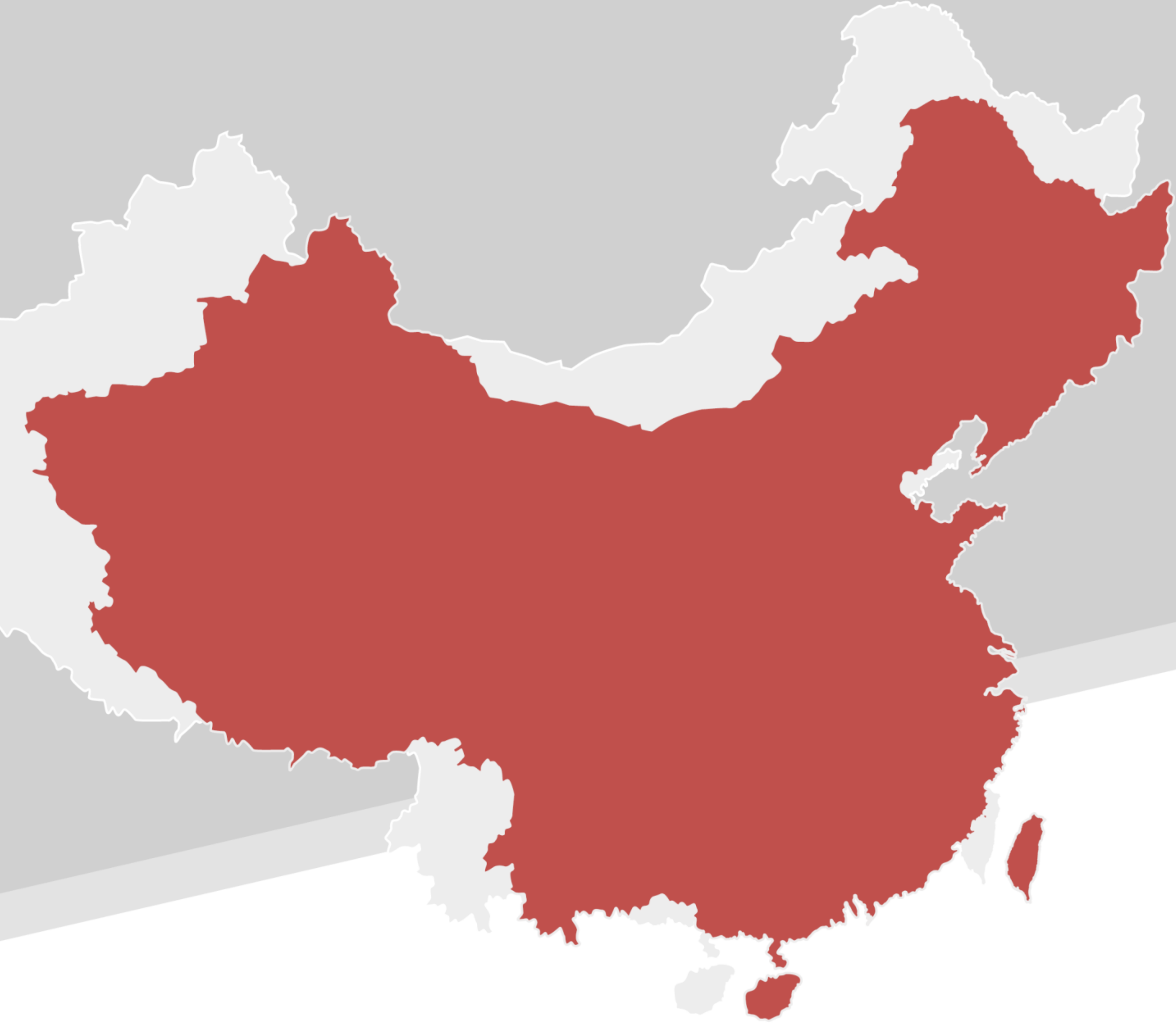

China Retail & E-commerce Quarterly

Issue 08 | November 2018

Asia Distribution and Retail
FUNG BUSINESS INTELLIGENCE

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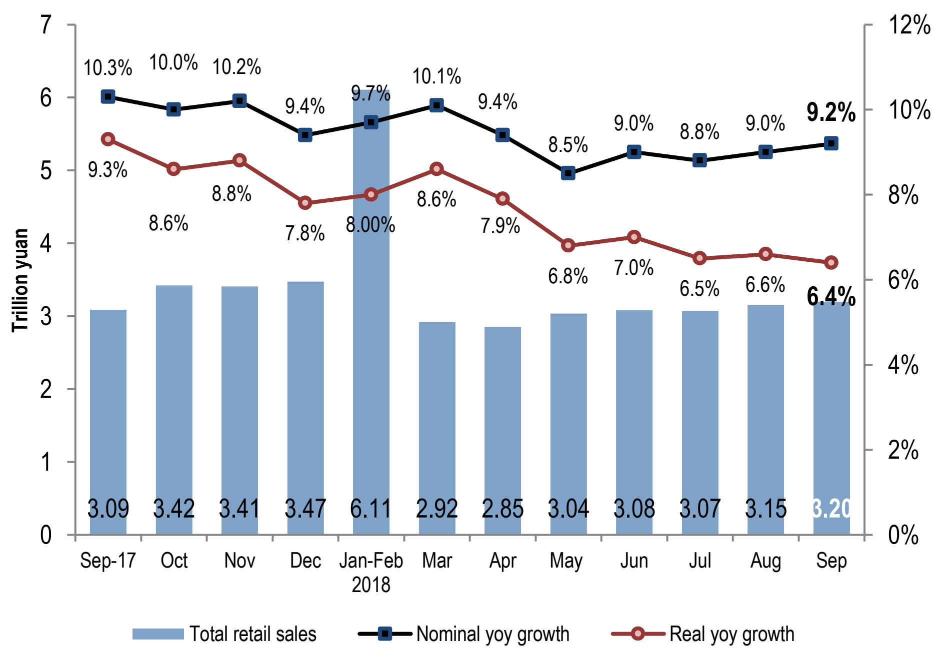
I. Market overview

1. Retail sales up by 9.3% yoy in 1-3Q18

Total retail sales of consumer goods increased nominally by 9.3% yoy to reach 27.4 trillion yuan in 1-3Q18. By month, the nominal growth in July and August were 8.8%, and 9.0% yoy. Total retail sales of consumer goods reached 3.20 trillion yuan in September 2018, up nominally by 9.2% yoy.

Exhibit 1: Total retail sales of consumer goods, September 2017 – September 2018

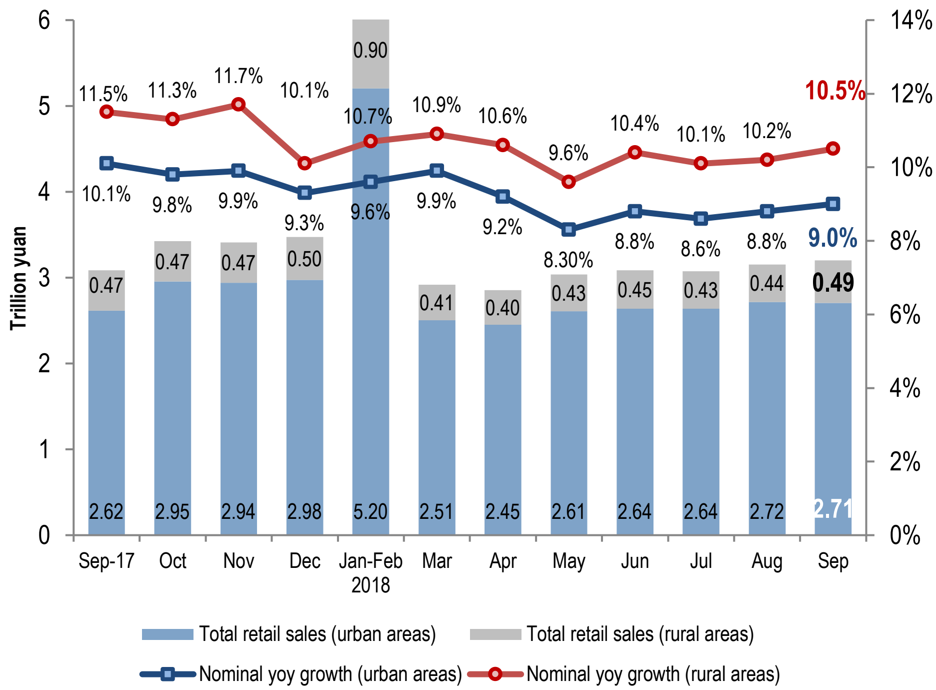


Source: National Bureau of Statistics of the PRC; compiled by Fung Business Intelligence

2. Rural retail sales growth continues to outpace urban retail sales growth in 1-3Q18; per capita income of rural residents also grows faster than urban income

Urban retail sales increased nominally by 9.1% yoy to 23.5 trillion yuan, while rural retail sales rose 10.4% yoy to 4.0 trillion yuan in 1-3Q18. By month, rural retail sales amounted to 0.49 trillion yuan in September 2018, up by 10.5% yoy, while urban retail sales amounted to 2.71 trillion yuan, up by 9.0% yoy.

Exhibit 2: Total retail sales of consumer goods, urban vs. rural areas, September 2017 – September 2018



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

Per capita disposable income of urban and rural households reached 29,599 yuan and 10,645 yuan in 1-3Q18, up 7.9% yoy and 8.9% 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 more than double than that of their rural counterparts.

Exhibit 3: Per capita disposable income of urban and rural households, 2017 – 3Q18

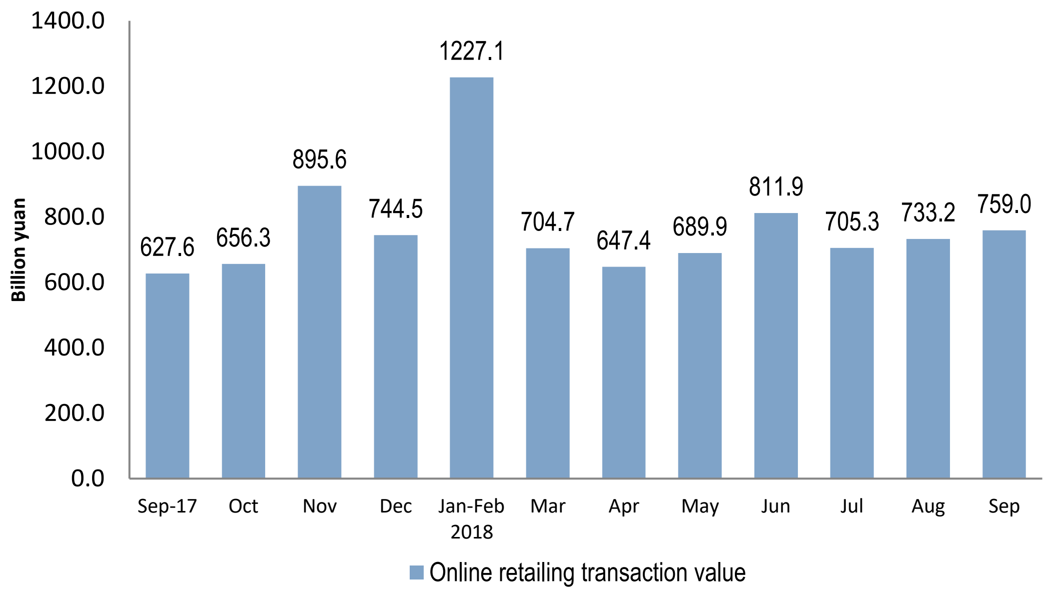
	Urban households		Rural households	
	Absolute value (yuan)	yoy growth	Absolute value (yuan)	yoy growth
Quarterly data				
1Q17	9,986	7.9%	3,880	8.4%
1Q18	10,781	8.0%	4,226	8.9%
Half-yearly data				
1H17	18,322	8.1%	6,562	8.5%
1H18	19,770	7.9%	7,142	8.8%
1-3Q data				
1-3Q17	27,430	8.3%	9,778	8.7%
1-3Q18	**29,599**	**7.9%**	**10,645**	**8.9%**
Yearly data				
FY17	36,396	6.5%	13,432	7.3%

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

3. Online retail sales rise 27.0% yoy in 1-3Q18

Total online retail sales of goods and services amounted to 6,278.5 billion yuan in 1-3Q18, up 27.0% yoy. Of which, online sales of goods amounted to 4,793.8 billion yuan, up 27.7% yoy and accounted for 17.5% of the total retail sales of consumer goods.

Exhibit 4: Transaction value of online retail sales of goods and services, September 2017 – September 2018

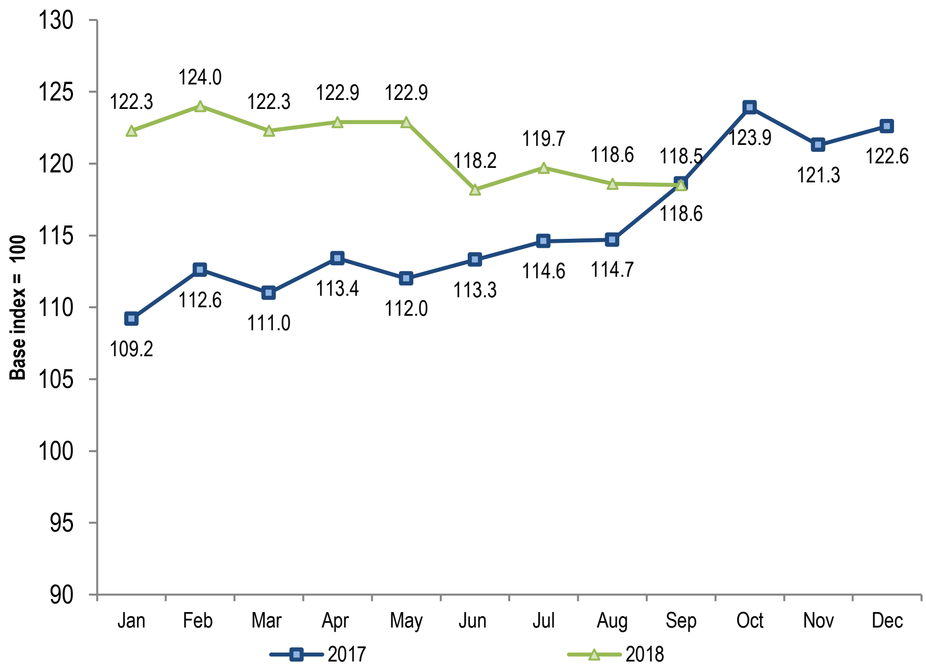


Source: National Bureau of Statistics of the PRC; compiled by Fung Business Intelligence

4. Consumer confidence index remains stable in 1-3Q18

Consumer confidence index remained fairly stable in 1-3Q18. Consumer confidence index was 119.7, 118.6 and 118.5 in July, August and September respectively.

Exhibit 7: Consumer Confidence Index, January 2017 – September 2018



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

5. Performance of large-scale retailers picks up in 3Q18

Retail sales growth of 100 key retailers increased by 1.7% yoy in 1-3Q18. By month, retail sales growth picked up from -2.0% yoy in July to 0.3% yoy and 3.8% yoy in August and September respectively.

Exhibit 8: Yoy growth of retail sales of 100 key retailers in China, September 2017 – September 2018

Source: China National Commercial Information Center; compiled by Fung Business Intelligence

II. Latest developments

11.11 Global Shopping Festival

1. 11.11 Global Shopping Festival: Review and observations

2018 marks the 10th anniversary of 11.11 Global Shopping Festival. The shopping festival, started as an Alibaba phenomenon, has spread beyond Tmall and Taobao to other e-commerce operators, as well as bricks-and mortar stores. It has also evolved from a pure discounting occasion to a test bed for new commerce initiatives and emerging technologies being applied in both online and offline shopping scenarios.

On the back of China's explosive digital transformation, the shopping festival's rapid growth over the past decade has powered the steady rise in quality consumption sought by Chinese shoppers. This year, the festival fell on a Sunday, making it even more convenient for consumers to shop.

<u>Key results of 11.11 Global Shopping Festival in 2018</u>

Alibaba

- Alibaba reported 213.5 billion yuan (US$ 30.8 billion) in GMV in 2018 compared to the 168.3 billion yuan (US$ 25.3 billion) last year. At 16 hours and 5 minutes into the sale, total GMV surpassed the total for the 24-hour sale last year. Sales growth was 27% yoy.
- Over 1 billion delivery orders were processed by Cainiao.
- 237 brands topped RMB100 million in GMV, including Apple, Dyson, Kindle, Estée Lauder, L'Oréal, Nestle, Gap, Nike and Adidas.
- More than 40% of customers made purchases from international brands; the top countries selling to China were Japan, the U.S., South Korea, Australia and Germany.
- Customers from 230 countries and regions completed transactions on Alibaba's platforms.
- Alibaba eclipsed Amazon's estimated Prime Day sales in less than 10 minutes (Amazon's sales were estimated to have reached roughly US$4.2 billion over the company's 36-hour Prime Day).

JD.com

- During 1-11 November, JD.com reported a record high GMV of 159.8 billion yuan, up 25.7% yoy.
- 90% of the delivery orders were completed on the same day or on the next day after customer placing their orders.
- Over 100 million people purchased on the platform; provinces with the most number of orders were Guangdong, Beijing, Jiangsu, Zhejiang and Shandong.

Suning.com

- During 1-11 November, Suning.com recorded 132% yoy growth in all of its retail channels. 1,666 Suning Cloud Stores participated in the event; 2,400 Suning.com Direct-sales Stores participated and recorded a yoy sales growth of 84%; orders made in Suning Xiaodian increased tenfold compared to normal days.
- Orders made on Suning Group Buying platform exceeded 80 million; with a penetration rate of 56% in the tier-3 and 4 cities.
- More than 50 million customers shopped in Suning physical stores.
- Post-90s generation dominated consumer spending for the first time – 42% of total orders were made by the post-90 consumers, compared to 38% by the post-80s consumers.
- During 1-11 November, Suning provided free delivery for orders made via its self-operated platform. More than 200,000 logistics staff worked nationally to provide quick delivery services – small parcels in less than 7 hours, large parcel in less than 6 hours.

VIP.com

- VIP.com received over 10 million orders during on 11 November.
- Facial mask, skin care sets and women's boots were the most popular items.
- Over 550,000 orders were made via VIP.com's WeChat Mini Program.
- Residents in Chengdu, Wuhan, Beijing, Guangzhou and Shanghai made the most number of orders.

Netease Kaola

- GMV on Netease Kaola during the 11.11 Global Shopping Festival in 2018 was 2.4 times higher than in 2017.
- Beauty products ranked the first among all categories; while healthcare products and personal care products exceeded maternity and baby products.

Xiaomi

- Xiaomi recorded sales of 5.251 billion yuan in all of its retail channels, exceeding the sales it made on Tmall last year (2.464 billion yuan).
- Xiaomi's AI and IoT products remained the most popular items during the event.

Pinduoduo

- Pinduoduo held the event during 11-16 November.
- At 9 hours and 25 minutes into the sale, total GMV of Pinduoduo surpassed the total for the 24-hour sale in 2017.
- Number of logistics orders increased over 300% yoy.
- Number of orders for agricultural products exceed 40 million.

Key observations

O2O integration speeds up

The number of offline stores participated in this year's 11.11 Global Shopping Festival reached a record high. In the past years, the 11.11 Global Shopping Festival was mainly an online event; but the event this year involved much more offline stores to create synergies and generate higher sales. 29 online and offline business units of Alibaba and its strategic partners participated in the event, including Freshippo (formerly known as Hema Xiansheng), Intime, RT-Mart and Easyhome. Besides, 200,000 mom-and-pop stores powered by Alibaba's Ling Shou Tong provided online sales promotions, along with augmented reality-based red packets that offered discounts at 3,000 "Tmall Corner Stores".

Other key e-commerce operators also put more focus on O2O during this year's 11.11 Global Shopping Festival. For example, from 20 October to 15 November, JD.com lined up with over 600,000 physical stores to offer O2O shopping experience to consumers, including its own innovative retail formats JD Home, JD Convenience Store, JD unmanned supermarket, and 7Fresh, as well as physical stores of its collaborating brands such as Hongdou and Qumei. Consumers could receive coupons online and use them in over 10,000 offline stores. JD.com also applied various black technologies including smart shopping guide, AR/VR fitting, smart shopping cart, facial recognition payment systems to provide better shopping experience to consumers.

Increasing participation of global consumers and retailers

Driving sales by extending customer reach is another focus of this year's 11.11 Global Shopping Festival. Tmall World, AliExpress and Lazada have brought the event to hundreds of millions of Alibaba's overseas users. For example, Lazada hosted the first 11.11 Global Shopping Festival for customers in Singapore, Malaysia, Thailand, Indonesia, Philippines and Vietnam.

On the other hand, cross-border e-commerce platforms such as Tmall Global provided over 3,700 categories of imported goods from 75 countries and regions on its platform. Chinese consumers who ordered on Tmall Global during the festival could use their mobile Taobao app to get shipment updates from Tmall Global.

Unleashed consumption power of customers in lower-tier cities and rural areas become a new focus

Expanding customer reach to lower-tier cities and rural areas is a major initiative of e-commerce players during this year's 11.11 Global Shopping Festival. JD.com's group buying platform JD Pingou joined the festival for the first time to target lower-tier cities, rural areas and customers who focus primarily on price. Over 100 group buying deals starting from 1 yuan were available on the platform. To differentiate from other e-commerce platforms, Pinduoduo, another group buying website which was listed on the Nasdaq stock exchange in July 2018, launched deals mainly focused on agricultural produce during the 11.11 Global Shopping Festival. It also lined up with various farms directly to ensure sufficient supply of farm products. Alibaba's "Rural Taobao" initiative also targeted the rural areas by bringing coupons to its services in 800 counties across 29 provinces in China. The vast population base and the unleashed consumption power from these lower-tier cities and rural areas have provided tremendous opportunities for brands and retailers.

E-commerce companies put more efforts into promoting their private labels

Along with the trend of consumption upgrading, some e-commerce companies and Internet giants have launched their own private labels in the hope of providing quality, premium and personalized products and services to customers. The 11.11 Global Shopping Festival provides a good chance to increase customer awareness of these brands. JD.com's private label Jingzao participated in the 11.11 Global Shopping Festival for the first time. Jingzao products were available online on JD.com as well as in JD Home's physical stores. JD Home also launched a pop-up store to for Jingzao in eight cities from 24 October to 11 November to promote the private label.

Meanwhile, Suning's private label "Suning Jiwu" launched an online flagship store on North America's e-commerce platform Yamibuy (www.yamibuy.com) in October 2018. Suning also participated in the first overseas 11.11 Global Shopping Festival organized by Yamibuy, selling mostly travel goods and home products. Goods sold on Yamibuy were shipped by Suning Jiwu from the U.S. warehouse.

Logistics service is no longer the bottleneck

The State Post Bureau of the PRC (SPB) revealed that on 11 November, China's major e-commerce companies generated 1.352 billion orders throughout the day, up 25.12% yoy. All of the express delivery companies together handled 416 million parcels on the day, up 25.68% yoy and hit a record high. Many logistics players have geared up for the 11.11 Global Shopping Festival. Cainiao, for instance, has upgraded its technology and systems before the shopping festival. It used satellites to improve the efficiency of its delivery partners. According to Alibaba, 40 minutes before the end of the festival on 11 November, delivery orders handled by Cainiao topped 1 billion for the first time, eclipsing last year's 812 million.

General retail

2. Import Expo shows China's consumption potential to the world

The China International Import Expo (CIIE), the world's first import-themed national-level fair, was held in Shanghai during 5-10 November, attracting more than 3,600 companies from 172 countries, regions and international organizations to participate. The Expo has seven exhibition areas including consumer electronics & home appliances, clothing & everyday consumer goods, automobiles, intelligent and high-end equipment, foods & agricultural products, medical devices & healthcare, and service trade. President Xi Jinping announced at the opening ceremony of the CIIE that China will further reduce tariffs and increase imports. He estimates that China's total imports of goods and services in the next 15 years will exceed US$30 trillion and US$10 trillion, respectively. The proportion of consumer goods in China's imports is expected to increase further. In the long run, China's consumption should become an important engine for global economic growth[1].

During the CIIE, Alibaba pledges to import US$200 billion of foreign goods over the next five years, followed by nearly 100 billion yuan purchase contracts signed by JD.com, 15 billion euro contracts by Suning, nearly 20 billion yuan by Kaola.com, US$100 million by Secoo, 10 billion yuan by Vip.com and around 100 million yuan by Ymatou.com.

3. Consumption upgrading in the silver market is prominent

The consumption upgrading trend among consumers aged 50 or above is significant. According to Alibaba's "Silver Market Consumption Upgrade Data Report", this group of consumers is willing to spend more beauty products, outbound tourism and health-related products and services according to. The number of mature Taobao users has increased by 160% over the past three years; and the number of silver-hair customers using mobile payments has doubled compared to 2017, according to the data from Alipay[2]. Meanwhile, Suning.com and Suning Finance jointly released a consumption report on "Modern Living". The report shows that the elderly (aged over 60) is adopting a more technologically advanced and modern life, which is shown by their higher enthusiasm in purchasing smart phones, smart watches and SLR cameras than those aged 45 – 60[3].

4. More collaboration between offline retailers and Internet companies or tech companies to embrace smart retail

To further pursue O2O strategy, retailers from different sectors continue to form strategic partnership with Internet companies or tech companies or Internet companies in this quarter. Selected examples include:

<u>Strategic partnerships with Internet companies</u>

Starbucks teams up with Alibaba to launch delivery services and build smart stores

In August, Starbucks announced a comprehensive strategic cooperation with Alibaba. Starbucks will deliver its food and beverage products in China via Alibaba's delivery platform Eleme; the two companies also plan to jointly build Starbucks' new retail smart stores. At the same time, Starbucks will establish "Starbucks Delivery Kitchens" inside Alibaba's supermarket chain Hema Xiansheng and leverage Hema's distribution network to fulfill Starbucks delivery orders. Additionally, the two companies will collaborate across other businesses within the Alibaba group, including Tmall and Taobao, Alipay and Koubei[4].

Ele.me and Watsons form cross-platform cooperation

Recently, Ele.me and Watsons announced to form cross-platform and cross-industry cooperation. More than 1,700 SKUs from Watsons will be available on Ele.me's online platform, covering cosmetics, daily necessities and personal care products. Currently, 1,600 Watsons stores have already connected to Ele.me; it is expected that more than 2,500 Watsons stores will be connected to Ele.me by the end of 2018. Customers who order from their nearest Watsons store on Ele.me can receive their orders within an hour[5].

Swire Properties partners with Tmall to bring "New Retail" features to its malls

In November, Swire Properties and Tmall signed a cooperation agreement to bring Tmall's "New Retail" features to five of Swire Properties' shopping malls in mainland China, including two Swire malls in Beijing, one in Shanghai, one in Guangzhou and one in Chengdu. The property developer aims to create seamless and tailored retail experiences for Chinese consumers. New experiences such as Tmall smart stores, pop-up store, "interactive idol engagement photo booth," smart nursery rooms and smart parking services will be introduced to the shopping malls[6].

Strategic partnerships with tech companies

Yonghui Superstores partners with Horizon Robotics for smart retail

In August, Beijing Horizon Robotics Technology Co. Ltd. announced a strategic cooperation with Yonghui Superstores. By combining the artificial intelligence technology of Horizon Robotics and Yonghui's retail business, the two sides will explore in-depth cooperation in "customers, merchandise, stores", and help Yonghui to implement smart retail technologies. It is reported that the partnership between Yonghui and Horizon Robotics will go beyond exploring passenger flow statistics and facial recognition, and will encompass business operations and management and user experience[7].

JD.com and OPPO launch "Jing-O Plan" to create full-scenario intelligent marketing service

In August, JD.com and OPPO reached a strategic cooperation agreement and jointly launched the "Jing-O Plan" – an intelligent marketing platform created based on the advantages and resources of both companies. The two sides have established comprehensive and in-depth strategic partnerships in big data, e-commerce shopping guide, offline stores and other aspects to create a full-scenario intelligent marketing service for mobile users. With JD.com's rich product categories and strong e-commerce capabilities, both parties aimed to offer consumers with information and high-quality online shopping experience that better satisfy consumers preferences and needs through OPPO mobile phone e-commerce shopping guide platform. On the other hand, the collaboration at the big data level will help the brand partners and merchants on JD.com to achieve precise marketing, and through the cooperation with OPPO offline stores, to achieve seamless connection between consumers and brands[8].

Internet & E-commerce

5. China's rural e-commerce sales exceed trillion yuan for the first time in 2017

China's rural e-commerce has become a new growth engine with the near saturation of urban e-commerce. In October, China International Electronic Commerce Center released the "China Rural E-Commerce Development Report (2017-2018)". The report shows that total rural e-commerce retail sales amounted to 1,244.88 billion yuan in 2017, increased 39.1% yoy. Among them, the retail sales of rural physical products were 782.66 billion yuan, a yoy increase of 35.1%, accounting for 62.9% of the total rural retail sales. Among the rural online sales of services categories, online travel, online food ordering were particularly prominent, contributing 21% and 17.2% of the growth of rural online retail sales respectively. In 1H18, total rural e-commerce retail sales reached 632.28 billion yuan, up by 34.4% yoy[9].

6. E-commerce players on expansion spree overseas

In a move to expand their global presence, some large-scale Chinese e-commerce players are actively investing in overseas markets. In September, JD Worldwide established sourcing offices in Tokyo and Seoul to looks for overseas brands that are interested to sell in the China market. In the same month, JD Central, the e-commerce platform jointly established by JD.com and Thailand's Central Group, was officially launched in Thailand. JD Central started its trial operation in Thailand on 18 June this year, adopting a self-operated and marketplace model similar to that of JD.com in China, selling products including digital electronics products, fashion items, home appliances and fast-moving consumer goods. Products from Chinese companies have proved popular; Chinese brands including Xiaomi, Huawei, and Lenovo have achieved very impressive sales on JD Central[10]. Meanwhile, JD Logistics also launched the smart logistics warehouse in Thailand in September to serve the Southeast Asia market. The smart warehouse, offering a full range of supply chain services and integrated logistics systems, can ensure a smooth operation for various logistics functions such as warehousing, distribution, sorting and transportation[11].

7. More retailers tap the group-buying market

Retailers are tapping the vast population base and the unleashed consumption power from the lower-tier cities by launching group-buying platforms. In October, Meituan launched a group-buying channel on its WeChat Mini Program. WeChat users can kickstart the group-buying process by sharing the group-buying deal to their friends. If there are two or more persons joining the deal, the orders will be confirmed and customers can enjoy the discount.

Currently, 270 SKUs are available on the platform, covering personal care products, fruits and fresh produce and small household appliances priced at around 100 yuan[12].

Indeed, group-buying market is not just for lower-tier brands. In October, Gome launched its online flagship store on Pinduoduo. 172 SKUs are available in the store on Pinduoduo, covering a wide range of household appliances including television, washing machines, refrigerators, and air conditioners. Gome also launched a flagship store “Gome House Manager” where customers can make bookings for its after-sale service on Pinduoduo[13].

8. E-commerce players launch smart customer service robots to increase customer engagement and enhance efficiency

Both Alibaba and JD.com have upgraded or launched their own smart customer service robot. Alibaba unveiled the updated version of its AI-assisted customer service robot “Dian Xiaomi", which offers two new services: 1) it will be on 7/24 fully automatic mode during night time and peak hours; 2) newly added smart services for forecasting, initiative marketing, reminder, etc. which make the robot a smart helper in handling customer service enquiries[14].

Meanwhile, JD.com launched its smart customer service robot “Jingdong Xiaozhi” in September. It can understand the queries of customers and provide relevant solutions efficiently. In addition, Jingdong Xiaozhi can conduct data analytics in all aspects, such as predicting consumption behavior based on customers’ buying history, emotional conditions and real-time shopping data. It can also handle reception data query, pre-sales conversion data query, and provide product recommendations and order tracking[15].

Cross-border e-commerce

9. CBEC players set up new form of offline stores to sell bonded imported products

Recently, some CBEC players, after gaining approval from relevant authorities, have opened a new form of offline stores where customers can purchase and pick-up the bonded imported products directly in the stores (the “bonded area import + offline store” model). In October, SF Express announced to launch its first offline store “Feng Su GO” in community areas to sell bonded imported goods. The company will reportedly launch three such stores in Shenzhen in the first phase. Under this model, the offline stores are being moved from the remote bonded area to the communities and neighborhoods. Bonded imported products are shipped to the “Feng Su GO” store as if they are in bonded warehouses. Every bonded imported product carries its own QR code; consumers can scan the code to track product origin and gain access to logistics information. Customers can purchase bonded imported products directly in the store. After choosing the products they want to purchase, customers can go straight to the cashier, provide their ID card number and settle payment with the registered Alipay account; customs clearance will then be processed immediately. Customers can pick up the products immediately after the customs clearance process is completed[16]. Earlier in August 2018, Kaola.com also opened its second store of such kind in Zhengzhou after opening the first one in Hangzhou in April 2018.

Retail logistics

10. Cainiao Logistics launches China's largest automated smart warehouse IoT "Future Park"

Developing smart logistics has become one of the most important strategies for business to outperform competitors. In October, Cainiao Logistics announced the opening of its first IoT "Future Park" in Wuxi city, Jiangsu Province, in preparation for the 11.11 Global Shopping Festival. With an area of 160,000 sqm, the "Future Park" is China's largest automated smart warehouse with around 700 robots. The "Future Park" mainly serves Tmall Supermarket and provides services in the entire Jiangsu province and part of eastern China[17].

Department stores and shopping malls

11. M&A activities remain robust

In this quarter, frequent merger & acquisitions (M&A) activities happened across the department stores and shopping malls sector. In September, Yinchuan Xinhua Department Store Group Co., Ltd. announced that Wumei Holdings, Inc., its controlling shareholder, will acquire 11,479,110 shares of the company. Upon the completion of the acquisition, Wumei Holdings, Inc. will hold nearly 40.03% of the total shares of the company[18]. In October, COFCO Property announced its intention to acquire 91.34 billion shares of Joy City Real Estate held by Mingyi (accounting for 64.18% of the total issued ordinary shares of Joy City Property) by way of issuance of shares. The consideration for this transaction was 14.756 billion yuan. Upon completion of the transaction, Joy City Real Estate will become a holding subsidiary of COFCO Property[19]. In the same month, SCP Group's acquisition of 20 commercial projects of CapitaLand was finally completed. The shopping malls involved are now operated and managed by SCP Group. These malls including "CapitaLand Center" and "CapitaLand Mall" have been renamed to "SCPG" malls. It is reported that the 20 shopping malls involved in the equity transaction have a total construction area of approximately 950,000 sqm, distributed in 19 cities in Northern China, Eastern China, Southern China and the central and western regions of China[20].

Supermarkets and hypermarkets

12. Yonghui Superstores, ParknShop and Tencent to form a joint venture and launch new brand name "ParknShop Yonghui"

On 24 October, Yonghui Superstores announced that the company signed an investment agreement with ParknShop (China) Investments and Tencent. The three parties will form a Sino-Foreign Equity Joint Venture in China, valued at 1.2 billion yuan. Yonghui Superstores will take 50% stake of the joint venture, while ParknShop (China) Investments will hold 40% stake and Tencent will hold 10% stake. The joint venture will launch a new brand name "ParknShop Yonghui" and will consolidate all supermarket businesses of Yonghui Superstores and ParknShop in Guangdong[21].

Convenience stores

13. Market size of unmanned shelf industry to reach 3 billion yuan by 2020

The market size of the unmanned shelf industry is estimated to reach 3 billion yuan by 2020, according to Trustdata's "Development Report of Unmanned Shelves in 1H18". Currently, there are around 300,000 unmanned shelves in China, and it is expected that the number will exceed 1 million by 2020. The report states that the industry is moving towards a "3.0 digitized era"; it also highlights three major trends in the unmanned shelf industry – operations of unmanned shelves will become more well-organized; ordinary shelves will be replaced by smart shelves; and industry consolidation will intensify[22].

Apparel

14. Foreign apparel brands review their market strategies in China

In this quarter, a number of foreign apparel brands have reviewed their market strategies in China. Some have accelerated their expansion plan in China, while others decided to exit the China. To expand further in China market, Champion opened its first flagship store in Beijing Taikoo Li Sanlitun in September[23]. In the same month, another sportswear brand Rossignol announced that it plans to open 10 stores in Beijing this year and start selling products on e-commerce platform[24].

Another fashion brand, Inditex Group's Uterque, opened its online flagship store on Tmall in August. Currently, the brand has stores in 16 countries and regions but has no physical presence in China. COS, a mid-to high-end fashion label under H&M, made its online debut in China with the launch of an online storefront on Tmall in October and will launch its first global menswear store in Beijing's Sanlitun in December 2018[25]. Currently, COS operates 28 stores in China.

French fashion brand IKKS marked its first entry into the China market by launching its childrenswear brand IKKS Kids through forming a joint venture with Fung Kids to distribute its products in China. The brand plans to open four IKKS Kids' stores in September, two of which are located in Shanghai, one in Tianjin and one in Beijing[26].

On the other hand, a number of foreign brands have decided to withdraw from the China market. In October, British apparel brand New Look announced to withdraw from the China market and close all of its 120 stores in China to focus on restructuring its business in its home country. New Look entered the market in 2014 and has closed 20 stores in China since the beginning of the year[27]. Earlier in August, British brand Topshop decided to leave the China market by ending the franchising agreement with its Chinese franchise partner Shangpin, a Beijing-based online luxury retailer[28] and made a further announcement in November that it will close the online store in the near future. Chinese consumers can only purchase Topshop's products through the official website of Topshop and its sub-brand Topman[29]. U.S. footwear brand, Nine West has started to close down its mainland stores since September; its online flagship store on Tmall has ceased operation recently[30].

15. Domestic apparel brands look for business opportunities in other sectors

Some major local players in the apparel sector have continued their efforts to tap into other sectors for business opportunities. In September, Metersbonwe tapped the home products market with the launch of an experiential store in Shenyang, selling household goods such as stationery, cups, and decorations on top of apparel products[31]. In the same month, Peacebird launched its lifestyle and home products brand "Peacebird Livin'", offering a wide range of products including home textiles, kitchen products, home décor products, 3C electronics products and apparel[32]. In October, JNBY launched its new brand "JNBY Home", focusing on home furniture in October. The brand will also cooperate with "Wadangwashe", a boutique hotel targeting youth travelers to build a hotel at the headquarters of JBNY in Hangzhou at the end of the year[33]. Hong Kong-based apparel brand I.T made an announcement in September that it will launch eyewear multi-brand concept stores under two brand names "NEITH" and "neith"; the former one targets high-end eyewear market while the latter targets the mass market[34].

Luxury market

16. More luxury brands embrace WeChat Mini Program

Vying for a bigger pie in the buoyant e-commerce and social selling market, more and more international luxury players embrace WeChat Mini Program. One of the recent examples is Dunhill. Recently, U.K. premium menswear brand has added a "Shop the runway" feature in its store on WeChat Mini Program which enables WeChat users to purchase the brand's products appeared in the fashion show. The WeChat Mini Program store offers Dunhill's exclusive products; new products will be released on a weekly basis. The products will be delivered within 72 hours after purchase within the China territory[35]. In addition, U.S. luxury fashion brand Ralph Lauren has leveraged WeChat Mini Program to attract young consumers. The brand has set up a store on its WeChat Mini Program which supports WeChat payment, and customers can enjoy efficient customer service through WeChat's online chat service. Consumers in Shanghai can also enjoy the same-day delivery service with complimentary gift wrapping and customized gift cards[36].

A report by Tencent states that nearly 50 luxury brands have launched on WeChat Mini Program, of which 76% have sales conversion capabilities[37].

17. International brands move further into e-commerce

To extend their online reach and capitalize on the digital expertise of major e-tailers, increasing numbers of high-end international brands have sought extensive cooperation with local e-commerce giants. For instance, in October, Italian menswear brand Canali and JD.com formed a strategic partnership. Canali reportedly will launch its O2O premium made-to-order service "Jingzunka" exclusively on JD.com, and consumers can also enjoy "JD Luxury Express" service – the white-glove delivery service provided by JD.com to deliver orders to consumers' doorsteps via a well-dressed courier in an electric car. To differentiate its made-to-order service from others, customers' names will be embroidered on the brand's logo. Customers can visit the stores twice for measurement and try-on; and then will receive their new custom-made suits within six to eight weeks[38]. French upscale crystal brand Baccarat has also sealed a deal with JD.com. Baccarat has launched its online flagship store on JD.com and its luxury e-commerce platform TOPLIFE, offering crystal art products including tableware, wine, home decoration, lighting and jewelry. It is reported that in this cooperation, JD.com will provide Baccarat service solutions in four aspects, covering user insight, precision point of sales, sales and after-sales service, and help it further expand in the China market[39].

In October, Richemont's luxury e-commerce group Yoox Net-A-Porter signed a JV deal with Alibaba to bring its platform to Chinese consumers. 51% of the joint venture is owned by Yoox Net-A-Porter, while 49% is owned by Alibaba. The deal will see Net-A-Porter and Mr Porter launch mobile apps, as well as flagship stores on Tmall Luxury Pavilion. Alibaba will leverage its resources and expertise in marketing, payments and technology and logistics infrastructure to help the JV in product offering selection and provide consumer insights for the JV[40]. In addition, U.K. leading online cosmetics retailer Feelunique has also announced to launch its online flagship store on luxury e-commerce platform Secoo in 4Q18. Under the cooperation agreement, Feelunique will offer high-quality second-tier international brands and products to Secoo's 20 million members. Orders will be delivered from Feelunique's distribution center in Hong Kong. Feelunique will be responsible for all strategies including pricing, marketing and promotion, as well as inventory management[41].

Besides, some luxury brands have launched their official Chinese e-commerce sites to cater customers buying online. As a case in point, Hermès launched its new Chinese website with new online shopping features in October. All products of the brand will be available online, except the Birkin and Kelly handbags. Since last year, Hermès has made quite a lot of attempts in digital transformation in the China market – it opened a time-limited store on its

WeChat public account to sell smart watches with Apple in October 2017; and it sold four styles of men's and women's shoes on WeChat in December 2017[42]. Another example is Ralph Lauren. In September, it announced the opening of its first online flagship store (www.ralphlauren.cn), which carries two series of Ralph Lauren's clothing labels – men's Purple Label series and women's Collection series, as well as the Polo series[43].

III. Competitive landscape

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

1. Grocery players

Company	Sun Art Retail Group	Yonghui Superstores	Lianhua Supermarket	Better Life	Zhongbai Group
Financial period	1H18*	1-3Q18**	1H18*	3Q18***	3Q18***
Total revenue (million yuan)	54,060	52,692	13,079	4,280	3,684
Yoy change	+0.00%	+21.67%	-1.20%	+6.32%	+3.60%
Net profit attributable to shareholders of the company (million yuan)	1,758	1,018	39	-19.8	8,998
Yoy change	+0.10%	-26.90%	NA	+16.76%	+237.91%

**For the six-month period ended 30 June, 2018.*
***For the nine-month period ended 30 September, 2018.*
****For the three-month period ended 30 September, 2018.*
Source: Company data; compiled by Fung Business Intelligence

2. Department stores and grocery players

Company	Parkson	Wangfujing	Bailian Group	Dashang	Rainbow
Financial period	1H18*	1-3Q18**	1-3Q18**	1-3Q18**	3Q18***
Total revenue (million yuan)	2,394.8	19,198.2	35,770.8	18,375.0	4,310.6
Yoy change	+1.1%	+2.26%	1.94%	-9.53%	+6.92%
Net profit attributable to shareholders of the company (million yuan)	17.7	988.8	700.5	785.2	187.7
Yoy change	NA	88.65%	3.04%	+21.45%	+36.94%

**For the six-month period ended 30 June, 2018.*
***For the nine-month period ended 30 September, 2018.*
****For the three-month period ended 30 September, 2018.*
Source: Company data; compiled by Fung Business Intelligence

3. Internet and e-commerce companies

Alibaba Group Holding Ltd. – Financial results for the quarter ended 30 September, 2018:

- Revenue was 85,148 million yuan (US$12,398 million), an increase of 54% yoy.
    - Revenue from core commerce increased 56% yoy to 72,475 million yuan (US$10,553 million).
    - Revenue from cloud computing increased 90% yoy to 5,667 million yuan (US$825 million).
    - Revenue from digital media and entertainment increased 24% yoy to 5,940 million yuan (US$865 million).
    - Revenue from innovation initiatives and others increased 20% yoy to 1,066 million yuan (US$155 million).
- Annual active consumers reached 601 million, an increase of 25 million over 30 June, 2018.
- Mobile MAUs reached 666 million in September 2018, an increase of 32 million over June 2018.
- Tmall physical goods GMV increased 30% yoy.
- Income from operations was 13,501 million yuan (US$1,966 million) and adjusted EBITA increased 7% yoy to 26,710 million yuan (US$3,889 million); adjusted EBITA for core commerce was 29,807 million yuan (US$4,340 million), an increase of 13% yoy, representing a margin of 41%.

Tencent Holdings Ltd. – Unaudited consolidated results for 3Q18 ended 30 September, 2018

- Total revenues were 80,595 million yuan (US$11,716 million), an increase of 24% yoy.
- Operating profit was 27,861 million yuan (US$4,050 million), an increase of 22% yoy. Operating margin was stable at 35%.
- Profit for the period was 23,405 million yuan (US$3,402 million), an increase of 30% yoy. Net margin increased to 29% from 28% last year.
- Profit attributable to equity holders of the company for the period was 23,333 million yuan (US$3,392 million), an increase of 30% yoy.
- Combined MAU of Weixin and WeChat were 1,082.5 million, an increase of 10.5% yoy.
- Monthly active user accounts of QQ was 802.6 million, a decrease of 4.8% yoy.

JD.com, Inc. – Unaudited consolidated results for 3Q18 ended 30 September, 2018

- Net revenues were 104.8 billion yuan (US$15.3 billion), an increase of 25.1% yoy.
- Operating loss from continuing operations for the period was 650.7 million yuan (US$94.7 million), compared to operating income from continuing operations of 502.4 million yuan for the same period in 2017.
- Operating margin of JD Mall before unallocated items for 3Q18 was 2.2%, as compared to 2.3% for 3Q17.
- Annual active customer accounts increased to 305.2 million from 266.3 million over 30 September, 2017.

Source: Company data, compiled by Fung Business Intelligence

IV. Regulation updates

Market supervision

1. General Office of the State Council issues "Implementation Plan for Improving the Mechanism of Promoting Consumption Systems (2018-2020)"

On 11 October, the General Office of the State Council issued the "Implementation Plan for Improving the Mechanism of Promoting Consumption Systems (2018-2020)". The Plan aims to eliminate the most direct, most prominent and most urgent institutional barriers that restrict consumer consumption, and to further stimulate the consumption potential of residents. The Program proposes six key tasks to be implemented in 2018-2020:

- To further relax market entry criteria in the service consumption sector;
- To improve the policy system to promote the upgrading of the physical consumption structure;
- To accelerate the construction of products and services standards in key sectors;
- To establish and improve the credit system in the consumer sector;
- To optimize the supporting facilities for residents' consumption;
- To strengthen promotion for consumption and information guidance[44].

Details can be accessed at http://www.gov.cn/zhengce/content/2018-10/11/content_5329516.htm (in Chinese only) (Source: 11 October 2018. State Council.)

2. The Central Committee of the Communist Party of China and the State Council issue new guideline to stimulate residential consumption

On 20 September, the general offices of the Central Committee of the Communist Party of China and the State Council issued the "Several Opinions on Improving the Mechanism of Promoting Consumption and Further Stimulating Residential Consumption" . The Opinions point out that accelerating the improvement of the mechanism for promoting consumption and enhancing the basic role of consumption in economic development is conducive to optimizing the ratio between production and consumption; it is beneficial to the mutual promotion of demand-led and supply-side structural reforms and to the protection and improvement of people's livelihood. The Opinions stress the need to create mature segmented markets to stimulate consumption growth, establish quality standards and credit mechanism, and create a trustworthy environment for consumers. The Opinions also require that all localities and departments to fully understand the importance of improving the mechanism for promoting consumption, strengthening organizational leadership, and implementing reform tasks and policies[45].

Details can be accessed at http://politics.people.com.cn/n1/2018/0921/c1001-30306227.html (in Chinese only) (Source: 21 September 2018. People.cn.)

3. China to further slash import tariffs

To encourage domestic consumption while promoting imports, the State Council announced in May 2018 that the country will slash import tariffs on a range of consumer goods including apparel, cosmetics, cleaning products, home appliances, fitness products, and some healthcare products. The tariff cuts went into effect on 1 July, 2018. Later in September 2018, the State Council announced further import tariff cuts on products including machinery, electrical equipment and textile products, effective from 1 November, 2018. The overall tariff level reportedly reduced to 7.5% in 2018 from 9.8%[46].

Details can be accessed at http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201809/t20180930_3033432.html (in Chinese only) (Source: 30 September 2018. Ministry of Finance.)

E-commerce

4. China's first E-commerce Law launches

On 31 August, the National People's Congress (NPC) Standing Committee passed the E-commerce Law, which is to take effect on 1 January, 2019. The E-Commerce Law is formulated to safeguard the legitimate rights and interests of all parties involved in e-commerce, regulate e-commerce practices, maintain the sound order of the market, and foster the further development of e-commerce in a manner that is sustainable and healthy. The E-Commerce Law includes seven chapters with a total of 89 articles, which specifies regulations concerning e-commerce operators, contracts, dispute resolution and legal responsibilities involved in e-commerce operation.

The law puts more emphasis on the duties and obligations of e-commerce operators, while strengthening protection for consumers. In particular, e-commerce platform operators are required to assist with real-name registrations of intra-platform operators, to ensure cybersecurity, to guard the safety of the person and property of consumers, and to protect intellectual property, among other responsibilities. The law bans e-commerce operators with dominant market positions from excluding or restricting competition. Platform operators who unreasonably restrict transactions on their platforms may face a penalty of 500,000 yuan, or up to 2 million yuan in serious cases. A penalty of the same range may also be applied to platform operators if they fail to take necessary steps against IPR infringement by merchants on their platforms that they are aware of or should be aware of.

In terms of consumer protection, the law stipulates that e-commerce operators must follow related laws and regulations when collecting and using consumers' personal information. For instance, when sending advertisements to consumers, e-commerce operators shall abide by relevant provisions in the Advertising Law of the People's Republic of China. E-commerce operators are prohibited from fabricating reviews to deceive or mislead consumers. They must clearly point out tie-in sales to consumers.

To support the sound and sustainable development of the e-commerce sector, the law states that operators engaging in cross-border e-commerce (CBEC) should abide by laws and administrative regulations regarding import and export, given the rising numbers of complaints related to CBEC transactions. The law also touches upon green consumption; it says that the State Council, local governments at or above county-level as well as related departments should take measures to support and promote environmentally friendly packaging, storage and transportation in e-commerce.

Details can be accessed at http://www.npc.gov.cn/npc/xinwen/2018-08/31/content_2060172.htm (in Chinese only) (Source: 31 August 2018. The National People's Congress of the PRC.)

Convenience store

5. Seven departments in Beijing issue measures to better operate convenience stores

On 10 October, seven departments in Beijing including the Municipal Commercial Committee, the Municipal Development and Reform Commission, the Municipal Finance Bureau, the Municipal Industrial and Commercial Bureau, the Municipal Food and Drug Administration, the Municipal Urban Management Committee, and the Municipal Public Security Bureau Fire Department jointly issued a notice on measures to promote the the development of convenience, with an aim to optimize the development of the convenience stores sector. The notice proposes 19 innovative initiatives in six aspects, including:

- Expanding the scope of development and optimizing the layout of retail outlets;
- Increasing financial support and reducing operation costs;
- Promoting the idea of "simplifying procedures, decentralizing powers, enhancing supervision" and simplifying the registration process;
- Reforming business requirements and innovating supervision models;
- Standardizing law enforcement inspections and improving service levels;
- Promoting standardization and developing and nurturing brands[47].

Details can be accessed at http://zhengce.beijing.gov.cn/library/192/33/50/438650/1568900/index.html (in Chinese only) (Source: 10 October 2018. Beijing Government.)

V. Outlook

1. MOFCOM: Total retail sales of consumer goods to reach 34 trillion yuan in 2018, up 9.3% yoy

The Ministry of Commerce (MOFCOM) and China International Electronic Commerce Center (CIECC) released the "Report of the Development of China's Retail Market, 2017-2018" in October. According to the report, the total retail sales of consumer goods are expected to reach 34 trillion yuan in 2018, up 9.3% yoy. The report also highlights four major development trends in the retail sector:

1. More resources to be given to lower-tier cities and rural markets; rise of new business models and retail formats;
2. New business innovations in terms of operations, company structure and shopping experience;
3. Cross-sector cooperation gaining pace, including O2O integration and cross-segment cooperation, and further expansion in overseas markets;
4. Improved market environment – the development themes of innovation, coordination, green consumption will continue to guide the development of the industry; better planning for commercial districts is expected[48].

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