you want to get a glimpse of the future of retail, skip the trip to Wal-Mart, buy

yourself a ticket to Beijing, and check out WuMart(Wumei) instead."

Matthew Boyle

Tomorrow's Wal-Marts? Fortune, May 30th 2006



Retail in China and the Online Opportunity

by Dr. Daniel W. ZHANG Wumei Holdings, Inc.

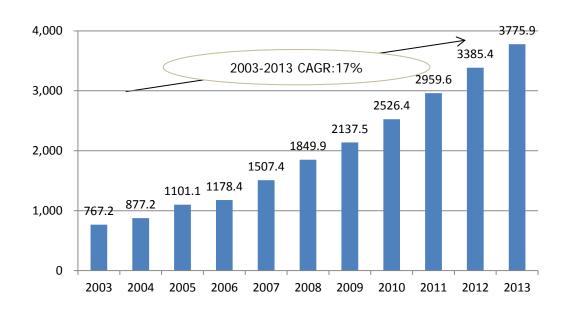
April, 2014

Key Perspective

- China's Retail Sector Still Sees Fast-paced Growth
- **Super/hypermarket Is Showing More Potential**
- **Retailers Consider E-commerce More of An Opportunity Than Threat**
- Personal Experience: Wumart Stores in Beijing

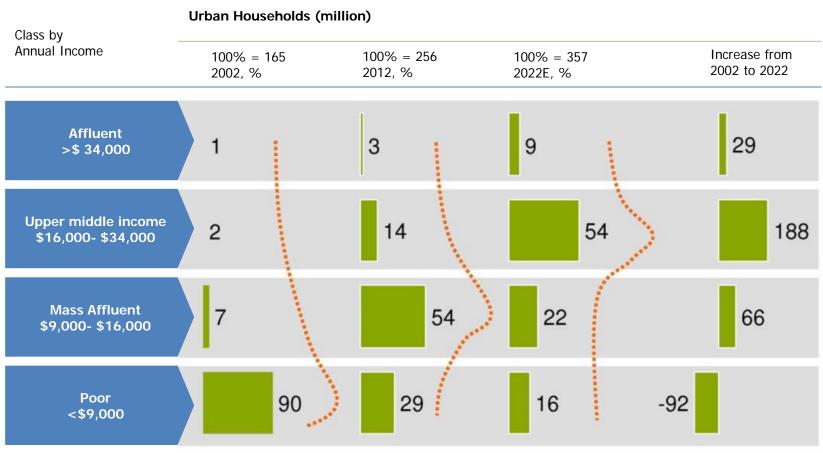
China's retail market is still on the fast track, thanks to increasing income level and consumption upgrade

Social Retail Goods of China (USD billion)



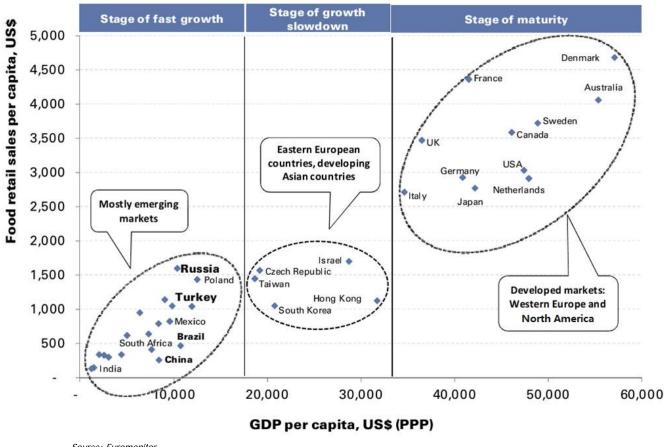
- Retail in China enjoys a 17% CAGR from 2003-2013, which is well above the 8% growth rate of GDP.
- Pace of growth will decelerate a little in the near future but will still be on the fast track. Chinese retail is estimated to have a CAGR between 8% and 15% till 2020 and the total retail sales of consumer goods will reach RMB 40-60 trillion in 2020, 2.5-4.0 times the 2010 figure.
- Thus, there is clearly huge potential in China's retail industry, especially for retailers focusing on providing fresh food and FMCG.

Consumption upgrade is mainly powered by a larger portion of middle income households



Source: McKinsey Insights China macroeconomic model update (April 2012)

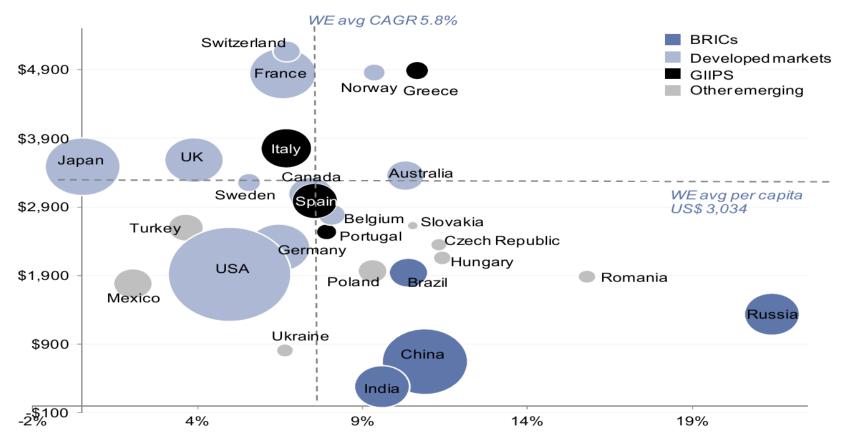
More spending on food will be another important growth driver for the retail sector



Source: Euromonitor

China's food retail sales per capita still falls behind developed countries and even below the level of other BRIC countries, indicating feasible fast growth in the future.

More spending on food will be another important growth driver for the retail sector (cont'd)



Source: Euromonitor, with the X axis showing CAGR of food retailing from 2000-10, Y axis showing food consumption per capita in 2010, and size of the bubbles showing total market size of food retailing.

As a country with the largest population in the world, China is still on its way to higher food consumption per capita and thus, larger market space for the industry.

There are 27 retailers in the United States who have annual sales of over RMB 100 billion and there is much more space for leading players in China

Rank	<u>Company</u>	2011 USA Retail Sales (\$000)	Sales Growth ('11 v '10)	Worldwide Retail Sales (\$000)	USA % of Worldwide Sales	2011 Stores	Stores Growth ('11 v '10)
1	Wal-Mart	316,083,000	2.6%	453,976,000	69.6%	4,423	1.4%
2	Kroger	85,491,000	9.1%	85,491,000	100.0%	3,574	-1.0%
3	Target	68,466,000	4.1%	68,466,000	100.0%	1,763	0.7%
4	Walgreen	66,330,000	8.3%	68,233,000	97.2%	7,651	2.6%
5	Costco	64,221,000	8.9%	89,054,000	72.1%	425	3.2%
6	The Home Depot	62,075,000	3.1%	70,391,000	88.2%	1,963	-0.2%
7	CVS Caremark	59,688,000	3.9%	59,786,000	99.8%	7,345	1.8%
8	Lowe's	49,282,000	2.3%	50,207,000	98.2%	1,712	-0.6%
9	Best Buy	37,551,000	1.2%	50,705,000	74.1%	1,443	10.0%
10	Safeway	36,923,000	5.6%	41,884,000	88.2%	1,453	-0.7%
11	McDonald's	34,172,000	5.5%	85,941,000	39.8%	14,087	0.5%
12	Sears Holdings	33,837,000	-4.3%	39,365,000	86.0%	3,489	0.1%
13	SUPERVALU	29,297,000	-3.6%	29,297,000	100.0%	2,466	1.6%
14	Publix	26,967,000	7.6%	26,967,000	100.0%	1,198	-0.9%
15	Amazon.com	26,397,000	42.5%	47,715,000	55.3%	-	n/a
16	Macy's	26,344,000	5.7%	26,405,000	99.8%	840	-0.8%
17	Rite Aid	25,256,000	0.6%	25,256,000	100.0%	4,664	-1.1%
18	Ahold USA / Royal Ahold	25,074,000	6.6%	63,066,000	39.8%	756	0.7%
19	Delhaize America	19,230,000	2.2%	29,400,000	65.4%	1,650	1.4%
20	Kohl's	18,804,000	2.2%	18,804,000	100.0%	1,127	4.1%
21	Apple Stores / iTunes	17,825,000	36.9%	18,418,000	96.8%	245	5.2%
22	TJX	17,386,000	3.8%	23,267,000	74.7%	2,212	0.3%
23	J.C. Penney	17,146,000	-2.9%	17,238,000	99.5%	1,105	0.5%
24	True Value	17,135,000	2.4%	17,135,000	100.0%	4,650	-1.1%
25	YUM! Brands	17,100,000	0.6%	32,380,000	52.8%	18,050	-1.0%
26	H-E-B	16,820,000	11.9%	17,976,000	93.6%	308	5.1%
27	Meijer	16,603,000	7.1%	16,603,000	100.0%	197	0.0%

Key Perspective

- China's Retail Sector Still Sees Fast-paced Growth
- **Super/hypermarket Is Showing More Potential**
- **Retailers Consider E-commerce More of An Opportunity Than Threat**
- Personal Experience: Wumart Stores in Beijing

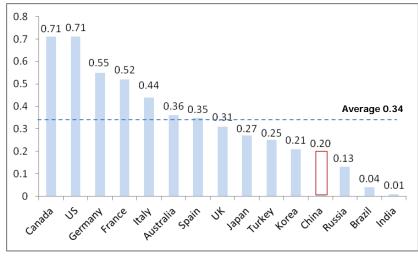
Penetration of super/hypermarket in China is still behind developed countries

No. of Super/Hypermarket Per 10,000 Urban Population in 2010

9.09 8.55 7.68 7.64 7.27 7.26 _{6.96 6.79} Average 5.55 5.56 6 5 3 2.55 2.26 2 1 France Turkey Rustralia Russia

Source: Euromonitor

Super/hypermarket GFA (m²) Per Capita (Urban Population) in 2010



Source: Euromonitor

- As GDP per capita continues to rise in China, more and more Chinese consumers tend to shop in modern channels for a couple of reasons. One is the switch from non-branded products to those with better brand recognition. Another is that modern channels offer a way better shopping experience than traditional stores, for their more friendly environment, timely service as well as guaranteed food safety.
- Increasing food consumption offers a golden opportunity for modern channels in China, especially for hypermarkets and supermarkets, which are still in their early stage.

Super/hypermarket industry in China is fragmented and thus a typical consolidation story

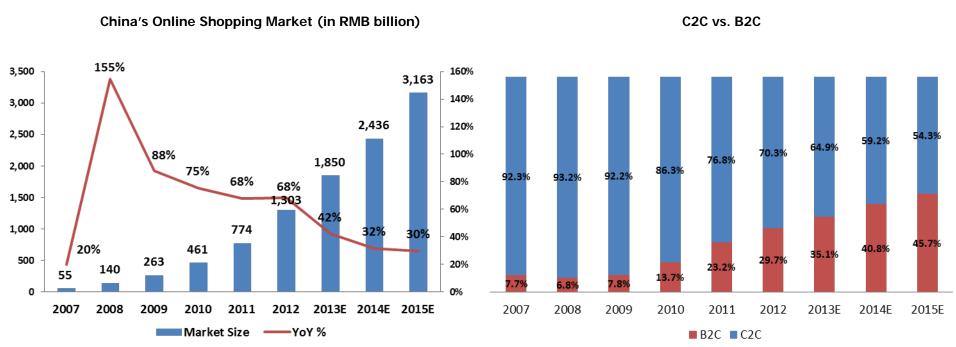


Source: Company information

Key Perspective

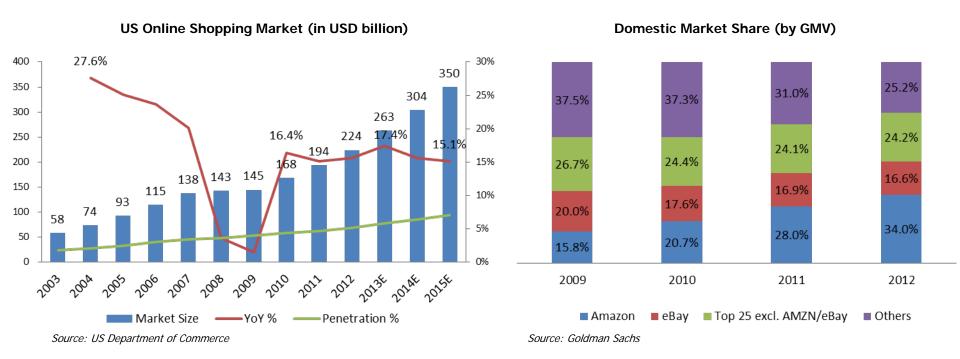
- China's Retail Sector Still Sees Fast-paced Growth
- **Super/hypermarket Is Showing More Potential**
- **Retailers Consider E-commerce More of An Opportunity Than Threat**
- Personal Experience: Wumart Stores in Beijing

China has the largest online shopping market in the world and more than 54% comes from C2C; B2C is grabbing more market share as consumers' awareness on quality and service rises



- Source: iResearch, CITIC Securities
- China has overtaken the US to become the largest online shopping market, with RMB 1,850 billion merchandizing value in 2013 (US market being roughly RMB 1,500 billion). Penetration of online shopping reached 7.8%, which is also higher than the 5.8% in the US.
- C2C is the dominating form of online retailing in China but B2C is quickly catching up. Due to lack of infrastructure in IT and logistics when online shopping emerged in early 2000s, more flexible and better geographically covered C2C players took over the market in the first decade of 21st century. In recent years, B2C players are taking advantage as consumers pay more attention to product quality as well as customer service.

Online shopping in the US has entered a stable growth period and selfoperating B2C players like Amazon are taking the lead



- Online shopping market in the US has entered a period of stable growth and the industry will focus more on market share consolidation in the future.
- Amazon and eBay are clearly in the leading position, with a combined market share of over 50% in 2012. Amazon, whose revenue is mainly derived from B2C sales, is quickly grabbing market share from C2C predominated eBay and others.
- Offline retailers and brand owners are also taking the e-commerce initiative. Staples had 4.5% of online shopping market in 2012, while companies like Apple, Wal-Mart, Dell and Office Depot took ~2% each.

Drivers for the fast growth of China's online shopping

Fragmented Retail Industry

China's retail industry presents a highly fragmented landscape with concentration rate of top 100 retailers(CR100) being merely 12%. Compared to CR50 of 50% in the US, Chinese online retailers are competing in a crowded but more opportunistic environment.

High Logistics Cost

- Logistics costs account for 18% of China's GDP in 2011, compared to 10% in the US and 9% in Japan.
- Online retailers are trying to address this problem by building in-house logistics capacity.

Inefficient Traditional Channel

The unique multi-layer distribution system and commission sales model applied by most retailers result in continuous price inflation and therefore creating opportunities for online shopping. Online retailing is favored for its more flattened distribution and ability to eliminate information asymmetry between buyers and sellers

Capital & Policy Support

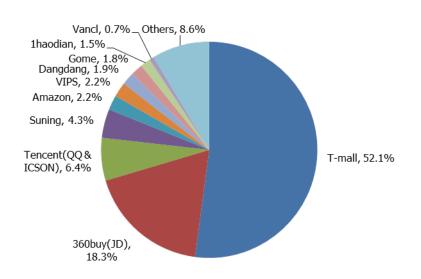
- Online retailers in China are largely backed by financial investors. Total investment in e-commerce was USD 5 billion, 6.5 billion and 3 billion(estimated) in the year 2011, 2012 and 2013, respectively.
- And also, no taxation is charged on sales conducted by small to medium online retailers, especially those C2C sellers currently.

Online shopping in China is still dominated by Taobao/Tmall for its well managed marketplace; JD is the leader in self-operated B2C market

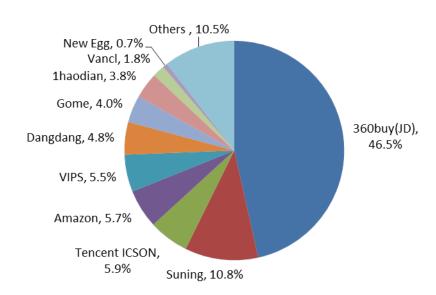
Туре	Product Offering	Business Model	Leaders in China	Description
B2C	Comprehensive -	Marketplace	T-mall	Manages shopping platforms for businesses to distribute products online
		Marketplace & Self-operated	Amazon/360buy(JD)/YHD	Started with pure online selling and then utilizing large customer base to develop marketplace
	Specialized	Self-operated ¹	VIPS/Dangdang/Suning	Online distributors of certain product categories, i.e. virtual specialty stores
C2C	Comprehensive	Marketplace	Taobao	Marketplace for proprietary traders with no barrier to entry

Note: 1. Self-operated means majority of its revenue comes from non-marketplace segment.

China's B2C Market Share 2013 (Marketplace & Self-operated)



China's B2C Market Share 2013 (Self-operated only)



Source: iResearch

Specialty stores are facing fierce online competition as their products are standardized; high-end department stores and fresh food focused supermarkets are less affected

Retail Format	Online Competition	Competitive Landscape	Description		
Home Appliance/3C Specialty Store		Suning: 29%Gome: 23%E-commerce: 29%	 Products are highly standardized and therefore creating opportunity for online stores with no rental expense and lower margin pressure 		
Department Store		 Localized and fragmented E-commerce is taking significant market share in categories like mass market apparel/footwear 	 Less negative impact on those targeting mid-to-high end customers. But as most mid-to-mass market products can hardly be differentiated from those offered online, there will be a continuous market share loss for department stores. 		
Super/Hypermarket		 RT-Mart & Auchan CRE Wal-mart Carrefour Wumart E-commerce: only holds a minor share 	 Fresh and other food products are immune to online competition to some extent. Negative impact mainly come from apparel/appliance/general merchandizes which are currently sold in hypermarkets. 		

And how should brick-and-mortar grocery retailers address the pressure online?

Emphasize on fresh food

· Focus on less standardized fresh food and other food items to boost customer flow

Effective cost control

- Balance between location and rental expense
- Centralized procurement and logistics management, supported by IT infrastructure
- · Minimized labor requirement

Guaranteed quality

- Increase the proportion of private brand products
- Use data mining to optimize promotion strategy and customer service

Online initiative

- O2O applications to increase store based sales
- Self-operated online sales via formats like dark stores

Fresh food is the best way to fend off online shopping







Costly packaging & delivering

High shrinkage & waste

Momentum in offline shopping

Key Perspective

- China's Retail Sector Still Sees Fast-paced Growth
- **Super/hypermarket Is Showing More Potential**
- **Retailers Consider E-commerce More of An Opportunity Than Threat**
- Personal Experience: Wumart Stores in Beijing

Milestones of Wumart



2000

Wumart Stores, Inc. was

incorporated under PRC laws Dr. Zhang opened the 1st

Completed three major transactions and consolidated the Beijing and Tianjin market

2004

FORTUNE CON.

2007

Ranked among the top-10 retailers with the greatest potential in the world, by Fortune/CNN



2010

- TPG was introduced as a strategic investor
- Wumart Stores was listed on the HKSE Main Board

1994

Wumart supermarket in Beijing

2006

Acquired 75% stake in Merrymart, one of the largest retailers in Beijing at the time



2008

Entered Zhejiang Province via acquisition

2013

Ranked the fastest growing retailer in China and 4th globally by Deloitte

1995

The first Wumart supermarket turned profitable and sales exceeded RMB 100mn

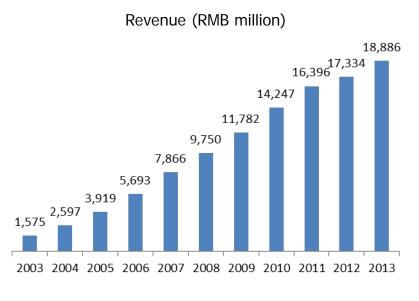
2003

The Company was listed in HKSE GEM and revenue for the fiscal year reached RMB 1.57bn

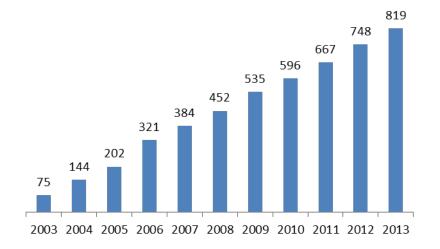


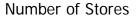
Deloitte.

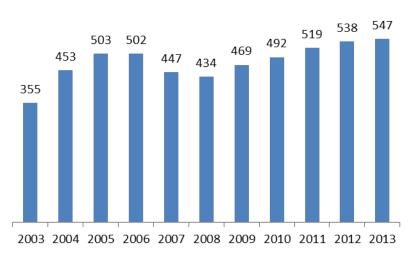
Performance review of Wumart Stores, Inc.



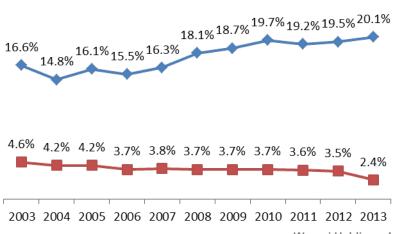
Gross Floor Area ('000 m²)







Gross Margin and Net Margin



Thank you!