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## INDUSTRY OVERVIEW

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*The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications and from the IPSOS Report prepared by IPSOS, which was commissioned by us. We believe that the information is derived from appropriate sources and we have taken reasonable care in extracting and reproducing the information. We have no reason to believe that the information is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading in any material respect. The information has not been independently verified by us, the Sole Sponsor, the [Redacted], the [Redacted], the Underwriters or any of our or their respective affiliates, advisers, directors, officers or representatives or any other person involved in the [Redacted]. Neither our Group, the Sole Sponsor, the [Redacted], the [Redacted], the Underwriters or any of our or their respective affiliates, advisers, directors, officers or representatives nor any other person involved in the [Redacted] make any representation as to the accuracy, completeness or fairness of such information from official government publications.*

*The information extracted from the IPSOS Report reflects estimates of market conditions based on sampling, and is prepared primarily as a market research tool. References to IPSOS should not be considered as the opinion of IPSOS as to the potential investment of our Shares or in our Group. Our Directors believe that the sources of information extracted from the IPSOS Report are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. Our Directors confirm that after taking reasonable care, there is no adverse change in the market information since the date of the IPSOS Report.*

## SOURCE OF INFORMATION

We have commissioned IPSOS, an independent industry research company, to analyse and report on, among others, the historical and forecast trends of the wine industry in Hong Kong for the period from 2010 to 2019 at a fee of HK\$360,000, and our Directors consider that such fee reflects market rates. To provide an analysis of the wine industry, IPSOS combined the following data and intelligence gathering methodology: (a) performing client consultations to facilitate the research including in-house background information of the client such as the business of our Company, (b) conducting desk research to gather background information and to obtain the relevant information and statistics on the wine industry, and (c) conducting in-depth interviews including face to face interviews and phone interviews with key stakeholders and other market players in Hong Kong.

Founded in Paris, France, in 1975 and publicly-listed on the NYSE Euronext Paris in 1999, IPSOS SA acquired Synovate Ltd. in October 2011. After the acquisition, IPSOS became one of the largest research company with offices across 87 countries to-date. IPSOS conducts research on market profiles, market size, share and segmentation analyses, distribution and value analyses, competitor tracking and corporate intelligence. IPSOS is independent of our Company and none of our Directors or their associates has any interest in IPSOS.

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Our Directors confirmed that IPSOS, including all of its subsidiaries, divisions and units, are independent of and not connected with us (within the meaning of the GEM Listing Rules) in any way. IPSOS has given its consent for us to quote from the IPSOS Report and to use information contained in the IPSOS Report in this [Redacted].

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the IPSOS Report, various official government publications and other publications.

### **ASSUMPTIONS AND PARAMETERS USED IN THE IPSOS REPORT**

#### **Analysis in the IPSOS Report is based on the following assumptions:**

- The supply of and demand for products of the wine industry in Hong Kong will remain stable during the forecast period.
- There will be no material adverse change in Hong Kong such as financial crisis or natural disasters to affect the supply of and demand for products of the wine industry in Hong Kong during the forecast period.
- Data for the total number of wine sellers in 2014 refers to the number of companies selling wine in Hong Kong including off-trade sellers which are retail establishments including grocery stores, convenience stores and specialty stores, and on-trade sellers including restaurants, bars and clubs where wine would be purchased and consumed on premise.
- Data for market value refers to the sales value of on-trade and off-trade sellers. This assumption is applicable throughout the IPSOS Report, unless otherwise specified.

#### **The following parameters have been taken into account in the market sizing and forecast model in the IPSOS Report:**

- GDP value and GDP growth rate in Hong Kong from 2010 to 2014
- GDP per capita and GDP per capita growth rate in Hong Kong from 2010 to 2014
- Annual household disposable income in Hong Kong from 2010 to 2014
- Annual household consumption expenditure in Hong Kong from 2010 to 2014
- Annual private consumption expenditure of goods and services in Hong Kong from 2010 to 2014
- Annual private consumption expenditure of alcoholic beverages per capita in Hong Kong from 2010 to 2014
- Total import value of alcoholic beverages in Hong Kong from 2010 to 2014
- Total import value of wine in Hong Kong from 2010 to 2014
- Total number of wine sellers in Hong Kong in from 2010 to 2014
- Total market value of alcoholic beverages in Hong Kong from 2010 to 2014
- Total market value of wine in Hong Kong from 2010 to 2014
- Total market value of Premier Collectible Red Wine and Premier Collectible White Wine in Hong Kong from 2010 to 2014
- Total market value of wine merchants in Hong Kong from 2010 to 2014

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### **RELIABILITY OF INFORMATION IN THE IPSOS REPORT**

Our Directors, after due and reasonable consideration, are of the view that there has been no adverse change in the market information since the date of the IPSOS Report which may qualify, contradict or have an impact on the information therein.

### **OVERVIEW OF THE HONG KONG ECONOMY**

After the economic downturn resulting from the global financial crisis in 2008, Hong Kong's GDP rebounded and maintained positive growth. Between 2010 and 2014, GDP in Hong Kong grew from approximately HK\$1,846.1 billion to HK\$2,070.8 billion at a CAGR of approximately 2.9%. GDP in Hong Kong is forecasted to reach HK\$2,440.1 billion in 2019 from HK\$2,137.0 billion in 2015, representing a CAGR of approximately 3.4% as a result of the anticipated increase in economic partnership with China in terms of trade, tourism and financial investments in the next five years.

Average annual household disposable income in Hong Kong grew from approximately HK\$307,109 to approximately HK\$347,125 at a CAGR of about 2.4% from 2010 to 2014, and is expected to continue to grow from around HK\$354,672 to approximately HK\$390,900 at a CAGR of about 2.5% from 2015 to 2019.

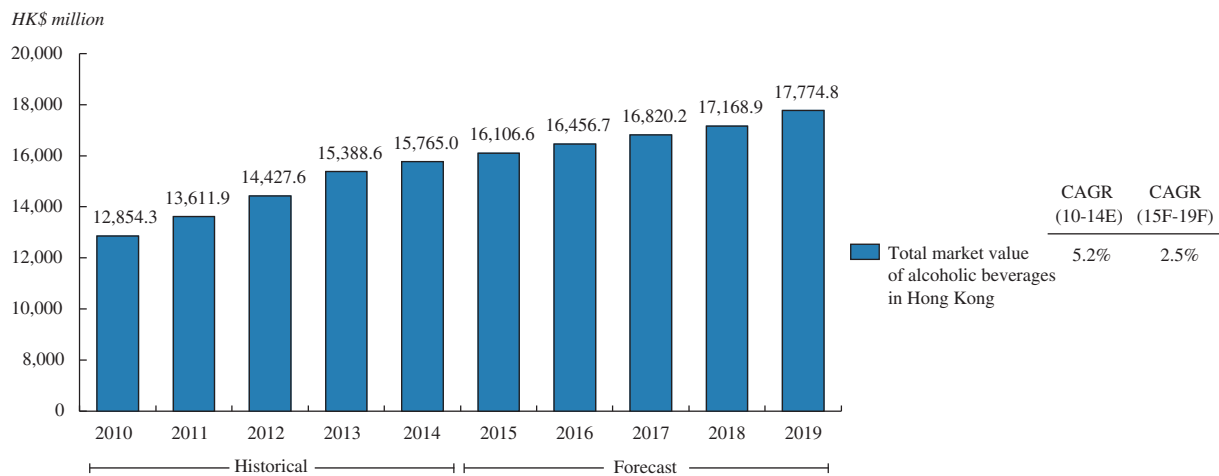
### **OVERVIEW OF THE ALCOHOLIC BEVERAGES INDUSTRY IN HONG KONG**

Average annual private consumption expenditure of alcoholic beverages per capita in Hong Kong has grown significantly from approximately HK\$1,303.6 in 2010, to HK\$2,911.3 in 2014 at a CAGR of approximately 22.3%. The growth in average annual private consumption expenditure for alcoholic beverages in Hong Kong was mainly attributed to the higher disposable income and consumption expenditure of consumers in Hong Kong, allowing consumers to spend more on alcoholic beverages for fine dining and social drinking, resulting in a growing momentum of demands for alcoholic beverages in Hong Kong. Along with rising GDP per capita and average household disposable income, average annual private consumption expenditure of alcoholic beverages per capita in Hong Kong is expected to continue growing from approximately HK\$3,113.4 in 2015, to approximately HK\$3,616.4 in 2019 at an estimated CAGR of approximately 3.8%.

After elimination of import duties on wines and certain spirits products in 2008, Hong Kong experienced growth in demand for alcoholic beverages. The total market value of alcoholic beverages in Hong Kong increased from approximately HK\$12,854.3 million in 2010, to approximately HK\$15,765.0 million in 2014 at an estimated CAGR of approximately 5.2%. In conjunction with the positive growth in private consumption expenditure on alcoholic drinks, the total market value of alcoholic drinks in Hong Kong is expected to continue increasing from approximately HK\$16,106.6 million in 2015, to approximately HK\$17,774.8 million in 2019 at an estimated CAGR of approximately 2.5%.

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### *Total Market Value of Alcoholic Beverages in Hong Kong*



Source: IPSOS Report

## OVERVIEW OF THE WINE INDUSTRY IN HONG KONG

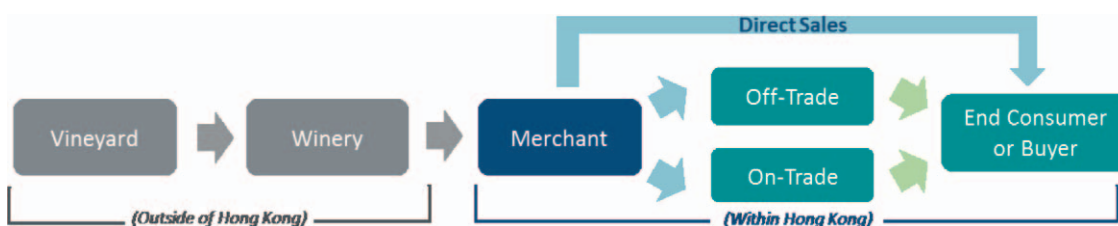
As a non-grape-growing area, almost all wine products in Hong Kong are imported by local distributors, and subsidiaries of international companies sourcing wines from all over the world. To facilitate the development of Hong Kong as a wine trading and distribution hub to meet the growing demands in Asia, the Hong Kong government removed all import duties and administrative controls for wine in February 2008. Hong Kong has established several wine related trading partnerships with wine producing and purchasing countries in order to develop the city into an international wine trading centre. There were approximately 528 total wine sellers in the Hong Kong market as at the date of the IPSOS Report.

The supply chain of Hong Kong’s wine distribution industry typically involves 5 major groups of participants, including vineyards, winery, merchants, off-trade and on-trade sellers, and retail customers. In Hong Kong, importers, distributors and direct sellers of wine are often carried out by the same wine merchant company. Due to high rentals for retail space, close geographic proximity within Hong Kong, and merged wholesale and retail operations of the company, it is common practice for wine merchants to have a showroom at their sales office, or an online store instead of investing in a traditional retail outlet in Hong Kong. The majority of wines in the fine wines segment are often sold to off-trade and on-trade channels due to the high volume availability per product, while wines in the premier collectible wines segment are mainly sold through direct sales channels, with some sales to off-trade and on-trade channels. Merchants also supply and procure wines to and from each other due to the limited quantity of each wine in the premier collectible wine segment.

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Over time, wine products become limited and scarce due to the uniqueness of each wine produced, and the inability to replenish supply after each production. The supply of each wine product decreases in the market as wines are consumed, preserved, and collected by wine collectors, or damaged in transit or by poor storage. As a result, quality wines, particularly wines produced by top vineyards and wineries are popular collectibles among wine connoisseurs due to the rare and scarce nature of the product. Given the limited volume and availability of these wines in the market, wine merchants may face difficulties in producing certain wines, particularly Premier Collectible Wines for their customers and their collection. In light of the supply nature of wine products, it is not uncommon in this industry for wine merchants to be customers and sellers at the same time within the wine market.

### Market value of the wine industry in Hong Kong

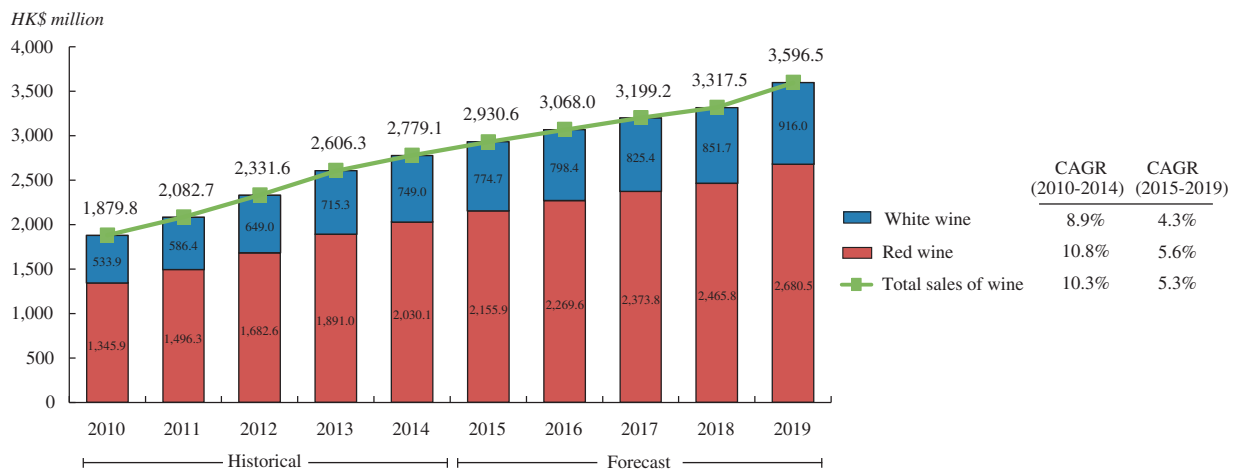
The market value of the wine industry in Hong Kong has seen continuous robust growth since the elimination of all import duties on wine in 2008. Total market value of the wine industry in Hong Kong increased from approximately HK\$1,879.8 million in 2010, to approximately HK\$2,779.1 million in 2014 at a CAGR of approximately 10.3%. Out of the overall market value of wine, the total market value of red wine in Hong Kong increased from approximately HK\$1,345.9 million in 2010 to approximately HK\$2,030.1 million in 2014 at a CAGR of approximately 10.8%, and the total market value of white wine in Hong Kong increased from approximately HK\$533.9 million in 2010 to approximately HK\$749.0 million in 2014 at a CAGR of approximately 8.9%.

The Hong Kong wine industry consists predominantly of red wines in comparison to other wines. According to the Commerce and Economic Development Bureau of Hong Kong, over 80.0% of wines consumed in 2014 were red wines and the import value of red wine between 2010 and 2014 accounted for over 95.0% of all wine imported to Hong Kong.

Benefiting from a maturing and expanding wine consumer base, increasing preference for premium quality wines, and the development of Hong Kong as Asia’s wine trading hub, the total market value of wines is expected to enjoy strong positive growth in the next five years. The total market value of wine in Hong Kong is forecasted to continue growing from approximately HK\$2,930.6 million in 2015 to approximately HK\$3,596.5 million in 2019 at an estimated CAGR of approximately 5.3%. Of which, the total market value of red wine is expected to increase from approximately HK\$2,155.9 million in 2015 to approximately HK\$2,680.5 million in 2019 at an estimated CAGR of 5.6%, and the total market value of white wine is anticipated to grow from approximately HK\$774.7 million in 2015 to HK\$916.0 million in 2019 at an estimated CAGR of approximately 4.3%.

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### Total Market Value of Wine in Hong Kong



Note: Wine includes red wine and white wine, excluding champagne, vermouth and others.

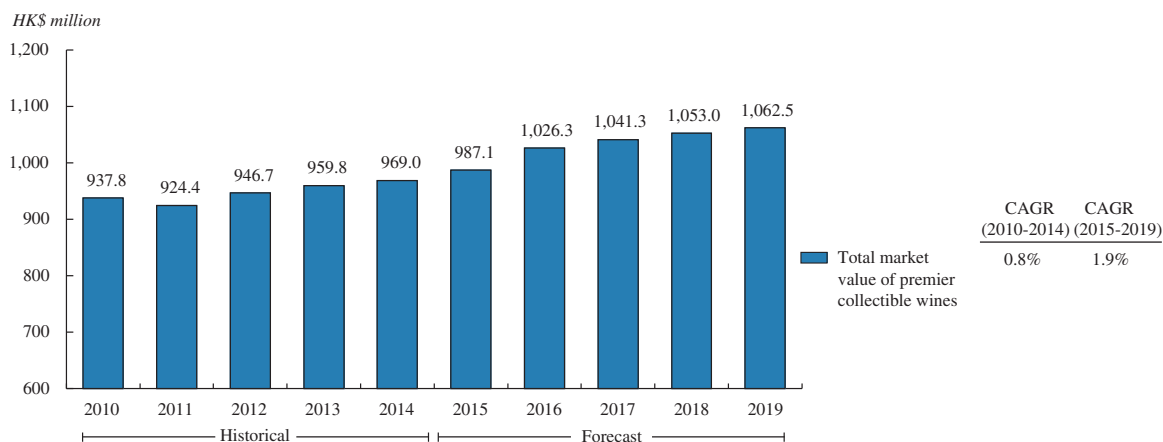
Source: IPSOS Report

### Market Value of Premier Collectible Red Wine and Premier Collectible White Wine in Hong Kong

Wine products in Hong Kong can be split into two selling price segments: Fine wines, which includes red and white wines with a selling price of less than HK\$1,000 per bottle, and Premier Collectible Wines, which covers red and white wines with a selling price at or above HK\$1,000 per bottle. Premier Collectible Wines typically consist of boutique wines, rare wines, collector wines, and vintages that are well sought after by wine connoisseurs. Premier Collectible Wines are wines originating from prestigious vineyards and regions known for producing the high quality wines paired with good grape production years, and usually have limited availability in the open market.

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### *Total Market Value of Premier Collectible Wines in Hong Kong*



Note: Wine includes red wine and white wine, excluding champagne, vermouth and others.

Source: IPSOS Report

Between 2010 and 2014, the total market value of Premier Collectible Wines in Hong Kong increased from approximately HK\$937.8 million to approximately HK\$969.0 million at a CAGR of approximately 0.8%. The Premier Collectible Wine market value experienced a slight dip in 2011 as a result of a decline in demand for Premier Collectible Wines from the visitors of the PRC affected by the anti-graft measures to curb spending on luxury items introduced in the same year. Despite the slight decline, the market value of Premier Collectible Wines rebounded to 2010 levels in 2012 and 2013.

The total market value of Premier Collectible Wines in Hong Kong is expected to continue to increase from approximately HK\$987.1 million to approximately HK\$1,062.5 million at an estimated CAGR of approximately 1.9% from 2015 to 2019, reflecting the growing domestic and regional demand for procuring and purchasing Premier Collectible Wines in Hong Kong.

### **Diverse price range for wine products**

According to the IPSOS Report, as both Fine Wine and Premier Collectible Wine have a diverse range of unit prices, it is not feasible to show the historical unit prices of wine products.



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### COMPETITIVE LANDSCAPE OF THE WINE INDUSTRY IN HONG KONG

In 2014, the wine industry is consolidated and dominated by the top market players, whereas the top five players already contributed approximately 65.6% of the total market value for wine in Hong Kong. In the same year, our Group accounted for around 5.2% of the total market value of the wine industry in Hong Kong, and approximately 15.0% of the market value for the Premier Collectible Wine segment.

#### Top five wine sellers in Hong Kong in 2014

The following table sets forth the information on the five largest wine sellers in Hong Kong in 2014:

Rank	Name of Company	Headquarters Location	Revenue in 2014 (HK\$ million)	Share of Total Industry Revenue (%)	Key Products
1	Company A	Hong Kong	667.0	24.0%	Premier Collectible Wines and other alcoholic beverages, accessories, and cigars. Wine offering includes over 2,000 different wines and vintages, and more than 400 are exclusive to Company A
2	Company B	Hong Kong	406.4	14.6%	Alcoholic beverages such as liquor, beer, wine, high strength premixes
3	Company C	Hong Kong	283.0	10.2%	Premier Collectible Wines and other alcoholic beverages, accessories, and cigars
4	Company D	Hong Kong	253.2	9.1%	Premier Collectible Wines and other alcoholic beverages
5	Company E	Hong Kong	213.9	7.7%	Premier Collectible Wines and other alcoholic beverages
N/A	Our Group	Hong Kong	145.7	5.2%	Premier Collectible Wines and other alcoholic beverages
	Others		809.9	29.2%	
	Total		2,779.1	100.0%	

*Notes:*

- (1) Revenue shown in the above ranking table only includes the wine sales revenue of the respective company.
- (2) The total revenue in 2014 refers to the revenue generated in the wine industry in Hong Kong in 2014 (January to December).
- (3) Revenue shown in the above for our Group refers to the revenue generated in the year ended 31 March 2015.

Source: IPSOS Report



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### **Factors of competition**

#### *Product diversification helps wine sellers differentiate themselves from competitors*

A curated list of wines by price, appellation, wine type, production year and availability will set competitors apart. The ability to secure exclusive distributorship or retailing will provide wine sellers with the competitive edge.

#### *Premium customer services*

Providing additional services to the customer such as professional wine selection advice, procurement, and professional wine storage and transportation will ensure that the quality and value of wine is maintained, and provide premium service experience to customers.

#### *Established customer base*

Wine sellers with an established customer base will secure the demand for the seller’s product segment, particularly if the seller offers loyalty programs, additional services to products purchased, and customer-oriented events such as wine-tasting events.

#### *Strong business relations with foreign wineries and wine suppliers*

Through maintaining stable and long-term business relationships with wine suppliers, a wine seller can ensure a stable, and in some cases, first-cut or exclusive supply for its products.

### **Market drivers**

#### *Growth in disposable income and private expenditure driving the consumption of wine in Hong Kong*

Increased disposable income has endowed more customers to be able to consume wine more frequently, or trade up to Premier Collectible Wines. As wine is a knowledge-based consumable product, consumers are becoming more sophisticated and selective on the wine varieties, particularly from more affluent consumers who are willing to spend more on specialty wines, and even on boutique, collection, vintage and rare wines.

#### *Shortages in global grape production leading to an increase in market price of wines*

According to the Organisation of Vine and Wine, global wine consumption has remained steady at 234 million hectoliters up to 2014, however, global wine production decreased by 6% in 2014, particularly in Europe, caused by poor harvests and declining vineyard areas which will push up the average price of wine per bottle. For the Premier Collectible Wine segment, price hikes will have little impact on sales as the segment’s target customers are generally more affluent, and are willing to pay a premium for the wine of their choice.

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*Preference for fine dining and social drinking, particularly in younger age group, contributing to the growth of the wine industry in Hong Kong*

Fine dining and social drinking has been increasingly popular by younger consumers in Hong Kong. This demographic group is willing to try new products and spend on fine dining and social events where more upscale wine, even Premier Collectible Wines are commonly consumed at these occasions. The increase in consumption from younger consumers will drive consumption growth of wines in Hong Kong.

### **Entry barriers**

*Substantial capital requirement for staffing, storing and stocking wine inventories*

As wine sellers typically offer a range of products by pricing, taste and appellation, high investment capital is required for recruiting staff with specific knowledge on wine products, to set up appropriate warehouse of retail storage facilities to maintain the quality of wines, and for the stocking of wine inventories to build a competitive wine product portfolio offering to customers.

*Established business relations between existing market players and wine suppliers*

Well established long term relationships with wineries and suppliers by existing larger wine sellers often includes exclusive distributorship rights of certain brands, or range of products from a key supplier. For more boutique wines and vintages, well developed working relations with suppliers can provide wine sellers with first notice or stock on certain products. Furthermore, a proven reliable business relationship between seller and supplier can lead to better value for money on product purchasing, giving sellers a high price competitive advantage on the wines sourced, making it difficult for new entrants to stock from the same supplier, or offer similar price points as a competitor stocking from the same supplier.

*Strong customer base of existing market players*

Several wine sellers offer loyalty programs, promotions and other value-added services to repeat customers to retain and secure their existing customer base. Entrants looking to capture some of these customers will need to provide even more competitive incentives to access existing wine customers in Hong Kong.

### **Market opportunities**

*Increasing demand and consumption expenditure of wine will drive growth in the wine industry in Hong Kong*

The consumer base for wine consumption in Hong Kong has extended into younger group who partake in social drinking and nightlife. Wine consumption has also increased in business related social events where it is seen as a sophisticated and appropriate choice of alcohol.

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*There is a developing and maturing wine culture in Hong Kong with a stable pool of existing consumers, and a group of new customers who are introduced to wine consumption*

Wine is becoming a common alternative to beer in fine dining, casual dining settings, and social drinking. In addition to rising affluence, Hong Kong’s wine consumers are also developing more mature tastes in wine and are trading up into higher price points for more premium and boutique wines that meet their personal preferences, providing ample opportunity for the wine industry to expand not only in the fine wine segment, but also the Premier Collectible Wine segment.

*Hong Kong as Asia’s wine hub*

Annual exhibitions and events such as The Wine and Spirits Exhibition, Restaurant and Bar exhibition, and Vinexpo organised by the Hong Kong Trade and Development Council, and the Wine and Dine Festival organised by the Hong Kong Tourism Board aims at providing sales, trade and procurement opportunities to address the evolving preferences and tastes of Hong Kong’s consumers.

### **Market threats**

*Increasing operational costs such as costs of knowledgeable and experienced staff or rental expenses posing potential threat to the wine industry in Hong Kong*

Being ranked as one of the world’s highest-priced office markets, the continuous increase in rental expenses in Hong Kong is expected to increase the operational costs, imposing significant cost pressure and threats to the wine industry in Hong Kong. Several wine sellers have already transitioned to online retail platforms to sell wine, opting to directly transport products to customers from warehouses, rather than commit to the overhead on a point of sale that can only showcase a limited variety of products to locational base foot traffic.

*Poor grape harvest and decline of global wine production may result in volatile wine prices*

Price fluctuation as a result of poor grape harvest and declining global wine production may affect the reliability of supply and quality of wines, and increase the average price of existing wines which can deter consumers from buying wines of a certain year, region, or from consuming more premium wines as a result of increased prices. This can negatively impact sellers in terms of overstock in inventory, and a decline in sales due to pricing and supply issues.

### **Competitive advantages of our Group**

*Readily available stock of rare and curated wines*

With years of cooperation with wine merchants and individual wine collectors, we are able to procure some of the rarest and finest wines at competitive prices in the wine market. Additionally, we are able to curate and procure a unique collection of wines, typically Premier Collectible Red Wine and Fine Red Wine from renowned wine producing regions and vineyards.

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Our well stocked inventory in Hong Kong covers different price segments, appellations, wine types, production years, vintages and rare wines. Our product offerings allow customers to purchase wines that are not readily available in the open market at competitive prices immediately.

### *Well-established customer base and premium wine services*

We have developed a loyal customer base over years of operation, and through our loyalty membership program namely, “Madison Premier Membership Scheme” and our attractive product offerings and competitive wine selling prices.

The provision of our value-added services to our customers also ensure that the quality and value of wine is maintained, and provide premium wine service experience to customers.

### *Possession of in-house wine experts and consultation services*

Our Group possesses in-house wine experts, who have in-depth knowledge and appreciation of wines. The level of expertise on the wine industry allows the company to provide valuable comprehensive consultations on wine selection, storage, pairings and wine appreciation services to customers.

Aimed for excellence in product quality, selection and services, our warehouse was awarded “HKQAA Wine Storage Management Systems Certification Scheme: 2013”, and our sales services was awarded the ‘Quality Tourism Services Scheme’.