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RAPID ECONOMIC GROWTH IN MAINLAND CHINA

The Growth of the Economy in Mainland China

The economy in Mainland China has expanded rapidly since the open door policies introduced by the PRC Government in the late 1970s. The Chinese economic reforms have also resulted in an increase in international trade. Economic growth was further spurred by the establishment of special economic zones along coastal Mainland China since the 1980s. In particular, from 2000 to 2008, Mainland China's nominal GDP grew at a CAGR of approximately 14.9%, making the Chinese economy one of the fastest growing economies in the world. The table below sets out the nominal GDP and GDP growth in Mainland China between 2000 and 2008:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>CAGR</u>
GDP (RMB billion)	9,921	10,966	12,033	13,582	15,988	18,322	21,192	25,731	30,067	
GDP growth (%)	10.6	10.5	9.7	12.9	17.7	14.6	15.7	21.4	16.9	14.9%

Source: China Statistical Yearbook, 2009; National Bureau of Statistics of China

Urbanisation

Urbanisation has accelerated as a result of the economic growth in Mainland China. Populations in urban cities have increased substantially due to the influx of people from rural and less developed areas. From 2000 to 2008, the urbanisation rate increased from approximately 36.2% to approximately 45.7%. With the increasing urbanisation rate, there are significant growth opportunities in the retail sector in Mainland China. The table below shows the growth of urbanisation rate and GDP per capita in Mainland China from 2000 to 2008:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>CAGR</u>
Urbanisation rate (%) . .	36.2	37.7	39.1	40.5	41.8	43.0	43.9	44.9	45.7	
Per capita GDP (RMB)	7,858	8,622	9,398	10,542	12,336	14,053	16,165	19,524	22,698	14.2%

Source: China Statistical Yearbook, 2009; National Bureau of Statistics of China

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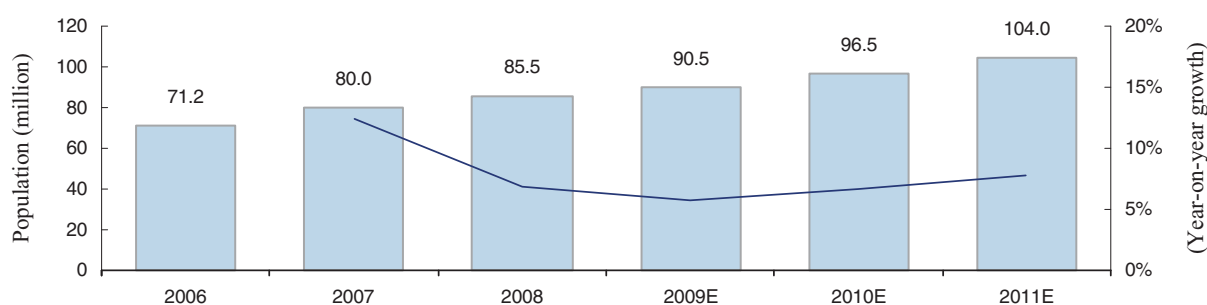
The Rise of an Affluent Urbanised Middle-Class Population

According to Euromonitor, in 2008, Mainland China had a middle-class⁽¹⁾ population of approximately 85.5 million, which has increased by approximately 14.3 million over the last two years, and is expected to increase to approximately 104.0 million by 2011, demonstrating a CAGR of approximately 7%.

Note:

(1) People with annual income of between RMB60,000 and RMB500,000 according to the National Bureau of Statistics of China

Urbanised Middle-Class Population in China (2006-2011)



Source: Euromonitor

In terms of age distribution, according to Euromonitor, the proportion of middle-class in the age group of between 30 to 39 is the highest amongst the different age groups and accounts for approximately 41.6% of the total in 2008. Those within the age group of 40 to 49 is the second highest and accounts for approximately 23.6% in 2008. Those in the age group of 20 to 29 years is the group with the fastest growth, with its percentage in the middle-class population growing from approximately 18.9% in 2006 to approximately 19.2% in 2008.

As the urban middle-class population continues to increase in conjunction with the economic reforms being implemented in Mainland China, changes are also taking place in terms of regional distribution. First-tier cities such as Beijing, Shanghai, Guangzhou and other coastal cities currently have the largest concentration of urban middle-class people, as the economy of these cities are more developed than the middle and western regions. According to Euromonitor, in 2007, the proportion of middle-class people in Beijing was approximately 16.6%, the highest in Mainland China. Guangzhou had the second highest proportion of middle-class population of approximately 15.1% and Shanghai had the third highest of middle-class population, being approximately 14.4%. Compared to Beijing, Guangzhou and Shanghai, the proportion of urban middle-class population in second-tier cities is generally lower. According to Mainland China's long-term economic development plan, the focus of development and reforms will gradually shift to the middle and western regions to accelerate their development. As a result, the proportion of urbanised middle-class in second-tier and third-tier cities is expected to grow quickly.

Key Drivers of Sustainable Growth in Mainland China's Retail Market

Together with the strong growth in annual disposable income, Euromonitor indicates that the share of basic living costs which includes food, accommodation and basic clothing has fallen from approximately 69.6% in 2006 to approximately 68.2% in 2008. Discretionary spending measures the

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consumption of other products or services, such as medical services, communication costs, education, entertainment, as well as recreational services and luxury goods. Share of discretionary spending has increased from approximately 17.2% in 2006 to approximately 17.7% in 2008 and this trend is expected to continue going forward. The increasing size of Mainland China's middle-class and growing affluence in Mainland China in general has significantly contributed to the increasing consumption of lifestyle products or services such as apparel and footwear, entertainment, leisure and technology.

This trend is expected to continue as annual disposable incomes rise, leading to a shift in the focus of spending from basic living costs to spending on discretionary items as well as savings and investments. This bodes well for the luxury sector as it heralds a stronger purchasing power and an increased consumption of luxury goods, including luxury apparel. The increase in disposable income may also indicate a change in individual consumption habits, for example, Chinese consumers may not only demand quantity but also quality. In terms of luxury apparel, consumers may increase demand for apparel that is of higher quality, is seen as more fashionable or is perceived to be of a more well-recognised brand.

Under Mainland China's Eleventh Five-Year Plan, one of the PRC Government's stated aims for the period from 2006 to 2010 is to bring more balance to the economy by reducing Mainland China's dependence on fixed asset investment and increasing the influence of domestic personal consumption on economic growth. In addition, in November 2008, the PRC Government announced a further economic stimulus plan to bolster economic growth. The plan to spend an estimated RMB4 trillion over the next two years is the largest economic stimulus effort ever taken by the PRC Government and is expected to boost the economy, incomes and overall consumption. With the increased focus on personal consumption as a key driver of GDP growth, consumption by the Chinese population, is expected to continue to grow at a rapid pace in the coming years.

MAINLAND CHINA'S APPAREL RETAIL INDUSTRY

Mainland China Apparel Market Overview

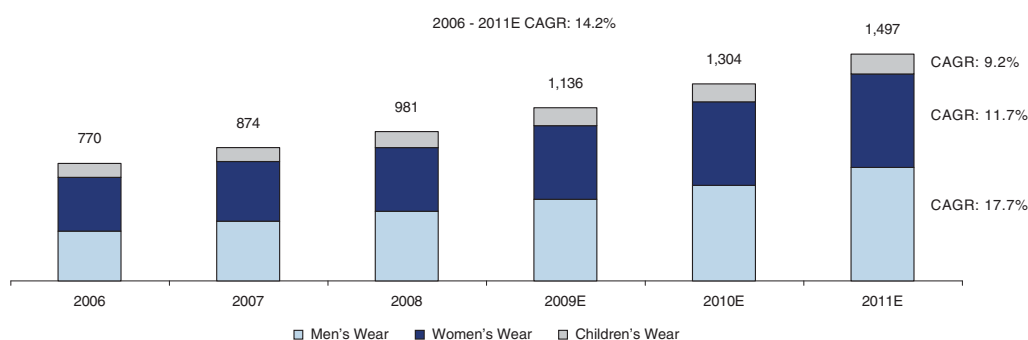
The strong growth in the Chinese economy brings with it a thriving apparel market. As a key component of retail consumption, the apparel market has demonstrated similar trends with the overall growth in the economy as well as increasing disposable incomes. According to Euromonitor, in 2007, the urban population expenditure on clothing and apparel increased by approximately 12.9% whereas, the rural population also increased their expenditure on clothing and apparel by approximately 11.2%. In 2008, the total apparel market size grew by approximately 12.3%, a historical peak, and it is expected to surpass RMB1,100 billion in 2009, representing an approximately 15.8% year-on-year growth on 2008 making Mainland China one of the largest apparel markets globally.

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According to the National Bureau of Statistics of China, Mainland China's economy will continue on its fast growing pace over the next five to ten years. Urban construction is expected to accelerate, leading to a boost to the development of shopping malls and department stores, a key driver that will help boost the apparel market in the future. As basic costs continue to decline as a percentage of total disposable income, consumers have been trading up and purchasing middle and higher-end apparel instead. Euromonitor projects in the chart below that apparel retail sales in Mainland China will reach almost RMB1,500 billion by 2011.

Retail Value Sales for Apparel Market in China (2006-2011)

(RMB billion)



Source: Euromonitor

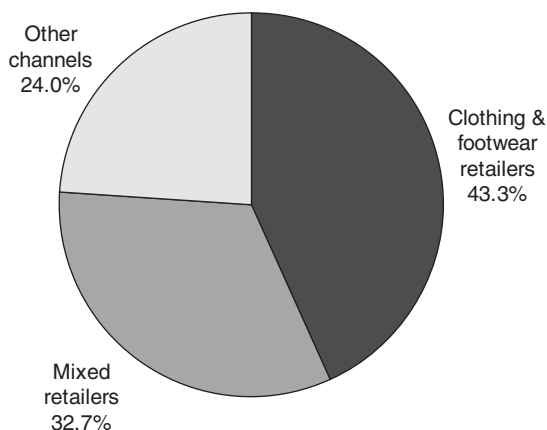
Menswear has been the fastest growing sector in the apparel market with its share of the overall apparel market increasing from approximately 42.7% in 2006 to approximately 46.1% in 2008. The growth of the consumer base for men's apparel and a rise in average spending on clothing are the two major drivers for the strong growth of the men's apparel market. According to the National Bureau of Statistics of China, Mainland China's male population grew to approximately 684 million in 2008, accounting for approximately 51.5% of the country's total population. In addition, the strong growth in menswear is also underpinned by the fact that men are paying more attention to appearance and style and as such are willing to spend more on apparel than previously seen.

Although low-to-middle end apparel accounts for the largest share of the overall apparel market, given the large rural population as well as the high proportion of low income workers, as disposable income increases and consumers improve their lifestyles by purchasing higher quality products, the consumption pattern for the apparel industry is also expected to change. Consumers are becoming increasingly conscious of quality, brand, fashion, design, style and functionality. Clothing consumption patterns have gradually shifted from consumption based on functionality and price to more of a brand based consumption pattern. As a result, the share of low-to-middle end clothing will continue to gradually decline, while the share of middle-to-high and high-to-luxury clothing will continue to rise.

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Key Apparel Retailing Distribution Channels

Retail value sales split by key retailing channels for men's apparel in Mainland China in 2008:



Source: Euromonitor

1. Clothing and footwear retailers

Clothing and footwear retailers, which are defined as outlets specialising in the sale of all types of clothing, including specialty stores and stores in shopping malls, comprised the largest share of the apparel market in Mainland China in 2008 with an approximately 43.3% share of distribution of men's apparel in Mainland China. Such retailers are expected to continue to be the dominant channel for apparel, especially for branded apparel products, due to the advantages of having a customised store image, complete control over operations and product ranges as well as the avoidance of other levies and fees imposed by department stores.

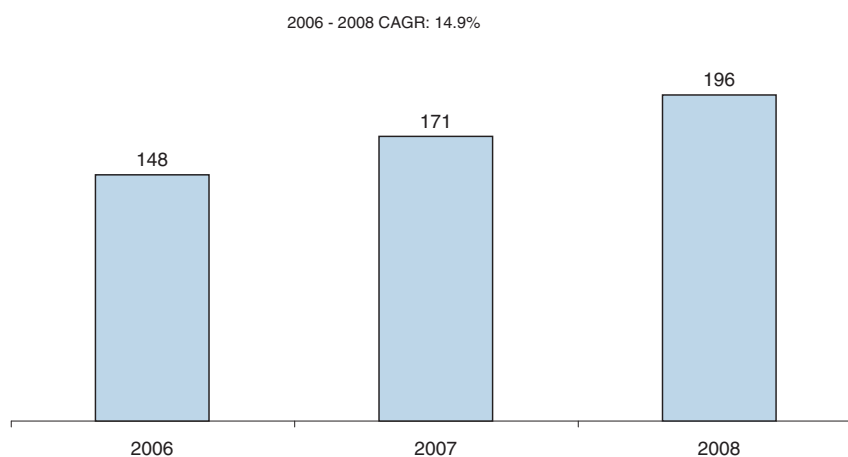
Stores may be franchised or self-owned, and both have been widely used throughout the apparel sector in Mainland China. Established brands prefer to operate self-owned stores due to the desire to keep complete control over brand image and operations, and in addition, flagship stores have been used to strengthen the brand image for such brands in core markets. However, newer, high growth brands such as sportswear brands and middle-end formal and casual wear brands have preferred to use a franchised model given the lower capital requirements and faster rollout potential.

Shopping malls are a relatively new, but up and coming channel for apparel. Such malls are typically large-scale developments which usually have a department store, specialty stores and entertainment facilities among other services. It is usually located in the central business area of large cities with an average operating area of between 100,000 square metres and 150,000 square metres. Compared to other single retail formats, it has significant advantages given its large shopping environment, high footfall and multiple brands and consumer activities. Given the fast urbanisation and development of lower-tier cities, shopping malls are likely to continue to grow at a fast pace going forward.

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Retail Value Sales of Menswear through Clothing and Footwear Retailers

(RMB billion)



2. *Mixed retailers*

In Mainland China, mixed retailers are comprised predominantly of department stores with some presence of warehouse clubs. Department stores are one of the most popular shopping channels for consumers in Mainland China as they consider product offerings in department stores to be more reliable, that is, selling genuine products of high quality.

Department stores in Mainland China can be generally divided into high-, mid- and low-end department stores based on product offerings, store environment and management. Top apparel brands are distributed through high-end department stores.

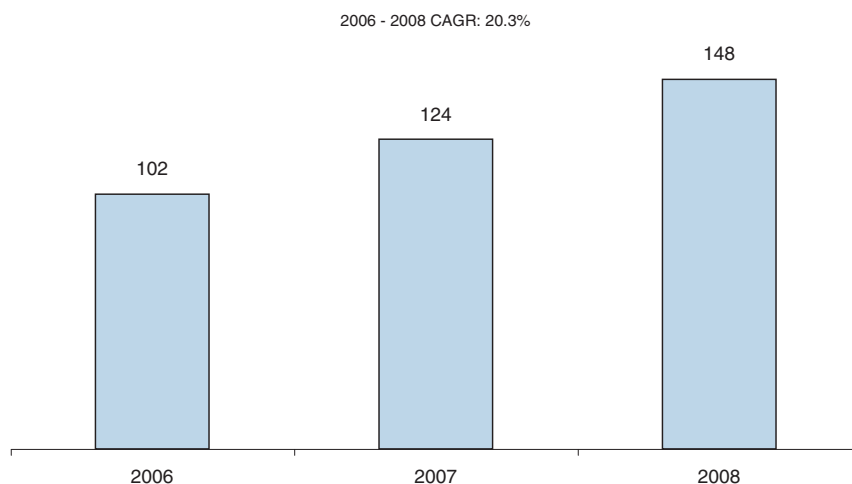
Department stores have demonstrated the highest growth compared to other retail channels as consumers have continued to trade up in a high growth economic environment. As a result, consumers have shifted consumption towards department stores given the large offering of multiple high-end apparel brands, as well as an enhanced shopping environment compared to specialty standalone stores. As such, mixed retailers have increased their share of men's apparel sales from approximately 31.1% in 2006 to approximately 32.8% in 2008.

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Retail Value Sales of Menswear through Mixed Retailers

(RMB billion)



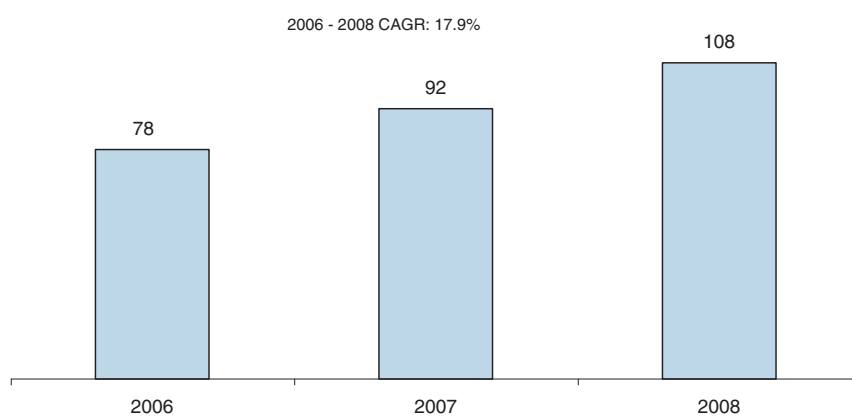
3. *Other channels*

Other distribution channels for apparel comprise discount outlets and hypermarkets, although hypermarkets currently comprise a relatively insignificant share of the market.

Discount outlets mainly sell discontinued or surplus stocks. Since outlets are mainly for closeouts and are usually designed to have lower operating costs with simple layouts and decoration, consumers can often buy products at significant discounts. Discount outlets are relatively new to Mainland China and currently most common in large cities such as Beijing, Shanghai and Shenzhen.

Retail Value Sales of Menswear through Other Channels

(RMB billion)



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MAINLAND CHINA'S HIGH-TO-LUXURY MENSWEAR MARKET

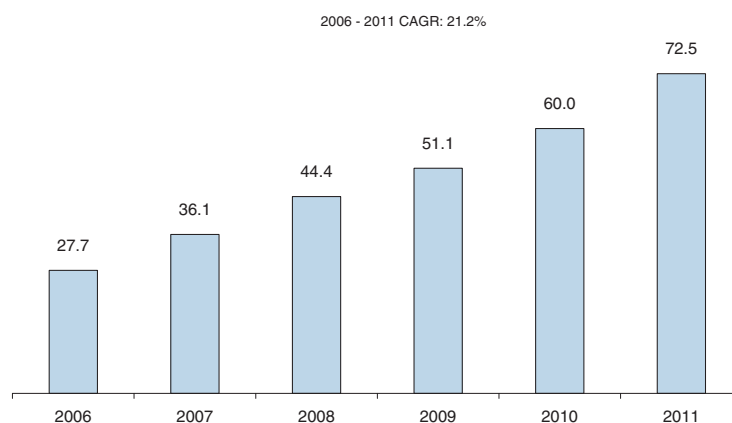
Overview of the Chinese Luxury Market

Underpinned by the growth of the urban middle-class population, rising income levels and continued trading up by consumers, the high-to-luxury apparel market in Mainland China demonstrated strong growth in 2008. Euromonitor estimates that the total retail sales for men's high-to-luxury apparel were approximately RMB44.4 billion in 2008, representing an increase of approximately 23.0% over that of 2007. The 2008 Olympic Games also presented a significant marketing opportunity that foreign high-to-luxury companies have taken advantage of by ensuring that their products are available and marketed in the media.

The growing size of the urban middle-class population and the increase in spending on luxury goods will drive consumption of high-to-luxury menswear. Thus, the overall market size of the men's high-to-luxury apparel market is expected to grow strongly at an annual growth rate of approximately 15% to 20%, according to Euromonitor. The chart below shows the historical and projected retail value sales for high-to-luxury men's apparel:

Retail Value Sales for High-to-luxury Men's Apparel (2006-2011)

(RMB billion)



Source: Euromonitor

Regional Distribution and Shift in High-to-luxury Apparel Retail Sales

First-tier cities like Beijing, Shanghai, Guangzhou and other coastal cities are where the majority of high-to-luxury consumption takes place. Luxury consumption in these cities is estimated to comprise almost 68% of the all luxury consumption in Mainland China. The high concentration is largely due to the large middle-class population, the availability of more international brands as well as a more developed retail environment and more sophisticated retailing and consumption behaviour, which is not only reflected in the larger number of department stores, specialty stores and shopping malls, but also in the higher consumer consciousness on brand name, product quality, style and fashion.

By the end of 2006, Euromonitor estimates that there have been around 66 high-to-luxury international clothing brands entering Mainland China, most of them being top international brands. These top international brands are very cautious of selection of entry point into Mainland China. Statistics collected by Euromonitor shows that such brands typically enter the four major cities in Mainland China, namely, Beijing, Shanghai, Guangzhou and Hangzhou. The number of top

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international brands present in Beijing and Shanghai are the highest. However, the retail share of first-tier cities by retail value of men's high-to-luxury apparel is declining, and this trend is expected to continue in the future. It is because the national economic development focus has gradually been shifting from the eastern coastal area to the middle and western area, and more international brands and top domestic men's apparel brands have started to expand into these areas. Additionally, the income growth and consumption upgrade in these areas are also accelerating, which greatly fuel the increase of men's high-to-luxury apparel expenditure by widening up the consumer base.

The following shows the gradual shift of high-to-luxury menswear apparel sales from first-tier cities to second and third-tier cities in the past three years:

Distribution of High-to-Luxury Apparel in China



Source: Euromonitor

Competitive Landscape

Generally, sub-segments of menswear markets with Average Retail Price ranges of between RMB2,000 and RMB4,999, as well as RMB5,000 and above are the mainstay of high-to-luxury menswear market, and are dominated by foreign top apparel brands from France, Germany, Italy, Japan, the United States and the United Kingdom. Euromonitor estimates that in the segment of Average Retail Price of RMB5,000 and above, top apparel brands from Italy accounted for the largest share of approximately 36% in 2007. International premium brands are optimistic about the luxury market as they have cultured a high and prestigious brand image in the minds of Chinese consumers with their strong brand operations and high quality of products. Euromonitor statistics show that most consumers in first-tier cities, such as Beijing and Shanghai, clearly prefer to purchase foreign brands for apparel products priced above RMB5,000. According to Euromonitor, the structure of this sub-segment is relatively stable with dominance by international brands such as Zegna and Louis Vuitton.

The segment with Average Retail Price range of between RMB2,000 and RMB4,999 is the largest of the high-to-luxury end menswear market. Compared to the segment with Average Retail Price range of RMB5,000 and above, competition of this sub-segment is more intense. Some of the international brands like Canali, Armani and domestic famous brands like Youngor, are the main

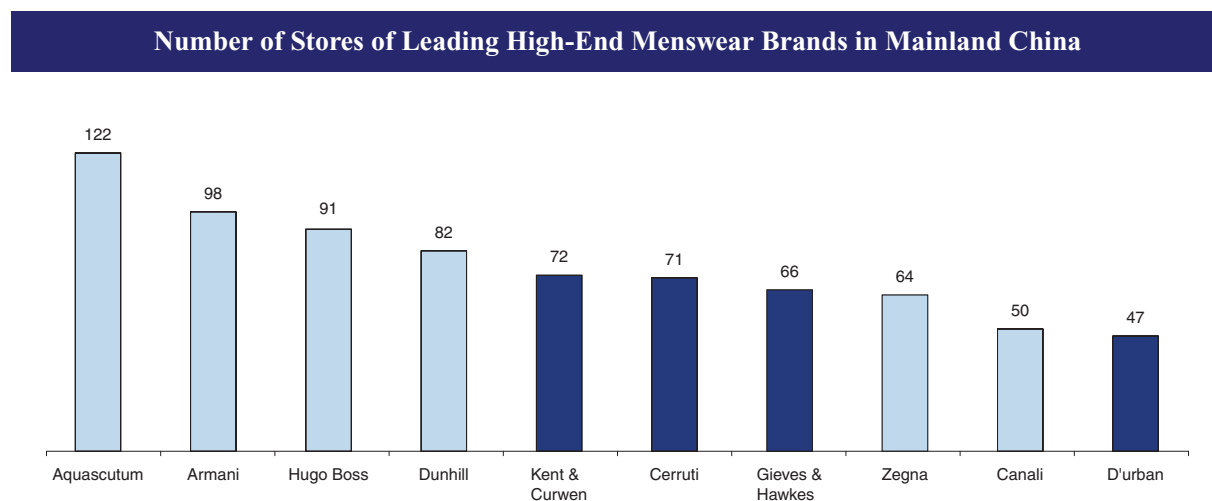
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players in this sub-segment, and international brands also dominate the market share of this segment due to stronger competitiveness from their brand operation experience and brand reputation.

Top International Brands Quickened the Pace of Expansion in Mainland China

Most of these top international apparel brands are stepping up their pace of expansion in Mainland China. Typically, high-to-luxury international brands tend to enter more affluent cities, such as Beijing and Shanghai, first in order to showcase their products as well as generate consumer interest. Intensive press launches and mass media marketing are used exclusively in brand launches in Mainland China in order to generate significant interest with consumers. Subsequent to initial launch, these brands quickly expand into other cities, such as Guangzhou, Hangzhou, Wenzhou, Ningbo and Chengdu, to take up retail space as well as make their products widely available to the consumers.

The chart below demonstrates a selection of major international menswear brands in Mainland China as at the latest available date:



Source: Euromonitor, Company

Note: Data for brands of competitors as of 31 August 2009. Data for brands owned by the Group as of 30 September 2009.

APPAREL RETAIL IN THE REST OF ASIA

Moderate Economic Growth in Taiwan and Hong Kong

While Mainland China's GDP has experienced double-digit CAGR from 2000 and 2008, the economies in Hong Kong and Taiwan have grown at relatively moderate rates. The chart below sets out the nominal GDP growth rates for Hong Kong and Taiwan between 2002 and 2008:

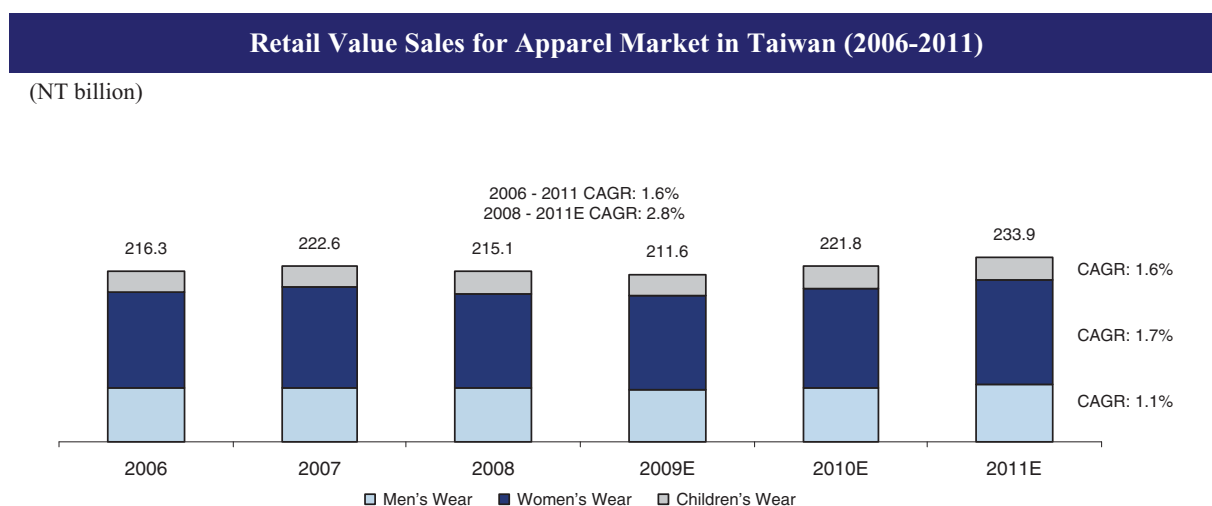
	2002	2003	2004	2005	2006	2007	2008
Hong Kong GDP (HK\$ billion)	1,277	1,234	1,291	1,383	1,475	1,615	1,678
GDP growth (%)		-3.3%	4.6%	7.0%	6.7%	9.5%	3.8%
	2002	2003	2004	2005	2006	2007	2008
Taiwan GDP (NT billion)	10,293	10,520	11,066	11,455	11,918	12,636	12,341
GDP growth (%)		2.2%	5.2%	3.5%	4.0%	6.0%	-2.3%

Source: Hong Kong SAR Census and Statistics Department; Directorate - General of Budgeting, Accounting and Statistics, Executive Yuan, R.O.C (Taiwan)

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Taiwan Apparel Market Overview

The Taiwan apparel industry is a relatively stable and mature market although has shown a slight decline in 2008 given the challenging economic backdrop. The market is expected to continue to decline in 2009 although rebound in 2010 and 2011 and Euromonitor predicts that the Taiwanese apparel industry will grow at a CAGR of approximately 2.8% from 2008 to 2011:



Source: Euromonitor

Intense Competition in Taiwan

As has been seen in previous economic downturns such as in the early 2000s, SARS in 2003 and the consumer credit crisis in 2005, the economic downturn over the last year has impacted competition in Taiwan. Pricing trends in apparel have generally reflected the economic situation in Taiwan and as such, competition would become more intense under challenging market conditions.

In addition, since Taiwan entered the WTO in 2002, import tariffs and trade barriers have diminished. As a result, Asian apparel has increasingly gained a larger share of sales in the local market. The draw of upscale international brands has also intensified the competitive landscape in Taiwan, as strong worldwide promotion and prestigious brand images have enabled these brands to play a more important role in the market.

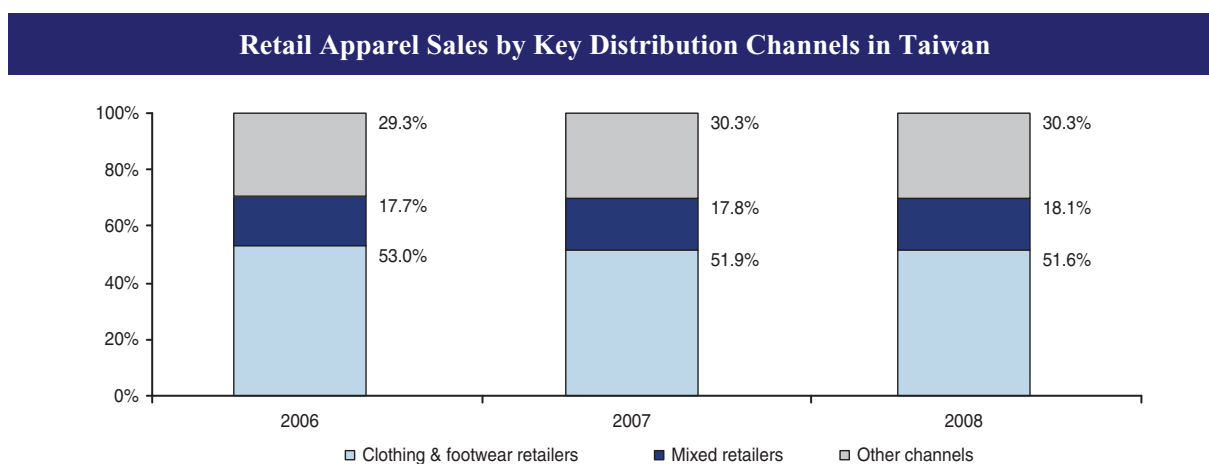
In view of the stable and mature nature of apparel sales and strong competition, Euromonitor observes that players in Taiwan have become more cautious in the positioning of their brands in order to defend their market shares. One key action taken by major players is to obtain local distribution agreements for international brands and leverage the prestige of these international brands to enhance the sales and fashion images of their original brands. Some players have also adopted a diversified branding strategy targeting different market segments. Euromonitor believes the apparel market in Taiwan will increasingly polarise, with the market moving towards the two different pricing extremes.

Distribution Channels in Taiwan

Distribution is a key factor to success. Unlike in Mainland China where brands are dependent on department stores and shopping malls for retail distribution, most brand players in Taiwan establish retail stores to spread retail distribution and increase market share by providing easy accessibility to

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customers. Euromonitor estimates more than 51% of apparel sales is conducted in clothing and footwear retailers in 2008, followed by about 18% in mixed retailers. While high street retailers and department stores are still the major distribution channels for apparel, other channels including internet shopping and TV shopping are slowly gaining importance. The chart below sets out the retail apparel sales by key distribution channels:

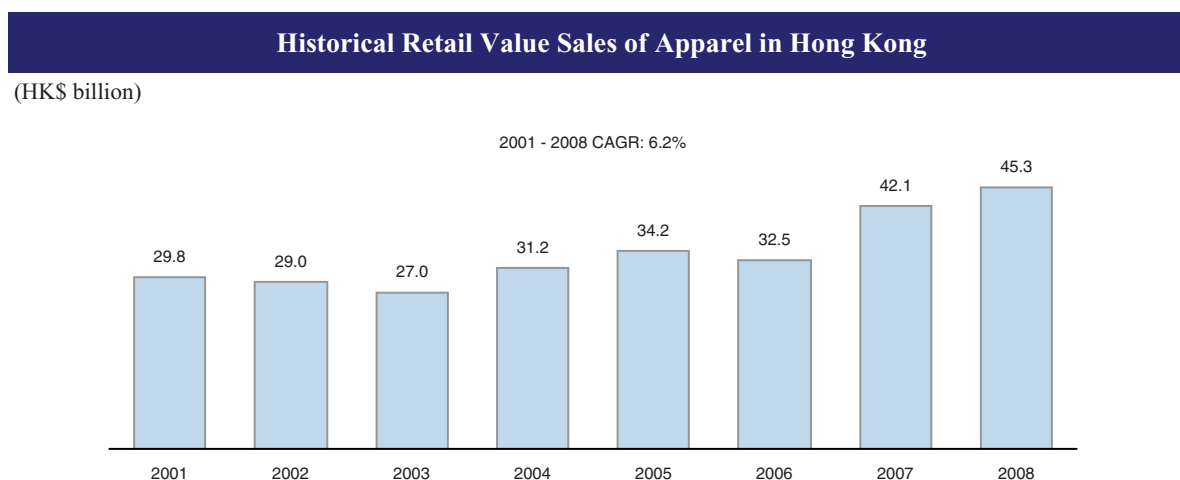


Source: Euromonitor

Hong Kong Apparel Market Overview

Similar to Taiwan, Hong Kong's apparel market is relatively mature, although it has shown relatively strong growth in recent years. The Hong Kong Census and Statistics Department estimates that the total size of the apparel and footwear market in Hong Kong in 2008 was approximately HK\$45.3 billion.

As a result of the SARS outbreak, the apparel market experienced a decline in 2002 and 2003, corresponding to a worsening of the economy. However the market recovered and rebounded in 2004 and 2005 and grew substantially in 2007 on the back of strong GDP growth. The chart below shows retail sales for apparel and footwear from 2001 to 2008:



Source: Hong Kong Census and Statistics Department

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REPORTS FROM EUROMONITOR COMMISSIONED BY THE GROUP

The Group commissioned reports from Euromonitor International (Asia) Pte Ltd., an Independent Third Party and an independent market research firm with more than 25 years' of industry experience in conducting trade research and detailed local market analysis. A total amount of US\$46,000 was paid to Euromonitor for the reports.

The reports from Euromonitor commissioned by the Group cover various topics including: (1) demographic and socio-economic indicators in Mainland China that are relevant to the apparel market; (2) the overall environment of the apparel industry in Mainland China, including industry structure, market size and future outlook; (3) the men's high-to-luxury end apparel segment, including market sizing, competitor analysis and market share estimation and (4) data on the apparel market in Taiwan. The methodology used by Euromonitor for its reports account for both primary and secondary research in the markets of Mainland China, supplemented with market/strategic overview analysis reconciling data and qualitative and anecdotal information gained from sources inside the industry. Primary research involves trade interviews with key industry players such as men's high-to-luxury end apparel retail store managers, sales and marketing team of men's high-to-luxury end apparel brands and trade associations. Secondary research involves an assessment of relevant background information publicly available through sources such as websites and trade reports of men's luxury apparel brands, retailers, national statistics, annual reports, business and mainstream press, fashion media and any other publicly available, relevant sources. Such information is cross-referenced with any available Euromonitor's internal data and expertise.

Forecasts for the men's high-to-luxury market were determined via an aggregation of opinions and facts gathered during Euromonitor's trade interviews with clothing manufacturers, clothing distributors, clothing retailers, trade associations, industry observers as well as national statistics organisations and boards. These sources were interviewed and asked about their opinion of the market trends going into the forecast period. Euromonitor confirms that it has carried out research as per Euromonitor's standard trade research methodology. Euromonitor is of the opinion that trade interviews with the industry is the closest measure and best estimate of how the men's high-to-luxury market is expected to perform in the forecast period based on historic as well as current trends.

The scope of work for the studies commissioned by the Group from Euromonitor covers Mainland China and Taiwan. Additional data and reports covering the Taiwan and Hong Kong markets have also been purchased from Euromonitor as required.