



China power of retailing 2011.

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1. Preface

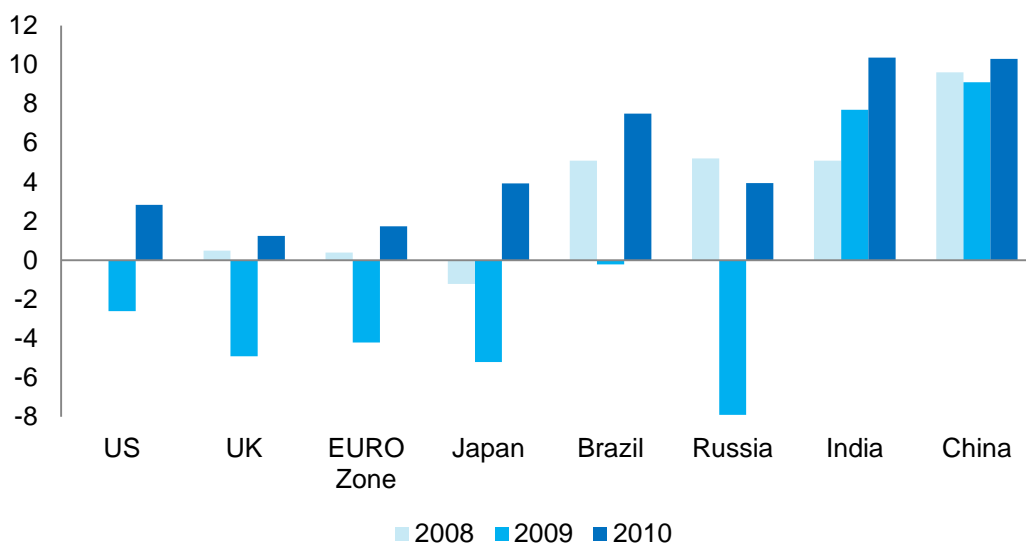
Deloitte China is pleased to present this China Powers of Retailing 2011. This report reviews China retail industry over the last year and summarizes the key findings, which are based on a survey conducted by the China Chain Store & Franchise Association (CCFA) of the Top100 retail chains in China, and also on Deloitte's perspective on China retail industry. Meanwhile, it discusses the possible future at macro, industry and company levels, in which China retail industry may go, in light of the uncertainty in the global economy and China's economic environment.

2. Overview of the Global Retail Industry

2.1 Global Economy in 2010

Over the last year, the global economy was full of uncertainty. The downturn of 2009 was the worst for decades, but it was not as bad as what had been expected. The government intervention to stimulate demand and to flood the market with liquidity had a positive impact on the economy. However, all of these were not enough to support a robust recovery – at least in the developed economies like North America, Europe and Japan, where growth was modest and inflation was low. On the other hand, the emerging world maintained strong growth and encountered the risk of climbing inflation. As shown in Figure 1, GDP growth rates in the U.S., the U.K., the Eurozone, Russia and Japan all dropped dramatically in 2009. Although those economies began to rebound in 2010, their performance are still not as good as the strong growth in emerging markets like China and India over the last three years, leading to polarization in global economic growth. As 2011 begins, global retailers are concerned with the inadequate demand in developed countries, which is overheating in emerging countries. In addition, they are also concerned about exchange rate volatility, changing fiscal policy and sustainability of recovery in some markets.

Figure 1. GDP Growth Rates of the World's Key Economies (%), 2008-2010



Source: World Bank, OECD, and IMF April 2011 Economic Outlook Database

During the process of recovery, the global economy remains imbalanced. Interest rates are usually low in developed countries. Thus, money is flowing out of those countries and into emerging markets with higher interest rates, which brings pressure on currency values, thereby weakening the export competitiveness of those emerging countries. At the same time, rapid growth in emerging markets is creating new inflationary pressures, leading to tight monetary policies, and thereby increasing additional pressure on currencies. Now, many governments of the emerging countries are trying to stabilize their exchange rates in order to improve their export competitiveness. Moreover, if every country tries to devalue its currency, no currency will depreciate, but the total money supplies will be increased, thus causing inflation – it is the problem which continues to harm the global economy.

The global economy still faces many problems. Those countries that traditionally relied on exports, such as China, require transition leading to consumption-driven economic growth, but such transition cannot be formed within a short period. Those countries that relied heavily on domestic consumption, such as the United States, should increase exportation now, but they also have problems due to the currency devaluation of target countries for exportation. Solutions to these new problems due to the imbalance of global economic recovery require joint efforts around the world.

2.2 China Economy in 2010

China economy maintained strong growth. The economy had a well performance in 2010: agricultural and industrial outputs increased steadily; investment growth remained high; consumption continued to grow rapidly and steadily; imports and exports experienced a rapid growth. China Gross Domestic Product (GDP) reached RMB39.8 trillion, an increase of 10.3 percent over the previous year, and the year-on-year Consumer Price Index (CPI) rose by 3.3 percent.

China was actively adjusting its mode of economic growth. The Chinese government changed the order of "three wagons that pull the economic growth" for the first time in 2010, moving consumption into the first place, which indicated its objective in the transition from the previous export-oriented growth into the consumption-driven growth.

However, inflation is a factor bringing uncertainty to the China economy. With climbing CPI, the People's Bank of China (PBC) has begun tightening the monetary policy to control inflation. As a result, the companies' costs for financing increase substantially. Stock market and property prices are also impacted and Chinese consumers' disposable income decreases. All these factors mentioned above, combined with a rising wage level due to inflation, brought great pressure to companies' profit margins.

China's economic growth is expected to slow down in the future. In 2010, PBC raised the deposit reserve ratio of deposit-taking financial institutions by 0.5 percent for six times, which was 3 percent in total. The benchmark deposit and lending interest rates were increased twice to adjust the pace of economic growth, control property prices and reduce inflation pressure. However, when the China equity prices began to drop in response, global financial market players also worried that these policies may be too blunt, which would cause a hard landing of China economy.

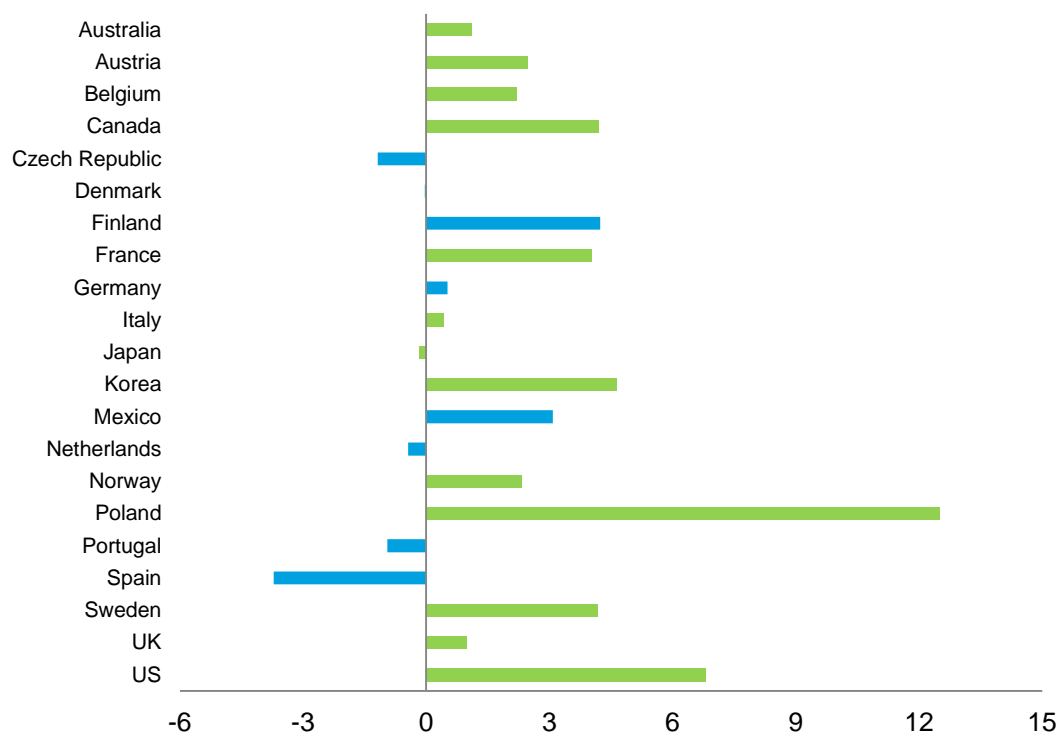
2.3 Global Retail Industry in 2010

Because of the polarization in global economy, global retail industry had an imbalanced growth in 2010. 18 of the 29 member countries of the Organization of Economic Cooperation and Development (OECD) had positive year-on-year growth in retail sales, and 9 of them showed quarter-on-quarter growth throughout 2010.

The problem of imbalanced growth in retail sales is prominent in Europe. The retail sales in Czech Republic, Netherlands, Portugal and Spain experienced negative growth in the fourth quarter of 2010, while the rest of the main OECD countries demonstrated a strong rebound. For example, the fourth-quarter growth rate of retail sales reached 12.5 percent in Poland.

Although Europe has started to recover from the global financial crisis, it still have its own problems. The troubles triggered by the Greek sovereign debt crisis in 2010 ultimately resulted in a massive financial backstop for the high-deficit southern European countries. While this short-term crisis was successfully prevented, it did not address the remaining imbalance issues in Europe. Specifically, unit labor costs in the southern European countries and loans from abroad both increased over the past decade, while unit labor costs in Germany declined as productivity improved. Moreover, German consumers saved prodigiously. Unless such imbalance is reversed, Europe will slide from one crisis to another. If there were no Eurozone, currency depreciation in southern Europe would partly solve the problem of imbalance, which will never happen with the fact that these countries are using the same currency nowadays. The alternate approach must be taken which is to increase consumption in Germany and decrease consumption in the southern European countries.

Figure 2. 4th Quarter Retail Sales Growth of 21 Main OECD Countries (%), 2010



Source: OECD

As the most important market for the retail industry, the United States experienced slow economic growth in 2010, and its retail sales increased as well. After the financial crisis in 2008, the U.S. economy continued to deteriorate until the second half of 2009, when the falling rate was reduced by half, and its economy began to recover gradually, arriving at positive growth in early 2010. The U.S. retail sales growth shows similar cyclical characteristics with the economy, but the magnitude of its fluctuations is larger than that of the overall economy. It is probably due to the characteristics of the U.S. consumer spending: the high-income consumers spend a relatively small portion of their income on necessities, and a large portion on high-end or luxury goods with high income elasticity. Therefore, retail sales drops more rapidly during the economic downturn, and when the economy recovers, retail sales also grows more rapidly

Figure 3. U.S. GDP vs. Retail Sales Growth, Year-on-Year (%), 2008-2010



Source: OECD

2.4 China Retail Industry in 2010

China retail industry maintained steady and rapid growth, which was driven by several factors. Adjustment of the economic growth mode, increase in household income, development of technology, acceleration of urbanization, consumption upgrades and the government policies to stimulate consumption have contributed positively to the growth of China retail industry.

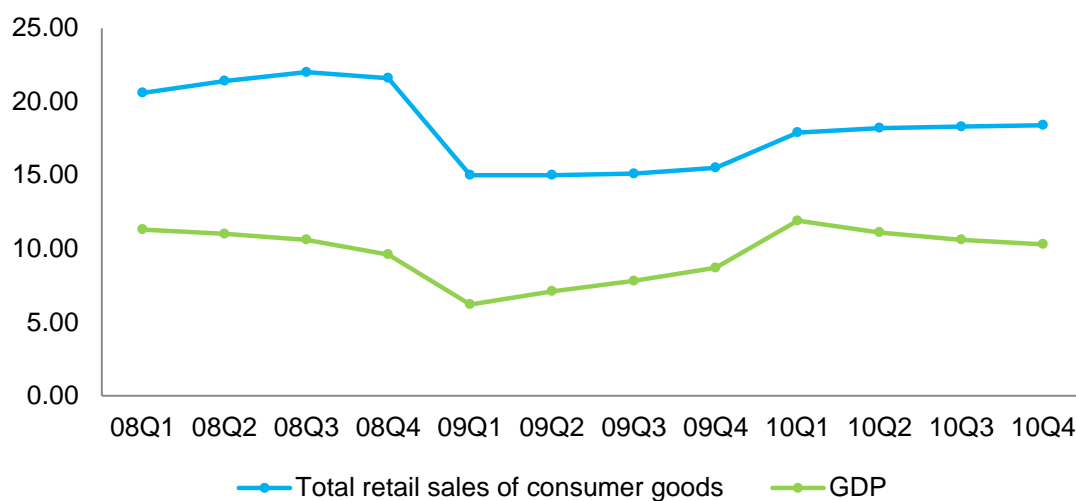
2.4.1 Steady and Rapid Growth

China retail industry continued growing steadily and rapidly. A series of government policies were implemented to speed up the retail growth in 2009 and 2010. For instance, the Ministry of Commerce enacted a policy to further drive

consumption from 5 aspects, including: stimulating consumption in rural areas and in urban areas, supporting consumption upgrade, promoting credit system, and developing festival consumption; expanding the scope of "connecting agricultural products manufacturer to supermarket "; increasing subsidies for "home appliances going to the countryside" and "new-for-old" plans; developing e-commerce the circulation sector. These policies drove the steady growth of retail industry in 2010, under the background that China was headed for a "soft landing".

In 2010, consumption in China maintained steady and rapid quarter-on-quarter growth. The annual retail sales reached RMB15, 455.4 billion, up 18.4 percent over the previous year, and the inflation-adjusted retail sales growth rate was 14.8 percent. In terms of locations, urban retail sales of consumer goods reached RMB13, 368.9 billion, up 18.8 percent over the previous year, while rural retail sales reached RMB2, 086.5 billion with a year-on-year growth of 16.1 percent. In terms of consumption patterns, food and beverage sales were RMB1, 763.6 billion, increased by 18.0 percent over the previous year. Consumer product sales grew at 18.5 percent, reaching RMB13, 691.8 billion, among which the above-norm enterprises' retail sales were RMB5, 805.6 billion (per unit) at a growth rate of 29.9 percent. Some retail sectors grew rapidly: 46.0 percent for gold, silver and jewelry products, 37.2 percent for furniture, 34.8 percent for automobiles and 27.7 percent for home appliances and audio/video equipments.

Figure 4. China GDP vs. Total Retail Sales of Consumer Goods, Year-on-Year (%), 2008-2010



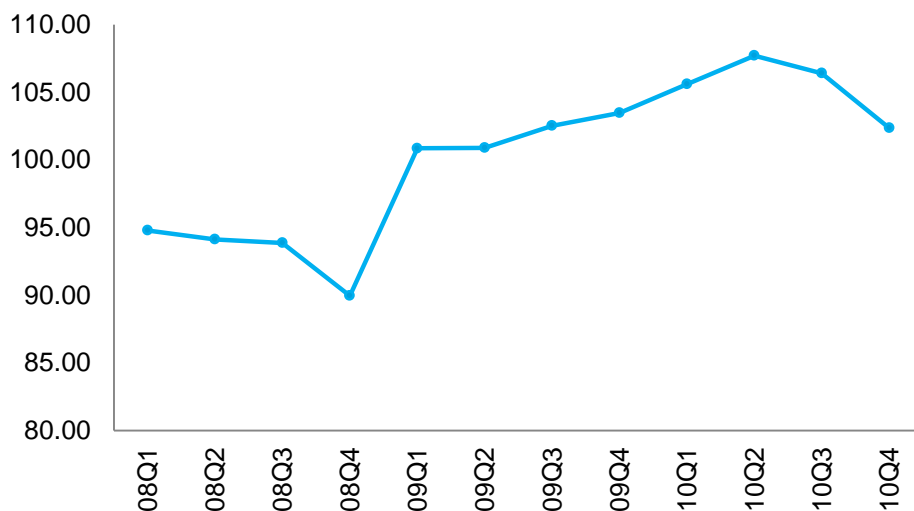
Source: National Bureau of Statistics, China

China Consumer Confidence Index continued to rise and was higher than the global average. Although Chinese consumer confidence fell dramatically as a result of the global financial crisis in 2008, it has rebounded since 2009, as the global economy recovered and a series of central and local government policies were enacted to stimulate domestic consumption, maintain growth, as well as for certain industries restructuring.

According to the China Consumer Confidence Index, consumer confidence maintained an upward trend in the first half of 2010. During the second half of 2010, though most consumers were optimistic in future household income and

employment conditions, their willingness in immediate consumption was significantly reduced by high real estate prices and rising interest rates. Consumers' concern on the rising food prices caused the Consumer Confidence Index to fall by one point in the third quarter, which reversed the rising trend in the past five quarters. In the fourth quarter, the Consumer Confidence Index fell by 4 points to 100, which was still higher than the global average of 90. Consumers' inflation expectation had impact upon consumer confidence and their plan for future consumption, but so far the actual influence on consumer behavior and sales growth remained modest.

Figure 5. China Consumer Confidence Index, 2008-2010



Source: National Bureau of Statistics, China

2.4.2 Rapid Expansion

Expansion became the focus of China retail industry. In 2010, the total number of stores owned by the Top 100 retailers grew at 9.7 percent over the previous year. In addition, the number of stores owned by 52 retailers in the Top 100 list increased above 10 percent. There were three key reasons for such expansion. Firstly, low entry barriers resulted in more and more competitors entering into this market, leading to intensified competition, price war, and compressed gross profit margin. With such background, expanding the scale of operation became a choice for many retailers to survive and grow. Secondly, as the operation costs and labor costs increased, retailers attempted to reduce unit costs and expenses by scale economies effect resulted from expansion. Thirdly, the large scale operation retailers, who usually have more bargaining power when making purchase from suppliers, have further reduced their costs. Therefore, more and more retailers implemented the expansion strategy in order to increase profits, improve competitiveness and maintain growth.

There are also challenges for retailers when expanding. Firstly, expansion of business scale results in a shortage of professionals who are familiar with local situations. In fact, shortage of human resources has become a common problem in the whole retail industry. Secondly, large scale retailers are usually involved in complex operations, including procurement, supply chain, logistics and distribution, and inventory, sales and store management, while poor information management systems will become the bottlenecks for business expansion. Thirdly, the logistics is another

problem. Improving the efficiency of logistics and supply chain at the lowest cost is an urgent task for many retailers nowadays. Fourthly, some retailers also have financial problems to expand, especially those small and medium enterprises (SMEs). Lastly, the consumption differences across regions have imposed pressure to retailers as they expand to different regions. Hence, more research on consumer behavior across regions and accurate market positioning based on consumer spending habits, values, behaviors and patterns will be significant for retailers.

2.4.3 The Third and Fourth tier Cities

The third and fourth tier cities have become the focus for retailers' expansion. With intensified competition, now retail markets in the first tier and secondary cities are saturated. In order to maintain high growth, retailers are gradually expanding to the third and fourth tier cities, where the market potential is very huge. According to data released by the Nielsen China Forum, 87 percent of China population and 64 percent of retail sales were located in lower-tier cities. Moreover, according to the "*Study of Consumer Confidence, Fourth Quarter 2010*", a greater portion of disposable income was used for children's education, adult education and training, clothing, books and hospitality by families in the second, the third and the fourth tier cities than that in the first-tier cities. It may imply that in terms of demand, markets of the second, the third and the fourth tier cities have been good enough for further development. In fact, China retailers are currently shifting their focus to the third and the fourth tier cities now.

There are also many problems for retailers to expand to markets in the third and the fourth tier cities. Consumer spending habits, psychology and behavior, and consumption patterns in the third and the fourth tier cities are quite different from those in the first and the second tier cities, which require retailers to make adjustments on their operation strategies based on local situations. In addition, supply chain is another problem to catch up with the pace of market expansion; otherwise retailers' further expansion will be limited by their supply chain.

Note:

1st tier cities – Beijing, Shanghai, Shenzhen, Guangzhou,

2nd tier cities – part of municipality, provincial cities, sub-provincial cities, economic developed cities

3rd tier cities – include provincial cities in less developed areas and majority of prefecture level cities

4th tier cities – mainly county-level cities and county towns

2.4.4 Mergers and Acquisitions

The deals of mergers and acquisitions (M&A) activity in the China retail market continues to increase dramatically. Since 2006, there has been an upsurge of M&A deals in the domestic retail industry, which reached a peak in 2008 and 2009. There were 140 M&A deals in China retail industry in 2010, with a total value of more than \$4.966 billion. As expansion becomes a trend in the retail industry, M&A is one of retailers' first choices to enter new markets, or maintain leading market positions.

However, there are also many issues for retailers in China during M&A implementation. The first one is the difficulty in financing. Many Chinese retailers usually do not settle suppliers' invoices at delivery, so that they can use suppliers' capital to support their operation, which explains why they often have high current liabilities and low liquidity and profits. However, they find it difficult to accumulate funds to support M&A deals, and retailers must find other ways to

gain financial support, such as loans. It increases risks associated with M&A and company growth. In order to solve the problem, more and more retailers began to work along with the capital markets, including IPO, venture capital, or issuance of corporate bonds. Secondly, even after the deal, consolidation of resources from different companies usually becomes another problem. It is difficult for the acquirer and the target company to integrate their resources together in terms of operations, technology, brands, channels, social networks, institutions and corporate cultures. Thirdly, many Chinese retailers seldom have very clear goals in pursuing M&A and they rarely conduct adequate surveys and researches. It will inhibit them in achieving their original goals and cause financial issues, management disorder, and poor performance as a result.

2.4.5 Polarization of Store Scales

More and more retailers are operating with a combination of both large and small stores, enabling them to serve consumers with different needs. On one hand, as the Chinese economy maintains high growth, household income of Chinese consumers continues rising. More and more consumers prefer one-time bulk purchases and one-stop shopping experience. Such changes in consumption patterns require retailers to provide a large number of diversified merchandise in one store to meet various consumer needs. On the other hand, diversified and personalized consumer demands stimulate retailers to open more small stores due to several reasons. Firstly, diversification and personalization have proved that the market capacity of each consumer group is rather small, and small stores certainly have cost advantages to meet the needs of those groups compared with large ones. Secondly, consumers are not always willing to take long trips to shop in large stores, especially merely for some emergent needs. Thirdly, as retailers gradually expand to the third and the fourth tier cities, advantages of small stores become even greater due to size of population, income level and other factors in these lower tier cities.

The polarization of store scales has brought higher requirements for retailers' capabilities. Firstly, implementation of company strategies requires a large number of middle and senior management staff, which is currently a challenge for most retailers while shortage of human resources has already become the common issue in this industry. Secondly, the management of stores with different scales poses a challenge to the retailers' logistics management systems. Thirdly, both large and small stores are designed to match different consumer needs, and thereby retailers are required to manage their merchandise structures accordingly. This cannot simply be achieved by increasing the variety of goods, because rising inventory will increase costs and result in a waste of resources. Therefore, how to balance between consumer needs and merchandise structures is of vital importance for these retailers.

2.4.6 Specialty Chain Stores

The specialty chain has become another opportunity for the retail industry due to many factors. As the mass market becomes saturated with increasing competition and reduced average profits, retailers are increasingly focusing on specialized products and services to appeal the customer segments and to avoid direct competition with large multi-sector retailers. However, after rapid expansion, specialty chain retailers have to face the same challenges in corporate management and supply chain construction same as traditional chain retailers. If these problems are not handled properly, future growth of the specialty chain is likely to be hampered.

2.4.7 Multi-sector Operations

More and more retailers have started expansion to multi-sectors. With foreign retailers' penetration into the retail industry in China, increasing domestic competition and scarcity of retailing posts, local industry players are gradually transferring from traditional retailers to multi-sector retailers. In addition to expansion and adoption of new operation in different retail sectors, retailers also began investing in commercial real estates and developing private brands, which have also become their new for profit making. For instance, under the pressure of rising rents, retailers could improve firm values through commercial real estate investments. Especially, in the situation that most foreign retailers benefit from their self-built properties, more than half of the local retailers begin to increase their investment in commercial property holdings. Expanding to multi-sectors does not only help retailers achieve economies of scale, expand their market shares and improve their core competence, but also help them meet different consumer needs and improve the management of their brands.

There are many challenges for retailers when implementing multi-sector operations. Firstly, multi-sector operations bring financial pressures on retailers; though such operations enable them to benefit from economies of scale in certain degree. Failure in meeting the minimum capital requirements would possibly affect the company operations. Secondly, investments in commercial real estate or private brands require a large number of professionals, bringing great challenges to retailers' human resource. However, multi-sector operations will remain as a long-term trend in the retail industry in China.

2.4.8 Integration of Online and Chain Stores

An obvious trend in the Chinese retail market currently is that retailers focus on integration of e-commerce and chain stores. E-commerce helps companies connecting with consumers directly. And consumers now have the power of information at their fingertips, literally enabling them to compare shops and purchases at any time. As online shopping grows rapidly, the real store development has entered into an important phase with both opportunities and challenges.

There are many obstacles during the integration of e-commerce and physical stores, such as technical flaws, lack of professionals and marketing experience, and unclear operation direction and market positioning. Compared to e-commerce platforms, physical stores have some disadvantages. Price issue is the most direct impact, because a major attraction of online shopping is it is cheaper. How to achieve a balance between e-commerce platforms and physical stores is a problem to many retailers. The common solution is to make online store a platform for out-of-season and promotional sales, but it is only an expedient measure and not in line with the future development of e-commerce. On the other hand, e-commerce platforms also have some drawbacks compared to physical stores. Online shopping usually happens on the Internet and phone calls, which is more convenient, but consumers are unable to physically experience the products they are buying. The relative advantages of each channel allow further integration of online and offline stores.

On one hand, the Internet is used as a supplementary sales channel to physical stores. On the other hand, information and Internet technologies have influenced consumers' shopping experience, and allowed retailers to collect more consumption information. All of these will benefit the further growth of retailers.

2.4.9 Closer relationship between Retail Industry and the Capital Market

Chinese retailers usually choose IPO as the first approach in entering the capital market, which has the advantages of lower costs and more adequate capital; hence IPO becomes the optimal option for leading retailers in financing for expansion. In 2009, the launch of the Growth Enterprise Market (GEM) lowered the threshold for listed companies, encouraging the chain retailers to go public. In addition, due to stimulating policies for capital market such as introduction of stock index futures in China, chain retailers which have leading regional positions are likely to choose the domestic stock market to go public. In 2010, 12 retailers were successfully listed, and 27 retailers announced their plans on IPO.

Retail industry has become the focus of venture capital. B2C online retailing has attracted venture capital's attention in the last two years. There were six cases of B2C online retail financing in 2009, with a total value of US\$110 million. There were 42 projects of investment and financing in e-commerce sector in 2010, among which 35 were funded by venture capital with disclosed value of more than US\$550 million. B2C remained as the mainstream of e-commerce with 22 cases of investment from venture capital, while group-buying websites became the fastest-growing sub-sector with 12 investment projects and two M&A deals in 2010.

3. China Powers of Retailing Top 100 Highlights, 2010

In 2010, Chinese Top 100 chain retailers' composite sales grew more rapidly than the number of their stores.

The Top 100 chain retailers' overall number of stores increased by 9.74 percent in 2010, the lowest growth in the last three years, while their sales grew up to 22.43 percent, exceeding the 13.5 percent growth in 2009, owing to China's economic growth and increasing consumer spending. In addition, Chinese Top 100 chain retailers gradually shifted from rapid expansion to fine and efficiency-based growth, paying more attention to the improvement of single-store sales, industry segmentation and differentiation.

Total number of foreign retail stores increased faster than that of domestic retail stores. Their sales greatly improved as well in 2010, but remained lower than the domestic average.

Among the Top 100, foreign retailers had a sales growth of 18.09 percent in 2010, versus 25.3 percent sales growth of Chinese retailers. The overall number of foreign retail stores in the Top 100 increased by 25.64 percent, exceeding the 11.49 percent of Chinese retail stores. There were 135 newly-opened stores of the six major foreign supermarket operators in 2010, up 22.77 percent over the previous year. Seven foreign retailers enjoyed the growth of more than 20 percent in the number of stores in 2010 (two foreign retailers in 2009).

Regional operations gradually polarized. Nationwide retailers' sales increased by 37.6 percent in 2010 and accounted for 65.73 percent of the Top 100 total sales, and maintained a considerable competitive edge over others. Single-province/city retailers had overall sales growth of 13 percent, ranking the second. Some regional (inter-province/city) and inter-regional retailers continued to expand across regions or return to focus on single-region operations to strengthen the market penetration, leading to negative sales growth for regional retailers and the 5.6 percent growth for inter-regional retailers, indicating that expansion and market penetration were two main development strategies for retailers in 2010.

Differences in sector growth were significant. Department store retailers enjoyed the most rapid growth.

Department store retailers had the highest composite sales growth of 50 percent, compared with 33.9 percent of multi-sector retailers and 33.8 percent of electronics specialty retailers. Growth in those three sectors was mainly a result of rising consumer income and consumption upgrades in China; electronic specialty retailers have been benefited from policy efforts to promote the "home appliances going to the countryside" and "new-for-old" plans. Electronics specialty retailers like Suning Appliance Group and Gome Electrical Appliances remained as the top two with the highest sales growth.

Drug store chain retailers experienced steady growth. With further market expansion and industry reorganization, drug store chain retailers' sales reflected a trend of continuing improvement in the last three years, of 25.6 percent in 2010.

Convenience store and home improvement retailers grew slowly. Retailers in the two sectors enjoyed composite sales growth of 5.6 percent and 1.6 percent respectively.

Supermarket retailers showed negative growth for the first time. Although promotion of the "agricultural super-but" program led to cost savings for domestic supermarket retailers, but expansion of some supermarket retailers to multi-sectors somewhat dragged down the sector's overall sales

Operational costs increased sharply. On one hand, real estate prices in China continued to rise, imposing greater pressure on retailers' rental costs. On the other hand, due to inflationary pressures in 2010, purchase costs and employee compensation increased, exerting a negative impact on retailers' future growth.

Top 100 Chinese Retail Chains 2010

Retail Sales Rank	Name of Company	2010 Retail Sales (RMB 10k)	Growth of Sales (%)	# of Stores	Growth of # of Stores (%)	Operational Format	Regions of Operation
1	Suning Appliance Group	15,622,292	33.5	1,342	41.4	Electronics Specialty	More than 300 cities in all regions, Hong Kong, Japan
2	Gome Electrical Appliances Co., Ltd.	*15,490,000	45	1,346	15	Electronics Specialty	More than 200 cities in all regions
	Of which: Yongle Commerce Co.	890,954	-14.3	60	5.3	Electronics Specialty	Shanghai, Jiangsu, Zhejiang, Guangdong, Fujian and Henan and so on
	Sanlian Commerce CO., Ltd.	101,876	-26.2	6	20	Electronics Specialty	Shangdong
3	Bailian Group Co., Ltd.	10,369,291	5.9	5,809	-5.6	Supermarket, Department Store, Convenience Store, Home Improvement	20 provinces and cities in China
	Of which: Lianhua Supermarket Co., Ltd.(including Hualian)	7,007,723	4.3	5,239	-6.4	Supermarket, Drug Store	East China
	Hualian GMS Shopping Center Co., Ltd.	371,436	-5.4	22	0	Department Store	East China
	Lianhua Kuaike Convenience Store Chain Co., Ltd.	184,969	6.2	1,298	0.7	Convenience Store	Dalian, Ningbo, Hangzhou, Beijing, Guangzhou
	Homemart Decoration Materials Co., Ltd.	165,200	-21	14	-41.7	Home Improvement	Shanghai, Wuhan, Hefei, Nanjing, Ningbo, Guangzhou
4	Dashang Group Co., Ltd.	8,615,769	22.1	170	6.3	Supermarket, Department Store, Electronics Specialty, Home Improvement	Northeast China, North China and West China
5	Vanguard Co., Ltd.	7,180,000	5.6	3,155	7.8	Supermarket, Department Store, Convenience Store, Drug Store, Food and Beverage	27 provinces and cities in China

	Of which: Suguo Supermarket Co., Ltd.	3,682,800	10.8	1,905	2.9	Supermarket, Convenience Store,	Jiangsu, Anhui, Shandong, Henan, Hebei
6	RT-MART International Co., Ltd.	5,022,500	24.2	143	18.2	Supermarket	21 provinces and cities in China
7	Carrefour S.A. (China)	4,200,000	14.8	182	16.7	Supermarket	21 provinces and cities in China
8	Anhui Huishang Group Co., Ltd.	4,051,974	17.9	2,915	1.1	Supermarket, Department Store, Convenience Store, Electronics Specialty	50 cities in China
	Of which: Anhui Shangzhidu Co., Ltd.	904,814	24.6	885	-4.6	Supermarket, Department Store, Convenience Store, Electronics Specialty	Anhui
	Anhui Huishang Nongjiafu Co., Ltd.	265,390	43.9	1,983	3.4	Supermarket	Anhui
	Anhui Huishang Hongfu Supermarket Chain Co., Ltd.	114,123	12	855	-4.3	Supermarket	22 provinces and cities in China
9	Wal-Mart Stores, Inc. (China)	* 4000000	17.6	219	25.1	Supermarket	20 provinces and cities in China
10	Chongqing General Trading (Group) Co., Ltd	3,821,585	27.2	319	1.9	Supermarket, Department Store, Electronics Specialty	Chongqing, Sichuan, Guizhou
	Of which: Chongqing Department Store Co., Ltd	2,546,371	15	253	4.5	Supermarket, Department Store, Electronics Specialty	Chongqing, Sichuan, Guizhou
11	Wumart Holding Group Co., Ltd.	3,750,456	14.9	2,578	10.5	Supermarket, Department Store, Convenience Store, Electronics Specialty	Beijing, Tianjin, Shanghai, Hangzhou, Suzhou, Yinchuan and so on
	Of which: Beijing MerryMart Chain Ltd.	426,185	9.2	34	-2.9	Supermarket	Beijing
	Zhejiang Gongxiao Supermarket Co., Ltd.	250,140	13.6	2,100	5	Supermarket, Convenience Store	Zhejiang
12	Shandong Commercial Group Cooperation (Yinzuo Group)	3,700,000	44.3	264	28.2	Supermarket, Department Store, Convenience Store, Electronics Specialty, Home Improvement	Shandong, Hebei, Henan
	Of which: Shandong Tongyi Yinzuo Commerce Co., Ltd.	113,000	13	142	16.4	Convenience Store	Shandong
13	New Cooperation Joint-Stock Trade Chain Co., Ltd.	3,560,000	18.7	99,321	12	Supermarket, Convenience Store, Drug Store	More than 16 provinces and cities in China
	Of which: Jiangsu New Cooperation Changkelong Chain Store Supermarket Co., Ltd.	200,806	16.7	966	18.4	Supermarket, Convenience Store, Drug Store	Jiangsu
14	Yum! Brands Inc., China Division	* 3,360,000	16.7	3,500	9.4	Food and Beverage	All the regions
15	NGS Supermarket Group	2,781,359	4	3,204	-3.8	Supermarket, Convenience Store	Shanghai, Jiangsu, Zhejiang, Anhui, Jiangxi

16	Best Buy China Co., Ltd.	* 2,700,000	5.1	277	5.7	Electronics Specialty	Shanghai, Suzhou
	Of which: Five Star Appliance Co., Ltd.	2,610,000	5.7	268	4.7	Electronics Specialty	Jiangsu, Anhui, Zhejiang, Shandong, Henan, Sichuan, Yunnan
17	Hefei Department Store Group Co., Ltd.	2,490,000	19.1	171	25.7	Supermarket, Department Store, Electronics Specialty	Anhui
	Of which: Hefei Baida Hejiafu Chained Supermarket Inc.	221,066	32.5	418	5.6	Supermarket	Anhui
18	Hisap High Technology Corporation	2,008,965	26.1	191	11.7	Electronics Specialty	8 provinces and cities in China
19	Wuhan Zhongbai Group Co., Ltd.	1,923,413	14.1	713	5.8	Supermarket, Department Store, Convenience Store, Electronics Specialty	Hubei, Chongqing
	Of which: Wuhan Zhongbai Chain Store Supermarket Co., Ltd.	1,220,231	16.1	154	10.8	Supermarket	Hubei
	Wuhan Zhongbai Bianming Chain Supermarket Co., Ltd.	298,010	9.3	520	4	Supermarket	Hubei
	Wuhan Zhongbai Department Store Co., Ltd.	88,931	7.9	5	25	Department Store	Hubei
	Wuhan Zhongbai Electrical Appliances Co., Ltd	137,173	13.5	34	9.7	Electronics Specialty	Hubei
20	New World Department Store China Co., Ltd.	* 1,790,000	19.3	37	8.8	Supermarket, Department Store	North China, East China, Southwest China, Central China
21	Wenfeng Great World Chain Development Corporation	1,764,927	12.7	1,016	3.9	Supermarket, Department Store, Convenience Store, Electronics Specialty, Home Improvement	Shanghai, Jiangsu, Anhui, Shandong
22	A Best Supermarket Co., Ltd.	1,741,320	1	112	2.8	Supermarket, Department Store	Guangdong, Hunan, Hubei, Shandong, Sichuan, Shanxi, Jiangsu, Zhejiang, Tianjin, Hebei
23	Wuhan Wushang Group Co., Ltd.	1,721,093	27.3	82	9.3	Supermarket, Department Store, Food and Beverage	Hubei
	Of which: Wushang Bulk Sale Chain Co., Ltd.	889,412	21.7	75	8.7	Supermarket	Hubei
24	Liqun Group Co., Ltd.	1,693,036	11.6	836	-6.1	Supermarket, Department Store, Convenience Store, Electronics Specialty	Shandong
25	Beijing Wangfujing Department Store Co., Ltd.(Group)	* 1,660,000	25.1	22	15.8	Department Store	Beijing, Wuhan, Chengdu, Chongqing, Changsha, Lanzhou, Wulumuqi and so on
26	Parkson Retail Group Co., Ltd.	* 1,656,000	33.9	47	6.8	Department Store	27 cities in China

27	Trust-Mart Management Consulting Services (Shanghai) Co., Ltd.	* 1,650,000	0	104	0	Supermarket	20 provinces and cities in China
28	Shijiazhuang Beiguo Renbai Group Corp.	1,619,223	38.7	100	25	Supermarket, Department Store, Electronics Specialty	Hebei
29	Changchun Ouya (Group) Co., Ltd.	1,617,585	20.1	35	16.7	Supermarket, Department Store, Convenience Store	Jilin, Liaoning, Shandong
30	Yonghui Group Co., Ltd.	* 1,598,000	56.4	286	6.7	Supermarket, Convenience Store	Fujian, Beijing, Chongqing, Anhui
31	TESCO (China)	* 1,590,000	19.5	109	38	Supermarket, Department Store	36 cities in China
32	Rainbow Department Store Co., Ltd.	1,470,557	26.6	44	18.9	Supermarket, Department Store	Guangdong, Hunan, Jiangxi, Fujian, Jiangsu, Zhejiang, Beijing
33	Lotte Supermarket, China Division	1,444,700	18.1	80	2.6	Supermarket	Jiangsu, Beijing, Tianjin, Shandong, Anhui, Liaoning, Shanghai, Zhejiang
	Of which: Jiangsu Lotte Mart Co., Ltd.	1,260,579	18.2	70	1.4	Supermarket	Jiangsu
	Lotte Mart Supermarket Co., Ltd.	179,969	14.9	10	11.1	Supermarket	Jiangsu, Beijing, Tianjin, Shandong, Anhui, Liaoning, Shanghai, Zhejiang
34	Lotus Supermarket Chain Store Co., Ltd. (China)	*1,360,000	4.6	74	-3.9	Supermarket	More than 30 cities in all the regions
35	Auchan (China) Investment Co., Ltd.	1,350,000	36.9	41	17.1	Supermarket	Shanghai, Beijing, Jiangsu, Zhejiang, Anhui, Sichuan
36	Golden Eagle Retail Group Limited	* 1,240,000	32.5	19	11.8	Department Store	Jiangsu, Shanghai, Shanxi, Yunnan, Hunan, Guangdong
37	Shandong JiaJiaYue Department Store Group Co., Ltd.	1,233,717	21.9	524	7.2	Supermarket, Department Store, Convenience Store	Shandong
38	Intime Department Store (Group) Co., Ltd.	1,196,235	32.7	24	4.3	Department Store	Zhejiang, Beijing, Wuhan, Xian
39	Renrenle Commercial Group Co., Ltd.	1,174,832	14.5	108	20	Supermarket, Department Store	Guangdong, Sichuan, Shanxi, Chongqing, Tianjin, Guangxi, Fujian, Hunan
	Of which: Renrenle Shopping Mall	97,548	16	8	0	Department Store	Guangdong, Xian, Xianyang, Chengdu, Tianjin
40	Metro Jinjiang Cash & Carry Co., Ltd.	* 1,170,000	13	48	14.3	Supermarket	35 cities in all the regions
41	Shandong Xinxing Group Co., Ltd.	1,106,321	12	592	11.3	Supermarket, Department Store, Convenience Store, Electronics Specialty, Home Improvement, Drug Store, Food and Beverage	Shandong

42	Shandong Wuifang Department Store Group Co., Ltd.	1,099,246	15.4	356	11.9	Supermarket, Department Store, Convenience Store, Electronics Specialty, Home Improvement	Shandong
43	Beijing Jingkelong Company Limited	1,090,975	8.4	239	-3.2	Supermarket, Department Store, Convenience Store	Beijing, Langfang
44	Wuhan Zhongshang Group Co., Ltd.	1,001,272	13.7	44	4.8	Supermarket, Department Store, Convenience Store	Hubei
	Of which: Wuhan Zhongshang Group Co., Ltd. Department Store Chain	461,592	18.2	9	0	Department Store	Hubei
	Wuhan Zhongshang Group Co., Ltd. Discount Chain	470,116	10.8	34	6.3	Supermarket	Hubei
45	BuBuGao Busincss Chain Store Co., Ltd.	930,000	46.6	167	65.3	Supermarket, Department Store, Electronics Specialty, Food and Beverage	Hunan, Jiangxi
46	Liaoning Xinglong Happy Family Business Group	919,382	43.8	21	40	Supermarket, Department Store	Liaoning
47	HNA Retail Business Holding Co., Ltd.	892,207	89.5	319	398.4	Supermarket, Department Store	Shanxi, Gansu, Tianjin, Shanghai, Hunan, Jiangsu, Zhejiang
	Of which: Xian Minsheng Group Inc.	289,714	7.4	37	15.6	Department Store	Shanxi
	Shanxi Minshengjiale Commence Chain Co., Ltd.	70,546	-7.8	19	-13.6	Department Store	Shanxi
	Shanghai Jiadeli Supermarket Co., Ltd.	215,625	2.2	154	5.5	Supermarket	Shanghai, Jiangsu, Zhejiang, Anhui and so on
	Hunan Jiarunduo Supermarket Co., Ltd.	154,007	4.7	23	53.3	Supermarket, Department Store	Hunan
48	Zhengzhou Dennis Department Store Co., Ltd.	877,444	23.6	67	34	Department Store	Henan
49	Fujian New HuaDu Supercenter Co., Ltd.	865,951	24.7	96	28	Supermarket, Department Store	Fujian
50	Beijing New Yansha Holding (Group) Co., Ltd.	800,416	24.8	10	0	Department Store	Beijing, Haerbin, Taiyuan
51	A.S. Watson Group (Hong Kong) Ltd.	* 800,000	45.5	800	45.5	Personal Care, Specialty	More than 100 cities in all the regions
52	Maoye International Holdings Ltd.	726,669	49.7	36	63.6	Department Store	16 cities in all the regions
	Of which: Chengshang Group Co., Ltd.	171,067	-0.7	11	10	Supermarket, Department Store	Sichuan
53	McDonalds Inc., China	* 710,000	9.2	1,200	9.1	Food and Beverage	25 provinces and cities in China
54	Guangzhou Grandbuy Co., Ltd.	677,596	5.3	23	21.1	Supermarket, Department Store, Electronics Specialty	Guangdong

55	Beijing D Phone Co., Ltd.	669,534	11.2	1,133	22.5	Electronics Specialty	East China, Central China, South China, Sichuan, Beijing
56	AEON China	662,620	11.9	27	28.6	Supermarket	Beijing, Shandong, Guangdong
57	Inner Mongolia Little Sheep Catering Chain	622,800	0.2	480	5.7	Food and Beverage	25 provinces and cities in all regions, 6 countries overseas
58	Jinan People's Commence Group	598,552	14.2	6	0	Department Store	Shandong
59	Chengdu Hongqi Chain Co., Ltd.	543,868	7.4	1,005	2.6	Supermarket	Sichuan
60	Sanjiang Shopping Club Co., Ltd.	535,571	7.9	145	14.2	Supermarket	Shanghai, Zhejiang
61	Nanjing Central Emporium Co., Ltd.	* 530,000	18.3	7	0	Department Store	Jiangsu
62	Tangshan Department Store Group Co., Ltd.	501,826	25.3	10	25	Department Store	Tangshan
63	Sichuan Huhui Business Group Co., Ltd.	482,300	12.2	1,236	23.6	Supermarket	Sichuan
64	Jinan Hualian Commence Group	462,304	36.8	22	29.4	Department Store, Food and Beverage	Shandong
	Of which: Jinan Hualian Supermarket Co., Ltd.	277,382	72.1	19	26.7	Supermarket, Convenience Store	Shandong
65	Chengdu Ito Yokado Co., Ltd.	435,363	23.9	4	33.3	Department Store	Chengdu
66	Beijing Cuiwei Plaza Co., Ltd.	434,197	39.5	5	66.7	Department Store	Beijing
67	The IKEA Group, China	430,000	22.9	8	14.3	Home Improvement, Other Specialty	Shanghai, Beijing, Guangzhou and other 6 cities in China
68	Guangzhou Friendship Group Co., Ltd.	415,000	21	5	25	Department Store	Guangzhou, Nanning
69	Hunan Friendship & Apollo Co., Ltd.	* 414,000	38	9	0	Supermarket, Department Store	Hunan
70	Beijing ShunYiGuotai Plaza	408,000	29.1	13	8.3	Department Store	Beijing
71	Oriental Home Co., Ltd.	405,000	15.7	27	8	Home Improvement	Beijing, Shenyang, Beijing and other 12 cities in China
72	Shandong Weihai Department Store Group	401,059	-5.9	24	-7.7	Department Store	Shandong
73	Emart Supermarket Co., Ltd.	*400,000	14	27	35	Supermarket	Shanghai, Tianjin, Beijing, Wuxi, Ningbo, Suzhou and Hangzhou
	Of which: Shanghai Emart Supermarket Co.	273,837	14.9	12	9.1	Supermarket	Shanghai
74	Changsha Tongcheng Holdings Co., Ltd.	396,500	61.4	52	13	Supermarket, Department Store, Electronics Specialty	Hunan

75	Park N Shop China (not including Hong Kong)	388,282	8.4	44	12.8	Supermarket	North China and South China
76	Handan Yangguang Department Store Group	381,000	26	89	107	Supermarket, Department Store	Hebei
	Of which: Handan Yangguang Supermarket Co.	74,982	24.5	76	145.2	Supermarket	Hebei
77	Qingdao Weekly Group Co., Ltd.	361,842	10.3	50	-94	Supermarket, Department Store, Convenience Store	Shandong
78	Beijing Xidan Friendship Group	353,137	20.1	220	-0.9	Department Store	Beijing
79	Shenzhen Nepstar Chain Drug Store	340,000	9.7	2,990	4.3	Drug Store	15 provinces and cities in all the regions
80	Jiangxi HongkelonTouzi Co., Ltd.	328,000	2.5	23	4.5	Supermarket, Department Store	Jiangxi
81	Beijing Chaoshifa Supermarket Co., Ltd.	323,364	22.3	111	38.8	Supermarket	Beijing, Hebei
82	Hunan Laobaixing Drug Store Co., Ltd.	315,030	17.5	423	20.9	Drug Store	14 provinces in all the regions
83	Jiabei Logistic Co., Ltd.	315,000	3.3	314	0	Supermarket, Convenience Store	Zhejiang, Jiangxi
84	Hunan Jiahui Department Store Co. (Group)	309,100	7.3	209	4.5	Supermarket, Department Store, Convenience Store	Hunan
85	Guangdong Dasenlin Drug store Chain Limited	306,000	19.5	1,000	25	Drug Store	Guangdong, Guangxi, Fujian, Jiangxi, Zhejiang, Henan and other provinces in all the regions
86	Shanxi Meet All United Supermarket Co., Ltd.	304,925	7.6	39	62.5	Supermarket	Shanxi, Shandong, Hebei, Inner Mongolia
87	Shandong Quanfuyuan Commerce (Group) Co.,Ltd. (Shouguang Department Store)	302,236	15.4	122	69.4	Supermarket, Department Store, Convenience Store, Electronics Specialty, Home Improvement	Shandong
88	Shenzhen Shirble Department Store	288,772	15.5	13	18.2	Department Store	Shenzhen
89	Zhejiang Renben Supermarket Co., Ltd.	286,859	11	817	36.4	Supermarket, Convenience Store	Zhejiang
90	Zhejiang Hualian Shopping Center Co., Ltd.	278,665	12.4	101	-54.3	Supermarket, Department Store, Convenience Store, Drug Store	Zhejiang
91	Ito Yokado	270,875	-0.1	8	-11.1	Department Store	Beijing
92	Chongqing Peace Drug Store Co., Ltd.	253,000	27.8	2,512	2.1	Drug Store	Chongqing, Sichuan, Guizhou, Guangdong, Hubei and other provinces in all the regions
93	Shanxi Taiyuan Tangjiu Supermarket Co., Ltd.	252,038	5.6	1,056	5	Convenience Store	Shanxi
94	China Quanjude	248,097	13	85	0	Food and Beverage	7 cities in China

(Group) Co., Ltd.

95	Anhui Huaxia Group	245,013	18	797	7.3	Supermarket, Department Store	Anhui
96	Guangxi Nancheng Department Store Joint-Stock Co., Ltd.	243,360	27.2	24	41.2	Department Store	Guangxi
97	Xiongfeng Group Co., Ltd.	238,000	18.5	118	2.6	Supermarket, Department Store, Convenience Store, Electronics Specialty	Zhejiang, Anhui, Chongqing, Fujian
98	Telephone World Digital Chain Group Co., Ltd.	236,250	5	220	-22.3	Electronics Specialty	Zhejiang, Shanxi, Shanghai, Anhui, Hunan, Hubei, Shandong, Henan and so on
99	Ajisen (China) Holding Ltd.	* 230,000	15.3	450	18.4	Food and Beverage	23 provinces and cities in all the regions
100	Fuyang Hualian Supermarket Co., Ltd.	218,600	13.5	594	7	Supermarket, Department Store, Convenience Store	Anhui

Remark: *Retail sales estimated by CCFA
Source: CCFA

3.1 The Top 10 Chain Retailers Retained Leading Positions

Retail sales concentrated slightly more in the Top 10 chain retailers. The Top 100 chain retailers enjoyed sales growth of 22.4 percent in 2010 (compared with 13.5 percent in 2009), reaching RMB1.6625 trillion, which accounted for 10.6 percent of total retail sales of consumer goods, maintaining a downward trend – 10.8 percent in 2009, 11.1 percent in 2008 and 11.2 percent in 2007. The top 10 retailers garnered 47.1 percent of the Top 100 total sales, compared with 47 percent in 2009.

The top 10 retailers demonstrated composite sales growth of 22.8 percent, which was significantly higher than 10.1 percent in 2009, and close to 22.4 percent of the Top 100. Among the top 10, Suning Appliance Group, Gome Electrical Appliances, Dashang Group and Chongqing General Trading had significant growth; Bailian, RT-MART International, Carrefour S.A. (China) and Anhui Huishang Group demonstrated relatively steady growth; Vanguard and Wal-Mart (China) showed slower growth compared with 2009. The overall number of stores of the top 10 decreased by 8.3 percent, mainly due to Wumart Holding Group dropping off the top 10 list in 2010, and the number of stores of the new entrant Chongqing General Trading was only 12.5 percent of that of Wumart.

However, changes among the top 10 chain retailers in 2010 were minimal, reflecting that all retailers had their own competitive advantages. The only change was that Chongqing General Trading seized a place and ranked number 10 on the list, at a growth of 27.2 percent and total sales of RMB38.216 billion. It replaced Wumart Holding Group which only had a sales growth of 14.9 percent in 2010. The rapid growth of Chongqing General Trading was probably due to its reorganization initiated in 2009. Investment and financing capacities and operational efficiency of Chongqing General Trading were improved through restructuring and the IPO project in 2010, the accumulated bad debt losses of RMB320 million was offset by revenue generated by transferring property rights. .

While the top 10 demonstrated strong sales growth, their growth in number of stores slightly slowed down, indicating that operation capacities of the top 10 were greatly improved. The number of stores of Suning Appliance Group

increased by 41.4 percent in 2010, while its sales increased by 33.54 percent. Excluding contribution of Suning's online sales, its single-store sales performance was not very satisfactory. It was mainly due to Suning's entry into 31 cities in the mainland China and it opened many small stores. By setting store sizes according to purchasing power of different regions, retailers not only better exploited retailing post resources there, but also reduced costs and improved efficiency. Committed to improving its single-store sales capacity, Gome's number of store only increased by 15 percent in 2010, while its sales growth reached 45 percent, further narrowing down its gap with Suning. Vanguard and Wal-Mart also demonstrated faster growth in number of stores than that in sales compared with Suning, in contrast to the remaining six retailers.

Top 10 Retailers, 2010

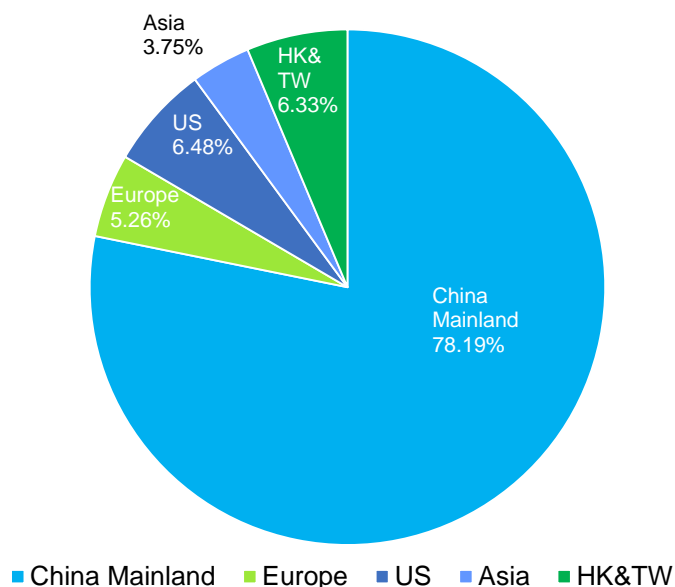
Top 100 Rank	Company	Operational Format	2010 Retail Sales (RMB 100M)	Growth of Sales (%)	# of Stores	Growth of # of Stores (%)
1	Suning Appliance Group	Electronics Specialty	1,562.23	33.5	1,342	41.4
2	Gome Electrical Appliances Co., Ltd.	Electronics Specialty	1,549.00	45.0	1,346	15.0
3	Bailian Group Co., Ltd.	Supermarket, Department Store, Convenience Store, Home Improvement	1,036.93	5.9	5,809	-5.6
4	Dashang Group Co., Ltd.	Department Store	861.58	22.1	170	6.3
5	Vanguard Co., Ltd.	Supermarket	718.00	5.6	3,155	7.8
6	RT-MART International Co., Ltd.	Supermarket	502.25	24.2	143	18.2
7	Carrefour S.A. (China)	Supermarket	420.00	14.8	182	16.7
8	Anhui Huishang Group Co., Ltd.	Supermarket, Department Store, Convenience Store, Electronics Specialty	405.20	17.9	2,915	1.1
9	Wal-Mart Stores, Inc. (China)	Supermarket	400.00	17.6	219	25.1
10	Chongqing General Trading (Group) Co., Ltd	Supermarket, Department Store, Electronics Specialty	382.16	27.2	319	1.9
Top 10			7,837	22.8	15,600	-8.3
Top 100			16,625	22.4	150,211	9.7
Total 10 Share of Total			47.1%		10.4%	

Remark: According to data from the Top 100 retailers
Source: CCFA

3.2 Foreign Retailers Had Slightly Lower Growth Compared with Domestic Retailers in the Top 100

Foreign retailers maintained positive growth in their Chinese operations in 2010. Overall sales of foreign retailers in the Top 100 increased from RMB307.1 billion to RMB362.7 billion, but their composite sales growth (18.09 percent) was lower than that of the Chinese retailers (25.3 percent), resulting in a decline of their market share in China retail industry from 22.6 percent in 2009 to 21.8 percent in 2010. As Home Depot (China) dropped off the Top 100 list, American retailers' share in Top 100 total sales fell close to Hong Kong and Taiwan retailers; European retailers experienced declining sales share from 2008 to 2010; Asian retailers' share in total sales increased, as a result of Lotte Mart (Mainland China) expanding its coverage in the mainland China, but their share remained as the smallest.

Figure 6. Market Share of Top 100 Retailers by Region of Origin, 2010



Source: CCFA

European and American retailers in the Top 100 operated in a wider range of sectors (Home Depot dropped off the Top 100 which caused a reduction in the range covered by American retailers), whereas Asian, Hong Kong and Taiwan retailers focused primarily on supermarket and department store. American retailers took a lead in sales and number of stores, with average annual sales of RMB26.925 billion, far above the Top 100 average, and an average number of stores of 1,299 (of the four American retailers, Yum and McDonald's had 3,500 and 1,200 chain stores respectively), followed by Hong Kong and Taiwan retailers with average sales of RMB17.547 billion and an average number of stores of 199.17. European retailers ranked the third. Average sales of Asian retailers was RMB8.9 billion only, and their average number of stores was only 38.14, which ranked the lowest.

However, Asian retailers had the strongest operational capacities in terms of their average single-store sales, with above-average composite retail sales (RMB189 million) of RMB362 million. Retailers from Europe, Hong Kong and Taiwan ranked the second and the third respectively. The single-store sales of American retailers was RMB74 million only, far below the Top 100 average. It was relevant to the retail sectors and sizes of the stores opted by the foreign

retailers in China. For instance, Asian retailers usually operated supermarkets and department stores in China, with a small number of stores in larger sizes; American retailers, such as Yum and McDonald's, these fast-food chain retailers operated a larger number of stores in much smaller store size than those of supermarket and department store, therefore, to a certain extent, their average single-store sales was diluted.

Region of Origin Profiles, 2010

Region	# of Companies	# Change	Operational Format	Average 2010 Retail Sales (RMB 100M)	Average # of Stores	Average 2010 Retail Sales per Store (RMB 100M)
Top 100	100	-	All formats	166.25	1,502.11	1.89
China Mainland	78	-	All formats	166.65	1,835.45	1.71
Europe	5	-	Supermarket, Department Store, Home Improvement	174.80	77.60	2.97
US	4	-1	Supermarket, Food and Beverage, Home Improvement	269.25	1,299.00	0.74
Asia	7	1	Supermarket, Department Store	88.99	38.14	3.62
HK & TW	6	-	Supermarket, Department Store	175.47	199.17	2.04

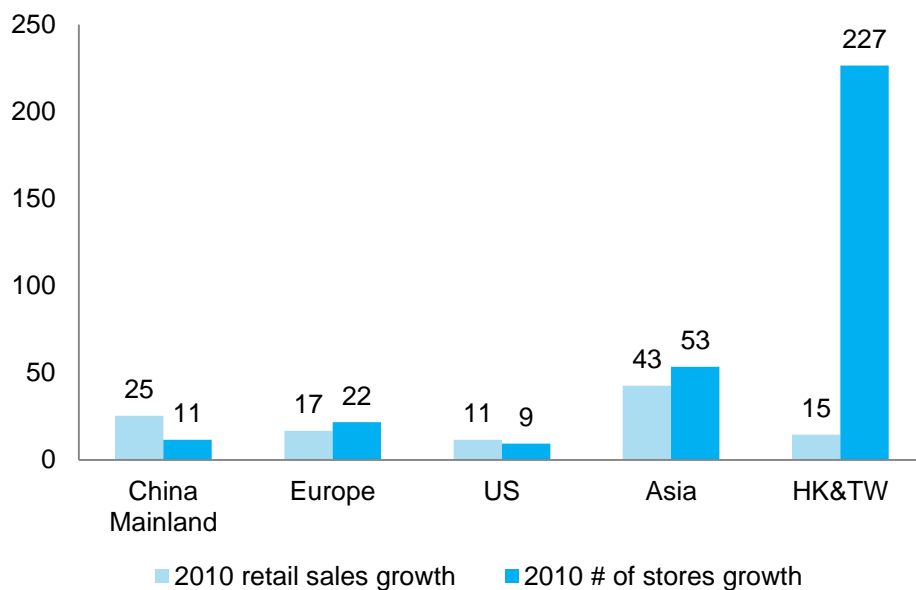
Source: CCFA

Foreign retailers in the Top 100 had composite sales growth of 18.09 percent in 2010, twice that in 2009, but it was still lower than the Top 100 average of 22.42 percent and the domestic average of 25.3 percent. Overall store number of foreign retailers in the Top 100 increased more than 25.64 percent, far above that of Chinese retailers (11.49 percent) and that of foreign retailers in 2009 (13.6 percent).

Hong Kong and Taiwan retailers demonstrated the most rapid growth in number of stores in 2010, of 227 percent. It was mainly due to Watson's entry into the Top 100 list. Watson had 800 stores, while the total number of stores of the remaining retailers from Hong Kong and Taiwan was only 395. Rapid sales growth of Watson in 2010 was largely due to its commitment to specialty chain retailing, seizing the opportunities brought to specialty chain retailers by shifts in customer attitudes and consumption patterns.

Asian and European retailers posted rapid sales growth, while American retailers maintained steady growth. Lotte Mart joined the Top 100 in 2010. Except Ito-Yokado, sales growth rates of the other four Asian retailers were all above 20 percent, significantly boosted the overall sales growth of Asian retailers (43 percent). Five European retailers maintained double-digit growth in 2010, resulting in an average sales growth of European retailers rising from - 4 percent in 2009 to 17 percent. Although Home Depot dropped off the Top 100 list, Wal-Mart and Yum had double-digit growth, and thereby the composite sales growth rate of American retailers (11 percent) was not much lower than that in 2009 (14 percent).

Figure 7. Sales and # of Stores Growth by Region of Origin, 2010 (%)



Source: CCFA

3.3 Increasing Polarization of the Top 100 Retailers

Single province/city and nationwide retailers constituted the majority of the Top 100 in 2010. Number of single province/city and inter-regional retailers increased from 39 and 38 in 2009 to 40 in 2010; number of inter-province/city retailers dropped from 12 in 2009 to 9 in 2010; number of inter-regional retailers remained at 11.

In terms of sales shares in the Top 100, inter-regional retailers had a considerable competitive edge over others, indicating that market expansion and scale effects were still important components of company expansion and sales growth, which was also revealed by significant growth in inter-regional retailers' average annual sales and number of stores. Average annual sales of nationwide retailers in 2010 was RMB27.32 billion, four times that of single province/city retailers and two times that of inter-province/city and inter-regional retailers.

In terms of number of stores, nationwide retailers had the largest number of stores per company, with an average of 3,296.4 stores, followed by inter-regional retailers with 597.82 stores per company on average; the average number of stores per company for single province/city and inter-regional retailers were 244.45 and 222.33 respectively. But in terms of single-store sales, single province/city retailers had the highest value at RMB208 million, followed by inter-regional retailers at RMB254 million, and nationwide retailers had the lowest amount (only RMB149 million). In general, the wider the retailers' operation areas, the higher the average sales per company. However, single-store operating efficiency of retailers with wider operation areas should be improved.

Region of Operation Profiles

	# of Companies	Average 2010 Retail Sales (RMB 100M)	Average # of Stores	Average 2010 Retail Sales per Store (RMB 100M)
Top 100	100	166.25	1,502.11	1.89
Single Province/city	40	66.12	244.45	2.08
Regional (inter-province/city)	9	150.70	222.33	1.96
Inter-regional	11	154.20	597.82	2.54
Nationwide	40	273.20	3,296.40	1.49

Note:

Single province/city: stores of the retailer are located within only one province/city.

Regional (inter-province/city): stores of the retailer are located in more than one single province/city, but within a geographic region or two adjacent provinces/cities.

Inter-regional: stores of the retailer are located in two or more geographic regions, excluding two adjacent provinces/cities.

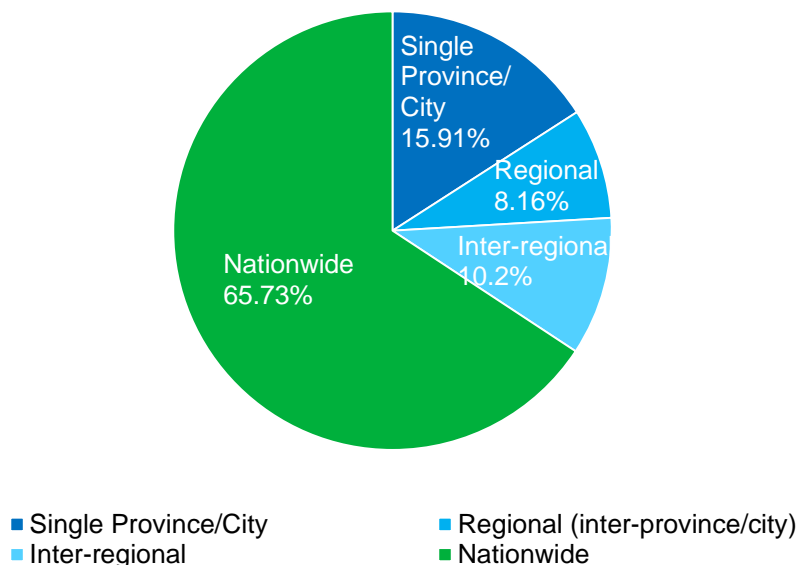
Nationwide: stores of the retailer are located in more than two geographic regions, and coverage is extensive.

Source: CCFA

In terms of sales share, nationwide retailers retained the largest share of the Top 100's total sales, increased from 58 percent in 2009 to 65.73 percent in 2010. Single province/city retailers represented 15.91 percent of the total sales. For single province/city retailers, their large sales share was a result of the deep understanding of local consumption values and patterns, as well as their advantages in gaining access to local resources. However, the reduced sales share (compared with 17 percent in 2009) somewhat reflected that within a limited market, increments in demand and profitability were also limited. Therefore, in order to maintain growth, retailers must rely on product development or market expansion. Nationwide retailers had a greater advantage as they had much bigger markets, and their share of the total sales jumped high following the increasing awareness of consumer spending in China; to certain extent, it was also due to the increase of the number of stores, but it was unrealistic to increase sales simply by opening unlimited number of stores. Therefore it was crucial for retailers to increase their single-store sales.

On the other hand, inter-province/city and inter-regional retailers captured 8.16 percent and 10.2 percent of the Top 100 total sales respectively, lower than those in 2009, which was mainly due to the decrease in the number of inter-province/city retailers from 12 in 2009 to 9 in 2010. Given that the number of inter-regional retailers remained unchanged, and their overall number of stores substantially increased, their reduced sales share indicated poor single-store sales performance. Hence, in order to compete with large scale nationwide retailers and single province/city retailers with deep roots in their respective markets, inter-regional retailers should improve their single-store efficiency.

Figure 8. Market Share of Top 100 Retailers by Region of Operation, 2010



Source: CCFA

Inter-regional retailers enjoyed the most rapid sales growth in 2010 of 38 percent, followed by single province/city retailers at a composite growth rate of 13 percent, while inter-province/city retailers had sales growth of 6 percent, and inter-province/city retailers demonstrated negative growth, down by 20 percent over the previous year.

In terms of number of stores, inter-regional retailers had the most rapid growth at 69 percent, much higher than the 17 percent in 2009. It was mainly due to the increase in the number of stores of Wumart Holding Group, AEON China and Emart Supermarket, and expansion of Best Buy from single region to inter-regions.

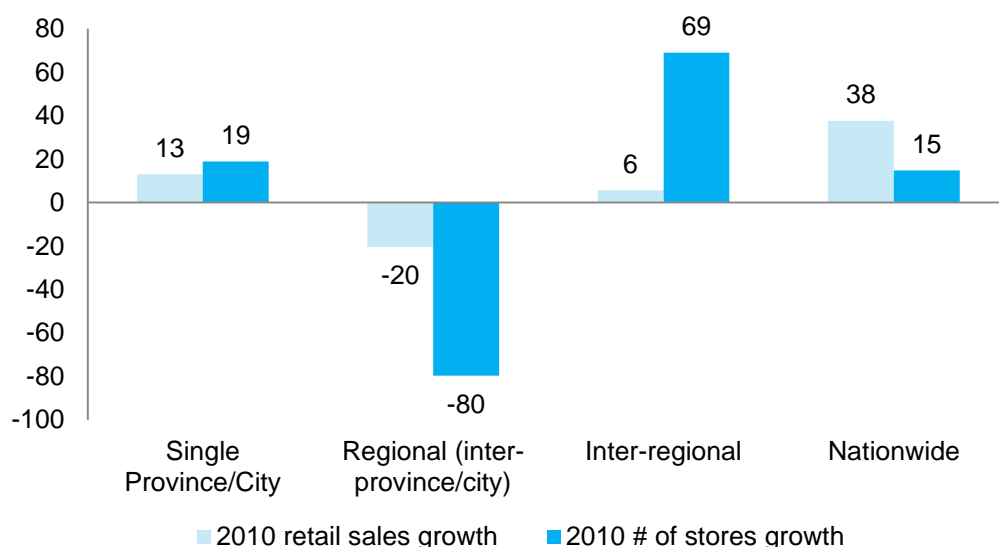
Single province/city and nationwide retailers posted growth of 19 percent and 15 percent respectively. The increase in number of store of single province/city retailers was mainly contributed by the 50 percent growth in the number of store of Handan Yangguang Department Store Group, Beijing Cuiwei Plaza and Shandong Quanfuyuan Commerce, in addition to the new entrants in the Top 100 list, such as Jinan People's Commence Group, Tangshan Department Store Group, Shandong Weihai Department Store Group and Anhui Huaxia Group.

Growth of nationwide retailers was mainly a result of the M&A activities in sectors of supermarket and department store (such as the Hainan Airlines Commercial Holdings Group's acquisition of Hunan Jiarunduo Supermarket), as well as the rapid expansion of chain retailers led by Suning, Wal-Mart, Maoye and Rainbow. Overall number of stores of inter-province/city retailers fell by 80 percent in 2010, owing to the fact that Bailian Group with 6,153 stores became a nationwide retailer by extending its offline operations to 25 provinces, autonomous regions and municipalities. In addition, Hebei BaoLong Wharf Business Development and Shenzhen Baijiahua Stores Holdings dropped off the Top 100 list, which led to a sharp fall in the number of stores of inter-province/city retailers.

The growth of nationwide retailers' total sales was more than twice that of their number of stores, which was an indication of their improved sales efficiency to certain extent. With more resources, they were able to improve operational capabilities and sales efficiency. Although the number of stores of inter-province/city retailers declined by 80 percent, but their sales dropped by 20 percent only, which, to a certain extent, reflected their improved operational capacities.

In contrast, the number of stores of inter-regional retailers increased by 69 percent in 2010, but their sales increased by 6 percent only, which was probably due to the immature operations and management of newly opened stores. Therefore, the retailers should improve the management, sales capabilities and efficiency of their new stores. According to the data, single province/city retailers were likely to have a similar requirement.

Figure 9. Sales and # of Stores Growth by Region of Operation, 2010 (%)



Source: CCFA

3.4 Sales Growth of the Department Store Sector Dominated Other Sectors in the Top 100

The Top 100 retailers can be classified into seven sectors: supermarket, department store, convenience store, electronics specialty, home improvement, drug store and food and beverage. Retailers operating in a variety of sectors are considered multi-sector retailers.

Dominant Operation Format Profiles, 2010

	# of Companies	Average 2010 Retail Sales (RMB 10K)	Average # of Stores	Average 2010 Retail Sales per Store (RMB 10K)
Top 100	100	1,662,522.47	1,502.11	1,106.79
Multi-sector	38	1,953,323	3,322.61	9,945.55
Supermarket	21	1,439,483	236.05	14,121.78
Department Store	23	765,124	32.83	47,357.74
Convenience Store	1	252,038	1,056.00	238.67
Electronics Specialty	6	6,121,174	751.50	7,513.24
Home Improvement	2	417,500	17.50	34,375.00
Drug Store	4	303,508	1,731.25	316.30
Food and Beverage	5	1,034,179	1,143.00	1,255.81

Source: CCFA

The largest sector in the Top 100 was the multi-sector, with 38 retailers and average annual sales of RMB19.53 billion, following the electronics specialty retailers of RMB61.21 billion. Multi-sector retailers in the Top 100 were all domestic companies, most of them were state-owned local companies before they were merged into large regional retail groups by overseeing government entities. Economic fluctuations had a smaller impact on multi-sector retailers, because they were able to meet consumer needs at different levels. Being large in size allowed them to have stronger bargaining power in negotiation with suppliers. Their close relations with the government brought them adequate working capital, better brand images and policy advantages, all of these made contribution to the sustained growth of these retailers. The second largest sector in the Top 100 in terms of number of companies was the department store, with a total of 23 companies. It was the first time in recent years for department store to surpass supermarket.

Although there were not many electronics specialty retailers in the Top 100, their average annual sales were RMB61.21 billion, far above that in other sectors. It was mainly due to the "home appliances going to the countryside" policy and increasing real estate purchases as a result of government's control of real estate prices. The average single-store sales were RMB75.13 million. Except Five Star Appliance which was acquired by Best Buy, the other electronics specialty retailers in the Top 100 were all domestic companies with nationwide coverage.

The average annual sales of department store retailers was RMB7.65 billion, compared with the other sectors, such figure was not very high, but their average single-store sales was RMB473.58 million, it was the highest among all sectors, which also reflected their high single-store sales efficiency.

There were only two home improvement retailers in the Top 100, with the smallest average number of stores, but their single-store sales were the second highest among all sectors (RMB343.75 million). Home Depot (China) closed down two stores in 2010, resulting in lower sales and its falling out of the Top 100 list, which caused the number of stores of home improvement retailers decreased by 22 percent in 2010. However, total sales in this sector increased by 2

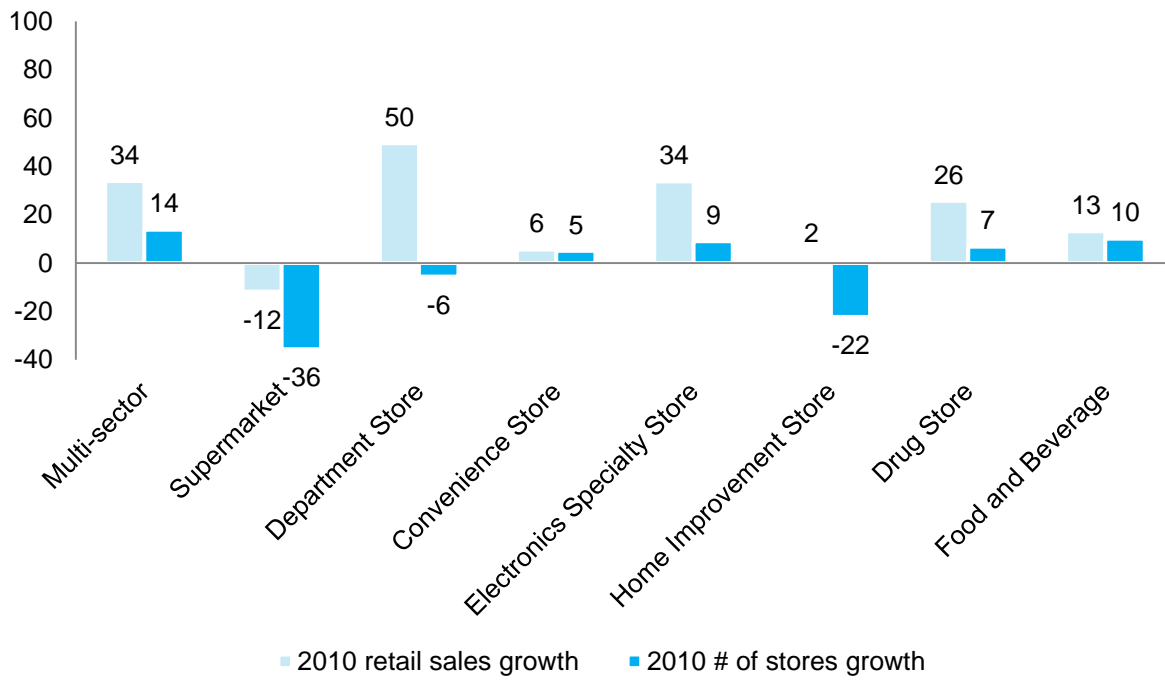
percent, contributed by the double-digit growth of IKEA and Oriental Home, the increase in consumption due to market rebound, and the increase in real estate purchases resulted from government's control on real estate prices.

Supermarket retailers retained the third place in terms of average single-store sales, with a value of RMB141.22 million. Number of supermarket retailers in the Top 100 dropped from 28 in 2009 to 21 in 2010, mainly due to the expansion of some retailers from the single supermarket sector to multi-sectors, and three supermarket retailers dropped off the Top 100 list in 2010. However, sales growth in this sector remained encouraging. 12 of 21 supermarket retailers were foreign companies, accounting for 76.87 percent of the total sales of supermarket retailers in the Top 100. Most foreign supermarket retailers had nationwide operations, a big contrast to the single province/city operations of their domestic counterparts.

Department store retailers demonstrated the fastest sales growth at 50 percent (about twice the growth in 2009), while their number of stores decreased by 6.0 percent. In addition to further expansion of department store retailers in 2010, the rapid growth was also a result of such new entrants into the Top 100 as Jinan People's Commence Group, Tangshan Department Store Group and Shandong Weihai Department Store Group. Growth of electronics specialty retailers and multi-sector retailers were similar to each other, at 33.76 percent and 33.96 percent respectively (compared with 6 percent and 24 percent in 2009), and the corresponding growth of the number of stores were 9 percent and 14 percent, respectively. Rapid sales growth of home appliances indicated that policy efforts on stimulating domestic demand and promoting "home appliances going to the countryside" and "new-for-old" plans had come into effects.

There were many factors leading to rapid sales growth of department store and multi-sector retailers in 2010. Department store and multi-sector retailers had greater elasticity of demand than supermarket and home improvement retailers, resulting in their slow growth during the financial crisis and the smaller sales base in 2009; as consumer purchasing power was improved in 2010 (as a result of policy stimulus for economic recovery), these retailers showed strong growth. Compared with multi-sector retailers, department store retailers had greater competitive advantage in the second and the third tier cities, owing to the growing consumer income and purchasing power, improved quality of life, as well as upgrades in consumer attitudes, patterns and demands in recent years, which were currently insufficient to support the growth of large scale and multi-sector retailers. These were also the main reasons for department store becoming the sector growing the fastest in 2010.

Figure 10. Sales and # of Stores Growth by Dominant Operation Format, 2010 (%)



Source: CCFA

4. Leading Retailers by Sector in the Top 100

Among the top 10 multi-sector retailers, Vanguard expanded from the single supermarket sector to multi-sectors of supermarket, department store, convenience store, food and beverage, drug store and commercial real estate, moved up and to rank the third. Wuhan Zhongbai Group dropped off the top 10 multi-sector retailers, and Chongqing General Trading moved up to the fifth. Among supermarket chain retailers, Yonghui Group, Lotte Supermarket, China Division and Auchan (China) joined the top 10, while Renrenle Commercial Group and Metro dropped off the top 10 list.

Shandong Wuifang Department Store Group expanded from the department store sector into sectors of shopping mall, hypermarket, supermarket, convenience store, home improvement supermarket and agricultural production and processing, and was reclassified as a multi-sector retailer, same as Guangzhou Grandbuy. Liaoning Xinglong Happy Family Business Group, Zhengzhou Dennis Department Store and Maoye International Holdings became the top 10 department store retailers, while Nanjing Central Emporium dropped off the top 10. Guangdong Dasenlin Drug Store Chain moved up to the 85th place in the Top 100 retailers and ranked the third among the drug store chain retailers, surpassing Chongqing Peace Drug Store, while Shanghai Hsdrug Pharmacy dropped off the Top 100 list.

Top 10 Multi-sector Retailers, 2010

Sector Rank	Top 100 Rank	Company	Retail Sales (RMB 100M)	Region of Origin
1	3	Bailian Group Co., Ltd.	1,037	China
2	4	Dashang Group Co., Ltd.	862	China
3	5	Vanguard Co., Ltd.	718	China
4	8	Anhui Huishang Group Co., Ltd.	405	China
5	10 ↑	Chongqing General Trading (Group) Co., Ltd	382	China
6	11 ↓	Wumart Holding Group Co., Ltd.	375	China
7	12 ↑	Shandong Commercial Group Cooperation (Yinzuo Group)	370	China
8	13 ↓	New Cooperation Joint-stock Trade Chain Co., Ltd.	356	China
9	15 ↓	NGS Supermarket Group	278	China
10	17	Hefei Department Store Group Co., Ltd.	249	China

Source: CCFA

Top 10 Supermarket Retailers, 2010

Sector Rank	Top 100 Rank	Company	Retail Sales (RMB 100M)	Region of Origin
1	6	RT-MART International Co., Ltd.	502	Taiwan
2	7	Carrefour S.A. (China)	420	France
3	9	Wal-Mart Stores, Inc. (China)	400	US
4	22 ↓	A Best Supermarket Co., Ltd.	174	China
5	27 ↓	Trust-Mart Management Consulting Services (Shanghai) Co., Ltd.	165	Taiwan
6	30 ↑	Yonghui Group Co., Ltd.	160	China
7	31 ↓	TESCO (China)	159	UK
8	33 ↑	Lotte Supermarket, China Division	144	Korea
9	34 ↓	Lotus Supermarket Chain Store Co., Ltd. (China)	136	Thailand
10	35 ↑	Auchan (China) Investment Co., Ltd.	135	China

Source: CCFA

Top 10 Convenience Store Retailers, 2010

Sector Rank by # of Stores	Top 100 Rank by Retail Sales	Company	# of Stores	Region of Origin
1		Meiyijia Convenience Store	2,800	China
2		NGS Supermarket Group Convenience Store (Alldays, Kedi)	2356 *	China
3		QUIK Convenience Store	2,010	China
4		Tianfu Convenience Store	1,300	China
5		Sun High Convenience Store	1,300	China
6	63 ↓	Sichuan Huhui Business Group Co., Ltd.	1,236	China
7		Suguo Supermarket Co., Ltd.	1,226	China
8	93 ↓	Shanxi Taiyuan Tangjiu Supermarket Co., Ltd.	1,056	China
9	59 ↑	Chengdu Hongqi Chain Co., Ltd.	1,005	China
10		Wenfeng Great World Chain Development Corporation	974	China

Remark: *# of stores estimated by CCFA

Source: CCFA

Top 10 Department Store Retailers, 2010

Sector Rank	Top 100 Rank	Company	Retail Sales (RMB 100M)	Region of Origin
1	20 ↑	New World Department Store China Co., Ltd.	179	Hong Kong
2	25 ↑	Beijing Wangfujing Department Store Co., Ltd.(Group)	166	China
3	26 ↑	Parkson Retail Group Co., Ltd.	166	Malaysia
4	32 ↑	Rainbow Department Store Co., Ltd.	147	China
5	36 ↑	Golden Eagle Retail Group Limited	124	China
6	38 ↑	Intime Department Store (Group) Co., Ltd.	120	China
7	46 ↑	Liaoning Xinglong Happy Family Business Group	92	China
8	48 ↓	Zhengzhou Dennis Department Store Co., Ltd.	88	Taiwan
9	50 ↓	Beijing New Yansha Holding (Group) Co., Ltd.	80	China
10	52 ↑	Maoye International Holdings Ltd.	73	China

Source: CCFA

Top 10 Electronics Specialty Retailers, 2010

Sector Rank	Top 100 Rank	Company	Retail Sales (RMB 100M)	Region of Origin
1	1	Suning Appliance Group	1,562	China
2	2	Gome Electrical Appliances Co., Ltd.	1,549	China
3	16 ↓	Best Buy China Co., Ltd.	270	US
4	18 ↑	Hisap High Technology Corporation	201	China
5	55 ↓	Beijing D Phone Co., Ltd.	67	China
6	98 ↓	Telephone World Digital Chain Group Co., Ltd.	24	China
7		N/A		
8		N/A		
9		N/A		
10		N/A		

Source: CCFA

Top 10 Drug Store Retailers, 2010

Sector Rank	Top 100 Rank	Company	Retail Sales (RMB 100M)	Region of Origin
1	79 ↓	Shenzhen Nepstar Chain Drug Store	34	China
2	82 ↓	Hunan Laobaixing Drug Store Co., Ltd.	32	China
3	85 ↑	Guangdong Dasenlin Drug Store Chain Limited	31	China
4	92 ↑	Chongqing Peace Drug Store Co., Ltd.	25	China
5		N/A		
6		N/A		
7		N/A		
8		N/A		
9		N/A		
10		N/A		

Source: CCFA

Department Store, Multi-sector, Single Province/city and Nationwide Retailers in the Top 100 Grew Rapidly

The Top 100 had an average sales growth of 22.43 percent, and the 20 fastest-growing retailers enjoyed an average sales growth of 43.08 percent. The 20 fastest-growing retailers were mainly in multi-sector, department store, single province/city and nationwide operations, among which there were eight multi-sector retailers, seven department store retailers, seven single province/city retailers, and eight inter-regional retailers. There were four multi-sector, single province/city retailers and three department store, single province/city retailers in the Fastest 20.

As discussed above, department store and multi-sector retailers had greater elasticity of demand, which resulted in their slow growth during the financial crisis and small sales base in 2009; as consumer purchasing power was improved, these retailers showed rapid growth in 2010. Single province/city retailers enjoyed advantages from market penetration, while nationwide retailers enjoyed large economies following the expansion. The continuous economic growth, increasing policy efforts to stimulate domestic demand, rising consumer income, changes in consumer attitudes, methods and demand, and advance of urbanization also brought opportunities to the retail industry in China.

There were eight multi-sector retailers and seven department store retailers in the Fastest 20 in 2010, compared with ten and five in 2009, respectively.

Eight retailers in the Top 100 made it into the Fastest 20 in both 2009 and 2010, among which five were multi-sector retailers, three were department store retailers, five were single province/city retailers, and three were nationwide retailers. There were four multi-sector, single province/city retailers in the 20 fastest-growing. Yonghui Group, Shandong Commercial Group Cooperation (Yinzuo Group), Intime Department Store and Beijing Shunyi Guotai Plaza had been included in the Fastest 20 every year from 2008 to 2010.

Three retailers in the 20 fastest-growing of the Top100 were foreign companies. In addition to Auchan and Parkson, Watsons became the Top 100 for the first time in 2010 and ranked the sixth. Such local retailers as Yonghui Supermarket was benefited from the expansion of the "agricultural super-but" pilot project and it maintained a sales

growth of 56.4 percent in 2010. In contrast, foreign supermarket retailers like Wal-Mart and Carrefour gradually lost their advantages from integration of supply chain like integrated procurement and agricultural super-butts, which led to their dropping off the Fastest 20 list.

Government increased subsidies for the "home appliances going to the countryside" and "new-for-old" programs, which made Gome and Suning the most typical beneficiaries. In addition, their expansion in the second and the third tier cities and promotion of the online purchase of home appliances made them becoming the Fastest 20 in 2010.

20 Fastest-growing Retailers, 2010

Top 100 Rank	Company	Region of Origin	Dominant Operational Format	Region of Operation	Growth of Sales (%)
47	HNA Retail Business Holding Co., Ltd.	China	Multi-sector	Nationwide	89.5
74	Changsha Tongcheng Holdings Co., Ltd.	China	Multi-sector	Single Province/city	61.4
30	Yonghui Group Co., Ltd.	China	Supermarket	Inter-regional	56.4
52	Maoye International Holdings Ltd.	China	Department Store	Nationwide	49.7
45	BuBuGao Busincss Chain Store Co., Ltd.	China	Multi-sector	Regional (inter-province/city)	46.6
51	A.S. Watson Group(Hong Kong) Ltd.	Hong Kong	Multi-sector	Nationwide	45.5
2	Gome Electrical Appliances Co., Ltd.	China	Electronics Specialty	Nationwide	45
12	Shandong Commercial Group Cooperation (Yinzuo Group)	China	Multi-sector	Regional (inter-province/city)	44.3
46	Liaoning Xinglong Happy Family Business Group	China	Department Store	Single Province/city	43.8
66	Beijing Cuiwei Plaza Co., Ltd.	China	Department Store	Single Province/city	39.5
28	Shijiazhuang Beiguo Renbai Group corp.	China	Multi-sector	Single Province/city	38.7
69	Hunan Friendship&Apollo Co., Ltd.	China	Multi-sector	Single Province/city	38
35	Auchan (China) Investment Co., Ltd.	France	Supermarket	Nationwide	36.9
64	Jinan Hualian Commence Group	China	Multi-sector	Single Province/city	36.8
26	Parkson Retail Group Co., Ltd.	Malaysia	Department Store	Nationwide	33.9
1	Suning Appliance Group	China	Electronics Specialty	Nationwide	33.5
38	Intime Department Store(Group) Co., Ltd.	China	Department Store	Inter-regional	32.7
36	Golden Eagle Retail Group Limited	China	Department Store	Inter-regional	32.5
70	Beijing Shunyl Guotai Plaza	China	Department Store	Single Province/city	29.1
92	Chongqing Peace Drug Store Co., Ltd.	China	Drug Store	Nationwide	27.8
Fasted 20 Average Growth Rate					43.08

Source: CCFA

5. Focuses of Chinese Retailers and Industry Outlook

5.1 Focuses of Chinese Retailers

Given that there are both opportunities and challenges for China retailers, in order to increase competitiveness and sustain growth, they are increasingly focusing on such issues as to attract and train the professionals, build up logistics and distribution systems, simplify the supply chains, explore outsourcing services and create business model innovations.

5.1.1 Think Human Resources

Retailers are generally facing the problems of shortage in human resources and rising labor costs, which are caused by a number of factors. Firstly, it has cost China retail industry about 10 years to achieve what other countries took 40 years to achieve. Rapid growth causes a relative shortage in management professionals. Secondly, low average gross profits of the retail industry results in the modest compensation to employees. Furthermore, there is limited sense of achievement among employees due to low social recognition of the retail industry. These contribute to the high staff turnover in the retail industry. Thirdly, as the Chinese economy continues to grow rapidly, it has reached the Lewis Turning Point and the human resources problem will remain for a long time.

5.1.2 Think Logistics and Distribution Systems

Logistics and distribution management is becoming increasingly important for retailers. High cost, low efficiency and low level of standardization in logistics are challenges for retailers. Logistics and distribution management affects merchandise turnover as well as prices. Meanwhile, retail chains are characterized by frequent changes of prices and orders, which are more obvious as retailers become larger and more diversified, posing a challenge to their logistics supply chains and long-term growth. Therefore, many retailers have started to pay attention to their logistics and distribution systems.

Retailers take various approaches to improve their logistics and distribution systems. On one hand, retailers try to enhance the IT application; on the other hand, they begin to build their own logistics and distribution centers to ensure that inventory levels are controlled within a minimum range and products can be delivered in a timely manner to destinations, so to save the cost and increase efficiency. However, in practice, distribution efficiency of many logistics and distribution centers is not very high, only between 60 percent and 70 percent, and inter-regional distribution is even less efficient. In order to improve the efficiency of loading and unloading, retailers should establish standardized distribution systems. If problems cannot be identified and solved in time, retailers' daily operations will likely to be impeded.

5.1.3 Think Supply Chain Management

Simplifying the supply chain becomes the focus of retailers. Manufacturers' and franchisers' requirement for quickly withdrawing funds urge domestic retailers to reduce the payback period when dealing with suppliers. In addition, increasing operational and labor costs put pressures on domestic retailers' cash flows. Therefore, domestic retailers have to pay special attention to simplify their supply chains, reduce product costs, and create innovations in information technology, logistics and distribution centers, and cooperation with suppliers in the years ahead.

The Ministry of Commerce enacted a series of policies to ensure that domestic retailers are able to manage their supply chains well. Supported by the Ministry of Commerce, the Ministry of Finance and the Ministry of Agriculture, 205 "agriculture super docking" pilot projects were launched in 17 provinces to establish a new agricultural supply chain in 2009, which integrated production, processing, packaging and selling. Through the "agricultural super-but" program, the average selling prices of agricultural products from farmers increased roughly by 15 percent, and their prices at supermarkets dropped by 15 percent, benefits were therefore brought to farmers, consumers and retailers. The Ministry of Commerce expanded the "agricultural super-but" pilot program to include some large supermarket chain retailers and agricultural product distributors in 2010. By supporting infrastructure construction of distribution centers, promoting agricultural product brands and establishing stable purchase and sale relations, Chinese government is trying to build a modern circulation system for agricultural products. Many retailers build supply chains between farmers and supermarkets, or cooperate with such organizations as farmers' cooperatives. It improves the freshness and increases the variety of products, and thereby increases profit margins and attracts more consumers.

The "agricultural super-but" program enables retailers to better meet customers' needs and reduce the intermediate steps in the procurement process, and hence effectively decrease costs. It requires retailers not only to contribute more to improve procurement technology, logistics, and supply chains, but also to effectively control product quality and food safety. Those who are not able to purchase products directly from farmers should strengthen their bargaining power when dealing with suppliers in order to negotiate for lower prices.

5.1.4 Think Outsourcing Services

Retailers are paying more attention to outsourcing services. Expansion from single region to other regions requires support from professional firms which are familiar with the local conditions. It not only brings full utilization of resources and cost savings, but also helps retailers focus on marketing and operating.

Logistics outsourcing used to be rare due to small retailers' incapability of generating large economies, but now it is the most common practice among retailers as they are growing in sizes. For firms which provide outsourcing services, IT application in logistics chains must be sufficient and effective to support massive information delivery; otherwise delays of distribution may occur, leading to huge losses for retailers. Outsourcing services of supply chains and site selection for stores are also preferred by retailers.

5.1.5 Think Business Model Innovation

Business model innovation will be crucial for retailers' success in the future. For Chinese retailers, model innovation is more important than technological innovation, because China has a huge consumer market which is not adequately commercialized. Finding new consumer needs and creating new business models are particularly important.

Choice of business model partly depends on retailers' resources and capacities. For instance, some electronics specialty retailers choose a model with fixed rent payments and sales-based commissions. These retailers take the responsibilities of store location selection, uniform renovations decoration (cost is distributed based on sizes of the selling area), centralized procurement and inventory storage, part of the after-sales services, overall advertising and part of the pricing rights. Other retailers choose a price spread model. In addition to the responsibilities mentioned above, these retailers should also have a comprehensive knowledge of home appliance sales skills (, including information about various types of home appliances and an understanding on customers' preference for one-stop shopping experience. They also have to build their own sales teams, pay renovation costs, purchase necessary prototypes and contribute additional funds. Spread model brings more profits when sales performance is good, but greater risk when it is inappropriate for the retailers. Thus, business model innovation and choosing a suitable and competitive business model are keys to success.

China retail industry will enter an era with both opportunities and challenges in the years ahead. The middle class continues to expand. Sustainable consumption becomes the mainstream. Diversified retailing gradually becomes the industry trend. Furthermore, the local retailers are pursuing globalization.

5.2 Middle Class: Main Body of Consumers

As the global economy gradually recovers, consumer spending in China is expected to continue growing rapidly. The number of middle-class consumers will continue to increase rapidly, especially in the big coastal cities, which leads to the increase in discretionary spending, as well as spending on home-related products and the awareness of global brands (but local high-quality brands will still dominate the local markets). People are willing to dine out, which is especially important because of the increase in the number of two-income, middle-class households who are highly time constrained. In addition, the recent labor disputes in Chinese factories and the consequent substantial increases in wages, indicating a faster pace of the middle class expansion. Serving these "middle-class" consumers requires an understanding of their perception of value. It is likely to be regarded as small shopping baskets, high price sensitivity and a big discount market.

5.3 Sustainability: Mainstream of Consumption

In the next decade, there will be a need of more sustainable patterns not only for production and food consumption, but also for all products and services. According to the OECD, there will be 3.9 billion people living in areas of high pressure of water supply, as opposed to 2.8 billion today. Without sustainable consumption it will become increasingly

difficult to meet the collective expectations of the world's new consumers. Chinese consumers will be affected as well by a variety of factors:

Firstly, growing awareness and education level will play an important role in making sustainable consumption to be socially accepted by Chinese consumers.

Secondly, Chinese consumers gradually realize that certain sustainable products, services or practices bring them benefits of higher values, lower prices and more healthy life.

Thirdly, increasing sense of citizenship will lead to consumers connecting individual choice with their outcomes, which makes sustainability as a social norm.

Fourthly, the factual resourcing costs (including the opportunity costs of environment) of unsustainable products and services will be reflected in the prices, making them less attractive to consumers.

Lastly, the government is encouraging sustainable consumption by means of discount incentives and reducing energy cost.

Thus, Chinese consumers will pay more attention to the sustainability of consumption. They demand more transparency regarding food products from farm to shelves in stores; measure corporate's efforts on their responsibility to environment; and guarantee that safe labor practices are implemented during manufacturing. Consumers also pay close attention on the sourcing of food, with greater weight placed on natural and wholesome products, local provenance, animal welfare, environmental impact, and ethical practices. These changes in consumer attitudes and consumption patterns are influencing, and will continue to influence the growth path of retail industry. Consumers are becoming more active participants in the creation of a more sustainable economy and increasingly aware of the broad sustainability challenges in the world. Over the next 10 years, more consumers will prefer sustainable behavior in their daily life, such as routine recycling or looking for sustainable products. More and more consumers will advocate for sustainability, and demand it in products and corporate practices.

However, there are still some challenges in dealing with consumers. Sustainable consumption over the next 10 years will not be primarily driven by consumers themselves. Rather, it will be up to the retail industry to take the lead in engaging consumers to change their consumption patterns and to innovate aiming to meet future demands. Externally, retailers can play a critical role in stimulating governments and regulators to guide consumer behaviors. It will not be enough to react to consumers' needs and demands. Top companies will lead consumers to accelerate changes toward the more sustainable behaviors.

5.4 Diversified Retailing: Trend of China Retail Industry

Over the next five years, China retail industry will enter into an important period with both opportunities and challenges, such as uncertainty in the global economic recovery, rising inflationary pressures, consumption upgrades and changes in consumption structure. It will be inappropriate for chain retailers to continue adhering to their original strategy of developing single channel. Although the single-sector retailers will remain dominant in retail industry in the

next few years, more and more companies will try to diversify their operations in order to sustain growth and outperform their competitors. The reasons are as follows:

Firstly, foreign retailers have gradually penetrated into the consumer market in China. Due to economic recessions in North America and Europe, consumer spending there becomes conservative, and retail growth has been slowed down. As the world's second largest economy, China has the largest population and fastest economic growth. As more and more foreign retailers recognize the importance of the China market, there are likely to be more foreign entrants and increasing investment in China.

Secondly, competition among local retailers is increasing. In order to seize market opportunities, retailers have adopted various measures to increase sales, among which sales promotion has been widely used across sectors. Price competition brings sales growth for retailers, but causes considerable decline in profits. In addition, the retail market concentration is rather low. As they are small in sizes, most retailers have limited bargaining power in the procurement chain, making it difficult for them to control procurement costs. In addition, lagging procurement technology, lacking human resources and rising operating costs all bring tremendous pressures on their operations. Competition has also led to saturation in the markets in the first and the second tier cities, and retailers have begun to expand to the third and the fourth tier cities and even to rural areas.

Thirdly, changes in consumer demand also bring challenges to retailers. With the increase of household purchasing power and the rise of middle class, consumer demand becomes more personalized and diversified. Price sensitivity is lowered, and concerns on brands and product costs increase. In this context, many retailers begin to realize that innovation and differentiation are what they can rely on in the future, rather than price competition.

Therefore, we expect that retailers will become increasingly more diversified to meet consumer needs at various levels and to achieve competitive differentiation.

5.5 Internationalization: Development of Chinese Retailers

As retailers in developed countries have been gradually going global, there is a growing urge for the Chinese retailers to get into the international market.

Firstly, the global economy has been integrated. Increasing economic interdependence and penetration among countries lead to internalization of commodity circulation and production. Local goods and services can no longer satisfy the consumers, they become strongly interested in products and services associated with exotic cultures, providing the market demand for internationalization of the retail industry. Furthermore, many countries have relaxed control on foreign entries into the domestic retail industry, as a result of trade liberalization and economic globalization, thereby eliminating the barriers which obstruct retail internationalization.

Secondly, China retail industry has become mature after decades of development. Market saturation and rising domestic operation costs caused by excessive competition and inflationary pressures compel Chinese retailers to turn to other emerging markets for future growth, which have increased middle class with strong purchasing power and low labor costs.

Thirdly, the problems of aging population and declining fertility rate have become increasingly serious. As working-age population shrinks, qualified labor supply will be in short. This in turn will push up wages and prices, and result in a need to increase the number of immigrants to make up the numbers. In addition, with declining growth of young consumers who fuel the domestic spending, retailers will look internationally for growth opportunities.

Given both opportunities and challenges, it is likely for an increasing number of large domestic retailers wishing to expand their operations in emerging markets, setting internationalization as the goal for their future development.

About China CB&T Practice

Deloitte China Consumer Business & Transportation (CB&T) Group aims to build market eminence through a broader set of responses to industry risks, deeper customer relationships, and the utilization of technology as an enabler. We are dedicated to helping clients evaluate complex issues, develop appropriate approaches to problems and implement practical solutions.

The Deloitte China CB&T practice consists of a talented group of multi-functional industry specialists in 15 Deloitte offices. We believe that drawing upon a combination of the disciplines of Audit, Tax, Financial Advisory, Consulting and Enterprise Risk services allows us to see more clearly and more deeply – creating greater value for our clients. By collaborating with our team of specialists in areas such as profitable growth, shareholder value, regulatory affairs, operational excellence and risk management, our clients receive innovative and comprehensive solutions to their unique business challenges.

The Consumer Business & Transportation industry involves the way goods and services reach the consumer. Our practice is divided into four segments that align with key groups of these goods and services within the industry:

- Consumer Products Companies
- Retail, Wholesale & Distribution
- Tourism & Leisure
- Transportation

To learn more information, please visit www.deloitte.com/cn.

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