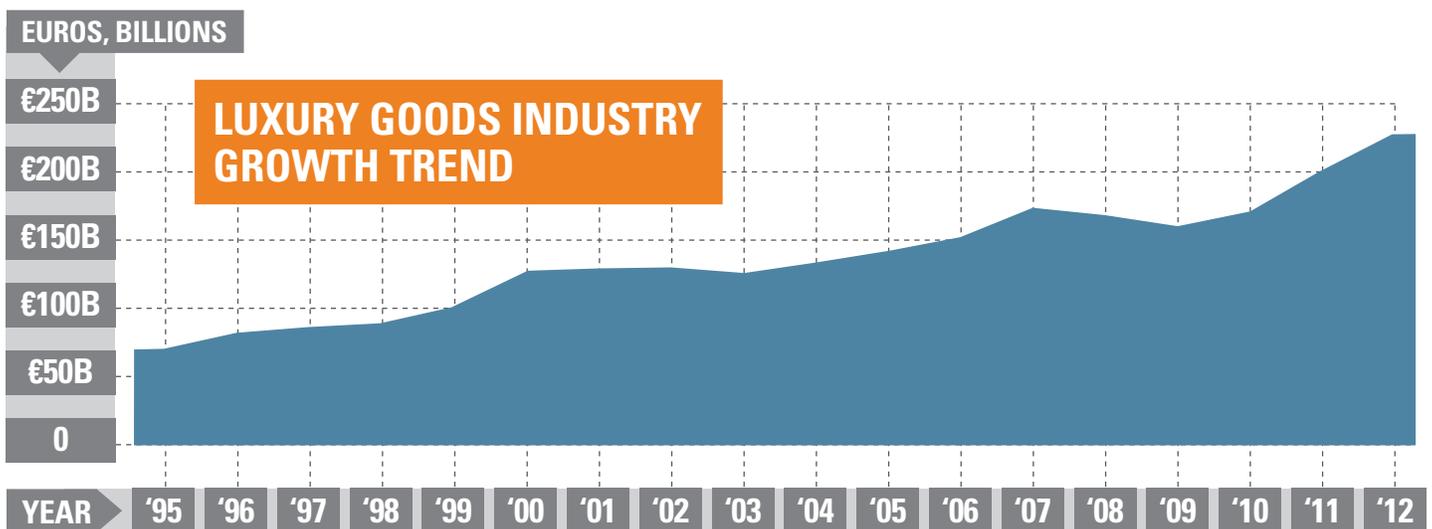


# EMERGING MARKET REPORT: LUXURY GOODS



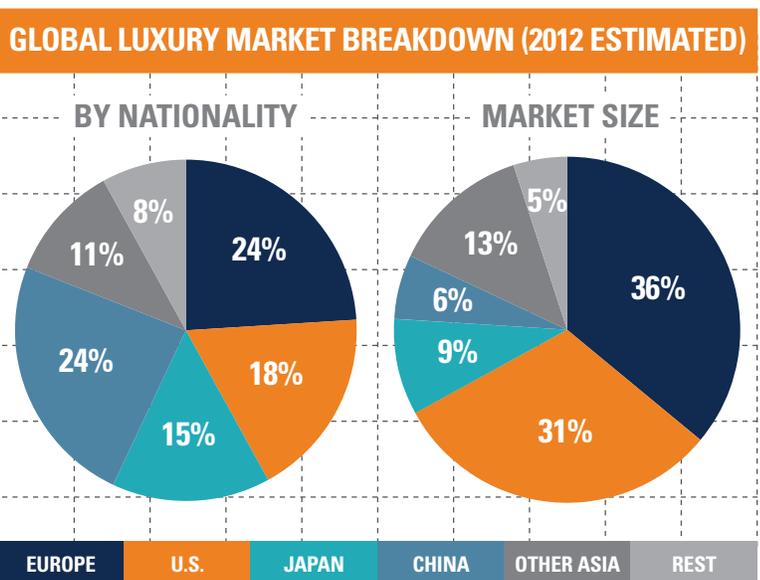
Amid sluggish economic growth, the luxury goods industry has posted double-digit growth for three consecutive years since the financial crisis. According to Goldman Sachs, the market is anticipated to continue this trend at 2.2 times GDP<sup>1</sup> growth and reach US\$ 1 trillion by 2025. The driving force behind this growth is the rising demand for luxury goods in emerging markets, particularly in China.



Source: Bain & Co., as of December 2012

As of 2012, Greater China (including Hong Kong, Macau and Taiwan) has become the second largest luxury market, bypassing Japan. According to studies, Chinese consumers account for over half of the luxury purchases in Asia and nearly one third of those in Europe. Yet, analysts believe the current Chinese luxury market to be at a nascent stage with much growth potential.

Chinese luxury consumers are young. According to a survey by the World Luxury Association, the average Chinese luxury consumer is 25 years old. That's 15 and 25 years younger than comparable consumers in Europe and the U.S., respectively. This exposure to luxury goods at such a young age is creating a new generation of sophisticated, high-end brand



Source: Bain & Co., as of December 2012

<sup>1</sup> GDP: Gross Domestic Product: The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

## TOTAL MAINLAND CHINESE LUXURY SPENDING, MAINLAND VS. OVERSEAS



Source: Bain & Co., as of December 2012

buyers. Studies also show that the retail market has been transitioning toward luxury every year. True high-end brands are outperforming more accessible products by 2 to 4 percent annually, and that statistic is rising steadily.

Another important factor is that approximately two thirds of Chinese luxury purchases occurred outside of China. Due to multiple layers of taxation on luxury consumption, the retail prices are much higher in the mainland. Thus, consumers have flocked overseas to destinations like Hong Kong, Macau and Europe (particularly France) for luxury purchases. Not surprisingly, in 2012, Chinese travelers became the world's top tourism spenders with US\$ 102 billion. Considering that tourism activities have become a common trend in China, the impact of outbound tourism on luxury consumption is likely to increase.

Nevertheless, such overseas sales should not be a factor in undermining the importance of local presence. According to Roland Berger's luxury survey, over 70% of consumers who bought luxury goods overseas had previously purchased the same brand inside Mainland China. This is statistical proof that there is spending consistency, purchase loyalty within the country, and a promising investment opportunity in China's luxury goods market.