

BLACKMORES®



Shareholder Briefing , Sydney | 6 May 2016

Agenda

Christine Holgate
CEO, Blackmores

Andrew Parker
Head of Asia Practice, PwC

Liu Bing
Senior Advisor China, Austrade

Peter Osborne
Managing Director Asia, Blackmores

Jason Zhang
Country Manager China, Blackmores

Panel: Including **Barry Irvin**



Christine Holgate

**Chief Executive Officer
Blackmores**

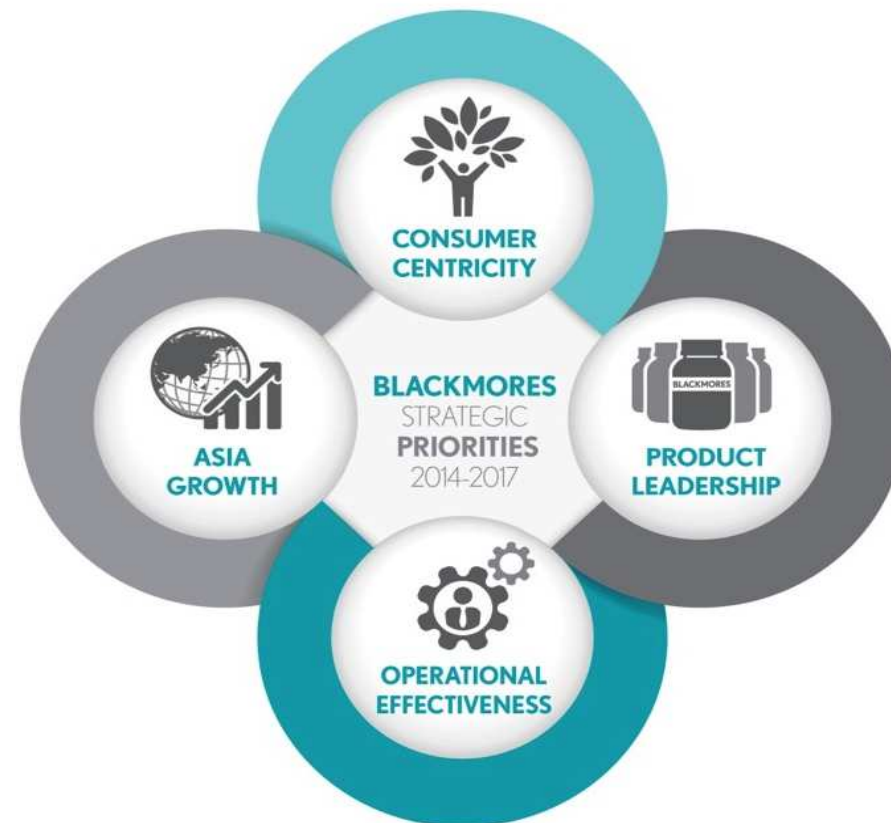


**The importance of China
to the
Blackmores Group**



The importance of China to Blackmores

Asia Growth is a key platform of our strategy. China is the largest and fastest growing market in the region.



Why Asia & Why China?



- Building a platform for future growth
- Build new channels of revenue growth, diversify our risk profile and exposure to dependence on the Australian market
- Build a “cash base” of US\$ to support our strategic sourcing strategy, reduce our foreign exchange exposure and protect our gross margins for all the Group
- Volume growth underpins accelerated recoveries through our fixed infrastructure
- Increased purchasing power to deliver raw material unit price benefits which also deliver benefits to Australia
- To develop innovative products and new channels and act as a testing ground for other markets – e.g. flagship stores, online sales, medicinal foods
- Asian consumers share a strongly aligned philosophical belief in Natural Health
- Blackmores has 40 years experience in the region, employs 400 Asian staff and has a strong network of local teams with deep expertise in the country and category

Chinese Health Market

- Chinese Consumer Health Market estimated to be worth \$70 billion by 2020, dominated today by American brands.
- A survey by Boston Consulting Group of 2,600 Chinese Middle Class found:
 - The most health conscious population in the world.
 - 73% would be prepared to pay for a premium product, 12% higher than global average.
 - 2013 VDS ranked No2/15 in categories planned to spend more money on.
 - Many Chinese consumers report stress-related ailments – and seek to self-medicate. More than 60 percent said that “taking VDS products is effective and convenient”.
 - Chinese consumers have unique preferences, such as traditional Chinese medicine (TCM) and products with multiple functions.
 - Brands are powerful – and their reputation matters. 85 percent of respondents have preferred brands in mind when buying VMS products.
 - Most Chinese consumers make final purchase decisions on-site. Trust of advice is critical
- An ageing population, matched with an end to the one child policy, creates a significant opportunity for the VDS & Nutritional Food market.

The Acquisition of Global Therapeutics



Acquisition of Global Therapeutics

Blackmores will acquire 100% of Global Therapeutics for \$23m. \$21m will be paid on completion, \$2m held in escrow for 15 months. The business will be acquired debt free. The working capital is circa \$5.5m

- The purchase will be debt funded
- Global Therapeutics, an Australian company, founded in 1999 with two brands offering Chinese herbal medicine:
 - Fusion
 - Oriental Botanicals
- Market leaders in this category in Health Food Stores and Pharmacy
- Previous 12 months sales of \$21m and \$3m in EBIT, growing at 24%
- One of the two founders, Paul Keogh, Technical Director, will remain, the other will retire
- Headquarters in Byron Bay, the company has 40 staff
- Nathan Cheong, Managing Director BioCeuticals, will lead the business in his portfolio, and a General Manager will lead the transition
- We believe the acquisition will have minimal impact on Blackmores Group results this year and will be earnings accretive in its first full year
- Completion 10 May 2016



Founder and Technical Director, Paul Keogh

Why Global Therapeutics

- The Chinese consumer is key to the Blackmores Group growth strategy – this will enable us to better understand their needs
- We believe in the practice of Chinese Herbal Medicine and the growth prospects of this category in Australia
- The business reaffirms our leadership in Natural Health and secures leadership in the important health food channel in Australia
- We have deep respect for the two brands, Fusion and Oriental Botanicals
- We value the expertise of the team and believe our cultures are aligned



Our Vision for Global Therapeutics

- We will invest in the brand to build its capability to support growth
- We will provide it with the opportunity to leverage our strong education and research capabilities and supply chain resources
- We will leverage our strong relationships with Australian pharmacy to rollout Oriental Botanicals
- We will leverage our knowledge of the Chinese consumer in Australia to promote
- We will explore the opportunities to launch Fusion in Asia and benefit from our strong resources there



Andrew Parker

**Head of Asia Practice
PwC**



China: Danger, Crisis or Opportunity?

May 2016

Danger

危险

Crisis

危机

Opportunity

机会

Our future is Asia

1

PwC economic modeling is predicting that 4 of the world's 5 largest economies in PPP terms will be in Asia by 2030

2

The rise of China, fuelled by a fast growing and technologically enabled middle class, has rapidly changed global supply chains. Billions of new consumers will join the middle class in Asia in the coming decade

3

Australia owes much of its recent economic prosperity to our rich endowment of natural resources coupled with a close proximity to Asia – assets we can not rely on alone to guarantee prosperity in the coming decades

4

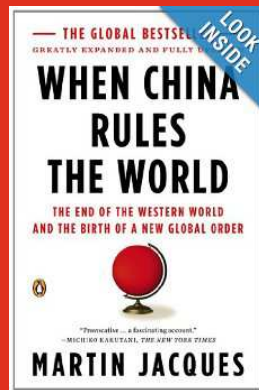
New trade agreements are both an enabler and a response to these changes

China pundits tend to come in two flavours

“True Converts”

- View China’s re-emergence as an economic and geopolitical superpower as more or less inevitable and with a sense of awe – and sometimes more than a little fear as well

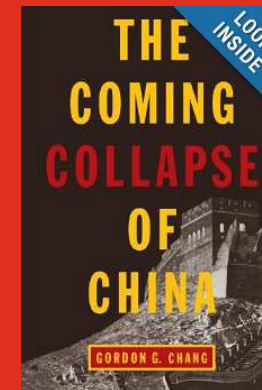
Martin Jacques
“When China Rules The World”



“Apocalyptic Non-Believers”

- Believe that China’s so-called economic miracle is nothing more than a Beijing-led Ponzi scheme that will soon collapse in spectacular fashion

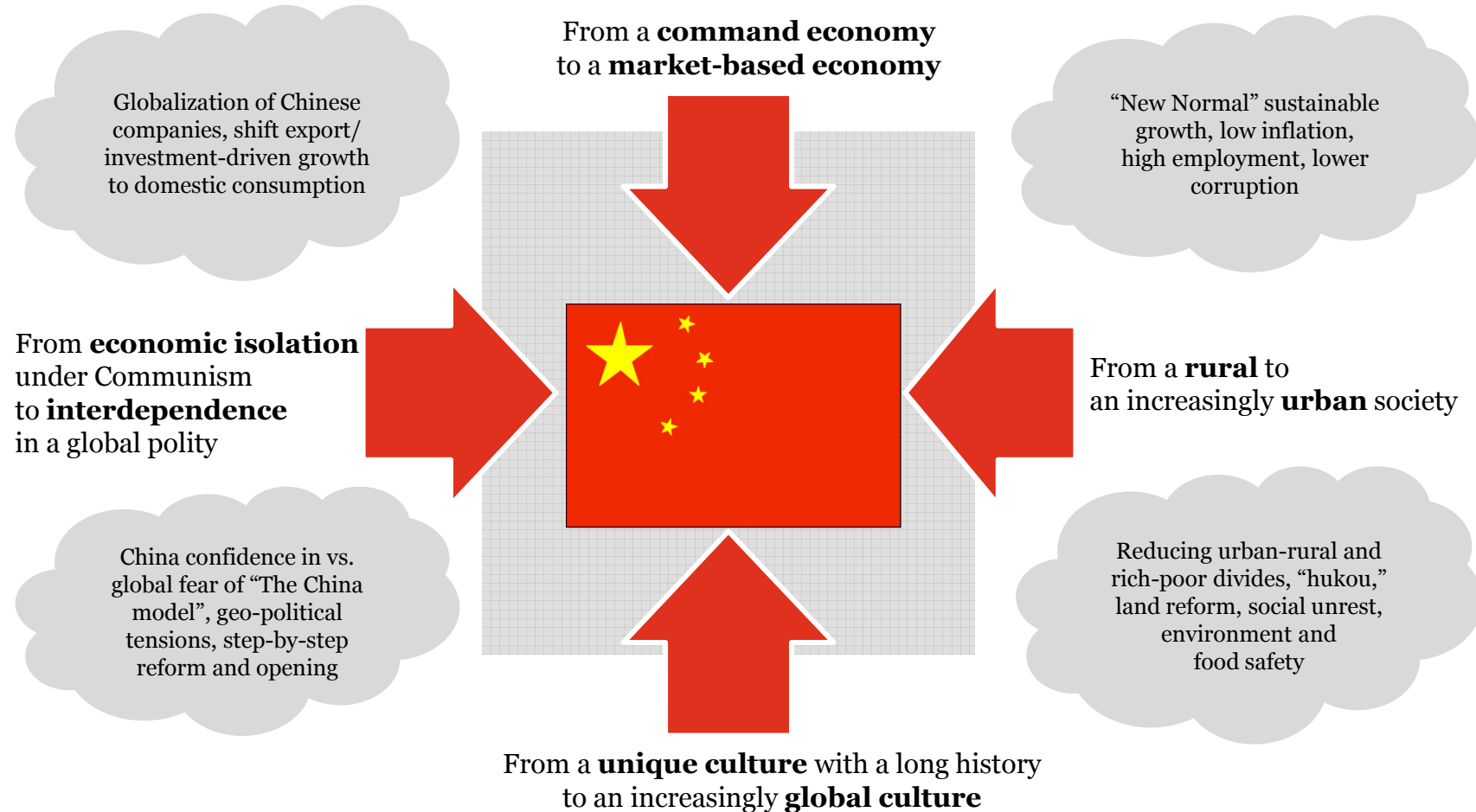
Gordon Chang
“The Coming Collapse of China”



Versus

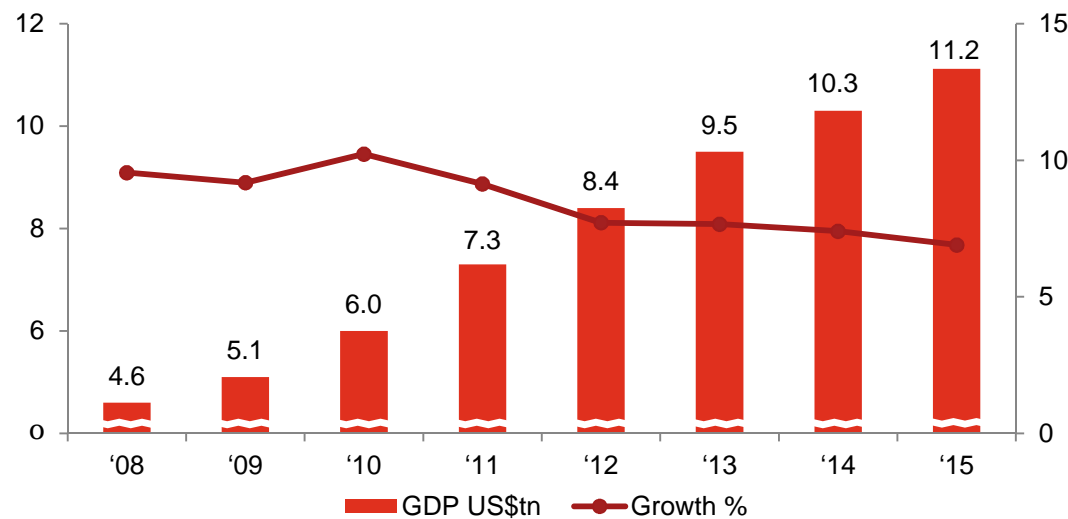
Source: “China—The Mother of All Black Swans”, Jullens, *Strategy + Business*, June 2013

We have a more nuanced view: meltdown is unlikely, but China is at an important turning point – “New Normal”



The overall economy is slowing – but is cycling on an increasingly larger base

GDP and Growth, Constant 2015 Price



“With a larger base, a growth even at 7% will produce an annual increase of more than US\$800bn at current prices, larger than a 10% growth five years ago...”

*Premier Li Keqiang,
Davos '15*

GDP growth of '15 over '14 = 2/3 Australia, 1.5x GDP growth in USA

Source: Literature research, Strategy& analysis

The two-track economy

The slowdown has been concentrated in industry and construction

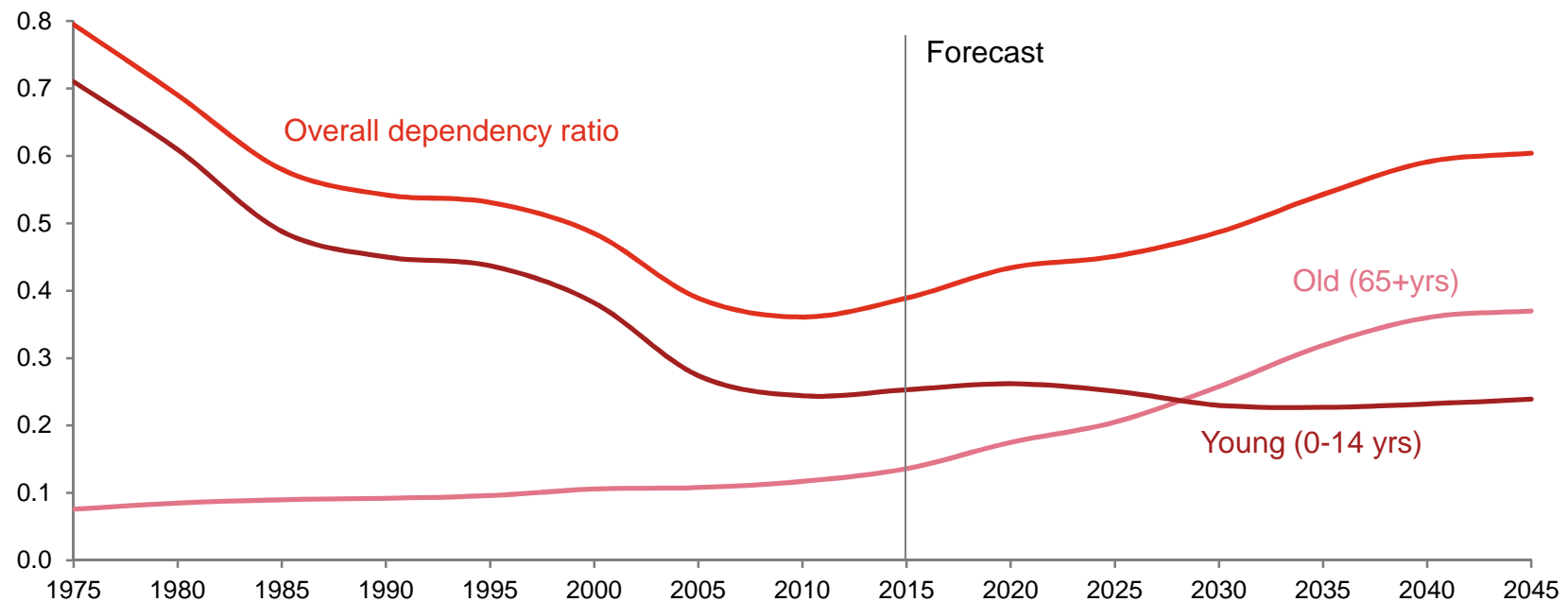
Nominal change in value-added by sector



Source: Gavikal data/Macrobond

The demographics are starting to get ugly...

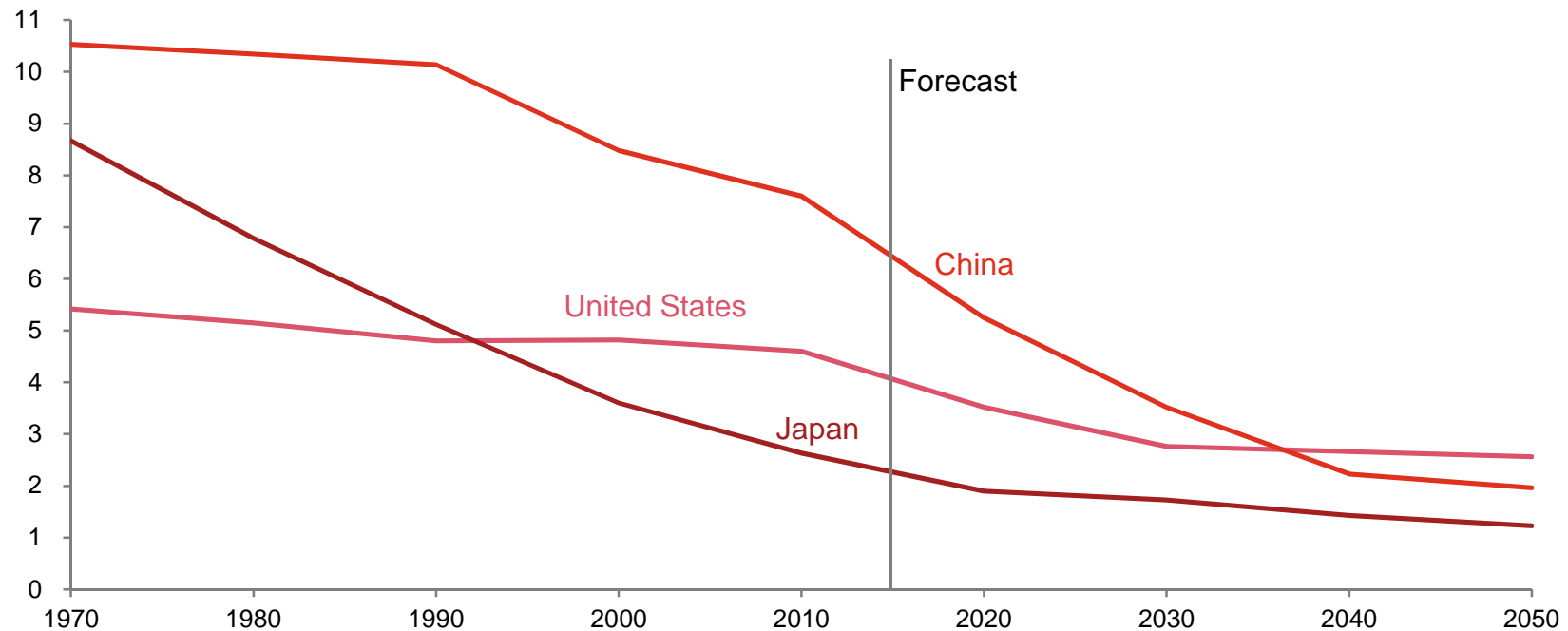
China's future: fewer workers, more dependents Ratio of non-working ages to total population



Source: UN World Population Prospects/Gavekal

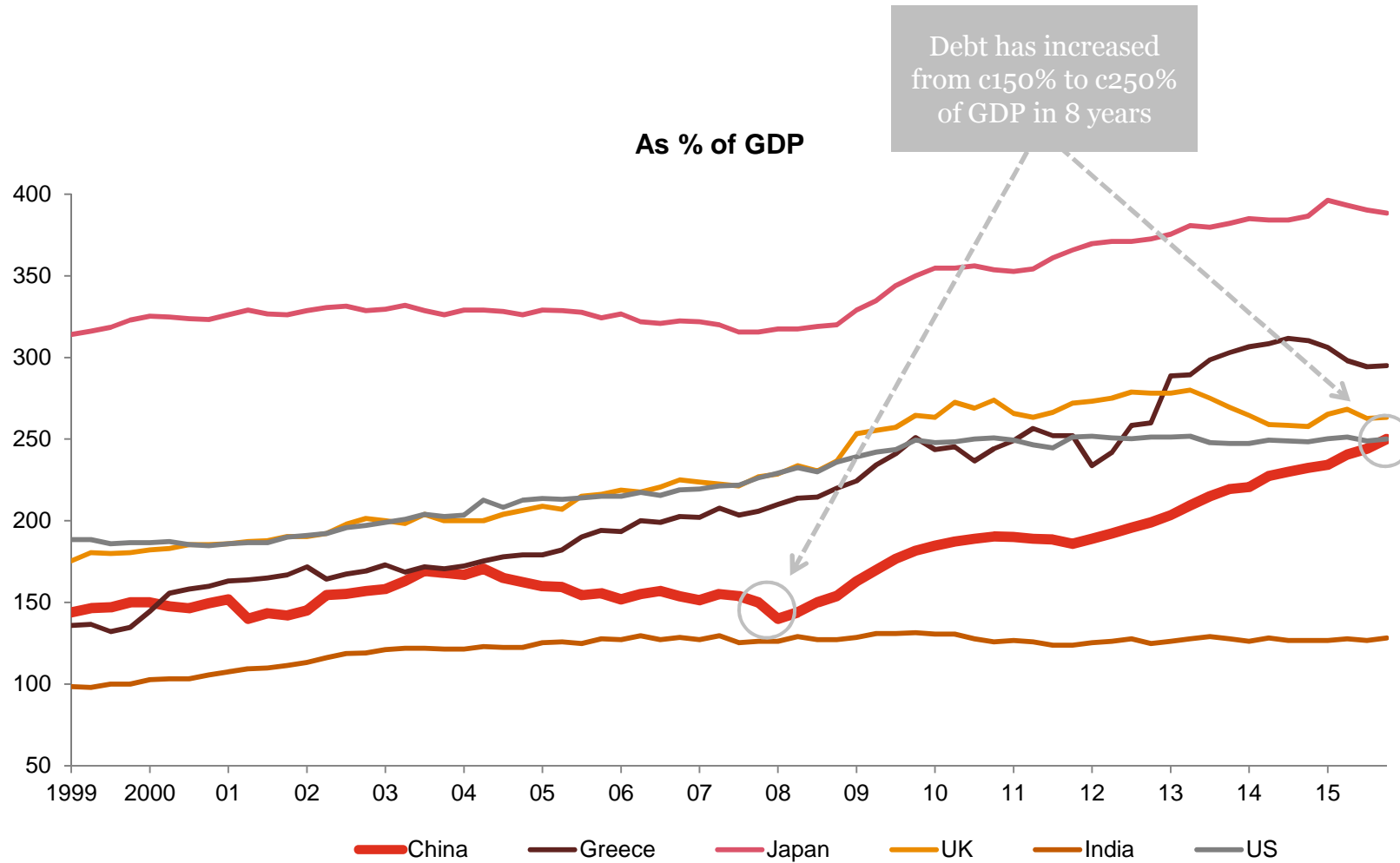
... and a Japan-like future is possible

China's worker-retiree ratio is heading towards Japan's
Ratio of working age population (15-64) to retirees (65+)



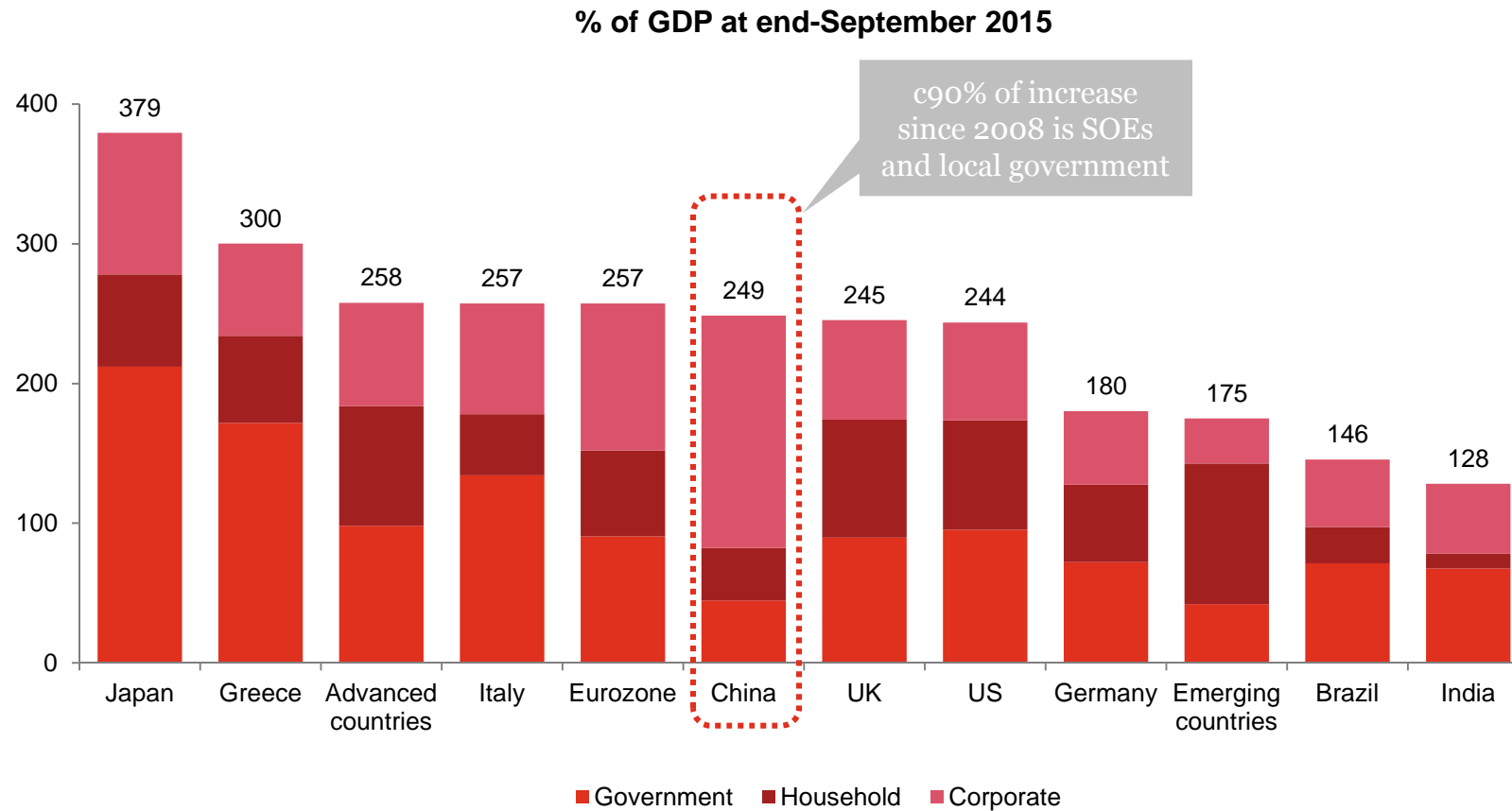
Source: UN Population Prospects/Gavekal

China's level of debt is approaching danger levels



Source: Bank for International Settlements, Financial Times

...but SOE's and government are the main drivers



Source: Bank for International Settlements, Financial Times

The real challenge is how to resolve the considerable tension between economic reality and political necessity

***“We are crossing the river by feeling for stones.”
Deng Xiaoping***

Economic reality

Supply-side

- Supply of surplus farm labor running out
- Low capital efficiency
- Easy catch-up phase essentially over

Demand-side

- Limited export relief
- Domestic consumption and service sector growth unlikely to offset supply-side challenges



Poor quality growth

- Resource misallocation
- Excessive debt levels
- Environmental challenges
- Growing inequality
- Natural resource requirements
- Geopolitical tensions

Political necessity

Economic/Political

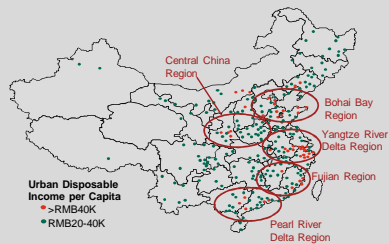
- Avoid sudden loss of competitiveness
- Ensure adequate local government financing
- Overcome vested interests among key stakeholder groups

Social

- Avoid large-scale layoffs and unemployment
- Mitigate rising dissatisfaction among middle class and non-party elite

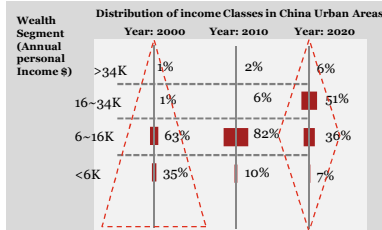
However the long-term fundamentals remain solid

Absolute Size of The Market



- Largest single consumer market
- Still relatively high growth for many years to come

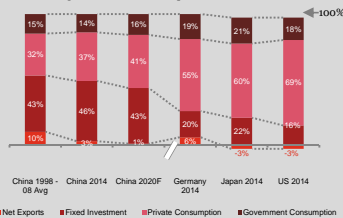
Rising Incomes/Middle Class



- Demographic shifts
- Rapid urbanization – now ~53%, 65% by 2024
- Rising middle class with higher disposal income than their predecessors

Attractive Long-Term Fundamentals

China Economic Restructuring (GDP)
Promoting More Private Consumption (% of Total GDP)



- Government led restructuring – More quality, consumption led growth
- Spending relatively healthy despite the economic turmoil

Source: National Statistics Bureau of China, Ministry of Education, Literature research, Strategy & analysis



- Focus on innovation to move up the value chain, eg high-speed trains, aircraft, nuclear, green
- Rapid acceleration of digital, eg 600M+ on social media
- SOE and financial sector reform

Consumption Led Growth

Innovation

Source: Oxford Economics Database, China Development Research Foundation, National Statistics Bureau of China, Ministry of Education, Literature research, Strategy & analysis

Growing middle class: >51% of population as middle class by 2020

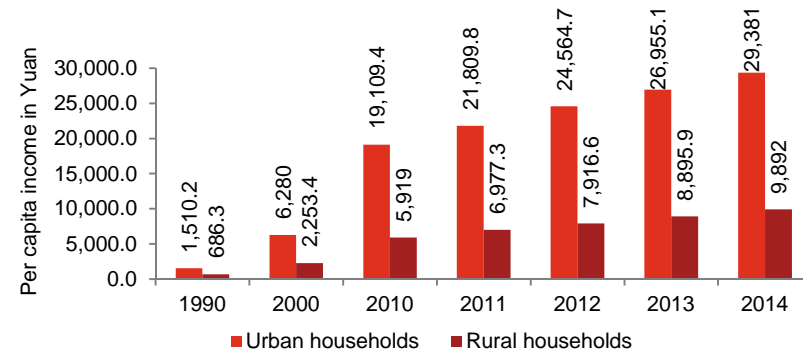
The rising urban upper middle class

2010: 13 mln households or 37 mln individuals

2020: 167 mln households or **350 mln individuals**

35% annual growth rate in ten years

Urban & Rural Per Capita Annual Income, 2006-2014



Urban Incomes (per household) 2000

2010

2020

Category	Definition	# of House		# of House		# of House	
		Holds	% Share	Holds	% Share	Holds	% Share
Affluent	> \$34,000	–	0%	4.5	2%	19.7	6%
Mainstream	\$16,000 to \$34,000	1.5	1%	13.6	6%	167.3	51%
Value	\$6,000 to \$16,000	92.6	63%	185.3	82%	118.1	36%
Poor	< \$6,000	52.9	36%	22.6	10%	23.0	7%
Total		147.0	100%	226.0	100%	328.0	100%

In the next ten years, China will add roughly 350 million to its middle class, equivalent to the current US population

Source: Chinese Consumer 2012, PwC research

China's aging population: boon for labor intensive industries, boom for "silver hair" economics



China's 65 and older demographic reached **131.6 million** in 2013, accounting for 9.7% of the population. It is expected to rise to 10.7% by 2016



Dependency ratios for those 60+ and 65+ increased **21.4%** and **13.1%** respectively



Elderly population (80+ years) grew to **23 million**, with annual growth estimated at 1 million until 2025



China's disabled elderly population rose to **37.5 million** in 2013, while elderly with chronic disease grew to **over 100 million**

- Increased need for healthcare, senior care, hospitals, housing, etc.
- Increase in retiree tourism and recreational activities
- Growth in "silver hair" segment of goods and service
- Transportation and infrastructure accessibility

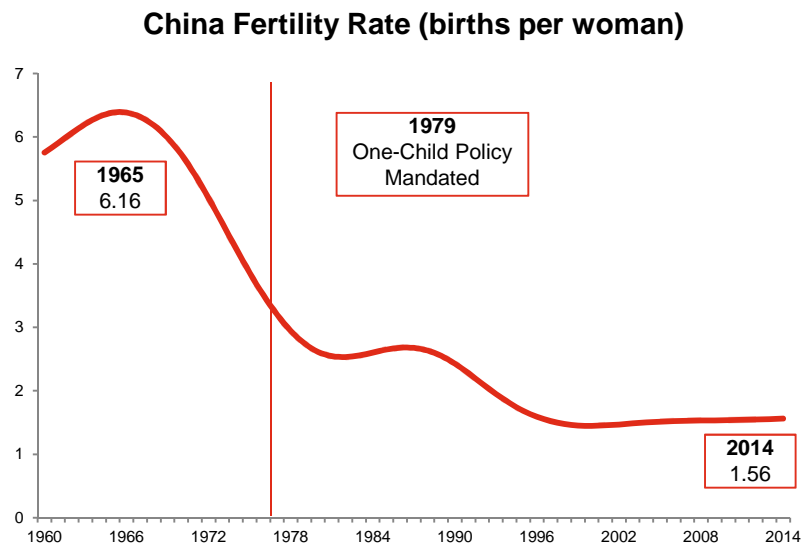
Source: BusinessWire

Baby boom: from one-child policy to two-child policy

One-Child Policy mandated in 1979, drastically reducing China's birth rate. Projected to have prevented 200 million births, resulting in the aging population seen today.

New reforms will allow families to have two children if one of the parents is an only child.

Source: Associated Press



Booming Markets Driven by Two-Child Policy

- Baby products
- Dairy products
- Local and international schools, including overseas study
- Overseas properties near schools and universities

Source: World Bank

Demand for healthcare is increasing rapidly

Drivers

Demographic and Lifestyle Changes

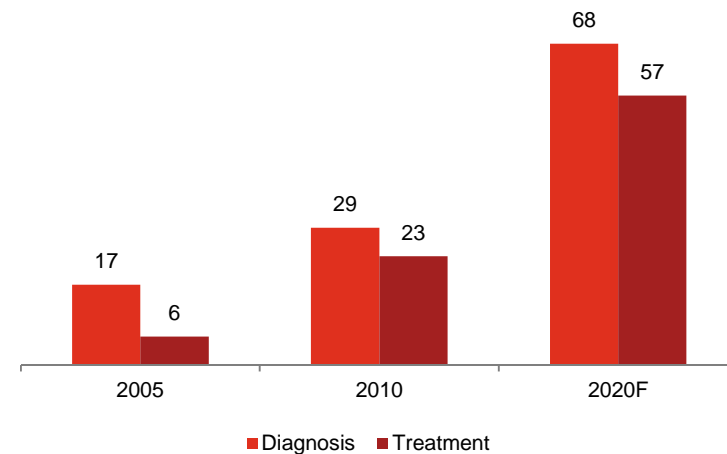
Increasing Disease Awareness

Increasing Affordability/Insurance Coverage

Better Access to Healthcare

Explosive Growth in Healthcare

Example: Diabetes Diagnosis and Treatment ¹⁾
(million persons, 2005-2020F)



¹⁾ Diabetes population aged 20 years or older; assumption for 2020 China diabetes diagnosis and treatment rate Forecast: reaching 80% of 2010 US diabetes diagnosis rate and treatment rate
Source: The New England Journal of Medicine; HUST University; Datamonitor; Reuters; Citi Bank; Beijing Association of Science and Technology American CDC; Strategy& analysis

Also the deteriorating environment and food safety issues are causing increased (justified) concerns about health

Standards and Milk Scandals



Severe Air Pollution in China



Toxic Milk and Food



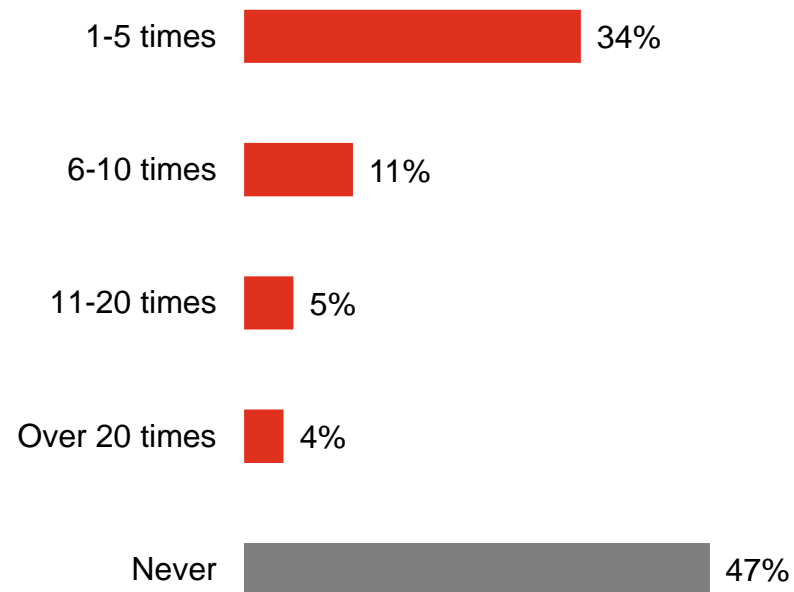
Source: Literature research, Strategy& analysis

Cross border eCommerce

Whether because of a lack of local availability or fears over authenticity, over half of Chinese consumers use eCommerce to shop with overseas retailers

53% of Chinese use online to shop with overseas retailers

How often did you shop from an overseas (non-local) retailer/pure player in your online shopping during the past 12 months?



Source: PwC, Total Retail Survey (2014)

All categories are at risk from cross border eCommerce

When shopping online from an overseas retailer/pure player what kind of products did you buy?



55% buy *clothing and footwear* online from an overseas retailer



26% buy *household appliances* online from an overseas retailer



23% buy *health & beauty* online from an overseas retailer



44% buy *consumer electronics and computers* online from an overseas retailer



26% buy *books, music, movies and video games* online from an overseas retailer



20% buy *jewelry and watches* online from an overseas retailer

China is one of the most mobile centric and digitally engaged populations



Mobile is the primary source for internet access...

73%

China has over 600m+ mobile internet users and 73% of all internet users describe it as their primary source for accessing the web

..and Digital – especially social – has a bigger impact on Chinese consumers than any other nation in world

95%

of Chinese consumers trust brands who have a microblog

87%

of Chinese social media users have friended or followed brands

68%

of Chinese consumers write reviews about the product they buy online

Source: PwC CN Digital Consulting

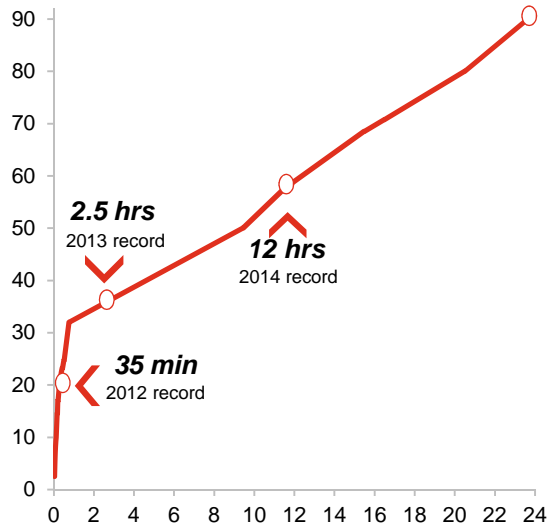
Single's Day, without global parallel

The ¥91bn GMV generated on Singles Day in 2015 was 60% up on 2014. We also estimate it took just 15 minutes for it to exceed the online retail volume of Black Friday, a similar US promotion

Beating the 2014 record in under 12 hours...
Tmall 2015 Single Day GMV, billion RMB

¥91.2 billion

GMV generated on Single Day by Tmall



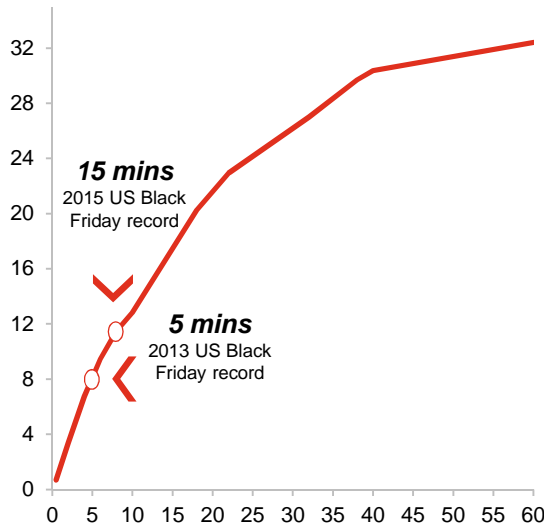
...and US Black Friday within just 15 mins
Total GMV within the 1st hour, billion RMB

28%

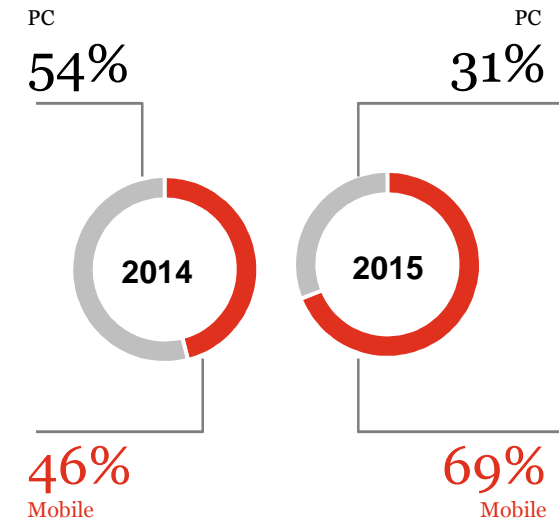
of GMV are done within the 1st hour

85,900

transactions per second on average processed by Alibaba



An increasing shift to mobile in China
% of PC and mobile out of total GMV, in 2014 & 2015



Source: 199IT, comScore, PwC analysis

So what's holding Australian businesses back?

In our research for “Passing us by” we spoke with more than 1,000 directors and owners and conducted in depth interviews with 70 senior executives. Here is what they told us:



Historically and culturally, corruption is part of everyday business, but the CPC is taking action

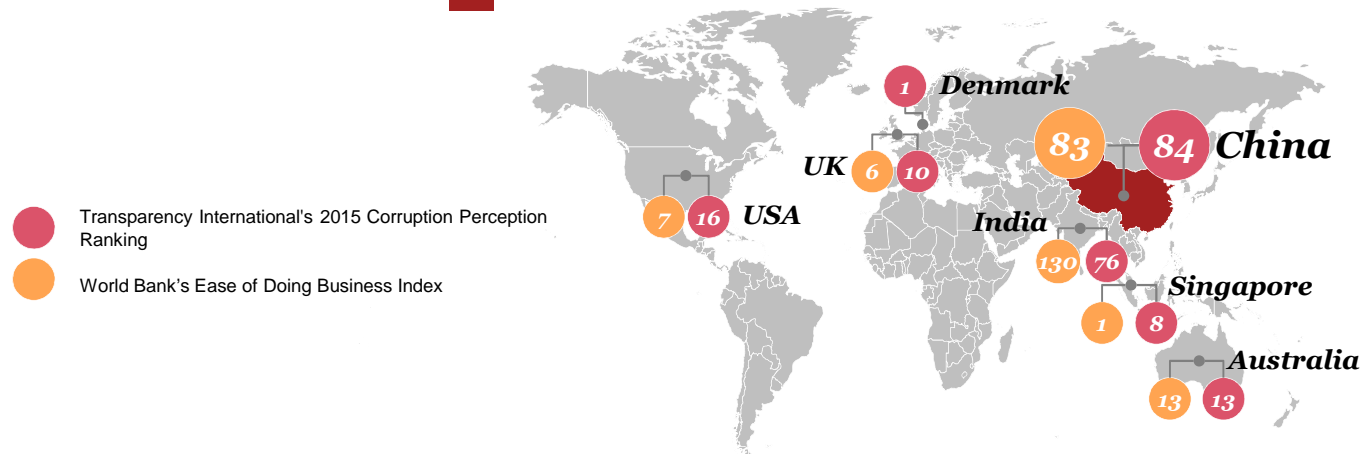
In early 2013, 518 lawmakers and 68 staff members were elected and employed with bribe money exceeding \$18 million.

Source: People Daily

“The Communist Party’s internal disciplinary organ said it punished 182,000 officials for corruption and abuse of power nationwide in 2013, 13 percent more than in 2012.”

Source: Bloomberg

Out of 168 countries, China ranked 83rd on Transparency International’s 2015 Corruption Perception Index and ranked 84th out of 189 countries in the 2015 World Bank’s Ease of Doing Business Index



Source: Transparency International

Important to adopt the right mind-set and best practices to succeed in the new China landscape

1

You need to know your China strategy prior to entering; why are you here?

2

Understand the “In China for China” model

3

Align your sector to the government priorities and projects

Choose your partners carefully

4

Localise from Day 1

5

Be Patient!

6

Closing Thoughts

1. Question is not “should we be in China” but “can we afford not to be”?
2. There are risks but the greatest risk may well be doing nothing at all.
3. Adopting an investment strategy informed by accurate information and trusted partners with deep local insights and experience is the best way to navigate the risk-opportunity tight rope
4. ChAFTA is an open invitation to take the China-Australia relationship to a new level
5. **We really need to take it – our future depends on it**

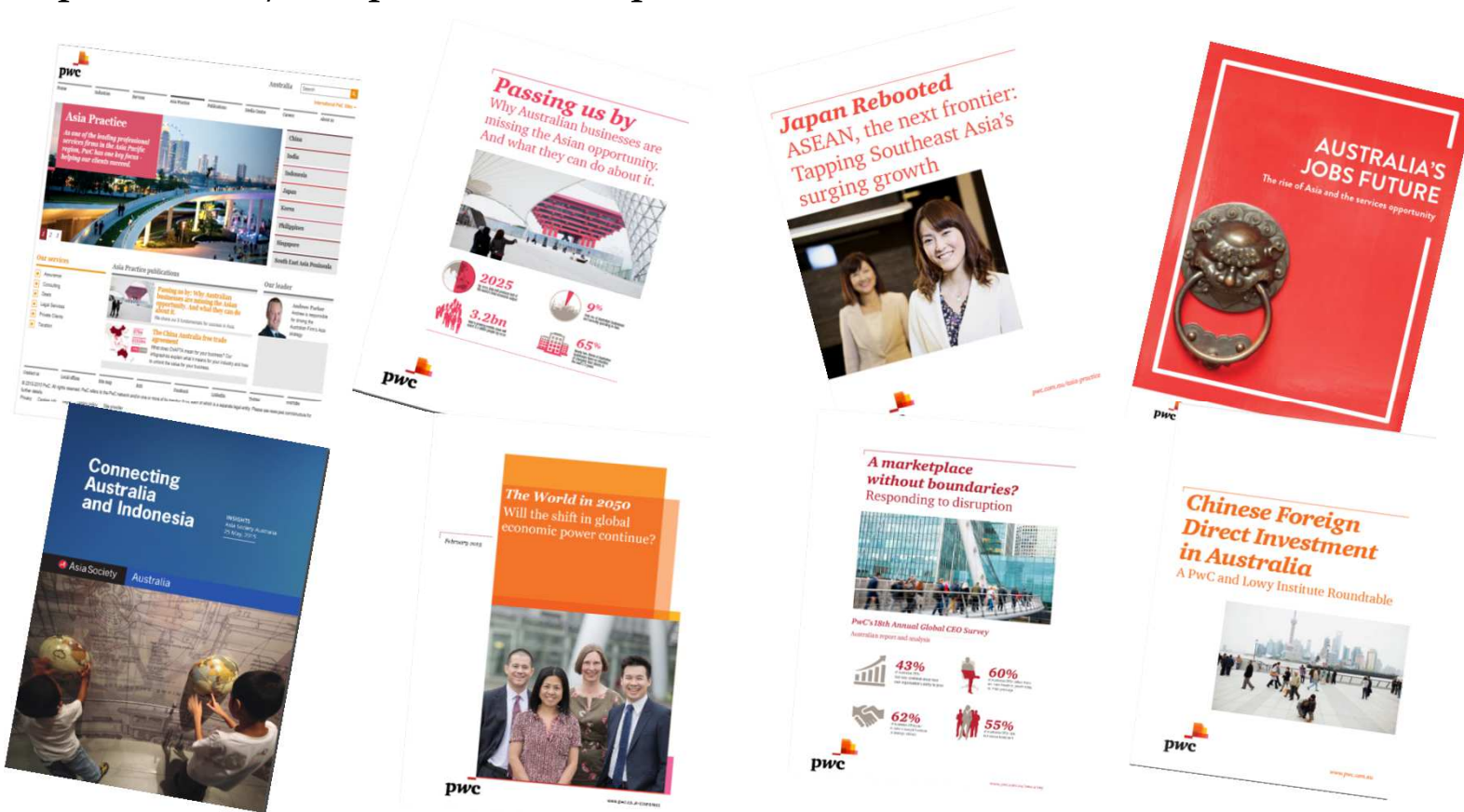
“Generations that come after us will be disappointed in those companies that haven’t sought to at least do something in Asia, because companies from other places will do it or indeed the Asian companies themselves will, and the opportunity will be lost”

David Gonski

Source: Australian Institute of Company Directors (AICD), April 2016

Useful resources

Asia related thought leadership can be found on our Asia Practice website www.pwc.com.au/asia-practice. Examples include:



Thank you!



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WL-127038776

Liu Bing

**Senior Advisor, China
AusTrade**



Peter Osborne

**Managing Director, Asia
Blackmores**



BLACKMORES

Blackmores in Asia & China

Peter Osborne

Managing Director Asia



OUR ASIA STRATEGIC PRIORITIES

- ❖ **Growth & expansion:**
 - ✓ Products | Channels | Markets | Talent
- ❖ **Drive innovation and new product development**
 - ✓ Increase ideation, product pipeline and speed-to-market
- ❖ **Continue expansion of depth & breadth of channels in current markets**
 - ✓ Increase points of distribution and sales value per distribution point
 - ✓ Enter new channels – “bricks & mortar”, online, TV, corporate sales
- ❖ **Geographic expansion**
 - ✓ Continuously assess new market opportunities and route-to-market models
- ❖ **Leverage our Asian operating base in Singapore**
 - ✓ “Asia for Asia”
 - ✓ Be closer to our consumers and customers and drive operational efficiencies
- ❖ **Continuously enhance our digital presence in Asia including e-commerce platforms**



BLACKMORES®

BLACKMORES®

\$53 BILLION OPPORTUNITY IN VITAMINS & SUPPLEMENTS !

Market	Market Size \$AUD	Market Growth %
Asia	\$53.1 B	5.9%
China	\$20.0 B	20.0%
Japan	\$18.2 B	1.0%
Korea	\$4.7B	6.0%
Taiwan	\$2.2B	5.0%
Thailand	\$1.9 B	11.0%
Indonesia	\$ 1.2 B	15.0%
Vietnam	\$ 720M	20.0%
Hong Kong	\$580M	7.0%
Malaysia	\$550M	6.0%
Singapore	\$520M	5.0%

Source: Euromonitor International Country Reports 2015

唯品会 vip.com 一家专门做特卖的网站

BLACKMORES 澳佳宝

澳洲NO.1 天然健康品牌

欢迎来到澳大利亚！让80年历史的高品质品牌 Blackmores 带您开启一段天然纯净的健康之旅。

所有产品100%原瓶原装进口

全场5.8折起

BLACKMORES OMEGA DASH FISH OIL 1000

澳洲最受推崇鱼油大奖

澳洲年销量过300,000,000粒！获诺贝尔奖过10,000粒！电视购物月销量50,000瓶

调节血脂、血糖、血压
调理上班族亚健康
Omega3消除肌肤炎症

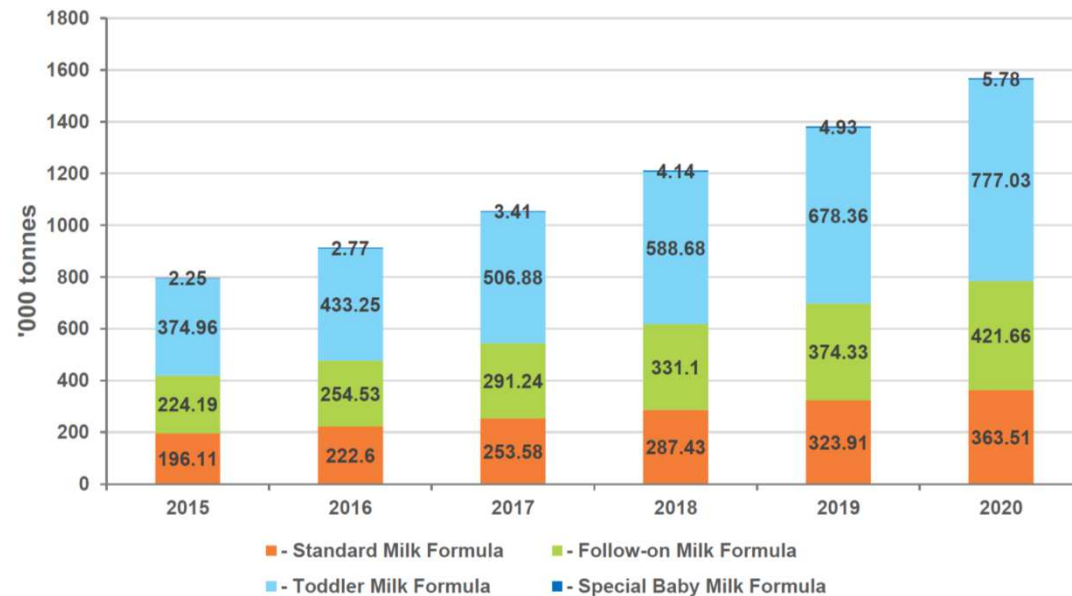
深海鱼油胶囊 60粒

立即抢购

RMB **68** /瓶
（原价118元）

\$27 BILLION* OPPORTUNITY IN INFANT NUTRITION IN CHINA

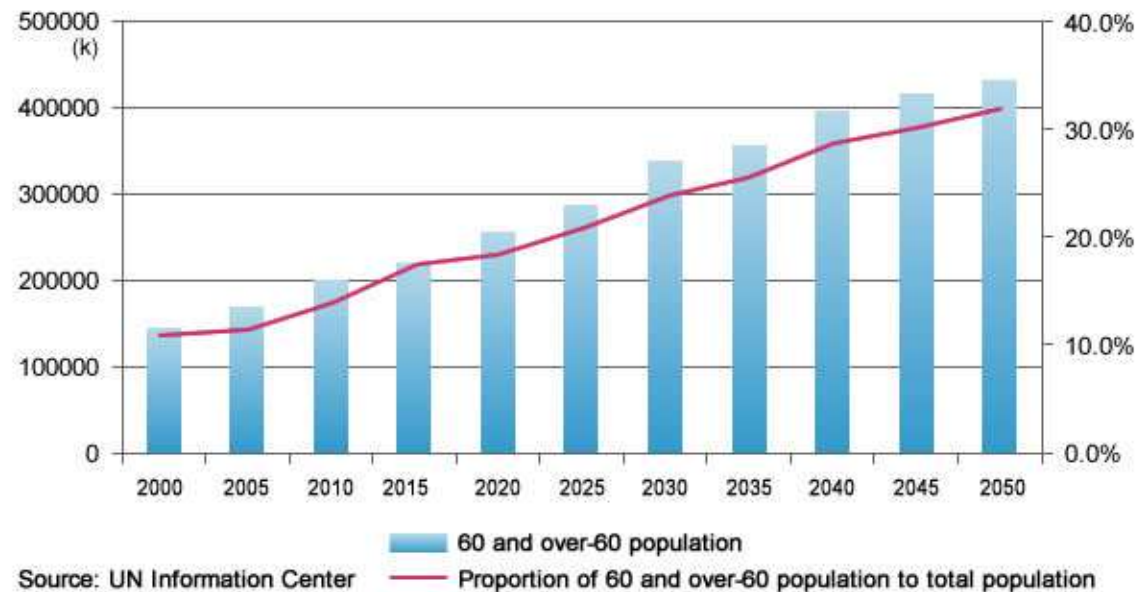
- The one child policy created a singular focus on children as a “national resource” and a major investment for the total family unit
- The introduction of the two child policy in 2015 will see a significant growth of new births:
 - Recent surveys indicated 43% of current parents said they either had a plan or were considering having a second child and 70% of parents said they would like a second child



*Source: Euromonitor 2015

BUT IT'S NOT JUST ABOUT CHILDREN...

- The one child policy will create the world's largest ageing population by 2050
- Health-related issues associated with increasing economic wealth also present significant opportunities for Blackmores to participate in the public health agenda in China and support better health and wellbeing – diabetes, obesity, increases in chronic disease



Big country – big differences



One country = 30 different markets

Data Source: China National Bureau of Statistics 2005

FOUR CENTRES OF INFLUENCE



An aerial photograph showing a vast, dense crowd of people gathered for an outdoor event. The crowd is composed of individuals of various ages and ethnicities, filling a large open area. The text "Largest consumer market opportunity in the world..." is overlaid in white on the center of the image. In the bottom right corner, there is a logo for "ChinaRen 社区" and the website "club.chinaren.com".

Largest consumer market opportunity in the world...

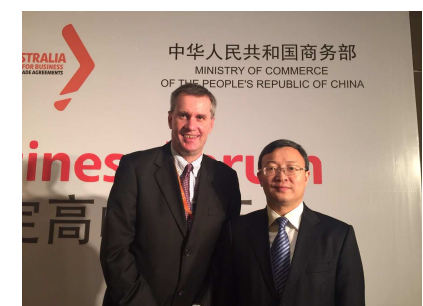
CHINA IN BLACKMORES ASIA STRATEGY...

- China has emerged as Blackmores' single most important overseas market
- We are well established to capture significantly more growth and have first mover advantage in a number of key areas
- We need to invest to build and cement our brand position in the market
- Regulatory change is a reality of the China business landscape. We are well prepared to evolve with the constant regulatory change
- The cross-border e-commerce market is undergoing constant rapid evolution and we have a unique understanding of new opportunities in the China e-commerce space
- We are further building our structure, staff capabilities, operations, supply chain and governance to support a strong sustainable presence for Blackmores in China



GOVERNMENT RELATIONSHIPS MATTER...

- Government relations critically important in China
- The Australian relationship is valuable to China
- China Australia Free Trade Agreement (CHAFTA) highly valuable to a deeper engagement with China
 - Blackmores a strong supporter of CHAFTA and the benefits it brings to Australia and Australian companies
- Blackmores places strong emphasis on our government engagement:
 - Christine is Chair of the Australia ASEAN Council
 - Head of Government Relations – Lyall Howard, former Chief of Staff to Andrew Robb
 - Jason Zhang one of only three foreign company representatives on the China Chamber Of Commerce Of Medicines & Health Products Importers & Exporters Professional VDS Committee
 - Regular updates with Australian Ambassador in Beijing & the Chinese Ambassador in Canberra and their respective staff



KEY STRATEGIES – BLACKMORES CHINA

- **Imported Brand That You Can Trust**
 - ✓ “Australia’s No. 1 Natural Health Supplement Brand”
 - ✓ Quality from Australia controlled by strict TGA standards
 - ✓ Blackmores Institute with world leading knowledge
 - ✓ Trusted by consumers, health care professionals and government
- **Presence across multiple channels**
 - ✓ Blackmores on all top e-commerce platforms
 - ✓ Distribution in offline channels including personal care stores, pharmacy, department stores, hypermarkets etc.
 - ✓ TV shopping & O2O stores
- **Category Know-How & Best-In-Class Education**
 - ✓ Leading local website on natural health education
 - ✓ Blackmores Institute Symposium to provide VDS category education to industry and also CFDA
 - ✓ Category captain for Western dietary supplementation in China



BUSINESS MODELS IN CHINA

- **Representative Office (RO)**
 - No capital requirement
 - Business scope restricted to communication works with business parties, promotion of business and/or gathering market information for its foreign head office
- **Joint Venture (JV)**
 - Foreign investor and Chinese investor
 - Business scope should be pre-approved
 - Special license needed for special fields
- **Wholly Foreign-Owned Enterprise (WFOE)**
 - Foreign investor
 - Business scope should be pre-approved
 - Special license needed for special fields
- **Branch Office (BO)**
 - No capital requirement
 - Branch should under a WFOE or a JV
 - Business scope should be within that of the parent company for the operating branch



Blackmores China Business License

PROVERBIAL TRUTH

猛虎不及地頭虫

“The fierce tiger is inferior to the local worm”

虎落平陽被犬欺

“When the tiger comes down from the mountain to the plains, it’s bullied by the dogs”

BLACKMORES CHINA OPERATING STRUCTURE

- ❖ **Blackmores WFOE Office** established in Beijing in April 2013
- ❖ **Blackmores WFOE Shanghai Branch** established in June 2013
- ❖ **Blackmores Shanghai Free Trade Zone Entity** set up in January 2015
- ❖ 2016 – plan to set up Blackmores branch offices in developing regions with scale:
 - ❖ South (Guangzhou)
 - ❖ West (Chengdu)



Blackmores Beijing Co., Limited

佰岁宝（北京）贸易有限公司

- ✓ Established April 2013
- ✓ Invoicing for WFOE
- ✓ Sales operation

Blackmores Beijing Co., Limited Shanghai Branch

佰岁宝（北京）贸易有限公司上海分公司

- ✓ Established June 2013
- ✓ Invoicing for WFOE
- ✓ Sales, marketing and finance operations

Blackmores Shanghai Co., Limited

佳岁（上海）贸易有限公司

- ✓ Established January 2015
- ✓ Invoicing for Free Trade Zone
- ✓ Sales and marketing operation

BLACKMORES CHINA WFOE REGISTRATION

Timeline for Trading WFOE Registration in BJ

	CGAs	Item	Working Day
0		Preparation Phase	
1	AIC	Name Approval	5
2	BDA	Health Food Distribution License	30
3	BOC	Approval of Article of Association	20
4	QTS	Application for the Enterprise Code	3
5	BOC	Approval Certificate Application	5
6	AIC	Temporary Business License Application	10
7	PSB	Company Seals Making	5
8	PSB	Application for Entry-Exit Certificate	5
9	QTS	Organization Code Registration	3
10	AFE	Foreign Exchange Registration	20
11	STB & LTB	State & Local Tax Registration	7
12	PBOC	Bank Account Opening	10-15
13	CPA	Report on Capital Verification	10
14	AIC	Application for Official Business License	7
15	BOS	Statistic Registration	2
16	BOF	Finance Registration	1

Notes: The working days above are according to regulations of CGAS. However the actual working days shall be more or less than the above.

Key Factors for Success

- ✓ Right Local Partners e.g. Shanghai No. 1 Pharmaceutical, Sinopharm
- ✓ Be PATIENT in the process e.g. Name Approval, Health Food Distribution License
- ✓ Maintain good working relation “Guanxi” with government officials



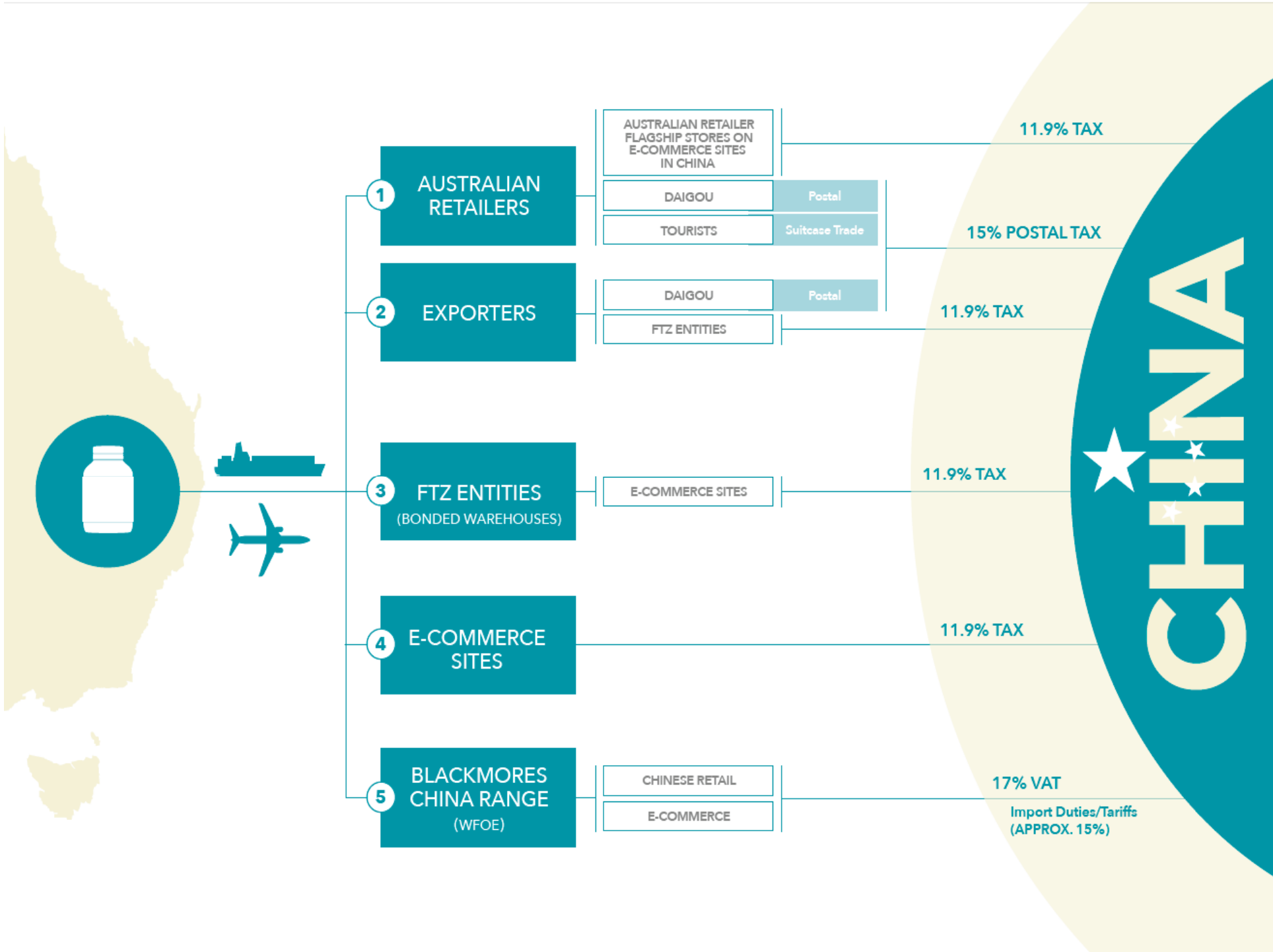
Blackmores China VAT Invoice

OUR IN-CHINA ROUTE-TO-MARKET RATIONALE

- Blackmores maintains direct relationships with strategic key customers to foster partnership and maximise trade opportunities
- Appoint professional service providers for importation, warehousing and logistics
- Start in key cities with high income and educated consumers i.e. Beijing, Shanghai, Guangzhou
- Prioritise Blackmores distribution in relevant channels
 - Health and beauty chains e.g. Watsons
 - Retail pharmacists e.g. Shanghai #1 Pharmacy
 - Modernised groceries e.g. OLE
 - E-commerce e.g. Tmall Flagship store
 - Non-traditional channels e.g. TV Shopping, Patient Solutions
- Opportunities for qualified distributors in top 2nd and 3rd tier cities



Lancare Health Clinic, China



1 AUSTRALIAN RETAILERS

AUSTRALIAN RETAILER
FLAGSHIP STORES ON
E-COMMERCE SITES
IN CHINA

11.9% TAX

DAIGOU	Postal
TOURISTS	Suitcase Trade

15% POSTAL TAX

2 EXPORTERS

DAIGOU	Postal
FTZ ENTITIES	

11.9% TAX

3 FTZ ENTITIES (BONDED WAREHOUSES)

E-COMMERCE SITES

11.9% TAX

4 E-COMMERCE SITES

11.9% TAX

5 BLACKMORES CHINA RANGE (WFOE)

CHINESE RETAIL
E-COMMERCE

17% VAT

Import Duties/Tariffs
(APPROX. 15%)

CHINA

Jason Zhang

**Country Manager, China
Blackmores**



BLACKMORES IN CHINA

- Our People
- Our Partners
- Our Business
- Our Brand
- Our Opportunities

BLACKMORES®
澳 佳 宝™



OUR TEAM

- ✓ **Local knowledge, experience, contacts, language and “guanxi” critical for success**
- ✓ **Multinational experience, bilingual language fluency, cross-cultural understanding**
- **Established strong local Blackmores China team**
 - ✓ Offices in Shanghai (head office), Beijing, Guangzhou
 - ✓ Sales
 - ✓ Marketing and public relations
 - ✓ Product development and regulatory affairs
 - ✓ Finance
 - ✓ Operations
- **Close working relationship with Blackmores HQ, Singapore Asia Hub & other Asia teams**
 - ✓ Product development and regulatory affairs
 - ✓ Finance management
 - ✓ Supply chain management
 - ✓ Training and people development
- **Partnerships with Chinese and Australian institutions**



OUR PARTNERS

➤ Importation & Supply Chain



➤ Distribution & Retail – Online & Offline



➤ Government & Industry Associations



OUR BUSINESS



- ✓ Differentiated Channel Structure and Portfolio
- ✓ Dedicated Sales & Marketing team for different business model

BLACKMORES CHINA WFOE – ROUTE-TO-MARKET STRATEGY

BLACKMORES®



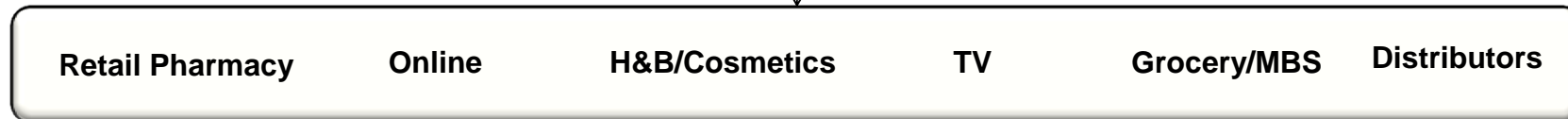
Blackmores China



3rd Party Logistics



BLACKMORES®
澳 佳 宝™



SH No.1
Pharmacy



Watsons

CJ TV Shanghai

Centurymart

Jianming
Pharmacy



Mannings

UGO

LianHua
Supermarket

Huaxi



Sasa

HAPPYGO

OLE

HuiFeng



Oliver Yang

3JGO

LEYOU

Top 20 Key
Cities



GEOGRAPHIC COVERAGE – FOCUS ON “ECONOMIC CLUSTERS”

- ✓ Blackmores distribution in top 20 tier cities via distributors
- ✓ “Economic clusters” - income levels and target consumer demographic
- ✓ Availability of relevant retail formats e.g.
 - Department stores; regional pharmacies
 - “Australian-Living” stores

Province	City	GDP (RMB Billion)
Shanghai	Shanghai	1919
Beijing	Beijing	1600
Guangdong	Guangzhou	1230
Guangdong	Shenzhen	1150
Tianjin	Tianjin	1119
Jiangsu	Suzhou	1050
Chongqing	Chongqing	1001
Sichuan	Chengdu	708
Zhejiang	Hangzhou	701
Jiangsu	Wuxi	690
Hubei	Wuhan	670
Shandong	Tsingdao	660
Guangdong	Foshan	658
Jiangsu	Nanjing	614
Liaoning	Dalian	610
Zhejiang	Ningbo	601
Liaoning	Shenyang	595
Hunan	Changsha	560
Hebei	Tangshan	540
Shandong	Yantai	490



Blackmores Sogo Mall Promotion



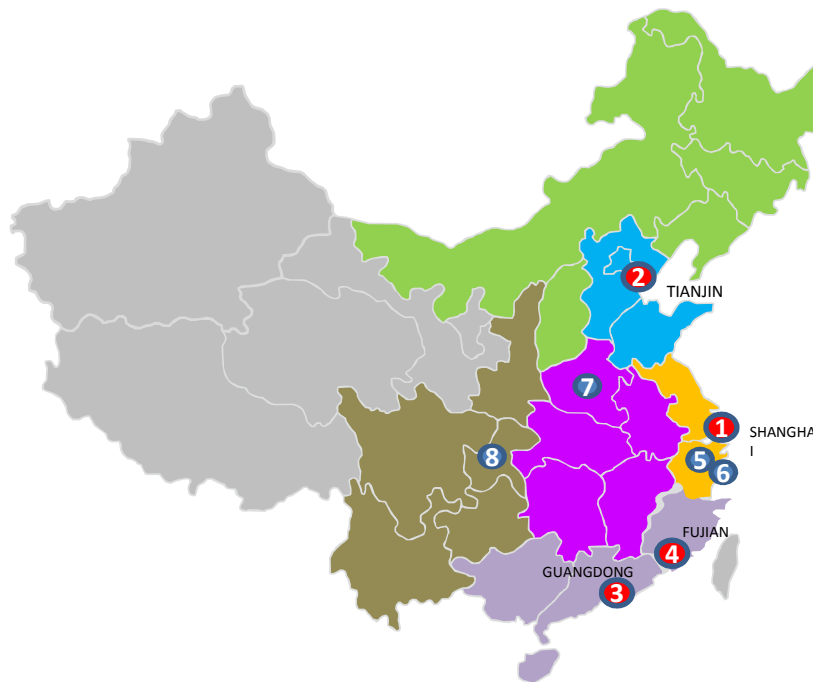
Offline – over 3,200 points of physical distribution

- 3,254 offline distribution points covering Tier-1 & Tier-2 cities
- TV shopping in 6 key cities



CHINA FREE TRADE ZONES (FTZs)

- ✓ First FTZ in Shanghai officially launched in September 2013
- ✓ Currently 23 provinces are applying for FTZs to the Central Government
- ✓ Government approved 3 more FTZ in December 2014: Tianjin, Guangdong, Fujian
- ✓ Apart from 4 FTZs, another 4 Bonded Zones have been approved to pilot cross-border e-commerce
- ✓ Still called “Pilot FTZs” – regulation is evolving and variable across FTZs



FTZ Officially Approved

1. Shanghai
2. Tianjin
3. Guangdong
4. Fujian

Other key Bonded Zones

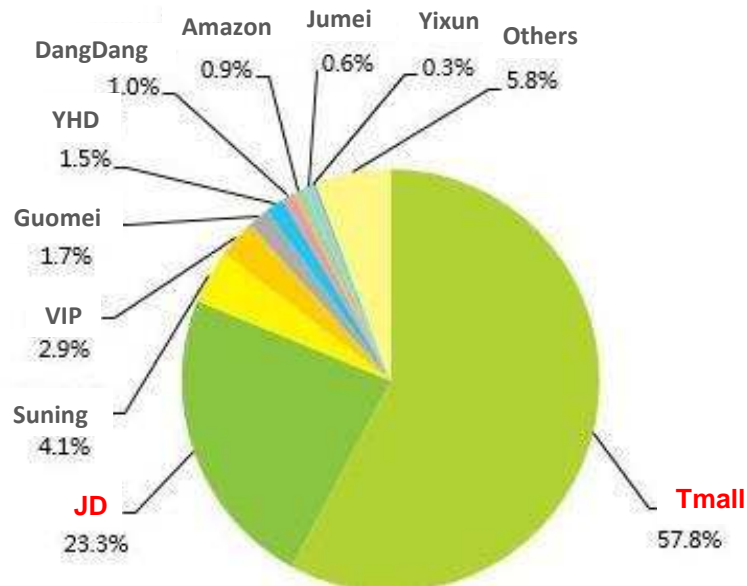
(pilot for cross-border ecommerce)

5. Hangzhou
6. Ningbo
7. Zhengzhou
8. Chongqing

E-COMMERCE – A DIFFERENT PLAYGROUND

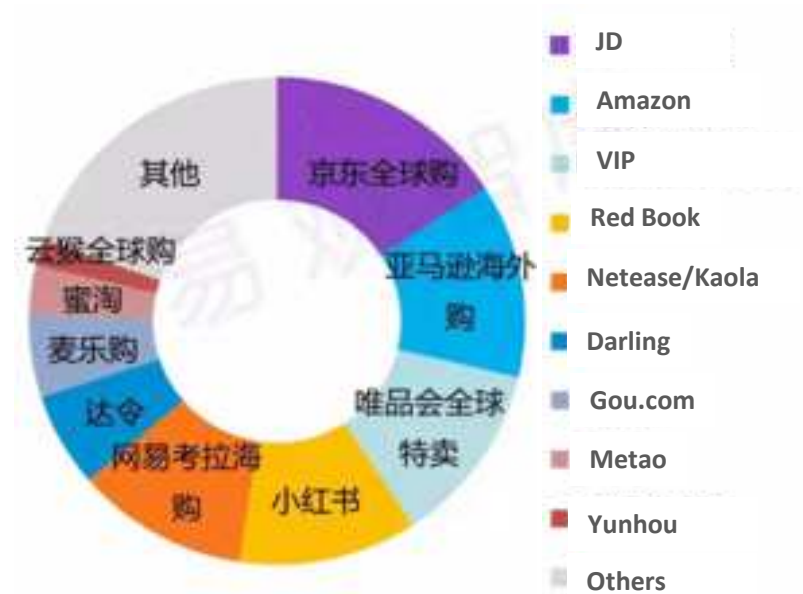
Non FTZ E-commerce

2015 Q3 Market Share of Chinese B2C platforms



FTZ E-commerce / CBEC*

2015 Market Share of Chinese B2C FTZ retailers
(excluding Tmall International)



* CBEC - Cross Border Ecommerce

PARTNERSHIPS WITH LEADING FTZ (CBEC) PLATFORMS

- 2 Blackmores Flagship stores on Tmall & Tmall International, 2 Flagship stores on JD.com
- Sinopharm Overseas Flagship store and Shanghai Pharmacy Flagship store
- Serve more than 20 key e-retailers, and cover thousands of Taobao & WeChat stores through FTZ distributors
- Strategic MOU agreement with 3 leading e-retailers

JD.COM



NETEASE/KAOLA.COM



VIP.COM



INNOVATIVE MARKETING & BRANDING WITH CBEC PARTNERS

Little Red Book

Targeting female consumers



MEI.COM

Focusing on fashion and beauty



Yunji

WeChat individual stores



NATUROPATHY TRAINING & CONSUMER EDUCATION

BLACKMORES®

Naturopathy training for Tmall and Netease employees – over 400 people attended



OFFLINE TO ONLINE (O2O) FTZ CHANNELS – THE NEXT WAVE

BLACKMORES

Sinopharm Pharmacy O2O Store



Shanghai Pudong International Airport – Blackmores POP UP Store



GreenLand O2O Store



City Australia O2O Store



Outdoor Branding - Blackmores & Australian Open

Mega Display on 32 Metro Stations in Shanghai (Jan 2016)



BLACKMORES & LI NA – A TRUE PARTNERSHIP

- ✓ *TIME* magazine “Top 100 Most Influential Woman in the World”
- ✓ Two-time Grand Slam winner (2011 French Open / 2014 Australia Open)
- ✓ World No. 2 career-best ranking in 2014
- ✓ One of China’s most famous and loved stars – Li Na has 23 million followers on social media
- ✓ Loves Australia and became a Blackmores brand ambassador in 2015
- ✓ Her life story is now being made into a movie for release in 2016



Blackmores Li Na China TVC (2015)



LI NA – A TRUE BELIEVER IN NATURAL HEALTH



“THE FIRST 1,000 DAYS” WITH WFP & CCTF

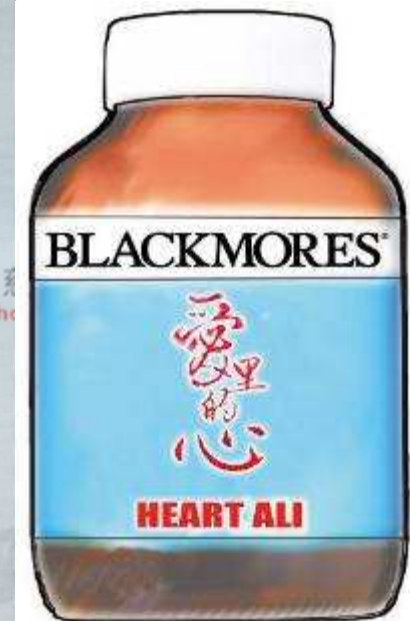
- The first international project for improving maternal and infant nutrition co-initiated by World Food Programme (WFP) and China Children & Teenagers' Fund (CCTF).
- For infants and children under the age of two, the consequences of undernutrition are particularly severe, often irreversible, and reach far into the future.
- With Li Na as project ambassador, Blackmores donated to “The First 1000 Days” project to raise public awareness of maternal and infant nutrition during the first 1,000 days and promote public health.



“善粮护母婴 未来大不同”
 “Good Nutrients to Mother & Children For better Future”

“HEART ALI” WITH FAN BINGBING

- On April 15, 2016 (Beijing) Blackmores donated 3 million RMB (approx. AUD \$600,000) to ‘Heart Ali’ project – a charity co-funded by China’s most famous actress Fan Bingbing who is a committed user of Blackmores products!
- ‘Heart Ali’ assists children suffering from congenital heart disease in Tibet. Ms. Lucy Turnbull AO, wife of the Australian Prime Minister, witnessed the ceremony. The donation is the first of a three year agreement of support from Blackmores for Heart Ali.



CATEGORY CAPTAINCY – LEVERAGING THE BLACKMORES INSTITUTE

- Limited understanding of Western dietary supplementation in China
- Blackmores aims to be the category captain with our consumers, health care professionals, government and industry
- Significant opportunity to leverage the Blackmores Institute in China
- The Blackmores Institute Symposium was held in China for the first time in 2015:
 - Over 200 attendees from China FDA, government officials, regulatory experts, medical professionals, health supplement and pharmaceutical industry representatives, and Blackmores key customers
- Appointment of Blackmores Institute Manager in Shanghai in 2016
- Two more symposiums planned in 2016
- Chinese language online HCP training
- University cooperation and research projects



BLACKMORES
INSTITUTE
 RESEARCH | EDUCATION | INNOVATION

“OPPORTUNITIES MULTIPLY AS THEY ARE SEIZED”

- ✓ Further expansion of FTZ locations and operation efficiency
- ✓ NPD Innovation based on channel and consumer Insights
- ✓ Consistent consumer and HCP education
- ✓ Integrated development of both Online and Offline channels
- ✓ Leverage the Blackmores Institute
- ✓ Expand our footprint and grow our team



**BLACKMORES - FLYING
GROWTH AWARD**
2016 JD.COM SUPPLIER &
PARTNER CONFERENCE

Thank You

