to offset the assessable profits generated during that year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries or jurisdictions in which the Group operates.

Profit/(Loss) Attributable to Ordinary Equity Holders of the Company

Taking into account of the aforementioned, the loss attributable to ordinary equity holders of the Company for the year ended 31 March 2018 amounted to approximately HK$136.0 million, as compared to the profit attributable to ordinary equity holders of the Company of approximately HK$6.2 million in 2017.

Dividends

The Company did not pay any interim dividend during the year.

The Board does not recommend the payment of a final dividend for the year ended 31 March 2018.

Inventories

As at 31 March 2018, the Group's inventories was approximately HK$904.4 million (2017: HK$697.8 million). The increase was mainly due to the sharply increase in the purchase volume during the year.

Trade and Bills Receivables

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

The decrease in trade and bills receivables was mainly due to the decrease in the amount of bills issued by the customers. All of the trade and bills receivables was settled up to the date of this announcement.

All the Group's distributors have been selected after careful and serious consideration. They generally possess extensive distribution networks, considerable financial strengths and competitive market positions. After careful assessment of the receivable balance's recoverability by taking into account of the current adverse operating environment, financial conditions of the distributors and aging of the balances, total impairment allowance in aggregate of approximately HK$198.3 million (2017: HK$182.7 million) had been made by the Group as at 31 March 2018.

As at 31 March 2018, the trade and bills receivables net of provision were approximately HK$63.2 million (2017: HK$99.6 million). Approximately 44.4% of the net trade and bills receivables were aged within two months as at 31 March 2018 (2017: 83.4%). All bills receivables were issued and accepted by banks.

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

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

(ii) actively pursue cash-transaction business such as e-commerce and TV shopping and B2B business.

Up to the date of this announcement, the Group's subsequent settlement of the trade and bills receivables was approximately HK$63.2 million.

Trade and Bills Payables

As at 31 March 2018, the trade payables was approximately HK$512.3 million (2017: HK$444.3 million). The increase in trade and bills payables was mainly due to the increase in outstanding bills payable arising from the appreciation of RMB as at 31 March 2018. Up to the date of this announcement, the bills payable was repaid.

Liquidity and Financial Resources

As at 31 March 2018, the Group had cash and cash equivalents of approximately HK$418.9 million (2017: HK$356.9 million), approximately 43.3% (2017: 73.2%) of which was denominated in RMB, approximately 45.5% (2017: 15.6%) of which was denominated in Hong Kong dollars and approximately 11.2% (2017: 11.2%) of which was denominated in other currencies. The increase in cash and cash equivalents was mainly due to the increase in cash generated from operating activities and proceeds from issue of bonds. As at 31 March 2018, the Group's net current assets were approximately HK$1,300.2 million (2017: HK$998.5 million).

Capital Structure of the Group

Total interest-bearing bank borrowings as at 31 March 2018 was approximately HK$74.9 million (2017: HK$213.3 million). The interest-bearing bank borrowings included trust receipt loans and bank loan. All (2017: 76.6%) of the total interest-bearing bank borrowings was denominated in RMB and nil (2017: 23.4%) of which was denominated in United States dollars.

The Group's bank loan was denominated in RMB. The Group's bank loan in the amount of approximately HK$74.9 million (2017: HK$163.3 million) containing a repayment on demand clause is included within current interesting-bearing bank borrowings.

Based on the maturity terms of the bank loan, the amounts repayable in respect of the bank loan are: approximately HK$74.9 million repayable within one year. For the year ended 31 March 2017, approximately HK$56.3 million repayable within one year and approximately HK$107.0 million repayable over one year.

During the Year under Review, the Group issued bonds with an aggregate principal amount of approximately HK$430.9 million, before related expenses of approximately HK$75.0 million, to certain independent entities and individuals. The bonds bear interest at rates ranging from 6% to 7% per annum and will mature in period from May 2019 to September 2025. The interest will be payable by the Group semi-annually or annually from the issue dates of the respective bonds and up to the maturity date.

No particular seasonality trend for the borrowing requirements of the Group observed for the Year under Review.

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

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

The Group monitors its capital using the gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank borrowings, trade and bills payables, deposits received, other payables and accruals, bank advance for discounted bills, amount due to a director and bond payables less cash and cash equivalents. Total capital represents equity attributable to the ordinary equity holders of the Company. As at 31 March 2018, the gearing ratio was approximately 59.9% (2017: 52.5%).

Employment and Remuneration Policy

The Group had a total work force of 283 employees in Hong Kong and the PRC as at 31 March 2018 (2017: 357 employees). The total salaries and related costs (including Directors' fee) amounted to approximately HK$117.4 million for the year ended 31 March 2018 (2017: HK$103.3 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 not limited to, employees, Directors and any other eligible persons.

On 5 May 2017 (the "**Date of Grant 1**"), the Company granted share options to certain employees of the Group to subscribe for a total of 80,000,000 ordinary shares of HK$0.10 each in the capital of the Company under the Share Option Scheme. The exercise price is HK$0.50 per share. Of which, a total of options to subscribe 15,000,000 ordinary shares of HK$0.10 were cancelled on 7 July 2017. Details of the grant of share options, including the validity of the share options can be referred to the announcement of the Company on the Date of Grant 1.

On 6 July 2017 (the "**Date of Grant 2**"), the Company granted share options to a Director, certain associates of a substantial shareholder of the Company and certain employees of the Group to subscribe for a total of 26,000,000 ordinary shares of HK$0.10 each in the capital of the Company under the Share Option Scheme. The exercise price is HK$0.52 per share. Details of the grant of share options, including the validity of the share options can be referred to the announcement of the Company on the Date of Grant 2.

As at 31 March 2018, the number of share options to subscribe for a total of 273,250,000 shares in the Company, representing approximately 12% of the number of issued ordinary shares of the Company, may still be granted under the Share Option Scheme as the date of this announcement.

LITIGATION

In December 2013, one distributor of the Group (the "**Plaintiff**") filed a claim to a District People's Court in the PRC (the "**PRC District People's Court**") against one of the Group's subsidiaries in the PRC in relation to the Group's obligation to buy back certain inventories from the Plaintiff (the "**Claim**"). The Plaintiff demanded the purchase consideration and related compensation from the Group of approximately RMB20.1 million (equivalent to approximately HK$25.1 million) in total.

According to a judgement dated 25 August 2015 issued by the PRC District People's Court, the Group was liable to buy back certain inventories from the Plaintiff with a total consideration of approximately RMB18.9 million (equivalent to approximately HK$23.6 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 these financial statements, the Group and the Plaintiff are under the negotiation for the buy back arrangement of the inventories and the Group has not bought back any inventories from the Plaintiff. The directors of the Company are in the opinion that adequate provision has been made in the financial statements to cover any potential liabilities arising from the Claim.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with the code provisions ("**Code Provisions**") in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange throughout the year ended 31 March 2018.

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 has ceased the position of the chief executive officer of the Group with effect from 27 June 2017. Following the appointment of Mr. Yan Jun as the chief executive officer of the Group on the same date, the Company has re-complied with Code Provision A.2.1.

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 year ended 31 March 2018.

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 is a qualified accountant with extensive experience in financial reporting and controls, 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 Audit Committee is responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors and has the authority to raise questions regarding the resignation or dismissal of the auditors, reviewing of the Group's financial information and overseeing the Group's financial reporting systems, risk management frameworks and internal control systems. The Audit Committee is also responsible for reviewing the interim and final results of the Group prior to recommending them to the Board for approval.

The Audit Committee has reviewed with the management, and discussed with the Company's external auditors, the consolidated financial statements of the Company for the year ended 31 March 2018 including the accounting principles and practices adopted by the Group.

SCOPE OF WORK OF ERNST & YOUNG ON THE PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 March 2018 as set out in the preliminary announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

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

The Compliance Committee has reviewed the confirmation given by Mr. Liang and Yinji Investments Limited of their compliance with the deed of non-competition undertaking as disclosed in the prospectus of the Company dated 30 March 2009.

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 year ended 31 March 2018.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "**Annual General Meeting**") will be held in Hong Kong on Friday, 24 August 2018. Notice of the Annual General Meeting will be issued and despatched to the shareholders in due course.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 March 2018 (2017: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 20 August 2018 to Friday, 24 August 2018, both dates inclusive, during which period no transfer of share(s) will be effected, for the purpose of determining shareholders who are entitled to attend and vote at the Annual General Meeting. In order to qualify for attending and voting at the Annual General Meeting, all transfers documents, accompanied by the relevant share certificates, must be lodged with Computershare Hong Kong Investor Services Limited, the Company's Hong Kong branch share registrar and transfer office, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. (Hong Kong time) on Friday, 17 August 2018.

PUBLICATON OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.silverbasegroup.com). The annual report for the year ended 31 March 2018 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 June 2018

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