

INDUSTRY OVERVIEW

We have extracted and derived the information and statistics in the section below, in part, from various official government publications or other sources, including certain articles, reports and publication, the preparation of which were not commissioned by us. We believe that the sources of the information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We [REDACTED] have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us [REDACTED] and no representation is given as to its accuracy.

For a discussion of the risks and uncertainties relating our industry, please refer to the section headed “Risk Factors” in this document.

OVERVIEW OF THE HONG KONG ECONOMY

Key economic indicators of Hong Kong

Apart from the economic downturn resulting from the global financial crisis in 2009, the economy in Hong Kong has maintained steady growth since 2007. According to International Monetary Fund (the “IMF”), nominal GDP in Hong Kong grew from approximately HK\$1,642 billion in 2007 to approximately HK\$2,040 billion in 2012, representing a CAGR of over 4% from 2007 to 2012. Nominal GDP in Hong Kong is expected to reach approximately HK\$2,773 billion in 2016, representing a CAGR of approximately 8% from 2012 to 2016, due in part to its increasing integration with mainland China through trade, tourism and financial links.

According to IMF, per capita GDP in Hong Kong increased from approximately HK\$236,350 in 2007 to approximately HK\$284,170 in 2012, representing a CAGR of approximately 4% from 2007 to 2012. Per capita GDP in Hong Kong is expected to amount to approximately HK\$373,637 in 2016, representing a CAGR of approximately 7% from 2012 to 2016.

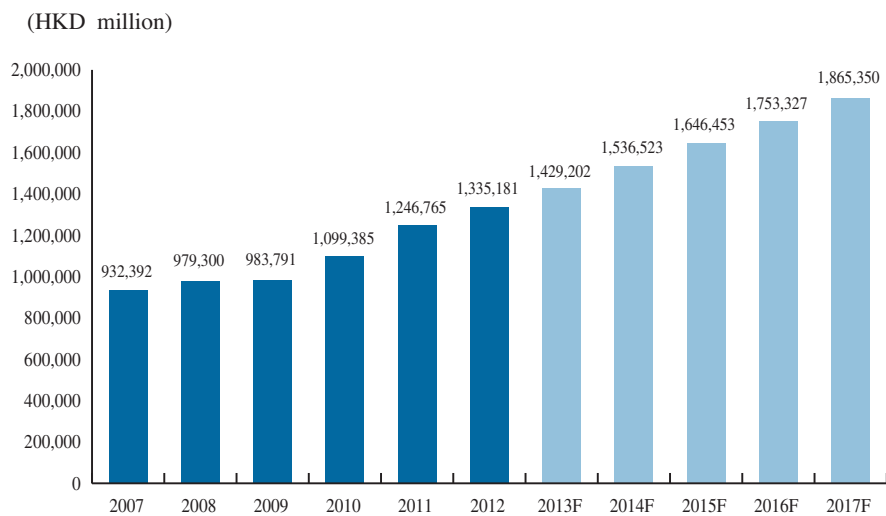
Sustained Growth in Disposable Income and Consumption Expenditure in Hong Kong

Based on the data from the Economist Intelligence Unit (the “EIU”), annual disposable income per capita in Hong Kong has increased from approximately HK\$169,614 in 2007 to approximately HK\$196,278 in 2012, representing a CAGR of approximately 3% per annum. Annual disposable income per capita in Hong Kong is expected to reach approximately HK\$234,057 in 2016, representing CAGR of approximately 5% from 2012 to 2016.

According to Euromonitor, along with the general growth in annual disposable income per capita, annual consumer expenditure in Hong Kong also grew at a CAGR of over 7% from approximately HK\$932 billion in 2007 to approximately HK\$1,335 billion in 2012, and is estimated to reach approximately HK\$1,753 billion in 2016, representing a CAGR of approximately 7% from 2012 to 2016. The following graph sets forth annual consumer expenditure and its growth in Hong Kong both on a historical and forecast basis.

INDUSTRY OVERVIEW

Hong Kong Annual Consumer Expenditure 2010-2016F



Source: Euromonitor

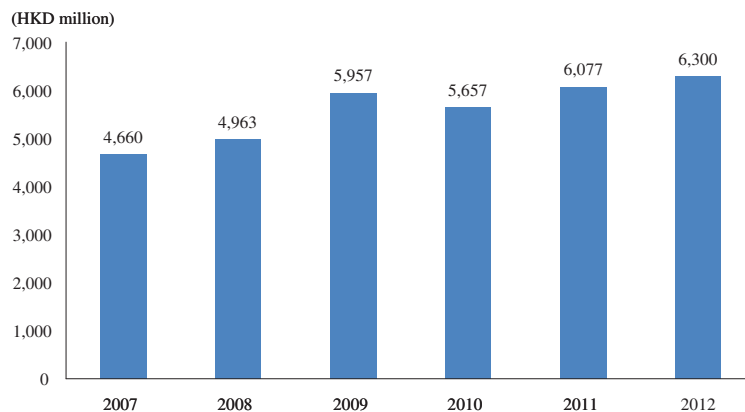
THE HONG KONG WINE AND SPIRITS MARKET

Overview

In general, alcoholic drinks posted healthy volume and value growth rates that were attributed to the higher disposable incomes of customers in Hong Kong, which allowed them to dine out more often, engage in social drinking and trade up to premium quality products. According to Euromonitor, the retail customer expenditure on alcoholic drinks has increased from approximately HK\$4,660 million in 2007 to approximately HK\$6,300 million in 2012, representing a CAGR of over 6% per annum. Both on-trade channels such as bars, restaurants and private clubs and off-trade channels such as supermarkets, specialty stores and convenience stores saw high value growth compared with volume growth, indicating the customers were spending on more expensive alcoholic drinks.

INDUSTRY OVERVIEW

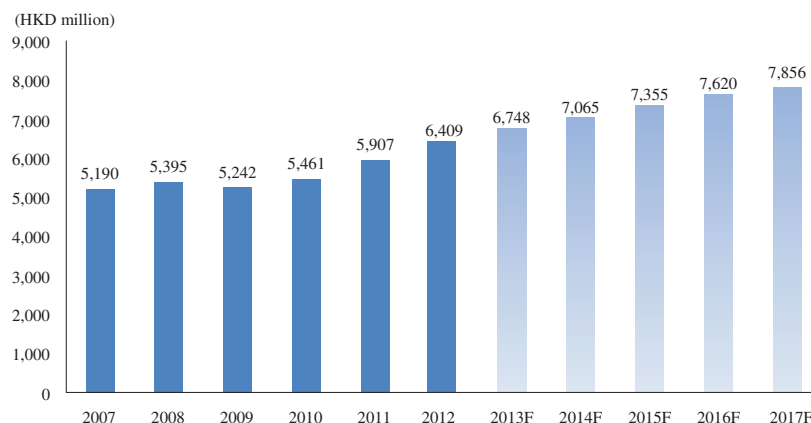
Retail Consumer Expenditure on Alcoholic Drinks 2007-2012



Source: Euromonitor

According to Euromonitor, wine and spirits products accounted for a significant portion of the retail customer expenditure on alcoholic drinks in Hong Kong. Since the abolition of duties on certain wine and spirits products in 2008, Hong Kong has seen sustained robust growth in wine and spirits market, showing strong demand for wine and spirits products. According to Euromonitor, the total sales value of the Hong Kong wine and spirits market grew at a historical CAGR of over 4%, from approximately HK\$5,190 million in 2007 to approximately HK\$6,409 million in 2012, and is estimated to continue to enjoy the high level of growth in the near future, with a forecast CAGR of over 3% from 2013 to 2017, by which time the total sales value of wine and spirits products is estimated to be approximately HK\$7,856 million.

Hong Kong Wine and Spirits Market 2007-2017F

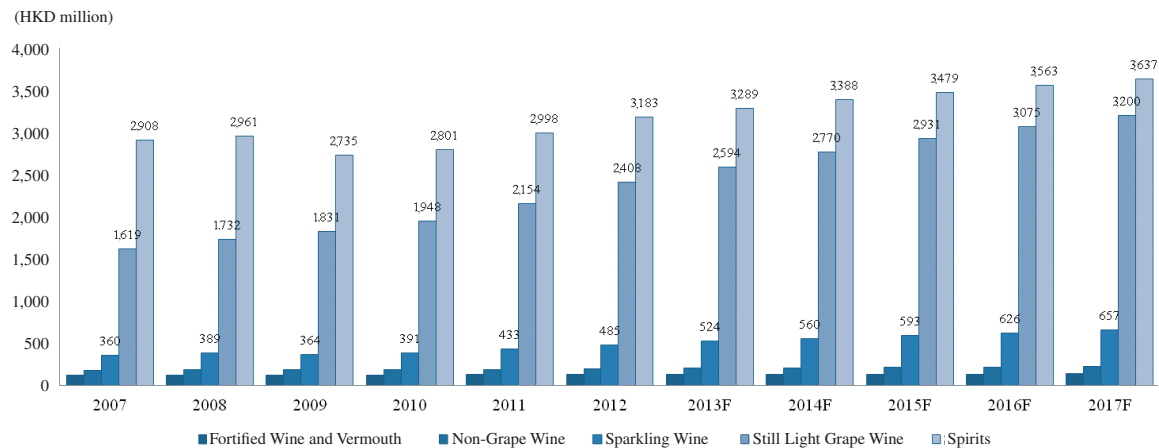


Source: Euromonitor

Notes: Based on the report prepared by Euromonitor, the Hong Kong wine and spirits market includes wine products such as fortified wine and vermouth, non-grape wine such as rice wine and sake, sparkling wine such as champagne and other sparkling wine and still light grape wine such as still red wine, still rose wine and still white wine, and spirits products such as brandy and cognac, liqueurs, rum, whiskies and white spirits and other spirits.

INDUSTRY OVERVIEW

According to Euromonitor, a significant proportion of the total sales value of the Hong Kong wine and spirits market are generated from the sales of still light grape wine and sparkling wine and spirits. The following chart shows a breakdown of the total sales value of the Hong Kong wine and spirits market from 2007 to 2012 and the estimation of total sales value of the Hong Kong wine and spirits market from 2013 to 2017:



Source: Euromonitor

Benefiting from improving of standard of living, change demographics and increasingly sophisticated demand in Hong Kong, the total sales value of the still light grape wine have enjoyed high growth at a CAGR of over 8% from 2007 to 2012 and the total value sales of spirits also saw good growth at a CAGR of approximately 2% during the same period.

With Hong Kong’s economy expected to see steady growth over the forecast period, standard of living will continue to improve, local consumer sentiment will remain healthy. Euromonitor estimated that by 2017, the total sales value of still light grape wine and spirits will reach approximately HK\$3,200 million and HK\$3,637 million, with a CAGR of approximately 5% and 3% from 2013 to 2017, respectively.

Key Features of the Hong Kong Wine and Spirits Market

No duty on wine and liquor with less than 30% alcohol content

As a non-grape-growing area, all wine and spirits products in Hong Kong are imported by local distributors and subsidiaries of global companies from all over the world. Amid the growing demand for wine and spirits in Asia, the Hong Kong Government removed all duty-related customs and administrative controls for wine and liquor with less than 30% alcohol content in February 2008 to facilitate the development of Hong Kong as a wine and spirits trading and distribution centre for the region. Hong Kong is thus a free port with no tariffs on general wine and spirits imports and exports, which makes it a very attractive and popular choice with many wine and spirits companies from other countries looking to expand their networks. Local wine and spirits retailers and distributors have also

INDUSTRY OVERVIEW

benefited from not having to go through too much hassle in order to import and distribute wine and spirits products in Hong Kong. According to Euromonitor, since the duty exemption, the total value of wine and spirits imports into Hong Kong has increased by approximately 60% and 33% in 2010 and 2011, respectively, amounting to approximately HK\$13,313 million in 2011.

Supportive governmental activities to develop Hong Kong wine and spirits market

According to the Hong Kong Trade Development Council publication, the Hong Kong Government has signed a memorandum of understanding (the “**MOU**”) on co-operation in wine-related business with 13 major wine-producing countries or regions, including France (and its Bordeaux and Burgundy regions), Spain, Australia, Italy, Hungary, New Zealand, the United States (and its Washington and Oregon states), Portugal, Chile and Germany to strengthen promotional activities in areas including wine and spirits related trade and investment. Our Directors are of the view that the MOU will not have a material impact on our Group. The MOU also embraces economic activities that would have synergy with wine trading and distribution, such as wine-related food promotion, meetings, incentives, conferences and exhibitions events, tourism, wine education and training, as well as co-operation in the fight against counterfeits.

Demand for premium wine and spirits products grows as customers become more sophisticated

With the growing availability of various brands and vintages of wine and spirits products in the market, the customers are becoming more discriminating and knowledgeable regarding the different wine and spirits products. This drives up demand for increased wine and spirits product diversity that also takes local tastes and preferences into account. As a result, more wine and spirits specialist retailers have set up shops in Hong Kong. Customers who are more sophisticated become attracted to such specialist retailers rather than mass market retailers such as supermarkets because they can obtain professional advice on product selections. In order to compete with specialist retailers, the existing wine and spirits mass market retailers have also gone to great lengths to expand their portfolio of wine and spirits products. Hence, there is a wide range of wine and spirits brands available in Hong Kong, with new products introduced regularly.

New products launched targeting different income level of customers

As consumer expenditure on alcoholic drinks grows, many wine and spirits companies launched products targeting different income level of customers in an effort to reach as broad a consumer spectrum as possible. A number of premium quality still red wine, champagne and spirits products were launched in 2011 to take advantage of the fact that affluent customers were on the constant lookout for such products. At the same time, products which were traditionally more expensive also made an entrance with economy price tags, and were targeted at entry-level tasters as well as lower-to middle-income earners, who were interested to try out wine and spirits products for the first time at an affordable price.

INDUSTRY OVERVIEW

Key Growth Drivers of the Hong Kong Wine and Spirits Market

Due to the growing demand for wine and spirits products in Asia and the elimination of all duty-related customs and administrative controls for wine and liquor with less than 30% alcohol content by the Hong Kong Government, wine and spirits business has boomed in Hong Kong. We anticipate the demand in Hong Kong for wine and spirits products will remain strong, which are driven by the following factors:

Rising affluence drives wine and spirits consumption growth

Sustained increase in disposable income has enabled more customers to consume more or trade up to premium wine and spirits products. As the consumption of these products are often associated with a more sophisticated status, the wine and spirits consumption has experienced strong demands especially from affluent customers who have shown strong interest in rare wine and spirits.

Increase in average unit price of wine and spirits products

As the global wine consumption remains steady, unit price of wine products is set to rise because of low level of wine production especially in Europe, caused by low grapes production due to the decline of vineyard surface areas and poor harvests. According to the International Organisation of Vine and Wine (the “OIV”), the world grape production has decreased from 714 millions of quintals in 2011 to 691 millions of quintals in 2012. The worldwide wine production was down by 6.1%, surged from 246.2 million hectoliters in 2011 to 248.4 million hectolitres in 2012, representing the lowest level since 1975. As a result, the world trade of wine increased in 2012 by 8.3% in terms of value, up to HK\$257 billion, but surged by 1.7% in volume, to 102.2 million hectolitres, with an average price up by HK\$26 per litre. According to Euromonitor, unit price of spirits products is set to rise as well because of the increasing production costs caused by the drop in global supply of cereal grains due to poor harvests. Discounting and price competition would have little impact on sales of premium wine and spirits products since the targeted customers are typically affluent and therefore willing to pay. Therefore, unit price across wine and spirits products is set to rise over the forecast period.

Wine and spirits consumptions appeal to the younger crowd

A growing number of younger consumers have entered the social drinking scene and they tend to be brand conscious and have a youthful sense of adventure in trying out new products such as wine and spirits. A growing amount of young adults also possess the means to partake in expensive social events such as clubbing and fine dining where expensive wine and spirits are commonly consumed in such settings. The rise of consumption from the younger crowd contributed significantly to the growth of wine and spirits products.

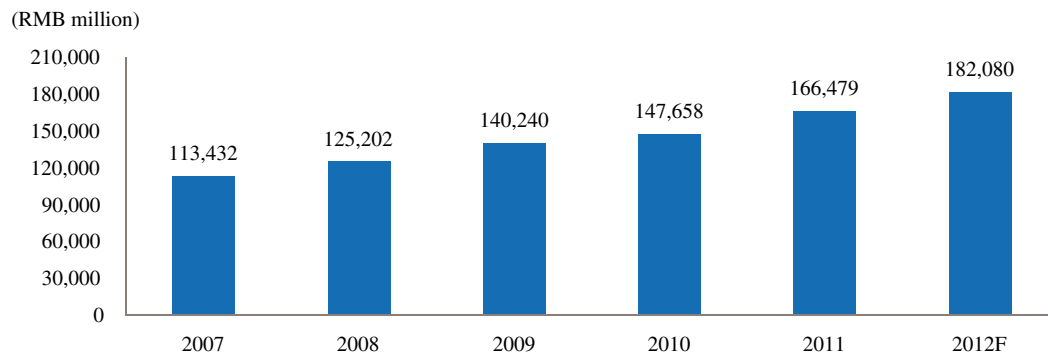
INDUSTRY OVERVIEW

THE PRC WINE AND SPIRITS MARKET

Overview

In spite of the decelerating economy growth and government’s ban on public on public funds for wining and dining in the PRC in 2012, the PRC wine and spirits market has enjoyed strong growth in recent years. According to Euromonitor, the retail customer expenditure on alcoholic drinks in the PRC has increased from approximately RMB113,432 million in 2007 to approximately RMB166,479 million in 2011, representing a CAGR of approximately 10% per annum, and is expected to reach RMB182,080 million in 2012.

Retail Consumer Expenditure on Alcoholic Drinks in the PRC 2007-2012F

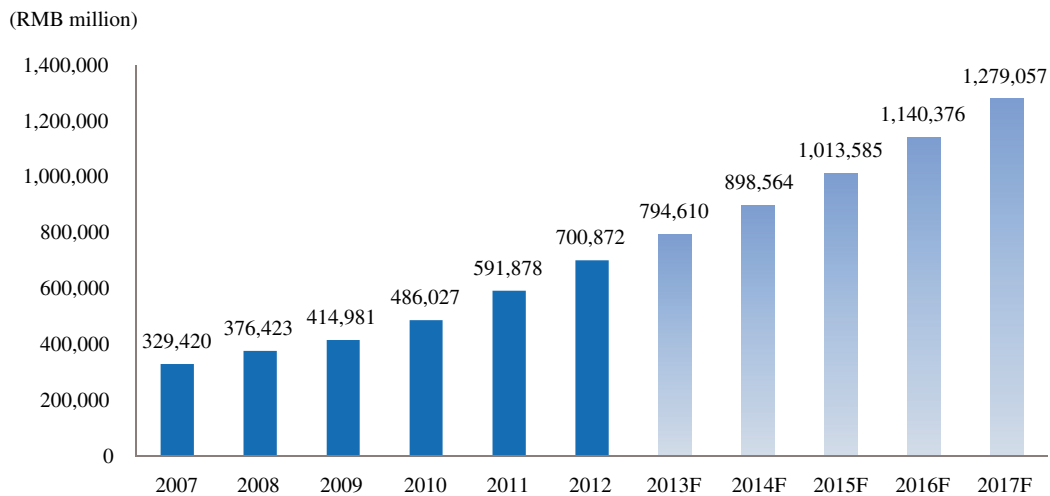


Source: Euromonitor

According to Euromonitor, the total value sales of the PRC wine and spirits market recorded a double-digit CAGR of approximately 16% during the period from 2007 to 2012. The total value sales of the PRC wine and spirits market grew from approximately RMB329,420 million in 2007 to approximately RMB700,872 million in 2012, and is estimated to continue to grow at a forecast CAGR of approximately 12% from 2013 to 2017, by which time the total sales value of wine and spirits products is estimated to be approximately RMB1,279,057 million, according to Euromonitor.

INDUSTRY OVERVIEW

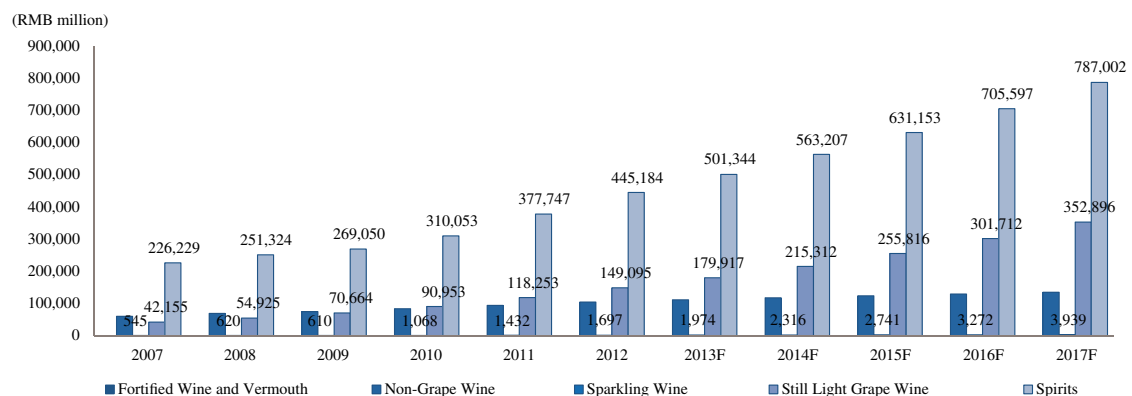
The PRC Wine and Spirits Market 2007-2017F



Source: Euromonitor

Notes: Based on the report prepared by Euromonitor, the PRC wine and spirits market includes wine products such as fortified wine and vermouth, non-grape wine such as rice wine and sake, sparkling wine such as champagne and other sparkling wine and still light grape wine such as still red wine, still rose wine and still white wine, and spirits products such as brandy and cognac, liqueurs, rum, whiskies and white spirits and other spirits.

According to Euromonitor, there is no sale of fortified wine and vermouth in the PRC wine and spirits market. A significant proportion of the total sales value of the PRC wine and spirits market are generated from the sales of still light grape wine and spirits. The following chart shows a breakdown of the total sales value of the PRC wine and spirits market from 2007 to 2012 and the estimation of total sales value of the PRC wine and spirits market from 2013 to 2017:



Source: Euromonitor

INDUSTRY OVERVIEW

Owing to the rising disposable income, the growing knowledge in wine products and the increasing acceptance of its health benefits among Chinese customers, the total sales value of still light grape wine has enjoyed a robust rate of growth at a CAGR of over 28% from 2007 to 2012. According to Euromonitor, still red wine, representing over 70% of the total still light grape wine, recorded the fastest value and volume growth during the same period, due to its claimed health benefits as well as the auspicious red colour, a must-have colour during most Chinese festivals and celebrations. The total sales value of spirits also saw good growth at a CAGR of approximately 15% from 2007 to 2012, according to Euromonitor.

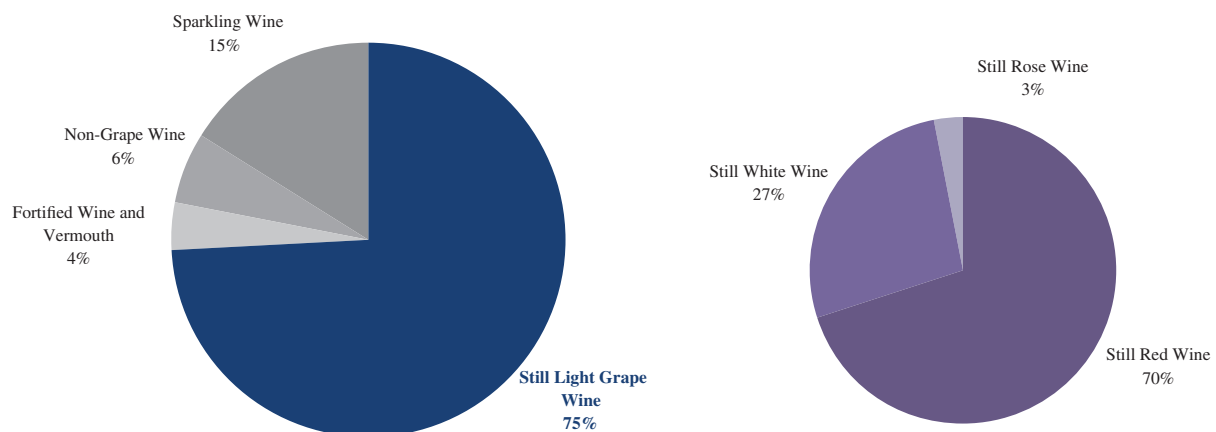
With improving of standard of living in the PRC, an increasing number of Chinese customers have developed a preference for imported alcoholic drinks, especially high-end imported wine and spirits. According to Euromonitor, the total sales value of imported wine and spirits in the PRC grew from approximately RMB5,957 million in 2007 to approximately RMB15,287 million in 2011, representing a historical CAGR of over 27% per annum.

Euromonitor estimated that by 2017, the total sales value of still light grape wine and spirits in the PRC will reach approximately RMB352,896 million and RMB787,002 million, with a CAGR of approximately 18% and 12% from 2013 to 2017, respectively,

Market segmentation in the Hong Kong Wine and Spirits Market

Wine by category

The following pie chart shows the market segmentation for wine products by category in Hong Kong for 2012:



Source: Euromonitor

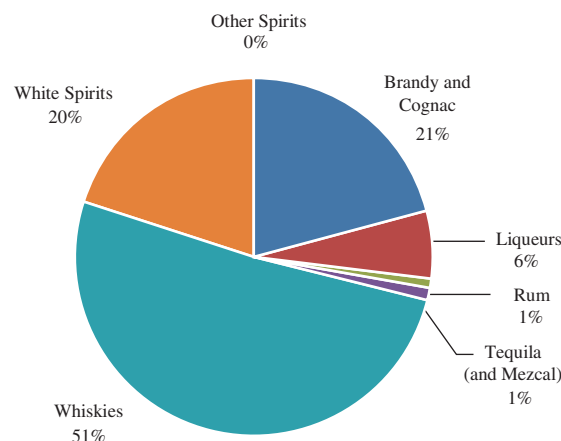
INDUSTRY OVERVIEW

According to Euromonitor, wine products include fortified wine and vermouth, non-grape wine such as rice wine and sake, sparkling wine such as champagne and other sparkling wine, and still light grape white such as still red wine, still rose wine and still white wine.

The best selling type of wine is still light grape wine which includes still red wine, still rose wine and still white wine, which accounts for approximately 75% of the total Hong Kong wine market share in 2012, followed by sparkling wine at approximately 15%. According to Euromonitor, still red wine accounted for approximately 70% of the total Hong Kong still grape wine market share, and saw the highest value growth at approximately 13% in 2012, in part due to its unique appeal to customers in Hong Kong and the PRC. Its red colour is seen as auspicious in Chinese culture, making it a popular choice of gift especially during Chinese festivals. Health-conscious consumers also prefer still red wine due to its widely-reported health benefits such as aiding in cancer prevention and reducing the risk of heart diseases.

Spirits by category

The following pie chart shows the market segmentation for spirits products by category in Hong Kong for 2012:



Source: Euromonitor

Notes: Based on the report prepared by Euromonitor, spirits products include brandy, cognac, liqueurs such as bitters, cream-based liqueurs and other liqueurs, rum such as dark rum and white rum, tequila and mezcal, whiskies such as bourbon/US whisky, Canadian whisky, Irish whisky, Japanese whisky, Blended Scotch whisky, single malt scotch whisky and other whiskies, white spirits such as gin and vodka, and other spirits such as Chinese spirits.

The best selling types of spirits are whiskies and brandy and cognac, which accounted for approximately 72% of the total Hong Kong market share in 2012, followed by white spirits at approximately 20% of spirits products. According to Euromonitor, whiskies saw the high value growth at approximately 7% in 2012. Among all the whiskies, single malt scotch and blended scotch are the highest growth sub-categories in 2012 with approximately 8% growth in value. Being the most expensive types of scotch whiskies, this reflected a growing number of consumers who were willing to splurge on higher-end spirits products.

INDUSTRY OVERVIEW

COMPETITIVE LANDSCAPE OF WINE AND SPIRITS IN HONG KONG

Competition in the wine and spirits market in Hong Kong has increased significantly since the removal of all duty-related customs and administrative controls for wine and liquor with less than 30% alcohol content in February 2008, and is categorised by a small number of specialised retailers and a large number of small players, each presenting their own wine and spirits product list varying in terms of product category and product range, and each targeted at their own specific market segment.

Barriers to entry in the wine and spirits markets are high primarily due to, among others, high capital requirements in order to build a wine and spirits products portfolio competitive in terms of price, product range and sufficient stock inventories, high requirements of industry and product specific knowledge and well-established relationships with suppliers to ensure steady supply, quality, and price competitiveness of wine and spirits products sourced. Despite the high barriers to entry, certain specialist retailers for wine and spirits have entered the market and gained considerable market share. In order to differentiate themselves from their competitors, specialist retailers have utilised various methods such as exclusive membership scheme and strategic placements of outlets to enhance the customer experience and build customer loyalty.

Our Directors consider that our primary competitors are other retailers who sell similar premium wine and spirits products which we currently sell, including our primary products, Fine Red Wine, Rare and Collectible Red Wine and Value Red Wine, and provide similar wine related services, such as wine appreciation consultation services. To the best knowledge of our Directors, the following two companies are also primarily engaging in the distribution of similar premium wine and spirits products:

- a wholesaler company of wine and spirits products (“Competitor A”). Competitor A, through its retail shops in Hong Kong, is principally engaged in the distribution of wine and spirits products, as well as provision of catering and wine appreciation consultation services. Competitor A’s collection of wine and spirits products covers brands from Burgundy, Alsace, Rhone Valley, Italy, New Zealand, Australia, South Africa, Austria, and the United States. Competitor A is not a customer of our Group.
- an importer, retailer and wholesaler of wine and spirits products (“Competitor B”). Competitor B, through its retail shops in Hong Kong, is principally engaged in the import and sale of wine and spirits products, as well as the provision of wine appreciation consultation services. Competitor B’s collection of wine and spirits products covers brands primarily from Bordeaux, Burgundy, Alsace, Rhone Valley and Champagne. Competitor B is not a customer of our Group.

To the best knowledge of our Directors, due to the lack of official industrial statistics and information on retailers and distributors of the premium wine and spirits products, it is difficult to accurately estimate our market share and market position. However, the future growth and prospects of our business depends on the consumer markets for wine and spirits products.

INDUSTRY OVERVIEW

SOURCES OF INFORMATION

To the best knowledge of our Directors, there is no publicly available information to prepare an overview of the price trend of wine and spirits products in Hong Kong and our Directors are unable to locate any overall price trend of red wine from authoritative industry sources.

We have extracted certain data and information on the wine and spirits market in Hong Kong from a report prepared by Euromonitor, an independent market research company. Euromonitor is a global provider of market intelligence with a network of analysts in 80 countries specialising in the provision of market research for consumer market. Information disclosed in this section is extracted from Euromonitor Report which was not commissioned by us [REDACTED].

Investors should note that the reports prepared by Euromonitor are based on its in-house databases, independent third party reports, publicly available data from government or industry publications. The information contained in the Euromonitor Report has been obtained from sources believed by Euromonitor to be reliable, certain information from government or industry publications is unavoidably subject to assumptions and estimates made by third parties and such information has not been independently verified by Euromonitor. The information contained in the Euromonitor Report (HK) and Euromonitor Report (PRC) are also subject to assumptions that no significant economic depression or financial crisis, global political or environmental events would take place in the next few years. The information extracted from the Euromonitor Report (HK) and Euromonitor Report (PRC) reflect an estimate of the market conditions based on Euromonitor’s research and analysis at the time of preparation of the Euromonitor Report (HK) and Euromonitor Report (PRC). The information extracted from the Euromonitor Report (HK) and Euromonitor Report (PRC) should not be viewed as a basis for investments provided by Euromonitor and references to the Euromonitor Report (HK) and Euromonitor Report (PRC) should not be considered as its opinion as to the value of any security or the advisability of investing in our Company. In no event will Euromonitor be liable for indirect, special, punitive or consequential damages of any kind or nature whatsoever, suffered by the other party.