
INDUSTRY OVERVIEW

THE INTERNATIONAL ORGANISATION OF VINE AND WINE (OIV)

The International Organisation of Vine and Wine (OIV) is an inter-governmental organisation of a scientific and technical nature or recognised competence for its works concerning vines, wine, wine-based beverages, table grapes, raisins and other vine-based products and is one of the leading international organizations in the field of wines and viticulture. The OIV is an Independent Third Party. The information obtained from the OIV and disclosed in this section is official public information. No fee was paid to the OIV for use and disclosure of its publications in this section.

CHINA STATISTICAL YEARBOOK 2008

The China Statistical Yearbook 2008 is an official publication issued annually by the China State Statistical Bureau (中華人民共和國國家統計局), which is a department within the government of the PRC. As such the information and statistics derived from the China Statistical Yearbook 2008 constitute official public information. The China State Statistical Bureau is an Independent Third Party. No fee was paid to China State Statistical Bureau for use and disclosure of its information in this section.

CHINA SUGAR AND LIQUOR YEARBOOK 2008

The China Sugar and Liquor Yearbook 2008 is an official publication issued annually by the China National Association for Liquor and Spirits Circulation (中國酒類流通協會), which was established with the approval of the Ministry of Civilian Affairs, the PRC in April 1995 and changed its name from its original name of [China National Association for Liquor and Spirits Business] (中國酒類商業協會) in April 2006. The China Sugar and Liquor Yearbook 2008 contains information, statistics and commentary on the alcoholic drinks industry in the PRC. The China National Association for Liquor and Spirits Circulation is an Independent Third Party. No fee was paid to China National Association for Liquor and Spirits Circulation for use and disclosure of its information in this section.

YEARBOOK OF CHINA ALCOHOLIC DRINKS INDUSTRY

The Yearbook of the China Alcoholic Drinks 2008 is an official publication published by the China Light Industry Publishing House (中國輕工業出版社) and issued annually by the China Alcoholic Drinks Industry Association (中國釀酒工業協會) (CADIA), an association, whose establishment was approved by the Ministry of Light Industry, the PRC, and contains information, statistics and commentary on the alcoholic drinks industry in the PRC. CADIA is an Independent Third Party. No fee was paid to CADIA for use and disclosure of its information in this section.

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GLOBAL TRADE ATLAS

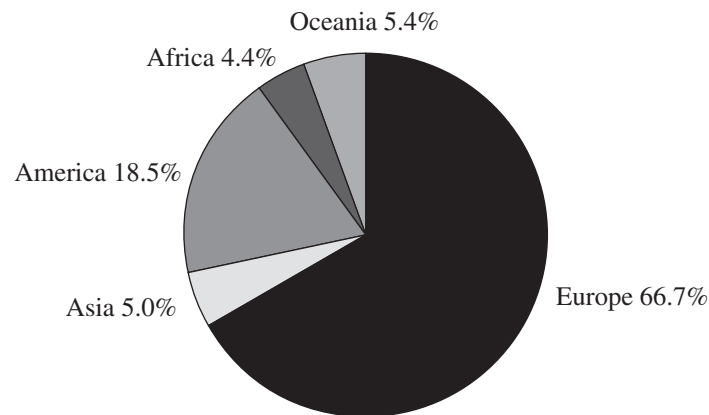
Global Trade Atlas is an information service provided by Global Trade Information Services, Inc. (GTI), an information services group headquartered in the US with offices in Europe, Japan and the PRC which provides international merchandise trade data to governments, trade associations and businesses. GTI is an Independent Third Party. No fee was paid to GTI for use and disclosure of its information in this section.

Global grape wine industry

Grape wine production

According to estimation by OIV, world wine production in 2008 (not including juice and musts) was estimated to be approximately 269 million hectoliters, representing a slight decrease of approximately 400,000 hl as compared to 2007.

World wine production (divided by continent)



Source: OIV

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The following table shows a list of leading world wine producers (in thousands of hectoliters) based on OIV's estimation and forecast:

The list of 10 leading world wine producers (in thousands of hl)

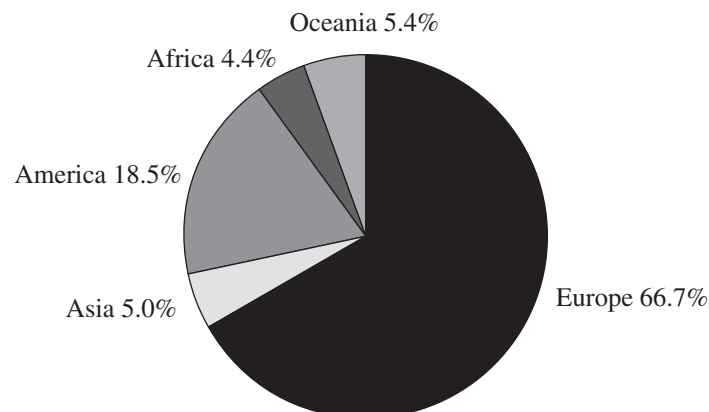
Country	forecast 2008	in %
Italy	48,633	18.1%
France	41,429	15.4%
Spain	34,630	12.9%
United States	19,200	7.1%
Argentina	14,677	5.5%
Australia	12,431	4.6%
China	12,000	4.5%
South Africa	10,261	3.8%
Germany	9,991	3.7%
Chile	8,683	3.2%
World Total	<u>269,018</u>	

Source: OIV

Grape wine consumption

According to OIV's estimation and forecast, world wine consumption in 2008 decreased by close to 2.4 million hectoliters compared to the previous year, amounting to a total approximate amount of 244.9 million hectoliters compared to 247.2 million hectoliters in 2007:

Overall wine consumption (divided by continent)



Source: OIV

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The following table shows a list of leading world wine consumers (in thousands of hectoliters) based on OIV's estimation and forecast:

The list of 10 leading wine consumer countries (in thousands of hl)

Country	forecast 2008	in %
France	31,750	13.0%
United States	28,516	11.6%
Italy	26,000	10.6%
Germany	20,747	8.5%
China	13,671	5.6%
United Kingdom	13,483	5.5%
Spain	12,790	5.2%
Russia	11,000	4.5%
Argentina	10,677	4.4%
Romania	5,404	2.2%
World Total	244,897	

Source: OIV

According to a report by the US Foreign Agricultural Service quoting information from Global Trade Atlas, China is also among the top ten export targets for grape wine exports from the EU with steady growth from 2006 to 2008:

Country of Destination	Quantity in 1,000 hectoliters 2006		Value in million dollars 2007		Value in million dollars 2008	
	Quantity	Value	Quantity	Value	Quantity	Value
U.S.	4,394	2,811	4,765	3,119	4,610	3,106
Russia	4,104	377	4,184	517	3,281	572
Switzerland	1,564	749	1,610	901	1,563	1,113
Canada	1,512	683	1,515	776	1,524	864
Japan	1,139	745	1,082	780	1,132	873
Angola	938	71	886	87	847	103
China	464	83	373	153	517	208
Norway	453	174	505	239	496	273
Nigeria	506	16	206	33	359	66
Brazil	201	76	232	99	226	113
Other	2,362	1,175	3,103	1,577	3,033	1,861
World	17,637	6,960	18,461	8,281	17,588	9,152

Source: Global Trade Atlas

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According to the US Foreign Agricultural Service, despite deteriorating global economic conditions, world demand for grape wine is likely to ease only marginally in 2009 as consumers shift to lower cost brands rather than significantly reducing their consumption of grape wine. Larger stocks will partially offset lower production, so prices should not change significantly.

The PRC grape wine industry

According to the 2008 Yearbook of the China Alcoholic Drinks Industry, the PRC’s total grape wine production in 2006 amounted to 495,100 kiloliters, representing an increase of 18.1% over the previous year’s figure of approximately 434,000 kiloliters. In addition, the Yearbook quoted that total grape wine sales revenue in 2006 reached RMB12.95 billion, representing an increase of 25.04% over the previous year. [Continuing the rapid growth, total wine production in PRC in 2007 was 665,100 kiloliters, with sales revenue amounting to RMB14.68 billion].

Grape wine consumption in PRC sustained a growth rate of around 20% in recent years as compared to an average worldwide growth rate of only 1.5%.

The following table sets out the GDP of PRC and its growth rate from 2001 to 2007:

Year	2001	2002	2003	2004	2005	2006	2007
GDP (<i>billions RMB</i>)	10,965.52	12,033.27	13,582.28	15,987.83	18,321.83	21,192.35	24,952.99
Growth rate		8.3%	9.1%	10.0%	10.1%	10.2%	

Source: China Statistical Yearbook 2008

According to the China Statistical Yearbook 2008, the annual disposable income per-capita of PRC urban residents increased from RMB 6,280 in 2000 to RMB11,759 in 2006 and then RMB13,786 in 2007 while the annual net income per-capita of PRC rural residents increased from RMB2,253 in 2000 to RMB3,587 in 2006 and then RMB4,140 in 2007.

According to the China Sugar and Liquor Yearbook 2008, currently the average annual personal consumption of grape wine in the PRC was only 6% of the world’s average and was in a developmental stage. Various factors, such as the rise in average income levels, in particular the major development of the middle class, broad recognition of the value of grape wine as a health beverage, contribute to a rapid growth rate in the level of consumption of grape wine. According to the China Sugar and Liquor Yearbook 2008, grape wine has already entered into ordinary peoples’ homes and become one of the kinds of alcoholic drinks for families in PRC.

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China’s per-capita consumption of grape wines is relatively low due to dietary habits and traditional culture. In China, the traditional wines are baijiu liquors and huangjiu liquors. Due to its suitability to most people, beer has swiftly gained popularity. The popularity of grape wines, however, is advancing at a relatively slow pace due to its unique consumption nature. Grape wines are associated with strong cultural elements and are often consumed with side foods (mainly western-style foods).

Grape wines are the world’s popular alcoholic beverage with a long cultural history. As grape wines are fermented wholly from grape juices, they have a low alcohol content and high nutritional value. Regular drinking of grape wine has medical efficacy in relation to the blood vessels in people’s hearts and brains. Today, grape wines are the most widely drunk alcoholic beverages, second only to beer. Along with the continuing growth of the PRC economy, the continuing elevation in overall social consumption level and structure in China has resulted in the number of grape wine drinkers increasing steadily. It is an international trend for grape wines to replace liquors, and tiers of consumption are developing in relation to younger and educated groups. As such, there is a bright prospect for the sale of grape wines in the PRC.

With the improvement of living standards of the Chinese general public, consumption levels of alcoholic beverages have a growth trend and consumption of grape wines is also increasing.

It is expected that the strategies of low price promotions and offering limited quantities of wines for sale employed by various grape wine producers in the past will not last long. The trend towards high grade branded grape wines will become more marked. Given the restructuring of the grape wine industry and the adoption of new standards for grape wines, the market demand for quality grape wines will further expand and the development potential for the high-end market will gradually unfold.

Grape wine production in the PRC

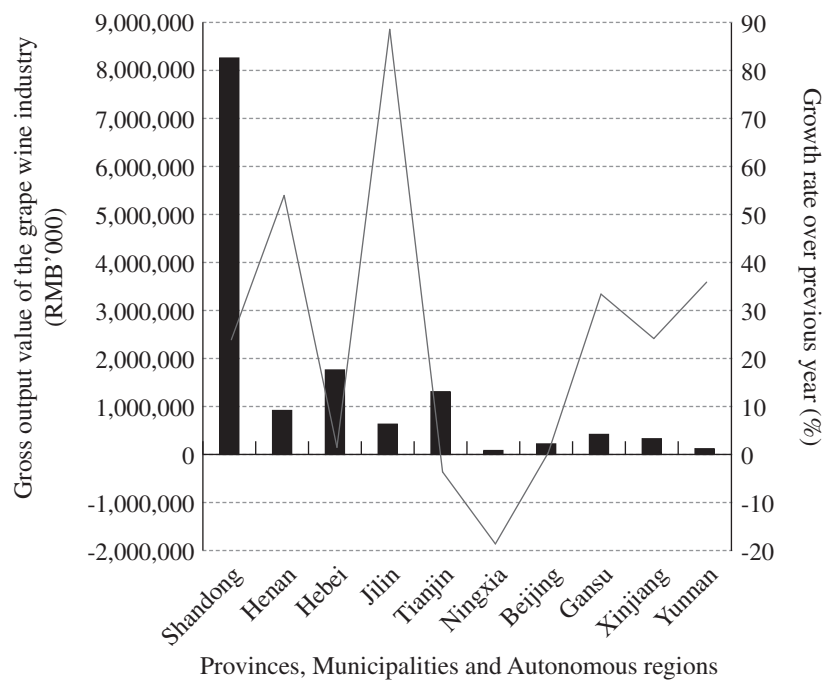
China has a long history of planting grapevines and most of the grapes are for fresh eating. The total planting area of vineyards in the PRC was 407,900 hectares, of which 46,600 hectares are for wine-producing grapes. [Total domestic grape production in 2005 was 5,794,000 tonnes, of which wine producing grapes accounted for approximately 480,000 tonnes.] According to the natural development plan for grapes and grape wines, the planting area of wine producing grapes will reach 66,670 hectares by 2010, and 100,000 hectares by 2015.

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The map below indicates the major grape planting regions in the PRC.



Wine production in the PRC is geographically concentrated in certain regions. In 2007, the top 10 regions produced 94.13% of the value of the wine produced in the PRC. As shown in the chart below, Jilin province experienced the highest annual growth rate in 2007.



Sources: Yearbook of China Alcoholic Drinks Industry

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[The wine industry is highly competitive within the PRC, fragmented with some large producers and many small producers. According to the 2008 Yearbook of the China Alcoholic Drinks Industry, there were approximately 600 wine enterprises. The top ten wine producing enterprises in total accounted for approximately 61.84% of total wine output in the PRC in 2007. The output of the Changyu, Great Wall, Dynasty and Weilong brand wines in total accounted for approximately 40.73% of total wine output in the PRC in 2007. We face intense competition from existing producers and new market entrants, including competition from imported wines. In Jilin Province, where the main raw material used in the production of wines is the *vitis amurensis* grape variety, our Directors consider the following to be our main competitors: Tonhwa Winery Limited (通化葡萄酒股份有限公司) and Chang Bai Shan Wine Holding Co. Ltd. (長白山酒業集團有限公司). In respect of the PRC market as a whole, our Directors consider the following to be our main competitors: Dynasty Fine Wines Group Limited (王朝葡萄酒業集團有限公司), Yantai Changyu Pioneer Wine Company Limited (煙台張裕葡萄釀酒股份有限公司) and China Great Wall Wine Co., Ltd. (中國長城葡萄酒有限公司).]

Challenge posed by imported wines

According to the China Sugar and Liquor Yearbook 2008, following the reduction in tariffs on grape wines in the PRC, wines of France, Australia, Italy and Spain have entered the PRC market and become formidable challengers to domestic wine producers in China’s grape wine market. According to statistics, wine imports in 2007 accounted for 10% of the China market, compared to 6.6% in 2006. The top ten bottled wine producing countries whose wines were imported into China in 2007 were France, Australia, Italy, Spain, Chile, the US, Germany, Argentina, Portugal and South Africa. Of these, imported French wines’ market share increased from 34% in 2006 to 37% in 2007, while imported Australian wines’ market share decreased from 23% in 2006 to 21% in 2007.

As quoted in the China Sugar and Liquor Yearbook 2008 quoting the International Wine and Spirits Review (“IWSR”) projected that, as a consumer market, China’s grape wine consumption volume (for both domestic and imported grape wine) would increase rapidly from 2006 to 2011 with an average annual growth rate of 13%. IWSR predicted that China’s wine consumption volume would reach 1.1 billion bottles in 2011, accounting for 40% of the Asia market (and doubling the level in 2006). Overseas wine is positioned at the high-end of the China market, with major customers being hotels, nightclubs and other high consumption venues.