Investment Opportunities from China’s Baby-Boomer (post 1980’s) Consumption

2008.8
Table of Content

- Contrast between US’s and China’s baby-boomers
- Industry upgrade brought by US baby-boomer
- GDP implication and industry upgrade
- China’s GDP level and industry upgrade projection
- China’s (post 80’s) baby-boomer characteristics and industry upgrade
- Opportunities fueled by baby-boomers:
  - Education
  - Maternity and Baby-care
  - Internet
  - Food
  - Domestic high-end brands
  - Health care
  - Entertainment, automobile, personal finance
Baby boomers in China vs US

The definition of baby boomers in China and US

US baby boomers: born between 1946 and 1964, about 75 million, or 29% of the US population

China baby boomers: born between 1981 and 1989, about 250 million, or 20% of the China population

Both are the largest group of the population

Investment Opportunities from China’s Baby-Boomer Consumption
Economic growth in China vs US

Both generation experience rapid economic growth

The baby boomers in both US and China grow up in more than two decades of non-stop economic expansion.

Most importantly, the baby boomers in China are living under a highly stable political settings and experiencing the most prosperous economy since the “Reform & Opening-up” policy.

Source: U.S. Census Bureau & Wind
Investment Opportunities from China's Baby Boomer Consumption

Both generation hold the strongest spending power

US baby boomers' nominal wage and growth vs nation average (US$ per year)

Although US baby boomers’ starting salaries are little bit lower than the national average, the growth rate is much higher, especially during the period between 1975-1985 when they are at the age between 30-45

China baby boomers nominal wage and growth rate vs. national average (RMB per year)

The China baby boomers’ starting salaries are 25% higher than the national average, and their annual wage growth is higher than 20% in China

Source: US Census Bureau & CEIC
Investment Opportunities from China's Baby-Boomer Consumption

Both generation hold the strongest spending power cont’d

Income distribution in US

In the U.S., the people of ages 45~54 have the greatest buying power.

Income distribution in China

People in both age groups were born during the baby boom periods.

In China, the people of ages 25~34 have the greatest buying power.

Source: US Census Bureau & NBS
Education level in China vs. US

### Both better educated generation

**Educational Attainment by Selected Characteristic: 2004**

*(For persons 25 years old and over)*

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Baby Boomers</th>
<th>Silent Generation</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not a High School Graduate</td>
<td>12.0</td>
<td>27.1</td>
<td>-55.7%</td>
</tr>
<tr>
<td>High School Graduate</td>
<td>32.1</td>
<td>36.0</td>
<td>-10.8%</td>
</tr>
<tr>
<td>Some College, but No Degree</td>
<td>17.2</td>
<td>13.7</td>
<td>25.5%</td>
</tr>
<tr>
<td>Associate's Degree</td>
<td>9.3</td>
<td>4.6</td>
<td>102.2%</td>
</tr>
<tr>
<td>Bachelor's Degree</td>
<td>18.5</td>
<td>10.9</td>
<td>69.7%</td>
</tr>
<tr>
<td>Advanced Degree</td>
<td>11.0</td>
<td>7.7</td>
<td>42.9%</td>
</tr>
</tbody>
</table>

In the US, the number of boomers with an associate’s degree is more than twice the number of seniors with the same education level. The number of people with a bachelor’s degree increased by approximately 70% from the silent generation to the baby boomers’ generation.

#### 1978 - 2007 China Education Level

<table>
<thead>
<tr>
<th>Year</th>
<th>Education level (Educational year per capita)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>5.3</td>
</tr>
<tr>
<td>2007</td>
<td>8.5</td>
</tr>
<tr>
<td>Shanghai</td>
<td>10.2</td>
</tr>
<tr>
<td>Beijing</td>
<td>11.0</td>
</tr>
<tr>
<td>USA</td>
<td>13.2</td>
</tr>
</tbody>
</table>

Percentage of people with college or higher education: 6.22%


China baby boomers receive **higher education** than their parents, but face intense competition.
Industry driven by baby boomers in US

- WWII ended the Great Depression
- Economy Uprising
- Boomers were born into an era when economy were flourishing
- Parents worked hard to provide the best for boomers

- Boomers were brought up to “just be themselves”
- Most boomers wanted to change the world; not afraid to oppose authority; more open-minded to new things
- Tight schedule and seek of convenience

1960s Cassette tape introduced/First videocassette recorder targeting for home use
- popular home model microwave oven

1980s
- People started owning PC
- Extreme sports leagues/Boom in the popularity of sports, especially distance running/Independent sports training

- Entertainment (Movie/MTV/Animation/Advertising/Innovative toy)
- Automotive
- Real estate
- Luxury products
- Cosmetics
- Medicines
- Health care
- Financial markets

Investment Opportunities from China’s Baby-Boomer Consumption
Key companies performance

Key companies between 1965-2000 – US boomers’ spending peak

Leading companies have grown their market capitalization by more than 20 times

Market Capitalization expansion of key US Consumer Product Companies

Market capitalization expansion of key US consumer product companies (US$ bn)

Source: Morgan Stanley research
The implication for China

- The baby boomers in China and US have similar characteristics
  - strong spending power
  - better educated
  - experience nonstop economic expansion

What’s the unique about China boomers?

- US baby boomers have driven different waves of demand as they grew up

What industries have the China boomers inspired?

What industries would be driven by the demands of the boomers at different stages of their lives?

How long will the rising industries last?
## Consumption Upgrade

### Consumption structure vs GDP per capita

<table>
<thead>
<tr>
<th>Category</th>
<th>Food</th>
<th>Apparel</th>
<th>Residence</th>
<th>Health care</th>
<th>Education</th>
<th>Communication</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1,000</td>
<td>48%</td>
<td>8%</td>
<td>11%</td>
<td>3%</td>
<td>6%</td>
<td>7%</td>
<td>18%</td>
</tr>
<tr>
<td>1,001-4,000</td>
<td>38%</td>
<td>9%</td>
<td>10%</td>
<td>6%</td>
<td>7%</td>
<td>9%</td>
<td>21%</td>
</tr>
<tr>
<td>4,001-10,000</td>
<td>27%</td>
<td>8%</td>
<td>14%</td>
<td>7%</td>
<td>8%</td>
<td>11%</td>
<td>25%</td>
</tr>
<tr>
<td>10,001-20,000</td>
<td>25%</td>
<td>7%</td>
<td>15%</td>
<td>9%</td>
<td>9%</td>
<td>13%</td>
<td>22%</td>
</tr>
<tr>
<td>&gt;20,000</td>
<td>11%</td>
<td>5%</td>
<td>18%</td>
<td>12%</td>
<td>10%</td>
<td>12%</td>
<td>31%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>GDP per capita &gt; $3000</th>
<th>US</th>
<th>Japan</th>
<th>Germany</th>
<th>Britain</th>
<th>Hong Kong</th>
<th>Taiwan</th>
<th>South Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>24.80%</td>
<td>28.40%</td>
<td>26.70%</td>
<td>24.10%</td>
<td>22.80%</td>
<td>38.40%</td>
<td>35.50%</td>
</tr>
<tr>
<td>Apparel</td>
<td>10%</td>
<td>8.10%</td>
<td>9.90%</td>
<td>8.10%</td>
<td>19.70%</td>
<td>5.40%</td>
<td>8%</td>
</tr>
<tr>
<td>Residence</td>
<td>14.70%</td>
<td>15.60%</td>
<td>17.70%</td>
<td>18.10%</td>
<td>14.30%</td>
<td>25.90%</td>
<td>10.80%</td>
</tr>
<tr>
<td>Home Appliance</td>
<td>14.30%</td>
<td>6.30%</td>
<td>10.20%</td>
<td>7.80%</td>
<td>10.90%</td>
<td>4.30%</td>
<td>5.50%</td>
</tr>
<tr>
<td>Communication</td>
<td>13.40%</td>
<td>9.60%</td>
<td>14.50%</td>
<td>14.10%</td>
<td>7.70%</td>
<td>5.90%</td>
<td>6.70%</td>
</tr>
<tr>
<td>Health care</td>
<td>6.50%</td>
<td>9%</td>
<td>2.80%</td>
<td>1%</td>
<td>5.30%</td>
<td>3.90%</td>
<td>5.40%</td>
</tr>
<tr>
<td>Education &amp; Entertainment</td>
<td>9.10%</td>
<td>8.80%</td>
<td>11.20%</td>
<td>9.40%</td>
<td>6.70%</td>
<td>9.40%</td>
<td>11%</td>
</tr>
<tr>
<td>Others</td>
<td>7.20%</td>
<td>14.20%</td>
<td>7%</td>
<td>17.40%</td>
<td>12.70%</td>
<td>6.40%</td>
<td>17.10%</td>
</tr>
</tbody>
</table>

Consumption structure will tilt to health care/ education/ communication with the growing of GDP per capita.

The basic consumption will decrease to about 30% when GDP per capita > $3000 in most developed countries.
GDP per capita of the 1st-tier cities such as Shanghai, Beijing, and Tianjin have exceeded US$4000. Overall, there are 6 states/cities exceeding US$3000 (with total population of 265 million people), but wealth gap is still wide in China with GDP per capita of most provinces lower than US$3000.

If we assume GDP of China will grow at CAGR of 10% in the next 5 years, GDP per capita of 80% provinces will reach the range between US$3,000-10,000, thus there would be large opportunities for consumption upgrade in most provinces, especially in 2nd and 3rd tier cities.
Overview of consumption upgrade history in China

- **1978**: Income per capita below US$ 65
  - Consumption for basic living needs: 4 items

- **1985**: Income per capita near US$ 125
  - Popularization of home appliance: new 4 items

- **2000**: Income per capita exceed US$ 1250
  - High end home appliance
  - Life quality Improvement

- **Basic consumption**
- **Necessity consumption**
- **Enjoying type consumption**
Overview of future consumption upgrade in China

Both income & GDP per capita is expected to surpass US$ 3000

GDP per capita is expected to exceed US$ 5000

Enjoying type consumption will continue:
Service/ appliance/ high quality/ brand/ residential & travelling consumption

- Healthcare
- Education
- Transportation & Communication
- Entertainment
- Travelling
- High quality food
- Residential improvement
- Automobile
China has experienced three baby-boomings.

**Figure: 1949 - 2007 Annual Newborn in China**

1st baby-booming: 1949 - 1958
- The foundation of PRC witnessed a high birth-rate exceeding 3.6%.

2nd baby-booming: 1962 - 1965
- Birth-rate bounced back after the hard time to 3.8% in 1965.
- The 2nd baby-boom subsided as China entering “Culture Revolution”.

3rd baby-booming: 1981 - 1990
- Birth-rate remained more than 2% as the 2nd baby-boomers became parents.
- “Family Planning” gradually took effect and birth-rate tapered off.
3rd baby-boomers draw our attention.

Unique driving forces

- We have reviewed past 30 years' life of 3rd baby-boomers in a time-line manner and find that, while they share major driving forces similar to US peer boomers, 3rd baby-boomers are unique in following regards:
  - Economic
  - Demographic
  - Educational
  - Exposure

Future investment opportunites

- We further make an outlook of 3rd baby-boomers‘ future consumption considering both US experience and China’s unique attributes. Throughout the life stages of the 80’s generation, the following investment opportunities will emerge:
  - Maternity and baby-care
  - Education
  - Internet
  - Other industries, e.g. entertainment, automobile, personal finance etc.
  - Food
  - Brand
  - Healthcare
China’s 3rd baby-boomers are different.

1978  Year

Event: “Reform and Opening-up” policy was adopted.

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Economic difference from US peer boomers

- The comparable economic growth in China creates a tremendous wealth gap, i.e. people in big cities of the east coast region are major beneficiaries of economic development at the cost of those lagged behind the consumption upgrade.

- This wealth gap implies that:
  - 3rd baby-boomers’ escalated consumption will be in line with that of the developed countries. And so is the case with the consumption arising from urban life pressure.
  - Great consumption potential is to be unleashed as urbanization and economic growth gradually narrows the gap.
China’s 3rd baby-boomers are different. (cont’d)

1978 Year

Event: “Reform and Opening-up” policy was adopted.

Economic difference from their parents

- 3rd baby-boomers grew up more affluently than their parents.
- Their more favorable economic environment implies that:
  - 3rd baby-boomers tend to consume more and extravagantly.
Event: “Family Planning” was enforced.

Demographic difference from US peer boomers

- “Family Planning” makes China among the nations with least total fertility rate.
- The majority of the 3rd baby-boomers live in one-child family. Traditional Chinese family culture makes them the family focus (“the Little Emperor”).
- Another major difference lies in China’s world’s largest population.

### Table: 1970s and 2000s World Fertility Pattern

<table>
<thead>
<tr>
<th>Country or area</th>
<th>Year 1</th>
<th>Total fertility per woman</th>
<th>Year 2</th>
<th>Total fertility per woman</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>1970-75</td>
<td>4.5</td>
<td>2000-05</td>
<td>2.6</td>
</tr>
<tr>
<td>More developed regions</td>
<td>1970-75</td>
<td>2.1</td>
<td>2000-05</td>
<td>1.6</td>
</tr>
<tr>
<td>Less developed regions</td>
<td>1970-75</td>
<td>5.2</td>
<td>2000-05</td>
<td>2.6</td>
</tr>
<tr>
<td>China</td>
<td>1970</td>
<td>5.7</td>
<td>2002</td>
<td>1.4</td>
</tr>
<tr>
<td>United States of America</td>
<td>1970</td>
<td>2.5</td>
<td>2002</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Source: 《World Fertility Patterns 2007》，the UN
China’s 3rd baby-boomers are different. (cont’d)

Event: “Family Planning” was enforced.

Demographic difference from their parents

- 3rd baby-boomers become more self-centered and less skilled in housework. They also got more disposable money from their parents and on most occasions don’t need to worry about houses which their parents have prepared.

- These differences from US peer boomers and their parents imply that:
  - Consumption power per 3rd baby-boomer in China is stronger.
  - Overall consumption potential from 3rd baby-boomer is higher.
China’s 3rd baby-boomers are different. (cont’d)

Event: “9-year Compulsory Education” was implemented.

Educational difference from US peer boomers

- The mass implementation of “9-year Compulsory Education“ met with China’s monstrous population, thus bringing the world’s fiercest competition.
- This competition implies that:
  - 3rd baby-boomers’ demand for education is thriving and lasting throughout their lives.

Educational difference from their parents

- Compared with their parents, the baby-boomers received higher education.
- This implies that:
  - 3rd baby-boomers in China are more brand-aware, quality-aware, fashion-aware etc.
China’s 3rd baby-boomers are different. (cont’d)

Event: The recovery from Internet bubble met with China’s Internet popularization.

Exposure difference from US peer boomers and their parents

- China’s 3rd baby-boomers live in the information age. The unprecedented internet popularization provides them with more access to international culture.
- This exposure difference implies that:
  - 3rd baby-boomers’ are more open and adaptive to innovative things.
China’s 3rd baby-boomers bring opportunities. (2)

Event: Fierce competition triggers lasting education demand.

Driving force unique to China:
- One-child family
- Most intensive competition
- Largest population

Investment opportunity: Education
China’s 3rd baby-boomers bring opportunities. (1)

Event: 3rd baby-boomers are giving birth to 4th baby-boomers.

Driving force similar to US:
- Natural demographic shift
- Income growth

Driving force unique to China:
- One-child family
- Largest population

Event: 4th baby-boomers will be giving birth to 5th baby-boomers.

Investment opportunity:
Maternity and baby-care
China’s 3rd baby-boomers bring opportunities. (3)

Event: Internet population keeps booming in China.

Driving force similar to US
- Internet age

Driving force unique to China
- Improving web infrastructure
- Widening web-user range
- Largest population

Investment opportunity

Internet
China’s 3rd baby-boomers bring opportunities. (6)

Event: Urban life nibbles at 3rd baby-boomers' time and willingness on home-made cooking.

Driving force similar to US
- Fast life pace from urbanization
- Income growth

Driving force unique to China
- One-child family
- Largest population

Investment opportunity
- Food
China’s 3rd baby-boomers bring opportunities. (5)

Event: Brand awareness arises with education level and income growth.

Driving force similar to US
- Higher education level
- Income growth

Driving force unique to China
- One-child family
- Largest population

Investment opportunity
- Brand

Timeline:
- 1978
- 1983
- 1986
- 2000s
- Present
- 2020
- 2030
- 2040
- 2050

Year
China’s 3rd baby-boomers bring opportunities. (4)

Event: Health-care will be widely accepted.

Driving force similar to US:
- Natural demographic shift
- Income growth
- Health concern
- Higher life pressure arising from urbanization

Driving force unique to China:
- Largest population

Investment opportunity:
- Healthcare

Year:
- 1978
- 1983
- 1986
- 2000s Present
- 2020
- 2030
- 2040
- 2050

Event: 3rd baby-boomers will be retirees.
China’s 3rd baby-boomers bring opportunities. (7)

Event: 3rd baby-boomers will be at their middle ages.

Driving force similar to US
- Natural demographic shift
- Income growth
- Consumption escalation
- Urbanization

Driving force unique to China
- Largest population

Investment opportunity
- Entertainment
- Personal finance
- Automobile

- Natural demographic shift
- Income growth
- Consumption escalation
- Urbanization

- Largest population
China’s 3rd baby-boomers bring opportunities.

Investment Focus

- Education
- Maternity and baby-care
- Internet
- Food
- Brand
- Healthcare
- Entertainment, Personal finance, Automobile

Year

## Education

### Phase

<table>
<thead>
<tr>
<th>Education</th>
<th>Government policy and current situation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elementary School</td>
<td>Mostly government funded with a few of non-government funded. The government carried out a policy to</td>
</tr>
<tr>
<td>Junior High School</td>
<td>suspend approval for non-government funded school for students under age 18.</td>
</tr>
<tr>
<td>Senior High School</td>
<td>Encourage non-government funded but limited to foreign investors</td>
</tr>
<tr>
<td>Vocational education</td>
<td>Mostly government funded with a few of non-government funded</td>
</tr>
<tr>
<td>Higher education</td>
<td>Mostly government funded with a few of non-government funded</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>Almost government funded</td>
</tr>
<tr>
<td>Supplementary education</td>
<td>The most flexible sector</td>
</tr>
<tr>
<td>Career training</td>
<td></td>
</tr>
</tbody>
</table>
Education

Content and technology provider business is not so popular in China and there are less successful large players in these areas.

Channel & service provider business is popular in China. Most of the successful players have channel brands.
## Education

### Market Size

<table>
<thead>
<tr>
<th>Product</th>
<th>Market Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Test preparation</td>
<td>$4B</td>
</tr>
<tr>
<td>After class training</td>
<td>$8B</td>
</tr>
</tbody>
</table>

### Sector Characteristic

- **Test preparation**
  - Players are mostly local small players
  - Digital technology is key to the scalability of the business
  - Regulation that forbids public school to do this business is benefit to the private players

- **After class training**
  - Players are mostly local small players, highly fragmented
  - Digital technology is key to the scalability of the business
  - Regulation that forbids public school to do this business is benefit to the private players

### Key players

- [学大教育](http://www.21edu.com)
- [AMBOV 安博](http://www.21edu.com)
- [数字博识](http://www.d-edu.com)
- [北京巨人培训学校](http://www.21edu.com)
## Education

<table>
<thead>
<tr>
<th>After 15</th>
<th>Vocational high</th>
<th>Test preparation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Size</td>
<td>$2.8B</td>
<td>$2.5B</td>
</tr>
<tr>
<td>Sector Characteristic</td>
<td>Government encourage this sector greatly due to 20M fresh graduates starting job hunting every year</td>
<td>Regulation that forbid public school do this business creates opportunities for private schools</td>
</tr>
<tr>
<td></td>
<td>The ROI and scalability of a single school (as opposed to chained schools) are problematic when making the investment</td>
<td>Difficulty to find jobs makes more students repeating university entrance tests</td>
</tr>
<tr>
<td></td>
<td>The business model is important when making the investment</td>
<td>Most local small players creates chance for integration</td>
</tr>
</tbody>
</table>

Key players:
- Beijing Geely University
- Ambow
Education

<table>
<thead>
<tr>
<th>Market Size</th>
<th>Adult training</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>English training</td>
</tr>
<tr>
<td>$15B</td>
<td>$30B</td>
</tr>
</tbody>
</table>

- **Dominated by a few big players**
- **Competition is hot**
- **Still some niche market and local players entering into the market**

- **Competition is hot**
- **Branding and scaling begin to make the entry barrier**
- **No dominant players in the market, highly fragmented**
- **There still opportunity for niche demand players and big player to arise**

- **E-learning in China have not developed very well, still big potential**
- **Customer’s learning habit are forming and market expects new e-learning players to enter**
- **Now more and more traditional training players are establishing e-learning systems**

**Key players**

- New Oriental
- APE TECH
- Tarena
- China ACC
- Saybot

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Investment Opportunities from China’s Baby-Boomer Consumption
China’s 3rd baby-boomers bring opportunities.

We focus on the sub-industries with very high demand for localization, where the domestic players have set an entry barrier with the following competitive advantages:

- Understanding of the consumers’ demand
- Understanding of the consumption pattern
- Understanding of the local culture
- Degree of penetration of the channels
Maternity and baby care

- Infant population
- Family disposable income
- Child-raising standard

Large market size

Segmenting the market

Different levels of demand

Early education

Industry attributes
- Current status
- Channel
Maternity and baby care

• In 2007, China’s infants aged 0-3 years are 63.88 million in total, infants aged 3-6 are 65.41 million in total.

• According to the official statistics of population, the years 2007-2012 will show an up-peak in new births.

• Family disposable income remains growing.

• The “Family Planning” policy leads to the “6+1” phenomenon (where one child is raised by parents and both grandparents).

• On average, families in 1st and 2nd-tier cities spend 600-1000 RMB a month on the only child.

In 2001~2007年历年出生人口(万人)

<table>
<thead>
<tr>
<th>年份</th>
<th>出生人口(万人)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>1702</td>
</tr>
<tr>
<td>2002</td>
<td>1647</td>
</tr>
<tr>
<td>2003</td>
<td>1599</td>
</tr>
<tr>
<td>2004</td>
<td>1593</td>
</tr>
<tr>
<td>2005</td>
<td>1617</td>
</tr>
<tr>
<td>2006</td>
<td>1584</td>
</tr>
<tr>
<td>2007</td>
<td>1594</td>
</tr>
</tbody>
</table>

urban residents disposable income(RMB)

<table>
<thead>
<tr>
<th>年份</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>收入</td>
<td>15%</td>
<td>10%</td>
<td>5%</td>
<td>0%</td>
<td>5%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Number of new borns

Spendings on infants

Maternity market
Maternity and baby care

We started our research in the consumer industry related to maternity and baby in 2006.

Most companies in the industry are not limited to only one business above, but are integrating as many businesses as possible and becoming an all-rounded service provider (though some of them would differ in business focus).
Maternity and baby care

Market Demand

Early education is a rigid requirement in the maternity market, and the level of demand rises with the aging of infants.

Distribution channels are utterly important throughout the infants’ growth.

Demands are greatest at ages 0 to 3, the consumables market is dominated by large brands; competition and entry barrier are high.

Maternity services, especially those aiming at 0-3 years of age, such like photo shooting, souvenirs, are highly demanded. But such services are hard to standardize, hence most are geographically confined.

Most mothers are particularly dependent on the internet during pregnancy, but are less dependent after child birth. Many new companies specialize in this business, but they are still deprived of clear revenue model.

Early education

Channel

Products

Service

Websites

Investment Opportunities from China’s Baby-Boomer Consumption
Maternity and baby care —— Early Education

Industry attributes
- Service-oriented, great cash flow, high margin
- Easy to standardize (relative to the service sector at large)

Investment opportunities

Consumers
- Increasing acceptance for early education
- Stronger brand awareness, so more ready to embrace chain-store concept

Industry
- Industry washout not yet completed, no market-leader emerging so far.
- Though foreign brands possess advanced management concept, but domestic brands are more aware of the local market demand, yielding competency. Some presentative local brands are BabyCare, FastKids, Gymboree, etc...

Overall

Sub-industry
- Kindergartens: Became a necessity, but public kindergartens are far from satisfying, high-end private schools are in great demand in larger cities.
- Early-education: With increasing competition in society, the early education concept is more and more accepted by high- and middle-end consumers, and infants get educated at ever earlier ages.
Maternity and baby care —— Channel

Industry attributes

- Targeted customers are concentrated
- High similarity in consumer behavior
- Suitable for building professional channels

Investment opportunities

- Not yet formed a national-level channel operator
- 1st –tier cities are more suitable for an integrated approach (storefront + catalog + internet); 2nd-tier cities are more inclined to accept physical storefronts
- Integrated channel operators represent the future trend - existing market players like LijiaBaby, LeYou are transforming, new entrants like MamaGoodBaby are rapidly building their national network

Traditional

Storefronts

Emerging

Catalog sales

Internet sales

-1 year
3 years
6 years

Storefronts: Storefronts are suitable for selling apparels and toys; The emerging chain-store concept triggered a revolution in maternity product distribution, and the chained network can better carry higher margin services.

Catalog sales: More readily accepted in 1st-tier cities, mostly selling lower-margin consumables; The rate of catalog business expansion differs across regions

Internet sales: Complimentary to catalog sales; Can use forums and blogs to raise customer royalty.
Internet

- High growth in China’s internet users
- Post 80’s users is the largest group
- Willingness to buy online
- Infrastructure near completion

Plenty of opportunities online

Different user demands

Timing

- Online Shopping
- SNS

Segmentation

- Search Engine
- Online Recruit
- Online Game
- Online Education
- Online Traveling
- B2B
- Online Shopping
- Portal
- SNS
- IM

High market growth

New companies emerging
China’s Internet users continues to swell, and have cross 253m. This makes China’s internet population first in the world, compared to US(212m).

3rd baby-boomers are the main force of internet users. Their needs are the most important driving factor to the development of china’s internet markets. They spend more time on their computer and prefer engaging in activities online.

The improved infrastructure makes more internet users access to services online easily. More Web2.0 service such as online video, SNS(social network service) can be touched.
Many China’s internet topics have reached maturity period such as B2B, IM, portal, search engine. Although these markets keep on growing, existing companies are firmly seizing occupation. There are few opportunities in these fields. So we may focus on innovate business modes and new technologies.

Big consumer demand and better technical support such as e-pay and credit system stimulate e-commerce’s development in China. In this field, online shopping has the greatest potential.

Because of large floating population in China and young people’s willing to show themselves and contract others online, SNS which provides them a very popular platform to meet their demand become the hottest topic in China.
Continuingly strong growth in e-commerce bring up some new opportunities

China’s e-commerce market is explosively growing. We have researched many key players in B2C, C2C and reach the main conclusion “Everything sale online, existing major companies pick up the market shares”.

It is predicted that New opportunities come to the companies which support e-commerce activities. Online shop owner can purchase commodities through Jinbao.com, while purchasing commodities is a big problem to them. ShopEx is another interesting company. It helps shop owner running a B2C website.
SNS is the hottest topic in China

<table>
<thead>
<tr>
<th>SNS Users in China</th>
<th>SNS</th>
<th>Major</th>
<th>Startup</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Make Friends</td>
<td>51</td>
<td>Woku</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Contract old friends</td>
<td>360Q</td>
<td>bedo</td>
<td>Facebook</td>
</tr>
<tr>
<td></td>
<td>Share interests</td>
<td>Xiaonei</td>
<td>5GSNS</td>
<td>Myspace</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kaixin</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SNS is another explosive markets. Its population penetration is increasing most quickly than any other application, 42.30%(2008.06) versus 23.50%(2007.12).

We research many US successful SNS websites such as Facebook, Myspace and some other key player in China. We focus on some startup SNS with new ideas and technologies.

Woku offers its user many mobile service such as micro-blog, mobile photo sharing and so on.

Bedo’s LBS(Location Based Service) can provide the users many service related to their location such as e-map, restaurant-searching.
Internet

Internet is a big opportunity for both entrepreneurs and CID

- **Internet is very attractive to us.** Internet companies have more creativities than any other ones in China. So they have created miracles in capital market such as Baidu(BIDU.Nasdaq), Sina(SINA.Nasdaq), Alibaba(1688.HK), Tencent(0700.HK), SNDA(SNDA.Nasdaq).

- **3rd baby-boomers’s demand and consideration are also very important factors which drive China’s internet markets.** Their willing to show themselves and custom to online entertainment methods may offer companies new ideas and inspirations. So 3rd baby-boomers will be a necessary research topic in internet.

- **More opportunities must arise in China’s internet market.** With the growth of China Internet market and internet users, there must be new companies to meet users’ increasing demand, we shall pay more attention to some startup companies with new business modes and technologies. Maybe combination with online and offline business will be a potential mode such as C-trip(CTRP.Nasdaq). Due to some new technologies being applied into internet’s services such as RFID, companies which provide special services will also gain big opportunities. They should be our research targets.
Food

Investment Opportunities from China’s Baby-Boomer Consumption

Population of post-80s
Ave. food consumption on the rise

Post-80s’ consumption characteristics
Food consumption Upgrading

Food market size
Convenient food
Catering industry

Investment opportunities

Products characteristic analysis
Food

Food industry has been growing rapidly in the past decade, expecting to reach a production value of 3 trillion RMB in 2020 and becoming the largest industry in China.

Relative proportion of food consumption is decreasing while absolute value is on the rise for domestic citizens.

With the increase of personal income and the deepening of urbanization, Chinese domestic food consumption has reached the quality upgrading level.

Chinese food industry accounts for less than 5% share of the global market, marking a great potential in the future.

<table>
<thead>
<tr>
<th>3rd baby boomers</th>
<th>Consumption behavior</th>
<th>Food industries Related</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 The Only child in family, less capability in housework.</td>
<td>Buying instead of cooking food.</td>
<td>Convenient food</td>
</tr>
<tr>
<td>2 Grown up in prosperous economic environment.</td>
<td>Less sensitive to price.</td>
<td>Catering</td>
</tr>
</tbody>
</table>

Source: National Food Industry Association

Investment Opportunities from China’s Baby-Boomer Consumption
Convenient Food

- Convenient food sails revenue increased by 31.8% to 57.1 billion RMB in 2005 and by 26.2% to 77.6 billion RMB in 2006.
- Currently, Chinese convenient food industry revenue accounts for only 16% of the total food manufacturing industry.
- The convenient food industry will come to a fast developing stage after GDP per capita reaches 4000 USD.
- Processed food in China accounts for only 30% of the total food consumption, much lower compared to 60%-80% in developed countries, marking a great developing space and potential.

Catering

- The total revenue of the top 160 catering chain companies with revenues above 100 million in 2006 accounts for 9% of the total catering industry revenue, with an annual growth rate of 3.6 percent point higher than the industrial average.
- Chinese chain catering industry has a high growth rate, low industrial concentration rate and is attracting more and more attention from the capital market recently.
Investment Opportunities from China's Baby-Boomer Consumption
<table>
<thead>
<tr>
<th>Classification</th>
<th>Western</th>
<th>Traditional flour food</th>
<th>Chinese</th>
<th>Dinner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dessert and beverage</td>
<td>Fast food</td>
<td>Dinner</td>
<td>Staple fast food</td>
<td>Dinner</td>
</tr>
<tr>
<td>Industry</td>
<td>newly started with some famous brands</td>
<td>fast developed and mature</td>
<td>mostly breakfast</td>
<td>fast developed, high gross margin, attracting capital market</td>
</tr>
<tr>
<td>Competition</td>
<td>mostly overseas brands</td>
<td>fierce competition</td>
<td>mostly overseas brands</td>
<td>most local workshops</td>
</tr>
<tr>
<td>Competitor</td>
<td>Haagendazs, DQ, Honeymoon Dessert, KFC, MC, Pizzahut</td>
<td>Red House, Fridays</td>
<td>ajisen, Little sheep, Old lady dumpling, Chamate, Quanjude</td>
<td>Quanjude</td>
</tr>
<tr>
<td>Standardization</td>
<td>Mid</td>
<td>High</td>
<td>Low</td>
<td>Mid</td>
</tr>
<tr>
<td>Consumer</td>
<td>market still under education</td>
<td>some brand-awareness</td>
<td>relatively low demand</td>
<td>no brand-awareness</td>
</tr>
<tr>
<td>Evaluation</td>
<td>☆☆</td>
<td>☆</td>
<td>☆</td>
<td>☆</td>
</tr>
</tbody>
</table>

**Menu released**
- Catering to the masses
- R&D capability
- Standardization level

**Central Kitchen**
- Supply capability
- Flexibility in processing

**Logistics**
- Trans. capability
- Trans. range

**Chains**
- Expansion capability
- Control capability

**Consumer**

### Chinese fast food chains develop in the capital market in recent years

- **1997**: Yonghe ensured 2 M USD investment from Jiayixinya
- **2004**: Fuji listed in HK SE
- **2007**: Chongqing Xiaotiane, Chamate, zhengongfu get large investment, planning to be listed in 2-3 years
- **2008**: Littlesheep listed in HK
- **2010**: Quanjude listed in SH SE

**Investment Opportunities from China’s Baby-Boomer Consumption**
Local High-end Brand

Growth of Chinese Economy
Higher Brand Awareness
Trading Up Across Products

Consumer Minds & Trends
Comparison of Segments
Development of Local Brand

Growth of Retail Market

Jewelry
Cosmetics

Value Chain
Market Overview
Development Strategy
Industry Overview --- Local High-end Brand

1) Rapidly increasing disposable income in China has brought better living conditions.
2) Consumers gain more sophisticated tastes, greater appreciation of brand values and are willing to pay more for better products.

- Over the past 15 years, disposable income in China has risen 3 to 5 times faster than income in the developed world. From 2007 to 2011, disposable income per capita is expected to increase at a CAGR of 8.4%.
  
  Source: Economist Intelligence Unit

- With their rising incomes, more Chinese consumers now want more than just function.
  
  Source: Harvard Business Review-Understanding the Chinese Consumer

- The passion for brand goods is particularly strong among the youngest (20-24 years) age brackets.
  
  Source: KPMG-China’s Luxury Consumers

- Higher brand awareness: Status, Individuality, Taste

  I long to buy brand goods, but I cannot afford them right now

  Overall
  35-44 yrs
  30-34 yrs
  25-29 yrs
  20-24 yrs

  Agree strongly
  Agree
**Post-80 Characteristics and Opportunity**

**Willingness to pay more**

A trend toward trading up for better products

- All age groups exhibit a tendency to trade up, but the trend is strongest among the Post-80 Generation aged 18-29.
- It is, to a greater extent, due to their willingness to indulge themselves, than due to their higher income.

*Source: BCG China Consumer Behavior Quantitative Research (a survey of 4,258 consumers in 13 cities in 2007)*

**Opportunity**

- Women are more economically independent, and playing a greater role in decision making process.
- Diamonds are popular for engaging and wedding ceremony.
- Cosmetics & Skin care
- Jewelry

**Digital Accessories**

- Before work. Pursuit of interest.

**Industry constraints:**
  - Relatively short life cycle.
  - Leading techs dominated by foreign players.
  - Domestic players: market follower, low profit margin, no R&D, low competency.

**Watch**

- After work. Pursuit of social status.

**Industry constraints:**
  - Market monopolized by European/Japanese players.
  - No industry foundation.
Segmenting the Market

### Jewelry Market

- Starting from 2005, the sales of China's jewelry industry has increased by 15% annually and it reached CNY 180 billion in 2007.
- In 2007, the value of import and export of China's jewelry products totaled US$14.2 billion.
- So far, China's jewelry industry has become the 3rd largest consumer market (in sales volume) preceded only by real estate and automobile industry.

### Cosmetics Market

- The cosmetics market of China in 2007 is maintaining annual sales revenue of more than 50 billion RMB, ranking 2nd place in Asia and 8th in the world.
- It is predicted that the Chinese cosmetic market size is to hit 80 billion in 2008 RMB, with most of the products focusing on the white collars, and the market will mainly be boosted by skin-protecting cosmetics and color cosmetics.

---

**2006**

- **Market Size (in Billions of CNY Y):**
  - 44

**2007**

- **Market Size (in Billions of CNY Y):**
  - 50

**2008E**

- **Market Size (in Billions of CNY Y):**
  - 80

---

**Category**

- **World Ranking**
  - Dimond: 5
  - Platinum: 1
  - Gold: 4
  - Jade: 1
Jewelry Market

Local Market Overview

◆ By the end of 2007, there have been more than 10,000 jewelry sales enterprises in Mainland.
◆ Most of them are small outlets without independent brands and competitiveness.
◆ While some local brands with large-scale shops or chain stores have independent brands, they are only regional ones, lacking trans-regional influence. For example, Lao Fengxiang Co., Ltd., as a local leading brand in Shanghai, achieved around CNY6.1 billion in the sales revenue in 2007, still amounting to only less than 4% of China's total market share.

### Foreign Brand - Threat

<table>
<thead>
<tr>
<th>Existing Strength</th>
<th>Typical Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation for Design &amp; Quality</td>
<td>Tiffany, Catier, Bulgari</td>
</tr>
</tbody>
</table>

### Local Brand - Opportunity

<table>
<thead>
<tr>
<th>Strategy Focus</th>
<th>Typical Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building up national brand awareness</td>
<td>CHJ, Ming, Diamend</td>
</tr>
<tr>
<td>Relying on the local distribution channel</td>
<td>Lao Fengxiang, Lao Miao,</td>
</tr>
<tr>
<td>Exploit gemstone resources</td>
<td>Tong Ling (acquired by EDT)</td>
</tr>
<tr>
<td>None-traditional Business Model</td>
<td>9diamond.com</td>
</tr>
</tbody>
</table>
Investment Opportunities from China’s Baby-Boomer Consumption

Local Market Overview

- The high-end market (1st-tier cities) are dominated by foreign brands.
- The home-grown producers of China are still little or middle-sized enterprises, with lower-standard equipment and technologies.
- China’s 2nd-tier cities are the new frontier:
  - China’s 2nd-tier cities accounted for 42% of China’s demand for make-up in 2006. And average spending per shopping trip: 2nd-tier cities consumers: 49.8 RMB vs. 1st-tier consumers: 51.3 RMB

Foreign Brand - Threat

Existing Strength
- Ability to create brand image

Typical Brand
- Lancôme, Estee Lauder, Clinique

Local Brand - Opportunity

Strategy Focus
- Building up national brand awareness
- Oriental/Herbal Ingredients
- Distribution Channel in 2nd-tier Cities
- Marketing Matrix

Typical Brand
- YUE-SAI (acquired by Lo’real)
- Sinoway Herb, Herborist
- Chcedo, Herborist
- Doctor Bai, Doctor Li
Healthcare Industry

Demand for health care

Direct demand

Health supplements
Fitness equipment
Home-use medical equipment
Medical service

Indirect demand

Selection criteria

Market size
Future trend
Entry barrier
Industrial concentration

Medical service

Dentist clinic

Medical service

Physical examination

Investment Opportunities from China’s Baby-Boomer Consumption
The industry of Healthcare experience rapid growth during the last 7 years.

Both medical device and pharmaceutical industry have experienced rapid growth during the last 7 years.

**Medical Device market size in China**

- Market Size (million RMB Yuan, left axis)

**Pharmaceutical Industry market size in China**

- Sources: CAMDI

**Sources:** CAMDI, CEIC
1) The amount of consumer increase

Higher life pressure arising from urbanization

Directly-benefitted industries

Sub-health population growth

80’s

For themselves

For parents

Aging population

Obesity problem

Nutrition’s need increase

Chronic disease growth

Quality of life increase

Health supplements

Fitness Equipment

Home-use medical equipment

Medical Service

China’s accelerating aging problem

According to an authoritative survey, between 2005-2030, China has about 6 million people per year reaching their seniority, representing a growth rate of 3.28% (far greater than the averaged 0.66% for the population at large). By the year 2030, China’s senior population will reach 351 million.
Indirectly-benefitted industries

2) The income and health conscience increase

- Quality of life increase
- Health-conscious changes

"They want"

Prevention first
Physical examination

"They can"

- People's incomes increase
- Consumption capacity increase

Health supplements
Fitness Equipment
Medical Service
Reasons for rejection

Health supplement

- KSF
  1) Effective products
  2) Excellent corporate image

- Industry status
  1) Lack of regulation, low entry barrier
  2) Domestic companies having poor quality, and overpromising advertisement
  3) Lack of trust from consumers

Fitness equipment

- KSF
  1) High quality
  2) Excellent corporate image

- Industry status
  1) Low entry barrier, too many domestic firms
  2) Lack of popular brands

Home-use med devices

- KSF
  1) High quality
  2) Price leader

- Industry status
  1) Little price difference between foreign and domestic brands (Blood Glucose Meters for example, difference is merely 100 RMB)
  2) Lack of trust from consumers

Wrong industry

- Not recommended

Wrong timing

- Not recommended

Wrong industry status

- Not recommended
Medical Service (Industry status & market opp)

**Growth in medical institutes**

- **Overall Hospital Growth**
  - Total hospitals (red) vs. outpatient visits (yellow)

- **Profitable Hospital/Institutional Growth**
  - Profitable hospitals (red) vs. clinics (yellow)

**Constituents of medical service**

- **Raw material/logistics**
  - Equipment making
  - Drug making

- **Service providers**
  - General Hospital
  - Specialist Clinics
  - Physical Exam stations
  - Drugstores

- **Monitoring authorities**
  - FDA
  - Health Bureau

**Data source:** National Health Department website

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Investment Opportunities from China’s Baby-Boomer Consumption
Based from the core attributes and trend of China’s medical service industry, we choose to focus on:
- Specialist clinics, like dentist clinics with high margin
- Out-patient departments, Phy Exam stations

China’s for-profit medical service industry is still in infancy stage, different market positioning calls for different KSFs, we classify market players into:
- Specialist clinics upgrading to high-end from middle-end
- Specialist clinics upgrading to high-end from middle-end
- Out-patients and PhyExams upgrading to high-end from middle-end
- Out-patients and PhyExams upgrading to high-end from middle-end

Research into the different KSFs for the above medical institutions in different development stage
Medical Service (Service (Industry status & market opp) – focused area)

High-to-middle-end out-patients and Phy.Exam stations

Development can be staged into.....

License acquired

Established a few high-end test sites, achieve brand identity through high-quality service, perfecting its business model

Form a management team, duplicate its own business model through direct ownership or acquisition, branch into new services

KSFs for the given stage (ascending order of importance)

- Fundraising ability
- Connection
- Expertise of the team

- Service concept, and experience in high-end market
- Collaboration with top-tier national hospitals
- Fundraising ability

- Business model duplicability, extent of standardization, free of geographic constraint, flexibility
- Corporate management: performance of team
- Connection with government
- Sufficient funding

Investment Opportunities from China’s Baby-Boomer Consumption
## Industry Overview

<table>
<thead>
<tr>
<th>Industry</th>
<th>Industry Potential</th>
<th>Consumer Characteristics</th>
<th>Future Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Entertainment</strong></td>
<td>- Segments of entertainment industry see great potential:</td>
<td>- Pursue novelty and fashion</td>
<td>- Fitness center (Yoga, aerobics)</td>
</tr>
<tr>
<td></td>
<td>(1) China's sports population ratio of 30% lags behind developed countries of 60%.</td>
<td>- To release pressure, improve life quality and bring fun</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(2) The imbalance between 350m teenager v.s. 20b domestic animation industry (less than 1% of world total)</td>
<td>- Pay more attention to benefit health</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Main audience of animation industry</td>
<td></td>
</tr>
<tr>
<td><strong>Automobile</strong></td>
<td>- It is estimated by State Information Center that demand will grow by 20% annually and expected market size will reach appx.17 million autos in 2015.</td>
<td>- Take cars as a symbol of personality and taste. Hope to make their cars’ appearance and decoration unique and customized.</td>
<td>- Beautification Services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Improve cars’ performance (engine, tire, etc.) for excitement.</td>
<td>- Modification Service</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Take the car as a place of entertainment and are quick to the development of new digital technologies.</td>
<td>- Automotive Multi-media System</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Car loan market</td>
</tr>
<tr>
<td><strong>Personal finance</strong></td>
<td>- Personal finance is expected to boom in the near future:</td>
<td>- Tend to consume before pay</td>
<td>- Financial institutions offering featured personal financing products</td>
</tr>
<tr>
<td></td>
<td>(1) The number of mid-class population hits 90m.</td>
<td>- Awareness in investment and financing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(2) The 2007 stock market surge triggered financial awareness.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(3) Insurance penetration of 2.85% is far below world average 4.3%.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Summary

In China, the 3rd baby booming generation born in 1980s is more prosperous than any of previous generation, and much similar to the US baby booming generation after WWII.

The rising purchasing power of baby boomers drives the consumer upgrade, especially the industries as follow:

- **Maternity and baby care**—Directly benefit from baby boomers
- **Education**—Sustained benefit from them with little influence of economic cycle
- **Healthcare**—Will benefit from them
- …..