KANTAR WORLDPANEL
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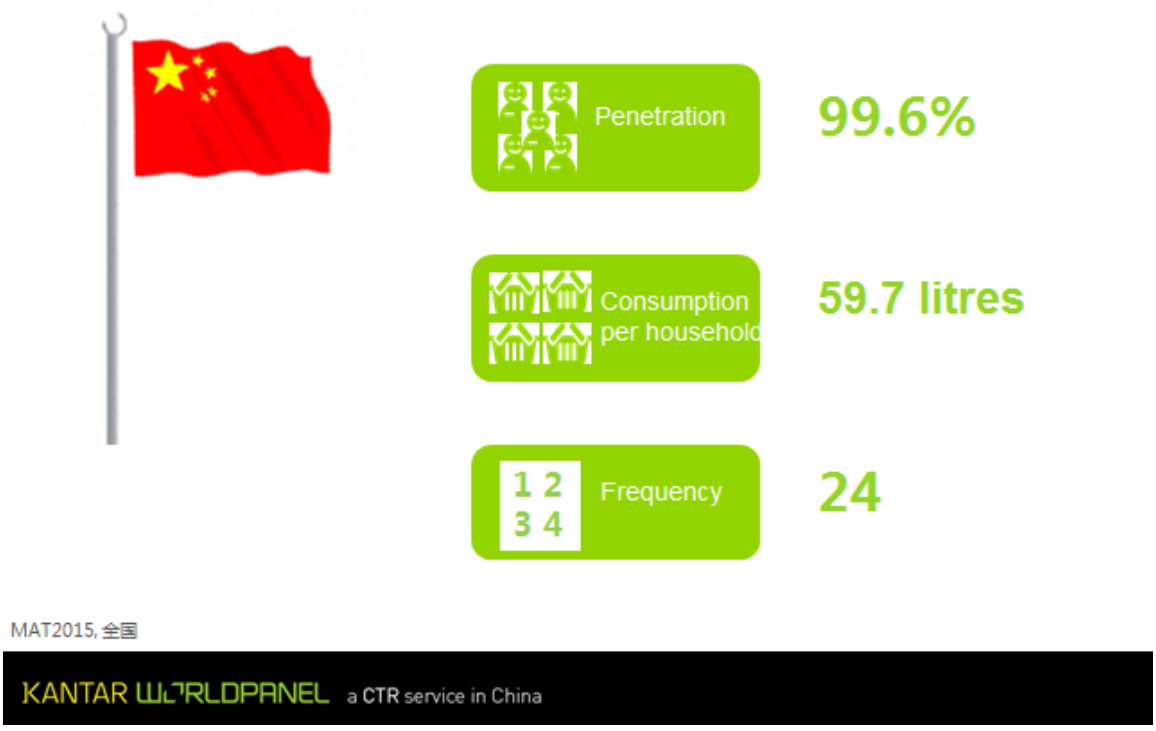
Growth opportunities in dairy market

In the backdrop of the global economy slowdown, China FMCG shows moderate growth of 3.5% in 2015 according.to Kantar Worldpanel, the world leading consumer market research. Within that the food and beverage sector grew only 2.1%"Low growth", "downsize" and "new normal" is becoming the most common words; however, out of all food and beverage in the study pool, 58% of categories showed growth. One of the stronger sectors was the overall liquid milk market (milk + yogurt) which saw a sales increase of 7.5%, far beyond the total growth.

Mixed dairy market

Dairy market is now one the fastest developing sectors within the food and beverage industry. Dairy is now being seen as an essential element of a healthy diet for more and more Chinese consumers. The China dairy market still has great potential to growth compared with European market suggesting this positive trend can continue. Kantar Worldpanel research shows that the average consumption of dairy products for China's urban households in 2015 is 59.7 litres, less than one-fifth of the EU countries. With the implementation of the two-child policy, China's dairy industry will also have even more space to grow with as more children are born.
Since 2011, the average consumption of dairy in China urban household has been flat at 60 litres. Although dairy companies has fuelled for innovation, the consumption in volume has not yet been seen significant increase, which demands dairy companies' continuous effort in educating

consumers to lift up total consumption.



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Quality life normalization

Both low and ambient temperature milk products contribute to the growth of liquid milk market. Low temperature yogurt is the main contribution category, with annual sales growth of 8.1% in 2015. For ambient temperature dairy products, ambient temperature yogurt and premium milk are the main drivers. Higher price per litre is the main factor behind value growth. . This indicates that

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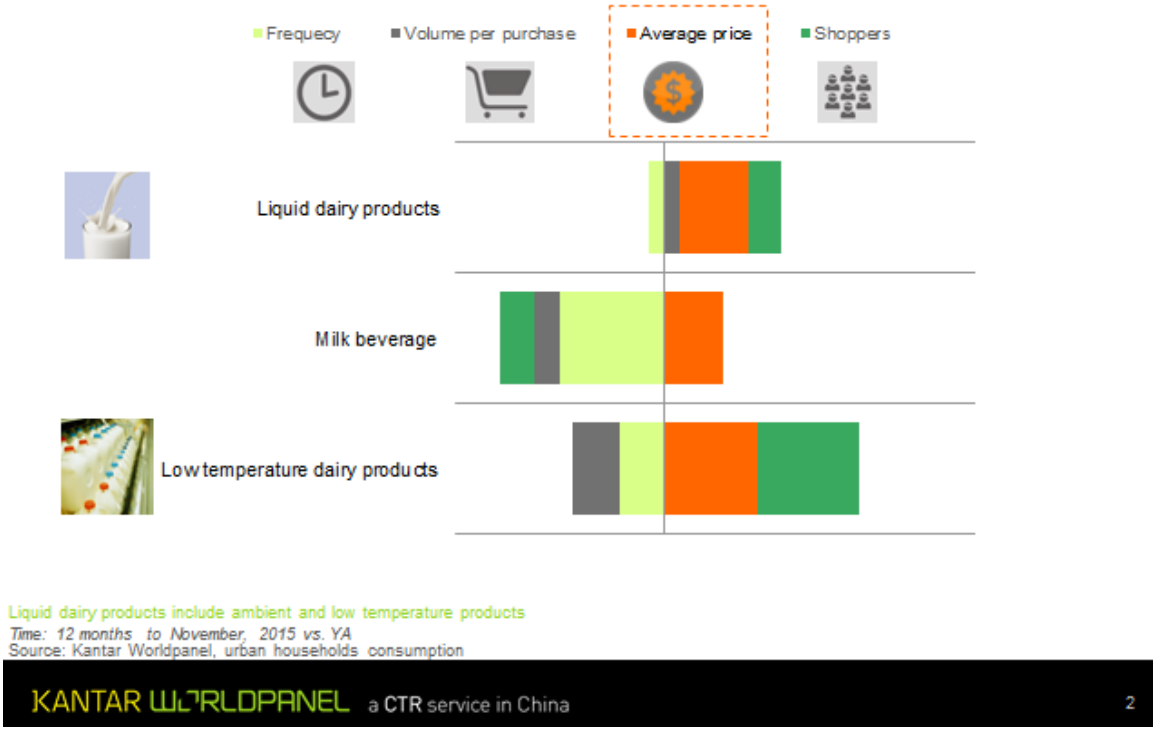
consumers are willing to pay more for high-quality products.



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The study also found that the successful high-end products can help grow by attracting consumers within a short time of their launch. For example, Browning, one of new dairy product in San Yuan Dairy Company, contributed 4.3% for its main brands San Yuan's growth in Beijing area. It reached 8.1% of total shoppers in that region within only 24 weeks of being launched.

Category diversification choice

Driven by consumer's needs and categories innovation, Kantar Worldpanel found the number of dairy categories being purchased per household is increasing year by year. The average purchase rose from 6 dairy categories in 2013 to 6.2 in 2015. This demonstrates that new launches have helped expand consumer repertoires and provided some incremental sales for the sector. Manufacturers can continue to grow strongly if they look to innovate within dairy to convert new consumers and diversify their portfolios.

The study also showed that the consumption between young and teenagers families, who bought 6.6 dairy categories and 61.7 litres per year in average, is much higher than elder and adult families, who bought the 5.7 dairy categories and 57.2 litres per year in average. Products which

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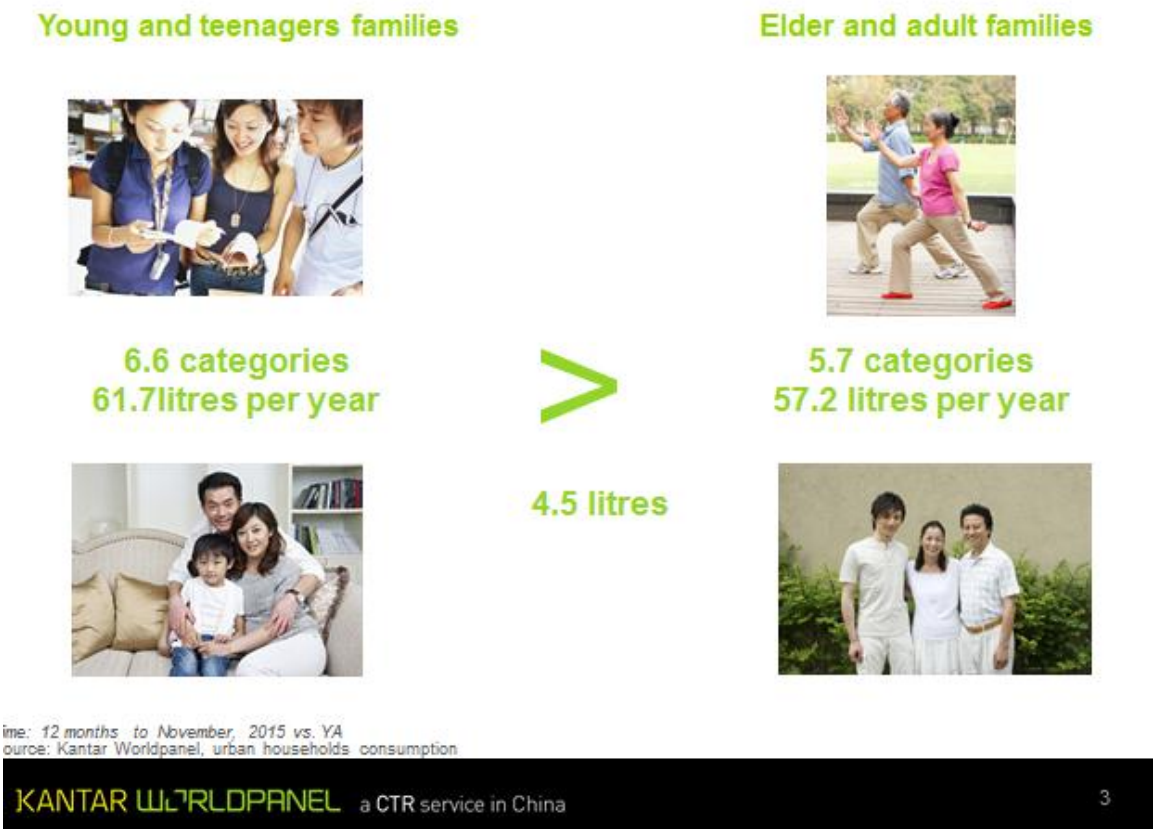
could meet young group needs currently have the largest size of prize.



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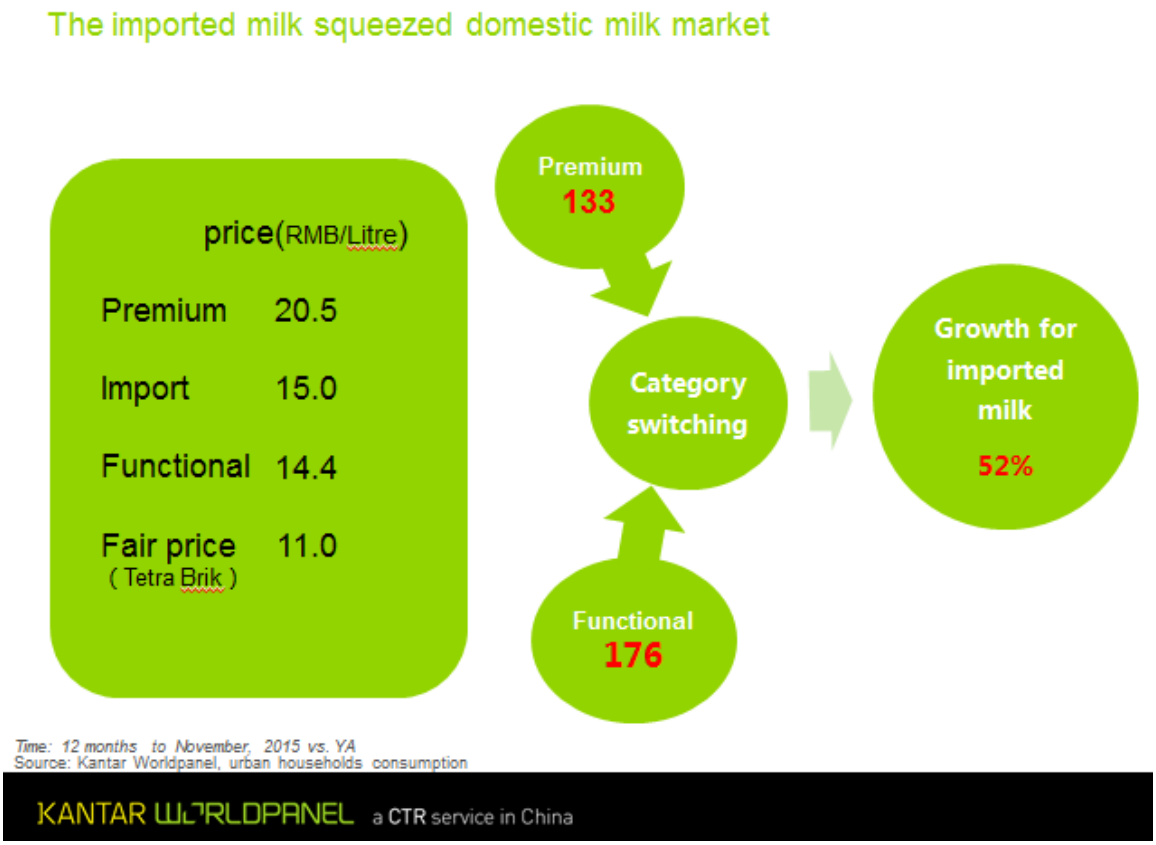
Challenge from imported milk

Imported milk is growing faster than domestic milk. Kantar Worldpanel data shows the penetration of imported milk increased from 10.4% in 2013 to 16.6% in 2015 and consumers to purchase more online in where it accounts for 30% of imported milk sales (only 1% for domestic). One factor behind this is the declining of raw milk price, the average price of imported milk fell from 16 yuan per litre two years ago to less than 15 yuan in 2015. This price is more close to domestic milk. Another is the continued trend for consumers to purchase more online where imported milk is easier to access.

Whilst imported milk has had a positive impact on the category as a whole, it has still squeezed domestic manufacturers' sales. Besides accelerating the whole dairy market consumption, the imported milk indeed squeeze domestic milk market, Kantar Worldpanel research shows 52% of the growth for imported milk is coming from domestic milk brands, especially from premium milk and functional milk sectors.

To face this challenge, promoting consumer's confidence on domestic milk quality is priority for domestic manufactures through government support policy. The domestic manufacturers are now

moving to this direction, such as product which can trace to the source, or introducing international quality milk source to reassure consumers.



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Proper gift for Chinese consumers

Influenced by traditional Chinese culture, gifting is one of the most special ways to express honour. This means gifts should be expensive and good quality products. Chinese Spring Festival is the most important time for gifting sector. According to Kantar Worldpanel, 60% Chinese urban households received the gifts in 2015 CNY and the average value is up to RMB888 per household.

The importance of gifting channel in CNY is increasing year by year. Take ambient temperature dairy products as example, 35% consumers received them as gift during 2015 CNY while it was only 31% in 2013. The growth rate is higher than total FMCG. Consumers who live in different city tiers prefer different dairy products. Consumers who live in key and capital cities prefer to choose high price dairy products as gift, while value tier products like milk beverage are purchased more in county-level and counties. Premium milk accounts for 37% of dairy gifts received in key and capital cities during 2015 CNY. It is therefore vital for dairy manufacturers to

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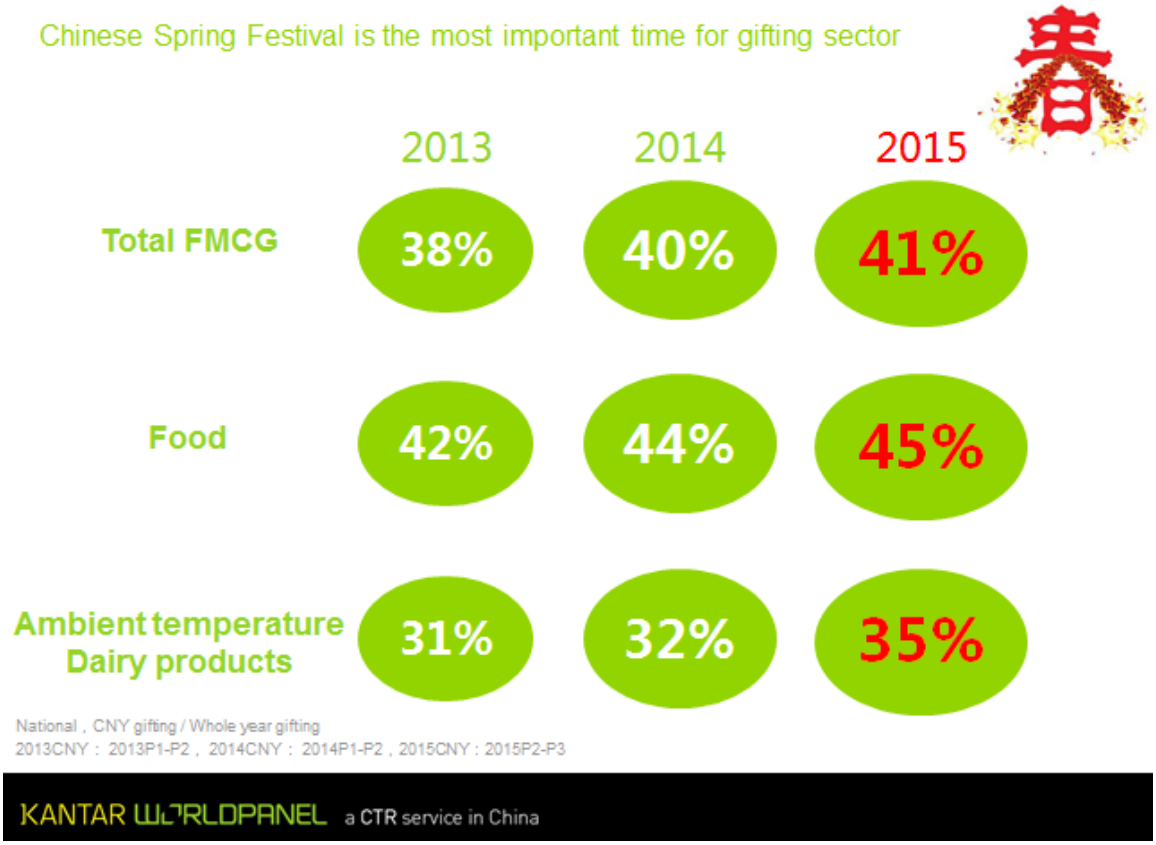
enhance the sales through important holiday activities such as Chinese New Year.



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Innovation is the only way

To cater to consumers' diversified demands, all dairy manufacturers are trying not only to create new categories, but also focus on category segmentation development.

As successful innovation categories, ambient temperature yogurt and ambient temperature lactobacillus drink contribute more to the whole dairy market. The ambient temperature yogurt contribute nearly triple for the growth of whole dairy market in three years. Meanwhile, new products of this category also bring benefits for manufacturers.

Five growth opportunities:

- Dairy manufactures should educate the Chinese people on the benefits of consuming dairy to promote greater consumption.

- Young Consumers are willing to try more categories so ensure provide a diverse portfolio for them.

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- dairy brands need to challenge imported milk for share through playing more online using ecommerce as both a sales platform and a marketing tool.

- Ensure special products that can be given as gifts are available and that shelving and pricing are appropriate to win in important festivals. Remember to differentiate product options by city tier to provide most relevant options.

- Invest in product innovation. Health benefits are a hot topic and using a scientific approach to communicate how the product can improve consumers' lives can be successful.

Notes:

- Dairy products: include ambient and low temperature liquid dairy products.

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