

F R O S T & S U L L I V A N



Market
Engineering

Market Study of China's and Global Travel Retail Operation Market



August 2022

Confidential

Overall Assumptions and Methodology

Methodology:

In preparing the report, Frost & Sullivan has relied on the statistics and information obtained through primary and secondary research.

- Primary research includes interviewing industry insiders, competitors, downstream customers and recognized third-party industry associations.
- Secondary research includes reviewing corporate annual reports, databases of relevant official authorities, independent research reports and publications, as well as the exclusive database established by Frost & Sullivan over the past decades.

Assumptions:

The market size and forecasts were modeled by Frost & Sullivan based on the following assumptions.

- The social, economic and political conditions in China and global market currently discussed will remain stable during the forecast period;
- Government policies on China's and global travel retail market discussed will remain consistent during the forecast period;
- The scaled spread of pandemic can be gradually under control starting from the first half of 2023 and the international travel of China will gradually recover afterwards;
- The overall global international travel restriction outside of China will be relieved gradually starting from the end of 2022;
- China's and global travel retail operation market will be driven by the factors which are stated in this report.

Terms and Abbreviations

Terms:

- **Compound Annual Growth Rate (CAGR):** The term for interest rate at which a given Present Value (PV) would "grow" to a given Future Value (FV) in a given amount of time. The formula for calculating CAGR is: $(FV/PV)^{(1/\text{number of years})}-1$

Abbreviations:

• BDS	Beijing Duty Free Shop for Diplomatic Missions	• SDFC	Shenzhen State-owned Duty Free Commodity (Group) Co. Ltd.
• COVID-19	2019 Coronavirus Disease	• SH	Shanghai
• CDFG	China Duty Free Group Co. Ltd.	• ZDFG	Zhuhai Duty Free Enterprise Group Company Ltd.
• CSG	DIPLOMATIC SUPPLIES N.V.	• CTSHK	China Travel Service (Hong Kong) Limited
• CTG	China Tourism Group	• GP Margin	Gross Profit Margin
• CNSC	China National Service Corporation for Chinese Personnel Working Abroad	• The Company	China Duty Free International Limited
• DFS	Duty Free Shop	• The Group	CDFG, CTS DUTY-FREE and CTG and their respective subsidiaries and associates
• HNDF	Hainan Duty-free Co. Ltd	• NA	Not Applicable
• HTID	Hainan Tourism Investment and Development Co., Ltd	• HDH	Hainan Development Holdings

Abbreviations of Companies

英文缩写	英文全称	中文全称	中文简称
• CDFG	China Duty Free Group Co. Ltd.	中国免税品（集团）有限责任公司	中免
• CNSC	China National Service Corporation for Chinese Personnel Working Abroad	中国出国人员服务总公司	中出服
• CSG	DIPLOMATIC SUPPLIES N.V.	库拉索外交供应有限公司	库拉索免税
• CTG	China Tourism Group	中国旅游集团有限公司	中旅集团
• CTSHK	China Travel Service (Hong Kong) Ltd.	香港中国旅行社有限公司	港中旅
• HNDF	Hainan Duty-free Co. Ltd	海南省免税品有限公司	海免
• SDFC	Shenzhen State-owned Duty Free Commodity (Group) Co. Ltd.	深圳市国有免税品(集团)有限公司	深免
• SRDF	Sunrise Duty-free	日上免税行	日上
• ZDFG	Zhuhai Duty Free Enterprise Group Company Ltd.	珠海市免税企业集团有限公司	珠免
• BDS	Beijing Duty Free Shop for Diplomatic Missions	北京外交人员免税商店	北京外交人员免税店
• HTID	Hainan Tourism Investment and Development Co., Ltd	海南省旅游投资发展有限公司	海旅投
• HDH	Hainan Development Holdings	海南省发展控股有限公司	海发控

Research Scope

China's and Global Travel Retail Operation Market

Research Period

- Base year: 2021
- Historical: 2017 to 2021
- Forecasting: 2022E to 2026E

Service Market Scope

- Duty-free Merchandises Operation Market
- Travel Retail Operation Market

Geographical Scope

- Mainland China
- Global

Content

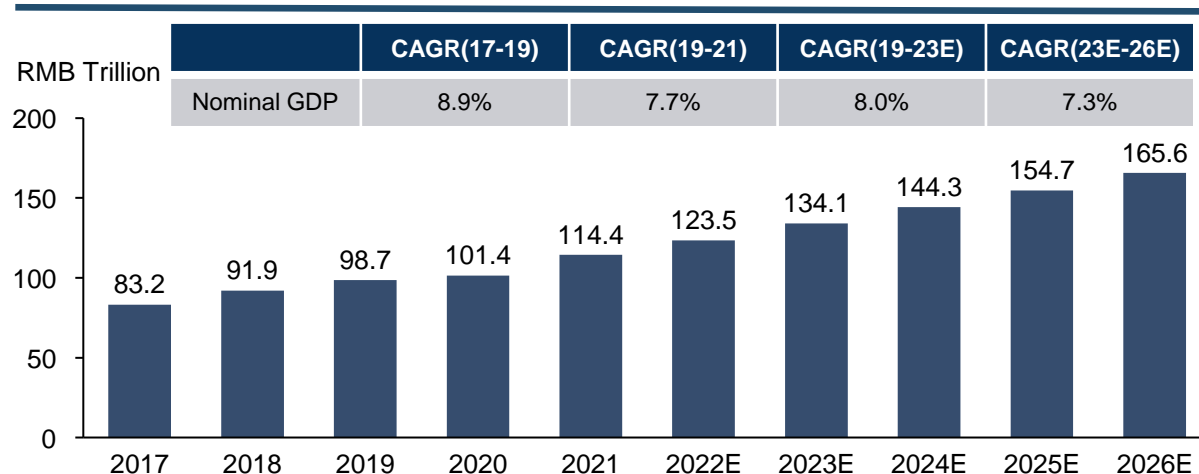
Chapter	Section
1	Overview of China's Macroeconomy
2	Analysis of China's and Global Travel Retail Operation Market
3	Competitive Analysis of China's and Global Travel Retail Operation Market

1. Overview of China's Macroeconomy

Overview of China's Macroeconomy

Nominal GDP

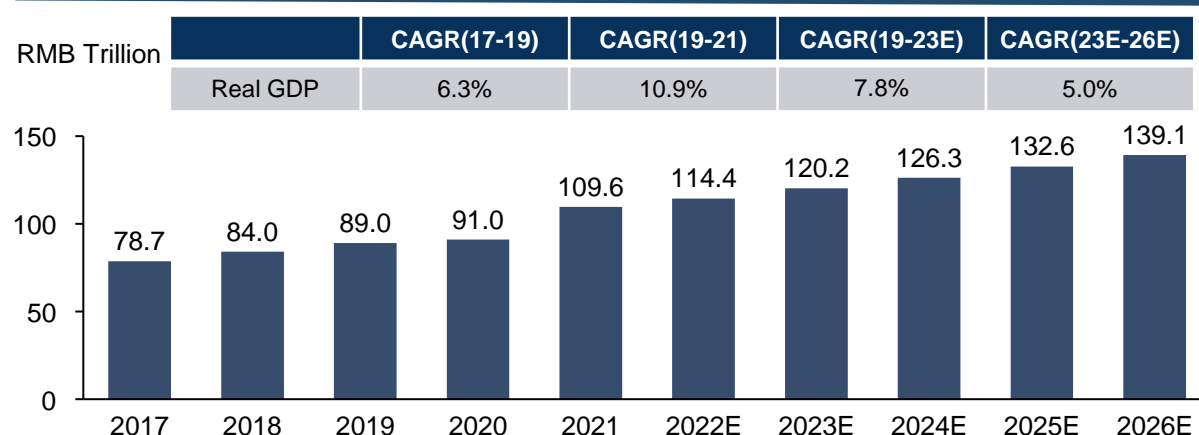
Nominal GDP, China, 2017-2026E



- China's nominal GDP increased from RMB 83.2 trillion in 2017 to RMB 98.7 trillion in 2019 with a CAGR of 8.9%, and further increased to RMB 114.4 trillion in 2021 with a CAGR of 7.7%. **According to the growth forecast by IMF published in April, 2022 and the data of China's National Bureau of Statistics**, during the recovery period, nominal GDP is expected to rise from RMB 98.7 trillion in 2019 to RMB 134.1 trillion in 2023 with a CAGR of 8.0%. After the pandemic situation, it is expected to furtherly increase to RMB 165.6 trillion in 2026, representing a CAGR of 7.3% from 2023 to 2026.

- China's real GDP increased from RMB 78.7 trillion in 2017 to RMB 89.0 trillion in 2019 with a CAGR of 6.3%. And it increased to RMB 109.6 trillion in 2021 with a CAGR of 10.9%. **According to the growth forecast by IMF published in April, 2022 and the data of China's National Bureau of Statistics**, China's real GDP is expected to grow from RMB 89.0 trillion in 2019 to RMB 120.2 trillion in 2023, with a CAGR of 7.8% from 2019 to 2023. As the recovery of economy, it is expected to furtherly increase to RMB 139.1 trillion in 2026, representing a CAGR of 5.0% from 2023 to 2026.

Real GDP, China, 2017-2026E



- China's GDP growth rate decreased in 2020 due to pandemic situation. However, China is the only economy which gained growth in 2020 in major economies and in 2021, China achieved high growth rate. Thanks to the strong containment effort and timely actions, China is recovering rapidly from the pandemic situation, with most business and production activities resumed later in the first half of 2020.

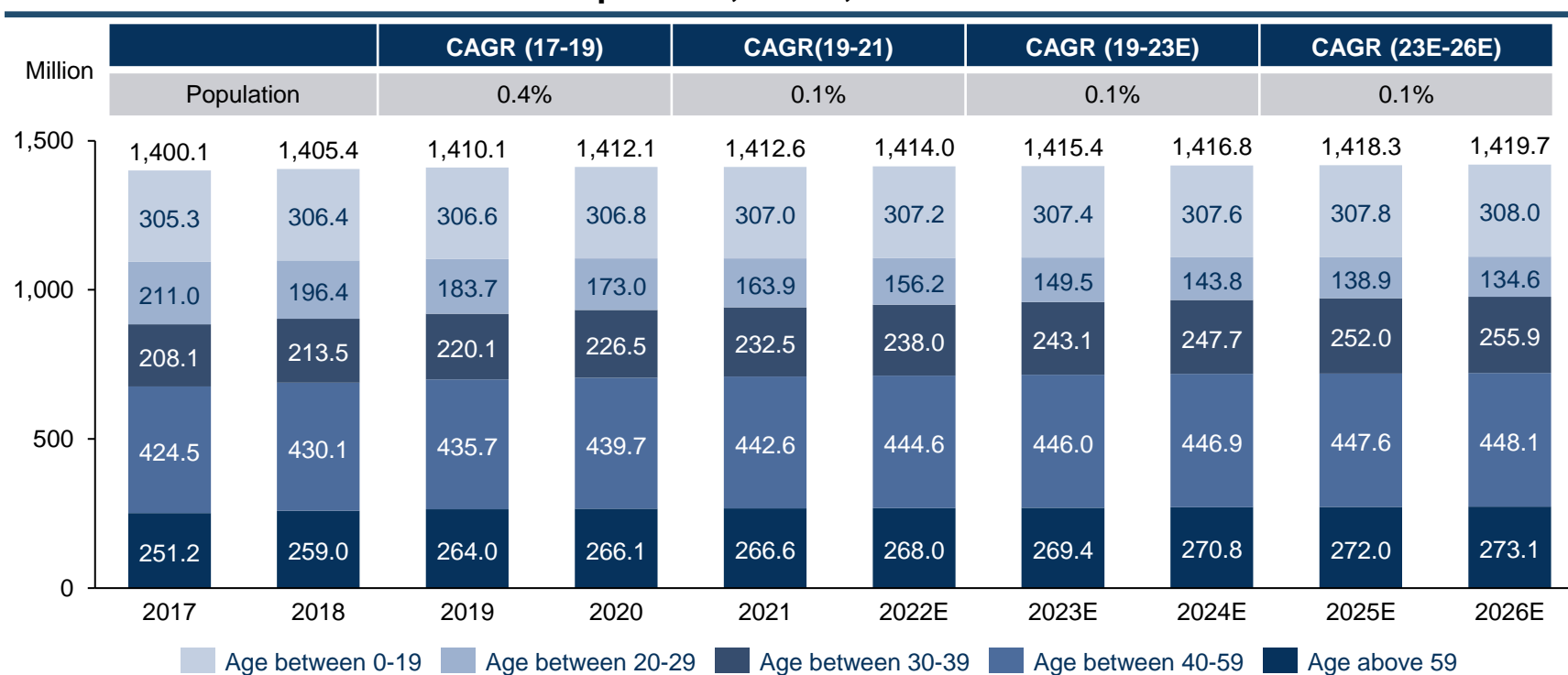
Source: NBS, IMF, Frost & Sullivan

Overview of China's Macroeconomy

Population and Age Distribution

- The total population of China increased from 1,400.1 million in 2017 to 1,410.1 million in 2019, representing a CAGR of 0.4%. And it increased to 1412.6 million in 2021 with a CAGR of 0.1%. In the future, the total population of China is expected to increase from 1,410.1 million in 2019 to 1,415.4 million in 2023 with a CAGR of 0.1%. And it is expected to furtherly increase to 1,419.7 million in 2026, representing a CAGR of 0.1% from 2023 to 2026.
- For age distribution, population of age between 20-39 and 40-59 both keep a high percentage in the whole population which represents the core power of consumption.

Population, China, 2017-2026E



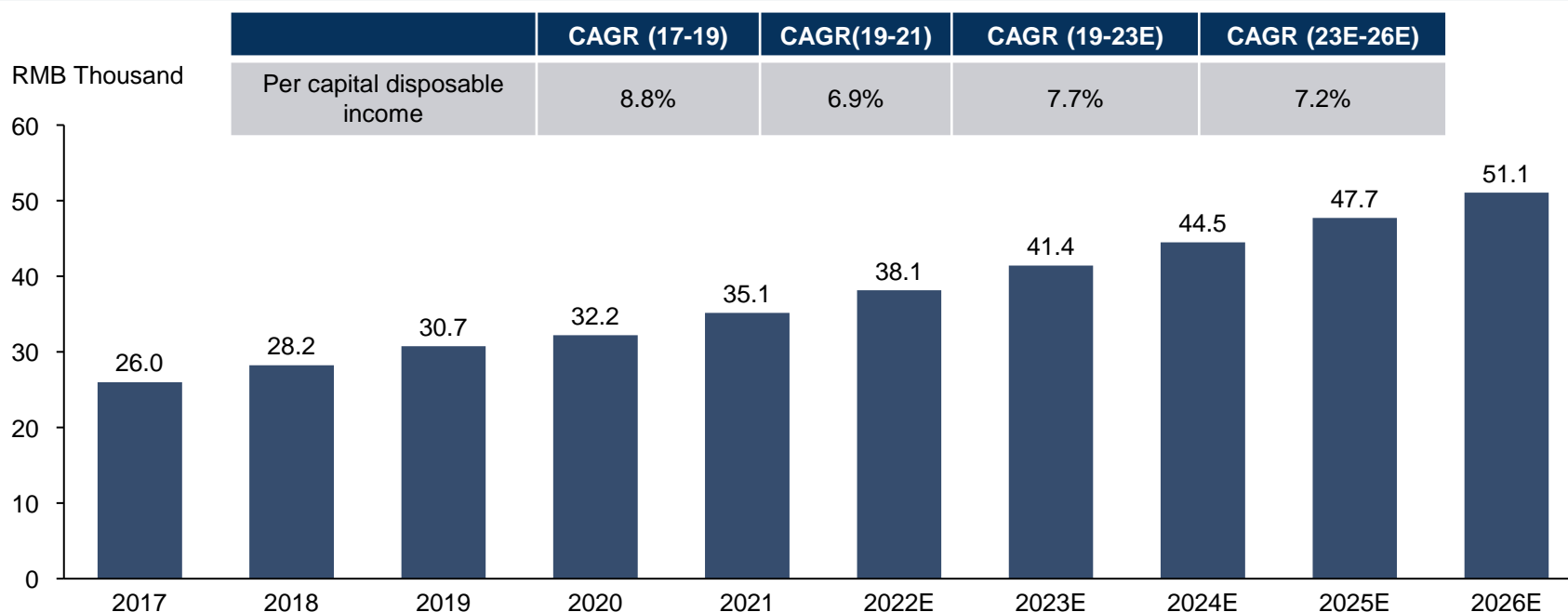
Source: NBS, Frost & Sullivan

Overview of China's Macroeconomy

Disposable Income

- With the continuous economic development, the per capita disposable income experienced robust growth in the last 5 years in China, from RMB 26.0 thousand in 2017 to RMB 30.7 thousand in 2019, representing a CAGR of 8.8%. And it increased to RMB 35.1 thousand in 2021 with a CAGR of 6.9% from 2019 to 2021.
- In the following years, benefiting from the further economic development, the per capita disposable income in China is expected to keep the current increasing trend. It is anticipated to increase from RMB 30.7 thousand in 2019 to RMB 41.4 thousand in 2023 with a CAGR of 7.7%. And reach RMB 51.1 thousand in 2026 with a CAGR of 7.2% from 2023 to 2026. Increases in disposable income may also have noticeable effect on product choices made by PRC consumers considering consumption upgrade.

Per Capita Disposable Income, China, 2017-2026E



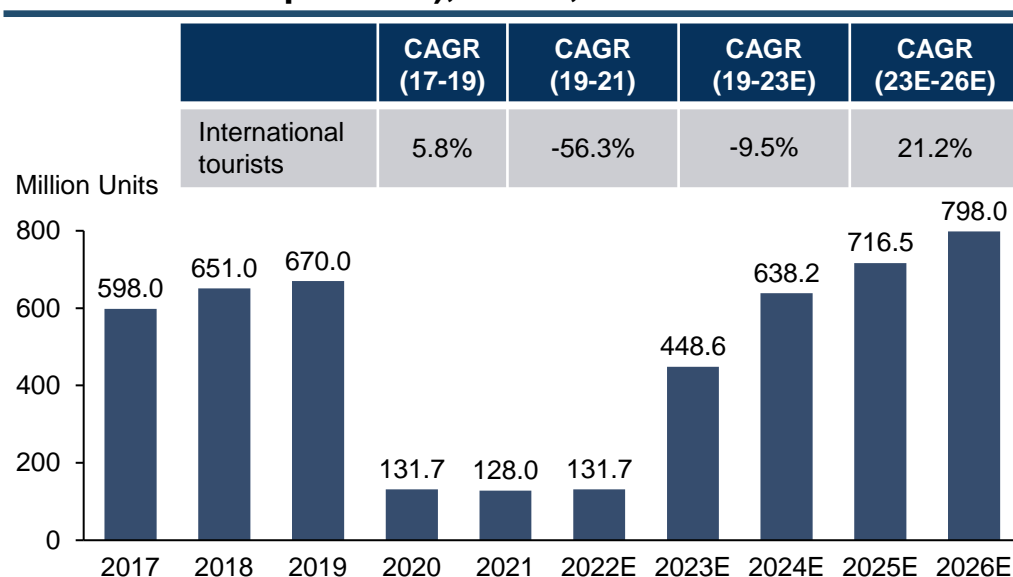
Source: NBS, Frost & Sullivan

Overview of China's Macroeconomy

International Tourism

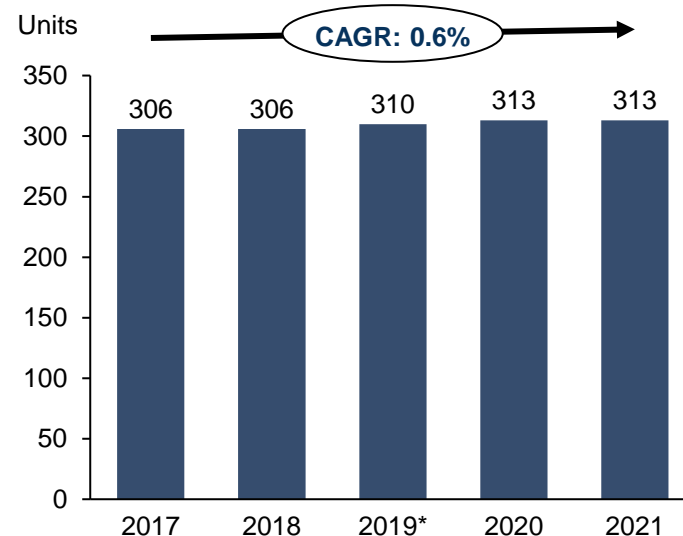
- From 2017 to 2019, the international tourists of China underwent a steady growth due to the development of transportation and tourism. In 2021, the number of tourist reduced by 2.8% because of COVID-19. Generally, from 2017 to 2019, international tourists of China has increased from 598.0 million units to 670.0 million units with a CAGR of 5.8%. And it decreased to 128.0 million in 2021 with a CAGR of -56.3%. International tourists scale falls sharply in 2020, with yoy of around -80% compared with 2019.
- The number of international tourists is expected to reach 448.6 million units in 2023 showing a CAGR of -9.5% from 2019 to 2023. As the recovery of pandemic, the tourism is expected to be brought back to life and the tourist number is expected to increase to 798.0 million units in 2026 with a CAGR of 21.2% from 2023 to 2026.
- Number of ports in mainland China grow steadily from 306 in 2017 to 313 in 2021 with a CAGR of 0.6%.

International Tourists Scale (including arrivals and departures), China, 2017-2026E



* As of 31st May 2020

Number of Ports, China, 2017-2021



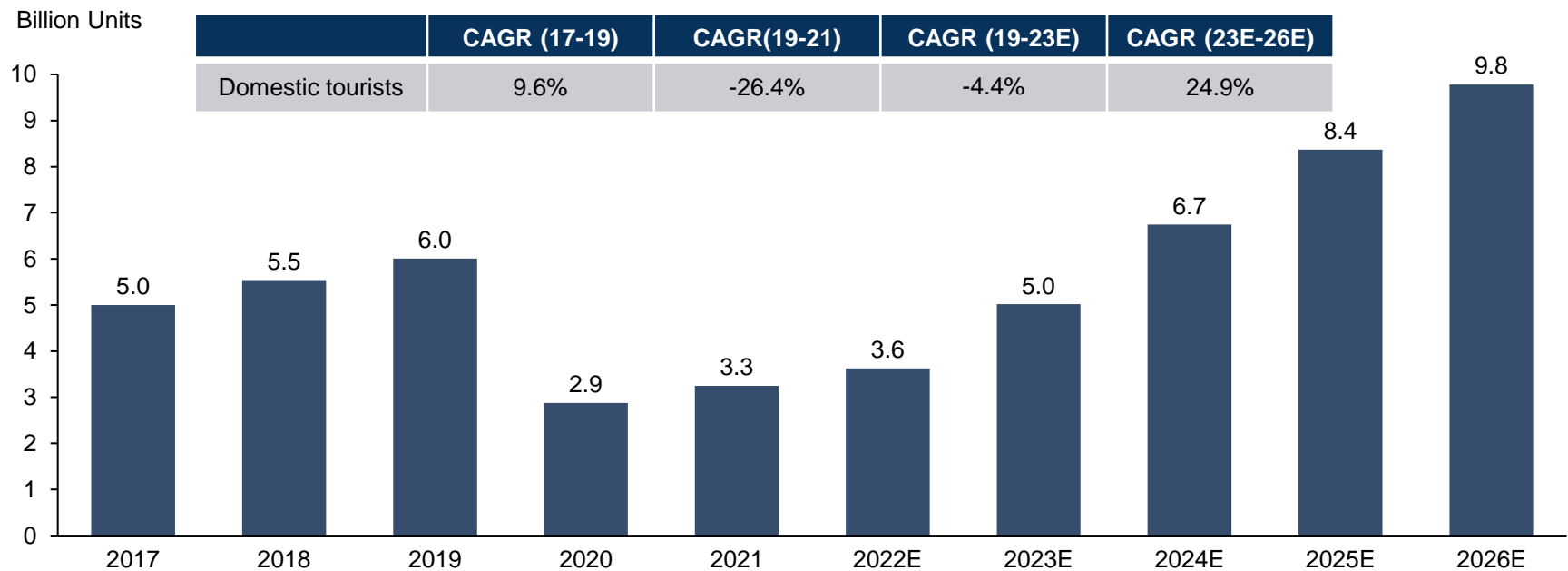
Source: NBS, Frost & Sullivan

Overview of China's Macroeconomy

Domestic Tourism

- Benefit from timely control measures conducted by Chinese government, Chinese tourism quickly recovered from the lowest level. As a result of COVID-19, governments have imposed travel restrictions and travel advisories, leading to a decrease in overseas travel and less foot traffic through airports and other transport hubs. In terms of domestic travel, the number of domestic tourists was about 3.3 billion in 2021, representing an increase of about 13% as compared to the year before.
- From 2017 to 2019, the total domestic tourists increased from 5.0 billion units to 6.0 billion units with a CAGR of 9.6%. And it decreased to 3.3 billion in 2021 with a CAGR of -26.4%. It is expected that the domestic tourists scale will reach 5.0 billion units in 2023, showing a CAGR of -4.4% from 2019 to 2023.
- After the pandemic, it is predicted that the number of domestic tourists will furtherly grow to 9.8 billion units in 2026 with a CAGR of 24.9% from 2023 to 2026.

Domestic Tourists Scale, China, 2017-2026E



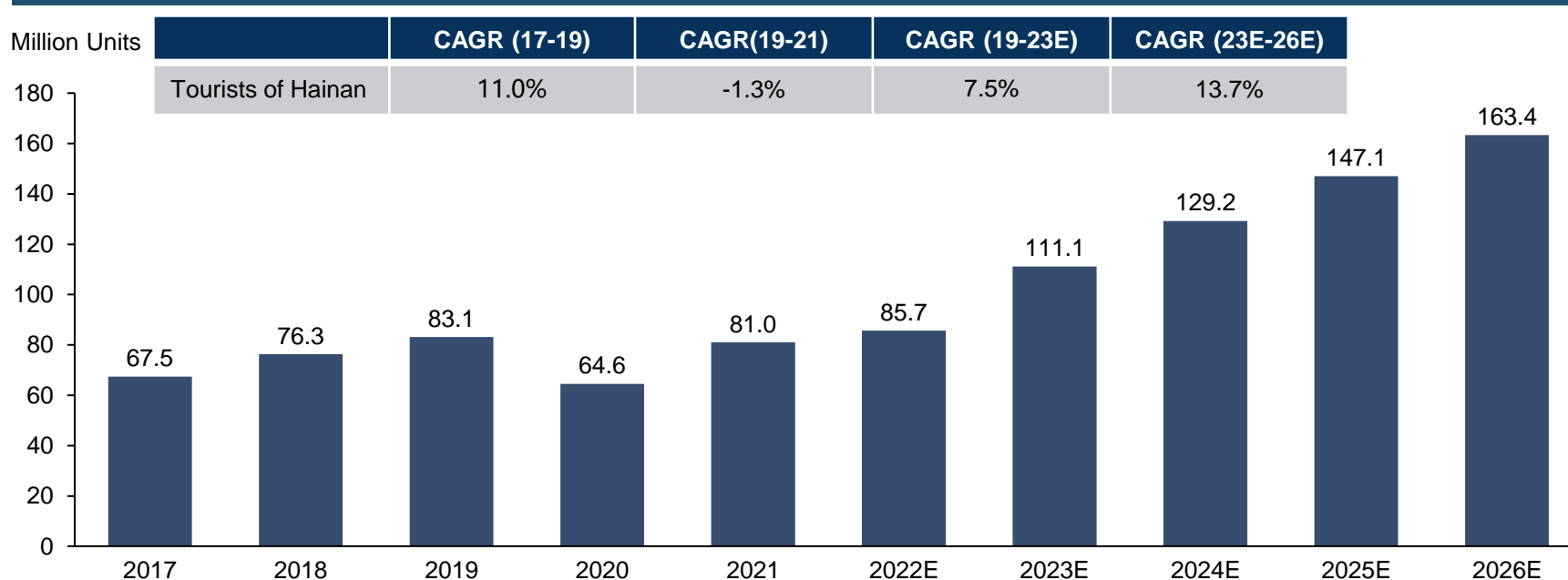
Source: NBS, Frost & Sullivan

Overview of China's Macroeconomy

Tourism of Hainan

- Triggered by good control of pandemic in China and a series of stimulation by government, together with the objective condition that people cannot go abroad, the magnitude of increase in 2021 is larger than that of domestic tourists of China.
- From 2017 to 2019, the tourists of Hainan increased from 67.5 million units to 83.1 million units with a CAGR of 11.0%. And it decreased to 81.0 million in 2021 with a CAGR of -1.3%. In future, considering the rapid development of Hainan transportation network (such as renovation of Hainan's airports to increase the capacity) to support developing Hainan into a free trade port, as well as the increasing attractiveness of Hainan as a recreational and shopping heaven to tourists, the tourists scale of Hainan will grow from 83.1 million units in 2019 to 111.1 million units in 2023 with a CAGR of 7.5% from 2019 to 2023.
- As the gradual recovery from pandemic, it is predicted that the number of tourists in Hainan will furtherly grow to 163.4 million units in 2026 with a CAGR of 13.7% from 2023 to 2026.

Tourists Scale of Hainan, 2017-2026E



Source: Government disclosure, Frost & Sullivan

2. Analysis of China's and Global Travel Retail Operation Market

Analysis of China's and Global Travel Retail Operation Market

Definition and Classification

Travel Retail

Travel retail refers to the sales of merchandises to international and domestic travellers under travel environment through distribution channels mainly including airports, train stations and other ports, offshore channel, downtown stores, onboard cruises and ferries, airlines, etc. For travel retail merchandises, there are various categories such as perfume and cosmetics, tobacco and liquors, fashion and luxuries, travel essentials and food service, etc.

Duty-free Merchandises Operation

Duty-free sales refer to sales of foreign products with an exemption from duties and other taxes incurred during importation and domestic products with taxes exempted or refunded and sold in a duty-free store through distribution channels such as ports (including port online pre-order with offline pickup), downtown duty-free stores, offshore duty-free stores (including offshore online pre-order with offline pickup), airlines and ferries, etc., and normally the products are sold to travelers crossing borders or going to offshore destinations.

Duty-paid Merchandises Operation

The duty-paid portion of travel retail refers to the duty paid goods sold by travel retailer in a travel environment subjecting to taxes and duties such as travel essentials, food service, etc. through distribution channels such as ports, downtown stores, offshore stores and online orders made by offshore travellers after departing from Hainan (i.e. 离岛补购), online orders for merchandises with taxes and duties (i.e. 线上完税业务).

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Comparison of Business Model

Major Categories of Travel Retail Stores (by distribution channel)

Channels	Port	Offshore	Downtown	Vehicle
Definition	<ul style="list-style-type: none"> The exit and entry travel retail stores at airports, border crossings, railway stations, cross-border bus stations and seaports, etc.. 	<ul style="list-style-type: none"> Travel retail stores on island which is qualified to operate duty free and travel retail business and only customers who are leaving the island are able to buy the duty free goods 	<ul style="list-style-type: none"> Travel retail stores at downtown which are eligible for customers who are about to leave the country with valid identity certificate or transportation tickets or enter the country within certain period of time. 	<ul style="list-style-type: none"> Airline travel retail store or travel retail store on cruise and only eligible during the vehicle operation period
Type of Customers	<ul style="list-style-type: none"> All passport holders with departure procedures accomplished and ready to on board. All passport holders with custom check-in procedures yet completed. The typical customers who frequent port stores are passengers en route to their destination. 	<ul style="list-style-type: none"> Tourists with valid proof of identity. Local residents who are departing from the designated area. 	<ul style="list-style-type: none"> Foreign passport holders who are going out of country. Domestic person, within a period of time after returning from foreign countries. 	<ul style="list-style-type: none"> All passport holders who are taking the transportation to depart or arrive.
Location	<ul style="list-style-type: none"> Airports, stations and ports, etc 	<ul style="list-style-type: none"> Airports, downtown 	<ul style="list-style-type: none"> Downtown 	<ul style="list-style-type: none"> Aeroplane, cruise, etc
Example	<ul style="list-style-type: none"> Pudong International Airport Duty-free Shop Changi Airport Duty Free Shop 	<ul style="list-style-type: none"> Sanya Haitang Bay Duty-free Shop Lotte Duty Free's Jeju Store 	<ul style="list-style-type: none"> CDFG's Shanghai Downtown Duty-free Shop Main Store of LOTTE Duty Free Shop in Myeong-dong 	<ul style="list-style-type: none"> Air China Flight Duty-free Shop

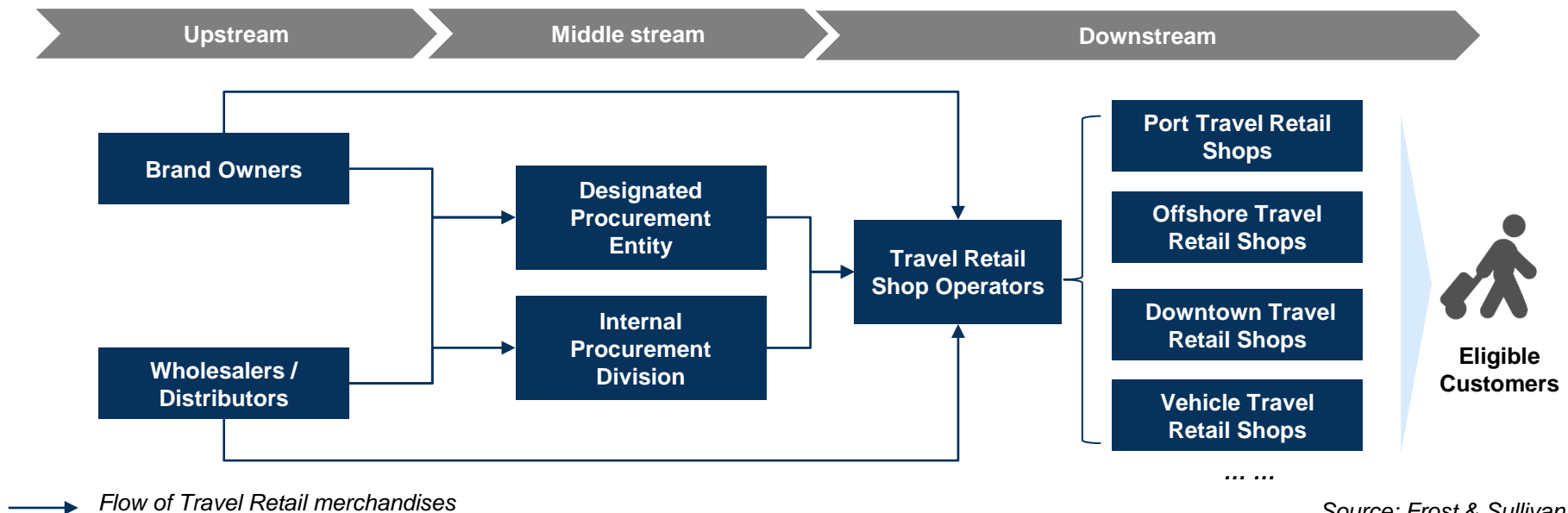
Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Industry Value Chain

- Upstream of travel retail industry includes brand owners, wholesalers and distributors, as well as travel retail operators, which are suppliers of travel retail merchandises. Midstream mainly contains designated procurement entities or internal procurement divisions of travel retail business operators which are in charge of the procurement and distribution function, and the downstream is the travel retail shop operator selling travel retail merchandises to eligible customers. Travel retail merchandise operators typically have designated procurement entities acting as the major or sole supplier(s) of travel retail merchandise for the entire group. Such practice helps accelerate the procurement and payment settlement process. Players such as Zhuhai Duty Free Group, Dufry Group and The Shilla have adopted this model of operations. It is common in the industry that duty-free merchandise operators with large procurement scale are likely to get favorable price discount from product suppliers.
- Generally, the designated procurement entity or internal procurement division will procure directly from brand owners when procurement amount is significant and bargaining power is strong; or procure from wholesalers and distributors when procurement amount is not that significant or having difficulties in approaching brand owners. Sometimes they may turn to other travel retail operators for procurement as some travel retail operators possess specialties in procuring and retailing certain product categories. With certain margin may be added, travel retail merchandises will be further sold, distributed and delivered to the travel retail shops which usually belong to the same travel retail business group. For certain categories of travel retail merchandises (e.g. cosmetics and perfumes), upstream market participants will directly deliver products to travel retail shops, and settle procurement contract with procurement entities or division.
- Particularly In PRC, business entities legitimate to conduct travel retail merchandises operation must be approved by governmental authorities, including the State Council, China Customs, Department of Commerce, Ministry of Finance, Ministry of Culture and Tourism and State Taxation Administration.

Industry Value Chain of Travel Retail Merchandises Operation Market

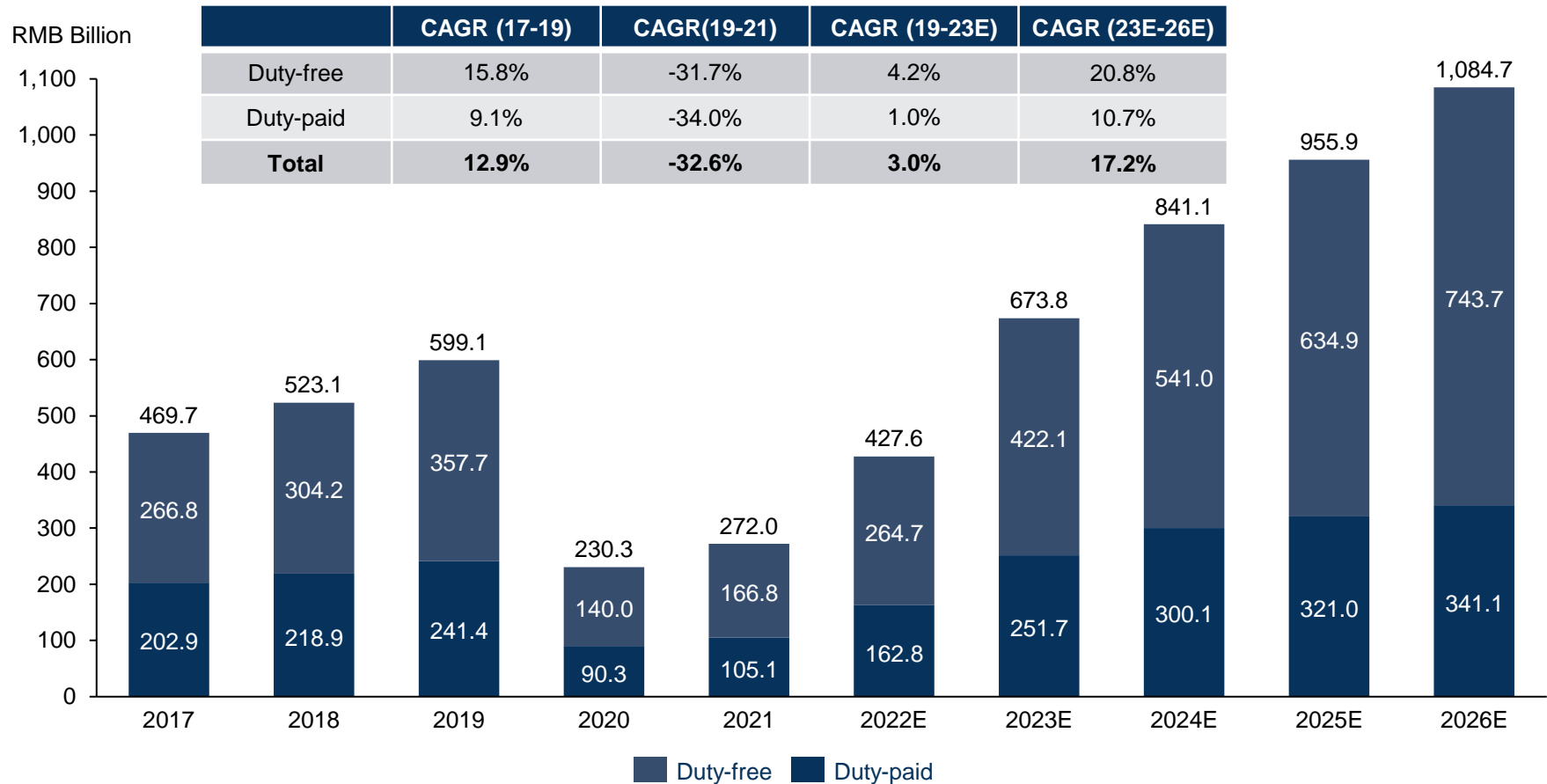


Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Market Size of Global Travel Retail Market (1/3)

Market Size of Travel Retail Market (by sales revenue), Global, 2017-2026E

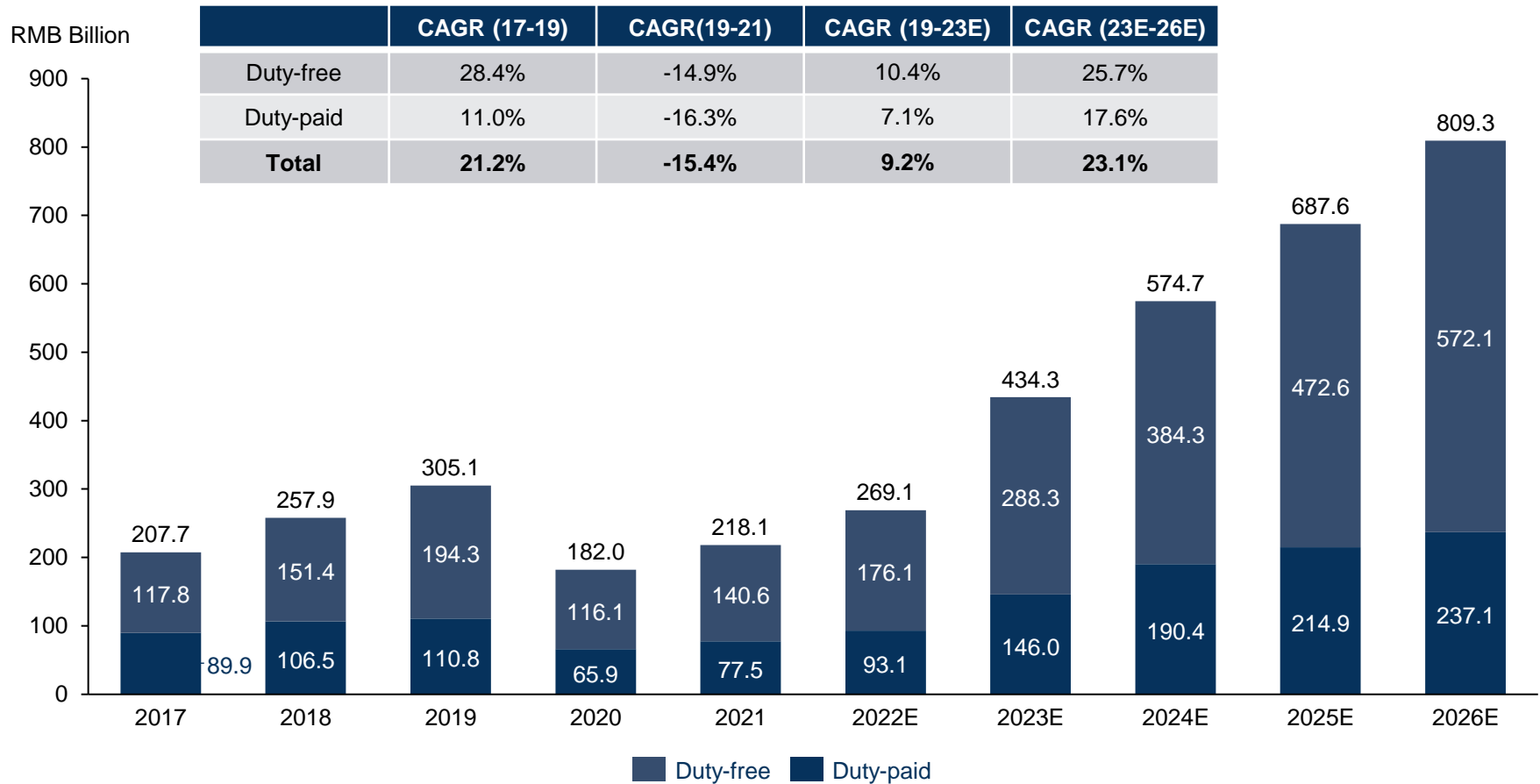


Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Market Size of Global Travel Retail Market (2/3)

Market Size of Travel Retail Market (by sales revenue), Asia, 2017-2026E



Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Market Size of Global Travel Retail Market (3/3)

Highlights

- As COVID-19 began and spread in 2020, the travel & tourism industry was impacted significantly. The travel retail market, highly dependent on travel & tourism, went through a trough in 2020. In 2021, as the spread of Omicron, the global and Asian travel retail and duty free market has been influenced and the recovery slows down. It is assumed that the overall global international travel restriction outside of China will be relieved gradually starting from the end of 2022, as regions such as the EU, US, South Korea, Singapore have reopened their borders.
- For global travel retail market, the market size increased from RMB 469.7 billion in 2017 to RMB 599.1 billion in 2019 with a CAGR of 12.9%. From 2019 to 2021, the market size decreased from RMB 599.1 billion to RMB 272.0 billion with a CAGR of -32.6%. From 2019 to 2023, the market size is expected to increase from RMB 599.1 billion to RMB 673.8 billion with a CAGR of 3.0%. Assuming that if the overall global international travel restriction outside of China will be relieved gradually starting from the end of 2022, the market size of travel retail is expected to further increase to RMB 1,084.7 billion in 2026 with a CAGR of 17.2% from 2023 to 2026.
- For global travel retail market, in 2017, the ratio of duty free market to the whole travel retail market is 56.8% which is higher than the ratio of duty paid market. In 2020 and 2021, as the attack of COVID-19, governments took a series action to stimulate the development of duty free market like increasing the duty free shopping quota. Therefore, in 2021, the ratio of duty free market to the whole travel retail market increased to 61.3%. Assuming that if the the overall global international travel restriction outside of China will be relieved gradually starting from the end of 2022, it is expected that the ratio will reach 68.6% in 2026.
- Asia's travel retail market is one of the fastest-growing markets by continent worldwide. For Asian travel retail market, the market size increased from RMB 207.7 billion in 2017 to RMB 305.1 billion in 2019 with a CAGR of 21.2%. From 2019 to 2021, the market size is expected to decrease from RMB 305.1 billion to RMB 218.1 billion with a CAGR of -15.4%. In the forecast period, the travel retail market size of Asia is expected to reach RMB 434.3 billion in 2023 with a CAGR of 9.2% from 2019 to 2023. Assuming that if the overall global international travel restriction outside of China will be relieved gradually starting from the end of 2022, the Asian travel retail market size is expected to be RMB 809.3 billion in 2026 as forecasted with a CAGR of 23.1% from 2023 to 2026. With the expected expansion of China's duty-free market, China and Asia are expected to become the main growth engine to propel the further growth of the global travel retail market.
- For Asian travel retail market, in 2017, the ratio of duty free market is 56.7% which is larger than the ratio of duty paid market. In 2021, the ratio increased to 64.5% and the reason is that as the international tourism was restricted, which is influenced by pandemic situation, in China, government announced a series of policies to support and stimulate the development of duty free market like increasing the duty free shopping quota, building more duty free stores, developing the online channel, etc.. In Korea, the tourism industry is stagnant and most of the sales of Korea market is contributed by foreigners who are Chinese daigou traders mostly and Korean government also announced several stimulating policies. In the future, assuming that if the overall global international travel restriction outside of China will be relieved gradually starting from the end of 2022, with the development of the duty-free industry and the re-channeling of duty-free consumption from overseas back into China, Asia's duty-free travel retail market is expected to continue to grow rapidly and Chinese duty free market is expected to trigger the further increase of the ratio of duty free market to travel retail market of Asia to 70.7% in 2026.
- Perfume and cosmetics products have become one of the largest and fastest growing product categories in the global travel retail market, with a CAGR of around 20% from 2017 to 2019 and, assuming the overall global international travel restrictions outside of China will be relaxed gradually starting from the end of 2022, an estimated CAGR of around 19.5% from 2023 to 2026 in terms of sales revenue. The Company's sales revenue of duty-free perfume and cosmetics products in 2021 reached RMB23,082.9 million with an approximately 18.0% market share in the global perfume and cosmetics travel retail market, ranking the first among all duty-free operators in China.

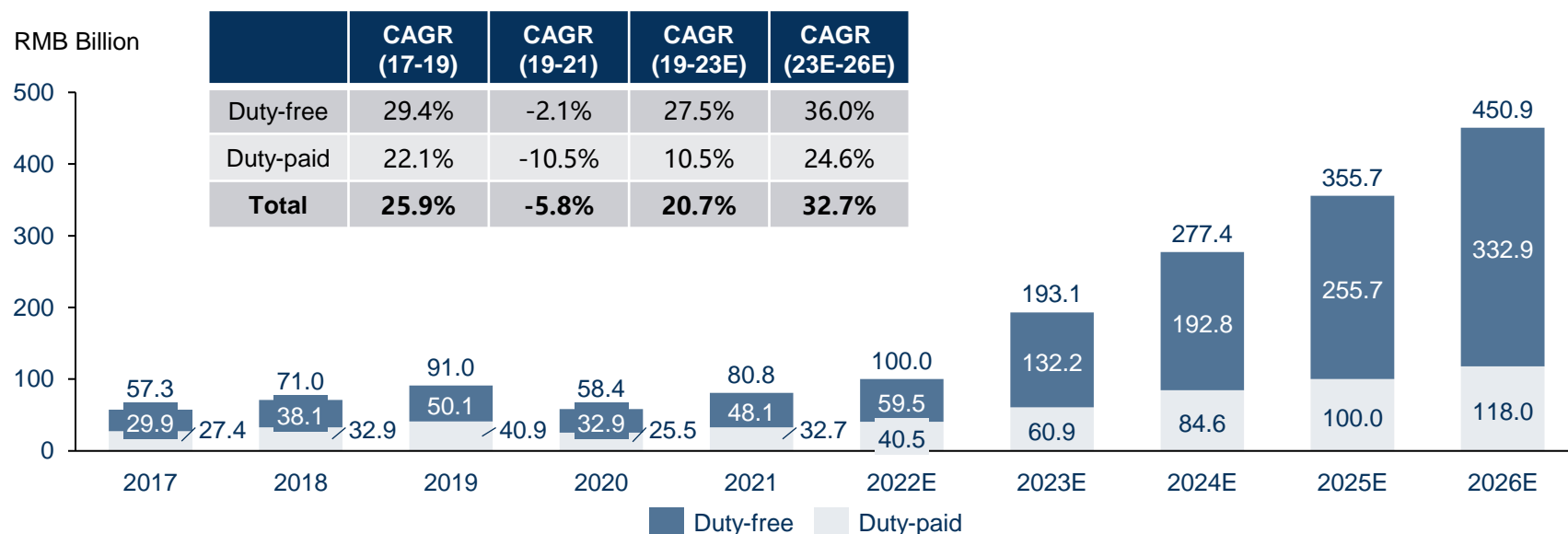
Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Market Size of China's Travel Retail Market

- Sales revenue of travel retail goods in China increased from RMB 57.3 billion in 2017 to RMB 91.0 billion in 2019, with a CAGR of 25.9% during 2017 to 2019. Both domestic travel and International travel in China are affected in 2020 and 2021, due to the preventative and lockdown measures taken by the government, to control and stop the pandemic spread. Significant decline in travellers and travel frequencies resulted in travel retail sales revenue decreasing from RMB 91.0 billion in 2019 to RMB 58.4 billion in 2020 and subsequently recovering to RMB80.8 billion, which is mainly due to the excellent performance in offshore channel, as stimulated by favourable policies and domestic travel to Hainan.
- In 2022, considering the recent emergence of COVID-19 variant cases in some regions of China in the first half of the year and tight control on international travel, the market size is expected to climb slowly. Assuming that if China's spread of pandemic can be gradually under control and with the gradual resumption China's cross-border travel in first half of 2023, driven by the recovery of global and China travel industry, favourable policy environment of developing duty-free merchandise operation market and consumption upgrade, China's travel retail market is expected to climb to RMB 450.9 billion by 2026.
- In 2019, China's travel retail market made up 15.2% of the global travel retail market. In 2020, although China's travel retail market, like the rest of the world, was impacted by the COVID-19 pandemic, it demonstrated robust resilience and its share of the global travel retail market increased to 25.4%. In 2021, the share becomes 29.7%. China's travel retail market is forecasted to account for a 41.6% market share worldwide by 2026.

Market Size of Travel Retail* (by sales revenue), Mainland China, 2017-2026E



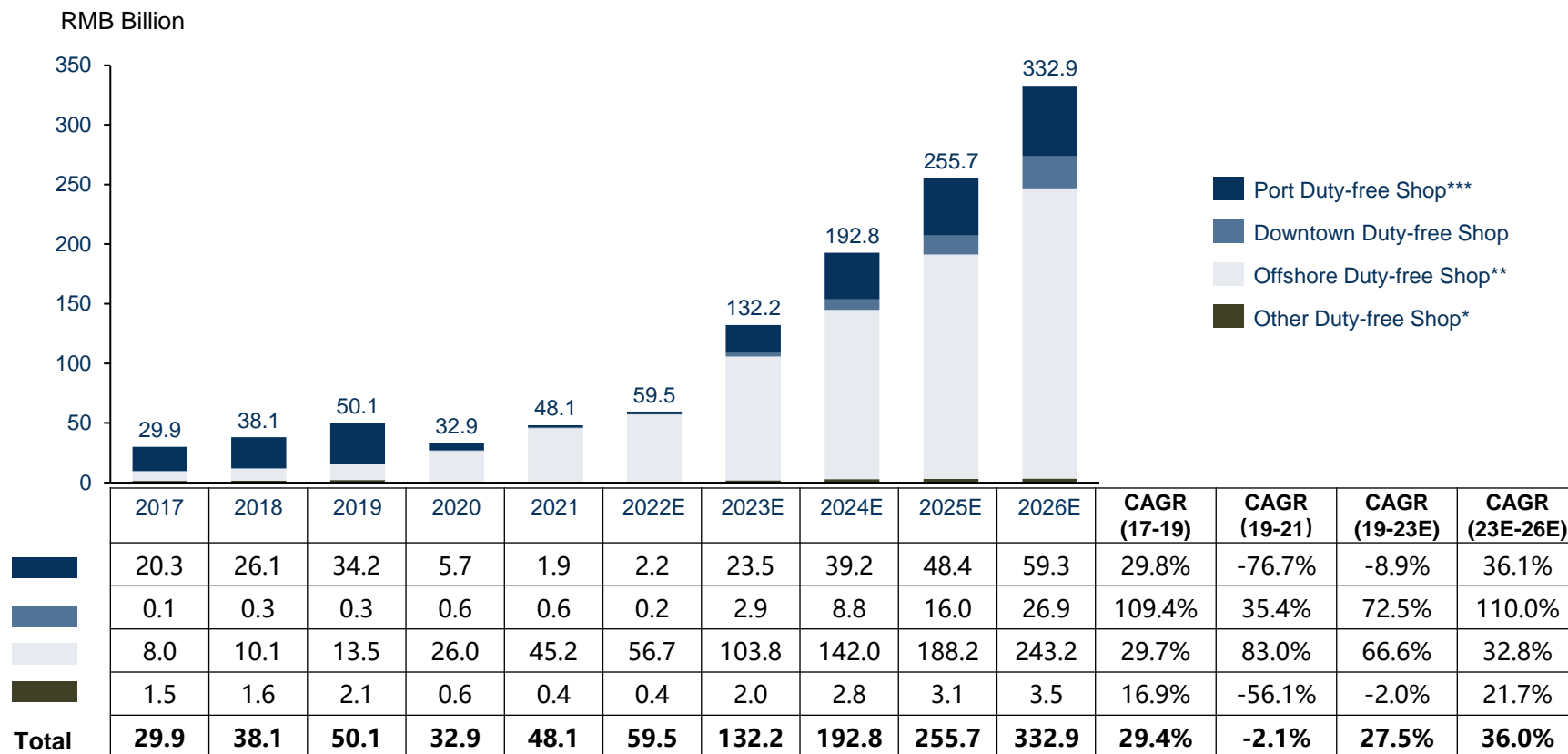
* China travel retail and duty-free market size does not include the duty-free merchandise which can be purchased by Hainan residents without leaving Hainan island.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Market Size of China's Duty Free Operation Market (1/4)

Market Size of Duty-free Merchandises Operation Market (by Channel)*, Mainland China, 2017-2026E



*Other duty-free shops include diplomat duty-free shops, vehicle duty-free shops and vessel supply duty-free shops.

**Offshore duty-free shop sales revenue does not include the duty-free merchandise which can be purchased by Hainan residents without leaving Hainan island, or offshore travellers make online orders after departing from Hainan (i.e. 离岛补购) .

***Port duty-free shops include online pre-order followed by offline pickup when departing from mainland China.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Market Size of China's Duty Free Operation Market (2/4)

Highlights

- Customers of China's Duty-free merchandises operation market are mainly inbound and outbound travellers, as well as passengers of Hainan island. The number of passengers departing from or arriving in China grew from 598 million units in 2017 to 670 million units in 2019. In 2020, The number of passengers departing from or arriving in China declined by more than 80% compared with 2019, due to the lockdown measures taken to control the spread of COVID-19. In 2021, such gloomy international travel continued due to the tight control and the number of passengers departing from or arriving in China remained at similar level of 2020.
- In the first half of 2022, due to the emergence and spread of COVID-19 variants in some regions of China, the resumption of cross-border travel in mainland China slowed down, which further affects travel retail industry and duty-free merchandise sales. Moving onwards, considering 1) the spread is noted to be under effective control in the first half of 2022, 2) the government's devotion to speeding up the resumption of production and business activities and taking measures to stimulate economy recovery and consumption, 3) the effective treatment to deal with COVID-19 variants contributed by experiences accumulated from dealing with COVID-19 and 4) preventive and in-time responsive measures taken to stop the spread of pandemic, the outbreak is expected to be gradually under control, leading to the gradual recovery of international travel. The passenger volume is estimated to reach 798.0 million units in 2026, with a CAGR of more than 20% from 2023 to 2026.
- China's duty-free market, which is closed associated with tourism industry development, is affected by COVID-19 and its variants in 2020 and 2021. In order to control and stop the spread of the pandemic, Chinese government implemented lockdown measures and suspended cross-border travel by stopping travel agencies and online travel companies' cross-border travel businesses (See Notice on Strengthening the Prevention Measures on Pandemic during Autumn and Winter 《文化和旅游部办公厅关于进一步加强秋冬季疫情防控工作的通知》), and suspending international flights which carried passengers infected (航班熔断). As a result, domestic and international travel industry are hit hard, The number of passengers departing from or arriving in China declined by more than 80% in 2020 compared with 2019 and remained at low level in 2021, and China's duty-free market declined by CAGR of 2.1% during 2019 to 2021. The market size increased from RMB32.9 billion in 2020 to RMB 48.1 billion in 2021, thanks to the excellent performance in Hainan travel industry and Hainan duty-free market. In 2021, port duty-free shop, offshore duty-free shop, downtown duty-free shop, and other duty-free shops taking the market share of approximately 3.9%, 94.0%, 1.3% and 0.8% of market respectively.
- Considering the recent emergence of COVID-19 variants cases in some regions of China, assume that if the China's spread of pandemic can be gradually under control starting from the first half of 2023 with the gradual resumption China's cross-border travel, driven by the recovery of global and China travel industry as well as continuous consumption upgrade, the overall market is expected to grow at CAGR of 36.0% during 2023 to 2026, reaching RMB 332.9 billion in 2026 in China, with port duty-free shop growing at CAGR of 36.1% reaching RMB 59.3 billion, offshore duty-free shop growing at CAGR of 32.8% reaching RMB 243.0 billion, downtown duty-free shops growing at CAGR of 110.0% reaching RMB 26.9 billion and other duty-free shops growing at CAGR of 21.7% reaching RMB 3.5 billion.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Market Size of China's Duty Free Operation Market (3/4)

Highlights (Cont'd)

- **Offshore duty-free shops:** Notably, offshore duty-free shops benefits from the new policy launches during 2020 and 2021, i.e. Annual purchasing quota for each eligible customers is increased from RMB 30,000 to RMB 100,000 starting from Jul 2020 (See Notice of Policies on Duty-free Shopping for Travelers Leaving the Hainan Island 《关于海南离岛旅客免税购物政策的公告》), and Eligible customers are allowed to pick up purchased duty-free merchandises through delivery by post starting from Feb 2021 (See Announcement on Issuing the Supervisory Requirements for the Methods of Picking up Goods through Delivery by Post and after Return to Hainan Island for the Duty-free Shopping of Travelers Leaving Hainan Island 《关于发布海南离岛旅客免税购物邮寄送达和返岛提取提货方式监管要求的公告》) .
- Moreover, during the pandemic time period, in order to control COVID-19 spread, the government implemented lockdown measures and suspended cross-border travel by stopping travel agencies and online travel companies' cross-border travel businesses (See Notice on Strengthening the Prevention Measures on Pandemic during Autumn and Winter 《文化和旅游部办公厅关于进一步加强秋冬季疫情防控工作的通知》) and suspending international flights which carried passengers infected (航班熔断) . Domestic travel resumes earlier, leading to domestic travelers to go to Hainan for shopping and recreations. Offshore duty-free shops benefit from the COVID-19 situation. Moreover, more luxury and fashion brands and global travel retailers entered Hainan in 2021 by cooperating with domestic companies, which further beef up the supply side by utilizing their travel retail and duty-free business experiences relating to operation and procurement, to facilitate the offshore market with more comprehensive product categories, which will further stimulate consumptions on offshore duty-free merchandises. As a result, Hainan market increases significantly from RMB 13.5 billion in 2019 to RMB 45.2 billion in 2021.
- In first half of 2022, due to the emergence and spread of COVID-19 variants in some regions of China, the opening of cross-border ports and cross-border travel in mainland China is expected to resume slowly, and part of Chinese residents turn to domestic travel such as Hainan instead of travelling abroad, when the domestic travel resumes after pandemic spread being controlled in China.
- In future, under the governmental guidance and framework on developing Hainan island into a Free Trade Port (FTP) (See *Master Plan for the Construction of Hainan Free Trade Port* 《海南自由贸易港建设总体方案》) as well as developing Hainan duty-free industry including serving travellers and Hainan islanders (Emphasized in *Hainan 14th Five Year Plan of Establishing Global Tourism Consumption Center* (《海南省“十四五”建设国际旅游消费中心规划》), the market is expected to experience a positive expansion, with more comprehensive merchandise categories supplied, better facilities, improving supply chain, infrastructures and shopping experience provided and more shop presences. It is anticipated the market increases from RMB 45.2 billion in 2021 to RMB 243.2 billion in 2026.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Market Size of China's Duty Free Operation Market (4/4)

Highlights (Cont'd)

- **Downtown duty-free shops:** In Feb 2020, 23 government entities co-jointly issued Promoting Consumption Expansion and Quality Improvement and Accelerating the Creation of a Strong Domestic Market (《关于促进消费扩容提质加快形成强大国内市场的实施意见》), and the development of downtown duty-free shop is emphasized, encouraging domestic travellers' and foreign travellers' purchase of duty-free merchandises and cultivating domestic consumption market. Subsequently in Apr 2022, government further issued Opinions on Stimulating Consumption and Promoting Consumption Recovery (《关于进一步释放消费潜力促进消费持续恢复的意见》), which re-emphasizes to develop downtown duty-free shops.
- Assuming the policies regarding domestic travellers are allowed to make purchase on duty-free merchandises in downtown duty-free shops before departing from mainland China is to take effect in the first half of 2023, downtown duty-free shops are expected to experience a promising expansion in the forecast period, and are growing at CAGR of 110.0% during 2023 to 2026, reaching RMB 26.9 billion by 2026.
- **Port duty-free shops & Other duty-free shops:** In 2020, cross-border travellers who are eligible to make purchase on duty-free goods from port duty-free shops significantly decline, resulting in a deeper decrease of overall duty-free market as compared with travel retail market in mainland China. In 2021, port duty-free shops' performance remained gloomy as international travel didn't resume. Such situation is caused by the regional breakout of COVID-19 variants cases in global market and the lasting government's tight control on international travel. As a result, port duty-free shops decreased at CAGR of -76.7% during 2019 to 2021. Going onwards, with the expected resumption of cross-border travel and port duty-free shop businesses, port duty-free shops and other duty-free shops is expected to recover accordingly, under the assumption that if China's spread of pandemic can be gradually under control in the first half of 2023.
- Due to the sharp decrease of cross-border travel passengers and duty-free shop consumers, most of offline port duty-free shops are closed during 2020 and 2021, resulting in sales revenue through port duty-free shops during these two years declined significantly compared with 2019; However, as domestic travel resumes earlier in China, domestic travelers are going to Hainan for shopping and recreations. Offshore duty-free shops benefit from the COVID-19 situation. As a result, Hainan market increases at CAGR of 83.0% during 2019 to 2021.
- Other than the drivers of China's travel retail market in overall, the favorable government policies and consumers' changing consumption patterns will also drive the further development of China's duty-free market. Moreover, it is expected that domestic travel retailers will seize opportunities in the development of the Guangdong-Hong Kong-Macau Greater Bay Area and the Belt and Road Initiative to look for opportunities in the bay area as well as countries along the Belt and Road Initiative.

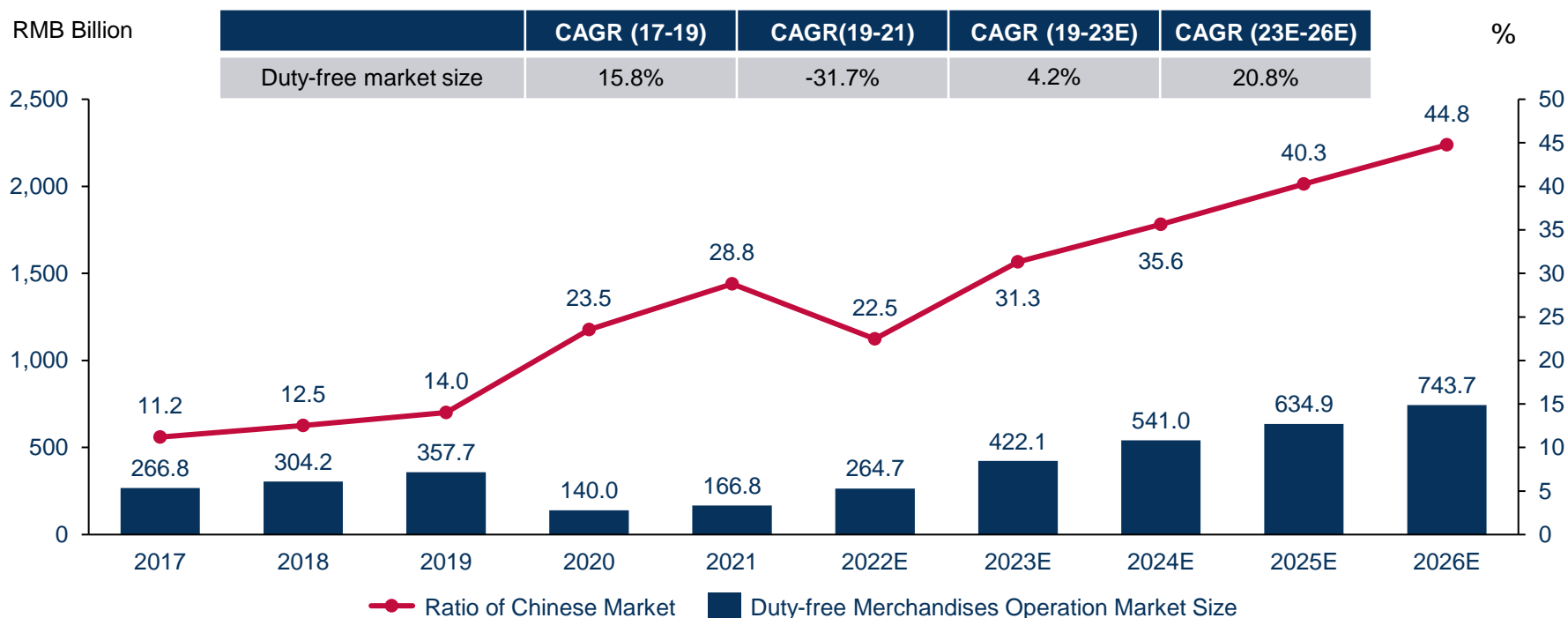
Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Market Size of Duty-free Operation Market

- From 2017 to 2019, the global market size of duty-free merchandises operation market increased from RMB 266.8 billion to RMB 357.7 billion with a CAGR of 15.8%. From 2019 to 2021, affected by the COVID-19, the market size decreased from RMB 357.7 billion to RMB 166.8 billion with a CAGR of -31.7%. From 2019 to 2023, the market size is expected to increase from RMB 357.7 billion to RMB 422.1 billion with a CAGR of 4.2%. Assuming that if the overall global international travel restriction outside of China will be relieved gradually starting from the end of 2022, the market size is expected to furtherly increase to RMB 743.7 billion in 2026 with a CAGR of 20.8% from 2023 to 2026.
- Chinese duty free market went through a rapid growth under the pandemic situation. The ratio of Chinese duty free market to the global duty free market increased from 11.2% in 2017 to 28.8% in 2021 and driven by the policies and construction of new duty free shopping complex, it is expected to furtherly increase to 44.8% in 2026.

Market Size of Duty-free Merchandises Operation Market (by sales revenue), Global, 2017-2026E

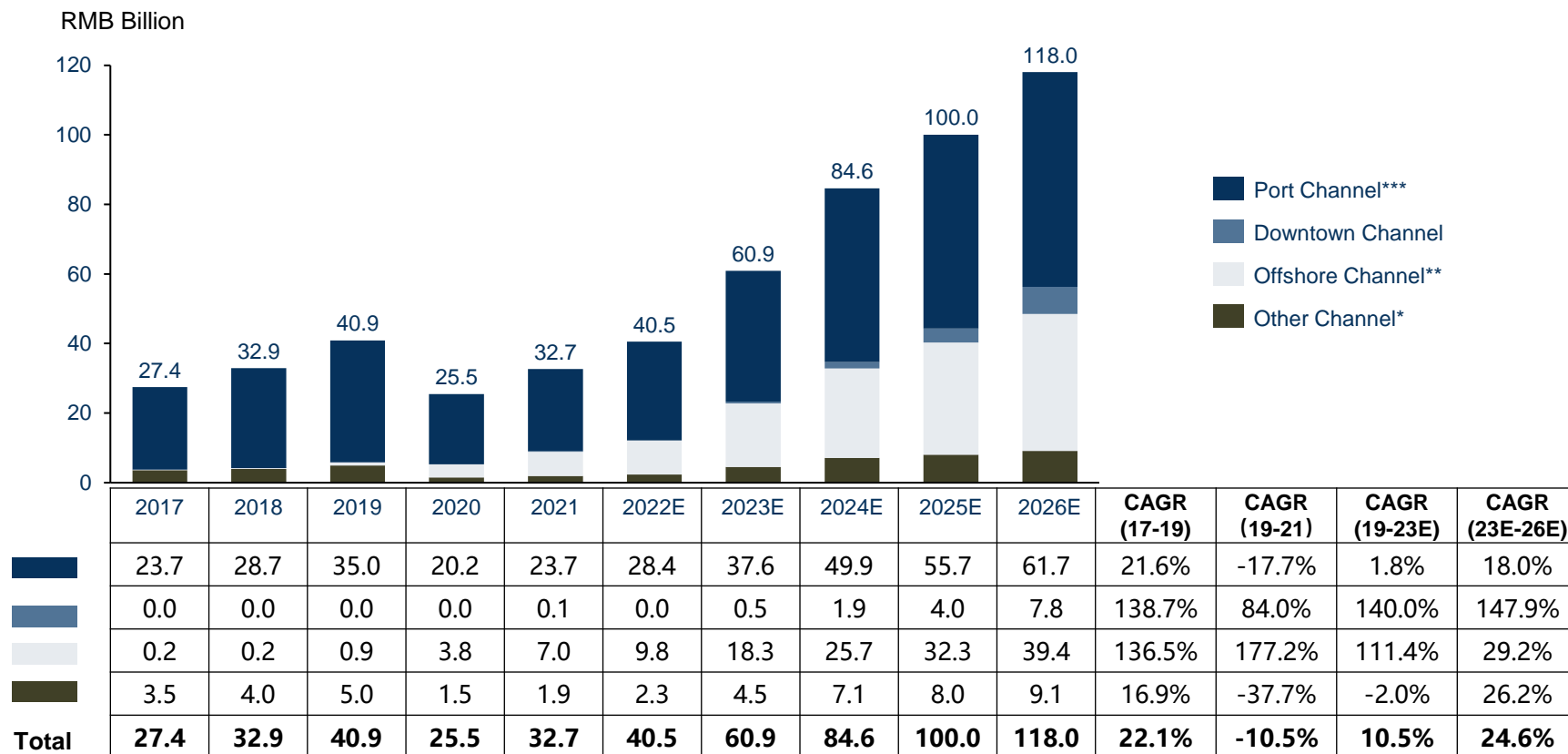


Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Market Size of Duty-paid Merchandises of China's Travel Retail Market (1/2)

Sales revenue of Duty-paid Merchandises of Travel Retail Market (by Channel)*, Mainland China, 2017-2026E



*Other channel mainly includes transportations and vehicles.

**Offshore channel sales revenue includes offshore travellers make online orders after departing from Hainan (i.e. 离岛补购) .

***Port channel sales revenue includes online duty-paid business conducted by Sunrise (e.g. 日上线上完税业务) .

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Market Size of Duty-paid Merchandises of China's Travel Retail Market (2/2)

Highlights

- Sales revenue of duty-paid merchandises of travel retail market witnessed a rapid growth during 2016 to 2019. In 2020, due to the breakout of COVID-19, travel industry in mainland China is significantly affected, and the decline in travellers further resulted in the drop of duty-paid merchandise sales revenue in 2020. In 2021, as China's domestic travel slowly recovered, duty-paid merchandise sales increased to RMB 32.7 billion, and CAGR during 2019 to 2021 is around -10.5%. In 2021, port channel takes the majority of total duty-paid merchandise sales revenue, with the market share of approximately 72%.
- In 2020 and 2021, offshore channel and downtown channel witnessed consecutive positive growths, which is mainly due to 1) the recovery and opening up of Hainan travel market considering domestic pandemic spread is controlled relatively well compared with rest of the world, 2) the launch of favorable offshore duty-free policies further attract more travellers to come to Hainan and shop for duty-free as well as duty-paid merchandises; 3) favorable downtown duty-free regulations (i.e. the temporary relax on requirement for customers who are eligible to shop in downtown duty-free shops) attract more customers to come to downtown duty-free shops and shop for duty-free as well as duty-paid merchandises and 4) increasing emergence of downtown duty-free shops provides customers with shopping convenience and better access.
- Duty-paid merchandise sales revenue through port channel and through other channel increased in 2021 compared with 2020 due to the resumption of domestic travel. As for offshore channel, benefiting from the increase of Hainan travelers number and favorable offshore purchasing policies (离岛补购政策), duty-paid merchandise sales exhibit a strong performance. Moving onwards, considering the effective treatment to deal with COVID-19 variants contributed by experiences accumulated from dealing with COVID-19, and preventive as well as in-time responsive measures taken to stop the spread of pandemic, the outbreak is expected to be gradually under control.
- In 2022, duty-paid merchandise sales revenue is expected to increase slowly, considering the regional breakout of pandemic in China in first half of the year and recovery of travelling industry is affected. Assuming if China's spread of pandemic can be gradually under control starting from the first half of 2023, and with resumption China's cross-border travel, driven by the gradual recovery of global and China travel industry as well as continuous consumption upgrade, the market is expected to grow at CAGR of around 24.6% during 2023 to 2026, reaching RMB 118.0 billion in 2026 in China, with port channel growing at CAGR of 18.0% reaching RMB 61.7 billion, offshore channel growing at CAGR of 29.2% reaching RMB 39.4 billion, downtown channel growing at CAGR of 147.9% reaching RMB 7.8 billion and other channel growing at CAGR of 26.2% reaching RMB 9.1 billion.
- Regarding downtown channel, Assuming the policies regarding domestic travellers are allowed to make purchase on duty-free merchandises in downtown duty-free shops before departing from mainland China is to take effect in the first half of 2023, which will attract more eligible customers to shop duty-free and duty-paid travel retail merchandises through downtown channel. Besides, the expected opening of new downtown travel retail complex and development of online sales channel will also benefit the market growth. downtown duty-paid merchandise sales revenue is expected to experience a promising expansion in the forecast period, and are growing at CAGR of 147.9% reaching RMB 7.8 billion by 2026.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Market Drivers of Chinese Travel Retail Market (1/2)

Drivers of Chinese Travel Retail Market

	Main Drivers	Influence (1-2 years)	Influence (3-5 years)
1	Increasing in Purchasing Power of Citizens	Medium	High
2	Number of International Tourists	Medium	High
3	Favorable Government Policies	High	High
4	Offshore Duty-free Stores	High	High
5	Consumption Reshoring	Medium	High
6	Price Advantage of Duty Free Merchandises	High	High
7	Roles of Young Customers	Medium	High



Drivers	Description
Increasing in Purchasing Power of Citizens	➤ As the continuous development of economy and consumption upgrade, the per capita disposable income went through a robust growth in the recent years which represents a stronger purchasing power. People incline to travel internationally more frequently and spend more money on the duty free and travel retail goods, which will promote the development of travel retail industry from the demand side.
Number of International Tourists	➤ The number of international tourists including both departures and arrivals decreased in 2020 due to the COVID-19 situation. In 2021, the international tourists underwent a reduction which mainly originates from the decrease of Hong Kong, Macao and Taiwan citizens. But as the recovery of the pandemic, the tourism will be brought back to life after the reopening of ports. The number of international tourists will grow steadily and stimulate the development of travel retail market as travel retail stores mostly are located at ports like airports, seaports and airline, cruise, downtown travel retail store where require the proof of travel.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Market Drivers of Chinese Travel Retail Market (2/2)

Drivers	Description
Favorable Government Policies	<ul style="list-style-type: none"> ➤ Vigorous support from government has become one of the strongest triggers for the development of Chinese travel retail market. For instance, Chinese government has announced The 14th Five-year Plan for National Economic and Social Development and The Outline of The Long-term Goals for 2035 (《国民经济和社会发展第十四个五年规划和2035年远景目标纲要》) in 13th March 2021, which emphasized the improvement and completion of downtown duty free shop policy, plan of building downtown duty free shops with Chinese characteristics. In Feb 2020, 23 government entities co-jointly issued Promoting Consumption Expansion and Quality Improvement and Accelerating the Creation of a Strong Domestic Market (《关于促进消费扩容提质加快形成强大国内市场的实施意见》), emphasizing the development of downtown duty-free shop and encouraging domestic travellers' and foreign travellers' purchase of duty-free merchandises and cultivating domestic consumption market. Favorable government policies will lead to the further prosperity of travel retail industry in China.
Offshore Duty-free Stores	<ul style="list-style-type: none"> ➤ For Hainan duty free industry, government has announced a series of policies to motivate the development of duty free industry like loosening the requirement for duty free shopping on customers' age, the shopping quota, the frequency of duty free shopping per year. And there are also more different categories of duty free goods and new ways of duty free shopping like the online channel. ➤ As the prosperity of island duty-free channels, more entities have applied offshore duty-free operation permits. New market entrants are expected to drive the development of offshore duty-free market and Chinese travel retail market. ➤ Hainan Tourism Downtown Duty Free Shopping Complex was opened in Dec 2020 and Haikong Global Boutique Duty Free City has been opened in Jan 2021, which accelerated the development of duty free and travel retail market of Hainan and China. In addition, Haikou International Duty Free City will be constructed and opened in the near future, and most travel retail stores have expansion plans, which are expected to trigger the further development of duty free and travel retail market.
Consumption Reshoring	<ul style="list-style-type: none"> ➤ Chinese duty free and travel retail market size is much smaller compared to all the travel retail goods consumed by Chinese customer worldwide. Benefit from the pandemic situation and the trough of global tourism, the travel retail market of China has developed rapidly during the period owing to the vigorous support from Chinese government. As citizens were not able to travel globally, travel retail industry become a favorable carrier to achieve the consumption reshoring.
Price Advantage of Duty Free Merchandises	<ul style="list-style-type: none"> ➤ Duty free merchandises are exempt from the payment of import, sales, value-added or other taxes, so it has a strong advantage in price compared to the duty paid goods. Also, the model of direct procurement from brand owners without extra margin contributes to the low price. From the perspective of customers, the duty free goods with low price and good quality has incomparable attraction for customers.
Roles of Young Customers	<ul style="list-style-type: none"> ➤ The travel retail market will likely to benefit from China's large base of Generation Y (people who are born from 1980 to 1995) and Generation Z customers (people who are born from 1995 to 2010). In 2021, 703.4 million people in China are below 40 years of age. In 2026, the number will remain around 700 million. Generation Y is a core consumption group of the travel retail market and has both strong purchase power and the willingness to purchase. Furthermore, as generation Z, born during the rapid development period of the Chinese economy and the rise of e-commerce, starts their careers, the change in their consumption habits and consumption philosophy, combined with high purchasing power, will bring the Chinese travel retail market (and especially its duty-free market) further potential for growth.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Development Trends of Chinese Travel Retail Market

1

Newly Opening and Expansion Plans of Travel Retail Stores

- Hainan Tourism Downtown Duty Free Shopping Complex was opened in Dec 2020 and Haikong Global Boutique Duty Free City was opened in Jan 2021, which accelerated the development of duty free and travel retail market of Hainan and China. In addition, Haikou International Duty Free City will be constructed and opened in the near future. Furthermore, most travel retailers have made their expansion plans for travel retail stores, which will open a new chapter for the Chinese travel retail industry.

2

Downtown Travel Retail Stores

- In the past, the development of downtown duty free stores in China is limited by policies. Citizens who was going abroad were not allowed to consume in downtown duty free stores. To stimulate the downtown duty free stores' development, government has announced a series of policies. For instance, The 14th Five-year Plan for National Economic and Social Development and The Outline of The Long-term Goals for 2035 (《国民经济和社会发展第十四个五年规划和2035年远景目标纲要》) announced in 13th March 2021 has emphasized the improvement and completion of downtown duty free shop policy, plan of building downtown duty free shops with Chinese characteristics. With reference to Korean duty free market, the development of downtown duty free stores will bring Chinese duty free and travel retail market to a new era.

3

New Retail

- New Retail refers that enterprises rely on the Internet, big data, artificial intelligence and other advanced technology to upgrade the production, circulation, sales process and integrate the online and offline channel. Under the pandemic situation, Chinese travel retailer has developed the online channel for duty free and travel retail market which largely reduced the magnitude of the decline of Chinese travel retail market compared to other foreign countries. The online channel also gives another option for customers to buy travel retail goods, which is in accordance with Chinese customers' shopping behavior as online shopping is well-developed in China and will also be a future trend for travel retail market.

4

Higher Market Share of Chinese Travel Retail Market

- Attacked by the outbreak of COVID-19, the global travel retail market decreased sharply in 2020. Driven by the vigorous support from Chinese government and favorable policies announced, Chinese travel retail market shew a strong resistance to the pandemic situation and the market share of Chinese travel retail market increased largely from 14.0% in 2019 to 23.5% in 2020 among global market. In 2021, the market share reached 29.4%. As the rapid development of Chinese travel retail market and continuous support from government, the market share of Chinese travel retail market is expected to further increase in the future.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market Policies and Regulations in China (1/9)

Key Policies and Regulation of China's Travel Retail Merchandises Market, PRC

Issuing Time	Issuing Authorities	Industry Guideline	Key Contents
2022.04	General Office of the State Council of the People's Republic of China	Opinions on further unleashing consumption potential to promote sustained recovery of consumption 《关于进一步释放消费潜力促进消费持续恢复的意见》	<ul style="list-style-type: none"> To cope with the impact of the epidemic and promote the orderly recovery of consumption. Improve the support system and enhance overall capacity for consumption development. Promote the healthy and sustainable development of consumption platforms.
2021.12	Hainan Provincial Development and Reform Commission	Implementation plan of Hainan Province on Building High Standard Market System 《海南省关于建设高标准市场体系实施方案》	<ul style="list-style-type: none"> By 2025, a high-standard market system featuring unified, open, orderly competition, complete institutions and sound governance will be basically established which will lay a solid foundation for Hainan to accelerate the improvement of its socialist market economic system. Promote high-quality economic development and build a free trade port with Chinese characteristics.
2021.11	Hainan Provincial Department of Commerce	Hainan Commerce Development Plan for the "14th Five-year Plan" 《海南省商务发展“十四五”的规划》	<ul style="list-style-type: none"> It has identified key tasks and major projects such as attracting overseas consumption, accelerating the development of an international consumer center city, building a specialized market for imported products, creating a digital ecosystem, attracting investment in key industries and building ports and adjusting their functions.
2021.10	Hainan Provincial Committee of the People's Republic of China	Implementation Plan of Building a Law-based Society in Hainan Province (2021-2025) 《海南省法治社会建设实施方案（2021—2025年）》	<ul style="list-style-type: none"> Strengthen the prevention and control of duty-free commodities on outlying islands and duty-free commodities for residents on the island. Severely crack down on suspected smuggling.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market Policies and Regulations in China (2/9)

Key Policies and Regulation of China's Travel Retail Merchandises Market, PRC

Issuing Time	Issuing Authorities	Industry Guideline	Key Contents
2021.09	Shanxi Provincial Department of Commerce & Shanxi Provincial Development and Reform Commission	Shanxi Province Business Development "14 - Five - Year plan" 《陕西省商务发展“十四五”规划》	<ul style="list-style-type: none"> It is proposed to speed up the opening of duty-free shops in Xi'an by implementing high standard of the development experience of duty-free shops in South Korea, Japan and other countries and setting up diversified commodity display counters such as international brand goods and Shaanxi characteristic goods. Promote the integration of shopping processes such as local purchase and airport pick-up. Increase the density of departure tax refund stores, optimize the departure tax refund process and services.
2021.09	The General Office of The Shanghai Municipal Government	Implementation Plan for Shanghai To Build Itself into an International Consumer Center City 《上海市建设国际消费中心城市实施方案》	<ul style="list-style-type: none"> Vigorously develop a tax-exempt economy. Support local enterprises to apply for duty-free business qualifications and encourage duty-free shops to set up special sales areas for domestic products. Expand the scope of tax rebates for outbound tourists who purchase goods when they leave China and improve the tax refund process. In airports, ports and other ports of entry, the promotion of duty-free shops and tax refund shops in key business areas, foreign hotels and hotels should be strengthened.
2021.07	General Office of Shenzhen Municipal Government	Action Plan on Promoting Consumption Capacity Expansion and Improving Quality and Creating New Consumption Demand (2021-2023) 《关于促进消费扩容提质创造消费新需求的行动方案(2021—2023年)》	<ul style="list-style-type: none"> It proposes to promote the establishment of duty-free shops in the city, actively strive for the relaxation of duty-free policies such as the target of service and the promotion of duty-free shopping quota and encourage time-honored products to enter duty-free shops. Improve the departure tax rebate service for overseas tourists, promote the implementation of the "buy or refund" policy and support the construction of a global duty-free distribution center in Qianhai.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market Policies and Regulations in China (3/9)

Key Policies and Regulation of China's Travel Retail Merchandises Market, PRC

Issuing Time	Issuing Authorities	Industry Guideline	Key Contents
2021.05	Shenzhen Municipal Bureau of Commerce	Shenzhen Measures to Accelerate the High-Quality Development of Trade and Commerce and Build an International Consumer Centre (Draft for Comments) 《深圳市关于加快商贸高质量发展建设国际消费中心城市的若干措施(征求意见稿)》	<ul style="list-style-type: none"> • Seek national policy support for planning and construction of a duty-free city in the Greater Bay Area of Guangdong, Hong Kong and Macao to create a platform for the exhibition and sale of international high-end goods and national products that serve the Bay Area and radiate globally. • Explore a "Shenzhen model" of duty-free shops with Chinese characteristics. Support the construction of duty-free cities at Huanggang Port and Sha Tau Kok. • Encourage enterprises to expand the variety and scale of duty-free operations. Deepen the tax refund service for overseas visitors and promote the "electronic tax refund" and "buy-now-refund" policies to speed up the implementation.
2021.04	Guangzhou Municipal Government	Construction Plan for the Northern Ecological and Cultural Tourism Co-operation Zone in the Greater Bay Area of Guangdong, Hong Kong and Macao 《粤港澳大湾区北部生态文化旅游合作区建设方案》	<ul style="list-style-type: none"> • Strive to open duty-free shops in the designated area of the Huadu Air-Trail Cultural, Business and Tourism Integration and Innovation Development Demonstration Zone. • Explore the construction of an air-rail bonded exhibition experience and duty-free shopping complex at Guangzhou North Railway Station.
2021.03	Shenzhen Luohu District Government	The 14th Five-Year Plan for the Development of Industries in Luohu District (Draft for Comments) 《罗湖区产业发展“十四五”规划(征求意见稿)》	<ul style="list-style-type: none"> • Strive for the implementation of the city's duty-free policy • Support leading enterprises with conditions to apply for duty-free business qualifications • Build "two shops, three taxation platforms and five platforms" to a high standard

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market Policies and Regulations in China (4/9)

Key Policies and Regulation of China's Travel Retail Merchandises Market, PRC

Issuing Time	Issuing Authorities	Industry Guideline	Key Contents
2020.11	Ministry of Culture and Tourism, National Development and Reform Commission	Guideline on Facilitating "Internet + Tourism" 《关于深化“互联网+旅游”推动旅游业高质量发展的意见》	<ul style="list-style-type: none"> To accelerate the construction of intelligent tourism scenic spots, develop and issue guidelines and related requirements for the construction of intelligent tourism scenic spots; further standardize the construction of tourism data centers in various regions, establish a unified provincial data standard and gradually extend it to the whole country, achieve the integration and sharing of travel-related data, and play a comprehensive data service and application effectiveness; guide the development of new industries such as cloud tourism, cloud performing arts, etc., and foster the new mode of "network experience + consumption".
2019.8	State Council	Guideline on Further Stimulating the Potential of Cultural and Tourism Consumption 《关于进一步激发文化和旅游消费潜力的意见》	<ul style="list-style-type: none"> Proposed 9 initiatives to further stimulate the potential of cultural and tourism consumption, including introducing consumer-friendly measures, improving the convenience of consumption, enhancing the inbound tourism environment, focusing on enriching product supply, and developing the holiday and night-time economy.
2018.3	State Council	Guideline on the Promoting of the Development of All-area Tourism 《关于促进全域旅游发展的指导意见》	<ul style="list-style-type: none"> Enrich the supply types of cultural products and services, cultivate the tourism market brand through the industrialization of tourism and market-oriented means. To promote quality tourism development in the whole area through creating an excellent human environment and tourism consumption atmosphere.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market Policies and Regulations in China (5/9)

Key Policies and Regulation of China's Travel Retail Merchandises Market, PRC

Issuing Time	Issuing Authorities	Industry Guideline	Key Contents
2020.06	State Council	General Planning for Hainan Trade-free Port Construction 《海南自由贸易港建设总体方案》 Notice on the Duty-free Shopping Policy for Tourists from Hainan 《关于海南离岛旅客免税购物政策的公告》	<ul style="list-style-type: none"> Raise the annual duty-free purchase quota from RMB 30,000 accumulatively to 100,000 per person. No limitation on purchase frequency; No limitation on units purchased each time for most of duty-free merchandise categories except for certain products (such as max. 4 units of cell phones are allowed for each time per person); The number of duty-free good categories increased from 38 to 45. To encourage domestic consumption in Hainan and to facilitate duty-free business development in the PRC.
2020.05	Meeting of the Standing Committee of the Political Bureau of the CPC Central Committee 《中共中央政治局常务委员会会议》		<ul style="list-style-type: none"> Initiation of a new development pattern with the theme of "speeding up the formation of domestic circulation" and mutual promotion of domestic and international circulation.
2020.03	The Ministry of Commerce, etc	Notice on Supporting Commercial Circulation Enterprises to Resume Operation 《关于支持商贸流通企业复工营业的通知》	<ul style="list-style-type: none"> To promote the return of overseas consumption, cooperate with the Ministry of Finance to improve duty-free shops' policies, add new duty-free products and manage qualified enterprises, to further stimulate the vitality of domestic consumption.
2020.02	National Development and Reform Commission, etc	Promoting Consumption Expansion and Quality Improvement and Accelerating the Creation of a Strong Domestic Market 《关于促进消费扩容提质加快形成强大国内市场的实施意见》	<ul style="list-style-type: none"> To encourage the establishment of downtown duty-free shops and making related policies.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market Policies and Regulations in China (6/9)

Key Policies and Regulation of China's Travel Retail Merchandises Market, PRC

Issuing Time	Issuing Authorities	Industry Guideline	Key Contents
2020.3	Zhuhai Municipal Bureau of Commerce	Measures of Zhuhai City on Further Optimizing Supply and Promoting Consumption Growth 《珠海市关于进一步优化供给促进消费增长的若干措施》	<ul style="list-style-type: none"> To speed up the development of duty-free shopping and enhance the attractiveness of foreign consumption. To encourage the development of duty-free shops at airports, sea and land ports, and explore the development of duty-free shops in the city. To strengthen the publicity and promotion of the tax refund policy for overseas tourists, expand the number and scale of tax refund shops. 10000 yuan reward for each shop that has departure tax rebate shops.
2020.05	Hubei Provincial Government	Measures to Boost Consumption and Promote Stable Economic Growth 《提振消费促进经济稳定增长若干措施》	<ul style="list-style-type: none"> To improve the consumption system and advocate new consumption patterns. To speed up the implementation of duty-free shops in major cities and airports in the province.
2019.05	Ministry of Finance, Department of Commerce, etc	Notice on Issuing the Interim Measures for the Administration of Port Exit Duty-free Shops 《关于印发《口岸出境免税店管理暂行办法》的通知》	<ul style="list-style-type: none"> To regulate the set-up and business operation process of port exit duty-free stores. To regulate the bidding process of port exit duty-free stores among qualified duty-free business operators.
2018.12	Ministry of Finance, China Customs, State Taxation Administration	Announcement on Including Travelers Leaving Hainan Island by Ship in the Scope of Eligible Persons Governed by the Duty-free Shopping Policy for Travelers Leaving Hainan Island 《关于将乘轮船离岛旅客纳入海南离岛旅客免税购物政策适用对象范围的公告》	<ul style="list-style-type: none"> To include travelers leaving Hainan island by ship in the scope of eligible persons governed by the duty-free shopping policy for travelers leaving Hainan island.
2018.11	Ministry of Finance, China Customs, State Taxation Administration	Announcement on Further Adjusting the Duty-free Shopping Policy for Travelers Leaving Hainan Island 《关于进一步调整海南离岛旅客免税购物政策的公告》	<ul style="list-style-type: none"> To further adjust duty-free shopping policy for travelers leaving Hainan Island.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market Policies and Regulations in China (7/9)

Key Policies and Regulation of China's Travel Retail Merchandises Market, PRC

Issuing Time	Issuing Authorities	Industry Guideline	Key Contents
2018.06	China Customs	Announcement on Issuing the Format Texts of the Legal Documents Involved in the Measures of the Customs of the PRC for Supervision and Administration of Duty-Free Shops and Goods 《关于公布《中华人民共和国海关对免税商店及免税品监管办法》所涉及法律文书格式文本的公告》	<ul style="list-style-type: none"> To revise and update the format of legal documents involved in the measures of the customs of the PRC for supervision and administration of duty-free shops and goods.
2017.01	Ministry of Finance	Announcement on Including Travelers Leaving Hainan Island by Train in the Scope of Eligible Persons Governed by the Duty-free Shopping Policy for Travelers Leaving Hainan Island 《关于将铁路离岛旅客纳入海南离岛旅客免税购物政策适用对象范围的公告》	<ul style="list-style-type: none"> To include travelers leaving Hainan island by train in the scope of eligible persons governed by the duty-free shopping policy for travelers leaving Hainan island.
2016.02	Ministry of Finance, Department of Commerce, etc	Notice on Issuing the Interim Measures for the Administration of Port Entry Duty-free Shops 《关于印发《口岸进境免税店管理暂行办法》的通知》	<ul style="list-style-type: none"> To resume and increase the establishment of port entry duty-free stores. To regulate the set-up and business operation process of port entry duty-free stores. To regulate the bidding process of port entry duty-free stores among qualified duty-free business operators.
2016.01	Ministry of Finance	Announcement on Further Adjusting the Duty-free Shopping Policy for Travelers Leaving Hainan Island 《关于进一步调整海南离岛旅客免税购物政策的公告》	<ul style="list-style-type: none"> To further adjust duty-free shopping policy for travelers leaving Hainan Island.
2015.12	The State Council	Reply on the Polices on and the Increase Plan for Port Entry Duty-Free Stores 《国务院关于口岸进境免税店政策和增设方案的批复》	<ul style="list-style-type: none"> To approve the establishment of 19 port entry duty-free stores in places including Guangzhou Baiyun Airport and Chengdu Shuangliu Airport.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market Policies and Regulations in China (8/9)

Key Policies and Regulation of China's Travel Retail Merchandises Market, PRC

Issuing Time	Issuing Authorities	Industry Guideline	Key Contents
2015.02	Ministry of Finance	Announcement on Further Adjusting the Duty-free Shopping Policy for Travelers Leaving Hainan Island 《财政部关于进一步调整海南离岛旅客免税购物政策的公告》	<ul style="list-style-type: none"> To further adjust duty-free shopping policy for travelers leaving Hainan Island.
2012.10	Ministry of Finance	Announcement on Adjusting the Duty-free Shopping Policy for Travelers Leaving Hainan Island 《财政部关于调整海南离岛旅客免税购物政策的公告》	<ul style="list-style-type: none"> To adjust duty-free shopping policy for travelers leaving Hainan Island, including expanding eligible customer group and extending shopping requirement.
2011.03	Ministry of Finance	Announcement on the Pilot Implementation of the Policies on Duty-free Shopping for Travelers Leaving the Hainan Island 《财政部关于开展海南离岛旅客免税购物政策试点的公告》	<ul style="list-style-type: none"> To define eligible customers who can enjoy the duty-free shopping policy in Hainan island and conditions of duty-free shopping.
2005.11	China Customs	Measures of General Administration of Customs of PRC for Supervising and Controlling Duty-Free Shops and Goods 《中华人民共和国海关对免税商店及免税品监管办法》	<ul style="list-style-type: none"> To define and categorize duty-free shops and customers eligible to purchase duty-free merchandise from duty-free shops. To define entities that are legitimate to conduct duty-free merchandise business in PRC. To regulate the procedures of duty-free merchandise operation including packaging, declaration, logistics and storage, and procedures to set up or suspend duty-free shops.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market Policies and Regulations in China (9/9)

Key Policies and Regulation of China's Travel Retail Merchandises Market, PRC

Issuing Time	Issuing Authorities	Industry Guideline	Key Contents
2004.11	Ministry of Finance	Notice on Issuing the Measures for the Payment of Duty-free Merchandise Franchises 《财政部关于印发《免税商品特许经营费缴纳办法》的通知》	<ul style="list-style-type: none"> To regulate the payment of duty-free merchandise franchise fee, i.e. 1% of sales revenue of duty-free merchandise business.
1992.07	The State Council	Reply on Further Strengthening Centralized Management of Duty-free Business 《国务院办公厅关于进一步加强免税业务集中统一管理的复函》	<ul style="list-style-type: none"> To emphasize four centralized management of duty-free business regarding operation, procurement, pricing and regulation.
1988.02	The State Council	Reply on application on Setting Duty-free Shops in Zhuhai Special Economic Zone 《国务院办公厅关于珠海经济特区试办国营外币免税商场的复函》	<ul style="list-style-type: none"> To approve application on setting duty-free shops in Zhuhai Economic Zone by state-own entity.
1987.06	The State Council	Reply on Shenzhen Government's application on Setting Duty-free Shops in Shenzhen Special Economic Zone 《国务院办公厅关于深圳市人民政府在深圳经济特区内试办国营外币免税商场的复函》	<ul style="list-style-type: none"> To approve application on setting duty-free shops in Shenzhen Economic Zone by state-own entity.

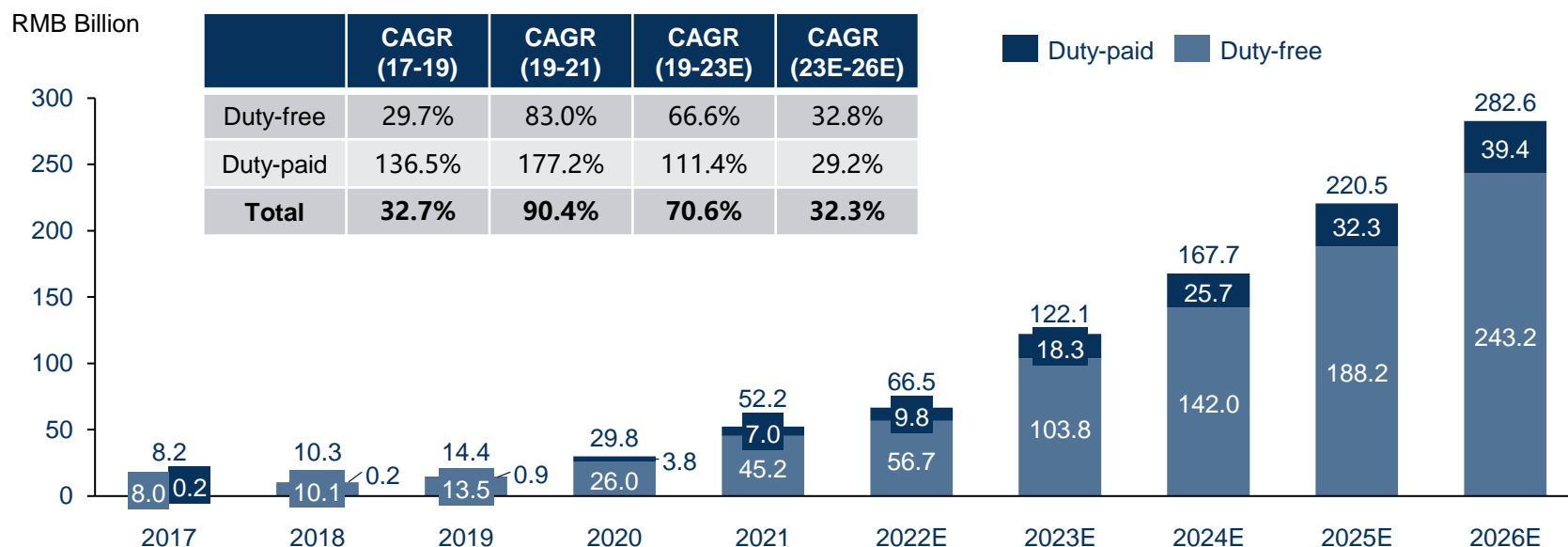
Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Market Size of Hainan Travel Retail Market (1/4)

- Travel retail market of Hainan island exhibited a rapid growth during 2017 to 2021, from RMB 8.2 billion to RMB 52.2 billion, owing to the fast development of Hainan tourism industry, growing tourist number to Hainan in 2021 compared with 2020, and favorable regulatory environment on travel retail industry including duty-free market.
- In future, considering the government efforts on developing Hainan into a Free-Trade Port (FTP) and continuously improving Hainan transportation networks and travel retail infrastructure and facilities, Hainan travel retail market is to expand promisingly, and duty-paid merchandise sales in Hainan is also taking an important role in mainland China duty-paid merchandise sales market. More specifically, in June 2021, the State Council promulgated 14th Five-Year Plan for Hainan which further outlines and promulgates the expansion of Hainan as a major transportation hub in order to increase passenger traffic and support the growth of the offshore market in the coming years.

Market Size of Travel Retail* (by sales revenue), Hainan Island, 2017-2026E



*Hainan duty-free market size does not include the duty-free merchandise which can be purchased by Hainan residents without leaving Hainan island; Hainan duty-paid market size includes offshore travellers make online orders after departing from Hainan (i.e. 离岛补购) Source: Haikou Customs, Ministry of Commerce, Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Market Size of Hainan Travel Retail Market (2/4)

Highlights

- For China's offshore duty-free merchandises operation market, as the development of tourism industry of Hainan and people's incoming level, it witnessed a positive growth from RMB 8.0 billion in 2017 to RMB 13.5 billion in 2019 with a CAGR of 29.7%. Thanks to the PRC government's successful effort to contain the COVID-19 pandemic and the favorable government policies benefiting the offshore duty-free market, In 2021, the offshore duty free merchandises operation market of China has reached RMB 45.2 billion which represents a CAGR of 83.0% during 2019 to 2021.
- In 2022, due to the regional breakout of COVID-19 variants cases in China and government's regional lockdown measures, resumption of domestic and international travel is affected. Furthermore, considering the spread is noted to be under effective control to a large extent in the first half of 2022, and the government's devotion to speeding up the resumption of production and business activities and taking measures to stimulate economy recovery and consumption, offshore duty-free merchandise sales is expected to maintain a positive growth however slower than 2021.
- In the foreseeable future, due to favorable policies and economy development, the PRC offshore duty-free market in Hainan will continue to grow rapidly from 2023 to 2026 at a CAGR of more than 30%. The rapid development of Hainan's transportation infrastructure to support transforming Hainan into a free trade port, as well as the increasing attractiveness of Hainan as a recreational and shopping destination to tourists, is expected to lead to robust growth in Hainan's travel retail market in the coming years.
- The COVID-19 variants in 2022 are expected to slow down China's plan to resume cross-border travel, which will in turn affect passenger traffic through port duty-free stores. The slow recovery of international travel will also be a factor that further spurs the growth of the offshore market as more tourists will seek to travel to Hainan as an alternative to going overseas after domestic pandemic spread is under control. The increased tourism will lead to growth in the offshore market.
- Furthermore, more brands and other service providers are seeking to take advantage of the growth of the offshore market by choosing to cooperate and partner with the offshore local businesses to streamline their business operations and product and service offerings to consumers shopping in the offshore market. The increased and varied product portfolios resulting from these joint ventures and partnerships have also contributed to and will continue to drive the growth of the offshore market.
- the average purchase per person in Hainan also increased significantly from approximately RMB3,500 in 2019 to approximately RMB5,800 in 2020 and further to approximately RMB 6,700 in 2021.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Market Size of Hainan Travel Retail Market (3/4)

Highlights

- The performance of the duty-free industry in China is subject to the general economic conditions in China, the rate of urbanization, the growth of per capita disposable income, and the demand for duty-free products in China. Any economic downturn in China could adversely affect duty-free industry business performance. The disposable income of PRC residents and the growth of the PRC economy will impact domestic duty-free market. Generally, an increase in disposable income of PRC consumers would lead to greater purchasing power in the market, affecting the sales volume and sales revenue of duty-free industry.
- In 2019, PRC residents spent exceeded RMB700 billion buying duty-free and duty-paid products overseas, which represented approximately 14 times the sales revenue of the PRC duty-free market during that same period.
- As international travel is under strict control during 2020 and 2021, Chinese tourists who traditionally visit duty-free stores overseas and port duty-free stores in PRC turn to offshore duty-free stores in Hainan as an alternative.
- China's cruise ship market is still in the early stage of its development and there is significant room for its future growth once the COVID-19 pandemic is brought under control.
- CDFG's net profit margins were higher than those of other leading global travel retail operators during the 2019 to 2021 respectively. During 2019 to 2021, CDFG's revenue from continuing operations grew at a CAGR of 18.7% and our net profit for the year grew at a CAGR of 50.8%, both of which, according to Frost & Sullivan, were significantly higher than growth rates of other leading operators in the global travel retail industry.
- The Company offer the most comprehensive selection of brands among PRC duty-free operators.
- The Company's duty-free stores also provide the most comprehensive coverage in border crossings across China.
- According to the public available information, Sanya travel retail complex with sales revenue of more than RMB 34 billion in 2021, ranked in the first place among shopping malls in mainland China.
- According to the public available information, The Company is the earliest to launch the online duty-free platform in China (i.e. Sunrise, before acquired by the Company, launched the online platform in 2014).
- During 2020 National Day holiday, Labor Day and Dragon Boat Day, the no. of customers hosted by Sanya Travel retail complex exceeds the no. of tourists hosted by major tourism spots in Sanya during the same period.
- The Sanya International Duty-Free Complex is the largest standalone duty-free store in the world in terms of sales area as of 2020.
- CDFG's retail network consisted 184 stores in China, which exceeded the total number of all the other domestic duty-free operators' stores combined in 2021.
- From 2019 to 2021, the airports where CDFG operated stores alone served more than 2.2 billion travelers.
- In 2021, CDFG is far ahead of other domestic duty-free operators in terms of brand resources, and rank among the top tier in the world, and has established the only nationwide duty-free logistics and distribution system in China.
- CDFG's inventory turnover in 2021 was in the leading position among top global travel retailers.
- According to Frost & Sullivan, the travel retail industry has a number of elements that are highly attractive to suppliers: not only is it a fast-growing channel, it also has a captive and affluent audience and allows them to personally engage with customers in an international setting. Suppliers benefit from the unparalleled access to domestic and international travelers to showcase their brands across the globe, reaching captive audiences in exclusive environments.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Market Size of Hainan Travel Retail Market (4/4)

Highlights

- Despite being in the midst of the COVID-19 pandemic, more than 510 million people traveled domestically during China's National Day Golden Week in 2021, of which approximately 3.7 million people traveled to Hainan. In comparison, during China's National Day Golden Week in 2019 prior to the COVID-19 pandemic, around 782.0 million people traveled domestically, of which approximately 4.0 million people traveled to Hainan. Hainan remained a popular destination among tourists and the offshore travel retail sales channel saw a significant increase in sales during the National Day Golden Week in 2021. The offshore duty-free sales amount to approximately RMB1.5 billion during the National Day Golden Week in 2021, representing a 66.9% increase compared to the same period in 2020; the duty-free merchandise purchased amounted to approximately 2.0 million items, representing a 136.0% increase compared to the same period in 2020; and the number of tourists purchasing duty-free merchandise was approximately 180.0 thousand, representing a 61.6% increase compared to the same period in 2020. The offshore duty-free sales have surpassed the pre-COVID-19 levels by far: during the National Day Golden Week in 2019, during which time period the offshore duty-free sales were only approximately RMB390.0 million; the duty-free merchandise purchased amounted to around 461.0 thousand items; and the number of tourists purchasing duty-free merchandise was approximately 84.0 thousand.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market

Development Trends of China's Offshore Duty-Free Merchandises Operation Market

1 Duty Free Shopping Complex

- In 2014, as the first integrated duty-free travel retail complex in China, the Sanya Duty Free Complex in Haitang Bay commenced commercial operation. Integrated travel retail complex is a business model with duty-free business at its core and in synergetic development with other businesses such as duty-paid retail, dining, entertainment, leisure and hotel. Integrated travel retail complex creates hub effect by providing customers with a more diversified, one-stop shopping travel and leisure experience, thus appealing to a broader customer base than traditional duty-free stores. In addition, the Hainan Tourism Downtown Duty Free Shopping Complex opened in December 2020 and the International Duty Free Complex in Haikou will open a new chapter for the Chinese travel retail industry and accelerate the development of Hainan and Chinese duty free and travel retail market.

2 Rapid Development Triggered by Government Policies

- From 2011, as the starting of new era of off-shore duty-free market of China, government has launched a series of favorable policies to stimulate the development of offshore duty-free merchandises operation market, paving the way for rapid growth of China's offshore duty free market in the recent years. In 2020, benefiting from the turning point of the COVID-19 situation, with policies announced by government to stimulate the economy and duty-free market of China, China's offshore duty-free market has witnessed significant increase, which makes offshore channel a potential distribution channel of China's duty-free merchandises.

3 Diversified Business Model

- Under the pandemic situation, online channel has been developed regarding the offshore duty free, which largely reduced the magnitude of the decline of Chinese duty free market in 2020 compared to other foreign countries. Customers can buy the duty free merchandises online before they leave Hainan and pick up at airport. In addition, even after they left Hainan, they still can order duty-free merchandises online, which will be mailed to them as long as they just left for no more than 180 days and their purchasing quota is not used up. The online channel gives another option for customers to buy duty-free merchandises, which is in accordance with Chinese customers' shopping behavior as online shopping is well-developed in China and will be a future trend for offshore duty-free market.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market Policies and Regulations in Hainan (1/3)

Key Policies and Regulation of China's Offshore Duty-Free Merchandises Operation Market

Issuing Time	Issuing Authorities	Industry Guideline	Key Contents
2021.12	Hainan Provincial Development and Reform Commission	Implementation plan of Hainan Province on building high Standard Market System 《海南省关于建设高标准市场体系实施方案》	<ul style="list-style-type: none"> By 2025, a high-standard market system featuring unified, open, orderly competition, complete institutions and sound governance will be basically established which will lay a solid foundation for Hainan to accelerate the improvement of its socialist market economic system. Promote high-quality economic development and build a free trade port with Chinese characteristics.
2021.11	Hainan Provincial Department of Commerce	Hainan Commerce development plan for the "14th Five-year plan" 《海南省商务发展“十四五”的规划》	<ul style="list-style-type: none"> It has identified key tasks and major projects such as attracting overseas consumption, accelerating the development of an international consumer center city, building a specialized market for imported products, creating a digital ecosystem, attracting investment in key industries and building ports and adjusting their functions.
2021.10	Hainan Provincial Committee of the People's Republic of China	Implementation Plan of Building a Law-based Society in Hainan Province (2021-2025) 《海南省法治社会建设实施方案（2021—2025年）》	<ul style="list-style-type: none"> Strengthen the prevention and control of duty-free commodities on outlying islands and duty-free commodities for residents on the island. Severely crack down on suspected smuggling.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market Policies and Regulations in Hainan (2/3)

Key Policies and Regulation of China's Offshore Duty-Free Merchandises Operation Market

Issuing Time	Issuing Authorities	Industry Guideline	Key Contents
2020.06	State Council	General Planning for Hainan Trade-free Port Construction 《海南自由贸易港建设总体方案》 Notice on the Duty-free Shopping Policy for Tourists from Hainan 《关于海南离岛旅客免税购物政策的公告》	<ul style="list-style-type: none"> Raise the annual duty-free purchase quota from RMB 30,000 accumulatively to 100,000 per person. No limitation on purchase frequency; No limitation on units purchased each time for most of duty-free merchandise categories except for certain products (such as max. 4 units of cell phones are allowed for each time per person); The number of duty-free good categories increased from 38 to 45. To encourage domestic consumption in Hainan and to facilitate duty-free business development in the PRC.
2018.12	Ministry of Finance, China Customs, State Taxation Administration	Announcement on Including Travelers Leaving Hainan Island by Ship in the Scope of Eligible Persons Governed by the Duty-free Shopping Policy for Travelers Leaving Hainan Island 《关于将乘轮船离岛旅客纳入海南离岛旅客免税购物政策适用对象范围的公告》	<ul style="list-style-type: none"> To include travelers leaving Hainan island by ship in the scope of eligible persons governed by the duty-free shopping policy for travelers leaving Hainan island.
2018.11	Ministry of Finance, China Customs, State Taxation Administration	Announcement on Further Adjusting the Duty-free Shopping Policy for Travelers Leaving Hainan Island 《关于进一步调整海南离岛旅客免税购物政策的公告》	<ul style="list-style-type: none"> To further adjust duty-free shopping policy for travelers leaving Hainan Island.
2017.01	Ministry of Finance	Announcement on Including Travelers Leaving Hainan Island by Train in the Scope of Eligible Persons Governed by the Duty-free Shopping Policy for Travelers Leaving Hainan Island 《关于将铁路离岛旅客纳入海南离岛旅客免税购物政策适用对象范围的公告》	<ul style="list-style-type: none"> To include travelers leaving Hainan island by train in the scope of eligible persons governed by the duty-free shopping policy for travelers leaving Hainan island.

Source: Frost & Sullivan

Analysis of China's and Global Travel Retail Operation Market Policies and Regulations in Hainan (3/3)

Key Policies and Regulation of China's Offshore Duty-Free Merchandises Operation Market

Issuing Time	Issuing Authorities	Industry Guideline	Key Contents
2016.01	Ministry of Finance	Announcement on Further Adjusting the Duty-free Shopping Policy for Travelers Leaving Hainan Island 《关于进一步调整海南离岛旅客免税购物政策的公告》	<ul style="list-style-type: none"> To further adjust duty-free shopping policy for travelers leaving Hainan Island.
2015.02	Ministry of Finance	Announcement on Further Adjusting the Duty-free Shopping Policy for Travelers Leaving Hainan Island 《财政部关于进一步调整海南离岛旅客免税购物政策的公告》	<ul style="list-style-type: none"> To further adjust duty-free shopping policy for travelers leaving Hainan Island.
2012.10	Ministry of Finance	Announcement on Adjusting the Duty-free Shopping Policy for Travelers Leaving Hainan Island 《财政部关于调整海南离岛旅客免税购物政策的公告》	<ul style="list-style-type: none"> To adjust duty-free shopping policy for travelers leaving Hainan Island, including expanding eligible customer group and extending shopping requirement.
2011.03	Ministry of Finance	Announcement on the Pilot Implementation of the Policies on Duty-free Shopping for Travelers Leaving the Hainan Island 《财政部关于开展海南离岛旅客免税购物政策试点的公告》	<ul style="list-style-type: none"> To define eligible customers who can enjoy the duty-free shopping policy in Hainan island and conditions of duty-free shopping.




















Source: Frost & Sullivan

3. Competitive Analysis of China's and Global Travel Retail Operation Market

Competitive Analysis of China's and Global Travel Retail Operation Market

Competitive Landscape in China Market

- By the end of 2021, there are 12 entities with duty-free merchandises operation permit in the PRC. CDFG(中免), SRDF(日上), HNDF(海免) and CTSHK(港中旅)* are subsidiaries of CTG and each of them has the permit for duty-free merchandises operation in the PRC, while other entities with duty-free merchandises operation permit in the PRC include ZDFG(珠免), SDFC(深免), CNSC(中出服), CSG(库拉索免税)*, BDS(北京外交人员免税店), Wangfujing Group (王府井), HTID (海旅投), and HDH (海发控). In all, there are 9 groups of entities with duty-free merchandises operation permit in the PRC and 5 groups of entities with duty-free operation permits to operate duty-free port stores nationwide by the end of 2021. According to Frost & Sullivan, as of December 31, 2021, there were only nine groups of entities with duty-free operation permits in China and five groups of entities with duty-free operation permits to operate port duty-free stores nationwide. Of these groups of entities, the Company currently the only group with operation permits for all types of duty-free stores in China. as of December 31, 2021, there were only five groups of entities with operation permits to operate in Hainan offshore duty-free market.
- The new entrant is expected to have relatively limited impact on the duty-free merchandises operation market of PRC in the short term, and the competitive landscape of the market in the PRC is expected to maintain stable still with high entry barrier especially the operation permit barrier.
- The nationwide duty-free operator has broad duty-free shops geographical coverage across the country. As of the Latest Practicable Date, the Group is the only nationwide duty-free operator in China servicing the general public with all types of duty-free shops operation permit.
- Regional operators are those who 1) mainly focus on duty-free merchandises operation in a certain area, such as SDFC in Shenzhen and ZDFG in Zhuhai 2) focus on duty-free shops for special groups within certain area such as BDS. However since 2016, some regional operators have been allowed to bid on certain ports of entry duty-free merchandises operation outside of their original operation area.

Types of DFS	Nationwide Duty-free Merchandises Operator		Regional Duty-free Merchandises Operators					
Port DFS	 中免集团 CHINA DUTY FREE GROUP	 日上免税行 SUNRISE DUTY FREE <i>Subsidiary of the Group</i>	 中國旅遊集團公司 香港中旅(集團)有限公司 <i>Subsidiary of the Group</i>	 連雲港 CHINA DUTY FREE	 深圳免税	 中服免税		
Offshore DFS	 中免集团 CHINA DUTY FREE GROUP			 海南省免税品有限公司 Hainan Duty-free CO., Ltd <i>Subsidiary of the Group</i>	 深圳免税	 中服免税	 海南省发展控股有限公司 Hainan Development Investment Co., Ltd.	 海旅免税 HTDF
Downtown DFS	 中免集团 CHINA DUTY FREE GROUP	 中國旅遊集團公司 香港中旅(集團)有限公司 <i>Subsidiary of the Group</i>		 BDS Beijing Duty Free Shop for Diplomatic Missions		 中服免税		
Vehicle DFS	 中免集团 CHINA DUTY FREE GROUP			 CSG	 深圳免税			

*CSG co-operates duty-free business with airline companies such as Eastern Airlines.

Source: Frost & Sullivan

Competitive Analysis of China's and Global Travel Retail Operation Market

Competitive Landscape in Global Market

Competitive Landscape of Global Travel Retail Market

- For competitive landscape of global travel retail market, it can be classified according to the geographical coverage of their business into two categories which are multi-regional travel retailers and travel retailers with core geographical region coverage. For the second category, although some of them have their stores worldwide, they have their core business coverage area.

Multi-regional Travel Retailers



- Multi-regional travel retailers refer to those operators operating their business all over the world like Dufry and Lagardere, which are core participants of the global travel retail market. For instance, Dufry and Lagardere's business is widespread over Americas, Europe, APAC, Middle East and Africa.

Travel Retailers with Core Geographical Region Coverage



- Another crucial part of travel retail market participants is the travel retailers which have their core geographical coverage like CDFG, LOTTE, The Shilla, DFS, Gebr. Heinemann, etc. Although they may operate stores in other region, they have a core geographical region coverage. For instance, the core business of CDFG is located at mainland China. Sales of LOTTE and The Shilla majorly comes from Korea and for DFS, they develop their business in Asia mostly.

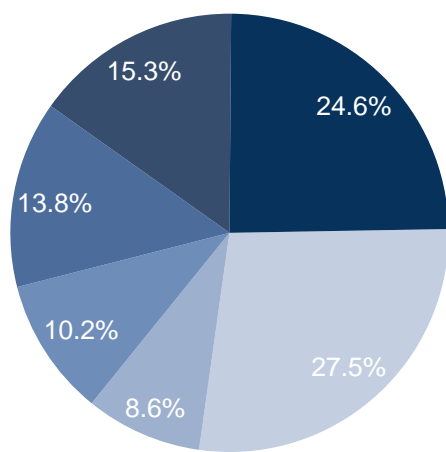
Source: Frost & Sullivan

Competitive Analysis of China's and Global Travel Retail Operation Market

Travel Retailer Ranking in Global Market

Top 5 Travel Retailers Ranking (by sales revenue), Global, 2021

Total Size: RMB 272.0 billion



The Company
 Company B
 Company D
 Company A
 Company C
 Other

Rank	Company	Sales Revenue (RMB Billion)	Market Share
1	The Company	66.9	24.6%
2	Company A	41.6	15.3%
3	Company B	37.5	13.8%
4	Company C	27.6	10.2%
5	Company D	23.3	8.6%
	Other	75.1	27.5%
Total		272.0	100.0%

- The global travel retail market is relatively concentrated and the top 5 travel retailers take 72.5% of global travel retail market in terms of the sales revenue in 2021.
- For the top 5 ranking, **the Company takes the first position of global travel retail operation market and the market share is 24.6%.** Company A ranks 2nd in the global travel retail market in 2021 and the market share is 15.3%. In 2010, 2015, 2019 and 2020, the Company ranked 19th, 12th, 4th and 1st respectively for annual global travel retailer rankings.

Source: Frost & Sullivan

Competitive Analysis of China's and Global Travel Retail Operation Market

Travel Retailer Ranking in Global Market

Notes

- Company A was founded in 1980, a travel retailer in Korea and worldwide with its core business in Korea. Company A currently operates 19 stores in 7 countries.
- Company B was founded in 1986, a travel retailer in Korea and worldwide. Company B currently operates 5 duty free stores in Korea.
- Company C started its duty-free wholesale business in 1948, a global travel retailer with its headquarter in Basel, Switzerland, and travel retail stores in 66 countries on all 6 continents.
- Company D established its first duty-free shop in 1965, a global travel retailer. Company D operates over 4,800 stores in 42 countries across travel essentials, duty free & fashion and foodservice in airports, railway stations, etc..

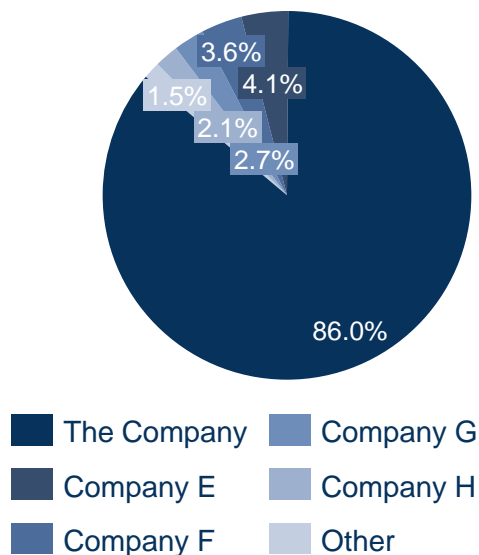
Source: Frost & Sullivan

Competitive Analysis of China's and Global Travel Retail Operation Market

Duty-free Merchandises Operation Companies Ranking in China

Top 5 Duty-free Merchandises Operators Ranking (by sales revenue), China, 2021

Total Size: RMB 48.1 billion



Rank	Company	Sales Revenue (RMB Billion)	Market Share
1	The Company	41.3	86.0%
2	Company E	2.0	4.1%
3	Company F	1.7	3.6%
4	Company G	1.3	2.7%
5	Company H	1.0	2.1%
	Other	0.8	1.5%
Total		48.1	100.0%

- Chinese duty-free merchandises operation market is highly concentrated. The top 5 operators accounted for 98.5% of total market in terms of the sales revenue in 2021.
- The Company has a dominated market position in Chinese duty-free operation market with the largest market share of 86.0% in 2021.**
- The Company is the largest duty-free merchandises supplier in the China from 2017 to 2021.
- Company E, Company F, Company G, Company H ranks 2nd, 3rd, 4th, and 5th, whose market share are 4.1%, 3.6%, 2.7%, 2.1% respectively.
- For China's offshore duty-free merchandises operation market, there are 5 groups of entity with duty-free merchandises operation permit, which are the Company, SDFC (深免), CNSC (中出服), Hainan Tourism Investment and Development Co., Ltd (海旅投), and Hainan Development Holdings (海发控). **With the market share of 90.0%, the Company is the largest player in China's offshore duty-free merchandises operation market in 2021.**

Source: Frost & Sullivan

Competitive Analysis of China's and Global Travel Retail Operation Market

Duty-free Merchandises Operation Companies Ranking in China

Notes

- Company E was founded in 2005, a state-owned enterprise. Company E mainly operates offshore duty-free shops in Hainan province.
- Company F was founded in 2020 in Haikou and mainly operates offshore duty-free shops in Hainan province.
- Company G was founded in 1987 in Zhuhai, a state-owned enterprise. Company E mainly operates port duty-free shops in Zhuhai and Tianjin.
- Company H was founded in 1983, a duty-free merchandises operator in China, which holds port duty-free operation permit, offshore duty-free operation permit and downtown duty-free operation permit.

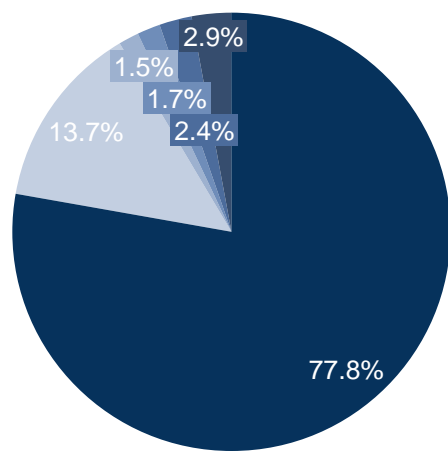
Source: Frost & Sullivan

Competitive Analysis of China's and Global Travel Retail Operation Market

Travel Retailer Ranking in China Market

Top 5 Travel Retailer Ranking (by sales revenue), China, 2021

Total Size: RMB 80.8 billion



The Company
 Company E
 Company D
 Company F
 Company G
 Other

Rank	Company	Sales Revenue (RMB Billion)	Market Share
1	The Company	62.9	77.8%
2	Company F	2.3	2.9%
3	Company E	2.0	2.4%
4	Company G	1.4	1.7%
5	Company D	1.3	1.5%
	Other	10.9	13.7%
Total		80.8	100.0%

- The China travel retail market is concentrated and the top 5 travel retailers take 86.3% of China travel retail market in terms of the sales revenue in 2021.
- For the top 5 ranking, **the Company takes the first position of China travel retail operation market and the market share is 77.8% and is the largest travel retailer in China in 2021.**
- Company F, Company E, Company G, Company D ranks 2nd, 3rd, 4th, and 5th, whose market share are 2.9%, 2.4%, 1.7%, 1.5% respectively.
- With the market share of 90.1%, the Company is the largest player in China's offshore travel retail merchandises operation market in 2021.**

Source: Frost & Sullivan

Analysis of China and Global Travel Retail Market

Entry Barrier of Duty-free Merchandises Operation Market in China

Operation Permit Barrier

- The duty-free industry in China is strictly regulated and duty-free operation must be approved by the State Council or a government authority under the State Council authorization. Duty-free operations are regulated by many government agencies including the General Administration of Customs, MOFCOM, the Ministry of Finance, the Ministry of Culture and the Tourism and State Taxation Administration.

1

Entry Barriers

2

Supplier Resources Barrier

- Compared with traditional shopping malls, duty-free merchandise businesses attracts more high-end brands especially luxury brands. This requires the merchandises operators to have high reputation and high volume of purchase orders to increase the bargaining power with brand owners/distributors. Additionally, duty-free shops operation requires stable supply to avoid stockout to fulfill customer needs, which requires strong supplying capacity with abundant supplier resources.

3

Industry Experience Barrier

- Current players in the market are all state-owned companies with long-time industry operation history. The bidding on duty-free shops projects requires comprehensive assessments including shop layout design, marketing and customer service strategies, business plan and brand introduction. New entrants would have difficulties to compete on providing a comprehensive and profitable business plan compared with mature players with abundant duty-free trading and operation experience. Additionally, abundant industry experience give current players more chance to expand their business. For example, after 2016, the duty-free operation right of certain ports of entry is only open to operators that have duty-free merchandises operation practice in the past 3 years. For new entrants without track records and operation history, it would be difficult to enter the market.

Source: Frost & Sullivan

Analysis of China and Global Travel Retail Market

Key Success Factors of Travel Retail Market in China

1

Operation Experience

- Abundant operation experience in the travel retail market is essential to decide on important strategies such as location, marketing, and customer service. Travel retail especially duty-free merchandise targets tourists who have rather higher affordability but are usually savvier about the brand, goods, and shopping experience. Travel retailers should know how to satisfy target consumers' demands based on their operation experience.
- Besides, companies who leverage different types of retailers such as shopping malls and specialty stores are usually more capable to expand their business into different types of duty-free stores.

2

Effect of Scale

- Large effect of scale would enable travel retailers to have strong bargaining power against upstream brands and suppliers. Upstream brands especially luxury brands which value retailers' branding and market position tend to choose large-size travel retailers. Travel retailers' size is usually determined by their pricing policies, capitalization, managerial quality, etc. Leading players are more likely to strengthen their effect of scale in such aspects.

3

Supply Chain Resources

- Supply chain resource leverage and managerial capabilities are essential to win the travel retail market. Travel retailers usually have limited time to capture consumers' interest, thus running out of stock would highly affect consumer's satisfaction. Retailers should know what sells well to different passenger groups in different locations and how to entice travelers and boost sales. Integrating retail and supply chain systems for efficient ordering and insights into supply and demand are increasingly important to travel retailers.

Source: Frost & Sullivan

Analysis of China and Global Travel Retail Market

Competitive Edge of the Company

1

Leading Position in Duty-free and Travel Retail Market

- With large scale in number and area of stores, full coverage of all scenarios and channels and long-term partnership with a considerable number of brands, the Company has been motivating and driving the fast development of Chinese duty free and travel retail market since establishment with incomparable first-mover advantage. In 2021, the Company ranks 1st among the global travel retailers by sales revenue and 1st among Chinese duty free market. Driven by the offshore duty free business, consumption reshoring, favorable policies announced by government, the Company is expected to keep the leading position in global and China's duty free and travel retail market.
- The Company is the only duty-free merchandise operator in China covering all duty-free sales channels (which include port stores, offshore stores, downtown stores, others).

2

Pricing and Variety of Product Portfolios

- With the core competency of overseas procurement capability, the Company has accumulated a huge number of well-known brand resources and even many brands are with exclusive rights to sell in mainland China. In addition, by direct procurement from brand owners, the Company can procure the products with a relatively lower price. Also, owing to the leading position and scale of the Company, the brand owners tend to give the Company extra discounts, which makes the Company provide the products with more favorable price to customers compared to other operators.

3

Diversified Business Models

- As the only duty free and travel retail operator operating in all duty-free sales scenarios in China, the Company is a pioneer of China's duty-free industry. the Company has opened the first cruise duty-free store of China, first offshore duty-free store in Hainan and first integrated travel retail complex in 2014 to diversify the business model. The Company also opened Sanya Duty-Free Complex in Haitang bay in 2014 and integrated travel retail complex in Haikou. In addition, in response to the industry-wide huge challenge of the pandemic situation, the Company has explored online channel to provide customers with more convenience, which was proved to be a successful attempt.

Source: Frost & Sullivan

Thank You

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Your Strategic Growth Partner