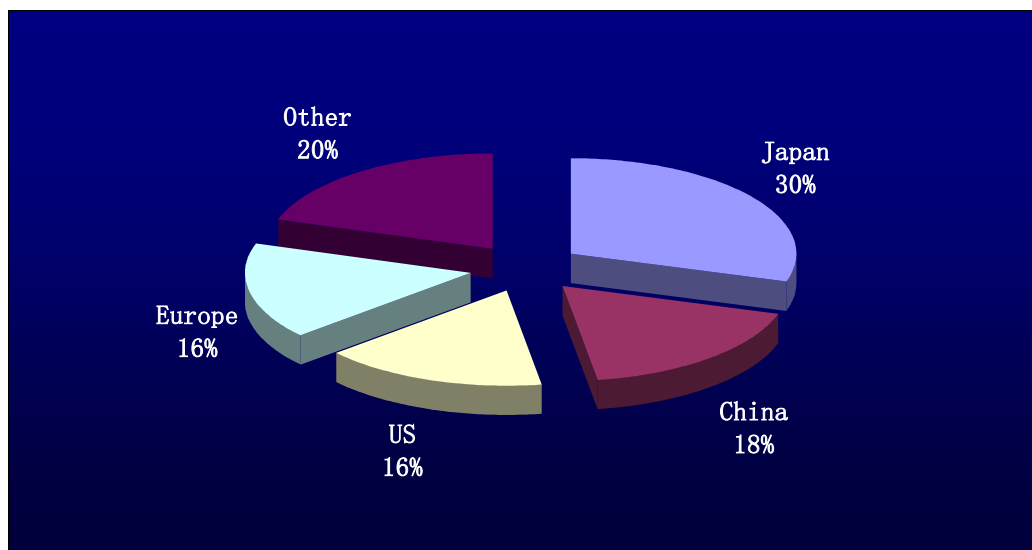


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## 1.2 Global Market

It is reported by "Fashion Leader" (a Chinese fashion magazine) that after Southeast Asian Economic Crisis and US 9.11 event, the global luxury market is very sluggish. Especially influenced by European movement of resistance against luxury, the sales of some luxury dressing brands suffered a slight drop. Europe, America and Japan are the biggest luxury markets but they are not prosperous in the recent years. According to the survey, Asians adore the luxury crazily. Asia accounts for around 60% market shares of the whole globe, among which, Japan takes up 30%.

**Global Luxury Market Share, 2007**



Source: ResearchInChina

According to the statistics released by Brain & Company in April 2007, the dressing takes up 32% shares in the global luxury market, perfume and cosmetics 23%, watch and jewelry 20%, dressing accessories 19%, house and table decorations 3%. China, India, Thailand and Russia are the newly emerging markets for luxury development.

The global luxury business reaches the gross growth rate of 8%, among which, China occupies 2.5%, nearly one third. The sales in Japan take up 30% of the total in the globe luxury dressing, but the growth rate is very slow. Seven years later (by 2015), China will exceed it. By then, Japan and China would have accounted for half of the business volume of luxury dressing.

### **2.3 Consumer Characteristics**

China luxury market has its own characteristics. Consumers groups are more than occident consumers'. There are three groups: new aristocrats, new distraction consumer group and fashionable cool products consumer group.

(1) China luxury consumers are younger people mostly aged from 20 to 40 years old, while the western luxury consumers are mainly middle-aged or old people aged from 40 to 70 years old.

(2) China luxury consumer group presents diversified characteristics. In western country, the individual consumers are the most important, while in China there are three consumer groups: important and powerful people, rich people and white-collar of foreign enterprise.

(3) Enterprise purchase is another unique feature of China luxury market; the buyers purchased luxuries for the users. Many companies just purchase luxuries for main clients, partners and government officials.

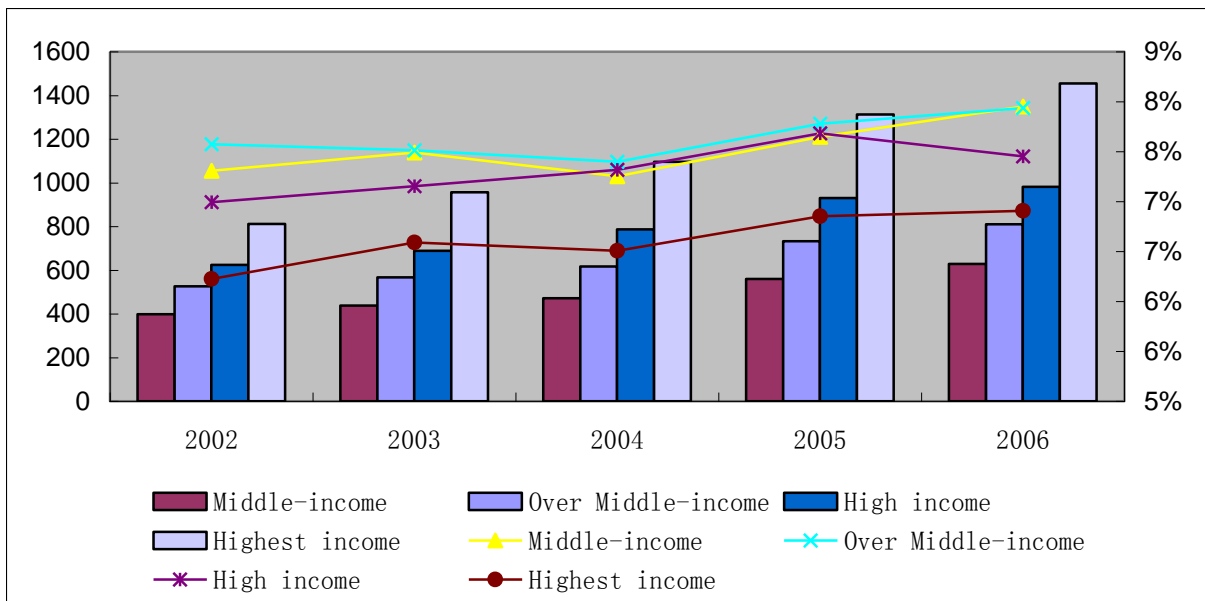
(4) China's consumption luxuries are mainly apparel, perfume and watch, while in occident countries the consumers mainly focus on house, car, travel and individual consumption.

(5) Chinese people purchase luxury by travel mostly. According to statistic of French Tourism Office, the average expenditure of Chinese tourists is much higher than occident tourists. At present, Chinese people consumption amount of world top brand accounts for 5% of the total, of which 3% is spent overseas.

(6) People whose income can not afford for luxuries will purchase some cheap fittings to satisfy their vanity. They are wild about top brand small fittings such as necktie, shoe leather and portfolio etc. Some girls are still in the stage of buying brand portfolio, because it can be wore well and showed outside.

**Annual Expenditure on Apparel by Each Family of China Urban Residents with Middle-income or above and Its Proportion to All Consumption**

(CNY, %)



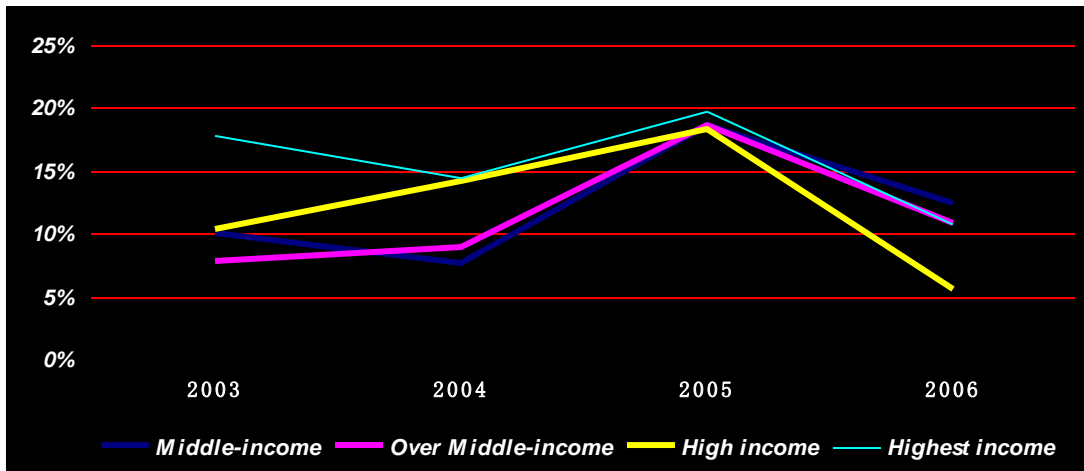
Source: ResearchInChina

**2.4 General Market**

Since 1996, China luxury market has increased by 20% annually. 81.25% of the world top brands have entered China.

According to statistics, China middle-class population will increase to 361 million in 2030 from 56 million in 2000. Moreover, apperceive and consumption to luxury brands has been promoted. Not only the company or brand manager controls brand, but also consumers are recognizing brands and brand significance.

### Annual Growth Rate of Expenditure on Apparel for China Urban Residents with Varied Income



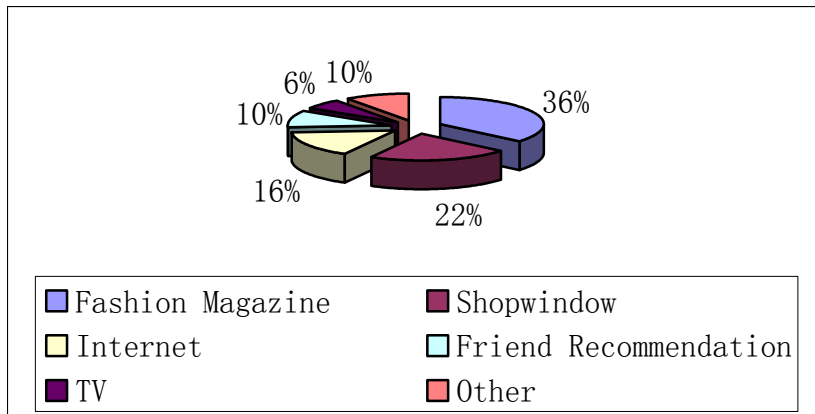
Source: ResearchInChina

At present, many international luxury apparel brands set up stores in China, and their stores mainly distribute in first-tier cities such as Beijing, Shanghai, Guangzhou, Shenzhen and regional economic centers. Among which, Shanghai sales volume ranks first in China, and its annual sales volume has reached above US\$600 million. In 2006-2008, Shanghai top brand apparel market increased to 20%; it is estimated that Shanghai annual average growth rate will maintain about 10% from 2008 to 2015 and the luxury consumers will be 100,000 to 130,000. The next one is Beijing, LV, Armani, Chanel, Gucci and Dior have set up stores in Beijing, and now Beijing is the biggest location for luxury consumption in north region. Beijing two five-star hotels are the main places for luxury apparel consumption: Wangfu and Guomao Hotel. Additionally, Hangzhou, Guangzhou, Shenzhen, Dalian, Chengdu, Shenyang and Qingdao have also become China main cities for international luxury apparel consumption.

### 3.3 Features of Consumer Groups

Chinese consumers learn of the luxury dressing brands mainly through fashion magazines and the ratio takes up 36%. There are also other channels to know about them like the show window (22%), internet (16%), friends' recommendation and TV advertisement (6%).

**Apparel Luxury Information Channel of Chinese Consumers**



Source: ResearchInChina

About 36% consumers buy the luxury at franchise stores and 35% at the local luxurious shopping mall. So the sales channels of these world-leading clothing brands can almost meet the purchasing demand of Chinese consumers currently. But there are still part of consumers who buy the luxury dressing through other channels. This reflects that there exists great potential in China's luxury dressing market and the brand stores cannot satisfy some critical consumers.

## **6. Development Trend of China Luxury Dressing Market**

In recent years, China's total retail sales of social consumer goods maintained a double-digit growth. In the first half of 2006, total retail sales of social consumer goods reached CNY 3.6448 trillion, up 13.3 percent year on year. China has a population of 1.3 billion people as potential consumers, the per capita disposable income of urban and rural residents were CNY 10,493 and CNY 3,255 respectively, so Chinese consumer are fully capable to purchase international luxury dressing largely.

According to the statistics from China Association of Branding Strategy, China has 175 million consumers who have the capability to purchase various kinds of luxury, accounting for 13.5% of the total population. Among them, 10-13 million are active consumers who purchase luxury dressing, watch, portfolio, cosmetics, jewelry and so on. The association estimated that annual income of such colony was CNY 240,000 (USD 29,630) with deposit of CNY 300,000-500,000 (USD 37,037-61,728). The population of such colony might increase to 250 million. In the coming years, about 200 million —300 million rural people enter the cities which are full of luxury, which would drive the growth of the market.