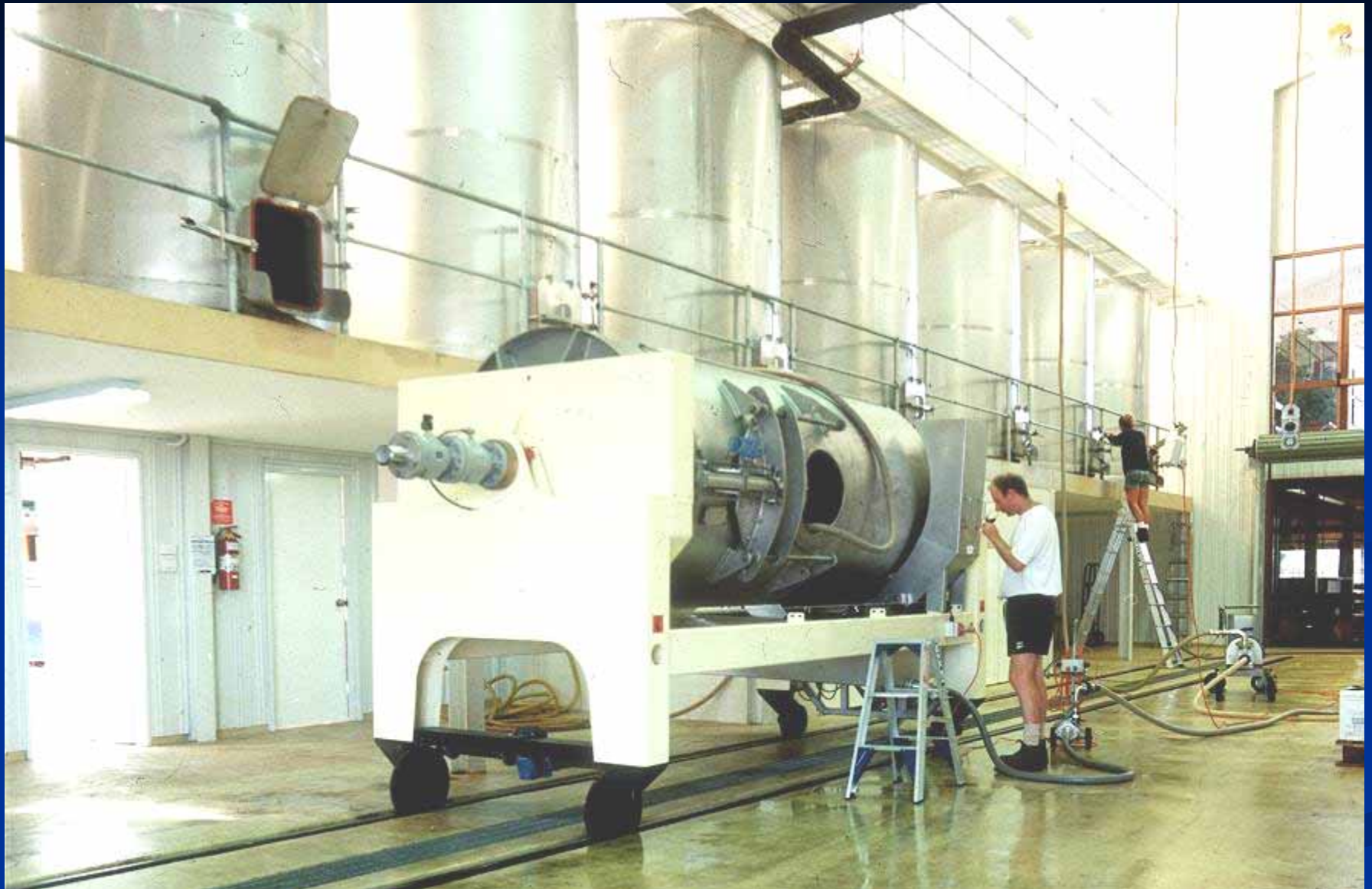


DOING BUSINESS WITH THE CHINESE: A PERSONAL PERSPECTIVE



Pressure Forged Steel Grating



Winemaker Patrick tasting the free run juice



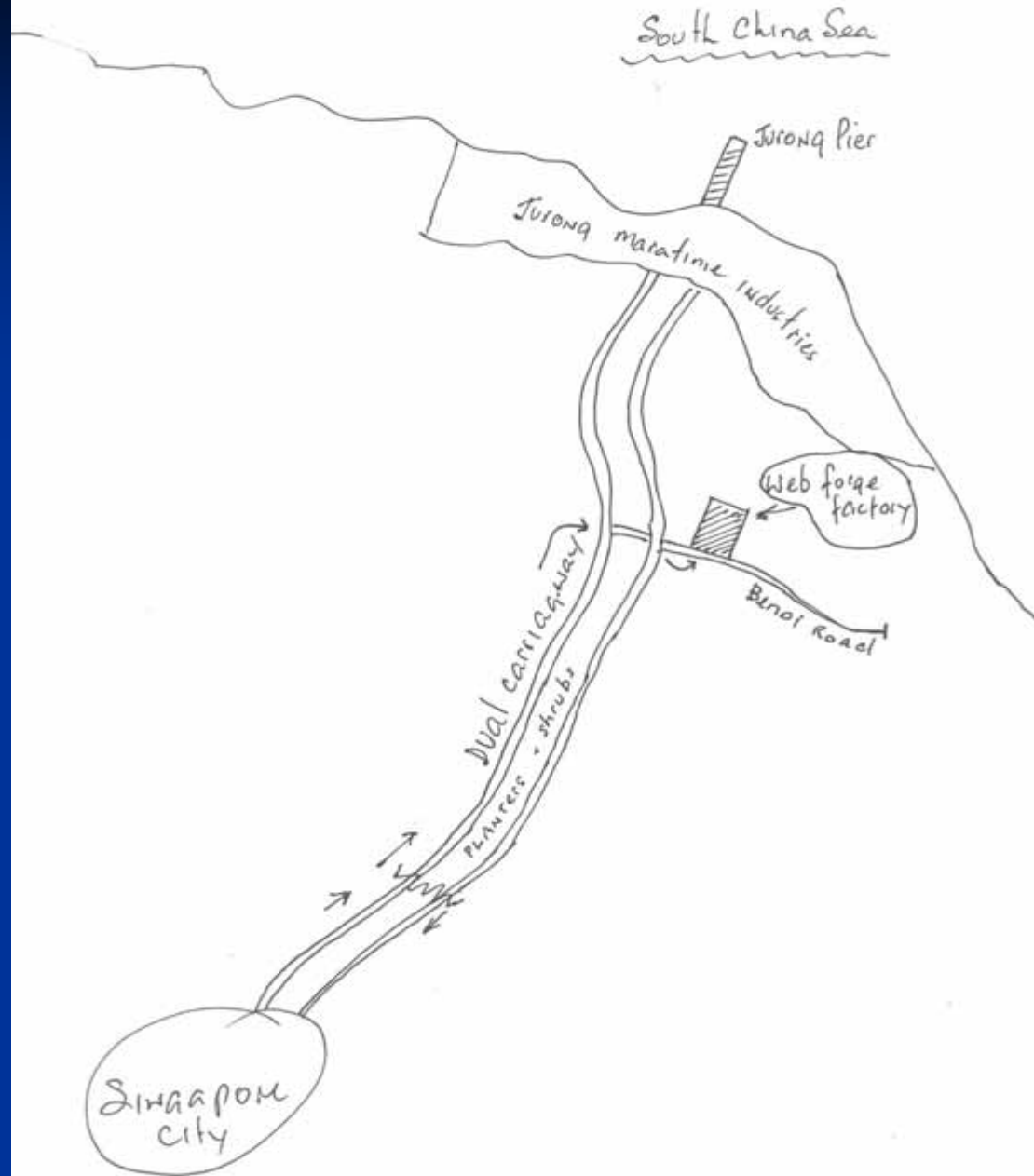
Salitage winery has been designed with a minimalist approach to both juice and wine handling using gravity to advantage.



Argyle Diamonds Processing Plant



North Rankin A Platform – North West Shelf



Chinese/Australian Joint Venture:

Shareholding

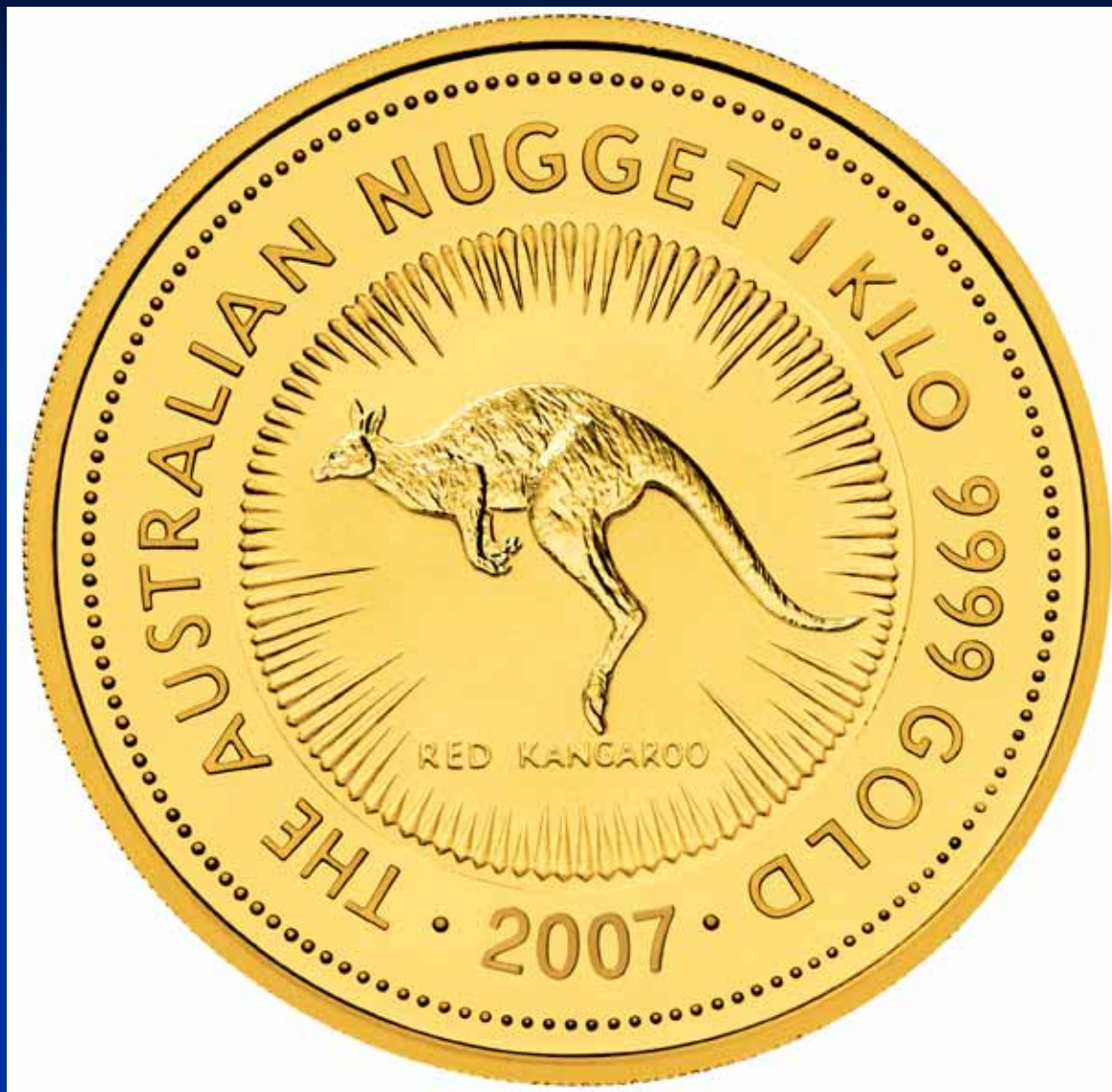
Employees

50% Webgrating P/L Welshpool..... 30 people

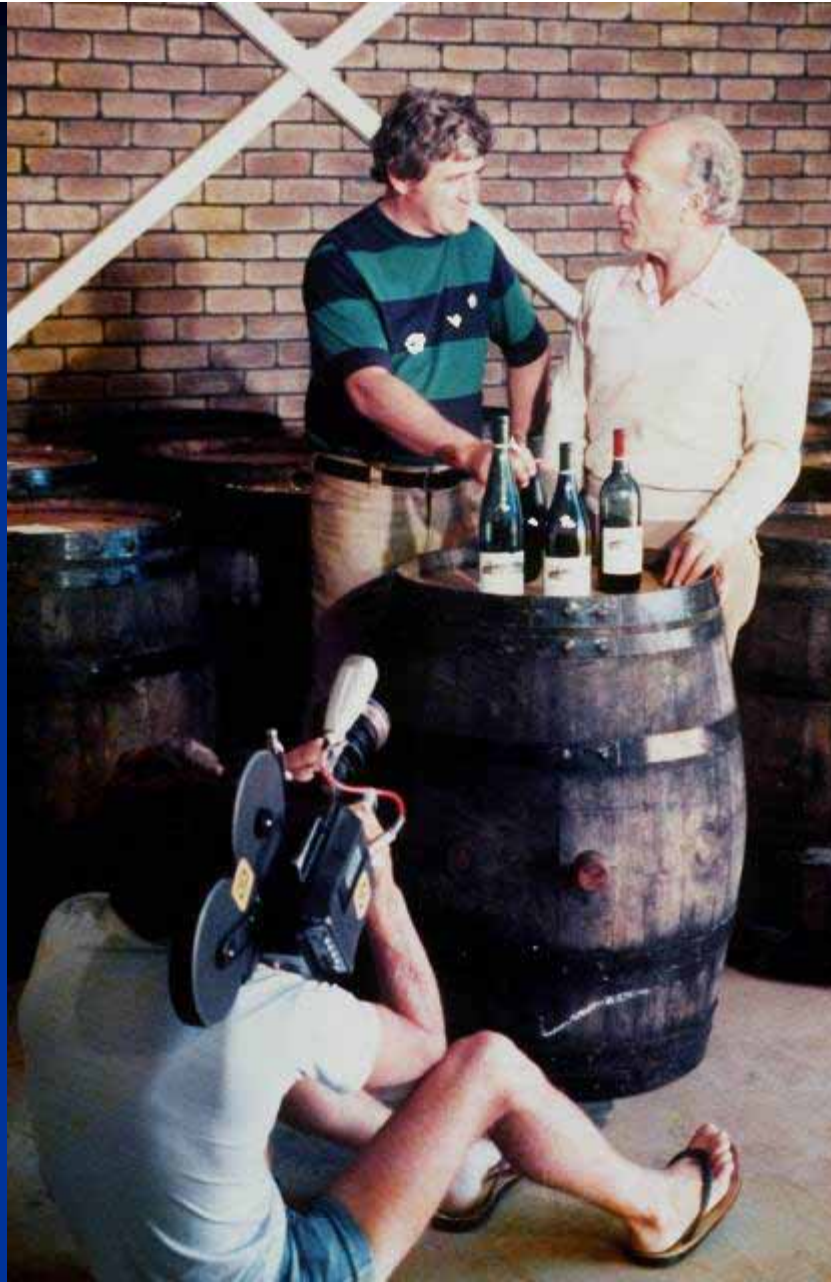
50% Chinese Ministry of Minerals
& Metallurgy.....3 million people

Grating to Gold





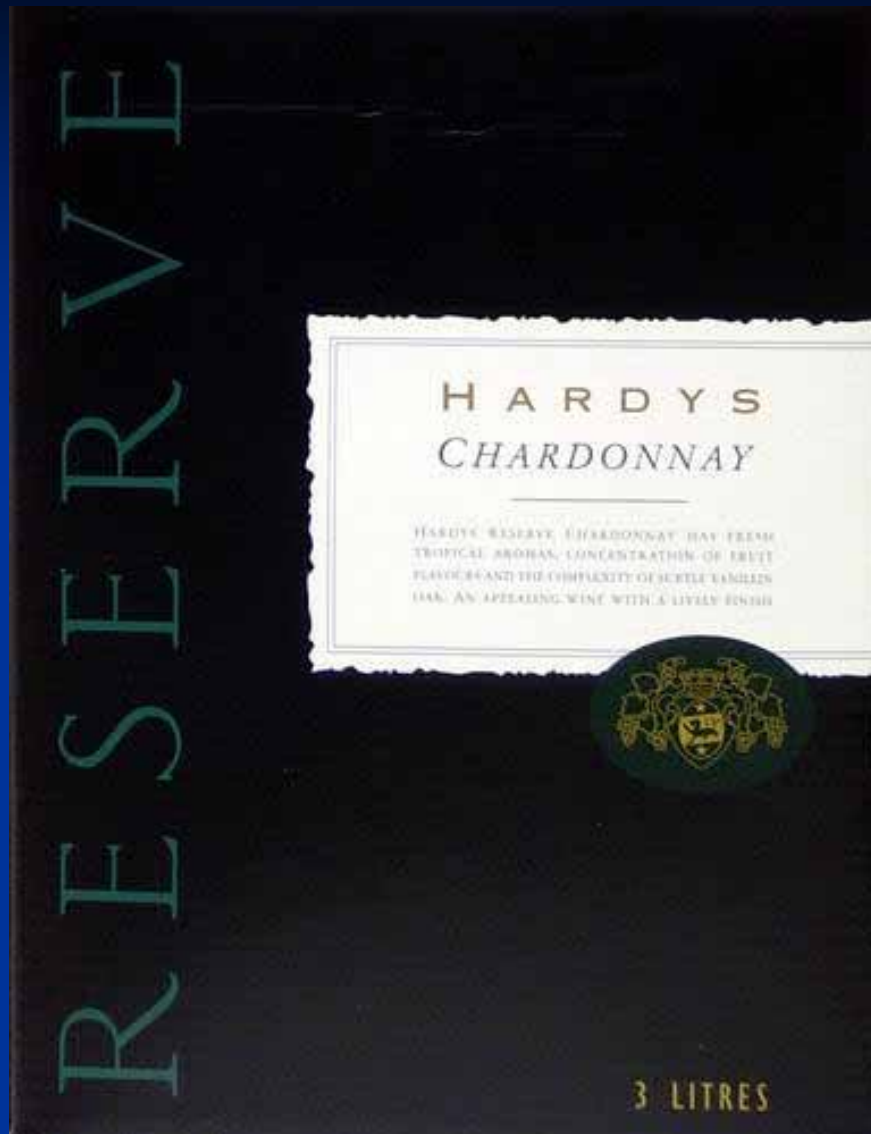




The
Early
Days at
Leeuwin
Estate
with
Robert
Mondavi

-
1972

Meet the media



Taxed at 43 cents per litre



Taxed at \$4.30 per litre

WINE REGIONS of AUSTRALIA

total area under vines

ca. 155.000 ha

annual wine production

ca. 120 million cases

5%

25%
Premium

Production
Total
95%



Pemberton



Grape haul: John and Jenny Horgan, of Salitage Wines in Pemberton, have won major Chinese contracts.

Pemberton winemakers break into China's lucrative five-star market

JODIE THOMSON
and GIOVANNI TORRE

The oldest winery in Pemberton has joined Australia's booming wine export trade to China, supplying red and white varieties for the lucrative five-star hotel and restaurant trade in Shanghai and Beijing.

Salitage Winery's first foray into the Chinese market marks a shift in buying preferences away from cheap bulk wine towards higher-priced brands and reflects the country's growing appreciation of Australian wine.

In the past year, Australia has jumped from being the sixth biggest supplier of bottled wine to China to the second, after France.

Owners John and Jenny Horgan, who have relied traditionally on the European Union, the US and South-East Asia as their main markets, said China would become their biggest export destination within six months.

Mr Horgan was expecting a

bumper year for wine in the market this year, a combination of the growing wealth of the Chinese and celebrations surrounding the Olympic Games.

"There are approximately 20 million millionaires in China, equating to our entire population," he said. "The Chinese are looking at the finer things in life."

'We started working on China in 2006 and there was a lot of knocking on doors.'

SALITAGE WINERY OWNER JOHN HORGAN

A contract to supply wine to a Chinese distributor, worth several million dollars over five years, is the result of 15 months pursuit of the premium wine market in China. The deal will include distribution under the Salitage and Treehouse brands to hotels, restaurants and premium

liquor stores in the two cities and in regional China.

"We've had inquiries over the past few years for \$4 or \$5 bottles but at that price it was way below our costs," Mr Horgan said. "We started actively working on China in August 2006 and there was a lot of knocking on doors."

Australian winemakers have achieved significant market penetration in China only in the past 12 to 18 months, the Australian Wine and Brandy Corporation says.

"Between November 2005 and November 2006 Australia exported only 4.2 million litres of bottled wine to China," the corporation's emerging markets regional manager Ali Hogarth said.

"In the past 12 months it was just over eight million."

Stephen Strachan, chief executive of the Australian Winemakers Federation, said any look at the future of Australian wine would have to factor China into the equation.

The West Australian Newspaper
January 3rd, 2008

How secure is the China economy of which we have now become so dependent as a state and a country?

China is now Australia's largest trading partner.

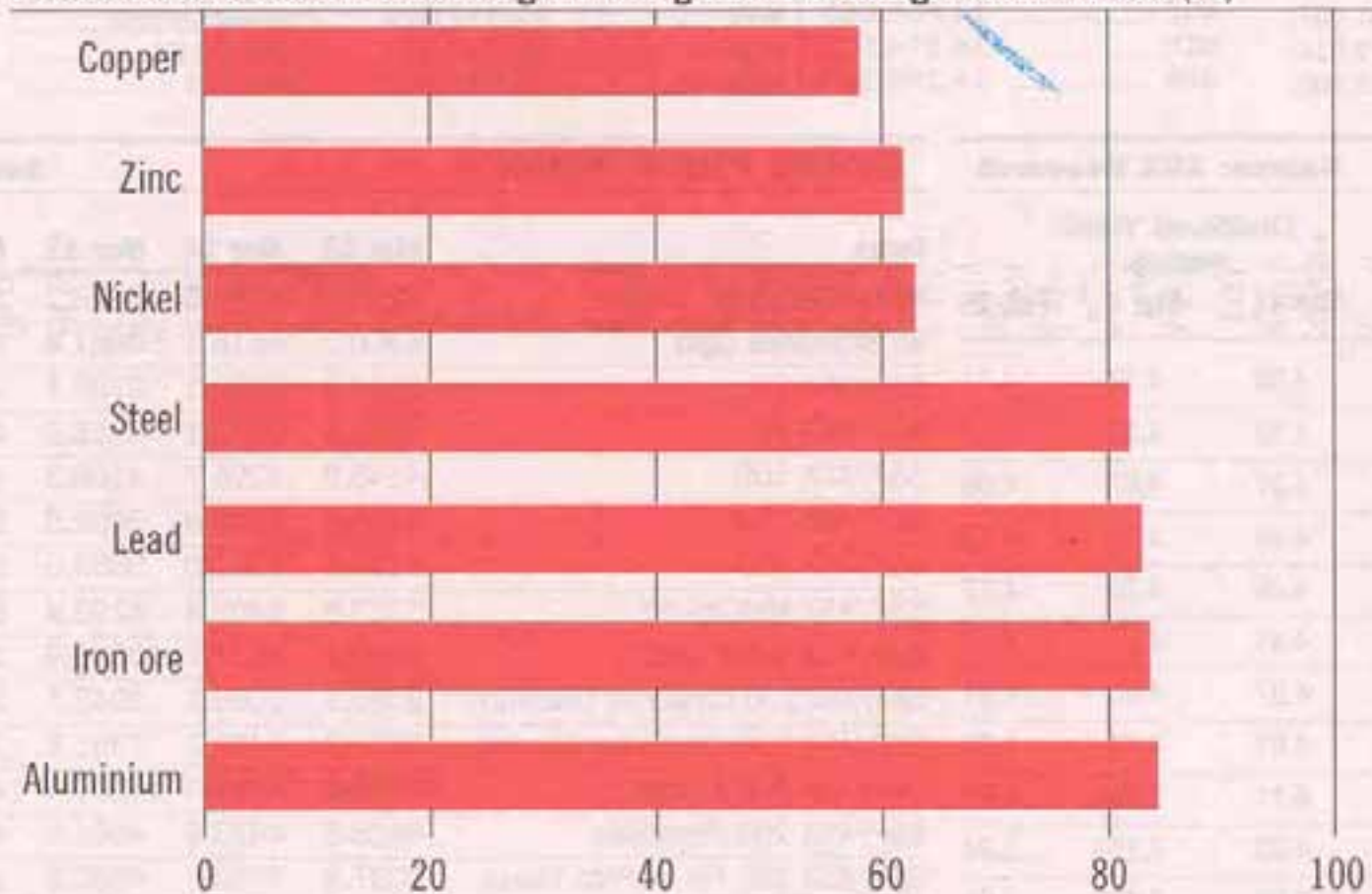
Heavily skewed towards the supply of our raw materials and commodities.

To illustrate this dependency the following graph published by Deutsche Bank in Germany shows Chinese demand for the listed metals against the demand growth of the rest of the world.

Strong demand from China will keep prices up

China syndrome

Contribution of Chinese demand growth to global demand growth 2007-08e (%)



SOURCE: BROOK HUNT, UNCTAD, TEX REPROTS, AME, DEUTSCHE BANK

Supply Vs Demand sets pricing and we can witness daily in the media the current negotiations taking place between our two big miners BHP and Rio Tinto.

Supply issues are now working strongly in favour of commodities and of course our country is a treasure trove and has an international reputation of being one of the lowest cost producers in the world.

Despite the quadrupling in commodity prices over the past 7 years, the miners of the world have not been able to match the surge in demand for raw materials.

Supply remains inadequate and inventories, especially of industrial metals, remain at historically low levels.

This was compounded by the fact in the 1990's there was a dramatic underinvestment in mining because of the then commodity price slump.

Miners were not convinced of the China impact until late 2002 and ramping up new supply takes time.

More importantly, new supply is often extracted at higher costs.

This is especially so in the oil industry where offshore wells are having to be located in deeper water.

Source: AFR March 24th, 2008

Summary

Strong demand from China together with short supply will keep prices for our commodities high.

This in turn will underwrite the strength of the Australian economy.

How long? This of course is subjective but my guess is at least another decade.

The Boom that China had to have

This is how the Murdoch press
described a conference held
last week in Sydney titled,

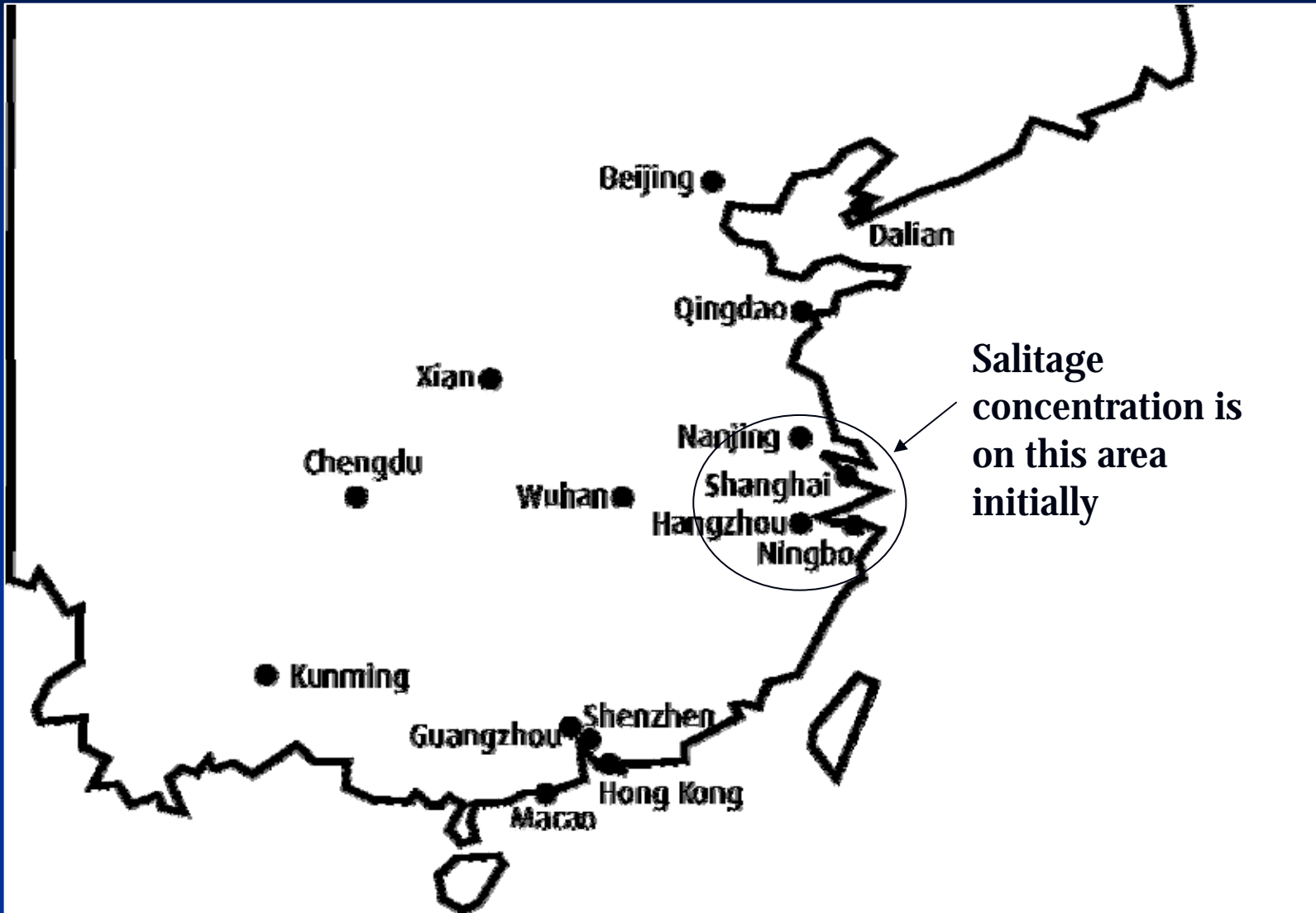
‘Breaking into China’

A few Quotes from the conference.....

I would now like to show you some detail and very well researched information on the China Wine Market.

It is important that I give attribution to Matthew Lewis of Austrade/SWDC here in our Southwest and Summer Yan of Austrade in Shanghai, China for their assistance in constructing part of this paper.

Greater China Commercial Regions



FACTORS OF CHINA



Forecast indicators of China

Key indicators	2007	2008	2009	2010	2011	2012
Real GDP growth (%)	11.5	10.0	9.3	8.4	8.3	8.3
Consumer price inflation (%; av)	4.5	3.0	3.5	3.3	3.5	3.6
Budget balance (% of GDP)	0.2	0.1	-0.1	-0.4	-0.3	-0.4
Current-account balance (% of GDP)	9.7	8.6	8.7	8.2	7.6	6.8
Commercial bank prime rate (%; year-end)	6.7	7.3	7.2	7.2	7.2	7.4
Exchange rate Rmb:US\$ (av)	7.61	7.23	6.97	6.70	6.44	6.21
Exchange rate Rmb:¥100 (av)	6.47	6.87	7.24	7.17	7.02	6.77

China Consumer Market Overview:

Key Regions

Beijing and Huang He Plain

China's third-most important market for consumer goods centers around the Beijing-Tianjin axis and the industrial cities to their south.

North-East

China's industrial northeast has suffered from slower economic growth and a relatively depressed consumer goods market.

Southwestern China

Not a homogenous market like other regions, most cities in this region lag well behind the more affluent regions in consumer goods market potential.

Lower Yangtze River Valley

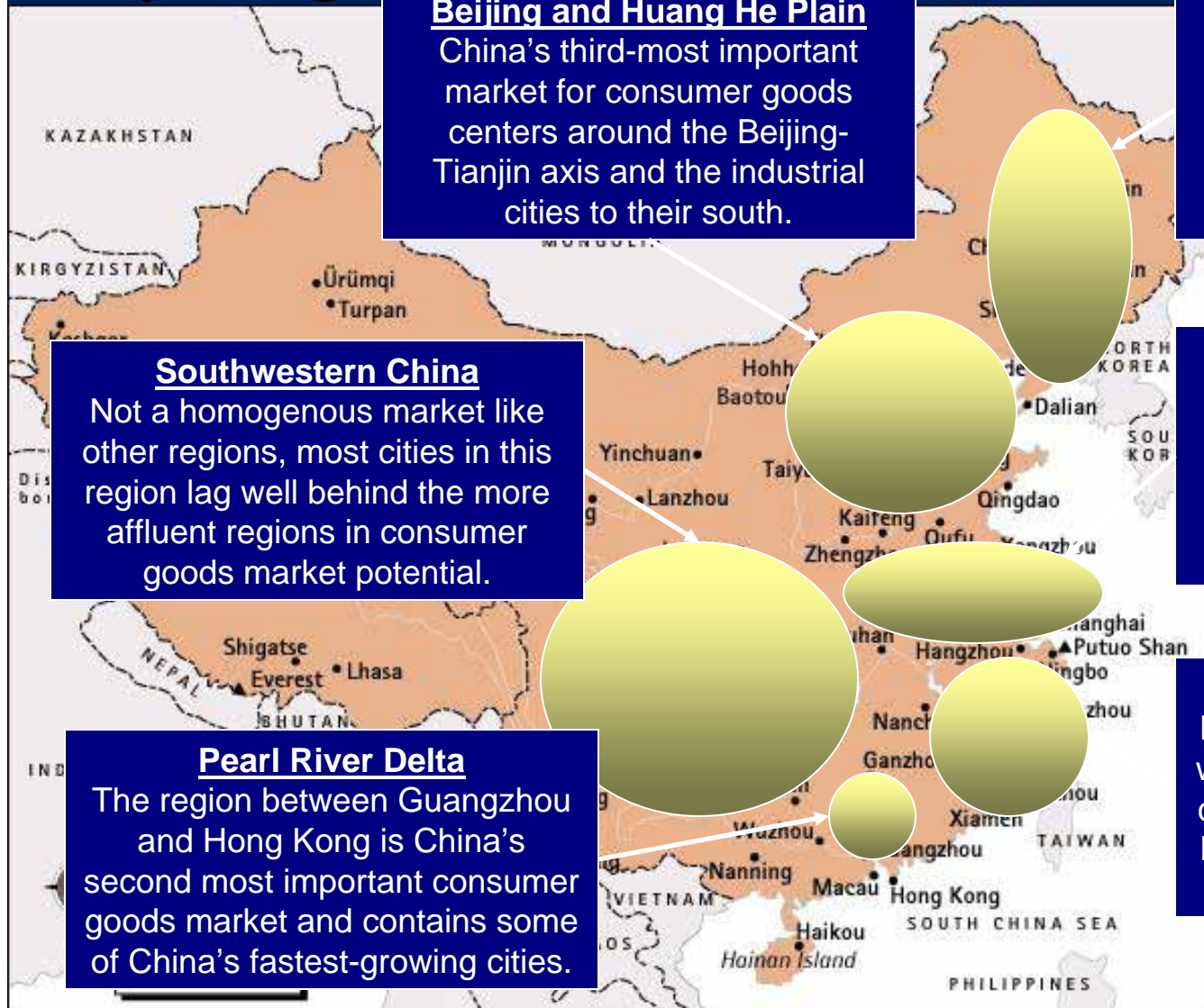
China's leading market for consumer goods, including upscale goods, includes the country's economic capital and key trend-setter, Shanghai.

Pearl River Delta

The region between Guangzhou and Hong Kong is China's second most important consumer goods market and contains some of China's fastest-growing cities.

Southeast Coast

Fujian province is one of China's wealthiest regions and its coastal cities comprise a relatively small, but affluent market for consumer goods.



Source:

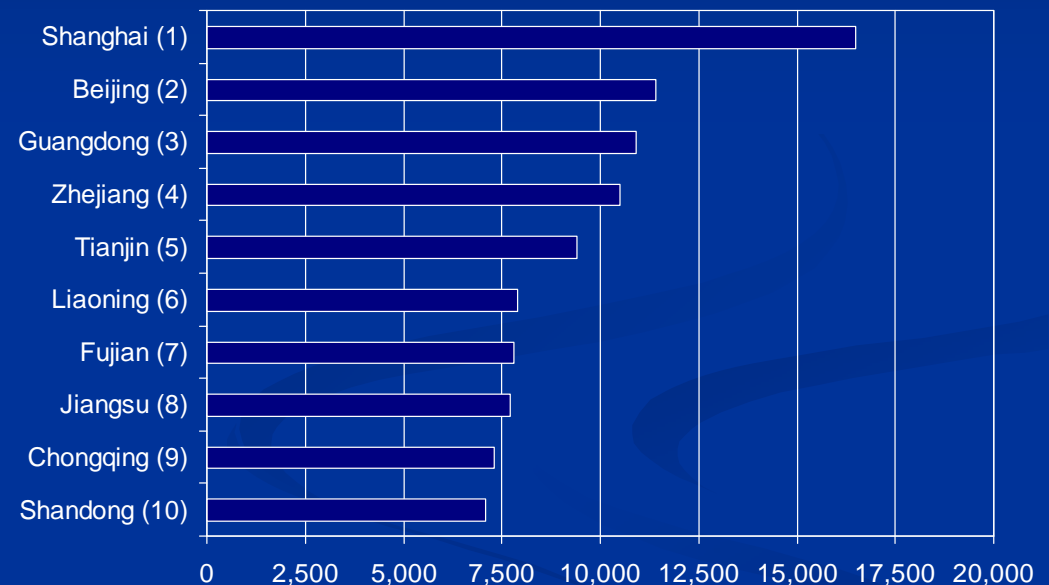


International Strategic Analysis
Understanding Tomorrow's World, Today

China Consumer Market Overview: Household Consumption Levels in Key Provinces



Per Capita Household Consumption (rmb)



Household consumption levels in China are highest in the “Big Three” cities of Shanghai, Beijing and Guangdong. However, a number of regions along the East Coast of China have household consumption levels that approach those of the Big Three, particularly in the major cities located near to Shanghai and Beijing.

Source:

SIZE OF CHINA MARKET



The China Wine Market – *Key Points*

- China is an emerging market for imported wine with great potential: 148.7 million litres of imported wine consumed in 2007
- Local wine producers becoming more aggressive in production, pricing, marketing (mainly North China, Shandong Province)
- Re-bottling imported bulk wine (BOB or under the local wine brand) penetrating retail sector (supermarket)
- Branded wines with ranking, rating, awarding are becoming the main stream of mid-up food service channel (restaurants, bars, hotels, membership clubs)
- Regional differences:
 - pricing
 - wine education level
 - wine blend preferences
 - distribution and logistics infrastructure
- Growing competition: in 2006, everyone wants to sell to China !!!!!
in 2007, everyone in China wants to do wine business!!!!!!

Size of China Wine Market

- Consumption Performance by Region

- **South China**

- South China is one of the largest wine consumption regions, with increasing demand for Australian wines, particularly low end wines.
- First & second tier cities: imported beer and high-end imported spirits popular on-trade beverages (KTV, pubs, bars). But low end wines become trendy (Cask style)
- Imported wine considered more of a “special event” or “dinner entertainment” beverage. Red wine considered more of a healthy, lifestyle and affordable product.
- Grey channel products in the market due to proximity to Hong Kong
- In regional/rural areas rice wine is not a traditional alcoholic drink & grape wine is not well received due to lack of education and higher price. Low-end rice and grape wine are thus more popular.

- **East China**

- East region accounts for a significant share of wine sales, esp. branded bottled wine (key market) due to affluence of first & second tier cities.
- Shanghai historical connection with European culture including wine & food
- On-trade sales growing in first & second tier cities (e.g. Ningbo, Hangzhou)
- Wine shops opening in Shanghai & some second tier cities.
- Wine tasting and education classes have been becoming a supplement to sales and marketing.

- **North China**

- Beijing and coastal area cities (second tier) consume more wine than in hinterland and western regions due to higher disposable income and openness to consume grape wine rather than low-end local spirits
- Cities like Qing dao and Da lian in Shandong province are the local wine production base and also the destination for imported bulk wines.
- City like Xi'an, the customers prefer to be wholesalers or distributors for importers in first tier cities
- In regional/rural areas rice wine is a strongly traditional alcoholic drink

Size of China Wine Market

- Local Wine Production Overview

	% Total volume
Company	2004
Beijing Dragon	0.5
China Great Wall	3.5
Dynasty Winery	5.7
Huaxia Winery	5
Tonghua Grape Wine	0.8
Vinisuntime International	4.2
Yantai Changyu	4.3
Yantai COFCO Winery	1.5
Yantai Weilong Grape wine	3
Yunnan Red Wine Group	0.7
Yunnan Shangri-la Winery	1.5
Others	69.2

- 2004 local wine production: 393,400 tons.
- Estimate 800,000 tons by 2010.
- Local wine producers importing bulk wines, the retail price for this sector is much much higher than that made from local grapes.
- To keep the pace of international wine market, the local producers have been focusing on marketing of Winemaking, winery history etc.
- “Grace” wine(Yi Yuan) is to be considered the best Chinese local grape wine

Company shares of still light grape wine by national brand owner, 2004

(Source: Customs General PRC, Shandong Vine and Wine making Institute, China Alcoholic Drinks Industry Association, FMCG Report.)

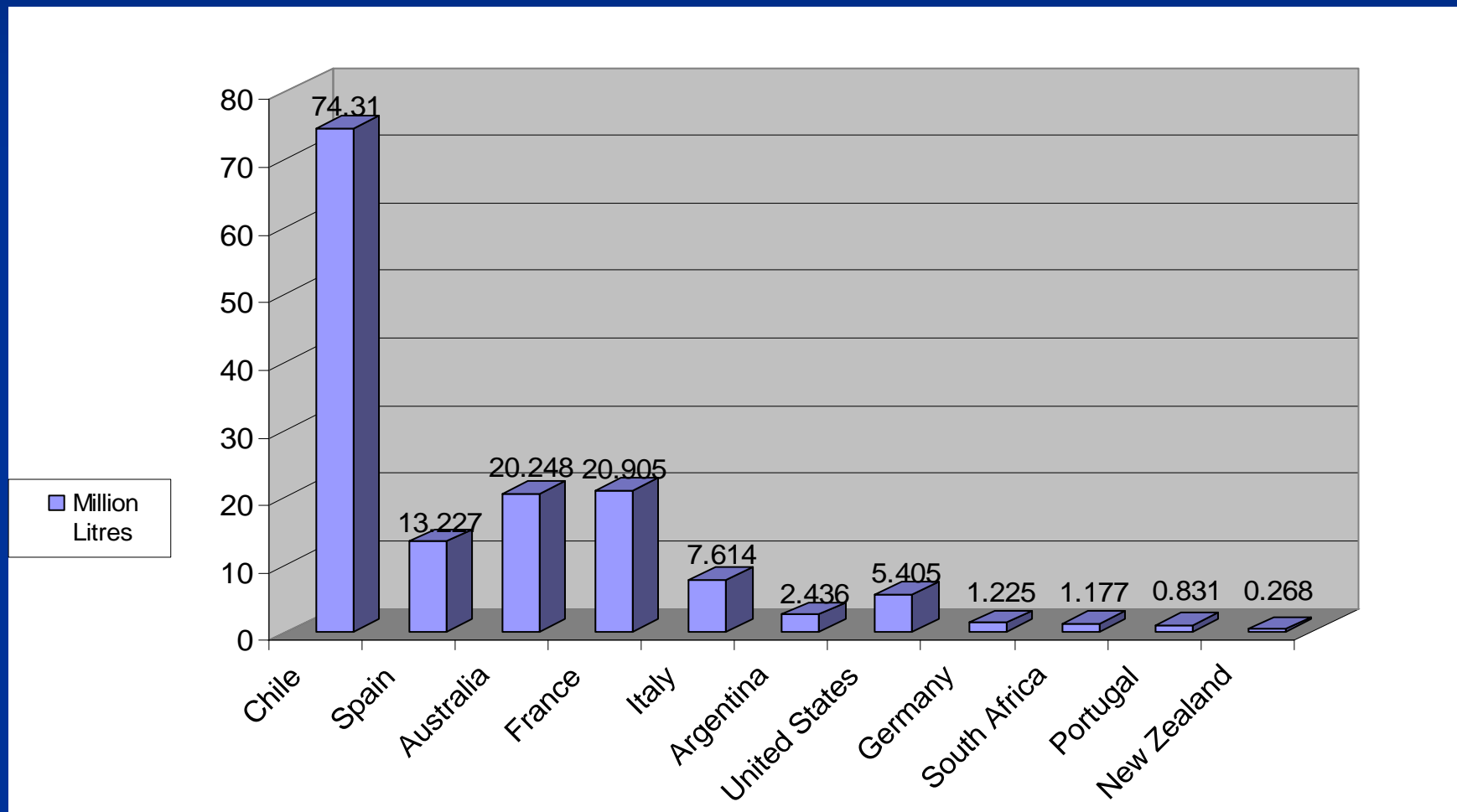
CHINA IMPORTS IN 2007



Size of China Wine Market

- 2007 Imported Wine (General by country)

2007: China imported over 148.69 million litres of wine;
an increase of 28.72% over 2006 (115.5 million litres).(HS code 2204)



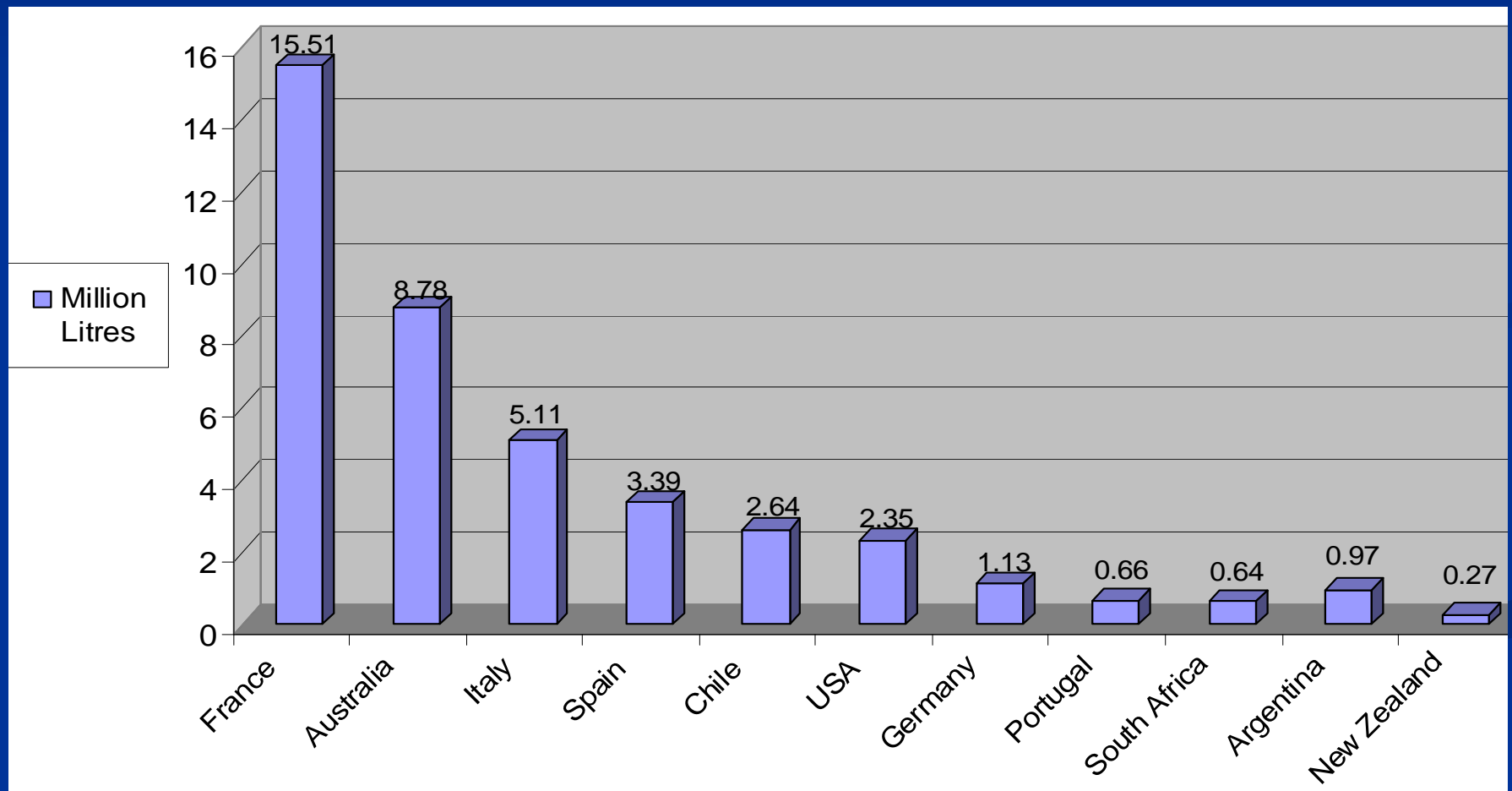
(Source: World Trade Atlas – China Customs 2007)

Size of China Wine Market

- 2007 Imported Wine (Bottled)

HS Code 22042100: Wine (not sparkling; in less than 2 litre container)

In 2007, China imported over 42.337 million litres of bottled wine (2006:20.2 million litres).
Increased 109.29%



(Source: World Trade Atlas – China Customs 2007)

Size of China Wine Market

- 2007 Imported Wine (Bottled)

Rank	Country	2006/07 % Change
	World	109.29
1	France	125.3
2	Australia	91.69
3	Italy	177.04
4	Spain	89.16
5	Chile	112.76
6	United States	42.18
7	Germany	81.51
8	Argentina	296.87
9	Portugal	104.9
10	South Africa	106.66
11	New Zealand	45.47

(Source: World Trade Atlas – China Customs 2007)

Wine should be fun.....

MINTINESS WITH PEACHES

AND STRAWBERRIES,

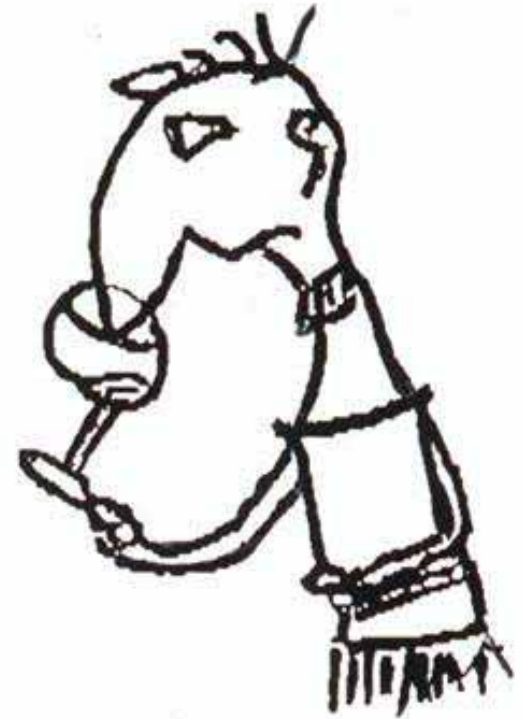
A CHOCOLATE SMOKEYNESS

WITH LEATHERY INSINUATIONS,

HESSIAN APES

AND PEACOCKS,

AND A FAINT, ELUSIVE YET STARTLING AROMA OF
WINE.



AUSTRALIAN WINE EXPORTS TO CHINA IN 2007



Size of China Wine Market

- Australian Wine to China (Bottled)

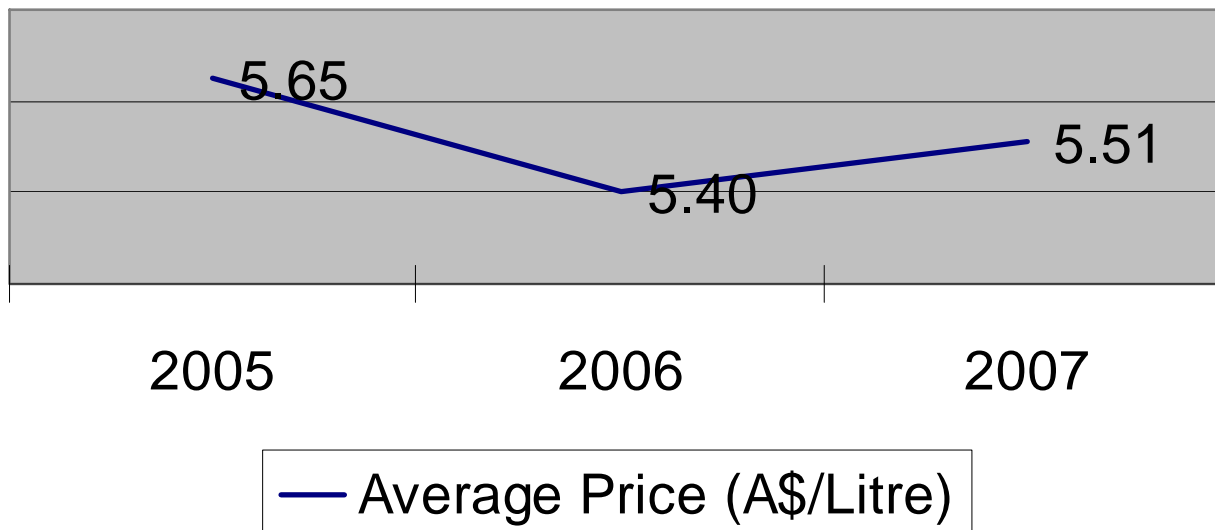


Source: AWBC Emerging Market Export Report-January 2008 ,
Data is January to January

Size of China Wine Market

- Australian Wine to China (Bottled)

Average Price of Exports to China



Year	Average price (%Change)
2005	-6%
2006	-4%
2007	2%

Source: AWBC Emerging Market Export Report-January 2008 ,
Data is January to January

Note: Average price (AUD\$) calculated on FOB value
Source: AWBC

Size of China Wine Market

- Australian Wine to China Summary



- 06-07 saw significant growth in Aus bottled Wine; while bulk wine exports to China decreased.
- 06-07 price of bottled and bulk wines exported to China rose.
- The challenge for imported wine suppliers is to sustain sales and continue to support the China market given the current Australian supply reduction and price increase.

Updated Australian Wine Export to China, 2007

- For the **FIRST TIME EVER**, the value of Australian wine exports to China have surpassed the value of Australian wine exports to Japan. (China – AUD\$55.7 million and Japan – AUD\$47.6 million by Dec. 2007).

Australian Wine Export to China and Japan
(Dec.07 compared with Dec. 06)

	Volume		Value		Value/Litre	
	Dec.07 Litres	Change %	Dec.07 A\$	Change %	Dec.07 A\$/L	Change %
China	17,938,749	-15.5%	55,744,432	52.9%	\$3.11	81.1%
Japan	8,783,547	-0.2%	47,660,871	5.3%	\$5.43	5.5%

Source: AWBC

Words of wisdom and comments from China...

- *“Bulk is bonus, but its not the long term, sustainable future for Australian wine sales in China. We need to build our presence in China through promotion and marketing of branded wines” – Australian Wine & Brandy Corporation, 2006*
- *“I think it is very Australian: attractive packaging, good value for money, easy to drink, very approachable...”-- Mr. Lee Ko Yi, National Sales Manager, TBC China (based in Shanghai)*
- *“Australia is producing some of the world's best wine. With staggeringly different climates on the East and West coasts, Australian wineries take advantage of the varied terrior to excel in varieties that best represent regionality. Semillon Sauvignon Blanc blends from Margaret River are a prime example of regional expertise, as are Cabernets from Coonawarra or Chardonnays from the Yarra Valley.”*
*-- Ms.Cerentha Chow, Brand Development Manager,
Wine Estates, Moët Hennessy Diageo (China)*