

**BEA securities**

EAST ASIA SECURITIES COMPANY LIMITED

9/F, 10 Des Voeux Road Central, Hong Kong.

Dealing: 3608 8000 Research: 3608 8096 Facsimile: 3608 6132

HONG KONG RESEARCH**30th March 2009**

Analyst: Sabina Cheng

Main Board Listing – Research

銀基集團控股有限公司

Silver Base Group Holdings Limited [Stock Code: 00886]**Sole Global Coordinator and Sponsor**

: UBS

Joint Bookrunners and Joint Lead Managers

: UBS, BOC International

Sector : Wine & tobacco distributor

Business : Principally engaged in the distribution of the Wuliangye Liquor Series for the PRC and international markets

Total share offer: 300,000,000 shares
(25% of the enlarged share capital)**Public Offer:** 30,000,000 shares (10%)**Placing:** 270,000,000 shares (90%)**Greenshoe:** 45,000,000 shares**Price:** HK\$2.30 – HK\$3.45 per share**Market Cap:** HK\$2.76 billion– HK\$4.14 billion**Pro forma FY2009E PER:** 7.0X –10.5X**Adjusted NTA per share:** HK\$0.68 – HK\$0.96**Staffing:** 217 (as of 30th September 2008)**HK Public Offer period:**30th March 2009 – 2nd April 2009**Receiving bank of the Public Offer:**Industrial and Commercial Bank of China
(Asia) Limited**Principal share registrar and transfer office:**

Butterfield Fund Services (Cayman) Limited

Hong Kong share registrar:Computershare Hong Kong Investor Services
Limited**Listing date:** 8th April 2009**Business of Silver Base Group (“the Group”)**

The Group is a distributor of Wuliangye liquor products, Chinese cigarettes and Dimple Scotch Whisky.

It has principally engaged in the distribution of Wuliangye liquor products in China and internationally since 1997 and 2006 respectively. The Group is the principal distributor of the whole Wuliangye Liquor Series for the Wuliangye Group, with the distribution right to be expired in December 2020.

In addition to Wuliangye, since 1998, the Group has been an exclusive distributor of various brands of Chinese cigarettes such as, Hongtashan Premium Series (6 mg, 9 mg and 12 mg), with distribution rights to be expired between 2014 and 2020.

Since 2006, the Group has also been distributing Dimple Whisky series in China for Diageo Group, including DIMPLE 12-year-old Scotch whisky, DIMPLE 15-year-old Scotch whisky and DIMPLE 18-year-old Scotch whisky.

While Wuliangye accounted for 95% of the Group's total revenue for the 6 months ended 30 September 2008, 66.2% of the Group's total revenue was generated from the international market. (61.6% and 4.6% from Wuliangye and cigarette respectively)

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**Shareholding Structure after Listing** (Assuming the over-allotment option is not exercised)

Yinji Investment – a company wholly-owned by Mr Liang Guoxing, Chairman and an executive Director of Silver Base Group Holdings Limited.	75%
Other Public Shareholders	25%
	100%

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$764.3 million (Assuming an offer price of HK\$2.88, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ million
For the reinforcement and expansion of the distribution network in the PRC	183.4
For advertising, marketing and promotion	152.9
For mergers and acquisitions as well as development of new product lines	114.6
For the expansion of headcount and purchase/upgrading of the Group's existing machinery and equipment	45.9
For increasing inventory levels	191.1
For general working capital	76.4

Financial Highlights

	Year ended 31 st March			6 months ended 30 th September	
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000
Revenue	575,254	983,944	1,485,054	546,042	878,442
Gross profit	102,281	237,380	559,165	179,236	454,121
Operating profit	38,767	141,470	479,804	125,118	395,948
Net profit	31,996	111,330	389,444	101,550	327,559
Attributable profit	31,996	111,334	399,724	101,550	327,559
Gross margin	17.8%	24.1%	37.7%	32.8%	51.7%
Operating margin	6.7%	14.4%	32.3%	22.9%	45.1%
Net margin	5.6%	11.3%	26.2%	18.6%	37.3%

Revenue Breakdown (% of Total Revenues)

	Year ended 31 March						Six months ended 30 th September	
	2006		2007		2008		2008	
	HK\$ million	%	HK\$ million	%	HK\$ million	%	HK\$ million	%
Wuliangye Liquor Series								
PRC market	29.9	5.2	323.5	32.9	654.6	44.1	293.3	33.4
International market	424.5	73.8	545.6	55.5	728.3	49.0	541.3	61.6
DIMPLE								
PRC market	-	-	6.3	0.6	5.7	0.4	3.4	0.4
International market	-	-	-	-	0.4	-	-	-
Cigarettes								
PRC market	0.3	-	-	-	-	-	-	-
International market	120.6	21.0	108.5	11.0	96.1	6.5	40.4	4.6
Total	575.3	100.0	983.9	100.0	1,485.1	100.0	878.4	100.0



Strengths/Opportunities

- ✓ **Strong brand name awareness and customer loyalty** The Group's major business is to distribute Wuliangye Group's products which are of customers' brand awareness and consumers' loyalty.
- ✓ **Earnings diversification** In order to diversify its earnings drivers, the Group has been expanded its product mix through adding new high-end product lines. For instant, the Group has been an appointed distributor of the Wuliangye Group's Wuliangye "Soy" Label Series in February 2009. This new high-end products taste like Moutai.
- ✓ **Valuation** FY2009E P/E of between 7X and 10.5X is not demanding as compared to locally listed distributors/retailers and branded F&B companies which are trading at an average of 8.5X and 14.4X FY2009E P/E respectively.

Weaknesses/Threats

- × **Slowdown in demand** is expected in face of economic downturn despite of Wuliangye products have high customers' brand awareness and loyalty. In fact, since the financial crisis in late 2008 to early 2009, the volume of the Wuliangye Liquor Series sold has dropped significantly.
- × **Relies on single supplier and single product line** The Group relies on the Wuliangye Group as its single largest supplier and the Wuliangye Liquor Series as its single largest product line. There is risk of addition or changes in the Wuliangye Group's distributor(s) going forward. Additionally, the Group has no control on the pricing and distribution policies of Wuliangye's products.
- × **Expansion of supplier and consumer coverage** The Group plans to increase the total points of sales from 10,000 to 30,000, by exploring the new markets and looking for merger-and-acquisition opportunities with sub-distributors. However, there is a risk that the Group may not have adequate control over the pricing and distribution policies within the distribution network if it expands too fast.
- × **Not market favourite** Consumer stocks are not likely to be favoured by investors in a slowing economy.

Recommendation: Unexciting

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