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Latest developments of China's apparel market

Overview

- China's apparel market demonstrates rosy prospect, but short-term outlook is cloudier.
- Sales growth of several sub-sectors witnessed decline in recent months; ladies' wear continues to be the major sub-sector.
- Clothing enterprises are under growing price pressure in face of growing labor and raw material costs; poorer consumption sentiment poses difficulty for players to pass their costs to consumers.

Competitive landscape

- Foreign brands dominate China's luxury market; mid- to high-end segments continue to receive huge attention from foreign players.
- Domestic brands perform well in the mass market with their competitive pricing and extensive domestic sales channels, especially in the lower-tier cities.

Apparel player's latest developments

- Players are more cautious towards store expansion; lower-tier cities in China will be the next wave of expansion target.
- Franchise operation is common.
- Players strive to enhance competitiveness by better branding, expanding brand portfolio, improving supply chain efficiencies, outsourcing manufacturing, etc.
- Department stores and specialty stores are major distribution channels for branded apparel; some retailers also begin exploring other retailing channels such as online platform and discount outlets.
- Apparel players have grasped huge attention in the capital market in the past few years; though some companies have scrapped or delayed their listing plans due to the volatile market conditions recently.

Performance of selected apparel sectors

- Sectors with increasing market share of top 10 players: men's suits, men's shirts, ladies' wear, children's wear, jackets, sportswear, ladies' underwear
- Sectors with decreasing market share of top 10 players: T-shirts, denim wear

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Latest developments of China's apparel market

I. Overview

1. A market with rosy prospect, but short-term outlook is cloudier

China's apparel market has registered significant growth over the past years. According to the National Bureau of Statistics (NBS), the total retail value of clothing, shoes, hats and textiles by wholesale and retail enterprises above designated size[1] in 2007 grew by 28.7% yoy to achieve 302.41 billon yuan (See Exhibit 1). In 1-3Q08, the retail value growth registered slightly slower growth of 26.5 %.

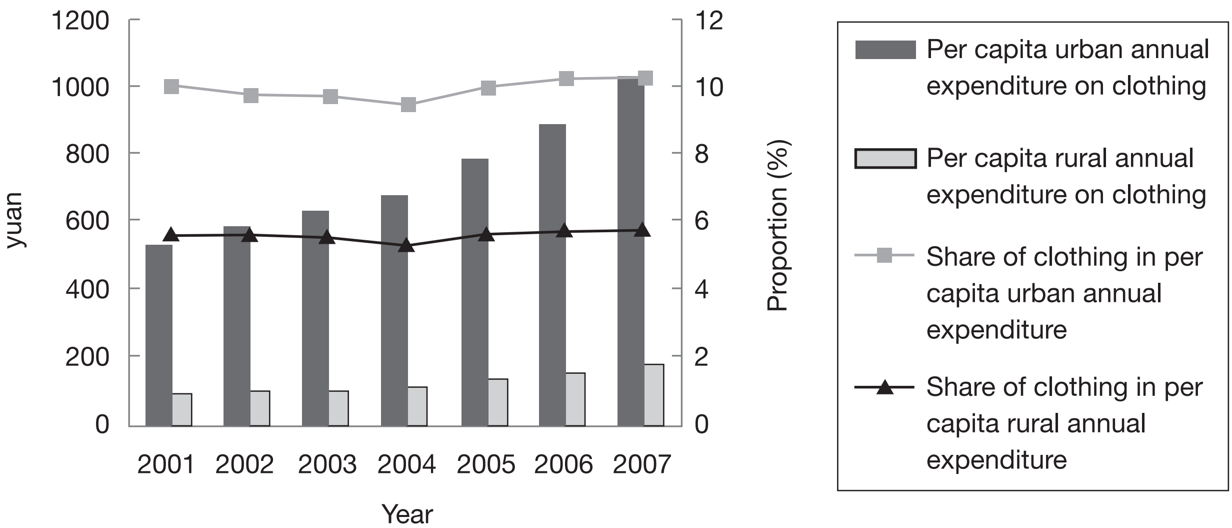
Exhibit 1: Growth in total retail sales of clothing, shoes, hats and textiles by wholesale and retail enterprises above designated size

	1-3Q 2008	2007	2006	2005	2004
yoy % change	26.5%	28.7%	19.2%	19.6%	18.7%

Source: National Bureau of Statistics of China (NBS)

In 2007, per capita disposable income of urban households increased by 12.2% to 13,786 yuan while per capita cash income of rural households rose by 9.5% to 4,140 yuan; rising income has fuelled consumers' trading-up in China—per capita annual expenditure on clothing climbed further in 2007. Urbanites on average spent 10.42% of their annual expenditure on clothing (1042 yuan) while rural consumers spent 5.97% of their annual expenditure on clothing (193 yuan) (See Exhibit 2).

Exhibit 2: Per capita annual expenditure on clothing* of urban and rural households, 2001-2007



Source: National Bureau of Statistics of China (NBS)

* *"Clothing" here includes garments, clothing materials, footwear, hats, and other clothing, tailoring and laundering service fees.*

1 Designated size: with annual sales of 5 million yuan or above and with an employment of or over 60.

Indeed, China is one of the most promising apparel markets in the world. According to global management consulting firm A.T. Kearney, China's apparel market is the second-most attractive among emerging economies after Brazil. Nonetheless, short-term sector outlook is cloudier with slower income growth and poorer consumer sentiment. Urbanites, the major driving force of apparel sales, have witnessed their disposable income growth in real terms down to 7.5% yoy in first three quarters of 2008. Besides, macroeconomic concerns, property and stock market slump have hurt consumer confidence. China's consumer confidence index dropped to 93.4 in September 2008, the lowest level recorded since February 2006; sales of discretionary fashion items are showing signs of slowdown.

2. Sales growth of several sub-sectors witnessed decline in recent months; ladies' wear continues to be the major sub-sector

The China National Commercial Information Center (CNCIC) conducts monthly survey to over 260 major department stores across China to study the performance of different apparel sub-sectors. Exhibit 3 showed the performance of various apparel sub-sectors. Apparel sales volume in major department stores showed a stable growth of 12.1% in 2007; though slightly down from 15.3% in 2006, price tags of apparel items in major department stores had continued to climb in 2007.

Yet, apparel retail sales volume growth has further slowed down to 11.0% in the first 8 months of 2008. Retail sales volume growth was in negative territory for half of the apparel sub-sectors (see Exhibit 3).

Exhibit 3: Retail sales volume of various apparel categories in major department stores

	Jan - Aug, 2008		2007	
	Million pieces	yoy % growth	Million pieces	yoy % growth
Overall	**265.6**	**11.0**	**363.0**	**12.1**
Ladies' wear	76.4	12.8	102.6	12.0
Knitted underwear	40.4	-7.1	61.1	6.9
Children's wear	20.5	11.8	27.7	15.4
Woolen wear	14.3	1.4	24.1	5.6
T-shirt	10.7	-7.0	15.4	10.5
Thermal clothing	7.4	3.5	14.3	5.8
Trousers	8.3	-4.4	12.3	-1.0
Men's shirt	7.3	-3.7	11.1	11.9
Men's suit	6.2	6.2	9.3	14.8
Jackets	3.9	-4.6	6.9	13.6
Denim wear	3.1	9.0	4.4	8.7
Leather wear	0.5	-6.6	0.8	34.0

Source: China National Commercial Information Centre (CNCIC)

Exhibit 4 demonstrates the share of sales volume of different sub-sectors. Ladies' wear continued to be the largest contributor to total apparel sales. Ladies' wear accounted for 28.3% of the retail volume sales in 2007, followed by knitted underwear of 16.8% and children's wear of 7.6%.

Exhibit 4: Share of sales volume of different product sectors, 2003-2008 (Jan – Aug) (%)

Jan-Aug,	2008	2007	2006	2005	2004	2003
Ladies' wear	28.8	28.3	28.9	28.6	26.6	25.9
Knitted underwear	15.2	16.8	16.3	16.6	18.6	20.5
Children's wear	7.7	7.6	7.7	8.0	8.1	8.0
Casual wear	5.5	7.3	7.5	7.4	8.4	7.8
of which: T-shirt	4.0	4.2	4.2	3.7	4.1	3.8
Jackets	1.5	1.9	1.9	2.0	2.2	2.1
Denim wear	1.2	1.2	1.5	1.7	2.1	1.9
Woolen wear	5.4	6.6	7.1	6.9	7.2	7.9
Menswear	5.1	5.6	5.2	5.8	6.6	7.0
of which: Men's shirt	2.8	3.1	2.9	3.1	3.5	4.0
Men's suit	2.3	2.6	2.3	2.7	3.1	3.0
Thermal clothing	2.8	3.9	4.2	4.3	3.6	3.8
Trousers	3.1	3.4	3.6	3.5	3.6	4.1
Leather wear	0.2	0.2	0.2	0.2	0.2	0.2
Others	25.0	20.2	19.3	18.7	17.1	14.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: China National Commercial Information Centre (CNCIC)

3. Clothing enterprises under growing price pressure

Clothing manufacturers in China have been under rising cost pressure over the past year in face of growing labor and raw material costs. At the same time, intensified competition in the market has brought huge price pressure on players. According to the NBS, clothing price has continued its downward trend in 1-3Q08. (See Exhibit 5). In the face of retail slowdown, markdowns and volume-based sales promotion to improve stock sell-through rates are growingly common among apparel players.

Exhibit 5: Clothing price index, 1998-2008 Q1-3 (Same month of preceding year=100)

	1-3Q 2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
yoy % change of clothing prices	-1.4	-0.6	-0.6	-1.7	-1.5	-2.4	-2.6	-1.9	-0.9	-3.4	-1.1

Source: National Bureau of Statistics of China (NBS)

On the other hand, softer global demand has posed huge challenges to clothing exporters in China. Export growth of garment and textile moderated to 1.8% yoy and 21.3% yoy respectively in 1-3Q08, compared to 3.4% yoy and 26.8% yoy in 1H08. More and more export-oriented clothing enterprises now wish to engage in domestic sales. Nonetheless, poor knowledge in building domestic sales channels and low market recognition are major barriers.

II. Competitive landscape

1. Foreign brands

(1) Foreign brands dominate China's luxury market

Foreign brands have dominated China's high-end fashion scene. Today, leading luxury groups such as Moët Hennessy - Louis Vuitton (LVMH Group), Richemont and PPR have major presence in the country. As Chinese luxury consumers favor brands that can easily be recognized, super-brands such as Louis Vuitton, Chanel and Gucci have a stronghold. Besides, China's luxury apparel market is predominately male-driven; male-oriented luxury players such as Ermenegildo Zegna, Gieves & Hawkes, Cerruti 1881, Dunhill and Hugo Boss have extensive footprints in the country and enjoy tremendous success.

On the other hand, domestic brands are virtually absent in China's luxury apparel scene. Despite some domestic players such as NE•TIGER (東北虎) striving to go upmarket, it is still a long way to go for domestic players to rival their foreign counterparts.

For further details about China's luxury market, please refer to our newsletter "Luxury apparel market in China" in Industry Series Issue 12.

(2) Mid- to high-end segments continue to receive huge attention from foreign players

As Chinese consumers trade up, the mid- to high-end apparel segments have received growing interests from foreign players in recent years. Targeting the country's middle class, several international players such as H&M, Zara and C&A had set foot in China in recent years. Foreign newcomers usually open their shops in first-tier cities such as Beijing and Shanghai for their better showcase effect.

2. Domestic brands perform well in the mass market

With competitive pricing and extensive domestic sales channels especially in second- and third-tier cities, domestic brands perform well in the mass market. As shall be seen in later sessions, domestic brands dominated in several apparel sub-sectors in 2007. Though generally weaker in brand building and supply chain management, a number of players have strived hard to move up the value ladder. Exhibit 6 and 7 show the Top 10 domestic apparel enterprises by sales revenue and profits in 2007. We expect market consolidation to speed up in the next year or two, as many smaller players are being phased out due to rising costs and intensified competition.

Exhibit 6: Top 10 domestic apparel enterprises by sales revenue, 2007

1 Youngor Group Co., Ltd 雅戈爾集團股份有限公司
2 Hongdou Group Co., Ltd 紅豆集團有限公司
3 Heilan Group 海瀾集團有限公司
4 Bosideng Co., Ltd 波司登股份有限公司
5 ShanShan Enterprise 杉杉投資控股有限公司
6 Qingdao Jifa Group 青島即發集團
7 Shandong Sinoer Group Co., Ltd. 新郎希努爾集團股份有限公司
8 Dayang Group Co., Ltd. 大楊集團有限責任公司
9 Judger Group Co., Ltd. 莊吉集團
10 Semir Group Co., Ltd. 森馬集團有限公司

Source: China National Garment Association (CNGA)

Exhibit 7: Top 10 domestic apparel enterprises by profits, 2007

1 Youngor Group Co., Ltd 雅戈爾集團股份有限公司
2 Bosideng Co., Ltd 波司登股份有限公司
3 Hongdou Industrial Co., Ltd 紅豆集團有限公司
4 Heilan Group 海瀾集團公司
5 Shandong Sinoer Group Co., Ltd. 新郎希努爾集團股份有限公司
6 ShanShan Enterprise 杉杉投資控股有限公司
7 Zhejiang Baoxiniao Garment Co. Ltd 報喜鳥集團有限公司
8 China Ting Group Holdings Limited 浙江華鼎集團有限責任公司
9 Quanzhou Longxing Weaving Co.,Ltd. 泉州隆星織造有限公司
10 Judger Group Co., Ltd. 莊吉集團

Source: China National Garment Association (CNGA)

III. Apparel player's latest developments

1. More cautious store expansion; lower-tier cities in China will be the next wave of expansion target

According to the Euromonitor, the number of clothing and footwear outlets in China grew by 9% in 2007. Established players have spent huge efforts to increase their store proliferation across the country in the past few years, especially in the wealthiest coastal cities. However, apparel companies are likely to slow down their store expansion in the next year or two. On the one hand, many have already extended their sales network aggressively in the past few years. On the other hand, retailers are now more cautious towards capital expenditure in the face of consumption slowdown concerns.

With higher consumption power and better showcase effects, China's first-tier cities have been many players' prime expansion target in the past years. However, competition is growingly intense in these cities and there are signs of market saturation. As wealth tricking down to lower-tier cities and labor and rental costs in these places are lower, many apparel players now eye the potential in China's lower cities. In fact, many apparel brands such as ONLY and VERO MODA have targeted the second- and third-tier cities as the key expansion targets.

2. Franchise operation is still common

According to the China Chain Store and Franchise Association (CCFA), there were 2,800 franchise businesses with over 230,000 franchise stores in China in 2007, showing a yoy increase of 7.7% and 15.0% respectively. Many apparel players have adopted franchise operation in China to achieve extensive sales network and fast expansion in less costly way. Franchise operation is particularly popular for casual wear and sportswear businesses, as their merchandize are generally more standardized. Some brands such as Li Ning (李寧) and Anta (安踏) work with distributors, which the latter manage the franchised outlets under the brand owners' supervision.

However, franchise operation is not without its disadvantages. It is sometimes difficult for brands to deliver consistent brand image and service level; franchisee management is key. Some players are increasing the proportion of self-operated stores. According to CCFA, the percentage of franchise apparel businesses running self-operated stores increased from 16% in 2006 to 30% in 2007. Indeed, many brand operators now prefer running self-operated stores in key cities such as Beijing and Shanghai and adopt franchise operations in lower-tier cities.

3. Players striving to enhance competitiveness

(1) Better branding

To win the competition, apparel players place stronger efforts to enhance their brand recognition. Celebrity endorsement is a popular marketing tool. For example, Xtep (特步) have endorsed renowned celebrities such as Nicholas Tse and Jolin Tsai as spokespersons to target the fashion-conscious youngsters. Anta collaborated with renowned sportswear designer Bill Peterson and introduced designated basketball shoes series for endorsed players Luis Scola and Steve Francis of the Rockets. Event sponsorship is also common, especially for sportswear brands. Brands such as adidas, Nike, Li Ning and Anta have spent huge sums during the Olympics to enhance their market exposure.

On the other hand, opening flagship stores in prime locations is growingly popular for players to raise their visibility. For instance, UNIQLO and adidas have opened their own flagship stores in Beijing's renowned Sanitun Village. The flagship store of Metersbonwe's (美特斯邦威) new brand "Me & City" in Shanghai has also grasped much attention.

(2) Expanding brand portfolio

To reach wider consumer segments, some established apparel companies are expanding their brand portfolio. For example, to capture growth opportunities in the children and teenagers' sportswear segment, Anta has employed the brand extension strategy to expand into the children's sportswear and trendy sneakers market. Some players have also launched multi-brands. Metersbonwe launching the new brand "Me & City" targeting businesswomen is a case in point.

Some apparel companies seek to expand their brand portfolio by acquiring or entering into licensing agreement with foreign brands. For instance, China Dongxiang (中國動向), which markets international brands such as Kappa and Rukka in China, has acquired the Japanese brand Phenix in 2008. Li Ling has also entered into an exclusive license agreement with Lotto Sport to use the Lotto trademarks for approximately 20 years. On the other hand, leading domestic menswear player Youngor (雅戈爾) hopes to expand overseas networks and establish itself as a global brand through the acquisition of the US Smart Shirts menswear business. It has also signed a 20-year agency contract with HSM to introduce Hart Schaffner Marx, HSM's major brand, into China.

(3) Improving supply chain efficiencies

Compared with foreign counterparts, many apparel players in China lag behind in supply chain management, resulting in problems such as high logistics costs, poor inventory turnover, and long lead time. Besides, intensifying competition has brought great challenges to apparel players in China; in particular, the entry of renowned fast fashion players such as H&M and Zara has reshaped the industry dynamics, prompting others to improve their time-to-market. Supply chain management is getting attention. Industry experts believe that more and more players will outsource their logistics to enhance their efficiency.

(4) Outsourcing manufacture

Some established players also seek to outsource manufacturing in order to focus on respective areas of core competence such as design, brand marketing and retailing. For instance, Li Ning, China Dongxiang, Semir (森馬) and Metersbonwe have outsourced all or some of their production and adopted the asset-light business model.

4. Department stores and specialty stores are major distribution channels for branded apparel; some retailers also exploring with other retailing channels

Consumers with higher spending power in China prefer to shop in department stores and shopping malls. Today, department stores and specialty stores are major distribution channels for branded apparel in China. To improve customer traffic, many department stores and shopping malls have embarked on upgrading plans in recent years; and the operators now frequently review their tenant or concessionaire mix. Weaker brands now have increasing difficulties to enter these channels.

On the other hand, wholesale markets and hypermarkets are popular retailing channels for lower-priced apparel; many of which are with poor brand recognition or unbranded. In the past few years, discount stores and outlets have also emerged as another important distribution channels for lower-priced apparel.

According to iResearch, China's sales of apparel online reached 7.52 billion yuan in 2007, and it is expected that it will further grow to 17.13 billion yuan in 2008. To capture the huge potential, some players have also explored the online retail channel. PPG and Vancl (凡客誠品) are the market leaders in online apparel sales. Besides, some traditional retailers have explored the “click-and-mortar” model—for instance, Baoxiniao Group (報喜鳥) established a sales subsidiary to operate its online clothing brand “eBono”; Kipone (旗牌王), Goldlion (金利來) and Baleno (班尼路) followed suit to start their non-store retailing platform; Li Ning also entered the e-commerce channel by operating the official online platform in Taobao.com. However, online retailing is still at its infancy. Product quality, efficient delivery and transaction safety remain online shoppers’ top concerns.

5. Apparel players grasping attention in the capital market

China’s apparel companies have received huge investors’ interests in recent years. Riding the tide of investors’ interests in mainland consumption-related stocks, a number of apparel companies have sought public listings over the few past years. Exhibit 8 demonstrates some recent listing activities.

Exhibit 8: Recent listings of apparel companies

Company	Date of listing	Place	Capital raised	Purpose
Shanghai Metersbonwe Fashion & Accessories Co., Ltd. 上海美特斯邦威服飾股份有限公司	28-August-08	Shenzhen	1.383 billion yuan	Expand production and stores network; build B2C trading platform
Pou Sheng International (Holdings) Ltd. 寶勝國際 (控股) 有限公司	6-June-08	Hong Kong	2.511 billion yuan	Expand retail network and production capacity, repayment of bank loans, strategic investments, marketing activities
Xtep International Holdings Ltd. 特步國際股份有限公司	3-June-08	Hong Kong	2.228 billion yuan	Increase production capabilities and distribution network, engage in promotional activities to strengthen the brand
China Eratat Sports Fashion Ltd. 中國鱷萊特體育服裝有限公司	15-April-08	Singapore	n.a.	Expand production capabilities and facilities
Bosideng International Holdings Ltd. 波司登國際控股有限公司	11-October-07	Hong Kong	6.521 billion yuan	Diversify brand portfolio, expand domestic distribution network and explore international expansion
China Dongxiang (Group) Co., Ltd. 中國動向 (集團) 有限公司	10-October-07	Hong Kong	5.472 billion yuan	Fund brand acquisition, expansion and marketing on the mainland
Zhejiang Baoxiniao Garment Co. Ltd 報喜鳥集團有限公司	16-August-07	Shenzhen	0.302 billion yuan	Improve profitability in its retailing business
Anta Sports Products Ltd. 安踏體育用品有限公司	10-July-07	Hong Kong	3.168 billion yuan	Expand franchise stores network

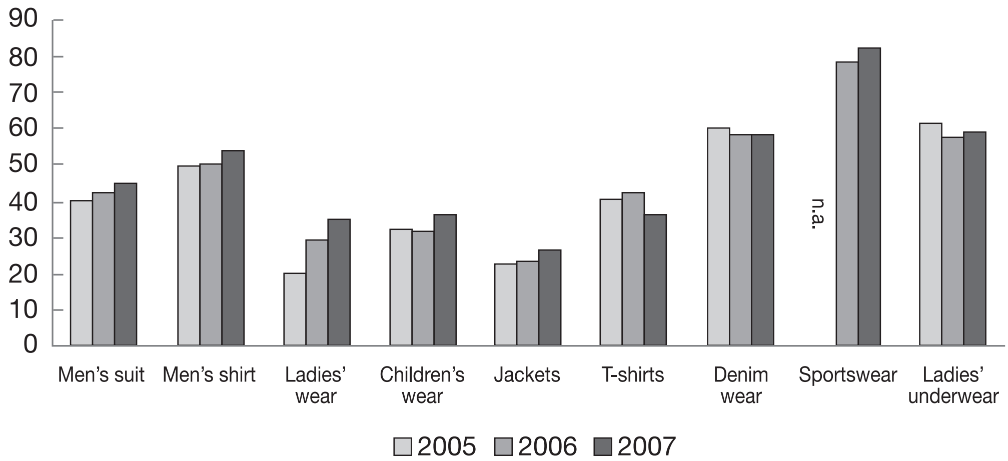
Source: Company websites and newspaper

However, due to volatile market conditions, some apparel companies such as E-Land Fashion China Holdings Ltd (衣念時裝中國控股公司) have scrapped or delayed their listings plans in recent months. Nonetheless, we believe investors' interests in China's domestic-demand-theme stocks, where growth is less susceptible to global economic slowdown, would remain strong. The trend for apparel players to China to go listings should continue in the long run.

IV. Performance reviews of selected apparel product sectors

In this section, performance of various product sectors, including menswear (men's suits and men's shirts), ladies' wear, children's wear, casual wear (jackets, T-shirts, denim wear), sportswear and ladies' underwear, will be examined to help you grasp a better picture of the market. Exhibit 9 showed the market share of the top 10 brands of these sectors.

Exhibit 9: Market share of Top 10 brands of selected sectors, 2005-2007



Source: China National Commercial Information Centre (CNCIC)

1. Menswear

Menswear comprises men's suit and men's shirts.

(1) Menswear's share in apparel market was stable

Menswear accounted for 5.6% of the total market share in 2007, similar to that of 2006. Sales volume growth was 14.8% yoy for men's suits and 11.9% yoy for men's shirts. Market size of menswear was still relatively small, just one-fifth the size of ladies' wear market. Domestic players led in sales volume in the mass market while foreign brands performed extremely well in luxury segment. The menswear market is expected to grow by 10% in sales volume in 2008.

(2) Players exploring the online retail channel

A number of menswear players have explored the online retail channel in China. In fact, it is observed that most apparel items retailed online in China belong to the menswear categories such as shirts, sweaters and ties as the products are generally more standardized with relative ease for online product presentation. Leading online menswear retailers include PPG, Vancl and eBono.

(3) Brand performance: men's suits

(i) Higher market concentration; domestic brands led in sales volume

The top 10 players accounted for slightly above 45% of the market share in 2007. Youngor had distinct competitive edge by claiming 20% of the market share, up by 4% yoy. The top 3 players – Youngor, Romon and Firs - were all domestic brands from Zhejiang.

Exhibit 10: Brand performance of men's suits: share of total sales, 2006-2007

2007		2006	
Brand	*** Share of total sales (%)**	**Brand**	*** Share of total sales (%)**
Youngor 雅戈爾	20.15	Youngor 雅戈爾	16.13
Romon 羅蒙	5.38	Romon 羅蒙	5.01
Firs 杉杉	4.72	Firs 杉杉	4.21
Playboy 花花公子	3.39	Goldlion 金利來	3.55
Goldlion 金利來	3.13	Playboy 花花公子	3.31
Saint Angelo 報喜鳥	2.39	Saint Angelo 報喜鳥	3.08
Rouse 洛茲	1.74	Rouse 洛茲	2.35
Pierre Cardin 皮爾卡丹	1.73	Pierre Cardin 皮爾卡丹	1.92
Z.M.N	1.33	Baromon 培羅蒙	1.64
Baromon 培羅蒙	1.29	Selon 勝龍	1.36
Others	54.75	Others	57.43
Total	100.00	Total	100.00

Source: China National Commercial Information Centre (CNCIC)

* *Share of total sales (%): Sales volume of the brand / total sales volume*
(Sales volume refers to the total quantity sold of the product category by the surveyed retailers)

(ii) Business casuals growing fast

The men's suits sector is embracing more casual elements. While formal suits are still the mainstream, business casuals are fast gaining popularity, particularly in the younger working population. As the country increasingly exposes to western fashion trends and consumers place more attention on comfort, it is believed that business casuals are likely to demonstrate faster growth than business formals. As a result, many players are launching their new business casual collections.

(5) Brand performance: men's shirts

(i) Domestic brands dominated sales of shirts

The top 10 players accounted for nearly 50% market share in men's shirts sector. Youngor was the market leader, Conch led Rouse slightly to place second in 2007. As shall be observed, domestic players achieve a significant share in the top 10s. Goldlion from Hong Kong was the only foreign brand on the list.

Exhibit 11: Brand performance of men's shirts: share of total sales, 2006-2007

	2007		2006
Brand	*** Share of total sales (%)**	**Brand**	*** Share of total sales (%)**
Youngor 雅戈爾	14.24	Youngor 雅戈爾	15.11
Conch 海螺	7.21	Rouse 洛兹	6.84
Rouse 洛兹	6.65	Conch 海螺	6.62
Hongdou 紅豆	4.74	Hongdou 紅豆	4.86
Kaikai 開開	4.60	Peacebird 太平鳥	4.44
Goldlion 金利來	4.26	Kaikai 開開	3.89
Qinman 琴曼	3.99	Romon 羅蒙	2.79
Firs 杉杉	3.25	Goldlion 金利來	2.52
Romon 羅蒙	3.12	Virtue 富紳	1.99
Virtue 富紳	2.29	Qinman 琴曼	1.75
Others	45.65	Others	49.20
Total	100.00	Total	100.00

Source: China National Commercial Information Centre (CNCIC)

2. Ladies' wear

(1) Huge market for ladies' wear

Ladies' wear was the largest segment in China's apparel market. Ladies' wear represented 28.3% of total apparel sales volume in 2007 and showed fast growth of 12.0%. The sector is expected to grow by 12% in sales volume in 2008.

(2) Department stores and specialty stores were the major retailing channels

According to Euromonitor, department store was the major distribution channel of ladies' wear, accounting for 40% of the total sales value in 2007 (see Exhibit 12). Yet, there are growing challenges from other retail formats such as specialty stores and hypermarkets.

Exhibit 12: Sales value by retailing channels for women's apparel market, 2004-2007

	2007 Sales value (RMB billion)	2007 Market Share (%) by Sales Value	2004 Sales value (RMB billion)	2004 Market Share (%) by Sales Value
Department stores	112	38.00	75	40.00
Hypermarkets	23	7.80	11	5.80
Specialty stores	89	30.20	54	28.70
Discounters	6	2.00	1	0.50
Others	65	22.00	48	25.00
Total women's apparel	295	100.00	189	100.00

Source: Euromonitor

(3) Brand performance: Ladies' wear

(i) Highly fragmented market scene; foreign brands demonstrated impressive performance

Retail scene for ladies' wear was highly fragmented. The top 10 players achieved only around 35% of the market share (See Exhibit 13). Nonetheless, the market is getting more concentrated and Etam continued to lead the segment, followed by Only, Vero Moda and Espirit. All other players in the list had less than 2% of market share. Market share of the top 10 has climbed from 30% to 35% in 2007.

In contrasting with menswear, foreign players in this sector showed outstanding performance, 8 out of the top 10 players were foreign brands in 2007. Huaxin and "Zuo'er mei" were the two domestic brands on the list.

Exhibit 13: Brand performance of ladies' wear: share of total sales, 2006-2007

2007		2006	
Brand	* Share of total sales (%)	Brand	* Share of total sales (%)
Etam 艾格	8.27	Etam 艾格	6.24
ONLY	7.77	ONLY	5.30
VERO MODA	6.79	ESPIRIT	4.27
ESPIRIT	4.61	VERO MODA	3.18
Tangy 天意	1.54	E-LAND 衣戀	2.11
Girdear 哥弟	1.51	Tangy 天意	2.09
E-LAND 衣戀	1.30	Girdear 哥弟	1.90
HuaXin 華鑫	1.04	Etam Weekend 艾格周末	1.80
Etam Weekend 艾格周末	1.03	"Zuo'er mei" 佐爾美	1.34
"Zuo' er mei" 佐爾美	0.68	HuaXin 華鑫	1.32
Others	65.46	Others	70.45
Total	100.00	Total	100.00

Source: China National Commercial Information Centre (CNCIC)

3. Children's wear

(1) Fast-growing children's wear market

China's children's wear market is one of the most promising in the world. Parents in China are willing to spend heavily on their children because of the one-child policy. The sector achieved 7.6% of the total market share with an impressive growth rate of 15.4% in 2007, outpacing the growth of most other sectors except leather wear. The sales volume is expected to grow by 15% in 2008.

(2) Consumption safety drawing much attention

Product safety of children's wear is grabbing increasing attention from government and the public. To protect consumption safety, new industry standard for infants' wear 《嬰幼兒服裝標準》took effect from October 1, 2008. The standard sets out clearly different requirements such as pH value, neck size of pullovers and the amount of formaldehyde in infants' wear.

(3) Enhancing brand recognition by experience marketing

In order to differentiate from rivals, children's apparel brands are paying more attention to enhancing consumer consumption experience. For example, some department stores have assigned areas for children's corner to offer cartoon- and animation-themed clothing and games. Experience marketing is a growingly common tool for children's apparel brands.

(4) Brand performance: children's wear

(i) Highly fragmented children's wear market

Exhibit 14 demonstrated the share of children's wear players. The top 10 players achieved 35.7% market share in 2007. With a market share of 5.47%, Les Enphants took the place of LawLande to become the market leader in 2007. Nevertheless, the market was highly fragmented and the difference in market share between the top 10s was minimal. Domestic players were increasingly professional in brand building and product design; brands such as Shuihaier and Yaduo were gaining market share.

Exhibit 14: Brand performance of children's wear: share of total sales, 2006-2007

2007		2006	
Brand	**Share of total sales (%)**	**Brand**	**Share of total sales (%)**
Les Enphants 麗嬰房	5.47	LawLandee 派克蘭帝	4.08
Shuihaier 水孩兒	5.00	Shuihaier 水孩兒	3.81
LawLandee 派克蘭帝	4.75	Yaduo 雅多	3.66
BalaBala 巴拉巴拉	3.84	Les Enphants 麗嬰房	3.57
Mickey's 米奇妙	3.67	Mickey's 米奇妙	3.15
Yaduo 雅多	3.66	Littlebobdog 巴布豆	3.06
Dadida 嗒嘀嗒	3.51	Pepco 小豬斑納	2.88
Goodbaby 好孩子	2.42	BalaBala 巴拉巴拉	2.82
Pepco 小豬斑納	1.71	M-linge 蔓琳格	2.70
Littlebobdog 巴布豆	1.70	ABC	2.50
Others	64.27	Others	67.79
Total	100.00	Total	100.00

Source: China National Commercial Information Centre (CNCIC)

4. Casual wear

Casual wear sector comprises jackets, T-shirts and denim wear.

(1) Casual wear sector continued its expansion

According to CNCIC, casual wear (T-shirts, jackets and denim wear) accounted for 7.3% of the total apparel retail sales volume. Sales volume of jackets grew by 13.6%, T-shirts grew by 10.5% and denim wear grew by 8.7% in 2007. Casual wear is expected to continue its expansion as Chinese consumers seek trendy and comfortable apparel.

(2) Brand performance: jackets

(i) Highly fragmented sectors with 6 new entrants in the top 10 list

Septwolves continued to top the list in 2007, though it is increasingly challenged by JOE|ONE and "Jin ba". The sector is highly fragmented and 6 of the top 10s were new entrants. The top 10s only accounted for 26% of the total market share.

Exhibit 15: Brand performance of jackets: share of total sales, 2006-2007

2007		2006	
Brand	*** Share of total sales (%)**	**Brand**	*** Share of total sales (%)**
Septwolves 七匹狼	5.00	Septwolves 七匹狼	5.85
JOE|ONE 九牧王	4.85	"Jin ba" 勁霸	3.67
"Jin ba" 勁霸	4.67	Bosideng 波司登	3.61
Jack & Jones 傑克瓊斯	3.34	JOE|ONE 九牧王	2.75
Tries 才子	2.14	"Xiong pai" 雄牌	2.53
Bosideng 波司登	2.06	Seven 柒牌	1.70
ZhouYan 洲艷	1.22	Semir 森馬	1.52
"Heng yuan xiang" 恆源祥	1.22	Texwood 蘋果	0.80
Crocodile 鱷魚	1.09	Ltwfrane 老人頭	0.63
Montagut 夢特嬌	0.68	Taizilong 太子龍	0.43
Others	73.73	Others	76.50
Total	100.00	Total	100.00

Source: China National Commercial Information Centre (CNCIC)

(3) Brand performance: T-shirts

(i) Decreasing market concentration; foreign brands won customer's heart

The T-shirt sector is highly competitive. The market share of the top 10 players has decreased to 36% in 2007 from 42% in 2006; and the top 6 brands were all losing market share.

Baleno continued to be the market leader. Foreign brands are well received by consumers with higher brand awareness and better quality. 6 out of the top 10s are foreign brands.

Exhibit 16: Brand performance of T-shirts: share of total sales, 2006-2007

2007		2006	
Brand	*** Share of total sales (%)**	**Brand**	*** Share of total sales (%)**
Baleno 班尼路	10.90	Baleno 班尼路	12.48
Jeanswest 真維斯	4.02	Giordano 佐丹奴	6.77
Yishion 以純	3.85	Jeanswest 真維斯	5.77
Semir 森馬	3.84	Semir 森馬	4.47
Giordano 佐丹奴	3.36	Metersbonwe 美特斯邦威	4.17
Metersbonwe 美特斯邦威	3.20	Yishion 以純	3.86
Septwolves 七匹狼	2.09	Septwolves 七匹狼	1.52
Playboy 花花公子	2.04	Feel 100% 柏仙多格	1.28
Montagut 夢特嬌	1.83	Playboy 花花公子	1.10
Goldlion 金利來	1.16	Montagut 夢特嬌	0.95
Others	63.71	Others	57.63
Total	100.00	Total	100.00

Source: China National Commercial Information Centre (CNCIC)

(4) Brand performance: denim wear

(i) Share of top 10 players stable; 4 new entrants on the list

The total market share of the top 10 brands was stable at around 60%. However, competition is fierce and 4 out of the 10 were new entrants in the list including “Lang ying”, LEE, Pierre Cardin and Yishion. Boton, Kipone and Weipeng were the top 3 brands for two consecutive years in 2006 and 2007.

Exhibit 17: Brand performance of denim wear: share of total sales, 2006-2007

2007		2006	
Brand	*** Share of total sales (%)**	**Brand**	*** Share of total sales (%)**
Boton 波頓	13.86	Boton 波頓	12.22
Kipone 旗牌王	12.84	Kipone 旗牌王	11.43
Weipeng 威鵬	7.49	Weipeng 威鵬	10.79
Braxton 霸獅騰	6.11	Metersbonwe 美特斯邦威	6.02
“Lang ying” 浪鷹	5.92	Braxton 霸獅騰	3.44
LEE	4.09	Jianlong 劍龍	3.23
Baleno 班尼路	2.62	Texwood 蘋果	3.14
Texwood 蘋果	2.45	Jeanswest 真維斯	3.04
Pierre Cardin 皮爾卡丹	1.69	Lanyan 蘭雁	2.74
Yishion 以純	1.41	Baleno 班尼路	2.69
Others	41.52	Others	41.26
Total	100.00	Total	100.00

Source: China National Commercial Information Centre (CNCIC)

5. Sportswear

(1) Olympic Games and increasing health awareness boosting the sportswear sector

The Beijing 2008 Olympic Games has stirred up interests in sports in China and brought huge business opportunities for sportswear brands. The sportswear market is fast-growing. According to ZOU Marketing, a Shanghai-based sports marketing and consulting firm, China’s branded sportswear market[2] has experienced an estimated CAGR of 27% from 2003 to 2007, with the 2007 sportswear market size at approximately 41 billion yuan.

Indeed, increasing health awareness is prompting more people to participate in sports. According to the General Administration of Sport of China, the sports participation rate[3] in China had increased from 33.9% in 2000 to 37.0% in 2005; the rate is estimated to climb further to 40% in 2010. We believe the 2009 East Asian Games in Hong Kong and the 16th Asian Games in Guangzhou in 2010 will further stimulate sports goods spending in China.

2 According to Zou Marketing, market size is measured in retail sales of branded sportswear including apparel, footwear and accessories.

3 Sports participation rate is defined as sports participation for at least three times per week, more than 30 minutes each time, with medium or high level of intensity to the total population of the age group.

(2) Fashion sportswear fast gaining popularity

Chinese consumers are more discerning today. In addition to functionality and utility, consumers increasingly embrace sportswear with fashion elements. According to the Euromonitor estimates, the fashion sportswear market size was 6.9 billion yuan in terms of revenue in 2007, accounting for 17.0% of the total sportswear market in China. The share of the fashion sportswear segment is expected to grow further to 27.0% in 2012. To capture the huge potential, more players now position themselves as fashion sportswear brands. For instance, Nike and adidas have introduced the fashion sportswear series Adilibria and adi-Fuse respectively. Kappa, Xtep and Puma have also introduced products with more fashion elements.

(3) Brand performance: sportswear

(i) High market concentration with the top 3 brands dominating the sector

Market concentration in sportswear sector was remarkably higher than other sectors. The top 10s have further extended their influence and claimed over 82% of the market share in 2007 (see Exhibit 18). Topping the list were Nike, adidas and Li Ning, they together accounted for 64% of the market share.

Exhibit 18: Brand performance of sportswear: share of total sales, 2006-2007

2007		2006	
Brand	*** Share of total sales (%)**	**Brand**	*** Share of total sales (%)**
Nike 耐克	25.16	Nike 耐克	22.22
adidas 阿迪達斯	22.08	adidas 阿迪達斯	21.54
Li Ning 李寧	16.59	Li Ning 李寧	16.82
Kappa 背靠背	4.46	Mizuno 美津濃	4.79
Qiaodan 喬丹	3.75	Anta 安踏	3.51
Mizuno 美津濃	3.13	Kappa 背靠背	3.22
Anta 安踏	2.34	Qiaodan 喬丹	2.13
Puma 彪馬	2.05	Puma 彪馬	1.55
361° 三六一度	1.63	Converse 匡威	1.25
Umbro 茵寶	1.12	361° 三六一度	1.23
Others	17.69	Others	21.73
Total	100.00	Total	100.00

Source: China National Commercial Information Centre (CNCIC)

(ii) Beijing Olympic Games enhance the recognition of major sportswear brands

Major sportswear brands have been putting much effort to market themselves during Olympics. Brands such as adidas, Nike, Li Ning and Anta have invested huge sums of money in sponsorships and media advertisements. adidas is the official partner of the Games; Li Ning, on the other hand, sponsored China's several national gold-medal-winning teams and collaborated with the CCTV National Sports Channel with reporters for the Games wearing Li Ning apparel; its company Chairman Li Ning lighting the torch in the spectacular opening ceremony also gave a big boost to the brand's image. Anta also launched the "Fuel Up China!" promotional campaign to boost sales during the Games. The Games have significantly enhanced the recognition of major sportswear brands and consolidation within the sportswear sector is set to accelerate.

6. Ladies' underwear

(1) Huge market for the underwear sector

According to CNCIC, knitted underwear was the second largest sub-sector in China's apparel market. It accounted for 16.8% of total apparel retail sales in 2007 with a yoy growth slowed to 6.9% in 2007. Ladies' underwear is the most important segment in the knitted underwear sector.

(2) Brand performance: ladies' underwear

(i) Relatively stable market of ladies' underwear sector

The sector was relatively stable with top 10 brands accounting for 58.8% of market share in 2007 (see Exhibit 19). There was no change in respective ranking for the top 5 players in 2006 and 2007. Chinese consumers have strong brand preference towards named brands in ladies' underwear sector. The top 5 brands - Maniform, Aimer, Embryform, Triumph and Gujin - together claimed for over 40% of the market share. It is expected that the sales volume growth of knitted underwear will reach 10% in 2008.

Exhibit 19: Brand performance of ladies' underwear: share of total sales, 2006-2007

2007		2006	
Brand	*** Share of total sales (%)**	**Brand**	*** Share of total sales (%)**
Maniform 曼妮芬	10.90	Maniform 曼妮芬	12.25
Aimer 爱慕	9.19	Aimer 爱慕	9.85
Embryform 安莉芳	8.49	Embryform 安莉芳	8.03
Triumph 黛安芬	6.75	Triumph 黛安芬	6.60
Gujin 古今	6.69	Gujin 古今	6.47
Ordifen 歐迪芬	5.04	Sunflora 桑扶蘭	5.97
Sunflora 桑扶蘭	4.56	Ordifen 歐迪芬	5.06
Venies 芬怡	3.63	Venies 芬怡	1.54
Wacoal 華歌爾	2.12	Gracewell 婷美	1.22
Gracewell 婷美	1.46	Three Gun 三槍	0.94
Others	41.17	Others	42.07
Total	100.00	Total	100.00

Source: China National Commercial Information Centre (CNCIC)