

# China Retail & E-commerce Quarterly

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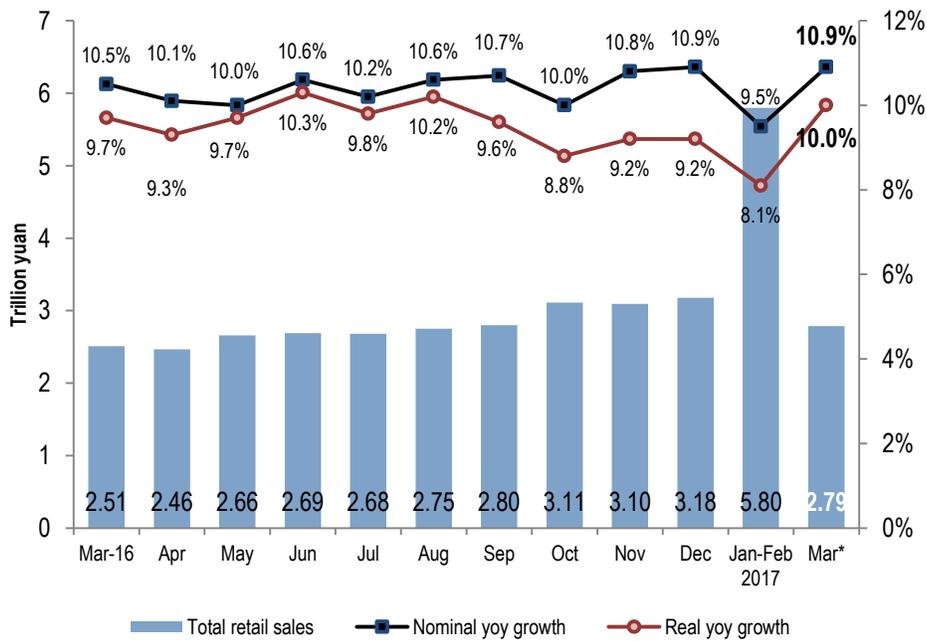
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# I. Market overview

## 1. Retail sales up by 10.4% yoy in 1Q17

Total retail sales of consumer goods increased nominally by 10% year-on year (yoy) to reach 8.58 trillion yuan in 1Q17. By month, the nominal growth in January – February and March were 9.5% yoy and 10.9% yoy respectively. Total retail sales of consumer goods reached 2.79 trillion yuan in March 2016, up nominally by 10.9% yoy.

**Exhibit 1: Total retail sales of consumer goods, March 2016 – March 2017**

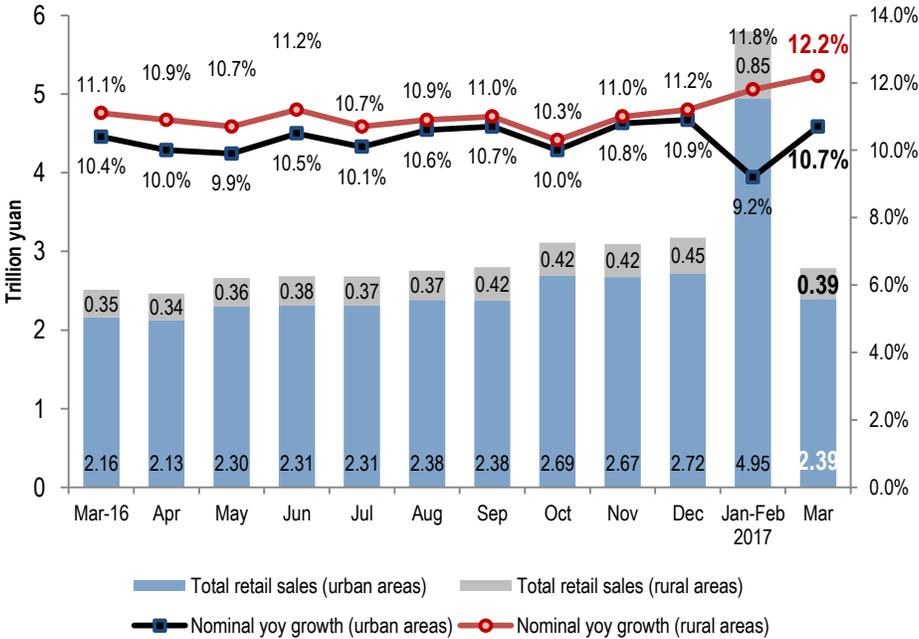


Source: National Bureau of Statistics of the PRC; compiled by Fung Business Intelligence

**2. Rural retail sales continue to grow faster than urban retail sales in 1Q17**

Rural retail sales have been growing at a faster pace than urban retail sales. Rural retail sales increased nominally by 11.9% yoy to 1.24 trillion yuan in 1Q17, while urban retail sales rose 9.7% yoy to 7.34 trillion yuan. By month, rural retail sales amounted to 0.39 trillion yuan in March 2017, up by 12.2%, while urban retail sales amounted to 2.39 trillion yuan, up by 10.7% yoy.

**Exhibit 2: Total retail sales of consumer goods, urban vs. rural areas, March 2016 – March 2017**



Source: National Bureau of Statistics of the PRC; compiled by Fung Business Intelligence

The increase in rural household income contributed to the fast growth of rural retail sales. Per capita disposable income of urban and rural households reached 9,986 yuan and 3,880 yuan in 1Q17, up by 7.9% and 8.4% yoy in nominal terms respectively. Rural household income grew faster than that of urban households, but the per capita disposable income of urban households was still more than double than the amount of their rural counterparts.

**Exhibit 3: Per capita disposable income of urban and rural households, 1Q16 – 1Q17**

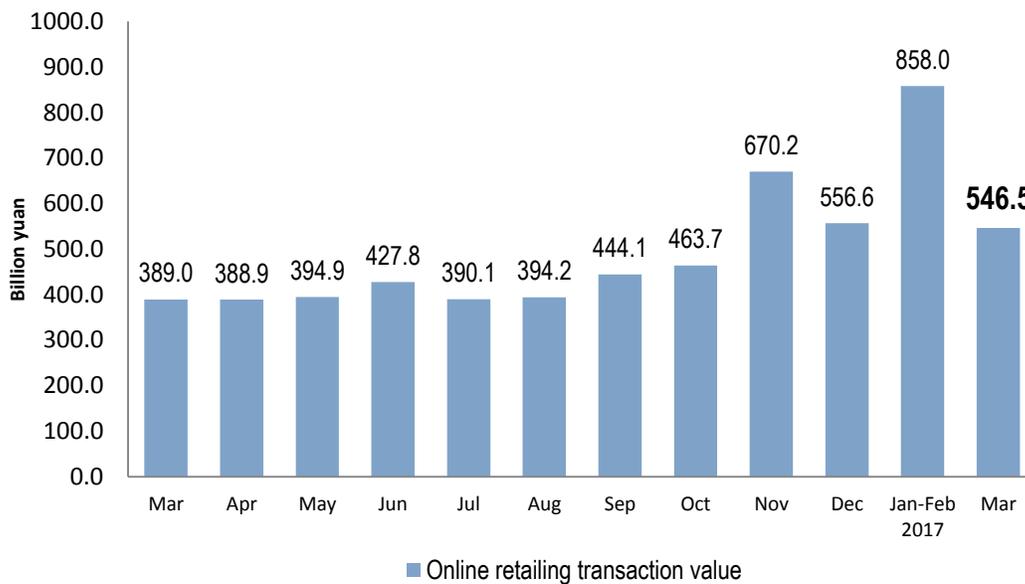
	Urban households		Rural households	
	Absolute value (yuan)	yoy growth	Absolute value (yuan)	yoy growth
<b>Quarterly data</b>				
1Q16	9,255	8.0%	3,578	9.1%
1Q17	9,986	7.9%	3,880	8.4%
<b>Half-yearly data</b>				
1H16	16,957	8.0%	6,050	8.9%
<b>1-3Q data</b>				
1-3Q16	25,337	7.8%	8,998	8.4%
<b>Yearly data</b>				
FY16	33,616	7.8%	12,363	8.2%

Source: National Bureau of Statistics of the PRC; compiled by Fung Business Intelligence

### 3. Online retail market scales up in 1Q17 amid slower growth

Total transaction value of online retail sales of goods and services increased by 32.1% yoy to reach 1.40 trillion yuan in 1Q17. Of which, online sales of goods amounted to 1.07 trillion yuan, up by 25.8% yoy and accounted for 12.4% of the total retail sales of consumers goods. By month, total online retail sales of goods and services in January – February and March totaled 858.0 billion yuan and 546.5 billion yuan, respectively.

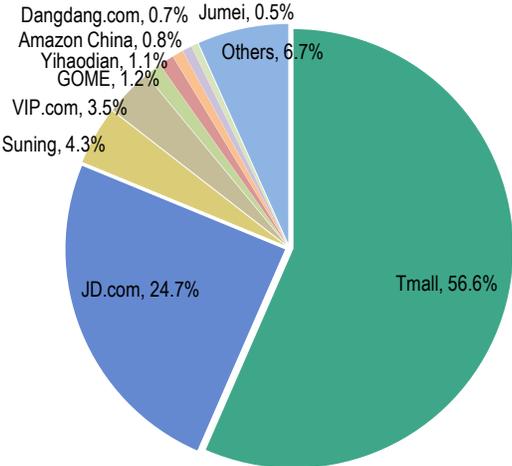
**Exhibit 4: Transaction value of online retail sales of goods and services, March 2016 – March 2017**



Source: National Bureau of Statistics of the PRC; compiled by Fung Business Intelligence

Within the B2C market, Tmall continued to be the distinct leader in 2016 with 56.6% of market share, followed by JD.com with 24.7% of market share.

**Exhibit 5: Market share of top B2C players, 2016**



Source: iResearch Consulting Group

#### 4. Chinese consumers more upbeat, consumer confidence surges in 1Q17

Consumer confidence index gradually picked up since the end of 2016, and continued to rise in 1Q17, suggesting that the consumption atmosphere in China remained positive. Consumer confidence index in February and March 2017 exceeded 110<sup>1</sup>, an 8.2-point and 11-point increase over the same months last year. With confidence increasing, Chinese consumers might feel more confident about discretionary purchases.

Exhibit 10: Consumer Confidence Index, January 2016 – March 2017

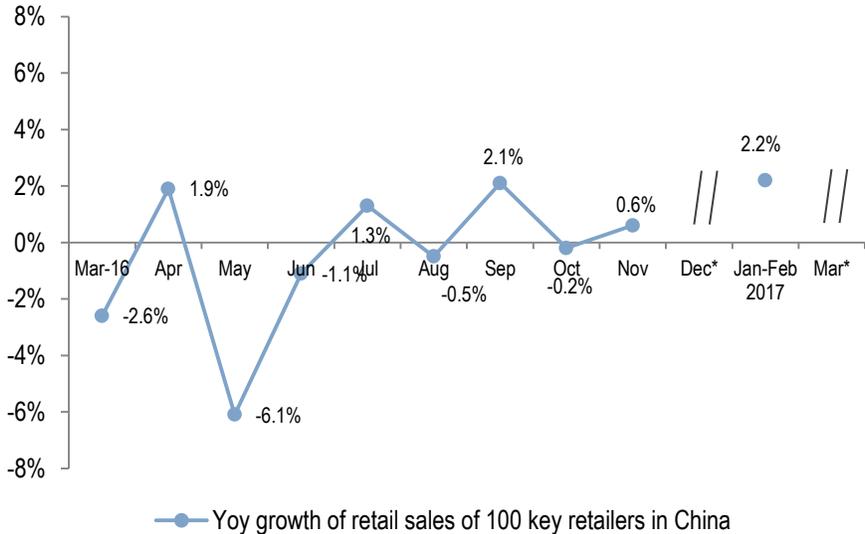


Source: National Bureau of Statistics

### 5. Performance of large-scale retailers picks up in 1Q17

Retail sales growth of 100 key retailers rose significantly from -4.8% in 1Q16 to 2.7% yoy in 1Q17.

Exhibit 11: Yoy growth of retail sales of 100 key retailers in China, March 2016 – March 2017



Source: China National Commercial Information Center

## II. Latest developments

### General retail

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#### 1. CCFA: Growth pace of the Top 100s continues to slow in 2016

The China Chain Store and Franchise Association (CCFA) released its annual list of “the Top 100 Retail Chain Operators in China” (the Top 100s). Total sales of the Top 100s in 2016 were 2.1 trillion yuan, up 3.5% year-on-year (yoy), the slowest growth rate since 2008. Total sales of the Top 100s accounted for 6.4% of the total retail sales of consumer goods. Suning Commerce Group, Gome Electrical Appliances and China Resources Vanguard remained the top three retail chain operators by retail sales, with no change in the rankings over the previous year. By retail format, convenience stores recorded the highest yoy sales growth of 16.7% yoy in 2016, while department stores saw negative sales growth. Convenience chain store operators opened the most new stores as they sought to expand their retail network, while department stores and large-scale supermarkets continued to close unprofitable stores. Online sales continued to see fast growth, reaching 120 billion yuan, up 69% yoy and accounting for 5.7% of the total sales of the Top 100s. 56.7% of the sales were made via mobile devices. Over 80 enterprises have launched their own private labels. That said, private labels only accounted for around 5% of the total sales of the Top 100s.

Fung Business Intelligence believes that small-format stores will continue to lead the retail market in terms of sales growth. Adopting new technologies, revamping stores, improving product offerings and product quality, and providing all-round services to consumers are some common ways for retailers to stand out in the “New Retail” era. Transformation of traditional retailers is an inevitable trend going forward.

For more information, please refer to our publication [Top 100 retail chain operators in China, 2016 - Key findings and takeaways](#).

#### 2. Chinese brands are becoming more competitive in the global market; technology and retail sectors see highest growth

Chinese brands are becoming more competitive in the global market. According to the “BrandZ Top 100 Most Valuable Chinese Brands 2017” published by BrandZ, Tencent, Alibaba and China Mobile topped the list as the most valuable Chinese brands for the year with brand value amounted to US\$106.1 billion, US\$58.0 billion and US\$57.8 billion respectively. According to the report, technology and retail were sectors that had the highest growth in dollar terms, up 16% to US\$163.7 billion and 22% to US\$74.2 billion respectively. 94% of the total brand

value of the retail sector companies on the list was contributed by e-commerce players. Online discount retailer VIP.com entered the list for the first time and was ranked 40th. The brand was also named as the “Most Valuable Newcomer” by BrandZ. Other selected retailers and e-commerce players on the list included Baidu (#4), JD.com (#14), Suning.com (#26), Yonghui Superstores (#70) and GOME (#100), etc.

## E-commerce

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### 3. New retail in action: Alibaba and Bailian Group announce partnership

On 20 February, 2017, Alibaba Group Holding Limited and China’s leading retailer Bailian Group announced the formation of a strategic partnership to explore new forms of retail opportunities across each other’s ecosystem. The two companies will leverage Big Data capabilities to achieve integration across bricks-and-mortar stores, merchandise, logistics and payment tools with the aim to deliver a better overall customer experience. Alibaba will not take a stake in Bailian. Under the agreement, the cooperation will focus on six areas, including retail outlets, new retail technology, CRM system, supply chain management, payment tools and logistics.

Alibaba’s move to tie with Bailian underscores its “New Retail” vision, which highlights the importance of online and offline integrations in shaping the future of retail. Indeed, this is another major initiative taken by Alibaba to extend its involvement in offline retail businesses following the privatization of Intime Retail Group in December 2016. We also see Alibaba’s initiative as a strategic move to better compete with JD.com in the supermarket segment. The partnership will also enable Alibaba to leverage Bailian’s logistics strength in Shanghai.

For Bailian, partnering with Internet companies such as Alibaba is a fast way to reinvent and revamp its businesses, as well as to roll out O2O strategies amid the challenging times facing traditional retailers.

For more information, please refer to our publication [\*"New Retail" in action: Alibaba, Bailian Group Announced New Retail Strategic Partnership - Key highlights and takeaways.\*](#)

### 4. E-commerce players strengthen the usage of Big Data

Collecting and using Big Data wisely is one of the ways for retailers to better serve their customers. Internet companies are launching new functions for brands and retailers to obtain more consumer data via their platforms. For example, JD.com announced that it has launched a new proprietary big data analytics tool, namely JD.com Business Intelligence or JD Shangzhi, to replace its former analytic tool. The new tool was officially launched on 31

March, 2017, allowing merchants to conduct big data analysis and data-driven marketing and achieve smart operation. It has all the functions of the previous tool, including database query of information regarding products, retail stores, industries, brands, as well as analysis of industry developments, stores diagnosis, stores rating, after-sale services comparison, logistics and distribution channels, and single products. New features available include per hour breakdown of the various metrics, data downloading function of the transaction analysis, as well as additional support to JD Global retailers.

Another example is WeChat. It announced the new function “WeChat Index” in March 2017 to track the popularity of any keyword on WeChat based on mobile big data from WeChat. The company said that the “WeChat Index” monitors indirectly the interests and focuses of the public along a certain period, allowing brands and companies to plan their marketing strategies and evaluate their campaign efforts with market feedback. WeChat users can access the index data by searching for “Keyword” + “WeChat Index” in WeChat. The index data is available in various time periods, such as at present, in 7 days, 30 days and 90 days.

## **5. Third-party mobile payment market continues to grow; third-party payment companies step up overseas expansion**

According to iResearch, third-party mobile payment market in China amounted to 18.5 trillion yuan in 4Q16, up by 17.1% quarter-on-quarter. Of which, Alipay and Tenpay (payment services through WeChat and QQ) accounted for 55% and 37% of the total market share respectively. The market share of Alipay increased 3.2 ppts quarter-on-quarter comparing with that in 1Q16, while Tenpay’s market share dropped slightly by 1.3 ppts.

A latest report by United Nation-based Better Than Cash Alliance showed that Alipay and WeChat Pay enabled US\$2.9 trillion in China’s digital payment market in 2016, representing a 20-fold increase in the past four years. The two leading third-party mobile payment companies have been active in the quarter in expanding their services overseas. For example, Alipay and Swiss tax-refund company Global Blue jointly launched a new service for Chinese tourists shopping in Europe in February 2017. Through digital validation by QR code scanning, tourists can get instant refunds which will be credited to their Alipay accounts. This service has already been made available in the tax refund service points at Milan’s Malpensa Airport, Munich Airport and Helsinki Airport. The instant tax refunds service will be available in more European countries by summer 2017.

WeChat Pay has entered the North American market through a partnership with American company Citcon, a mobile payment solution provider that specializes in connecting global businesses with the China market. The partnership allows millions of businesses in North America to accept mobile payment from Chinese tourists through WeChat Pay. In 2016, Chinese tourists spent up to US\$74 million daily in the U.S.

Besides, WeChat Pay has become the exclusive third-party mobile payment service provider of All Nippon Airways (ANA), a Japanese aviation company, in March 2017. WeChat Pay is available as the mobile payment option in all ANA's physical stores and retail businesses, such as duty-free stores and hotels. According to ANA, its cross-border e-commerce (CBEC) platform ANA Cargo Direct Mall also plans to partner with WeChat Pay.

Apart from extending their services overseas, partnering with airline companies to provide in-flight payment service has become a trend in the last quarter. For example, in March 2017, Alipay, SHARECO, an aviation internet technology developer, and Hainan Airlines jointly announced the launch of Alipay services on the first batch of 15 passenger planes of Hainan Airlines. Passengers can pay with Alipay when shopping or upgrading their passenger class by connecting to the inflight Wi-Fi services. It is expected that the payment service will be available to 129 Hainan Airline planes by end of 2017. Hainan Airline is the first time Chinese airline to provide an in-flight electronic payment option.

## 6. E-commerce players jump on the VR and AR bandwagon

Virtual Reality (VR) and Augmented Reality (AR) are new technologies that provide new ways for brands and retailers to run their businesses in China, as in other western countries. In February 2017, Tmall debuted its proprietary AR shopping technology "AR-GO" in its Home Products Shopping Festival. By using "AR-GO", consumers can view the 3D model of the product recreated in AR mode in approximate proportion through users' phone camera, thus improving shopping experience. After the Home Products Shopping Festival ends, "AR-GO" will continue to be adopted on Tmall and will be gradually applied in other product categories. Goods that support AR viewing feature will be indicated by a specific icon.

Meanwhile, the use of VR in payments is set to revolutionize the payment industry. In March 2017, Ant Financial Services Group provided its VR Pay service on third-party platforms for the first time on Xiaomi and Huawei's VR platforms. VR application developers on the two platforms can utilize the VR Pay function by embedding it in the applications and games they developed. Prior to this, the VR Pay function was only used in Taobao's Buy+ shopping application.

## 7. Alibaba brings new foreign innovative companies into China

Smart technology is undeniably one of the top emerging trends in the retail sector. Tmall announced that five innovative product brands from the U.S., namely neato, marpc, BlueSmart, Misfit, and udis, have partnered with the platform to enter the China market in March 2017. Currently, more than 20 kinds of innovative tech products

are available on Tmall. To facilitate the market entry of foreign innovative companies into China, Tmall said that it will provide support in various areas, such as market research, product development, product licensing and registration, as well as marketing and promotion. Tmall also planned to introduce more top tech brands around the world to China, including those from Europe, Japan and Australia.

## 8. Online fresh food market continues to gain steam

Online fresh food market is growing rapidly. Research institute under 21st Century Business Herald and JD.com jointly published a consumer trends report on online fresh produce market. According to the report, the majority of e-commerce consumers (particularly the “post-70s” and “post-80s” generations) are now spending more on fresh produce. Over 70% of the surveyed consumers said they are willing to purchase fresh produce online. Growing at an annual average compound growth rate of around 50%, the transaction value of the fresh produce market will likely be over 150 billion yuan by 2017.

Eying the rapidly growing online fresh produce market, increasing number of retailers has launched their online fresh food platform. In February 2017, China National Cereals, Oils and Foodstuffs Corporation (COFCO) launched “Elite”, a membership fresh produce e-commerce channel, on its online platform womai.com. “Elite” adopts a unique C2B membership model and targets a niche market demanding high-end fresh produce. Currently, the channel is only available to registered members of “Elite” who have bought shopping credits from the platform.

Meanwhile, some online fresh produce retailers are stepping up efforts to provide better services for consumers. For example, in April 2017, JD Fresh Produce launched the first on-the-spot refund scheme in China. According to JD.com, fresh produce express delivery nationwide will now support on-the-spot goods inspection prior to the signing off of delivery, allowing consumers to request for refund immediately in case the products are de-frozen, spoiled, spilled or have damaged-packaging. Earlier, JD Fresh Produce has also launched an expedited refund service which allows consumers to submit refund request online within 48 hours after receiving the damaged products. The refund request will be reviewed and processed within 100 minutes of submission and successful applicants will be able to receive product refund without the need to return the products.

## 9. CBEC platforms remain attractive for foreign brands and retailers

CBEC platforms such as Tmall Global and JD Worldwide continue to be a popular entrance for foreign brands and retailers into the China market. Aldi, the largest discounted goods retail chain in Germany, opened its Tmall Global flagship store and entered the China market for the first time in March 2017. The flagship store features five major product categories, namely wine, breakfast products, snacks, organic food, and cooking condiments.

Wal-mart's UK supermarket brand ASDA also launched a flagship store on JD.com's CBEC platform, JD Worldwide in April 2017. At present, goods that are available in the flagship store are mainly food and health products, and all are imported from the U.K.

## E-commerce logistics

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### 10. JD.com announces establishment of JD Logistics Business Group

In April 2017, JD.com announced the establishment of JD Logistics, a wholly-owned subsidiary under JD.com, which will leverage the company's advanced technology and logistics expertise to provide smart supply chain and logistics services to businesses across a wide range of industries. JD Logistics will provide business partners with comprehensive supply chain solutions, including warehousing, transportation, delivery, after-sales service, as well as intelligence logistics services (drones, unmanned vehicles, automated warehouses, automated delivery, etc.), business data services (sales forecast, inventory management), cross-border logistics, express delivery and related products and services.

Richard Liu, Chairman and CEO of JD.com said in the press release, "This move is a major step in our vision to make technology even more central to what we do over the next 12 years. Leveraging our unparalleled access to data from every step of the e-commerce process, from ordering to delivery and after-sales service, JD Logistics will use AI, big data and automation to once again redefine the potential of e-commerce logistics."

JD Logistics will also partner with JD.com to share online and offline resources and launch innovative supply-chain financial and insurance products jointly with JD Finance.

## Supermarkets and hypermarkets

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### 11. Leading supermarket chains are keen to adopt the "New Retail" concept

The "New Retail" concept has been spreading among the supermarkets and hypermarkets sector. Yonghui Superstore launched its first "Super Species" store with an area of 650 sqm in Fuzhou in January 2017. "Super Species" is a new retail format of Yonghui which is an experiential store for members providing retail, catering, fresh food, and offline delivery services. "Super Species" store is an important part of Yonghui's O2O strategy which connects with Yonghui's mobile app. Yonghui expects to build 50 "Super Species" stores by the end of 2017.

In April 2017, Wumart announced to open three new “New Retail” concept stores in June 2017, two in Beijing and one in Hangzhou. The new stores will utilize advanced retail technologies such as inventory management that allows for real-time visibility and analytics, joint online and offline membership schemes, as well as self-checkout counters that support scanned payments. The stores will no longer adopt the conventional enclosed store designs, and shoppers will no longer need to shop along restricted shopping routes. Furthermore, the new Wumart stores will take out product categories such as home electronics and general merchandize, and increase the proportion of fresh produce and fast-moving consumer goods (FMCG) categories.

Another example is Jiajiayue, a supermarket chain in Shandong. The company announced earlier in April 2017 that it will set aside 200 million yuan of self-financed fund for investment related to “New Retail” innovation, so as to facilitate the upgrading strategy of the company and allow the company to gain an edge in the retail market by investing in retail innovation. Jiajiayue said that with the fund the company will be able to explore new investment opportunities, improve strategic position in the “New Retail” regime, as well as promote the use of advanced Internet technologies to upgrade the systems of its traditional physical stores and improve efficiency.

## 12. Digitalization of supermarkets is well underway

Digitalization is one of the major moves of supermarkets under the “New Retail” regime. An example is Wumart Group. It has installed electronic shelf labels to replace traditional paper labels in 48 of its hypermarkets in the Eastern China region in April 2017. Products information will be displayed electronically for goods of all categories to allow for integrated online and offline inventory management. The average floor area of the hypermarkets was 6,000 sqm and each hypermarket deploys an average of 20,000 units of electronic shelf labels. The major benefits of using electronic shelf labels include: saving manpower and increasing efficiency of store operation; improving the accuracy of pricing; allowing for real-time price adjustment so that online and offline price and discount information can be synchronized; ensuring the inventory data online and offline are in sync. According to media, Wumart’s Dmall.com app also plans to launch electronic shelf labels (in QR code format) so as to further implement the group’s O2O integration strategy.

## Department stores and shopping malls

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### 13. CCAGM, Fung Business Intelligence: Department store sales growth continues to slow; the emergence of “New Retail” propels the department store sector to adapt and reinvent

Fung Business Intelligence joined forces with China Commerce Association for General Merchandise (CCAGM) to produce the China’s Department Stores Report 2016-17. According to the survey, total sales proceeds of the 85 sampled department store operators increased 5.45% yoy to 656.7 billion yuan in 2016 and net profits soared

12.00% yoy to 4.0 billion yuan. Against the backdrop of slower economic growth and keen market competition, China's department store sector has exposed to considerable threats and pressure. Rapidly changing consumer behaviors have forced operators to adapt and change. Increasing numbers of department store operators have sought to transform and upgrade themselves, and explore new business models and practices, with O2O as the cornerstone. In the "New Retail" regime, developing new business models with new innovations and breakthroughs has become industry consensus.

For more information, please refer to our publication [China's Department Stores Report 2016](#).

#### 14. Many department store operators record declining sales and profits for FY16

In this quarter, many department store operators announced their financial results for the financial year of 2016. The majority of Chinese department store operators recorded lackluster sales and dropping profitability for FY16 – Rainbow Department Store's net profit plummeted 56.6% yoy to 672 million yuan and revenue dropped 0.7% yoy to 17,273 million yuan; Chongqing Department Store's revenue declined 7.3% yoy to 33,847 million yuan; Guangzhou Grandbuy Co. Ltd's net profit dropped 35.3% yoy to 162 million yuan; Xinhua Department Store's revenue slumped for 22.4% yoy to 1,994 million yuan; Inzone's revenue down 12% yoy to 12,845 million yuan. Wangfujing's sales revenue amounted to 17,795 million yuan, up by 2.7% yoy, while same-store-sales dropped by 1.6% yoy. Net profit amounted to 849 million yuan, down by 9.3% yoy.

Some foreign operators also saw falling sales in FY16. For example, revenue of Parkson Retail Group has dropped for three consecutive years. The group's revenue in FY16 amounted to 4.606 billion yuan, down by 2.8% yoy. Revenue from core operations amounted to 154 million yuan, down by 15.8% yoy, and same-store sales were down by 6.7%.

#### 15. Department store closures continue to loom large

China's department store sector has continued to face headwinds in 1Q17 as the store closure trend remained prominent. According to the a survey by Linkshop, 56 department stores and shopping malls shut down in 2016. Chongqing Department Store alone closed a total of 16 stores in 2016. Besides, U.K. department store Marks and Spencer has been suffering from continued losses in its China business and closed two of its physical stores in Shanghai – the Wanda branch and the Skymall branch on 26 February, 2017. Italian premium multi-brand store 10 Corso Como closed its store in Beijing SKP Mall on 14 February, 2017 due to heavy loss suffered by the retailer's China business.

## Convenience stores

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### 16. JD.com to tap the convenience store market by opening more than 1 million JD convenience stores over the next five years

JD.com plans to open more than 1 million JD convenience stores across the country in the next five years, with half of them located in rural areas. The convenience stores will be operated under the franchise model. Franchisees can order goods, including FMCG, consumer electronics, home appliances, clothing and home furnishings through JD's platform. JD will be responsible for logistics and distribution to the stores.

### 17. Convenience stores in China tap into the growing foodservice sector

Convenience store format continued to be the fastest-growing retail format in China in 2016. According to the Ministry of Commerce (MOFCOM), growth of retail sales for traditional retail format was up by 1.6% yoy in 2016, of which, growth of retail sales for specialty stores (1.7% yoy), professional stores (2.9% yoy), supermarkets (1.9% yoy) and hypermarkets (1.8% yoy) were all significantly slower than convenience stores (8% yoy). Recently, increasing numbers of convenience store chains are tapping into the growing foodservice sector to cater to the needs of consumers, especially the white-collar workers. For example, FamilyMart has added in-store kitchen and baking facilities, as well as increased dining spaces in some of its stores. Advantages of convenience stores to provide catering services include:

- Convenience stores can leverage their logistics infrastructure to achieve shorter delivery cycle so as to minimize the excess inventory of fresh foods
- Convenience stores can react quickly to customer needs and change their fresh food product mix
- Convenience stores invest into private labels can act as a major tool to differentiate from counterparts and increase profit margin

Although the quality of food provided in convenience stores may not be comparable to restaurants and fast-food chains, convenience stores have the advantage of having a large store networks to make catering possible in neighborhood. It is also attractive to consumers who are very price-sensitive.

## Apparel market

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### 18. A few apparel companies seek IPOs

A few apparel companies listed or sought to get listed in this quarter. Shanghai-based fashion company Dazzle Fashion Co. Limited issued its IPO prospectus and sought to list on the Shanghai Stock Exchange main board in May 2017. 60 million shares will be issued, accounting for 15% of the share capital after listing. Dazzle Fashion was

founded in 2002 and is a womenswear brand targeting the mid- to high-end market. Mid- to high-end womenswear brands “DAZZLE”, “DIAMOND DAZZLE” and “d’zzit” are the three core brands of the company.

Another example is Shanghai Kaichen Clothing Co., the parent company of Taobao brand AK Men’s Wear. The company was listed on the Chinese National Equities Exchange and Quotations (NEEQ) in May 2017. AK Men’s Wear is a leisure menswear brand. The design and cutting of its products incorporate military and outdoor stylish elements. AK Men’s Wear was launched in 2009 and it is one of the first Taobao brands that have gained attention from consumers. Currently, AK Men’s Wear has opened more than 20 physical stores, six of which are directly operated by the brand.

## Kids products

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### 19. E-commerce players expand rapidly in the children’s market

E-commerce players such as JD.com and Suning have been expanding rapidly in the children’s market recently. JD.com announced in April 2017 that JD Supermarket will open 5,000 mother-and-infant experiential stores nationwide, focusing on the tier 3 and tier 4 cities. The experiential store will be able to provide last mile delivery service to customers within the radius of 1 km who ordered mother-and-infant products on JD.com. JD.com pointed out that the mother-and-infant product category of JD Supermarket will reach tier 3 and lower tier cities through the physical stores; the number of mother-and-infant experiential stores is estimated to reach 30,000 in 2017. In the future, offline and online integration will be the key development trend of the mother-and-infant industry.

At the same time, in May 2017, Suning Redbaby opened four new offline stores in Beijing, Nanjing, Xuzhou and Wuhu Suning Plaza. As of today, Suning Redbaby has 31 physical stores in 10 provinces nationwide. It said that it will accelerate its offline expansion in the second half of the year and targets to have a total of 90 physical stores by the end of 2017. Suning Redbaby’s moves signify its intention to expand further in the offline market.

## Luxury market

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### 20. Appetite for luxury products by Chinese luxury consumers bounces back

According to the *Chinese Luxury Consumer Survey 2017* released by Hurun Research Institute in January 2017, over 90% of surveyed high net-worth individuals in China surveyed feel confident about the economy going forward,

with the number of respondents that were “extremely confident” accounting for 28% of the total. Besides, appetite for luxury products by Chinese luxury consumers bounced back 20% to return to the level in 2013.

## 21. International luxury players step up their social media efforts

The use of social media goes far beyond a basic messaging tool, and increasingly becomes a platform to carry out e-commerce transactions and marketing campaigns. An increasing number of luxury players now leverage social networks to market or sell their products. French luxury brand Givenchy is an example. In February 2017, the French luxury brand partnered with a popular blogger in China (nicknamed Mr. Bags) to sell 80 limited-edition Valentine’s day-special handbags on WeChat, with each handbag priced at 14,900 yuan. Following the posting of an article by Mr. Bags on his WeChat public account announcing the promotion, all the 80 bags were sold out in just 12 minutes, racking up a total of 1.2 million yuan.

Longchamp is another French luxury brand to market its products on WeChat. In April 2017, the brand launched two WeChat Mini Programs providing brand communication and product customization services respectively. The first Mini Program on brand communication serves traditional and social media marketing purposes. With this Mini Program, consumers can search for information such as the locations of the brand’s stores in Shanghai, as well as information of the various events organized by the brand, such as photo exhibition, handicraft embroidery workshop. Consumers can also upload pictures and text status of these events using the Mini Program and to interact with other fans of the brand. The second Mini Program on product customization allows consumers to tailor-made their handbag by choosing personalized patterns on the bag.

American luxury brand Coach also launched a marketing campaign on WeChat to incentivize its existing WeChat followers to invite new friends to join the brand on the app, aiming to grow its audience on WeChat. From 24 March to 23 April, 2017, current followers of Coach’s WeChat public account could create unique barcode through Coach and share it with their friends who have not followed the account yet. Participants could earn 20 points if they succeed in getting one person to follow Coach on WeChat. They could also gain five additional points for each new follower joining the app via their barcode. The points that followers accumulated during the campaign could be used to redeem a cash coupon worth 300 yuan for a range of Coach’s signature products, from passport covers, to crossbody bags and handbags.

### III. Competitive landscape

Financial and operating performance of selected listed retailers, Internet and e-commerce companies:

#### 1. Department stores and grocery players

Company	Parkson	Golden Eagle	Intime	Sun Art
Financial period	FY16*	FY16*	FY16*	FY16*
<b>Total gross sales proceeds (million yuan)</b>	14,313.0 (-8.3%)	16,399.2 (+0.7%)	17,214.4 (+2.7%)	NA
<b>Operating revenue (million yuan)</b>	4,605.9 (-2.8%)	4,694.3 (+14.7%)	5,984.2 (+3.9%)	100,441 (+4.2%)
<b>SSS growth</b>	-6.7%	-4.1%	0.3%	-0.34%
<b>Merchandise gross margin</b>	16.5% (-0.3ppt)	NA	NA	23.9% (+0.6ppt)
<b>Concessionaire sales</b>	86.8%	82.1%	81.9%	NA
<b>Concessionaire rate</b>	NA	NA	16.9%	NA
<b>Current operating stores**</b>	53	31	49	446

\* For the year ended 31 December, 2016

\*\*Including shopping malls

Source: company data, compiled by Fung Business Intelligence

Company	Wangfujing	Dashang	Bailian
Financial period	FY16*	FY16*	FY16*
<b>Total sales revenue (million yuan)</b>	17,795.1 (+2.7%)	28,087.5 (-8.9%)	47,077.2 (-4.35%)
<b>Net profit attributable to shareholders of listed companies</b>	574.8 (-13.07%)	702.9 (+6.7%)	900.3 (-29.04%)
<b>Net cash flow from operating activities</b>	980.3 (+50.72%)	2,014.3 (+54.98%)	1,684.7 (+3.19%)
<b>The net assets attributable to the shareholders of the listed company</b>	10,376.5 (+40.57%)	6,942.4 (+8.65%)	16,585.2 (+8.74%)
<b>Total assets</b>	17,787.8 (+27.48%)	17,935.8 (+8.26%)	45,609.5 (+5.10%)

\* For the year ended 31 December, 2016

Source: company data, compiled by Fung Business Intelligence

## 2. Internet and e-commerce companies

Company	Alibaba	Tencent	JD.com
<b>Financial period</b>	<b>FY17*</b>	<b>FY16**</b>	<b>FY16**</b>
<b>Revenue (Billion yuan)</b>	158,3, +56% yoy	151.9, +48% yoy	260.2, +44% yoy
<b>GMV (Billion yuan)</b>	3,767, +22% yoy	NA	658.2, +47% yoy
<b>Annual active buyers</b>	454 million (Mar 2017)	NA	226.6 million (Dec 2016)
<b>MAU</b>	Mobile MAU: 507 million (Mar 2017)	Combined MAU of Weixin and Wechat (Dec 2016): 889 million MAU of QQ (Dec 2016): 868 million	NA
<b>Notes</b>			7 fulfillment centers, 256 warehouses, 6,906 delivery stations and pickup stations

\* For the year ended 31 March, 2017

\*\* For the year ended 31 December, 2016

Source: company data, compiled by Fung Business Intelligence

## IV. Regulation updates

### Market supervision

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#### 1. SAIC launches online platform for consumers to file complaints

On 15 March, 2017, the State Administration for Industry and Commerce (SAIC) launched the **12315 Online Platform** <全国 12315 互联网平台> for consumers to file complaints regarding quality of products and services. Aside from its web version, the platform is also available through mobile App and WeChat public channel under the name of <全国 12315 互联网平台>, as well as through WeChat Mini Program under the name of <12315><sup>2</sup>.

#### 2. CAC issues tighter rules for online news portals and network providers

On 2 May, 2017, Cyberspace Administration of China (CAC) issued the **Internet News Information Service Management Regulations** <互联网新闻信息服务管理规定> to tighten rules for online news portals and network providers to secure the Internet and maintain strict party control over content. The new regulations extend restrictions on what news can be produced and distributed by online platforms, requiring all services to be managed by party-sanctioned editorial staff. The regulations, which come into effect on June 1, apply to all political, economic, military, or diplomatic reports or opinion articles on blogs, websites, forums, search engines, instant messaging apps and all other platforms that select or edit news and information. All such platforms must have editorial staff who are approved by the national or local government internet and information offices, while their workers must get training and reporting credentials from the central government. In addition, the rules also stipulate that a domestic business that wants to set up a joint venture with a foreign partner, or accept foreign funding, must be assessed by the State Internet Information Office<sup>3</sup>.

### Cross-border e-commerce

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#### 3. CBEC retail imports to adopt supervision methods for personal article in 15 CBEC pilot cities and experimentation zones starting from 1 January 2018

The MOFCOM published a media announcement on 17 March, 2017, saying that from 1 January 2018 onwards, CBEC retail imports will adopt supervision methods for personal article in 15 CBEC pilot cities and experimentation zones.

The media announcement pointed out that “CBEC retail imports have nature of both trade and low-cost, personal use”. The announcement also said that “responsibility of the e-commerce enterprises need to be strengthened”,

suggesting that in the future e-commerce companies may be required to step up in their control of the quality and safety of CBEC imports in light of possible relaxation of supervision at the border control. The implementation details of the proposed arrangement will be announced in due course. Further adjustments will be made to align with the future E-commerce Law and as authorities continue to monitor and the development in the industry.

The 15 CBEC pilot cities and CBEC comprehensive pilot zones are: Hangzhou, Tianjin, Shanghai, Chongqing, Hefei, Zhengzhou, Guangzhou, Chengdu, Ningbo, Qingdao, Shenzhen, Suzhou, Fuzhou, Pingtan<sup>4</sup>.

## Planning and Development

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### 4. Various authorities publish 13th Five-Year Plan documents

#### 13th Five-Year Plan for the Development of Trade Logistics

The MOFCOM and four other departments jointly issued the **13th Five-Year Plan for the Development of Trade Logistics** <商贸物流发展「十三五」规划> on 8 February, 2017. The Plan states that the 13th Five-Year Plan period should see huge strides in the development of advanced information technologies application, which will lead to the constant growth in the competitiveness of trade logistics companies; in particular, the logistics cost ratio of wholesale and retail companies to drop to around 7%. The Plan ascertains nine major tasks for the development of trade logistics, including constructing a multiple-layer trade logistics network, promoting the standardization of trade logistics, strengthening the information technology infrastructure of trade logistics, facilitating the transformation of trade logistics to become more sustainable, and establishing the credit system for trade logistics. It also proposes seven key projects, such as developing a trade logistics platform, improving e-commerce logistics, and developing sustainability in the industry of trade logistics<sup>5</sup>.

#### 13th Five-Year Plan for the Express Delivery Industry

The State Post Bureau (SPB) issued the **13th Five-Year Plan for the Express Delivery Industry** <快递业发展「十三五」规划> on 15 February, 2017. According to the Plan, by 2020, China is set to build an express delivery industry that is capable to connect both China and the world, as well as urban and rural areas. It will also seek to provide technically advanced, quality, safe, efficient and environmentally friendly express delivery services. The Plan highlights six major tasks, including:

- Building air cargo hubs that serve the express delivery industry in China;
- Building technology bases and facilities for the research and development of the industry;
- Improving express delivery services across the industry through standardization;
- Implementing traceability, risk control and alert system in the express delivery industry;
- Adopting environmentally friendly express delivery services;
- Providing more job opportunities through the development of the industry<sup>6</sup>.

### 13th Five-Year-Plan for Food Safety

The State Council issued on 14 February, 2017 the **13th Five-Year-Plan for Food Safety** <国家「十三五」食品安全规划> and called for the strengthening of food safety administration. The Plan suggests a number of measures to strengthen import/export food safety. It states that an alert system monitoring the safety of import/export food will be established. A credit system will be established to track the past records of trade companies in the industry. The checking and qualification of overseas production companies will also be strengthened. The safety and quality testing process at customs will be improved. Spot-checks will cover all food categories. Food imported through CBEC channels will also go through more vigorous food-safety checking. A food safety evaluation and retrospective study of 50 major countries and regions exporting food to China will be conducted. 20 ports were announced as the designated ports for the testing of imported food, while 100 state-level export food safety demonstration areas will be set up<sup>7</sup>.

### 13th Five-Year Plan for the Development of Service Trade

13 authorities including MOFCOM jointly issued the **13th Five-Year Plan for the Development of Service Trade** <服务贸易发展「十三五」规划> on 9 March, 2017. According to the Plan, China targets to have a higher annual average growth in service trade than that of the global average in the 13th Five-Year Plan period. Also, technological/ knowledge-intensive business services and high value-added services aim to account for an increasing weight in the total exports of China. Examples of these emerging services that are capital-/ technology-/ knowledge- intensive include communications, finance, insurance, computer and information services, consulting, R & D, intellectual property, energy saving, inspection and certification, environmental services, and exhibition. The Plan lays out six major tasks, which include improving relevant policies and regulations, optimizing market structure, facilitating market growth, nurturing innovations, expanding schemes of open collaboration, as well as formulating a system of comprehensive regulatory bodies. Five key focuses include improving business environment, improving system for business facilitation, building talent bases, and strengthening the statistical measurement. The Plan also lists out 24 important sectors in 12 categories as the focus for service trade development. Beijing, Shanghai and Guangdong will develop core business areas for services trade, focusing on the pilots of policy and regulatory reform, international trade investment and regional trade liberalization respectively<sup>8</sup>.

## 5. Opinions on Advancing State E-commerce Demonstration Bases provide guidelines for e-commerce businesses in the demonstration bases

The MOFCOM issued the **Guiding Opinions on Further Advancing the Construction of State E-commerce Demonstration Bases** <关于进一步推进国家电子商务示范基地建设工作的指导意见> on 22 January, 2017. The Opinions set out efforts to further optimize infrastructure and service for e-commerce business within the demonstration bases, especially in areas of marketing and promotion, technology and maintenance, warehousing

and logistics, safety accreditation, transactions recording, data retention, legal and financial advisory, and patent application, etc. The Opinions encourage e-commerce businesses in the demonstration bases to formulate and implement industry standards. Local governments are encouraged to set up investment funds to incentivize entrepreneurship and innovation among the companies in the demonstration bases. The Opinions require e-commerce businesses within the demonstration bases to improve the traceability of information through the adoption of IT technologies, as well as to enhance their own brand values<sup>9</sup>.

## V. Outlook

### 1. China to continue to boost consumption in 2017

The National Development and Reform Commission (NDRC) submitted the **Report on the Implementation of the 2016 Plan and the 2017 Draft Plan for National Economic and Social Development** <关于2016年国民经济和社会发展规划执行情况与2017年国民经济和社会发展规划草案的报告> during the fifth session of the 12th National People’s Congress (NPC) in March 2017. Boosting consumption is one of the main goals of the Chinese Government in 2016. It has pushed forward “Ten initiatives for boosting consumption” (Exhibit 1) in the past year.

**Exhibit 1: Ten initiatives for boosting consumption**

Area	Details
<b>Urban Sales</b>	Facilitating the flows of products in distribution network, with a focus on reducing logistics costs while enhancing efficiency, and extending sales of high-quality brands to third- and fourth-tier cities
<b>Rural Consumption</b>	Tapping the potential for e-commerce consumption in rural areas, facilitating flows in two-way sales channels between urban and rural areas, improving rural infrastructure for consuming information goods and services, and bringing about higher-quality consumption in rural areas
<b>Housing</b>	Cutting the housing inventory by using measures which are tailored to local conditions, establishing a housing system which encourages both renting and purchasing, ensuring efficient use of the housing provident fund, and meeting consumer demand for better housing conditions
<b>Automobile</b>	Initiating trials to loosen restrictions on driving pickup trucks in cities, accelerating construction of parking facilities, working to improve after-sales services for automobiles, and meeting consumer demand for automobiles
<b>Tourism &amp; Leisure</b>	Developing demonstration zones for all-for-one tourism, accelerating the development of cruise and yacht tourism, promoting ecotourism and elderly-friendly tourism, and stepping up development of the general aviation market
<b>Health, Elderly Care, &amp; Domestic Services</b>	Providing more training for domestic service workers, developing combined medical and care services for the elderly, supporting the integration and transformation of idle non-governmental resources to provide elderly care services, and encouraging development of diversified and personalized health services
<b>Education, Culture &amp; Information</b>	Developing high-level vocational education, promoting Chinese-foreign cooperation in operating schools, encouraging the development of cultural & creative industries, increasing application of new information products such as smart-home technology, and strengthening infrastructure for cultural consumption such as physical bookstores, digital cinemas in county-level cities
<b>Sports &amp; Fitness</b>	Continuing to put stadiums and gymnasiums to best use, improving market-based competitive mechanisms for sports event operations, and hosting a wider range of sports events to stimulate and satisfy household demand in the area of sports
<b>Green Consumption</b>	Carrying out a “frontrunner program” for energy efficient household appliances, increasing

	the supply of eco-friendly household purifiers, and promoting the use of green materials in construction
<b>Consumption Environment &amp; Quality</b>	Extending application of the national platform for sharing information on credit, making effective use of the “12358” <i>pricing monitoring platform</i> <12358 价格监管平台>, strengthening price monitoring, working to improve the quality of consumer goods, and supporting development of new forms of consumption such as sharing economy

Source: National Development and Reform Commission

In 2017, the government will continue to tap the potential of domestic demand. Upgrading consumer spending will be a major focus. The government will continue to advance the “Ten initiatives for boosting consumption”. It will promote reforms and innovations so as to increase effective supply to consumers, especially in service and green industries. Total retail sales of consumer goods are expected to increase by around 10% yoy in 2017<sup>10</sup>.

Exhibit 2 demonstrates the initiatives that the government will take to upgrade consumer spending.

### Exhibit 2: Initiatives for upgrading consumer spending

Area	Details
<b>Upgrading traditional consumption</b>	<ul style="list-style-type: none"> <li>To carry out initiatives to upgrade the quality and efficiency of the retail sector, implement action plans for the transformation of catering, accommodation, and domestic services as well as other consumer service industries, and work to expand and upgrade reasonable demand for homes, travel, and other forms of traditional consumption.</li> <li>To move ahead with the reform of low-altitude airspace management and the development of general aviation, and move faster to optimize urban road networks and to establish parking facilities and charging stations for new energy vehicles.</li> <li>To increase the proportion of land designated for residential use in first-tier and major second-tier cities, and appropriately increase land supply.</li> </ul>
<b>Extending service-related consumption</b>	<ul style="list-style-type: none"> <li>To encourage the provision of multilevel, diverse health services using private capital.</li> <li>To implement the guidelines on fully opening up the market for and increasing the quality of elderly care services.</li> <li>To facilitate the development of the rehabilitation-device, fitness, and leisure industries.</li> <li>To continue to promote all-for-one tourism, tourism to symbolic sites for CPC history, as well as travel for study and research, and will foster cruise and yacht tourism.</li> <li>To develop the cultural industry by facilitating restructuring and improvements in layout and improving mechanisms and policies related to market access, investment, and financing.</li> <li>To develop the sports industry in new ways, and tap new areas of sports consumption.</li> <li>To boost educational and training services.</li> </ul>

Source: National Development and Reform Commission

## 2. Retail sales of consumer goods are estimated to grow at 10.2% in 2017; six trends prevail in China's retail sector

China General Chamber of Commerce (CGCC) and China National Commercial Information Center (CNCIC) jointly announced their predictions on the future development of China's retail sector during the "Chinese Consumer Market Annual Conference 2017". China's retail sales of consumer goods are expected to grow at 10.2% in 2017, down 0.2 ppt from 2016. That said, the government's increasing efforts to push forward the supply-side reform will increase the variety of products, raise product quality and lead to creation of brands; this will boost the overall profitability and drive consumption, and is beneficial to the retail market.

According to the CGCC and CNCIC, China's retail sector is expected to see the following six development trends as the concept of "new consumption, new retail and new ecology" becomes prevalent in the consumer market:

1. The retail sector will respond promptly to market changes;
2. Technology, fashion and lifestyle will be integrated;
3. High-quality goods, services and culture will be integrated;
4. Online and offline channels will be further connected;
5. A variety of formats will be aggregated, showing ecological development;
6. Social media will play a more important role in the retail sector.

Looking forward, we are optimistic about the development of China's retail sector as consumption upgrade will continue to drive the growth of the sector. Key segments that we expect to see increasing demand include tourism, environment conservation, culture and entertainment, elderly care, education, new media, etc.

## 3. China's economic growth to slow slightly in coming quarters; consumption to continue its moderate growth in FY17

In its latest report *Bluebook of China's Economy (Spring 2017)*, the Chinese Academy of Social Sciences (CASS) predicts that China's economic growth will decelerate from 6.9% in 1Q17 to 6.7%, 6.6% and 6.5% in 2-4Q17 respectively. GDP growth for FY17 is predicted at 6.6% yoy, down 0.1 ppt from 2016. The service sector will continue to grow at a fast pace in 2017, with service sector value-added expected to account for a higher proportion of China's GDP. The yoy growth rate for China's consumer price index (CPI) is expected to increase slightly to reach 2.1%. Looking ahead, we expect consumption to maintain moderate growth in FY17, given the continuous income growth of Mainland residents. Indeed, the per capita disposable income of households saw cumulative growth of over 60% during 2011-16.

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<sup>1</sup> “Consumer confidence index”, the National Bureau of Statistics of the PRC

<http://finance.sina.com.cn/mac/#boom-4-0-32-2>

<sup>2</sup> “SAIC launches online platform for consumers to file complaints”, 15 March 2017, State Administration for Industry and Commerce of the PRC

[http://www.saic.gov.cn/xw/zyxw/201704/t20170424\\_262094.html](http://www.saic.gov.cn/xw/zyxw/201704/t20170424_262094.html)

<sup>3</sup> “Internet News Information Service Management Regulations”, 2 May 2017, Cyberspace Administration of China

[http://www.cac.gov.cn/2017-05/02/c\\_1120902760.htm](http://www.cac.gov.cn/2017-05/02/c_1120902760.htm)

<sup>4</sup> “CBEC retail imports to adopt supervision methods for personal article in 15 CBEC pilot cities and experimentation zones starting from 1 January 2018”, 17 March 2017, Ministry of Commerce of the PRC

<http://www.mofcom.gov.cn/article/ae/ag/201703/20170302536140.shtml>

<sup>5</sup> “13th Five-Year Plan for the Development of Trade Logistics”, 8 February 2017, Ministry of Commerce of the PRC

<http://www.mofcom.gov.cn/article/b/d/201702/20170202511705.shtml>

<sup>6</sup> “13th Five-Year Plan for the Express Delivery Industry”, 15 February 2017, State Post Bureau of the PRC

[http://www.spb.gov.cn/zc/ghjzbz\\_1/201702/W020170213328753560937.pdf](http://www.spb.gov.cn/zc/ghjzbz_1/201702/W020170213328753560937.pdf)

<sup>7</sup> “13th Five-Year-Plan for Food Safety”, 14 February 2017, The State Council of the PRC

[http://www.gov.cn/zhengce/content/2017-02/21/content\\_5169755.htm](http://www.gov.cn/zhengce/content/2017-02/21/content_5169755.htm)

<sup>8</sup> “13th Five-Year Plan for the Development of Service Trade”, 9 March 2017, Ministry of Commerce of the PRC

<http://www.mofcom.gov.cn/article/b/xxfb/201703/20170302530933.shtml>

<sup>9</sup> “Guiding Opinions on Further Advancing the Construction of State E-commerce Demonstration Bases”, 22 January 2017, Ministry of Commerce of the PRC

<http://www.mofcom.gov.cn/article/b/fwzl/201701/20170102505764.shtml>

<sup>10</sup> “Report on the Implementation of the 2016 Plan and the 2017 Draft Plan for National Economic and Social Development”, 16 March 2017, The National People's Congress of the PRC

[http://www.npc.gov.cn/npc/xinwen/2017-03/16/content\\_2019203.htm](http://www.npc.gov.cn/npc/xinwen/2017-03/16/content_2019203.htm)

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