
(Sample)

Huidian Research

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3. Development of China’s Wine Industry

In China, the wine industry belongs to an industry with the relatively full marketization. The wine market has broad prospects and huge consumption potentials. In the wine industry, there are large numbers of medium and small-sized enterprises with small scale and low technical levels, whose products focus on the low-grade and low added-value ones with severe homogeneity competition, which causes fierce competition of low-end products.

3.1 Both the Market Sales and Profit Appearing the Negative Growth of the Wine Industry, 2013 H1

The strong development of China’s wine market has been close to the end for recent years. As the latest statistics issued by the National Bureau of Statistics, the cumulative output of China’s wine industry was 554,300 kiloliters from the January to June of 2013, with year-on-year decline of 7.15%. The year-on-year decline magnitude of June even reached 24.97% with only 101,200 kiloliters. China’s wine output appeared the negative growth, in the meantime, the industrial profits also declined, which showed that the pressure suffered by the domestic wine industry may be more severe than the prediction. As the insiders of the wine industry analyze, the reason for the negative growth of China’s wine industry has direct relationship with the decline of consumption demand.

Fig.3 Output of China’s Wine, 2003-2012
(Unit: kiloliter)

Source: National Bureau of Statistics of China; Huidian Research

In China, the cumulative total output of wine was 1,381,615 kiloliters from January to
December, 2012, with year-on-year growth of 16.9%. The output of wine in December was 174,581 kiloliters with year-on-year growth of 40.44%.

<table>
<thead>
<tr>
<th>Region</th>
<th>Wine (kiloliter)</th>
<th>Output in December</th>
<th>Cumulative Output by Jan. to Dec.</th>
<th>Year-on-Year Growth in December (%)</th>
<th>Cumulative Year-on-Year Growth in 2012 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationwid e</td>
<td>174,581</td>
<td>1,381,615</td>
<td>40.44</td>
<td>16.9</td>
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<tr>
<td>Beijing</td>
<td>1,003</td>
<td>9,274</td>
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<tr>
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<td>3,880</td>
<td>32,269</td>
<td>-24.92</td>
<td>-21.48</td>
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<td>Hebei</td>
<td>17,518</td>
<td>105,820</td>
<td>83.32</td>
<td>19.06</td>
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<td>8,205</td>
<td>8.39</td>
<td>-3.88</td>
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<tr>
<td>Liaoning</td>
<td>3,992</td>
<td>43,042</td>
<td>52.06</td>
<td>49.43</td>
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<td>37,942</td>
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<td>Jiangsu</td>
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<td>-</td>
<td>-</td>
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<td>Anhui</td>
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<td>-</td>
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<tr>
<td>Fujian</td>
<td>24</td>
<td>3,196</td>
<td>-</td>
<td>18.81</td>
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<tr>
<td>Jiangxi</td>
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<td>6,601</td>
<td>50.18</td>
<td>49.28</td>
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<td>Shandong</td>
<td>49,683</td>
<td>467,141</td>
<td>20.63</td>
<td>6.49</td>
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<td>Henan</td>
<td>31,920</td>
<td>218,988</td>
<td>82.73</td>
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<tr>
<td>Hubei</td>
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<td>1,717</td>
<td>55.76</td>
<td>30.17</td>
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<tr>
<td>Hunan</td>
<td>700</td>
<td>6,860</td>
<td>7.2</td>
<td>2.96</td>
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<tr>
<td>Guangdong</td>
<td>-</td>
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<td>-</td>
<td>-</td>
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<tr>
<td>Guangxi</td>
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<td>1,874</td>
<td>113.31</td>
<td>-23.08</td>
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<tr>
<td>Hainan</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>Chongqing</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Sichuan</td>
<td>125</td>
<td>811</td>
<td>635.29</td>
<td>57.12</td>
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<tr>
<td>Guizhou</td>
<td>8</td>
<td>68</td>
<td>18.48</td>
<td>26.52</td>
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<tr>
<td>Yunnan</td>
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<td>18,494</td>
<td>91.28</td>
<td>124.28</td>
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<tr>
<td>Tibet</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Shaanxi</td>
<td>3,538</td>
<td>30,221</td>
<td>130.34</td>
<td>97.66</td>
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</table>
As the insiders say, China’s wine consumption market is still immature. The mistrust of domestic consumers to the national brands and the highly praise to the imported red wine lead to the decline of consumption demand. The consumers have low loyalty to the brands and have a limited knowledge about the wine. In addition, the government’s limitation to the consumption of public funds on three major private purposes (namely cars, banquets and overseas visits) also causes the decline of demand volume for wine. Recently, China Foods Limited, which has the Great Wall Wine, has sent out the profit warning and acclaims that the sales of medium and high-end wine declines severely with the worsening gross profit margin affected by the limitation from the government to dinners and banquets.

Compared to the decline of wine output, the revenue of the wine industry is also unoptimistic. From January to May, 2013, China’s wine industry achieved the revenue of CNY 15.988 billion and total profit of CNY 1.885 billion. The growth of revenue and profit continue to maintain the trend in last month as the negative value. Taking Changyu Wine (Changyu Pioneer Wine Company Limited Yantai China) as an example, the net profit in Q1 declined more than 5% and the operation revenue declined 3.34% year-on-year. The cumbrance of the depressed industry and intensified competition to the industry profit gradually becomes obvious.

For recent years, the traditional industries transformed into the wine industry one after another, the number of the importers and retailers also increases. But with the improvement of the rational consumption idea of consumers, the industrial competition is increasingly fierce, which promotes the principle that the fittest survive in the industry. Some medium and small-sized enterprises, which are lack of the competitive advantages, are gradually eliminated; the decrease of enterprises also influences on the wine output.

In addition, the influence of imported wine on the domestic wine market can also be not overlooked. Compared with the depressed performance of domestic wine industry, the import volume of the wine is being increased. According to the statistics of Customs Information Network, China imported the wine of 168,549,000 liters from January to May, 2013, rising 9.7% compared with 2012 over the same period and the import amount was USD 690 million, rising 10.3% compared with 2012 over the same period.

<table>
<thead>
<tr>
<th>Province</th>
<th>2013 Sales</th>
<th>2012 Sales</th>
<th>Change</th>
<th>Growth</th>
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<tbody>
<tr>
<td>Gansu</td>
<td>1,174</td>
<td>11,024</td>
<td>-37.29</td>
<td>-21.68</td>
</tr>
<tr>
<td>Qinghai</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ningxia</td>
<td>4,558</td>
<td>16,527</td>
<td>-32.01</td>
<td>-34.43</td>
</tr>
<tr>
<td>Xinjiang</td>
<td>7,676</td>
<td>31,577</td>
<td>0.87</td>
<td>27.83</td>
</tr>
</tbody>
</table>

Source: National Bureau of Statistics of China; Huidian Research

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