

China's Retail and Consumer Industry Research Report

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Report Summary

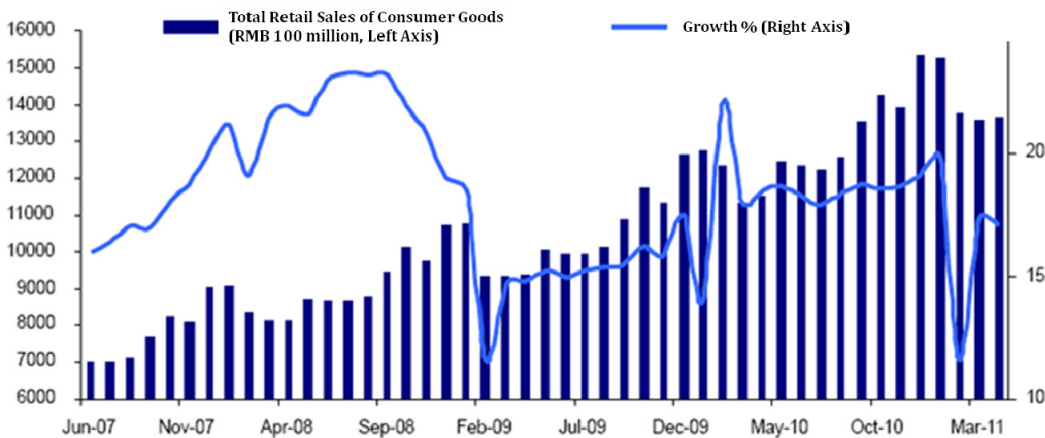
- China's total retail sales of consumer goods increased by 16.3% year on year in the first quarter of 2011. This was slightly less than the 17.9% increase in the same period last year and was influenced by the decline of vehicle sales. March's Consumer Confidence Index rebounded when compared with the January and February indices.
- The IPO and M&A activities in China's capital markets in 2011 reflect that China's retail consumer product companies continue to attract the attention of investors and foreign strategic investors. Also, China's retail companies continue to open new stores and invest in logistics systems to support their business development at the same time.
- Lewis Turning Point, where wages begin to rise quickly when the supply of surplus labor from the countryside tapers off, will be the biggest turning point of China's economy in the next 10 years. It will redefine China's growth patterns, reset China's growth potential and consumption patterns. Understanding the impact of Lewis Turning Point is important when investing in the retail and consumer industries in China.
- The trend of the development of China's labor market includes three aspects: the narrowing of wage gap between the Midwestern and the Eastern region, an aging population and minimum wages increase under the pressure of high inflation.
- When turning into the Lewis Turning Point, supermarkets, department stores, fast food companies and apparel companies in the retail consumer product industries will benefit. In addition, low-end residential demands and home improvement demands increase and it is expected that there will be continued growth for companies focusing on China's 3rd & 4th tier cities.

1. Retail Industry Data Tracking

Total Retail Sales of Consumer Goods

In the first quarter of 2011, China's total retail sales of consumer goods increased by 16.3% year on year. January and February was 15.8% because of the decline of vehicle sales which was a decrease of 2.1% compared with the same period last year. In March sales went up to 17.4% because of the CPI rise. In April, CPI went back down by 0.1% to 5.3% which dragged the total consumption increase back down by 0.3% to 17.1%.

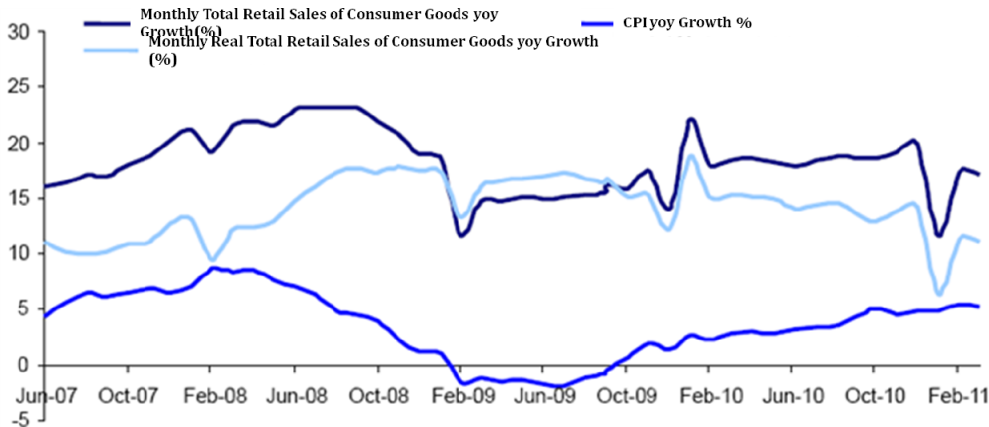
Total Retail Sales of Consumer Goods and the Growth Rate



Source: WIND

When the nominal growth of total retail sales of consumer goods is compared with its real growth, in March 2011, the 5.4% CPI reduced the rate of real growth of total retail sales of consumer goods to 11.4%. In April CPI decreased by 0.1% and the real growth of total retail sales of consumer goods is reduced to 11.2%.

Total Retail Sales of Consumer Goods Nominal and Real Growth vs. Residential Consumer Price Index

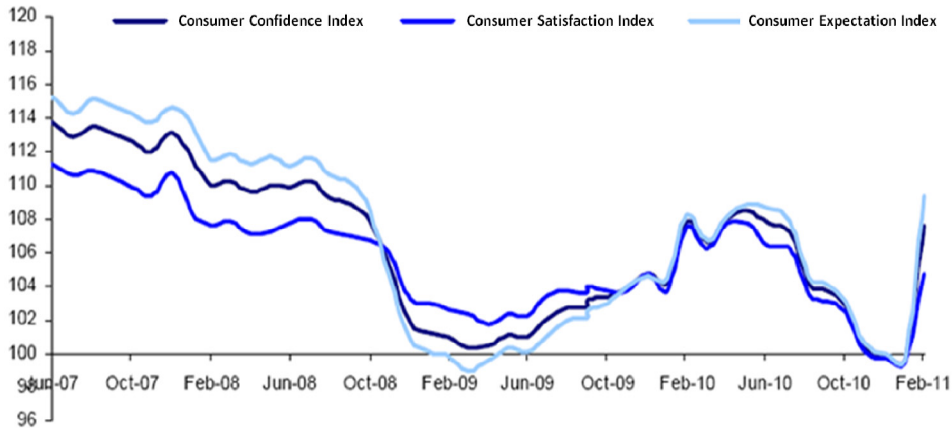


Source: WIND

Consumer Confidence Index

Changes in the Consumer Satisfaction Index, Consumer Expectation Index and Consumer Confidence Index showed the same trend. Consumer Confidence Index declined over the months since June 2010, hovered around under 100, and reached the lowest point since 2007. The index rebounded back to 107.6 in March 2011, returning to the same level of July 2010.

Consumer Confidence Index, Consumer Satisfaction Index and Consumer Expectation Index

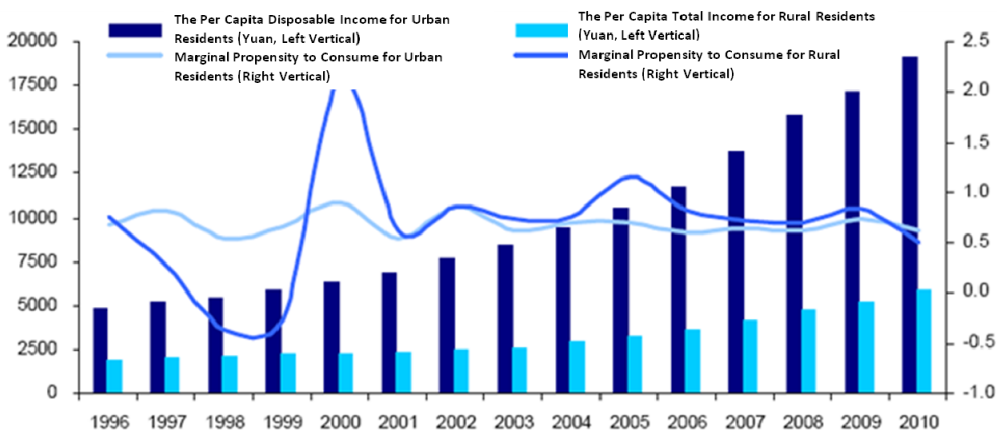


Source: WIND

Per-capita Income of Rural and Urban Residents and Marginal Propensity to Consume

Between 1996 and 2010, per-capita income of rural and urban residents increased steadily. From the prospect of marginal propensity to consume, marginal propensity to consume of urban residents was between 0.5 and 0.7 and was 0.62 in 2010. Marginal propensity to consume of rural residents fluctuated between 1996 and 2001, and has stayed higher than that of urban residents until 2010 when it declined back to 0.51.

Per-capita Income of Rural and Urban Residents and Marginal Propensity to Consume



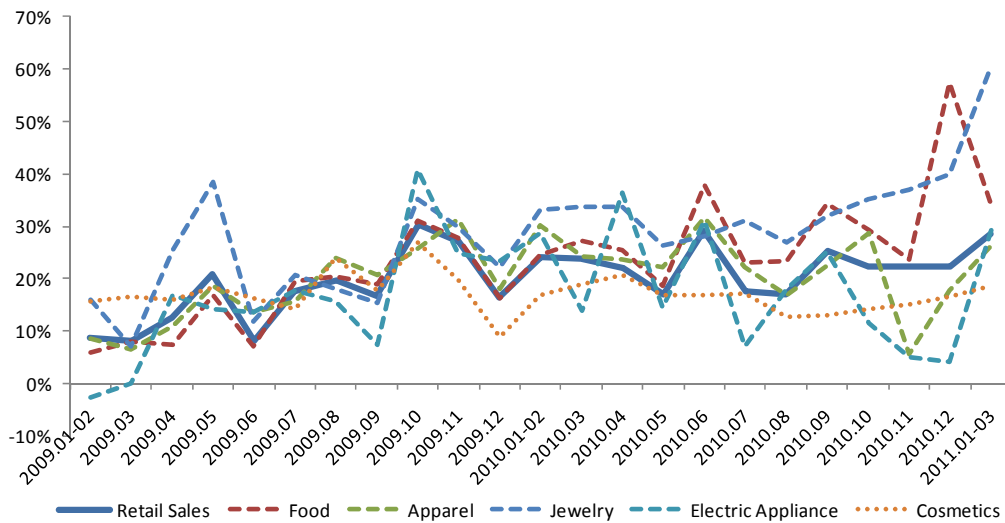
Source: WIND

Sales of the Top 100 Key Retail Companies in China Increased

The sales growth of the Top 100 key retail companies is a good reflection of retail sales on a micro-level. In the first quarter in 2011, Top 100 companies' retail sales growth increased to 28.5% which is an increase of 4.6% compared with the same period of last year. It is also 12.2% higher than growth of total first quarter retail sales of consumer goods and 6% higher than the retail sales growth of "Above Designated Size" companies*. These results reflect the growth potential of retail companies and the trend of increasing market concentration. It is estimated that growth in the following 3 quarters of 2011 will be above 20%.

*"Above Designated Size" companies represent companies that have more 60 employees at year end with sales over RMB 5 million.

The sales growth of the top 100 key retail companies (%)



Source: China General Chamber of Commerce, The Nation Commercial Information Center of China

2. Current Status of China's Retail Industry

Overview of China's Retail Industry Trends

In 2011, China's retail industry continued to attract the attention of investors. In China's capital markets this year, the IPO and M&A activities among China's retail and consumer products companies show strong investment demand for companies that can benefit from China's consumption and growth potential. Milan Station's IPO in Hong Kong was over-subscribed, RT Mart in Mainland China and other foreign brands such as Prada and Samsonite all queued up to be listed in Hong Kong. It shows that retailers, brokers and investors are all optimistic about China's retail industry. The successful IPO of Tang Palace in Hong Kong also encourages more restaurant chain companies in Mainland China to seek IPO listing in Hong Kong.

Chain businesses in Mainland China have also become strategic investors' target. The acquisition of Little Sheep Group Ltd. by Yum! Brands Inc shows that companies that have established brand name and distribution networks in Mainland China are valuable to foreign companies.

Local retailers are more optimistic about the future growth of the retail and consumer product industries and continue to expand their business. Development strategies include: increasing number of stores, operating in different regions and deepening sales channels into county and below county levels. Retailers are also increasing their investment in logistics systems at the same time to meet the distribution demand of new stores. As new stores open, expanding the capability and increasing the distribution capacity of the logistics systems become key investments for retailers. An adequate distribution capacity can help deliver products to a broader region and increase market influence of their company.

IPO News

Milan Station's IPO in Hong Kong

On 23 May 2011, driven by investor confidence in Hong Kong's retail market and the strong consumption demand from Mainland China's tourists, Milan Station (Milan Station Holdings Ltd., 1150.HK) soared 77% on its first day of trading. It raised HK\$271 million (US\$34.9 million). This transaction's over-subscription amount set the highest record in Hong Kong. The company issued 16,250,000 shares, which is about 25% of the company's equity. Milan Station, which operates 14 stores under the brand of Milan Station and France Station, is a new and second-hand luxury handbag retailer with operations in Hong Kong, Macau and China.

RT-Mart's IPO Plan

According to news reports on 11 May, Taiwan-based supermarket retailer RT-Mart has submitted an initial public offering application to Hong Kong Exchanges and Clearing Limited, aiming to get listed in 2011 and raise USD1 billion for store expansion. An insider from RT-Mart revealed that the company has cleared its equity dispute with Auchan; therefore, it plans to accelerate its steps to officially launch the IPO before the end of this year and it will start a roadshow soon. RT-Mart has opened over ten new sites in 2011 and the number of its stores on the Chinese mainland has exceeded 150. The main part of this

listing is the company that runs RT-Mart stores and Auchan stores on the mainland, covering about 200 retail outlets. In addition, the high-level executives from RT-Mart and Auchan will hold certain stakes in the listed company.

Hong Kong IPO for Tang Palace: Restaurants Queue Up for IPO

China's restaurant chain group Tang Palace (1181.HK) was listed in Hong Kong Stock Exchange on 19 April. The price soared by 60.6% in the two trading days after IPO. There will be more restaurant companies seeking IPO in Hong Kong, for example South Beauty, Xiao Nan Guo, Su Zhe Hui, Golden Jaguar and Lei Garden. Tang Palace is a restaurant chain group operating in China. It offers differentiated restaurant options. The company targets mid to high end consumers, business diners and weddings. Their target audience varies in different regions: mid-range in Guangdong province and mid to high end in Beijing and Shanghai.

Yoshinoya: IPO in Hong Kong Over 200 Restaurants in China

Hop Hing Food operating the franchised Japanese fast-food chain Yoshinoya in Hong Kong and China is expected to be the first restaurant IPO in Hong Kong denominated in RMB. According to the company website, Hop Hing Food owns Yoshinoya franchise in Hong Kong and part of China, operates over 200 Yoshinoya restaurants, and also operates other fast food brand.

M&A News

Yum! Brands Inc. Plans to Delist Little Sheep

2 May 2011, Yum! Brands Inc. (YUM.NYSE, "Yum") plans to delist Little Sheep Group Ltd. (00968.HK, "Little Sheep"). Yum has proposed to buy 682,088,690 Little Sheep shares at HK\$ 6.50 each, about 66.05% of the company. The deal offer is as much as HK\$4.4 billion. Yum will hold 93.22% of Little Sheep shares after completing the transaction.

Yum! Brands Inc. has submitted the proposal to Little Sheep Group. Yum is taking a step towards the marriage with China's restaurant company. Little Sheep announced through the notice of the Stock Exchange of Hong Kong that Yum was negotiating an all cash acquisition of all issued shares with Little Sheep's board. If the transaction completes, Yum will have total control of Little Sheep. Little Sheep Chairman Zhang Gang and other founders of the company will maintain their minority shares after the transaction.

Little Sheep is a hotpot restaurant chain and listed in Hong Kong in June 2008. Little Sheep has 301 franchised restaurants and 179 directly operated restaurants that generated RMB188 million in net profits in China last year.

Yum! Brands Inc. owns brands including KFC, Pizza Hut and East Dawning in China. Yum! will gain a bigger market share and make a step towards its localization strategy if the transaction completes.

HNA Retailing Acquired 51% of Meizhou, Guangdong Province-based Lewanjia Supermarket Co. Ltd.

17 April 2011, HNA Retailing announced it is expanding its business. The company's acquisitions started last year when it paid RMB 900 million for Jiadeli Supermarket Co. Ltd., the fourth-largest supermarket chain in Shanghai. Last week, it followed up with another deal which acquired 80% of Hunan-based Jiarunduo. Yesterday HNA Retailing announced the acquisition of 51% of Guangdong Meizhou Lewanjia Supermarket Co. Ltd which will give the company's presence in southern China. It is another important step for the company's expansion as it continues to expand its supermarket business across the country.

Retail Industry News

Beijing Selected as Top 10 Retail Destination

According to the 2011 edition of "The Globalization Development of Retailers", Beijing ranked number 10 in the report and is the only Mainland China city listed in the top 10. Leading global real estate adviser CB Richard Ellis (CBRE) mapped the global footprint of 323 of the world's top retailers across more than 200 cities to identify trends in global retail expansion at national and local levels. Beijing attracted 67% of the Luxury and Business Fashion Retailers in the survey and was in par with Los Angeles, 2% lower than Moscow, Singapore and Tokyo. 38% of all international retail brands surveyed selected Beijing.

Family Mart Plans to Operate 8,000 Stores in China in 2020

18 May 2011, Japan's convenience store chain Family Mart announced that by 2020 it plans to expand by 8,000 stores. By that time, it will operate 40,000 stores worldwide. Its business focus is turning from domestic market to the soaring Asia market, especially Mainland China. Their business in China is operated by a joint venture with a Taiwanese-owned food company Ting Hsin International Group. It has 600 stores in Shanghai now and will open new stores in Chengdu and Hangzhou this year. Family Mart plans to open new stores in Beijing by 2012 to expand its operation in China. The estimated investment is 40 billion yen (RMB 3.2 billion). Family Mart established in 1972 in Japan and is one of the biggest international convenience store chains in Asia.

Suguo Supermarket to Add 200 New Stores This Year

Suguo Supermarket plans to open 200 new stores and more than 100 franchise stores over the coming year. Suguo started its franchise business in 1998 and now it has over 773 franchise stores located in Jiangsu, Anhui, Shandong, and Henan provinces. Suguo established its brand name and gained an advantage in regions below the county level markets. Most of Suguo stores are located below county level. Those stores become Suguo's pioneers in the development of rural market.

Department Stores and Supermarkets like Vanguard and Grand Buy Seek to Build Distribution Centers

According to 29 April news report, Vanguard plans to make significant investment in building its own distribution center. By 2015, the distribution center will be expanded by 1 million square meters countrywide. Grand Buy restructured its 4 to 5 storage warehouse into one; all stores' inventories are distributed by its own distribution center.

Golden Eagle: Plans to Open 20-30 New Department Stores

11 April 2011, Golden Eagle Retail Group Limited Chairman Wang Heng told the media that the company, which currently has 20 department stores, plans to invest RMB 40 billion over the next 3 to 5 years to open 20 to 30 new stores. In 2010 Golden Eagle's sales was 12.7 billion which was an increase of 29.79% yoy. Up until now Golden Eagle has opened 21 stores located in Jiangsu, Shanxi, Yunnan, Anhui and Shanghai. According to Wang Heng, the new stores will be bigger than 1.5 million square meters and located in Jiangsu, Anhui, Shanxi and Yunnan. The company stated that 2nd and 3rd tier cities have greater market potential. The investment in Anhui is targeted to be RMB 10 billion which will be used to build 10 mid to high end department stores.

Ren Ren Le (002336) to Invest 250 Million to Build Distribution Center in Guangzhou and Chengdu

11 April 2011, because of the fast development of its business Ren Ren Le plans to speed up the construction of its distribution centers. The company announced its plan in building two distribution centers for RMB 252 million. The board of Ren Ren Le approved a RMB 145 million investment on the construction project of Chengdu distribution center. According to the announcement, the company will continue to open new stores in southwest area; the current capacity of its Chengdu distribution center does not meet the demand of higher number of stores. As more new stores open, the lack of distribution capacity has inhibited the growth of the company in the southwest region. The new distribution center project will solve the problem and fulfill the demand of distribution capacity. Also the board of Ren Ren Le approved a RMB 107 million investment in Guangzhou city to complete the second phase of construction of its Guangzhou distribution center. The second phase of Guangzhou distribution center includes an office building, a training center, a complex and attached buildings. The project covers 14,700 square meters including a 28,300 square meters cold-chain storage warehouse for fresh food delivery. The company said after completing the second phase of the distribution center the cold-chain warehouse will gain an advantage for its fresh food operation. The first and the second phase of the distribution center will cover the demand of the company's operations in southern China.

Policy

Ministry of Commerce Promotes Farmer-Supermarket Direct Linkage

17 May 2011, Yao Jian, Spokesperson of the Ministry of Commerce said Ministry of Commerce will establish a long term policy to improve the link between production and sales of agricultural products. Yao said the Ministry of Commerce will further improve the distribution of agricultural products, reinforce the development of infrastructure for the distribution of agricultural products and boost the experimental scheme of modern agricultural product distribution. In addition, Ministry of Commerce will further increase monitoring the market, provide guiding information and linking production with marketing to bring order and stability to the vegetable markets, and support farmers' business.

Ministry of Commerce Plans to Establish New Rule to Regulate Retail Market

17 May 2011, in a news release conference held by the Ministry of Commerce, regarding the slotting allowance problem in the retail industry, the Ministry of Commerce is drafting

an opinion on regulating retailers and suppliers practices and proposing a supply-marketing contract standard for both retailers and suppliers and is currently seeking advice from industry associations.

Ministry of Commerce said it has noticed the conflicts between Retailers and suppliers since 2006. So far two regulations have been made: one is the regulation on the fair trade between retailers and suppliers and the other is the regulation on the sales promotion of retailers. These two regulations regulated six different types of unfair charges, but the execution of the regulations was not ideal in some regions.

Prepaid Shopping Cards Market Exceeds One Trillion, Facing Tighter Policies

25 March 2011, the Premier of the State Council Wen Jiabao pointed out that the corruption of prepaid shopping cards must be regulated. Accepting prepaid shopping cards will be regarded as accepting the same amount of cash. The principal of National Bureau of Corruption Prevention of China said during two sessions that seven departments are discussing the requirement of registering the card with the holder's name. It is reported that, some prepaid shopping card distributors have already become more cautious in their business. HNA East Card held by HNA group stated it expects to reduce its business activities in this area. Shang Tong Card, which makes up half of Beijing's prepaid shopping cards markets, did not accept interviews with any media. Horizon Research Consulting Group did a survey in China. In 2008 the market of prepaid shopping card is a least RMB 800 billion and will grow at 2 times faster than the GDP growth. According to the survey, up until now, the China's prepaid shopping cards market exceeds one trillion. But some insiders said that because there are many distributors, it is hard to calculate an exact number. In early April foreign media indicated that prepaid shopping cards are viewed as the second currency in China.

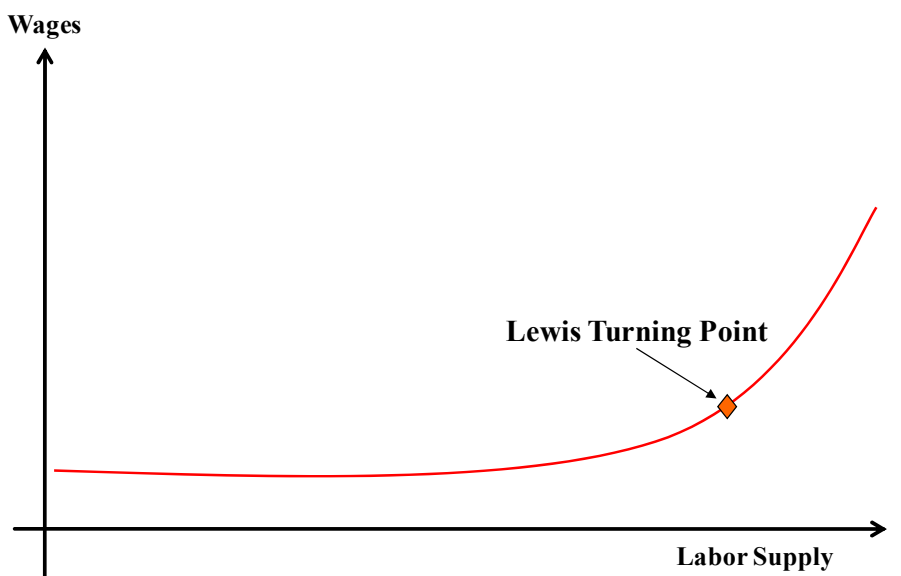
3. The Impact of the Coming of Lewis Turning Point on Chinese Consumer Markets

Lewis Turning Point will become the biggest turning point for Chinese economy in the next 10 years. It will redefine the future growth model of China and will make investors reevaluate the potential of the growth and consumption power in China. When investing in China, particularly in the retail and consumer sectors, investors should be well aware of what opportunities and risks Lewis Turning Point will bring to China.

About Lewis Turning Point

Named after Nobel Laureate Sir William Arthur Lewis, Lewis' model for economic development assumes an infinitely elastic labor supply. Profit in the industrial sector will increase as long as productivity or capital accumulation increases. Profit is thus derived from the excess supply of rural labor. This is the characteristic of a "dualistic economy". Lewis argues that developing nations with high unemployment, or a surplus of agricultural labor, can sustain rapid industrial growth without spiraling inflation for years. With such excess supply, demand for low-skilled labor can always be met without increases in factor prices. However, as excess labor supply begins to dry up, employers push up wages and benefits, creating demand-push inflation. The nation will lose much of its original low-cost competitive advantage as employers look elsewhere. With increased purchasing power, consumption increases as the nation transforms from a producer to a consumer. Lewis Turning Point marks a time in the development of an economy when a surplus of cheap labor runs dry and significant increase in wages is necessary to recruit new labor.

Lewis Turning Point – The Relationship Between Wages and Supply of Labor

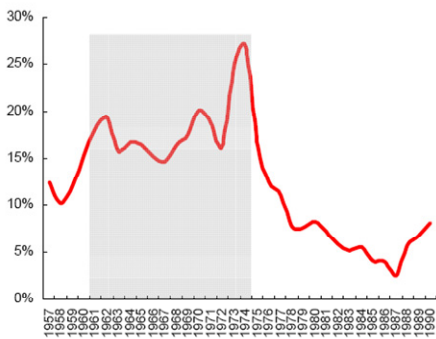


Examples of Lewis Turning Point in Other Countries

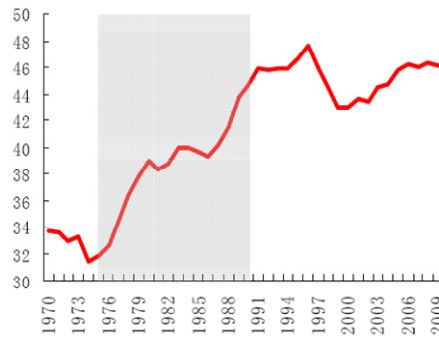
Korea and Japan experienced Lewis Turning Point in 1976 and 1961 respectively. The unlimited supply of surplus agricultural labor became limited; after 10 years, the second Lewis Turning Point presented when the limited surplus of agricultural labor were all absorbed. This period is defined as the turning point period. Characters of this period include: the wage increases at an increasing rate and its proportion in GDP increases.

Retail industry in Japan and Korea at the Lewis Turning Point

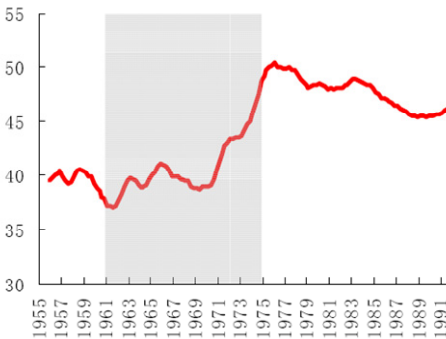
Japan - Wages as a % of GDP



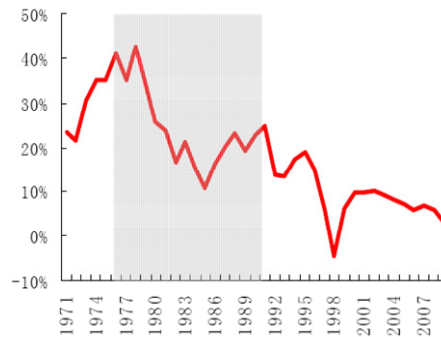
Korea - Wages as a % of GDP



Japan - Wages Growth %



Korea - Wages Growth %

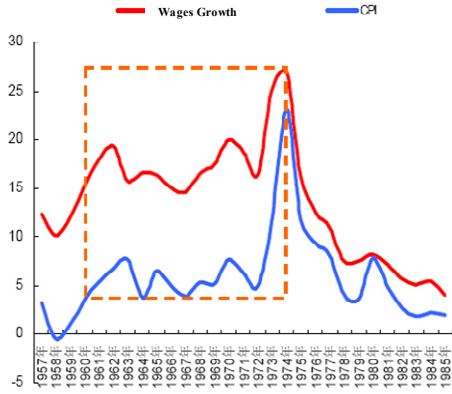


Source: CEIC, Industry research report

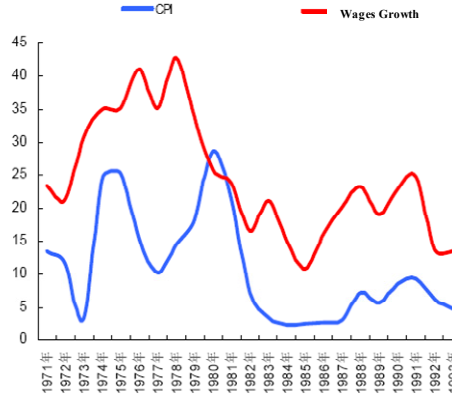
The fast growth of income boosts the growth of consumption demand and therefore leads to strong growth of retail sales. In Japan, between 1960 and 1975, retail sales CAGR of 17.9% exceeds the same period nominal GDP CAGR of 16%. Between 1973 and 1990, the compound growth of retail sales in Korea was as high as 21% and close to the compounded nominal GDP growth of 22.9%.

Also, rising cost of labor leads to serious inflation. However, consumers' tolerance of high CPI also increases with their wage increase. As consumption grows rapidly, high CPI has limited adverse effect on consumption.

Japan's CPI vs Wages Growth



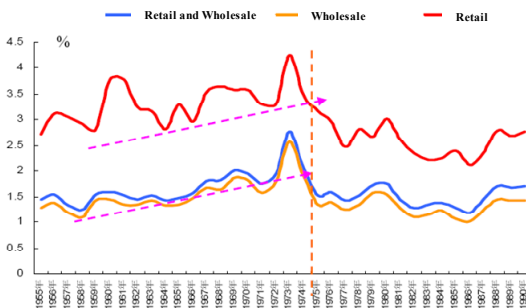
Korea's CPI vs Wages Growth



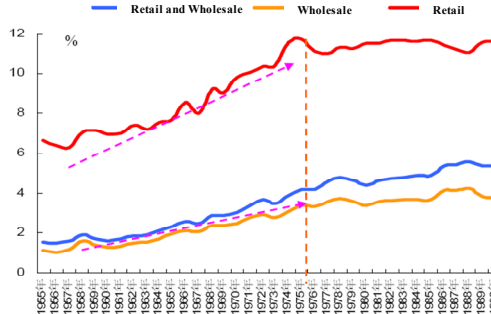
Source: CEIC, Industry Research Report

The rising labor cost has its positive impact: it boosts retail sales income; gross profit remains stable and the proportion of rent, depreciation and utilities decreases as a % of sales. There is also negative impact: labor cost as a % of sales will also increase. Overall, the positive impact is greater than the negative impact and the retail industry's profit margins continue to grow. Although the Japan's retail labor cost rate increased to 11.6% from 7% during the period, the positive impact of the income growth exceeded its negative impact and profit margin continued to grow (profit rate increased to 3.3% from its bottom 2.8%).

Japan's Retail and Wholesale Profit Margin on the Rise During Lewis Turning Point



Japan's Wages as a % of Sales in the Retail and Wholesale Industry during Lewis Turning Point



Source: CEIC, Industry Report

Situation of China's Labor Market

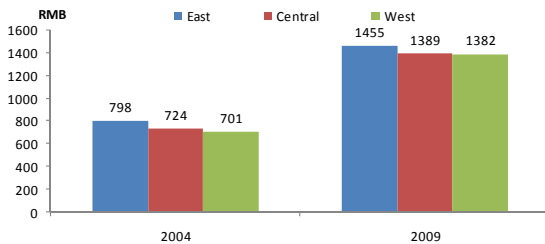
China's current labor market trend has three aspects: the narrowing of wage gap between the mid-west region and eastern region, an aging population and the increase in minimum wage under the pressure of inflation.

The wage gap has decreased between the mid-west region and east region. In 2004, the average wage in mid-west region was 88% of the average wage in east region. The number increased to 95% in 2009. When the rural and urban income converges, the motivation for rural labor to move to urban cities decreases.

China's population structure change leads to a shortage in the supply of labor. The family planning policy has been implemented in urban area since 70's. At the end of the 1970's, the family planning policy officially became the single child policy. It provided a cap for China's population (and labor force). This change now means a growing and aging population and a slower increase in the supply of labor force. The average age of China's population will increase from 34.2 to 37.1 in 2020.

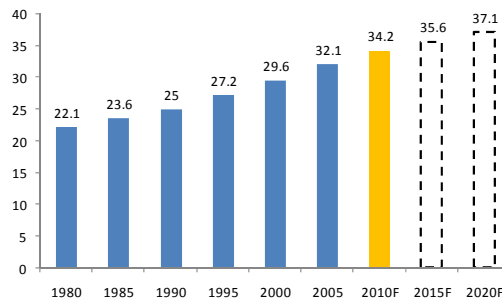
These factors have contributed to the pressure of rising wages. With only a brief exception in 2009, workers' real wage in manufactory industry rose 5% to 10% every year since 2003. In 2010 the minimum wages were raised by large percentages. It increased by more than 20% in provinces such as Guangdong, Shandong, Jilin, Fujian, Ningxia and Hubei.

Wage Gap Between China's Different Region



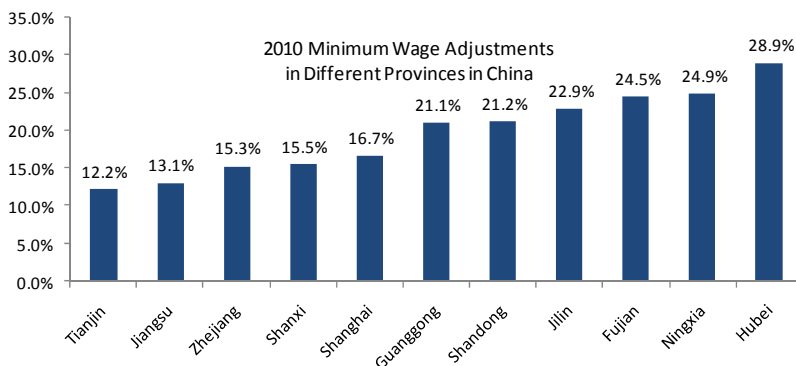
Source: National Bureau of Statistics

Average Age of China's Population



Source: National Bureau of Statistics

2010 Minimum Wage Adjustments in Different Provinces in China



Source: National Bureau of Statistics

Is China at Lewis Turning Point?

Is China at Lewis Turning Point? We can explore this issue by looking at the labor supply trend in China in recent years.

By importing capital, technology, and taking advantage of low cost labor and resources, China has long taken a leading role in the world manufacturing sector. The low cost advantage to a certain extent is the labor cost. Almost all local enterprises share this advantage and with the restructuring of China's society, this traditional competitive advantage is decreasing. China may already be at the turning point. The supply of rural labor that used to be unlimited now has become more limited.

The most obvious example of tight labor supply is the shortage of Chinese rural workers in 2010. We mentioned above that the minimum wages in some provinces in China have risen by 20 percent in 2010, especially in the central and western provinces. It is estimated that some low-end workers' wages increased by 40%, and will increase at 20% to 30% annual rate in the next three to four years. Although China currently does not have an absolute shortage of workers, workers' migration destination has changed.

In 2005, 70.3% of the workers migrated to the coastal areas to work and 14.4% and 15% to the central and western respectively. In 2009, with the production lines moving and infrastructure project starting, many new jobs emerged in the central and western areas, and attracted 17% and 20.3% percent of total rural migrant workers. The percentage of workers who stayed in the east decreased to 62.5%. At the same time, the roaring domestic and market demand, especially in the service industry, led to strong demand for low-end labor, and attracted a large group of workers away from the manufacturing industry to join the service industry. In addition, the price increases of agricultural products in recent years made more rural workers stay home and further reduce the labor supply for eastern cities.

However, economists who hold opposite views state that it is too early to say that China's labor surplus is going to dry up. Labor surplus not only happens in the countryside, but also in cities. The wage increase, rise in consumer prices and inflation may be overreactions on decreasing labor surplus. There is confusion between the cyclical rise of labor demand and the structural changes of the population. This phenomenon is normal if we consider rising wages in a big picture perspective: the wage increase in the past, labor productivity and the overall economic growth.

However, whether the Lewis Turning Point has come or not, it is an indisputable fact that China's labor supply will decrease and put upward pressure on wages. According to the United Nations' estimation, China will have negative growth of labor force in 2017 (negative growth of population in 2032). The rapid expansion of domestic demand, service industries and urbanization will lead to a real shortage of labor in 2014. In 2017 the demand of labor will reach 837 million and the supply of labor will be 819 million. The net labor shortage will be 18 million. This figure corresponds to 11%, 25% and 41% of the existing labor force in U.S., Japan and Germany respectively.

The reverse of the employment market will be a landmark event in China's economy. Whether Lewis Turning Point has already occurred or not, the above mentioned factors, such as decrease in labor supply and upward pressure in salary, have already appeared in China.

From the consumer markets perspective, China's future growth pattern will be stimulated by domestic demand and will bring positive changes to the consumption market.

The Effect of Lewis Turning Point on China's Retail Industry

From the experience of other emerging nations, after the Lewis Turning Point, low-end wages will continue to rise and the low end consumer market will expand rapidly. This phenomenon will undoubtedly happen again in China.

Wages and salaries as a % of GDP in Japan and Korea experienced dramatic growth during Lewis Turning Point. This led to rapid increase of consumption demand and as a result, the wholesale and retail sales increased rapidly.

The wholesale and retail markets in both Japan and Korea went up 17.9% and 21% respectively. Therefore, in addition to the strong development of top and luxury consumer demand, China's economic growth will also increase low-end wages and boost the demand for middle and low-end goods and necessities, especially in the Midwest part of China as well as in 3rd and 4th tier cities.

In addition, rising wages will cause structural rises in inflation. This round of inflation will persist and a significant decrease in CPI would be unlikely. From the experience of Japan and Korea, rising labor costs will cause serious inflation, but the higher wages enable consumers to tolerate the high CPI. The fast growth of consumption shows that high CPI has limited influence on consumption.

With rising prices and higher purchasing power, Lewis Turning Point in the retail industry will bring positive effects to the retail industry. Sales and gross profit will both increase. In addition, the proportion of rent, depreciation and utilities as a % of sales will decrease as these costs do not grow as fast as sales. Although rising labor cost brings negative impact, the positive impact would be greater than the negative effect. Furthermore, the difference in average wage between the Midwest and the eastern cities is decreasing. The higher purchasing power in the Midwest and 3rd and 4th tier cities brings business expansion and rapid development opportunities. These will minimize the negative effect from the rising costs. During this period, supermarkets, department stores, fast food and apparel companies will benefit. In addition, service companies in Midwest and 3rd and 4th tier cities will find rapid growth opportunities.

Also, the demand of low-end homes and home improvement will increase. However, this is a new market and is different from the existing real estate market. Residents living in the Midwest and 3rd and 4th tier cities need to improve and upgrade their homes. Suppliers of home appliances and furniture, especially those with good distribution networks will benefit the most. These companies will benefit much more than real estate developers during this period.

Summary

The rapid wage growth and shortage of labor supply in recent years in China are indisputable facts. Whether or not these phenomena officially fit the criteria of the economic theory of Lewis Turning Point, the following trends are all irreversible and point to future labor shortages in China: an aging population with structural changes; the smaller wage difference between the Midwest and eastern cities; the movement of labor from eastern cities to the Midwest; and the stronger motivation for labors to stay in the rural area because of higher agricultural prices. The experience of Japan and Korea shows that inflation will become a normal phenomenon but the rapid growth of wages will increase the tolerance of consumers for higher prices in the same period, and therefore inflation has a limited impact on consumption at the turning point. The profit margin of the retail industry increased during this period and China's retail industry will have the same experience. Supermarkets, department stores, fast food and apparel companies in the retail industry will benefit the most during this period. In addition, service companies in the Midwest and 3rd and 4th tier cities will enjoy rapid growth opportunities. From the investment point of view, China still has a large number of retail and consumer goods companies that are not listed. These companies have established their brand names in the industry, and will further develop their distribution network in the 3rd and 4th tier cities. These companies will enjoy business expansion and rapid development opportunities and provide attractive investment returns for investors.

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My Decker Capital is a China focused investment banking and asset management company. The company was established in 2007 and moved its headquarter from New York to Beijing in July 2008. The company's businesses include: Advisory, Asset Management, Research and Capital Markets. My Decker Capital's main shareholders are from the United States and Russia and its professional team members are bilingual with extensive investment or corporate finance experience. My Decker Capital's clients include mid to large Chinese and International companies and professional investors. Its focused sectors are Real Estate, Consumer Products and Retail.

My Decker Capital manages its own private equity funds focusing on investing in the retail and consumer products industries and real estate projects. It successfully completed US\$40 million investments into a leading Chinese retail chain: Beijing New Cooperation Supermarket Chain. Tianjin My Decker Capital Fund I, an RMB Fund, is focused on investing in the retail and consumer products industries and real estate projects which will benefit from the China urbanization process. My Decker Capital's professional team would like to work with Chinese entrepreneurs with advanced management skills and clear vision together and deliver superior returns for investors.

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