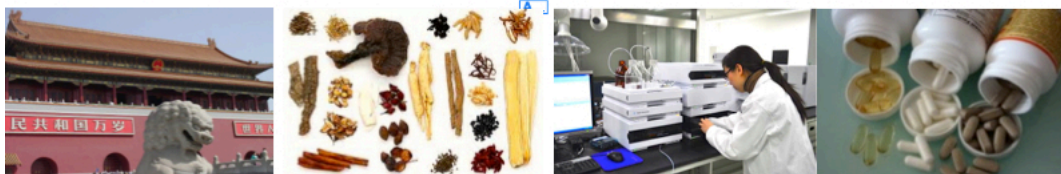


CHINA UPDATES

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Guangzhou to Hold Health Product Expo this September

China's biggest health food expo is to be held from September 19th to 21st in Guangzhou. The expo is co-held by China Nutrition Association, Health Food Industry Association of Guangdong province, Health industry Association of Zhejiang Province, Organic Agriculture industry Alliance of China and Zhenwei Expo Group.

The Expo covers over 50,000 sq/m and includes 1500 kinds of products, including high-end nutrition supplement, health food, TCM product, natural health food, and organic food. It is estimated that the value of China's nutrition and health food industry to reach 1 trillion yuan by 2015 with an annual increase of 20%.

It is also expected to see more than 10 Chinese mega-companies in the health industry with an annual revenue of over 10 billion yuan.

Guangzhou has a strong demand in high-end health products. According to data in 2011, when the total sales of national health food exceeded 150 billion yuan, Guangdong province generated over 78 billion yuan in sales, making it a production and sales center of health food in China.

The Expo attracts a number of time-honored health product brands including By-Health, Tongrentang, and Amway. It also attracts many mainstream media to report and becomes a key word in major search engines like Google and Baidu. (Source: lfeng.com)



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China Endeavors to Ensure Food Security

After reaping his wheat field this summer, Ma Yuxi is not rushing back to China's coastal cities to work odd jobs as he has in other years.

Instead, the farmer and migrant worker in his forties is thinking of saying good-bye to his "double life" and renting more land to devote himself to farming full time. For Ma, opportunities from his upgraded cropland outweigh those in cities.

"Despite droughts, I have had a bumper harvest the past two years and my income was also up," he said.

Ma's good luck can be attributed to a program started in 2009 to create "high-standard arable land" in central China's Henan Province, which produces one-tenth of the country's total grain output.

Improved irrigation and drainage, reinforced paths around fields, and shelter trees have led to improved grain yields and better resistance to natural disasters for around 26 million mu (1.7 million hectares) of cropland in the province.

Average grain yields increased by 30 percent, with the wheat output per mu reaching 585.2 kilograms in Hebi in the north of the province, data from local authorities showed.

"Latest yield figures have proved the importance of upgraded land in improving agriculture and tapping the land's potential," said Pang Xuemeng, head of the agriculture development office under the provincial government.

The local government plans to complete the upgrade of 60 million mu of arable land by the end of 2020.

The Henan program is just part of the country's greater ambitions. The central government released a guideline in June to create 800 million mu of "high-standard arable land" throughout the country by 2020. The program will be top priority for China's major grain-producing provinces, including Henan, Anhui, Shandong and Heilongjiang, during the next few years.

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The program, if completed successfully, will likely reverse the fact that grain output has remained low for two-thirds of China's arable land and only slightly more than half the land is well irrigated.

"The program means a lot to ensure state food security," said He Caiwen, senior official from the Ministry of Agriculture. He added that agriculture in China is still plagued by limited water and land resources as well as an aging rural labor force.

Improving agricultural infrastructure and land productivity is urgently needed to guarantee stable food supply for China's growing population, He said.

China has prided itself on feeding over 20 percent of the world's population on 10 percent of its arable land despite water scarcity, scattered fertile land, and lagging facilities.

However, this pride has been challenged by China's rising grain imports in recent years. Grain import figures for 2013, although not released yet, are estimated at over 90 million tonnes, up substantially from 2012.

Although dwarfed by China's 2013 grain output of over 600 million tonnes, the estimate raised alarm about the country's food self-sufficiency.

Li Guoxiang, researcher from the Chinese Academy

of Social Sciences, said China should be alert as the country cannot rely on international markets for its food security.

Ye Xingqing, head of the agricultural economy department of the Development Research Center under the State Council, said the sustainability of China's grain production faces enormous challenges, such as increasing pressures from resources and rising costs.

The Chinese central government has started to take action on the issue. In addition to upgrading arable land, a series of other policies have been carried out to ensure food supply.

The Chinese government has asked local authorities to make sure arable land is not illegally occupied, and the country's arable land should total no less than 1.8 billion mu. Technological innovation is encouraged to improve yields, and advanced equipment has been used this year to reduce grain losses during storage, transportation and processing.

China has also vowed to increase financial aid to farmers and promote new models of agriculture.

The country's grain output this summer increased 3.6 percent year on year to 136.6 million tonnes, according to the latest data from the National Bureau of Statistics. (Source: Shanghai Daily)

Zaozhuang Promotes Accountability System in Health Food Companies

To raise awareness of food safety, the local regulator of Zaozhuang, Shandong province released a regulation on accountability system of health food companies.

The system aims to hold managers of food processing companies accountable for producing health food.

The companies are asked to designate the manager of the company as the person to be held accountable for the company's food safety. The designation should be confirmed in paper. The person and the company should both sign in the

paper to approve the designation.

The system aims to give more rights to the designated manager so that he or she can be in the position to make sure that the health food the company produces are safe. (Source: Zaozhuang News Net)



Scandal Shows Challenges in Policing Safety of Restaurant Food Supplies

When inspectors visited Shanghai Husi Food Co earlier this summer, the production line at the plant now at the center of an international food scandal appeared in good order, with fresh meat being handled by properly attired workers and supervisors keeping a watchful eye over the process.

But if they had arrived unannounced a day before, they would have found piles of blue plastic bags filled with out-of-date meat stacked around the factory floor, a facility worker, said, adding that the old meat was often added back into the mix to boost production and cut costs.

"The next day, that meat just disappeared - someone must have disposed of it. The manager said it was an inspection," said the worker, who didn't want to be named because he wasn't authorized to talk to the media.

On July 20, after an undercover local TV report that alleged workers used expired meat and doctored food production dates, regulators closed the factory, which is part of OSI Group, a US food supplier. Police have detained five people, including Shanghai Husi's head and its quality manager.

The scandal - which has hit mainly big foreign fast-food brands, including McDonald's and Yum! Brands Inc, which owns the KFC and Pizza Hut chains - underlines the challenges facing inspectors in China's fast-growing and sprawling food industry. China is Yum's biggest market and third largest for McDonald's by outlets. Yum has around 650 suppliers in China.

The government has struggled to restore confidence in its \$1 trillion food processing industry since six infants died in 2008 after drinking adulterated milk. The head of China Food and Drug Administration told China Daily this week that the food safety situation "remains severe", and the existing oversight system "is not effective".

China's food testing industry is expected to top 8 billion yuan (\$1.29 billion) by next year, with more than 5,000 companies offering inspection services. Regulators overseeing the industry are thinly stretched, company executives say.

Laws on food safety are incomplete and responsibility for enforcing them is unclear, making it difficult for regulators to do their jobs, said Gao Guan, deputy secretary-general of the China Meat Association.

OSI, whose annual revenue approached \$6 billion last year, said this week it suspended operations at Shanghai Hushi and would review all its China plants.

The Shanghai Hushi scandal exposes weaknesses in big foreign brands' ability to police their own supply chains and processing plants - whether in-house or through third-party auditors.

"The issue with quality control audits is that the factories usually know about it and get ready," said Max Henry, the Shanghai-based executive director of the Global Supply Chain Council.

Driven by extreme price pressures and an ambivalent workforce, suppliers often try to hide dubious practices from inspectors, showing them only certain parts of a factory or taking them to "fake" plants, so reports rarely give a full picture of compliance, auditors said.

Audits of the Shanghai Hushi factory by the US Department of Agriculture in 2004 and 2010 to clear the way for potential Chinese poultry exports to the United States gave the facility a clean bill of health. However, links to USDA audit forms show a one-page "checklist" format that some food safety experts have criticized.

Gaps in the auditing process are not limited to China.

"It's a bankrupt system," said Mansour Samadpour, microbiologist and CEO of IEH Laboratories & Consulting Group in Seattle, noting that audits are normally scheduled ahead of time and organized around publicly available questionnaires.

Buyers such as Yum and McDonald's operate on huge volumes and demand very low prices from their suppliers, which compete fiercely for business on razor-thin margins.

Shanghai Hushi is just the tip of the problem.(Source: Reuters)

Changchun: Online Stores Selling Health Food Need to Register by Filing



Zhou Fuyun, chief of food safety inspection department of Changchun FDA, said in an online talk with web users that all online stores, based in Changchun that sell health food, need to register by filing.

Mr. Zhou also addressed the food safety issue in restaurant. "Changchun now has about 16,100

restaurants. In the future, we will foster a food safety manager for each restaurant.”

The regulator also said that the online stores should also register like the physical store where registration is strictly required. (Source: Jilin.net)

China's Malls Add Snoopy Parks, Playgrounds to Attract Big-Spending Parents



As China's spending on luxury products wanes amid a clampdown on corruption and slowing economic growth, operators of shopping malls are looking to another retail segment: children's goods.

Recently, a post titled “Staying in fashion by staying away from grandma” went viral on the Internet in China and on WeChat, the country's most popular instant-messaging service. In the post, urban parents contrasted photos of their children when they dressed them at home against those taken after the kids had stayed with grandparents in the countryside, with many young parents commenting that grandparents are “killers” of fashionable children.

Sharp-sighted mall investors are pouncing on this trend, expanding their offerings that sell children's brands to lure in these hip mom and pops.

Malls in Beijing have launched attractions such as a penguin-character theme park, a Snoopy park and a 20,000-square meter children's play area to attract tot-toting parents. Baby City, the country's first kids-themed mall, opened earlier this year in the southern city of Shenzhen with an area of 16,000 square meters. Early next year, Shanghai will become home to the world's largest Disney store.

According to China Business News, in the first year after a Snoopy-themed park was added to a mall on the outskirts of Hong Kong, it attracted an additional three million customers. This inspired the construction of a similar Snoopy park in Beijing's Huarun Living Mall, where receipts could be used as tickets. The mall expects the Snoopy park to attract 500,000 people this year and boost its sales by at least 100 million yuan (\$16.2 million).

Chen Yanfei, a research manager at real-estate broker Cushman & Wakefield, says that in addition to recent relaxations of China's one-child policy, the popularity of television programs focusing on parent-child relations— such as “Dad, Where Are We Going”—also contributes to the emergence of this “chic kids” economy. Young parents want their enthusiasm for fashion and luxury to be reflected in their children and are willing to shell out the cash.

Although the average cost of raising a child in China is still considerably lower than in the U.S., the figure is increasing. In 2007, the cost of raising a child accounted for one-fifth of a family's spending; now the proportion is about one-third, Ms. Chen says.

Cushman & Wakefield said in its second-quarter report on the retail property markets in Beijing and Shenzhen that the gradual implementation of the relaxed one-child policy offers a strategic opportunity for the children's goods industry. A new baby is able to spur a whole family to buy more, an effect will only be more pronounced in



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years to come, it said. (Source: WSJ)

Kunming Holds China's First TCM Culture Grand Ceremony

China's first grand ceremony on the traditional Chinese medicine, also known as the founding ceremony of the medicine culture committee of China's TCM Association, was held in Kunming last week.

TCM is China's culture treasure. However, the culture system and theory of TCM have been marginalized in the past few years. The medicine culture committee was found by Kunming TCM Group and Guiyang Dechangxiang Medicines Co. Ltd. in efforts to support and promote TCM culture.

The committee has launched several TCM culture cooperation seminars for companies in Yunnan province.

Wu Gang, deputy chief of China TCM Management Bureau addressed in the ceremony. (Source: Xinmin.net)

Report: Booming Consumer Confidence in Smaller Cities

Rising optimism in small Chinese cities has helped push overall consumer confidence in the nation to a record high, despite slowing economic growth, a new report said.

Based on a survey of 1,000 people in 12 cities, the Boston Consulting Group found that consumers are feeling more hopeful about the economy this year: The number of people who plan to spend more money in the coming year exceeds those who plan to spend less.

It represents quite a turnaround. In both 2011 and 2012, the number of consumers who said they would spend more outstripped those who did not.



But in 2013, for the first time in recent history, a majority of consumers said they planned to cut back on spending.

"Last year, middle-class and affluent consumers in small cities were feeling the effects of the Chinese government's anti-corruption campaign, which caused subsidies to be canceled and reduced discretionary spending," said Jeff Walters, a BCG partner and co-author of the report.

"However, people have adjusted, and sentiment has returned to previous levels."

The company defines MACs as those with a monthly household income of more than 7,200 yuan (\$1,167).

Lower-tier cities are home to more people such as entrepreneurs, public servants and small firm employees, groups that are sensitive to policy changes, BCG said. Now, with uncertainty fading, these consumers are willing to loosen their purse strings.

The difference in sentiment between the smaller and larger cities is widening. In smaller cities, 34 percent of respondents were willing to increase



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their spending in the next 12 months, up from 26 percent in 2013. But in big cities, just 28 percent of respondents said they would spend more, down from 31 percent a year ago.

One big reason is that the pace of life in small cities is much more relaxed. People who said they were experiencing a great deal of stress and anxiety about the future and had concerns about losing their jobs were much more numerous in big cities, the survey found.

Such attitudes have led to MACs in large cities saving more to purchase a home, a car or for their children's education. For example, 39 percent of MACs in big cities said they were setting aside savings for real estate.

They also value quality over quantity, the survey found. MACs said they were willing to spend more than previously on high-priority categories but were no longer interested in trading up in such nonessential categories as packaged food, beverages or entertainment.

"This means these categories may see slower growth in big cities," said Youchi Kuo, an expert principal at BCG and a co-author of the report. "Opportunity remains, however, in smaller cities," she said.

In big cities, though, there is strong demand for lifestyle-related categories like baby products, automobiles, fresh produce, tourism and home renovation, Kuo said.

Companies, especially multinational corporations, will have to crack the booming small city market, Kuo said. That does not mean an "all-out" war, but finding a way to work with local retailers and distributors to reach their customers, she explained. (Source: China Daily)

China Updates is published weekly by the U.S. – China Health Products Association, a non-profit organization dedicated to the promotion of dietary supplements and the nutritional / functional ingredients. The association's major focus is the continued development of China's dietary supplement and nutritional ingredient industry as well as offering business services to global companies wishing to enter the China Market

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