

JESA INVESTMENT & MANAGEMENT CO. LTD.

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NEWS FROM JESA!

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While in the Western economies the economic crunch has affected many levels of the society, it seems in China rich people become even richer, but not only.

In the mid of October the Hurun Report has released the list of the richest man in China.

Hurun is a leading luxury publishing and events group, comprising a magazine and active events business targeted at China's high net worth individuals. The Wall Street Journal stated that "People often aren't considered truly rich until mentioned in Hurun Report..." confirming the widely recognition as the foremost authority in tracking the rapid changes amongst China's high net worth individuals. The flagship product of Hurun report is the China Rich List that has the pulse of the situation about who's who in China business environment.

The number of China's super rich increases during the past year, despite the crisis, with the number of billionaires jumping from 101 to 130. According to the analysis actually the number of the billionaire could be double since many of them are expected to be still out of radar screens. These figures make China become the home of the second largest population in the world of billionaires (US count 359 billionaire).

The Hurun List ranks 1.000 richest individuals in China and this year shows that the average wealth of the listed individuals rocketed by 30%.

China super rich seem to have put the credit crunch behind them.

Which are the golden industries that are driven the fortune of their entrepreneurs?

The massive urbanization programs are driving the real estate market and many of top-ten billionaires are in real estate and property business. The urban population is expecting to increase by 300 million people by 2025, laying the foundation for continued growth. Mining is the fastest-growing industry and surprisingly, few of the Hurun 1000 are reliant on exports to western economies.

It worth to notice some figures coming out from the list:

1. less than 1% of the people in the list, inherited their wealth (compared with 25% in UK and 35% in US);
2. this year there are 7 new faces in the top ten compared with last year, among which the number one that jumped up 102 positions.
3. the "average rich in China" is fifteen year younger than his European/American counterparts.

What above underlines a fast growing wealth that rely mainly on the internal market and potentialities than on the western economies.

Aside the list, there are other interested numbers:

1. 825.000 individuals with personal wealth of more than 10 million RMB (1 million Euro) who is averagely 39 years old;
2. 51.000 individuals with more than 100 million RMB who is around 43 years old

The wealthy world of China is rapidly changing and they are always more interested in traveling for leisure (best destinations are Australia, US and France) spending 50% more time than before. Moreover a third of them are already taking more than 20 days of holiday a year.

This mass of high net worth individuals demands more and more luxury and high end products. Among the list of their favorite brands there are only foreign brands.

The increasing and widespread concerns about the quality of the "Made in China" products are also driving most of Chinese consumers' behavior, leading to an increasing attention toward protection of the consumers.

Luxury market in China

According to official statistics, on a global basis the market value for luxury goods has shrunk of 6,6% in 2009. Meanwhile USA and Europe have been deeply affected from decreasing consumers spending, China's luxury consumption has increased and represent today 25% of global volume. With a total value of US\$ 50 billion and a double digit growth forecasted for the next 5 year, the time for Chinese austerity has long gone. The trend is that consumers are becoming every day more and more attracted by foreign brands and are fostering internal demand toward a broad range of new products. As surveys clearly display, for Chinese consumers possessing luxury goods is often related to living a successful life as well as expressing good taste. Today, consumption is mostly driven from apparel and personal products, for instance dress accounts for 32% of total market value. But, as status plays a greater role compared to Europe and USA, the demand for watch, jewelry, home decoration, and luxury car will represent a major stake within the next few years.

Today, the Asian country encounter with the presence of 1.6 million wealthy consumers, growing at the rate of 16% per year. At the same time, more than half of those who will be consider wealthy in 4 years are not in this category today. It is important to notice that the 80% of current wealthy individuals are below 45 years hold and only 30% of them are located in one-tier cities. Compared to developed countries, social and

economical characteristics of this population are completely different and companies have to consider them when planning the strategy to enter this market.

Some foreign players are already benefiting from the early move advantage. Just to name few of the fashion industry, Louis Vuitton, Hermes and Gucci all have reported sales increase in 2009. At the same time in the automotive sector, Rolls Royce and Lamborghini are expecting China to become their major market after US by 2013. In general, all players with a stable presence in the market have been recently moved towards second-tier cities, as they are conscious that 75% of wealthy consumers will be living in these areas by 2015.

Future opportunities are so arising for both foreign and Chinese players. From one hand, Chinese consumer want their own luxury brands to fulfill the inner cultural pride; from the other hand, they are able to recognize the superior quality, design, and brand image of international players. Tips for success are few, but may be useful. As experts suggest, it is strategic to create limited edition for customers who wants to set apart from the rest, to supply collectibles which appeal affluent shoppers, and to provide excellent service that values the status of your clients.

As shown, the market has all the characteristics to be considered a unique opportunity, but at the same potential pitfalls have to be minded. First, consumer still lack awareness

and loyalty to the brand. Therefore, it is crucial to investigate their needs, to invest in communication, and to retain them once the purchase has been occurred. But the main issue is represented by the counterfeit market which today affects about 20% of total retail products. In this case, the best solution would be prevention so to avoid time consuming lawsuits and the risk that someone else is already using your brand.

Shaping the young Chinese market is not going to be an easy task but at the same time it will be strategic for success. Some time will be required to make consumer aware of the differences among brands and enforce their customer loyalty, but payoffs are expected to be outstanding for those who will soon enter the competitive arena. Our advice is to rely on a strong brand and provide potential customers with exclusive products and services. The market has great potential, but players can only experience and take advantage of them through the understanding of customers and their needs. As always, this is the main ingredient in the receipt of success all over the world.

Protecting customers: Food Safety Law

Food Safety Law (FSL) was recently enacted by the Standing Committee of China's National People's Congress. As result of years of drafting and effective since current June, this law finally creates nationwide standards with the intent of protecting customers after recent tainted milk and pet food scandals that damaged the "Made in China" brand worldwide rocking public confidence.

FSL covers Food Manufacturers (producers and processors) and Food-business Operators (distributors and caterers) industries. The following processes are also included: manufacture and processing of food additives; food-related products (including manufacturing and processing of packaging materials, containers, detergent and disinfectant used with food; and tools and equipment used in production and processing food); Food Manufacturers' and Food-business Operators' usage of food additives and Food-related Products.

The standards - China's State Council establishes a national food safety commission to coordinate and oversee the new food supervision apparatus. In addition, standards required by FSL are formulated and published by the Ministry of Health (MoH), consolidating hundreds of regulations and standards covering many food-processing companies.

Inspection and record keeping - Under the FSL, the involved industries face new obligations for training, quality inspection and record keeping. Food Manufacturers cannot

purchase or use substandard raw ingredients, food additives, or food-related products. They are required to effect and record final inspection as soon as food products leave the factory. Food-business Operators must inspect seller's permits and certification documents evidencing a compliance with safety standards. Records of purchase details and inspection are mandatory. Food importers need to maintain two years record of food imports and sales. In the past, some food industry giants were able to obtain inspection exemptions, but the new law abolishes any exemption for inspection.

Food importation - Imported pre-packaged food and food additives must have Chinese-language labels and instructions, containing information on the origin place, name, address and contact information of the domestic agent. Chinese-language instructions must satisfy the requirements under Chinese law, including the food safety standards. If the food to be imported is a variety which is not contemplated by the Chinese standards, the food importer should submit safety evaluation documents to MoH applying for approval before importation. In addition, food products claimed to have specific health benefits are subject to stricter supervision. Further, labels and instructions must list ingredients and information prescribing people allowed to consume a product. Also, misleading advertising of food products is banned, and advertisements cannot claim that a product may prevent or treat disease.

Recall - The FSL codifies a food recall system, which was previously regulated under administrative rules. Food products proven to be substandard are subject to: cessation of

production; recall; notification of Food-business Operators and consumers; record keeping of the recall; and report to the county-level (or above) quality supervision authority. If a recall is not effected accordingly, the appropriate authority can order a recall or suspend the violator's business.

Several liability and punitive damages - Under the FSL, an expansive liability structure has been implemented. Food-related businesses need to take measures to prevent food safety accidents. FSL provides that if a Food Manufacturer produces, or a seller knowingly sells, substandard food, consumers can claim for punitive damages equalling ten times the original product price, in addition to normal compensation, ordered by the Court, for losses caused to the consumer.

Conclusion - China's FSL appears to be an umbrella law, which aims to establish a comprehensive supervision system resolving fights between various authorities and setting national guidelines. On top of the establishment of a national food safety commission and safety standards, producers and distributors are now subject to increased penalties if they produce or sell substandard food. Businesses will be required to maintain detailed inspection and purchase records to obtain particular permits. Meanwhile, compliance is likely to increase the cost of production. Although the adoption of this law will not immediately change the food safety landscape, the FSL promises to improve food quality and safety for consumers of Chinese food products, especially in the long-term period.

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