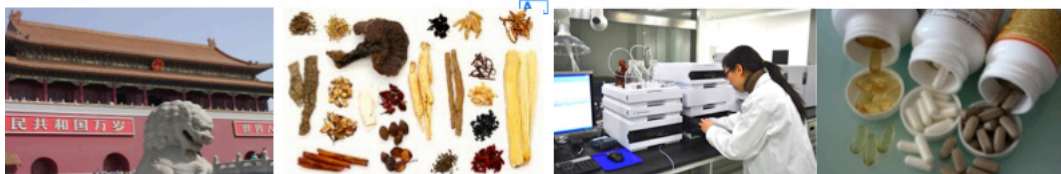


CHINA UPDATES

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By-Health Grows Fast in Q1

By-Health released its financial report of the first quarter this year, which shows that the company earned 178 million yuan with a year-on-year increase of 51%.

Analysts say the updated regulations on health food in China will further clean the market environment. It will facilitate the development of well-established companies like By Health.

“We have a clear strategy path, which will lead us to develop from a nation of ingredients to a nation of brand, and finally build a ‘United Nations of Nutrition’,” said Lin Zhicheng, chairman secretary of By health. (Source: China Economic Times)

China to Have Specific Brand to Crack down Illegal Food and Drug

China's state food and drug regulator, CFDA, partners with Ministry of Public Security, as said in a media briefing, to set up a specific brand to tackle illegal food and drug cases nationwide.

The branch targets at promoting the crack-down on illegal conduct in food and drug field, making sure that the public enjoys better food security. The branch will be in charge of legal case investigation and implementation of related regulations. (Source: hexun.com)

China Updates is a service provided by U.S.-China Health Products Association. The Newsletters are issued approximately three times a month. China Updates provides news on regulatory environment, new legislation, association activities and any information related to China's natural health products industry.

China Blames France's Veolia for Tap Water Pollution

China has blamed French utility Veolia Environment for "supervision problems" in its water quality standards after authorities said a cancer-inducing chemical had been found in tap water supplied by the firm at 20 times above national safety levels, state media said on Wednesday.

The reading of benzene in the tap water in the northwestern city of Lanzhou was taken on Friday, forcing the city to turn off supplies in one district and warn other residents not to drink tap water for the next 24 hours.

Lanzhou, a heavily industrialized city of 3.6 million people in the northwestern province of Gansu, ranks among China's most polluted population centers.

Investigators looking into the incident found "there were supervision problems within Veolia Water Company related to water quality and safety", China National Radio said on its website, quoting a Lanzhou government spokesman speaking at a news conference. The spokesman did not elaborate.

The Lanzhou government and executives from Lanzhou Veolia Water Co, a local unit of Veolia, could not be reached for comment. Veolia France was not available for comment.

The Lanzhou government's complaints come on the back of rising scrutiny of foreign companies by Chinese state media. The government and state media have taken a series of firms to task on issues ranging from pricing to alleged poor quality products and shoddy customer service.

Lanzhou Veolia Water Company's deputy general manager, Yan Xiaotao, said there was no late reporting of the benzene spike or cover-up, Xinhua reported. Lanzhou Veolia Water Co is majority-owned by the city government, with Veolia China, a unit of Veolia Environment, holding a 45 percent stake.

The government has already blamed a crude oil leak from a pipeline owned by a unit of China National Petroleum Corp. for the presence of benzene.

The Chinese government has not said whether it has opened an investigation into CNPC. PetroChina, the listed unit of CNPC, has denied media reports that it is to blame for the leak.

A PetroChina official, who declined to be named due to the sensitivity of the matter, said the company had been cooperating with the investigations.

"The investigations showed that there is no PetroChina-operated pipelines that are close to the tap water production areas, no leaks were found, and no abnormal emissions," the official said. "All PetroChina facilities are operating normally."(Source: Reuters)

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China International Health Industry Expo to Come

China International Health Industry Expo will take place from May 15 to 18 in Nanjing.

The Expo will cover eight sectors including health food, bio tech, health checking, medical equipment and health service. It covers over 300 products and services.

The expo will be co-held by over ten companies and institution including Health Institution of Jiangsu Province, Brand Institution of Jiangsu Province, and Health Product Association of Shanghai. It invited over 300 health companies to join the event. (Source: Jsnew.jschina.com)



Analysis: China Health and Wellness Tourism Market

In spite of recording double-digit current value growth of 12% during 2012, health and wellness tourism in China remained seriously underdeveloped at the end of the review period. Sightseeing remains the top priority for the majority of domestic tourists and for this reason, domestic health and wellness tourism is a very underdeveloped area among tour operators and there are few well-designed travel routes and itineraries for health and wellness tourism in China.

Medical tourism, meanwhile, remained negligible in China at the end of the review period and caters only to a niche consumer base due to the low awareness of Chinese medical tourism and the very underdeveloped infrastructure for medical tourism in China.

With rising disposable income levels and increasingly varied demand among Chinese consumers, health and wellness tourism is expected to continue recording robust growth over the forecast period, rising in constant value at a CAGR of 12%.

This is set to be a superior performance to the constant value CAGR of 7% recorded in health and wellness tourism over the review period. The



stronger forecast growth may be attributed to the personalized consumer need for an alternative way of travel and relaxation, in line with the mounting pressure for consumers out of quickened life pace and the enhanced product awareness among consumers. (Source:PR-insider.com)

China Faces Severe Underground Water Pollution

The pollution of underground water is a serious problem. The Ministry of Land and Resources has released a report on the surveillance data of the country's land use and water quality. Surveillance was conducted on over 4,700 sites in 203 cities. Water quality in nearly 44 percent of the sites is bad.

The Ministry of Environmental Protection also says around 280 million people have been exposed to unsafe drinking water. The ministry reports over 70 percent of water from lakes, and 60 percent of underground water across the country does not meet the national safety standard.(Source:CCTV)

L'Oréal's Global Kit Adds a Chinese Brand

L'Oréal has a new recipe for expanding sales in China and internationally. Ingredients include snail essence, roasted brown rice and plum blossom.

Those are varieties of a Chinese brand of cosmetic facial masks that the French cosmetic giant is gearing up to sell globally as well. In doing so, L'Oréal is attempting something that Chinese companies themselves are seeking: buyers abroad for China-created brands.

As part of its shifting China strategy, L'Oréal closed last week on its €636 million deal (\$882.9 million) to acquire Magic Holdings International Ltd., the Chinese owner of the MG brand of beauty products.

MG sells 167 different kinds of paper-peel and mud masks across China, ranging from chamomile



allergy-relieving to red wine complex whitening. L'Oréal will first look to expand MG masks in the brand's home market, where the French company is refocusing after pulling its mass-market Garnier beauty-products brand amid intense competition.

Mr. Perakis-Valat said L'Oréal will widen availability of MG-branded facial cleansing and hydrating masks far beyond the current 288 distributors and more than 12,000 stores and other outlets. It will also work to create more products that blend the French beauty company's expertise—with moisturizing and whitening the skin—with MG's.

"It's really just the beginning," said Mr. Perakis-Valat.

He declined to disclose details of the company's plans for MG in China or abroad.

L'Oréal is looking for more customers like Jia Jingni, a 24-year-old marketer for a Shanghai real-estate company who says she likes to apply a mask to relax after coming home from work. "I say that I use it to improve my skin, but the truth is that it actually helps me improve horrible days," she said.

Sales of all brands of facial masks in China last year hit 11.2 billion yuan, or roughly \$1.8 billion, up 13% from a year earlier and more than doubling from 2008, according to research firm Euromonitor International.

In the U.S. and Western Europe mask sales are tiny by comparison, reaching \$65 million and \$422 million, respectively, last year. But L'Oréal is certain it can change that, said Mr. Perakis-Valat. "You offer to a woman high efficacy and 15 minutes of relaxation, that's a good value proposition," he said.

Expanding MG will require L'Oréal to introduce a Chinese brand to the world. So far such efforts have shown limited success. Lenovo Group Ltd. 0992.HK -1.59% sells computers under its own name, though it

benefited from purchasing the ThinkPad laptop brand from International Business Machines Corp. IBM +1.62% Still, the brand could have appeal abroad, said Torsten Stocker, a Hong Kong partner at consultancy A.T. Kearney.

Some industry experts said that L'Oréal hasn't had much success with previous acquisitions of Chinese



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brands, such as skincare-focused Mininurse and traditional Chinese medicine cosmetic brand Yue Sai. A spokeswoman for L'Oréal concedes the company has "had difficulties" with the acquisition but is committed to Mininurse and has transformed its original factory into L'Oreal's largest production center in Asia. L'Oréal said it has repositioned Yue Sai into its luxury division and the brand is growing.

MG's sales grew 8.5% to HK\$891.1 million (\$114.9 million) in the second half of last year from a year earlier, according to company filings.

Beyond facial masks, L'Oréal is also revving up its efforts in e-commerce and aims to double its online sales in China this year, said Mr. Perakis-Valat. He added that the company succeeded in doubling online sales in China last year, though he declined to disclose details. The company is also putting its weight behind its L'Oréal Paris and Maybelline brands, expanding sales of skin care and haircare products beyond the current 600 cities in China.

L'Oréal China's sales last year reached 13.28 billion yuan, roughly \$2.14 billion, up 10% from the year earlier. World-wide, L'Oréal's sales totaled \$22.98 billion in 2013. (Source: WSJ)

Foreign Brands Shift Focus to China's Second-Tier Cities

On March 15, luxury retailer Lane Crawford held a soft launch for its new store in Chengdu, a fast-growing metropolis in southwestern China. A few years ago, major fashion brands were concentrating on China's leading first-tier cities: Beijing, Shanghai, Guangzhou, and Shenzhen. But today many are focusing on

China's second-tier and third-tier cities—which McKinsey Global Institute predicts will be home to 45 percent of China's middle-class and high-income earners by 2022.

Hong Kong-based Lane Crawford is in good company in Chengdu. In 2010 the spacious Yanlord Landmark mall opened there; its current tenants include Burberry, Dior, and Louis Vuitton. Of its 47 stores in mainland China, Louis Vuitton has already opened 36 in second-tier and third-tier cities. Tommy Hilfinger even has outlets in the western territories of Xinjiang and Tibet. Estée Lauder has more than 100 counters in more than 40 Chinese cities.



Domestic luxury brands looking to establish themselves as national chains are also focusing on second-tier cities. Guangzhou-based fashion label Nisiss, which sells breezy trousers and \$900 cocktail dresses, opened two stores last year in Chengdu. This year it plans to open stores in Qingdao, Dalian, and Suzhou, among other cities.

First lady Michelle Obama stopped in Chengdu during her visit to China this week. Although the stopover highlights the growing prominence of the southwestern city, Mrs. Obama didn't spend time in luxury shopping malls—instead she met with students at Chengdu No. 7 High School to discuss how LeBron James and Howard Schultz catapulted themselves from a humble background to a global success story.

As labels remain vigilant about identifying the right time to expand to the lower tiers, China's rapidly growing e-commerce market remains an increasingly popular alternative to brick-and-mortar stores. According to research by Ogilvy & Mather China, online shopping options are critical in areas where luxury goods are not yet available in retail stores. Although consumers from these cities also travel to the first tier to make purchases, the rate at which they are using e-commerce is growing. E-commerce is not always a perfect short-term alternative, however, because a different set of logistical issues complicates e-tail in China, with quality assurance and reliability figuring significantly in delivering luxury goods to wealthy Chinese customers with high expectations.

This complicated terrain has not stopped companies from entering the second, third, or fourth tier or making plans to do so in the future. And for even the more cautious brands, it's not a question of "if" but of "when" — and more importantly, "how."(Source: Bloomberg)

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