



Polska Agencja
Inwestycji i Handlu
Grupa PFR

China is the biggest importer of furniture, globally. Every year, Chinese consumers purchase interior design products worth \$ 3 bn in total. China is the major Asian destinations of Polish furniture, however it is far beyond the top 10 global receivers of the national industry.

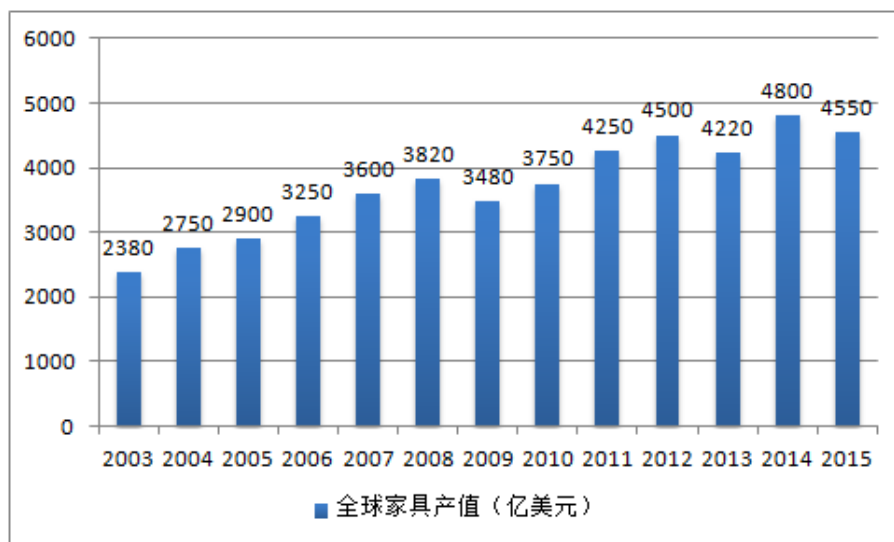
Now, it is a perfect moment to enter to this promising market. According to Chinese expects, in the next three to five years, a peak for foreign furniture enterprises to transfer to China in expected.



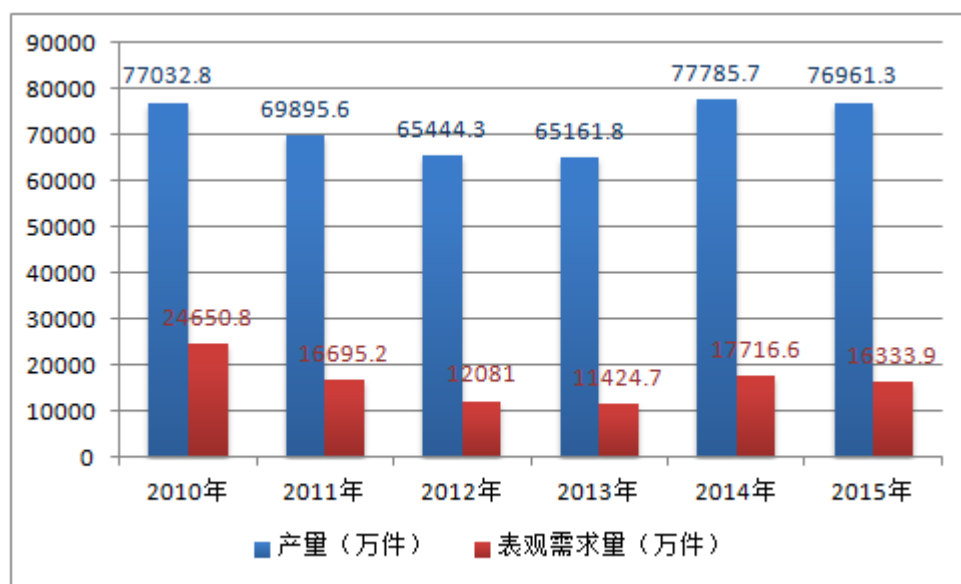
The furniture industry as a whole has maintained a relatively stable development trend, with the world economic recovery and the rapid rise of emerging markets, the future development of the world furniture industry prospects in the future.

As the global furniture industry continue to shift to the developing countries, China's position in the international furniture trade continues to improve. From 2000 to 2015, China's furniture manufacturing industry revenue raised from 32.7 billion yuan to 787.3 billion yuan, with an average annual growth rate of 24%. After China's accession to the WTO in 2000, with the further opening of the market and the reduction of trade tariff barriers, China's furniture exports maintained double-digit growth for many years, since 2009, exports remained stable at high levels. In 2014, China's furniture manufacturing export delivery value reached 162.4 billion yuan. At present, China is the world's largest furniture exporter and furniture consumer market. China's furniture industry exports in 2015 amounted to 199.36 billion yuan, an increase of 1.69% year on year.



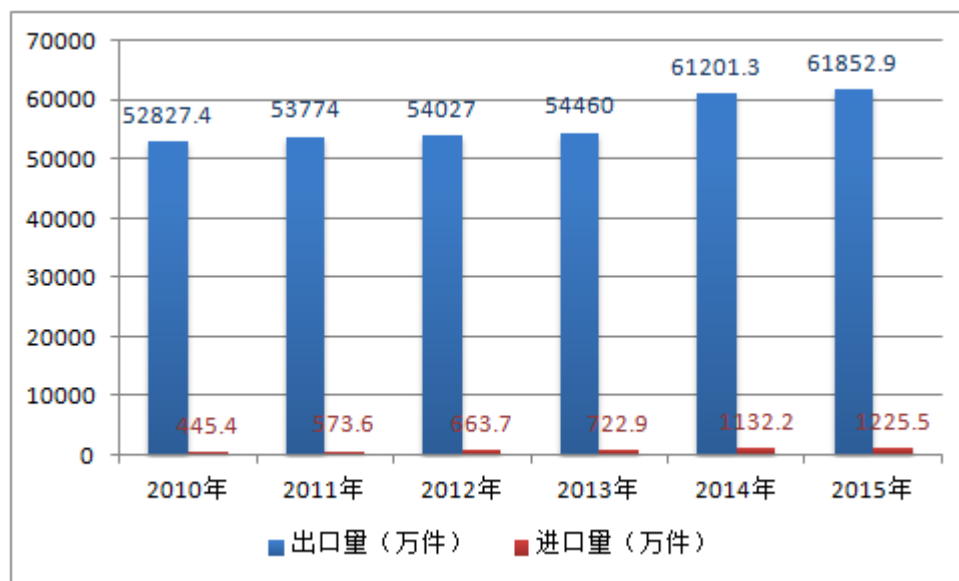


Global furniture output (100 million US dollars)

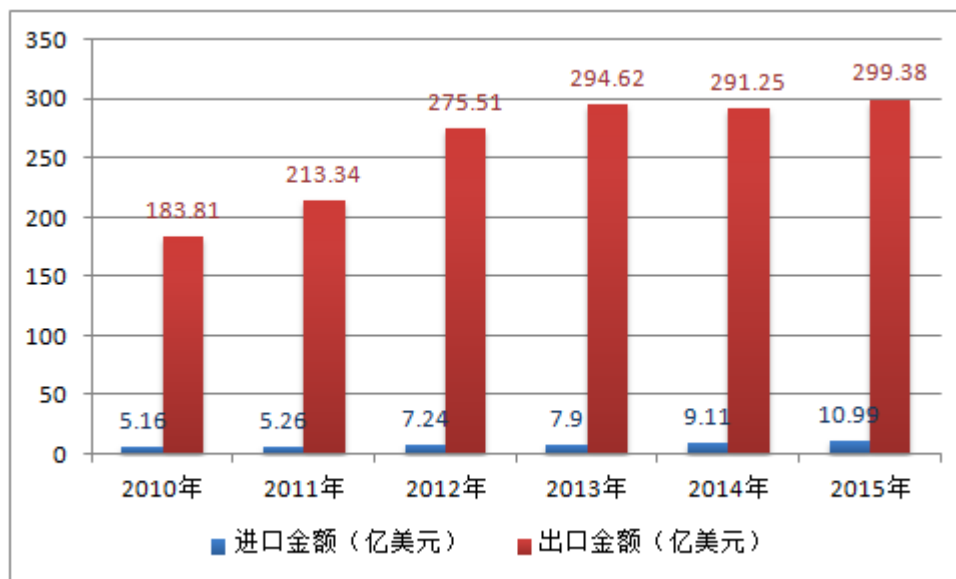


2010-2015 China's furniture production and apparent demand (10 thousand pieces)





2010-2015 China's furniture export and import (10 thousand pieces)



2010-2015 Amount of China's Furniture Import and Export (100 million US dollars)



Competition

China's furniture industry has developed rapidly, the number of furniture enterprises is huge, as of 2014, the number is over 60,000, and the number of industrial enterprises above designated size is 5,288, but the market still has not formed a dominant brand. In 2014, the national furniture industry output value has been trillion, but still none of them has the output value of more than 10 billion. The whole furniture industry concentration is still low, the pattern is loose.

At the same time, the current development of China's furniture industry showed significant industrial cluster effect. In 2014, China's regional furniture share (by income) top four were "Pearl River Delta", "Yangtze River Delta", the Bohai Sea Delta Furniture Industrial Zone and the central furniture industrial zone. Among them, "Pearl River Delta" and "Yangtze River Delta" has rich labor resources and technical resources, compared with other regions, they have obvious advantages and have always been the important area of China's furniture industry. In 2014, furniture production in both regions accounted for 72% of the country's total.

At present, countries around the world has turned their furniture industry to China in succession. In the next 3-5 years, there will appear a peak for foreign furniture enterprises to transfer to China. Mainland huge furniture market potential attracts furniture manufacturers to break into the Chinese market. Many overseas furniture enterprises in addition to sell furniture in mainland China, but also actively invest in factories to further save cost and enhance market share. Hong Kong had almost all of the furniture factory moved to Guangdong, Fujian and other places. Taiwan furniture manufacturers also favor the mainland's investment environment and market prospects. It's reported that at least 200 furniture manufacturing enterprises or furniture hardware companies has established a production line in the Mainland. Represented by Germany, France, Spain, Italy and the United States, western furniture giants continue to expand exports to China, at the same time they're still actively seeking partners in China.

Domestic furniture sales channel analysis

Traditional furniture enterprises in order to occupy the market, there are three main ways to adopt in the marketing process: first, through the local agents to sell; the second is to rent the premises and sell by themselves; the third way is through large-scale furniture shopping malls. Group procurement bidding is a more striking furniture circulation form in recent years. In addition, some stores and more powerful chain stores have



also appeared. The furniture market tend to be in a production-demand-sales chain, reflecting the modern consumption characteristics.

At present, the booth-style furniture exhibition still holds a large share of the market. It is to use temporary land to build temporary buildings with booths for lease. In the national furniture and materials market, more than 80% belong to this form. Although this channel model enriches the market, there exists costs, management chaos and other weaknesses.

Recently, the new format of furniture and building materials supermarkets, which is originated in Europe and the United States and other developed countries, began to boom in China since 2002. For example the Beijing Oriental Home Furniture and Building Materials Supermarket, has developed from one shop to dozens of malls throughout the country. One of the world's top 500 in Europe, the world's third home building materials chain supermarkets - British B & Q has landed in China, setting roots in Guangzhou. Together with Guangzhou Light Industry Supply and Marketing Company and other partners jointly invest 15 million US dollars to set up Guangzhou B & Q, at the same time has opened four large chain stores in Shanghai. Home building materials supermarket chain channel model has more than 30 years of history in Europe and the United States, they replaced the booth market, accounting for 90% or even 100% market share. This kind of channel model uses modern management tools and information technology to promote brand management strategy to improve the core competitiveness of enterprises, guarantee the interests of both suppliers and customers.

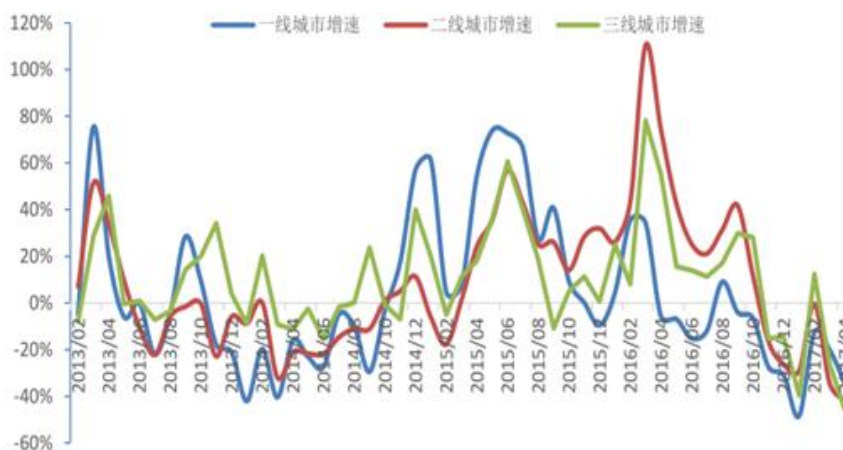
Analysis on the Factors and Tendency of Domestic Furniture Sales

With the growth of high-yielding population in the city, the increasing demand for star hotels and the upgrading concept of consumption, the demand for high-grade and personalized furniture was gradually improved. On the other hand, the development of urbanization lead to the low yield rural population into the city, bringing a new round of low-end furniture industry demand.

Commercial housing sales are the main factors affecting the consumption of furniture, the past two years of real estate hot results in the rapid growth of furniture consumption. In October last year, after the introduction of the restriction purchase policy in more than 20 cities, the first and second-tier cities land supply and control policies restricts the sales growth of commercial housing, while the third and fourth-tier cities real estate sales



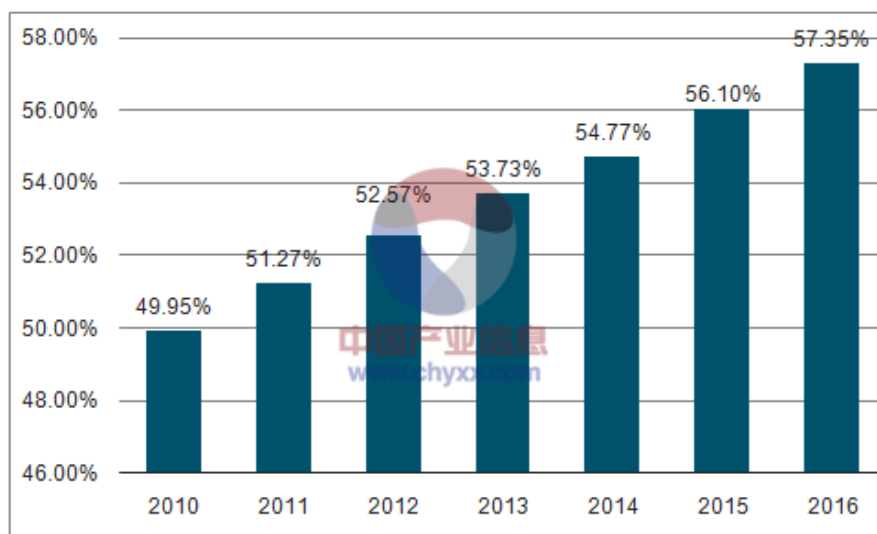
data become a bright spot. It's mainly caused by the strong demand of the local purchasing power, returning home buyers and the effect of the government guided destocking.



In October last year, after the introduction of real estate restriction purchase policies, the number of transactions in third-tier cities fell less than that of a first or second-tier city

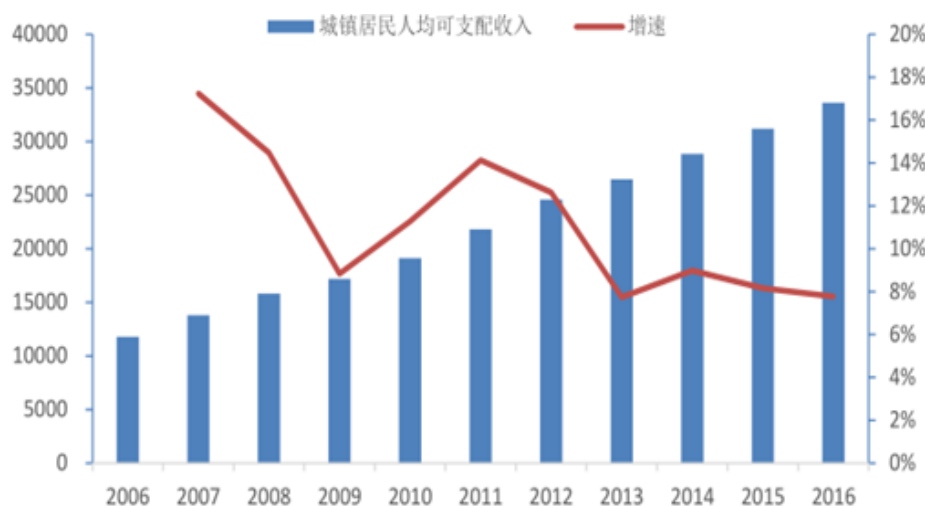
The rapid advance of urbanization further promote furniture consumption demand. The national urbanization rate (the proportion of urban population) increased from 49.95% in 2010 to 57.35% in 2016, increased by an annual rate of 1.23%. Compared with that of 80% of the developed industrial countries, our country's urbanization rate is still has a significant room to improve. The State Council issued the "National New Urbanization Plan (2014-2020)" also proposed that by 2020, the resident population urbanization rate will reach 60%, to achieve about 100 million agricultural transfer population and other resident population settled in the town. Calculated according to the average family population of 2.9 people, which may produce 34.5 million units of housing purchase demand.





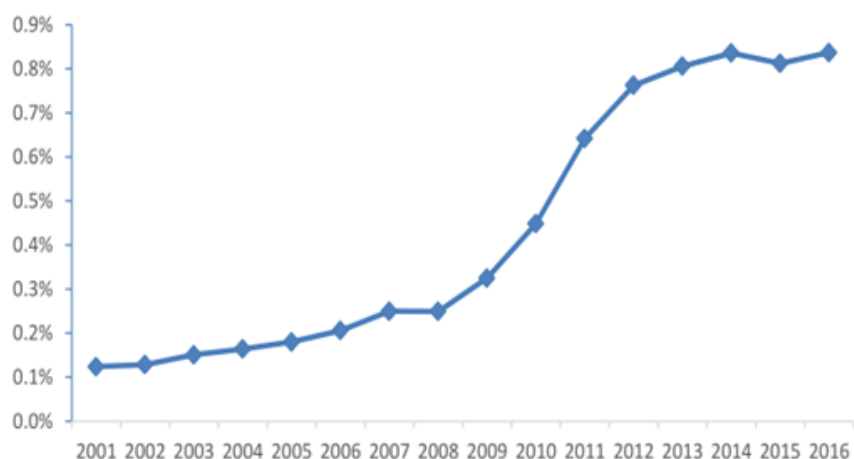
2010-2016 the national urbanization rate increased by 1.23% annually

Consumer purchasing power increased, the proportion of furniture consumption continues to improve. China's per capita disposable income increased from 11,760 yuan in 2006 to 33,616 yuan in 2016, with an annual compound growth rate of 11.07%, residents purchasing power has been increasing. At the same time, the proportion of furniture consumption in the total retail sales also increased from 0.21% in 2006 to 0.84% in 2016.



The per capita disposable income of urban residents continues to grow (yuan)





The proportion of furniture retail sales in total social retail sales steadily increased

Custom-made furniture

In the context of increased consumer purchasing power with the increase in disposable income of residents, people's requirements on living environment, environmental protection, aesthetics and other aspects continue to improve. As the current household products main consumer groups, the post-80s and 90s are no longer rigidly adhere to the traditional finished home furniture, they're more inclined to the product that meet their own preferences and demands.

Customized furniture is tailor-made for customers, with personalized design, and large-scale, standardized production. Although custom-made furniture has entered the domestic market for more than ten years, it still belong to the emerging industry, accounting for only about 10% of the furniture market share, the development potential is huge. At present, the ownership rate of the overall kitchen, cloakroom, private wine cellar etc. of every 100 million urban households in China is only 6.8%, far below the European and American developed countries, of which their average level is 35%.



In addition, about 29% of urban households said they would buy the overall installed home in the next three to five years. For the next five years, China's overall demand for customized home or the intention of purchase reached about 2.9 million units, an average of 5.8 million units per year.

Hardcover residential

China's hardcover residential proportion is relatively low, the national average ratio is less than 10%. In 2011, Beijing and Shanghai hardcover residential accounted for about 21%, Guangzhou is 32.9%, which is far below the 80% of developed countries. There's room for extensive rise. Japan in 1966-1975 experienced a residential decoration and industrialization development golden period, the three driving factors are: 1) post-war generation has higher requirements on urban housing conditions and decoration; 2) decoration labor costs rise makes it a necessary way to adopt quantitative decoration; 3) policy promote. The three driving factors in line with the status quo of China, the rising income of urban residents have higher and higher requirements for residences, the increase in labor costs and the encouragement of Ministry of Housing and Excise Department for the refined decoration will drive the development of China's hardcover residential. In 2012, the hardcover projects proportion of China's major real estate developers jumped to over 50%.

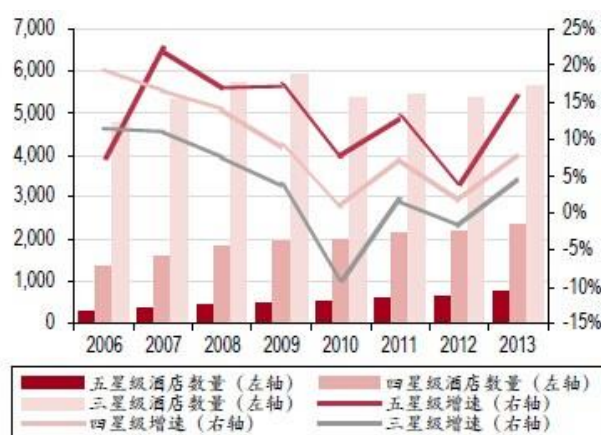
The increase in refined furnishings means an increase in the demand for the whole custom-made furniture, while the sale of furniture directly to the real estate business and other large customers can save the cost of marketing management. It is expected to become a major profit growth point to custom-made furniture manufacturing enterprises.

Starred hotel

Starred hotel is a large source of high-end furniture consumer demand, the number of five-star hotel in China increased from 302 in 2006 to 739 in 2013, CAGR 12.85%; four-star hotel from 2006, 1,369 increased to 2,361 in 2013 and 9.46% for CAGR. Starred hotels 'needs for the furniture can be divided into: 1) new furniture needs. Since 2006, China's five-star hotel with an average annual increase of 19,300 units, four-star hotel with an average increase of 27,800 sets of rooms. It is estimated that the five-star hotel spent 100,000 on each set of



furniture, four-star hotel 60,000. The total hotels for the new furniture demand reached 3.6 billion annually. 2) Replacement of furniture requirements. The general four-star and five-star hotel set the rule that every five years to renew the furniture, according to this frequency, it is predicted that China is about to usher in a wave of replacement furniture demand peak, 2013 China's star hotel furniture replacement demand of about 5.2 billion, while in 2017, China's star hotel furniture replacement needs is expect to be nearly 13 billion.



2006-2013 Hotel growth rate : Five –star > Four-star > Three-star



2011-2018 Needs for furniture upgrade of four and five - star hotels (100 million yuan)



Famous Chinese furniture brand

1. QuanU Furniture

<http://www.quanyou.com.cn/>

Founded in 1986, is one of the most famous brand in China.

2. Royal Furniture

<http://www.hkroyal.com/>

It' s a HK listed company, with its products sell to more than 20 countries and areas.

3. QM Furniture

<http://www.qumei.com/>

Founded in 1987, is one of the famous brand in China.

4. Red Apple Furniture

<http://www.redapple.com.cn/>

Founded in 1981, headquartered in HK.

5. M&Z Furniture

<http://www.zsmz.com/>

One of the famous brand in China.

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