



東方旅遊
零售觀察

Oriental Travel Retail Observer Duty-free Journal Vol. 1



Preface

After more than three months of hard work, the first edition of Oriental Travel Retail Observe (OTRO) is finally released.

OTRO is the first Chinese organization in the travel retail industry to generate industry research reports from the perspective of Chinese practitioners, including big data analysis, Chinese user survey, and legal opinions. We will strive to act as a neutral third party, to present the industry situation and development, the industry dynamics in Chinese market, the user behavior changes in Chinese market, and other related information in a most genuine state to friends in the industry.

We believe that the understanding of Chinese market, the behavior habits of Chinese users, as well as the unique economic and political environment in China will be our greatest advantage, so as to help you to understand the Chinese market better and more effectively.

As a new participant in the industry, the valuable advices and suggestions from other senior predecessors and experts in the industry are greatly welcomed and appreciated. We sincerely hope to hear different voices to help us improve OTRO reports in the future.

During the epidemic, we are facing the unprecedented situation and severe challenges. However, the epidemic is not necessarily a bad thing, it makes us stop and think, and accomplish things in arrears for a long time. Dawn and spring will eventually return, and we believe when the outbreak is over, the travel retail industry will usher in a new boom.

We would like to send sincere appreciation to our partners - Jessica's secret, China Merchants Securities, Jincheng Tongda & Neal Law Firm and the Aviation, travel and retail industries in China. Many thanks for their contribution and support to OTRO.

OTRO
2020.06.26

Content

Preface.....	1
Focus of the Month	3
1. Introduction.....	3
2. Data	4
China Duty-free.....	6
1. Hainan.....	6
2. Shanghai.....	10
3. Beijing	11
1. Flight	12
2. Hotel	17
3. Outbound travel	19
Pricing and Promotion.....	27
1. The price of duty-free commodity	27
2. Price and discount of makeup	27
3. Price and discount of skincare	30
4. Price and discount of fragrance	33
Consumer Trends.....	37
1. The click rate by category	37
2. Ranking of duty-free shops	38
Market Survey.....	40
1. Basic information of the respondent.....	40
2. Shopping Preference	41
3. The impact of COVID-19 on consumption	44
Expert Opinion on Hainan	47
Expert Group	58
Editors.....	59

Focus of the Month: Duty-free in Hainan

1. Introduction: Framework Plan for Hainan Free Trade Port

- (1) With three steps to build the Hainan Free Trade Port, offshore duty-free island remains stage advantage.

On June 1st, the Central Committee of the Communist Party of China and the State Council issued the Framework Plan for Hainan Free Trade Port, proposing the construction of Hainan Free Trade Port in three stages:

1) By 2025, initially establish a free trade port policy system;

2) By 2035, achieve freedom of trade, investment, capital, personnel, and transportation, and become a new highland of China's open economy;

3) By the middle of this century, a high-level free trade port with strong international influence will be fully built. We believe that under such a large framework, the free circulation of goods with zero tariffs and turnover taxes is expected to be realized between 2025 and 2035, and the island duty-free policy license still has a policy advantage of more than 5 years.

- (2) The implementation of zero tariffs on some imported goods, mainly for production equipment and daily necessities.

The "Framework Plan" mentions zero-tariff and simplified tax systems, which are mainly in two stages.

The first stage is before the island-wide customs clearance operation (the island-wide customs clearance operation is started in due time by 2025), and some imported goods are exempted from import duties, import link value-added tax and consumption tax. Some imported commodities mainly include production equipment imported by enterprises for self-use and imported commodities consumed by residents of the island. Among them, the consumption of residents in the island is subject to a positive list management, and only tax-free purchases are allowed on the island. It is expected that most of them are food and daily necessities. There are fewer high-end luxury goods sold in duty-free shops on the outlying islands.

The second stage is that after the island-wide customs clearance operation and degenerate taxation system, commodities that are not included in the catalogue of imported taxable goods and are allowed to be imported from Hainan Free Trade Port will be exempted from import duties. As the simplified taxation system requires a reduction in the proportion of indirect taxes such as turnover tax, it is

expected that the consumption tax and value-added tax system in Hainan will change at this stage. The commodity turnover tax will adopt Singapore's low tax rate (7% comprehensive consumption tax) or Hong Kong's zero tax rate, closer to the whole island duty-free.

- (3) The amount of offshore duty-free consumption limits was expanded to 100,000 Yuan, and the types of duty-free commodities were expanded.

The offshore duty-free limits was expanded from 30,000 to 100,000, but the postal tax and the amount of pieces of shopping for P&C product were not relaxed.. Therefore, the impact on customer unit prices was limited. (The offshore duty-free allowance was raised from 16,000 to 30,000 in 2018, but in the first half of 2019, the unit price of passengers in Sanya is only 4,705 yuan, an increase of 1.2%. The unit price of passengers has only increased after vigorous promotion in the second half of the year). At the same time, the replenishment online shop during the epidemic allows consumers to purchase if they have unused duty-free quota (actually taxed), and realizes 800 million sales for more than one month. If the policy is sustainable, the offshore duty-free allowance is expected to increase sales. In addition, the policy proposes to expand the variety of duty-free commodities, which is expected to increase new consumption hotspot.

- (4) The implementation of preferential corporate income tax rates is expected to reduce taxes on China International Travel Services.

The "Framework Plan" proposes that from the date of the release of this plan, 15% of corporate income tax will be levied on encouraged industrial enterprises registered in the Hainan Free Trade Port and substantively operating. At present, the headquarters of China International Travel Service has been relocated to Hainan, and 70%-80% of its net profit is in Hainan. It is expected to save about 400 million yuan in income tax every year.

2. Data: CDFG-Sanya had a substantial YOY growth in May

- (1) Fights: Airport passenger flow bottomed out

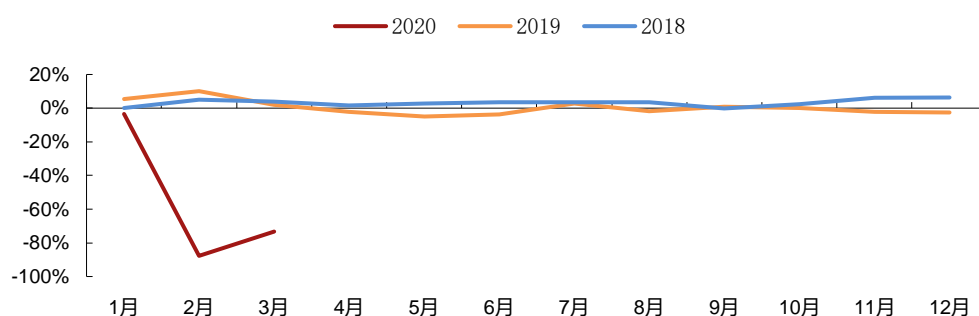
In May, duty-free sales increased by 99% year-on-year in Sanya.

From January to March, the passenger throughput of Phoenix Airport 276.84 million, a YOY decrease 55.07%, in which 1.56 million outbound tourists, a YOY decrease 50.07%.

In March, the passenger throughput of Sanya Phoenix Airport was 521,100, a YOY decrease of 73.21%, and a YOY increase of 96.13%, among which outbound passengers 307,000, a YOY decrease of 70.08%, month to month of 48.86%.

In May, the international epidemic continued to spread, and international flights and passenger traffic decreased significantly. In May 2019, the reception of Chinese tourists at Sanya Phoenix Airport decreased by 9.72% year-on-year. In May 2020, the reception of Chinese tourists at Sanya Phoenix Airport was down 30% year-on-year due to the epidemic.

Figure 1: Monthly YoY Growth Rate of Sanya Phoenix Airport Passenger Throughput



Source: Sanya Municipal Bureau Statistics

(2) Duty-free Sales: CDFG-Sanya saw a significant year-on-year growth in May

Since April, benefiting from discount promotion and purchasing, sales of CDFG-Sanya increased by 77%, and further increased by 99% in May (absolute value increased by 127%, adjusted caliber increased by 99%).

The specific selling data as follows:

In January, the sales of CDFG-Sanya were 1.1 billion Yuan, YOY growth 14.35%. Duty-free purchasing was 189,400 person-times, a YOY decrease 1.96%. Customer unit price was 5,824 Yuan, a YOY growth 12.2%.

In February, the sales of CDFG-Sanya were 0.36 billion Yuan, a YOY decrease 76.38%. Duty-free purchasing was 54,500 person-times, a YOY decrease 79.45%. Customer unit price was 6,661 Yuan, YOY growth 14.9%.

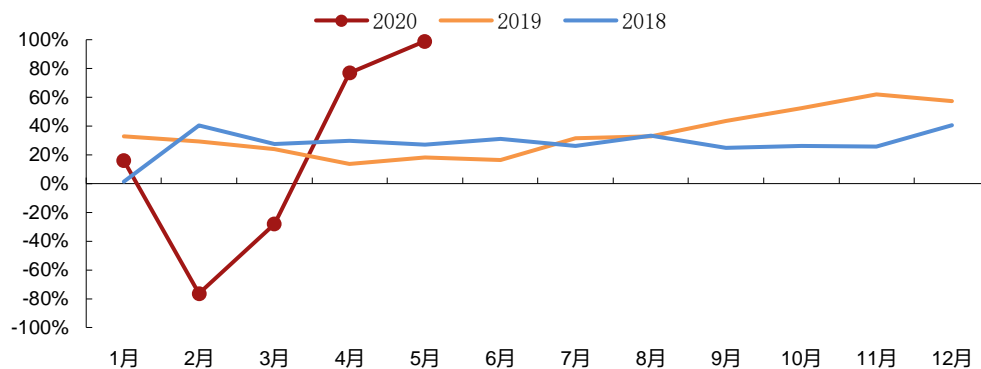
In March, the sales of CDFG-Sanya were 0.6 billion Yuan, a YOY decrease 28.11%. Duty-free purchasing was 83,000 person-times, YOY decrease 55.37%. Customer unit price was 7,157 Yuan, YOY growth 61.1%.

In April, the sales of CDFG-Sanya were 1.07 billion Yuan, a YOY growth 77.14%. Duty-free purchasing was 119,500 person-times, a YOY decrease 14.52%. Customer unit price was 8,946 Yuan, a YOY growth 107%.

In May, the sales of CDFG-Sanya were 1.15 billion Yuan, a YOY growth 99%.

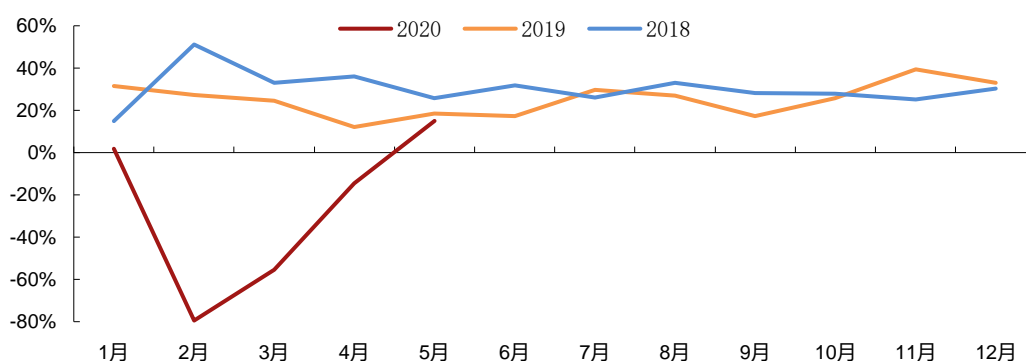
Duty-free purchasing was 155,700 person-times, a YOY growth 15%. Customer unit price was 7,412 Yuan, a YOY growth 97.5%.

Figure 2: Monthly YoY Sales Growth of Hainan offshore duty-free



Source: The Ministry of Commerce of the People's Republic of China

Figure 3: Monthly YoY purchasing person-time Growth of Hainan offshore duty-free



Source: The Ministry of Commerce of the People's Republic of China

China Duty-free

1. Hainan

(1) Establishment of Experience Physical Stores

CDFG has established experience physical stores in The Mangrove Resort Hotel

Sanya and Sanya Nanshan Tourism Zone, which were opened on April 13th. The function areas such as e-commerce experience zone and product display zone will display international top brands' duty-free products and help tourists understand the online purchase procedure by e-commerce function zone. The duty-free experience shop pays more attention to tourists' experience in order to make them have a comprehensive understanding the products and brands. For those tourists who have an excellent experience, the sales assistant can guide them to purchase online on the scene.

Figure 4: The Location Map of Increased Duty-free Experience Shops in Sanya



Source: Baidu Map, Merchants Securities

Nanshan Tourism Zone is an AAAAAA cultural scenic spot of Buddhist culture, which had received a total of 5 million visitors in 2018. Sanya Bay Resort is close to Sanya. It has the longest coastline in Sanya and is near by the transportation hub. It is estimated that the penetration rate of Sanya duty-free shopping may be further raised after the experience shops opened. The offshore tourists of Sanya airport was 10 million in 2019. Assume that the capture rate of these two experience shops is 3% to 4%, the per customer transaction of online shopping is 2000 to 3000 yuan, then it will bring 5% to 10% increment.

Figure 5: Number and growth rate of tourist in Nanshan Tourism Zone from 2010 to 2018

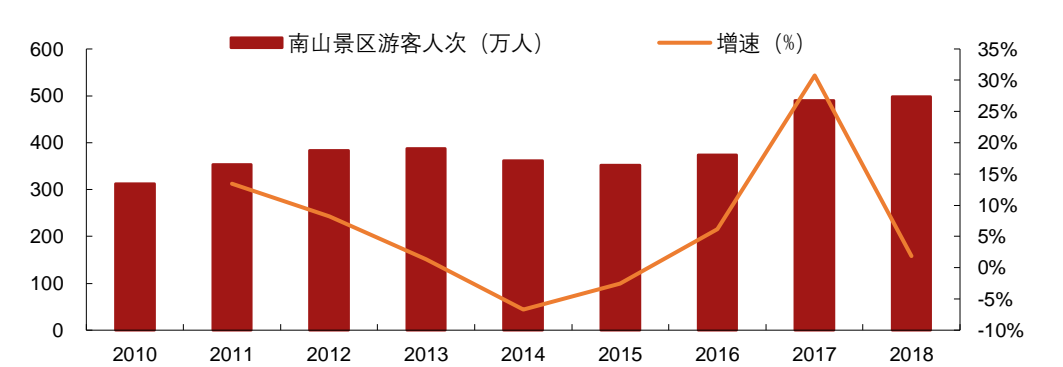


Figure 6: The Mangrove Resort Hotel Sanya



(2) Supplementary Shopping to Enhance the Online Business

At the end of March, Hainan has launched offshore supplementary purchase policy, which means tourists can use the unused or left 30,000 Yuan offshore duty-free quota to purchase online after they leave the island and send by post. Since this policy launched, the purchase qualification requirement and the shopping amount is kept loosening. Currently, tourists left island in 180 days by plane (some airlines are in exception), or by ship or railway. Tourists have purchased offshore duty-free goods still can shopping on the supplementary online platform.

Table 1: Hainan Offshore Supplementary Purchase Policy Changes

	Purchase Qualification	Shopping Amount Limit
Phase One	Passengers at least 16, not exceed 180 days since left the island and have purchased offshore duty-free commodities in Hainan	Limited to 12 pieces of cosmetic, 8 pieces of perfume, 6 pieces of jewelry and watches, 4 pieces of beauty equipment, glasses, bags and infant formula
Phase two	Passengers at least 16, not exceed 180 days since left the island and have purchased offshore duty-free commodities in Hainan	Unlimited purchases
Phase three (Current)	1) Passengers has left the island by plane in 180 days(some airlines are in exception) 2) Passengers has left the island by ship or by railway in 180 days and have purchased offshore duty-free commodities in Hainan	Unlimited purchases

Source: company website

At current stage, there is not any rebate or discount activity in supplementary purchase store. The rebate means if you buy commodities took part in rebate activity, then you can receive the e-voucher based on certain percentage of your purchase amount, which can be used in your next supplementary purchase. The order that is

used e-voucher is unable to enjoy rebate. In early April, China Duty Free Group achieved its whole VIP system, which will Get through and share CDFG VIPs.

From the price comparison of popular perfume and cosmetic on the table below, we can see that the pricing of supplementary purchase store is in line with CDFG-Sanya but with different special offers. For those partial goods listed in the table, the supplementary purchase store provides 10% to 20% cash coupons. Due to these coupons can be used in a second purchase, the highest discount can reach 9% off to 17% off in theory. After the comparison, in most commodities the supplementary purchase store has higher discount than CDFG-Sanya.

Table 2: Price Comparison between Supplementary Purchase Store and Sanya Duty-free Shop

Commodity	Market Price	SPS	Special Offers	SDS	Special Offers
Estee Lauder Advanced Night Repair Synchronized Recovery Complex II 50ml	839	645	1 for 20% off / 3 for 25% off	645	Estee Lauder 3 for 25% off
Estee Lauder Advanced Night Repair Eye Supercharged Complex Synchronized Recovery Duo 15ml*2	884	680	1 for 20% off / 3 for 25% off	680	Estee Lauder 3 for 25% off
La Mer The Moisturizing Soft Cream 60ml	2,790	2,146	rebate 20%	2,146	La Mer 3 for 20% off
SK-II Facial Treatment Essence 160ml	1,177	856	rebate 20%	856	3 for 10% off / 5 for 15% off, gifts
SK-II GenOptics Spot Essence Serum 50ml	1,559	1,115	rebate 20%	1,115	3 for 10% off / 5 for 15% off, gifts
Lancome ADVANCED GÉNIFIQUE Youth Activating Concentrate Duo 100ml*2	2,405	1,850	rebate 15%	1,850	Lancome 3 for 10% off / 5 for 15% off / 7 for 20% off
Lancome TONIQUE CONFORT Re-hydrating Comforting Toner 400ml	403	310	1 for 20% off / 2 for 25% off		Lancome 3 for 10% off / 5 for 15% off / 7 for 20% off
Clinique Dramatically Different Moisturizing Lotion+ (Duo) 125ml*2	439	359	1 for 20% off 3 for 25% off	359	Clinique 3 for 25% off
Tom Ford Lip Color Impassioned(80) 3g	430	329	rebate 10%	329	TF makeup 3 for 25% off

Source: company website

Between October 2019 and March 2020, CDFG-Sanya received 913,600 person-times. There are about 100,000 to 150,000 tourists who qualified for supplementary purchase. Assume that the average demand of supplementary purchase is 1000 to 2000 yuan, then monthly sales may reach 0.1 billion to 0.3 billion Yuan.

2. Shanghai:

For normal consumers, there are multiple channels to acquire direct mail qualification, which is no need to go abroad but are all paid access. Approaches like booking commodities online, consuming in Sunrise offline store and etc. can achieve credits. But it may need to meet the corresponding requirements. The credits have influence on VIP level, which means the higher your level is, the more direct mail shopping interest you will have.

Table 3: Channels for Acquiring Direct Mail Qualification

Ctrip		Shanghai Pudong Development Bank APP	Sunrise VIP app
Qualification	/	SPD credit card user	Connecting Sunrise VIP owner to help order
Direct Mail Access Price	350 yuan for PLUS, including 350 yuan coupon	1) 89.7 yuan for a three-month lucky bag with a complimentary gift of Sunrise VIP coupon; 2) 158 yuan for panic purchase of Sunrise VIP coupon	Needs to pay for the VIP owners with a price about 10 to 20 yuan per piece; or count according to a certain percentage. The more you buy, the less you pay for one piece
Shopping Amount	minimum 1500 yuan, no upper limit	minimum 1500 yuan, no upper limit	/
Limited Shopping Quantity	not exceed 20 pieces in total, not exceed 5 pieces for one single unit, popular item is subject to actual	Both types of coupons require single unit is limited to 5 pieces, popular commodities with other rules. Besides, 89.7 yuan coupon does not exceed 8 pieces in total; 158 yuan coupon does not exceed 15 pieces in total.	/

Source: Company Website

Table 4: Price Comparison of Sunrise App, Sunrise Direct Mail & Sunrise offline Physical Store

Commodity	Market Price	Sunrise App Price	Sunrise App DM Discount	Sunrise App DM Price	Sunrise Shanghai 6% off Price
Estee Lauder Advanced Night Repair Synchronized Recovery Complex II 50ml(Little Brown Bottle)	839	620	1 for 15% off	527	495.38
Estee Lauder Advanced Night Repair Eye Supercharged Complex Synchronized Recovery Duo 15ml*2	884	702	1 for 15% off	596.7	560.24
La Mer The Moisturizing Soft Cream 60ml	2,790	1,869	1 for 15% off	1,588.65	1493
SK-II Facial Treatment Essence 160ml	1,177	877	/	877	824.38

SK-II GenOptics Spot Essence Serum 50ml	1,559	1,142	/	1,142	1,073
Lancome ADVANCED GÉNIFIQUE Youth Activating Concentrate Duo 100ml*2	2,405	1,663	/	1,663	1,563
Lancome TONIQUE CONFORT Re- hydrating Comforting Toner 400ml	403	273	1 for 10% off, 2 for 15% off, 3 & above for 20% off	218.4-245.7	256.62
Clinique Dramatically Different Moisturizing Lotion+ (Duo) 125ml*2	439	349	1 for 15% off	296.65	278.24
Tom Ford Lip Color Impassioned(80) 3g	430	294	1 for 15% off	249.9	206.8

Source: Company Website, Jessica's Secret

3. Beijing

Sunrise Beijing launches the direct mail business through Wechat mini program of “CDF VIP”, which is in the operation stage. And the regulations of formal version are not clear right now. Currently, there is certain threshold for participation for normal members for its membership of invitation, which has a tendency of opening gradually.

- i) At the beginning, there are three requirements to apply of Sunrise Beijing VIP, historical international flight return information and 500 credits in VIP account. Once have been chosen, you will gain a monthly VIP experience qualification;
- ii) It announced that all invited VIP experience qualification was not limited to time period in the trail operation stage in early May;
- iii) It announced that each member could invite three new members from now to June 5th in late May. The new member should be Sunrise Beijing VIP and has international flight return information.

Table 5: Price Comparison of CDF VIP & Sunrise Beijing Airport Store

Commodity	Market Price	Sunrise App Price	Sunrise Beijing	Direct Mail Discount	CDF VIP
Estee Lauder Advanced Night Repair Synchronized Recovery Complex II 50ml	839	620	620	20% off	496
Estee Lauder Advanced Night Repair Eye Supercharged Complex Synchronized Recovery Duo 15ml*2	884	702	702	20% off	561.60

La Mer The Moisturizing Soft Cream 60ml	2,790	1,869	1,869	15% off	1588.65
SK-II Facial Treatment Essence 160ml	1,177	877	877	/	877
SK-II GenOptics Spot Essence Serum 50ml	1,559	1,142	1,142	/	1142
Lancome ADVANCED GÉNIFIQUE Youth Activating Concentrate Duo 100ml*2	2,405	1,663	1,663	5% off	1579.85
Lancome TONIQUE CONFORT Re-hydrating Comforting Toner 400ml	403	273	273	5% off	259.35
Clinique Dramatically Different Moisturizing Lotion+ (Duo) 125ml*2	439	349	349	20% off	279.2
Tom Ford Lip Color Impassioned(80) 3g	430	294	294	20% off	235.2

Source: Company Website, Jessica's Secret

International Travel Trend

1. Flight: International flights have fallen sharply, and domestic flights have been restored

(1) Portrait of Chinese outbound flight passengers

Affected by the epidemic, the number of Chinese outbound flight passengers has suffered a severe decline. In May 2020, Chinese outbound flight passengers declined by 97.78% year-on-year. Among them, passengers over the age of 60 had the most serious decline, with a year-on-year decline of 99%, while passengers with 0-19 years of age had the smallest decline, with a year-on-year decline of 92.9%.

Figure 7: Age distribution of Chinese outbound flight passengers in May 2020.

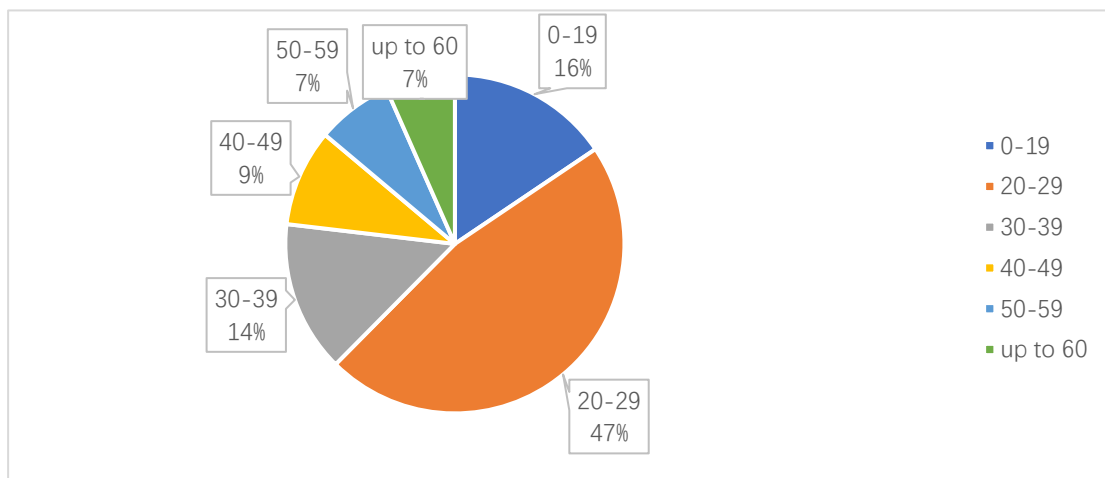
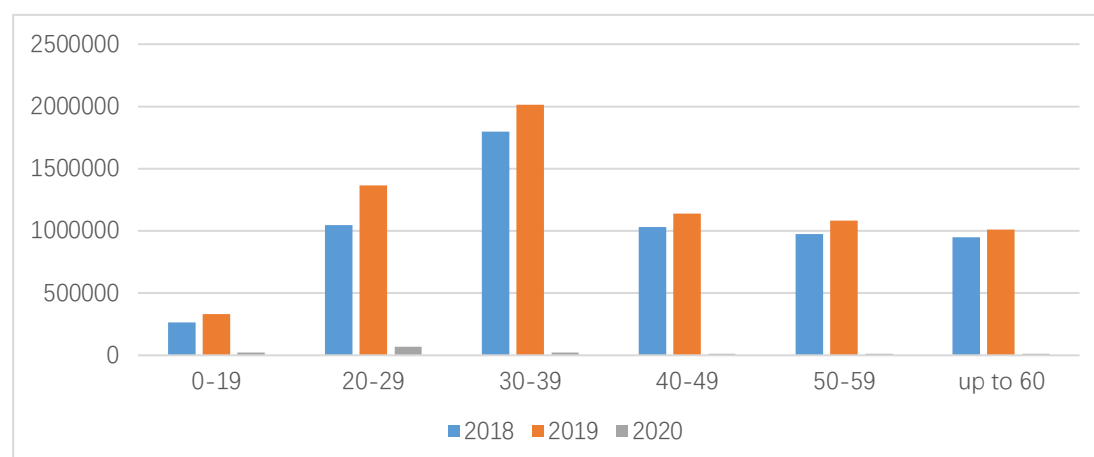
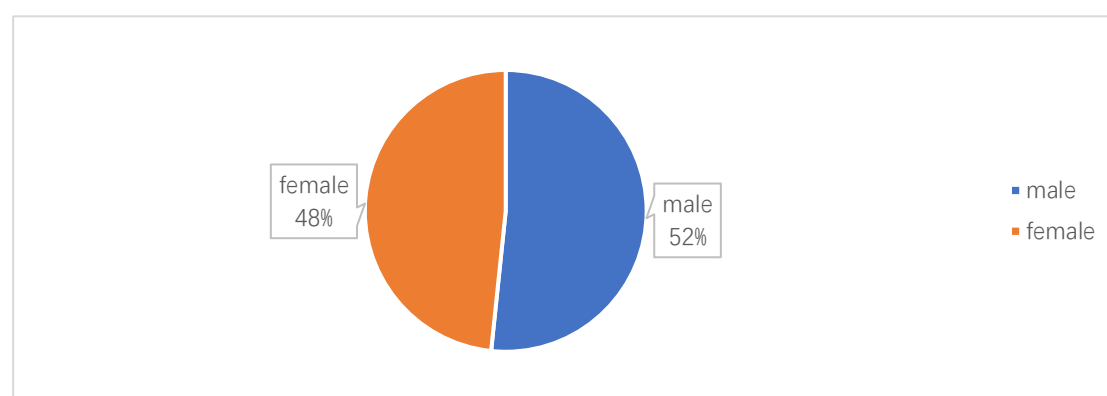


Figure 8: Age distribution of Chinese outbound flight passengers in past 3 years.



As for the gender of outbound flight passengers, we can see that in May 2020, the year-on-year decline rate of female passengers was slightly higher than that of male passengers.

Figure 9: Gender distribution of Chinese outbound flight passengers in May 2020.

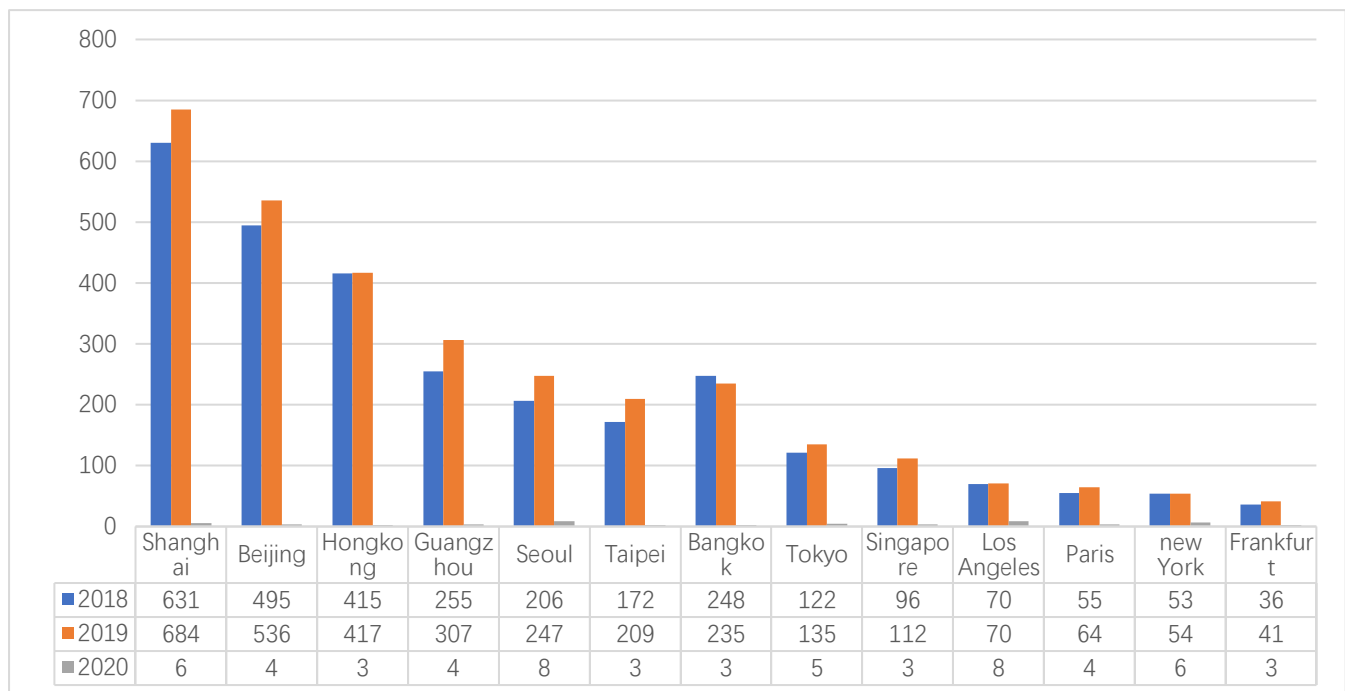


(2) Chinese out bound flight passengers: International flights have fallen sharply from previous years, and the decline of arrivals have slowed slightly

In May, international flights as a whole fell sharply from previous years.

Shanghai departures of Chinese travelers fell 99.19% year-on-year; Beijing's departures fell 99.31% year-on-year; Guangzhou's departures fell 98.73% year-on-year. Affected by the epidemic, a large number of international flights were grounded, and because of the spread of overseas epidemics, the willingness to leave abroad has been greatly reduced.

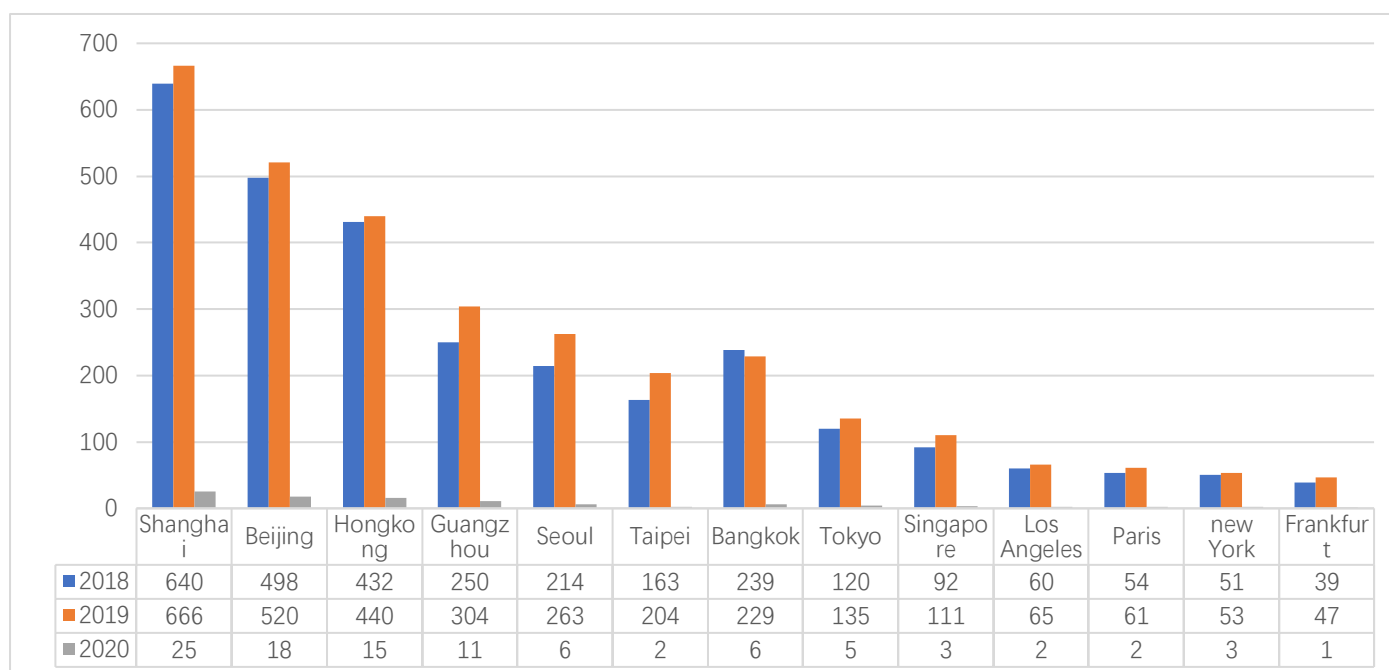
Figure 10: Departure city of Chinese outbound travelers in May during the past 3 years (unit: thousand person)



Source: Civil Aviation Administration of China, airports and civil Aviation companies

However, the decline in arrivals was slightly slower than the departures. The arrivals of Chinese travelers in Shanghai decreased by 99.19% year-on-year; the arrivals in Beijing decreased by 99.31% year-on-year; and Guangzhou dropped by 98.73% year-on-year. This is mainly due to the impact of overseas Chinese returning to the country due to the epidemic situation.

Figure 11: Arrival city of Chinese outbound travelers in May during the past 3 years (unit: thousand person)



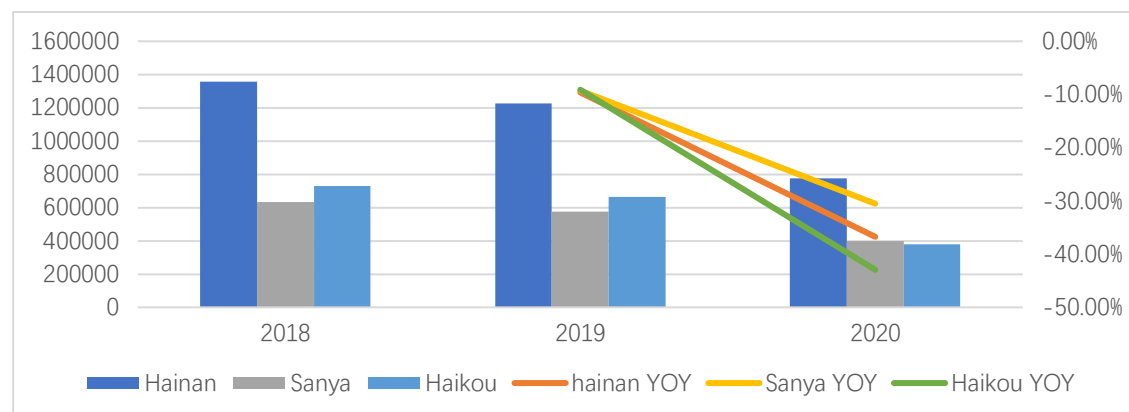
Source: Civil Aviation Administration of China, airports and civil Aviation companies

From the data of domestic airlines, compared with previous years, the number of passengers delivered by international companies in May dropped significantly. Passenger traffic on Air China's international routes decreased by 97.05% year-on-year; China Eastern Airlines decreased 97.83% year-on-year; China Southern Airlines decreased 97.48% year-on-year; Hainan Airline declined 99.12% year-on-year; Shanghai Juneyao Airline decreased 98.00% year-on-year.

(3) Hainan: The number of arrivals by flight has been restored to a certain extent

Due to the continued impact of the epidemic, the number of passengers arriving by flight in May in Hainan Province has fallen significantly compared with previous years. But it has recovered to a certain extent. In May this year, the number of arrivals by flight in Hainan Province decreased by 36.74% year-on-year. Sanya fell by 30.51% year-on-year; Haikou fell by 42.94% year-on-year.

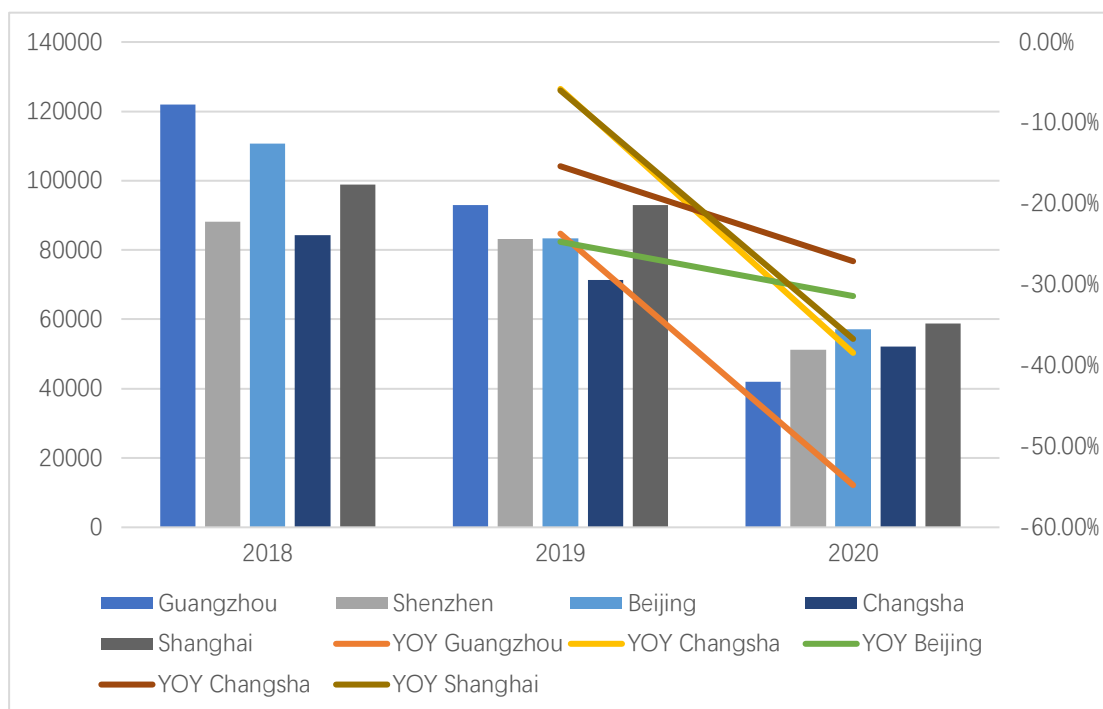
Figure 13: Hainan Province arrived in May by flight YOY



Source: Civil Aviation Administration of China, airports and civil Aviation companies

In May 2019, among the passengers flying to Hainan, the top five cities of departure are Guangzhou, Shenzhen, Beijing, Changsha, Shanghai, as was the top 5 in May 2019. However, in May 2020, these cities declined significantly compared with previous years: Guangzhou experienced the largest decline, and the number of passengers arriving in Hainan dropped by 54.78% year-on-year. Beijing, Shanghai, Shenzhen and Changsha have recovered to a certain extent, with Beijing down 31.41% year-on-year; Shanghai down 36.71% year-on-year; Shenzhen down 38.44% year-on-year. Changsha dropped by 27.10% year-on-year.

Figure 14: Departure cities flight to Hainan Province in May YOY



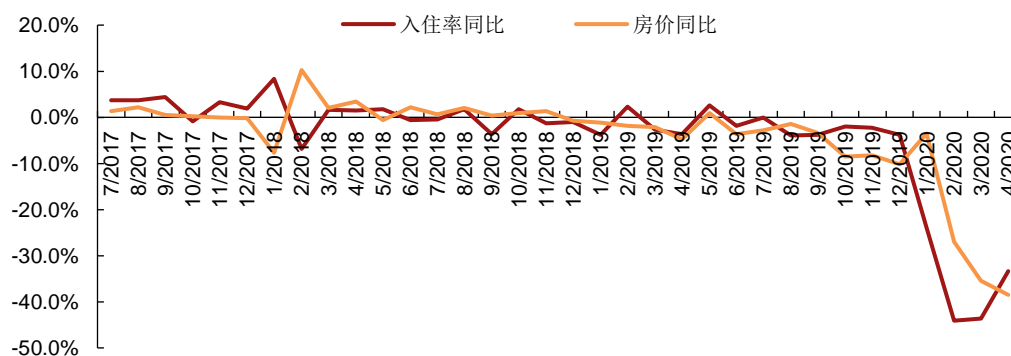
Source: Civil Aviation Administration of China, airports and civil Aviation companies

2. Hotel: Hotel occupancy rate rebounded in May, economy and mid-range recovered better

The epidemic impacted offline consumption, and the occupancy rate of STR hotels fell by 33pct in April.

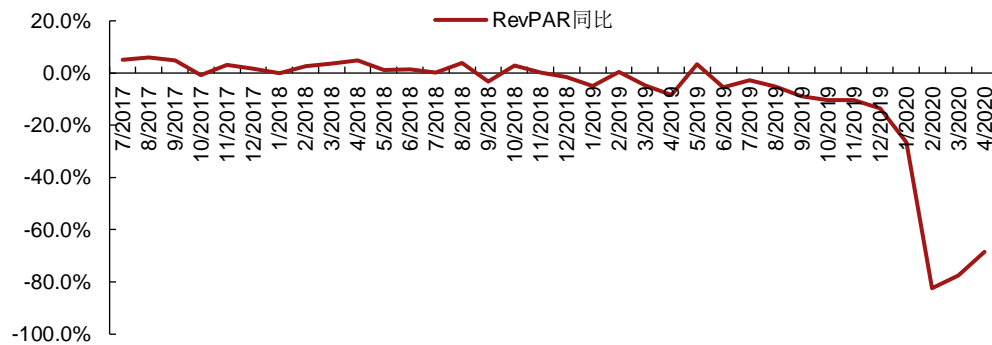
In April, the occupancy rate of STR sample hotels (including Hong Kong and Macao) was 35.3%, a year-on-year decrease of 33.4pct, and the average room rate was RMB 319 Yuan/room, a year-on-year decrease of 38.5%, and RevPAR was RMB 113 Yuan/room, a year-on-year decrease of 68.5%, a growth rate compared with March (-77.6%) improved slightly, excluding Hong Kong, the RevPAR of hotels nationwide fell by 66% in March, which was better than in March (-76%).

Figure 15: April STR sample hotel occupancy rate and room price are both declined



Source: STR

Figure 16: In April, RevPAR of STR sample restaurants decreased by 68.5%



Source: STR

In May, 98% of the hotels resumed work. The overall occupancy rate of the hotel industry was 40%-50%. High-star hotel occupancy rate was around 30%. The occupancy rates of mid-range and budget hotels were around 65%. In terms of different types of cities, the occupancy rate of provincial capital cities with business and travel as a whole has returned to 60%, while the occupancy rate of first-tier cities and tourist cities is between 40% and 50%.

Figure 17: Year-on-year change of RevPAR for different types of hotels



Figure 18: Trends of occupancy rate in different types of cities



3. Outbound travel: the international passenger flow fell sharply due to the international epidemic situation

International air passenger traffic dropped significantly in March.

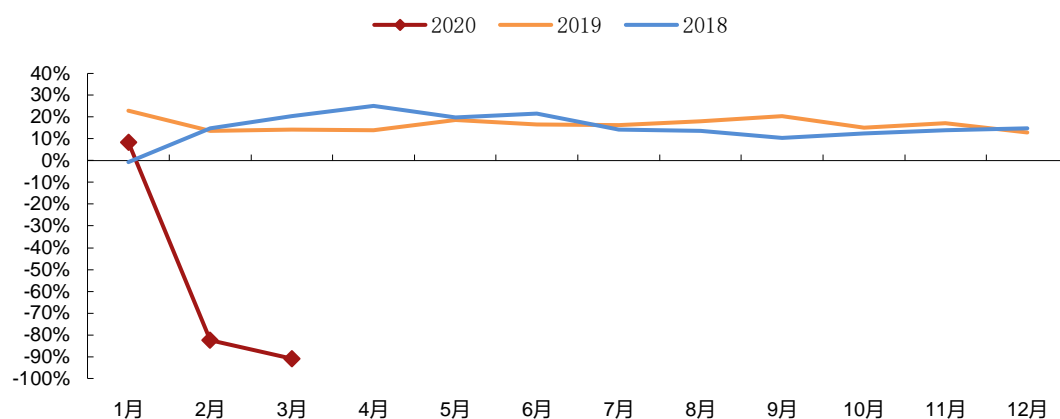
In March, the passenger traffic of China civil aviation international routes dropped to 552,000, a year-on-year decrease of 90.9%, a further decrease from February (-82.4%). Compared with the same period last year, it further decreased (14.1%).

The data of the six major airlines fell sharply in April.¹

In April, the six major airlines carried 7.2 passengers on international routes, a year-on-year decrease of 98.7%, mainly affected by the domestic epidemic. In April, due to the international epidemic spread, a large number of flights were suspended, and passenger traffic (in March, passenger traffic fell 90.4%) fell further. From January to April, the six major airlines carried 7.635 million passengers on international routes, a year-on-year decrease of 65.8%, which was lower than the cumulative value growth rate of the same period last year (+13.47%).

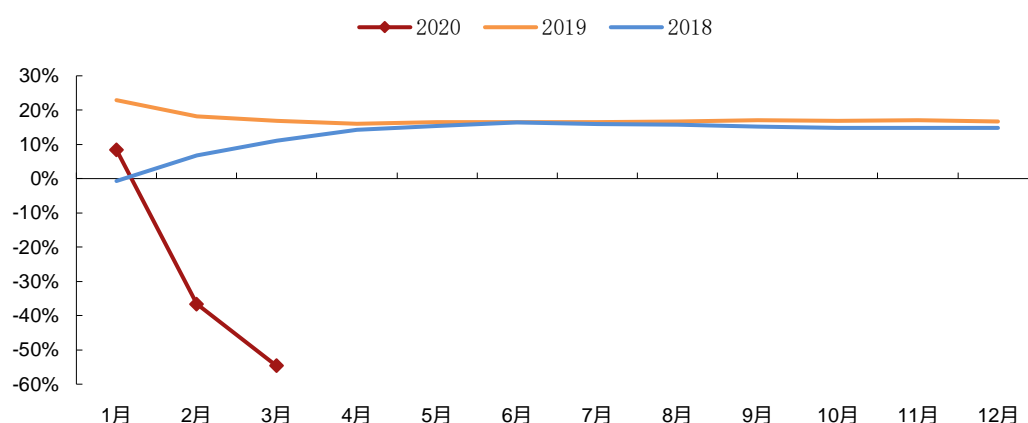
¹ Six major airlines: Air China, China Eastern Airlines, China Southern Airlines, Hainan Airline, Spring Airlines, and Juneyao Airline.

Figure 19: Monthly YOY growth rate of passenger traffic on civil aviation international routes



Source: Civil Aviation Administration of China

Figure 20: Monthly cumulative YOY growth of passenger traffic on civil aviation international routes



Source: Civil Aviation Administration of China

The data of the six major airlines fell sharply in March.

In March, the six major airlines carried 544,000 passengers on international routes, down 90.3% year-on-year, mainly affected by the domestic epidemic. The international epidemic spread seriously in March, a large number of flights were suspended, and the passenger flow continued to remain low. From January to March, the six major airlines carried 7.567 million passengers on international routes, a year-on-year decrease of 54.71%, which was lower than the cumulative value growth rate of the same period last year (+14.27%).

Figure 21: Summary and growth rate of monthly passenger traffic in six major aviation companies of international routes



Source: Aviation company announcement

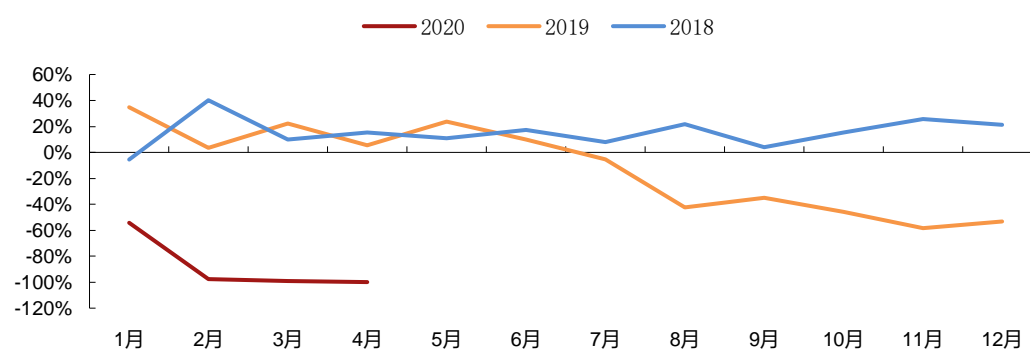
Affected by the epidemic, the international passenger flow is basically 0. In April 2020, affected by the epidemic, Hong Kong's passenger flow decreased by 99.93% year-on-year; Macau's passenger flow decreased by 99.55% year-on-year, and Taiwan China dropped by 99.85%; under the influence of the epidemic, Japan's line decreased by 99.97%; South Korea's line A drop of 99.20%; a drop of 100% in Thailand and a 95.30% drop in passenger traffic in Vietnam in May.

The data are as follows:

In April, Hong Kong received 2,900 mainland tourists, a year-on-year decrease of 99.93%. From January to April, Hong Kong received 2.67 million mainland tourists, a year-on-year decrease of 85.85%.

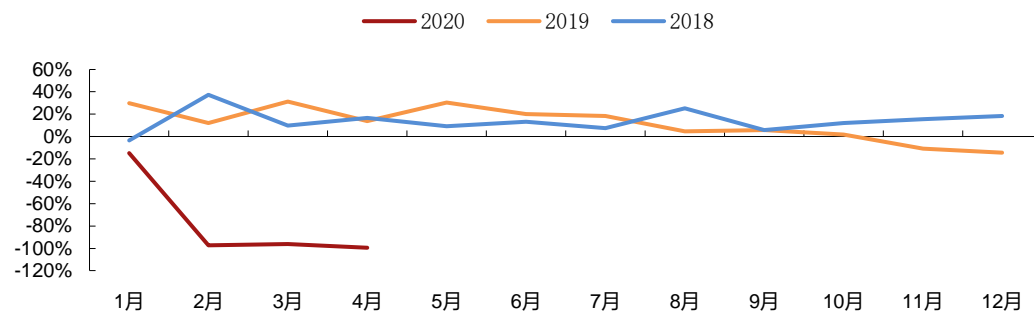
In April, Macau received 10,500 mainland tourists, a year-on-year decrease of 99.55%. From January to April, Macau received a total of 2.3 million mainland tourists, a year-on-year decrease of 76.46%.

Figure 22: Monthly YOY growth of mainland Chinese tourists to Hong Kong



Source: Hong Kong Partnernet

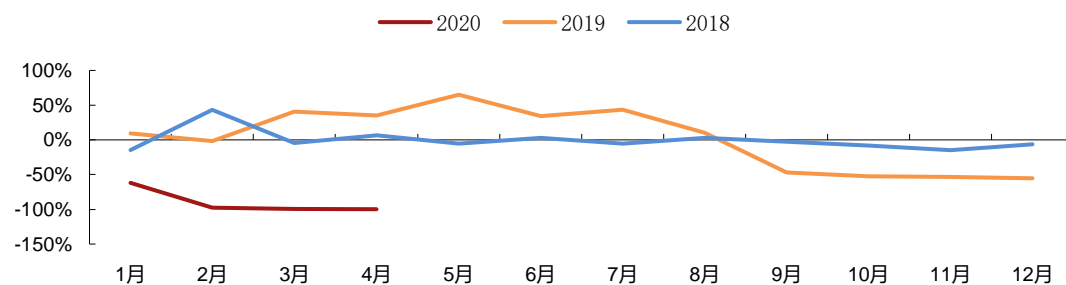
Figure 23: Monthly YOY growth of mainland Chinese tourists to Macau



Source: Macau Tourism Data Network

In April, Taiwan China received 500 mainland tourists, a year-on-year decrease of 99.85%. From January to April, Taiwan China received a total of 98,600 mainland tourists, a year-on-year decrease of 91.04%.

Figure 24: Monthly YOY growth of mainland Chinese tourists to Taiwan China

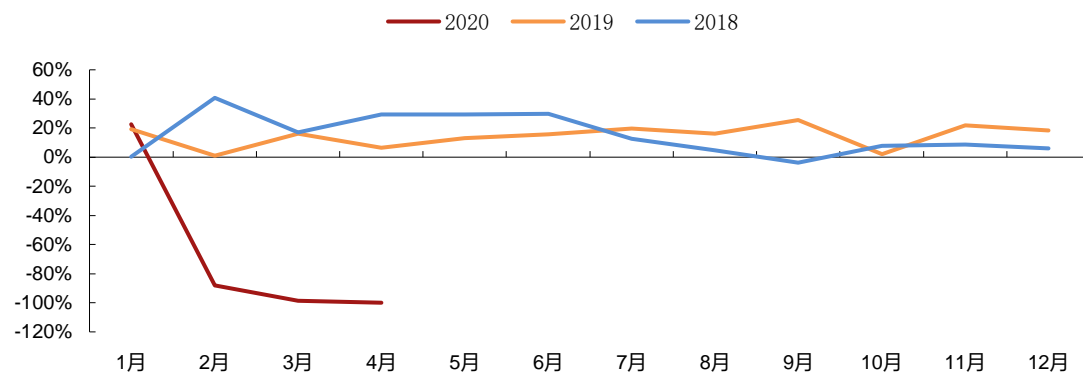


Source: Tourism Bureau, M.O.T.C.

In April, Japan received 200 Chinese tourists, a year-on-year decrease of 99.97%. From January to April, Japan received a total of 1.02million Chinese tourists, a year-on-year decrease of 64.68%.

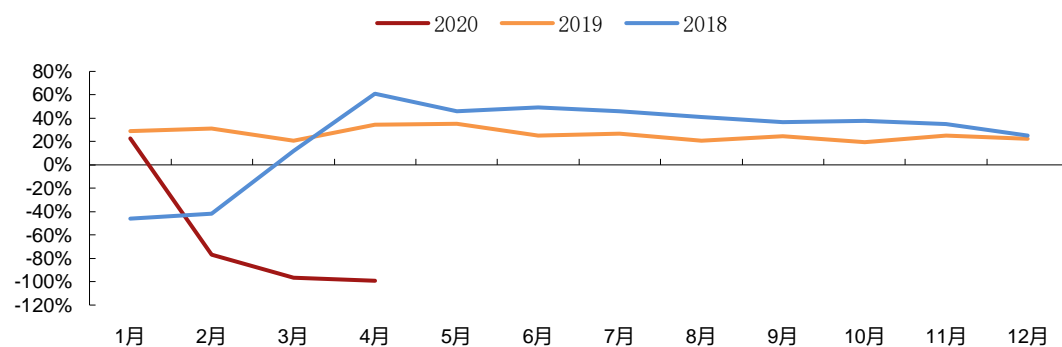
In April, South Korea received 3900 Chinese tourists, a year-on-year decrease of 99.20%. From January to April, South Korea received a total of 606,300 Chinese tourists, a year-on-year decrease of 66.82%.

Figure 25: Monthly YOY growth of mainland Chinese tourists to Japan



Source: Japan National Tourism Organization

Figure 26: Monthly YOY growth of mainland Chinese tourists to Korea

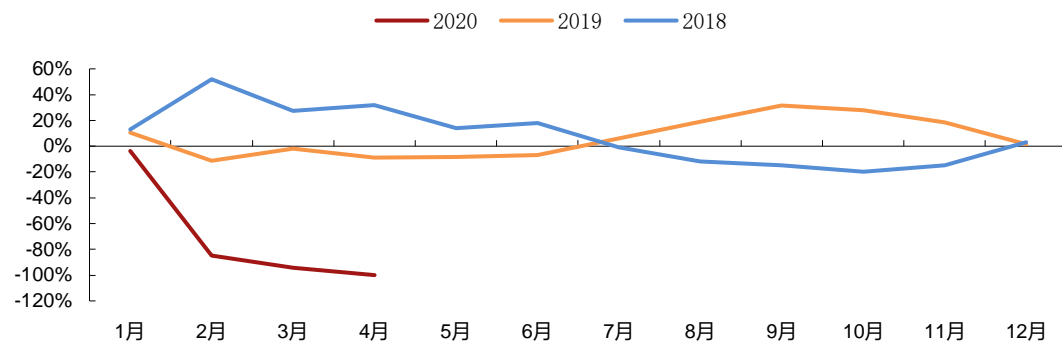


Source: Korea Tourism Organization

In April, Thailand received 0 Chinese tourists, a year-on-year decrease of 100%. From January to March, Thailand received 1.24 million Chinese tourists, a year-on-year decrease of 68.96%.

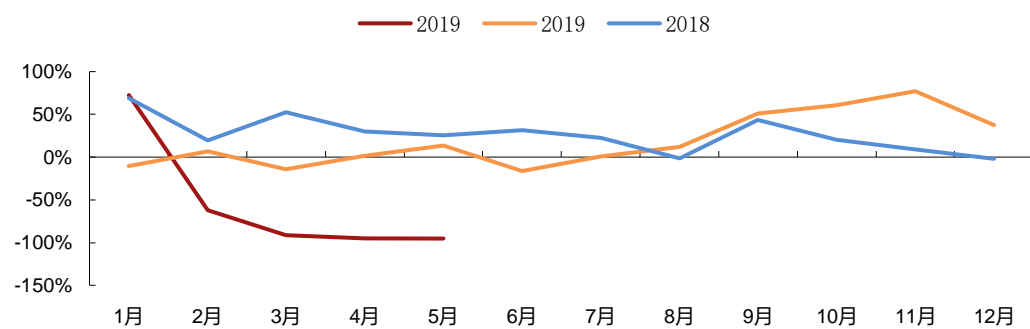
In May, Vietnam received 20,100 Chinese tourists, a year-on-year decrease of 95.3%. From January to May, Vietnam received a total of 913,800 Chinese tourists, a year-on-year decrease of 57.21%.

Figure 27: Monthly YOY growth of mainland Chinese tourists to Thailand



Source: National Statistical Office of Thailand

Figure 28: Monthly YOY growth of mainland Chinese tourists to Vietnam

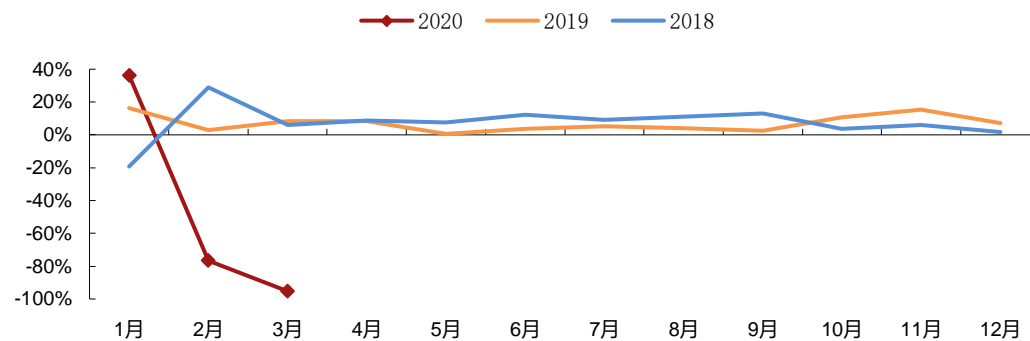


Source: General Statistics Office of Vietnam

In March, Austria received 2,900 Chinese tourists, a year-on-year decrease of 95.24%. In 2020, Austria received a total of 69,400 Chinese tourists, a year-on-year increase of 55.57%.

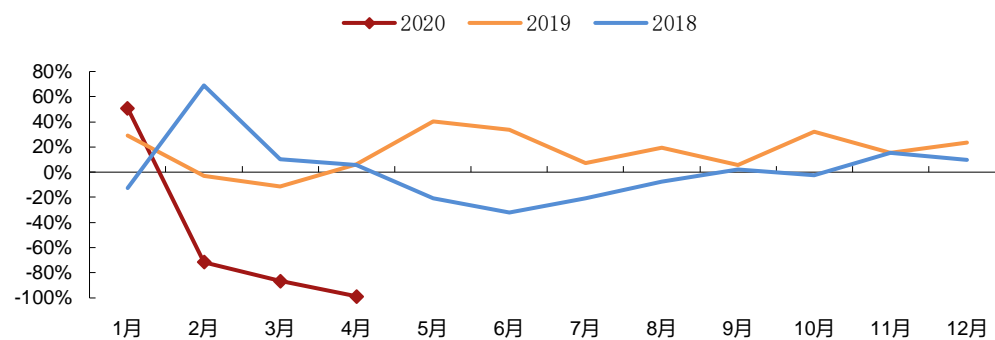
In April, Finland received 100 Chinese tourists, a year-on-year decrease of 98.69%. From January to April, Finland received a total of 401,800 Chinese tourists, a year-on-year decrease of 38.76%.

Figure 29: Monthly YOY growth of mainland Chinese tourists to Austria



Source: Statistic Austria

Figure 30: Monthly YOY growth of mainland Chinese tourists to Finland

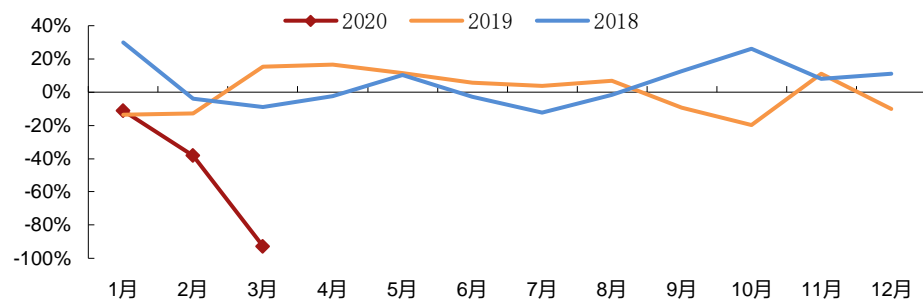


Source: Statistics Finland

In March, Poland's national accommodation facilities received 6,400 Chinese tourists, a year-on-year decrease of 92.64%.

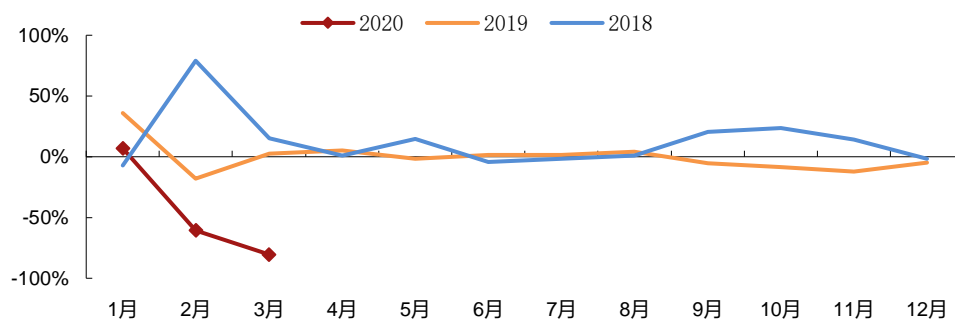
In March, Canada received 6,700 Chinese tourists, a year-on-year decrease of 80.41%.

Figure 31: Monthly YOY growth of Chinese tourists received by accommodation facilities in Poland



Source: Statistics Poland

Figure 32: Monthly YOY growth of mainland Chinese tourists to Canada

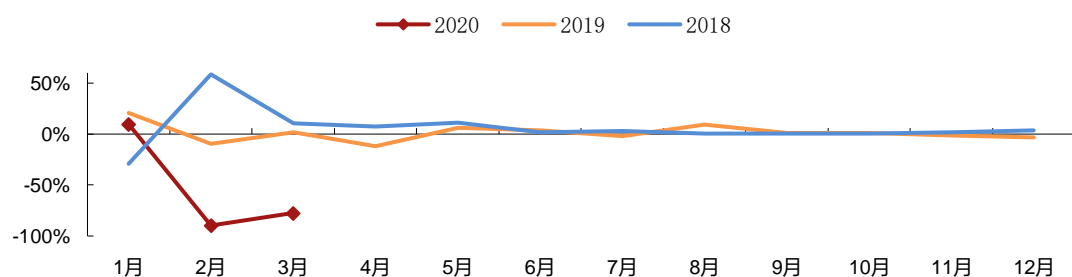


Source: Statistics Canada

In February, Australia received 21,300 Chinese tourists, a year-on-year decrease of 89.68%.

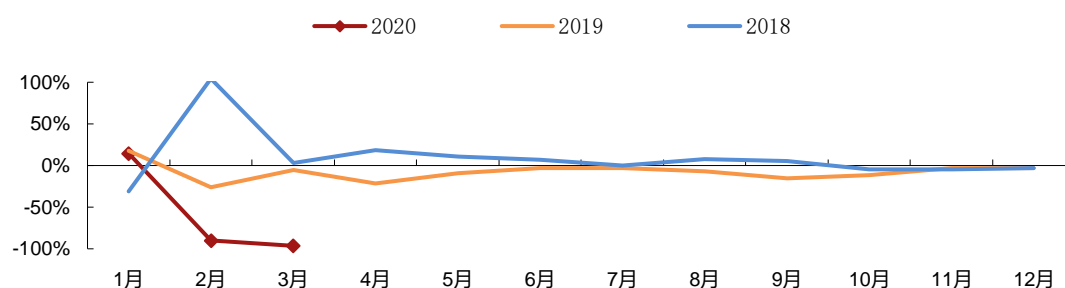
In February, New Zealand received 50 thousand Chinese tourists, a year-on-year decrease of 90.16%.

Figure 33: Monthly YOY growth of mainland Chinese tourists to Australia



Source: Australian Bureau of Statistics

Figure 34: Monthly YOY growth of mainland Chinese tourists to New Zealand



Source: Statistics New Zealand

Pricing and Promotion

1. The price of duty-free commodity: successively launch or extend product discounts under epidemic conditions

Affected by the epidemic, since February of this year, CDFG-Sanya and Sunrise Shanghai have successively launched discounts on cosmetic products. Lotte in Seoul has started promotion since January. In addition to the impact of the epidemic, the most important reason may be that the January holiday is the peak of outbound travel. Therefore, a large number of discount activities have been launched to attract tourists. Since then, the discount activity has continued due to the impact of the epidemic.

2. Price and discount of makeup

Judging from the makeup, in terms of discount coverage, Sanya Duty Free Shop the least, followed by Shanghai in the second place, and Lotte Seoul Store is the widest. As far as discounts are concerned, Shanghai is the smallest which is at 10%-20%; Sanya duty-free shops have a larger range, basically 25% off, up to 32% off; Lotte Seoul stores have the largest discounts, mainly 30%-40% off, up to 41% off.

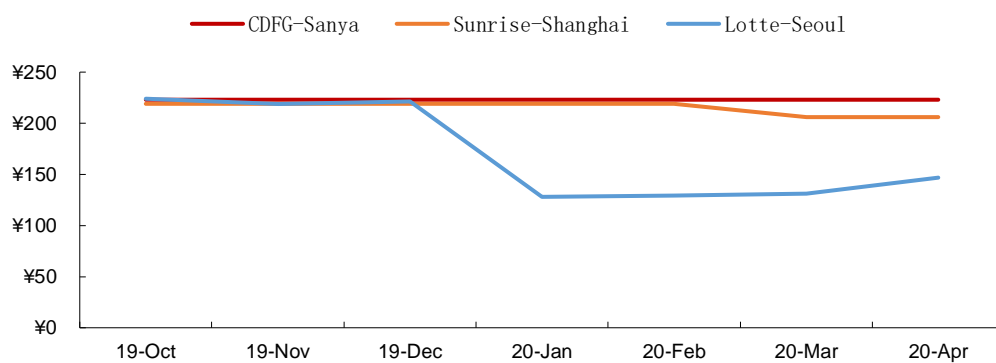
Table 6: Price and discount of popular Makeup during epidemic (Unit: RMB)

Product	Retailer	Apr-20	Mar-20	Feb-20	Jan-20	Dec-19	Nov-19	Oct-19	Discount
Dior Addict Lipstick	CDFG-Sanya	223	223	223	223	223	223	223	-
	Sunrise-Shanghai	206	206	219	219	219	219	219	6%
	Lotte-Seoul	147	131	129	128	221	219	224	33%-61%
Estee Lauder	CDFG-Sanya	209	209	209	278	278	278	278	25%
Double Wear stay-in-place Foundation	Sunrise-Shanghai	224	224	281	281	281	281	281	20%
	Lotte-Seoul	223	224	221	218	248	247	252	10%

Lancome L'Absolu	CDFG-Sanya	220	220	220	220	220	220	220	-
Rouge	Lotte-Seoul	143	143	141	178	180	199	204	20%
Tom Ford Eye Color	CDFG-Sanya	398	396	396	528	528	528	528	25%
Quad	Sunrise-Shanghai	400	470	500	500	500	500	500	6%-20%
	Lotte-Seoul	392	399	393	389	556	553	564	30%
NARS Light	CDFG-Sanya	297	297	297	297	297	297	297	-
Reflecting Setting	Sunrise-Shanghai	269	286	286	286	286	286	286	6%
Powder	Lotte-Seoul	176	174	174	172	268	266	271	35%
Tom Ford lips&boys	CDFG-Sanya	161	161	179	238	238	238	238	25%-32%
	Sunrise-Shanghai	160	188	200	200	200	200	200	6%-20%
	Lotte-Seoul	154	156	154	153	218	217	221	30%

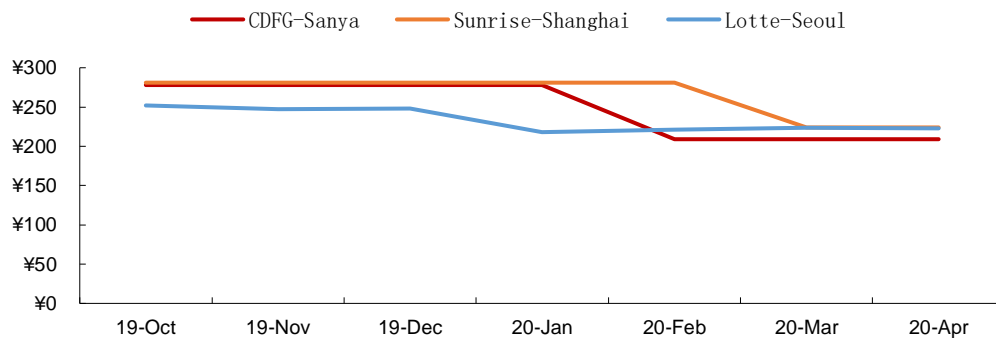
Source: Jessica's Secret

Figure 41: Price Fluctuation of Dior Addict Lipstick



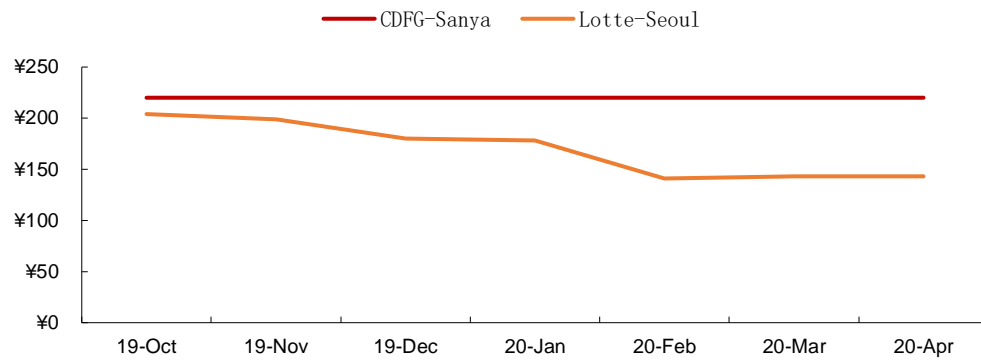
Source: Jessica's Secret

Figure 42: Price Fluctuation of Estee Lauder Double Wear stay-in-place Foundation



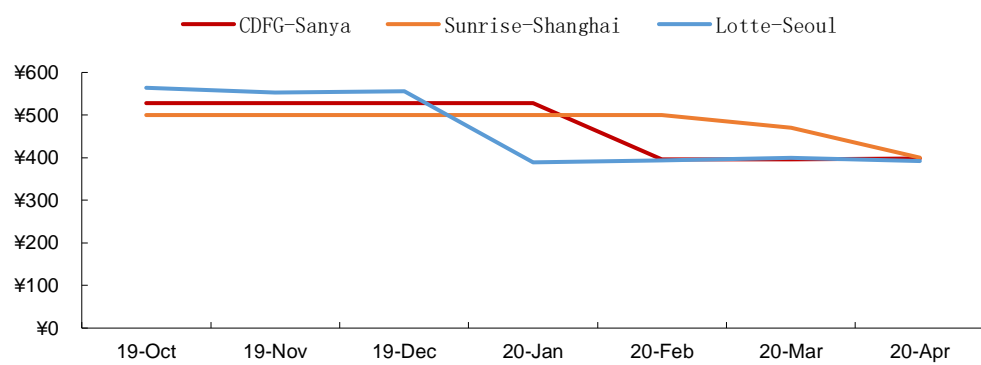
Source: Jessica's Secret

Figure 43: Price Fluctuation of Lancome L'Absolu Rouge



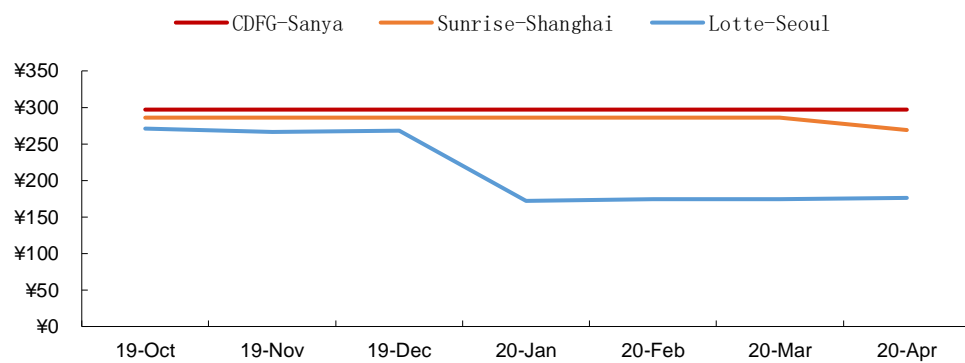
Source: Jessica's Secret

Figure 44: Price Fluctuation of Tom Ford Eye Color Quad



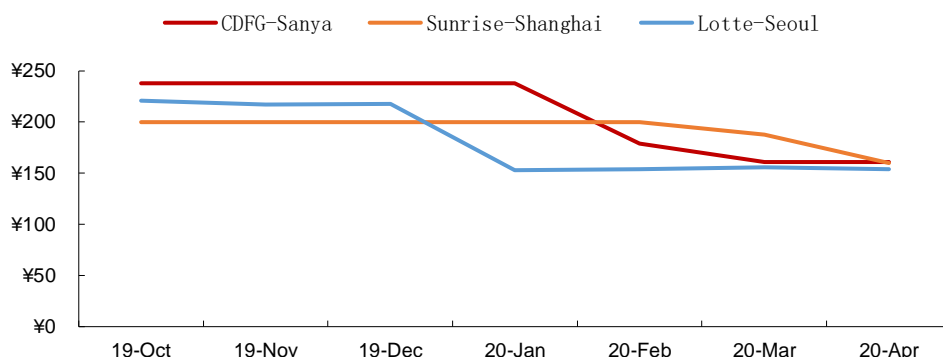
Source: Jessica's Secret

Figure 45: Price Fluctuation of NARS Light Reflecting Setting Powder



Source: Jessica's Secret

Figure 46: Price Fluctuation of Tom Ford lips & boys



Source: Jessica's Secret

3. Price and discount of skincare

Skincare is similar to the case of makeup. In terms of discount coverage, the Lotte Seoul store is still the widest, followed by Sunshine Shanghai and Sanya Duty Free Shops. As far as discounts are concerned, some brands in Sanya Duty Free Shops have a larger discount of up to 25% off; the daily Shanghai discounts are 6%-20% off. Lotte Seoul stores have the largest overall discounts, and some brands have between 32%-35% off.

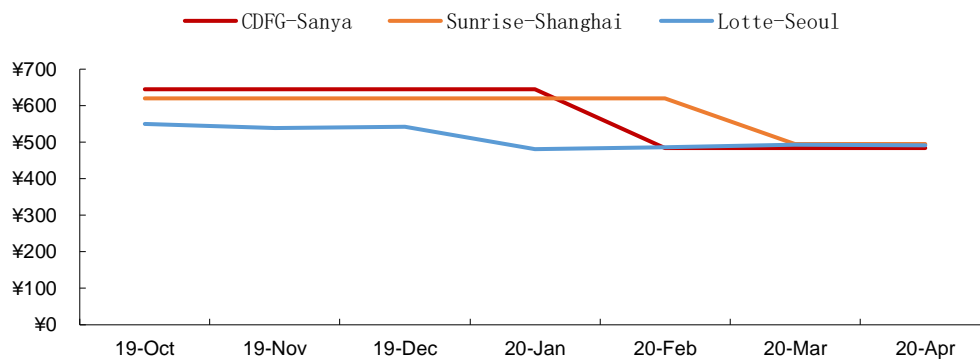
Table 7: The price and discount of the popular skincare products during epidemic (unit: RMB)

Product	Retailer	Apr-20	Mar-20	Feb-20	Jan-20	Dec-19	Nov-19	Oct-19	Discount
Estée Lauder Advanced Night Repair Synchronized Recovery Complex II 50ML	CDFG-Sanya	484	484	484	645	645	645	645	25%
	Sunrise-Shanghai	495	495	620	620	620	620	620	20%
	Lotte-Seoul	491	493	486	481	542	539	550	10%
La Mer Crème de la Mer 60ML	CDFG-Sanya	1610	1610	1610	2146	2146	2146	2146	25%
	Sunrise-Shanghai	1669	1757	1869	1869	1869	1869	1869	6%-11%
	Lotte-Seoul	1399	1404	1384	1371	2034	2021	2063	32%
La Mer The Treatment Lotion 150ML	CDFG-Sanya	645	645	645	860	860	860	860	25%
	Sunrise-Shanghai	682	682	854	854	854	854	854	20%
	Lotte-Seoul	686	688	679	672	997	990	1011	32%

Lancome Advanced Génifique Youth Activating 100ML	CDFG-Sanya	1050	1050	1050	1050	1050	995	995	-
	Lotte-Seoul	817	819	808	800	902	896	915	10%
Guerlain Abeille Royale Youth Watery Oil 50ML	CDFG-Sanya	875	875	875	875	875	744	875	-
	Sunrise-Shanghai	814	814	866	866	866	866	866	6%
	Lotte-Seoul	624	626	617	611	950	944	964	35%
SK-II GenOptics Aura Essence 50ML	CDFG-Sanya	1115	1115	1115	1115	1199	1199	1199	7%
	Sunrise-Shanghai	1073	1073	1142	1142	1142	1142	1142	6%
	Lotte-Seoul	910	913	900	891	1178	1170	1194	34%

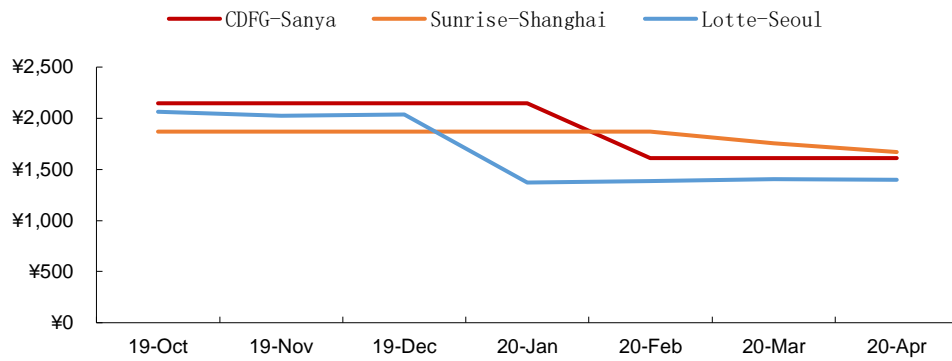
Source: Jessica's Secret

Figure 38: Price Fluctuation of Estée Lauder Advanced Night Repair Synchronized Recovery Complex II 50ML



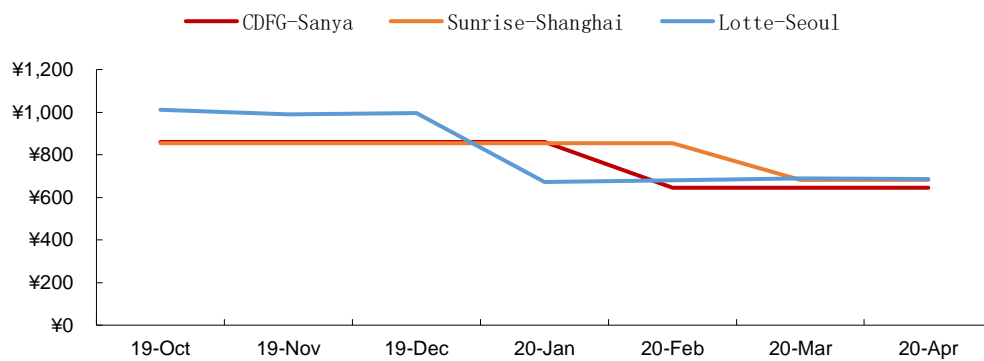
Source: Jessica's Secret

Figure 47: Price Fluctuation of La Mer Crème de la Mer 60ML



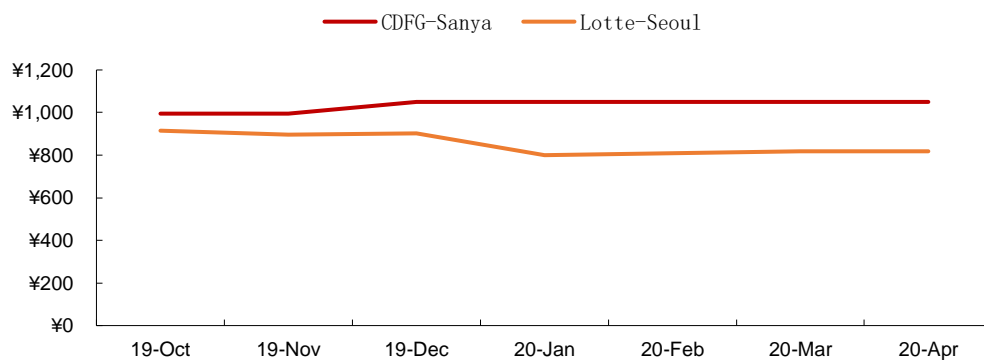
Source: Jessica's Secret

Figure 48: Price Fluctuation of La Mer The Treatment Lotion 150ML



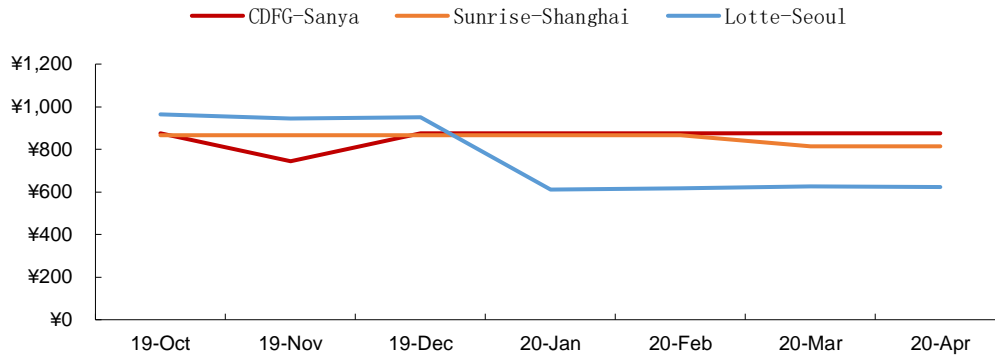
Source: Jessica's Secret

Figure 49: Price Fluctuation of Lancome Advanced Génifique Youth Activating 100ML



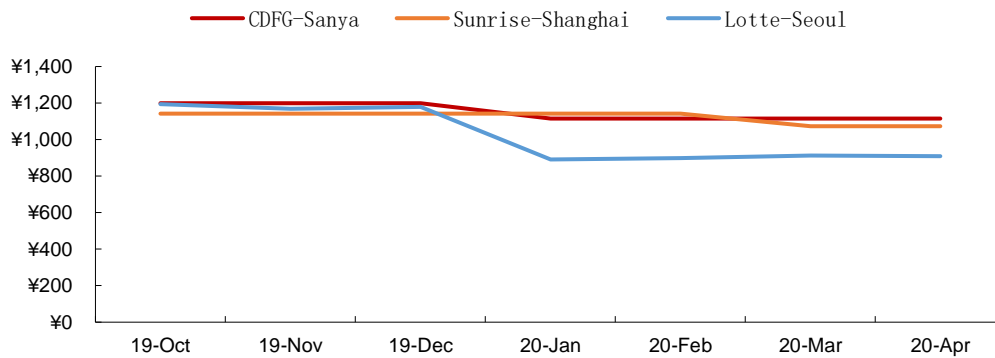
Source: Jessica's Secret

Figure 50: Price Fluctuation of Guerlain Abeille Royale Youth Watery Oil 50ML



Source: Jessica's Secret

Figure 51: Price Fluctuation of SK-II GenOptics Aura Essence 50ML



Source: Jessica's Secret

4. Price and discount of fragrance

Regarding the fragrance covered in below, CDFG-Sanya has the smallest discount coverage, while the range of Sunrise-Shanghai and Lotte-Seoul are similar. But as far as the discount rate is concerned, for each of the same products, the discount rate of the Lotte-Seoul store is basically lower than that of Sunrise-Shanghai, and a large gap is opened.

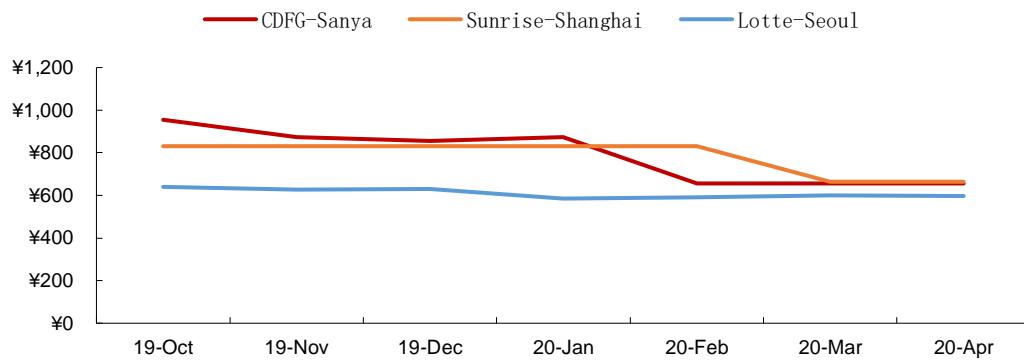
Table 8: The price and discount of the popular skincare products during epidemic (unit: RMB)

SKU	Retailer	Discount
Jo Malone London English Pear & Freesia Cologne 100ML	CDFG-Sanya	25%
	Sunrise-Shanghai	20%
	Lotte-Seoul	6%
Miss Dior Blooming Bouquet EDT 100ML	CDFG-Sanya	—
	Sunrise-Shanghai	6%–20%
	Lotte-Seoul	34%
Chanel Chance Eau Tendre 100ML	CDFG-Sanya	—
	Sunrise-Shanghai	6%

Atelier Cologne Oolang Infini Cologne Absolue 100ML	CDFG-Sanya	–
	Sunrise-Shanghai	6%
	Lotte-Seoul	36%
Giorgio Armani Si Passione EDP 50ML	CDFG-Sanya	–
	Sunrise-Shanghai	6%
	Lotte-Seoul	13%
Gucci Bloom EDP 50ML	CDFG-Sanya	–
	Sunrise-Shanghai	6%
	Lotte-Seoul	22%

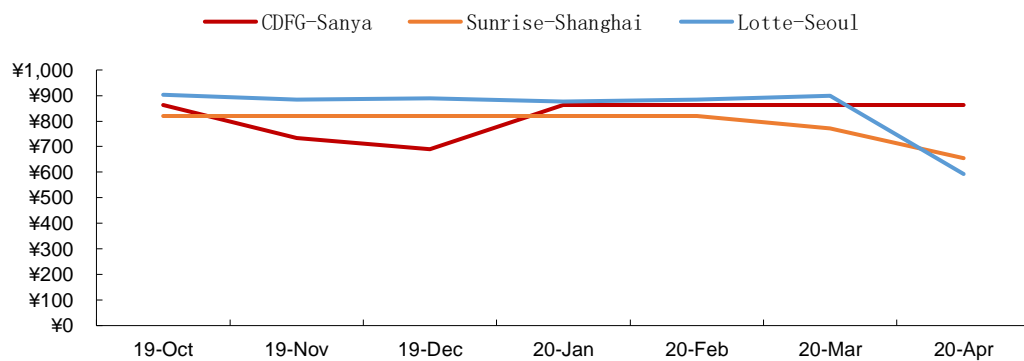
Source: Jessica's Secret

Figure 52: Price Fluctuation of Jo Malone London English Pear & Freesia Cologne 100ML



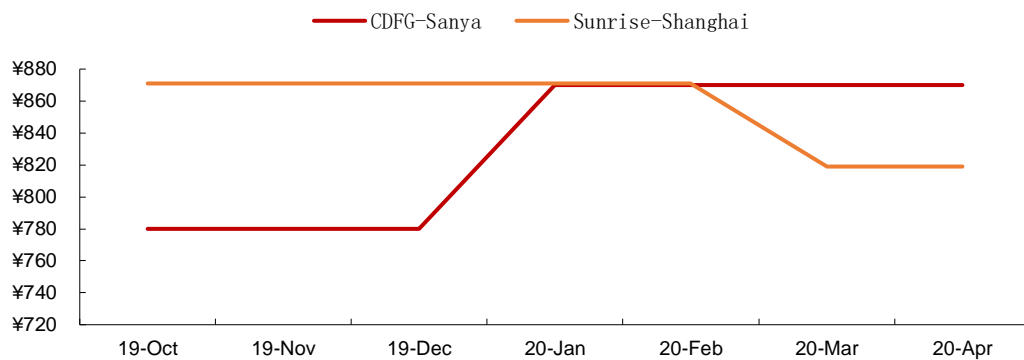
Source: Jessica's Secret

Figure 53: Price Fluctuation of Miss Dior Blooming Bouquet EDT 100ML



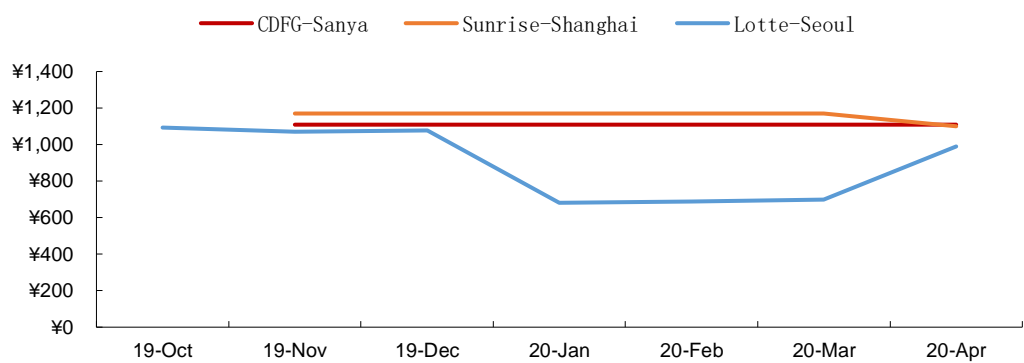
Source: Jessica's Secret

Figure 54: Price Fluctuation of Chanel Chance Eau Tendre 100ML



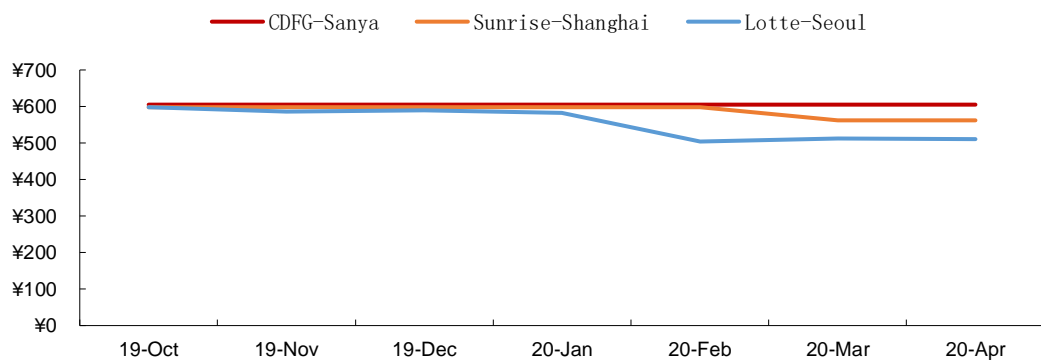
Source: Jessica's Secret

Figure 55: Price Fluctuation of Atelier Cologne Oolang Infini Cologne Absolue 100ML



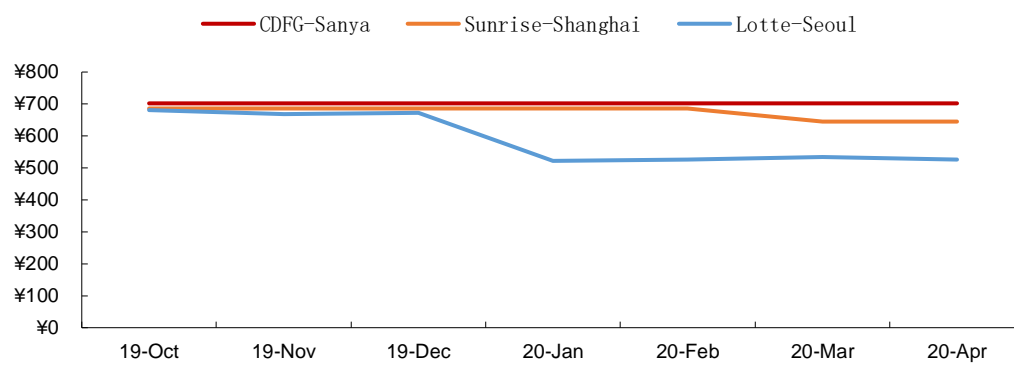
Source: Jessica's Secret

Figure 56: Price Fluctuation of Giorgio Armani Si Passione EDP 50ML



Source: Jessica's Secret

Figure 57: Price Fluctuation of Gucci Bloom EDP 50ML



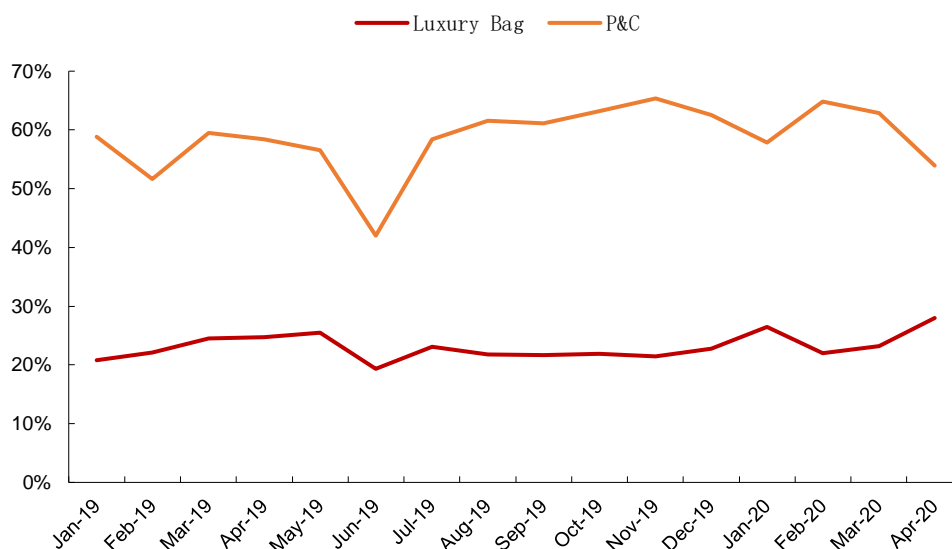
Source: Jessica's Secret

Consumer Trends

1. The click rate by category: Luxury bags and makeup declined, while the skincare increases

According to the click data of the APP 'Jessica's Secret', from January to April this year, the click rate on luxury bags dropped off and then rebounded. The luxury bags click accounted for 26.48% in January. Due to the impact of the epidemic on duty-free shopping for luxury bags, click rate of luxury bags has declined, which resulted in a drop in the click ratio of luggage to 21.96% in February. With the domestic epidemic situation getting better, the click rate of luxury bags gradually rises. In March, the click rate is 23.22% and it reached 27.99% in April.

Figure 58: The click rate for luxury bags and P&C



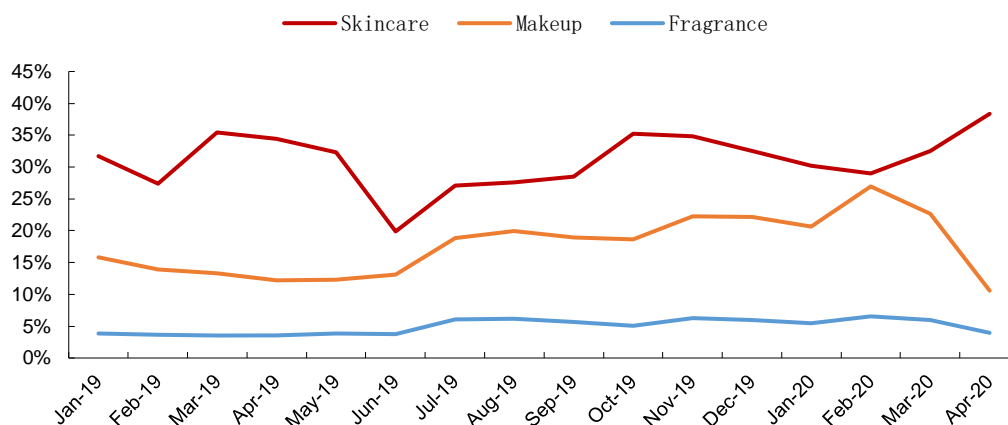
Source: Jessica's Secret

By classify the P&C into skincare, makeup and fragrance, from January to April of this year, the proportion of makeup experienced a short period of sharp increase, and then fell sharply. In January, the proportion of makeup clicks accounted for 20.6%. Due to the accumulation of retaliatory consumer demand in the early stage of the epidemic, the click rate of makeup in February rose sharply to 26.94%. However, as the epidemic continued to prolong and control tended to be normalized, the consumer's demand for makeup dropped greatly, causing the proportion of color cosmetics clicks to drop to 22.64% in March, and to 10.59% in April.

Compared with the makeup, consumer's demand for skincare is relatively rigid and less affected by the epidemic, products. The click rate of skincare from January to March were respectively 30.21%, 28.94% and 32.51%. In April, skincare products were favored by consumers, which was impacted by replenishment online shops, direct mail business and corresponding

promotional activities. The click rate accordingly reached to 38.35%. In addition, in the category of beauty, the click rate of fragrances was low but stable.

Figure 59: The click rate for categories under P&C



Source: Jessica's Secret

2. Ranking of duty-free shops: Hainan duty-free rising fast, leaving the overseas shops far behind

From the click ranking of domestic and overseas shops from September last year to April this year: Sunrise-Shanghai has long been ranked first, CDFG-Sanya and Hainan Meilan Duty-free rise after the outbreak and the speed accelerated dramatically. This increase may be affected by replenishment online shops and discount promotions. However, the deeper reason is considering Hainan's future trend of liberalizing duty-free business license restrictions, China Duty Free Group has been preparing before competitors entering and vigorously develop its own system.

In addition, affected by the epidemic, overseas shops have experienced varying degrees of decline. In February, Everrich ranking fell to 50th, but its ranking quickly recovered as Taiwan's epidemic situation improved. King Power fell to 8th in April, and Changi Airport fell from the 20th to 35th from February to April.

Table 9: Ranking of the click rate of duty-free shops

Product Name	Apr-20	Mar-20	Feb-20	Jan-20	Dec-19	Nov-19	Oct-19	Sep-19
Sunrise-Shanghai	1	1	1	1	1	1	1	1
CDFG-Sanya	2	4	5	6	6	6	7	7
Hainan Meilan Duty-free	3	7	9	9	8	10	11	12
Sunrise-Beijing T3	4	9	6	5	5	4	4	4
DFS (Hongkong)	5	5	7	8	7	9	6	6
Lotte-Seoul	6	10	3	4	4	3	3	5
KIX	7	6	4	3	3	5	5	3
King Power	8	3	2	2	2	2	2	2
Everrich	9	12	50	15	22	11	10	9
Shilla-Seoul	11	8	8	7	9	7	8	8
Sunrise-Beijing T2	12	17	12	11	10	8	9	10
CDFG-Hangzhou	23	37	40	31	23	27	21	26
Hongkong Airport	25	23	26	16	19	25	18	20
ishop Changi	32	20	33	10	11	12	12	11
Heathrow	39	14	15	18	14	14	14	13

Source: Jessica's Secret

Market Survey

The effective filling amount of this questionnaire is 6530. Almost all respondents completed the questionnaire through WeChat, and only 0.92% of the respondents used QQ.

1. Basic information of the respondent

From the perspective of gender composition, the female accounts for a relatively large proportion, 60.2%. In terms of age composition, the young is the main constitute of the respondents, of which 20-34 years old accounted for 62.8%, while under 20 years old accounted for 23.4%, a total of more than 85%.

Figure 60: Gender of the respondents

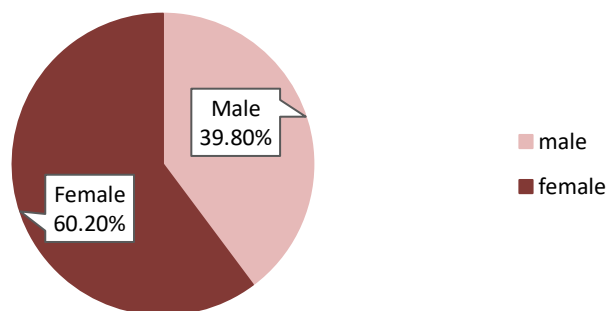
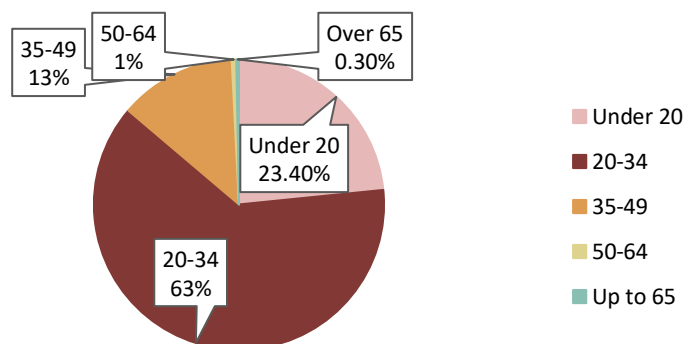


Figure 61: Age of the respondents



From the perspective of family structure, 44.9% of the respondent are singles, and 36.6% of them are families of three or more than three, which is over 80% in total. Meanwhile, the family of two merely accounts 18.5%.

From the perspective of outbound frequency, most respondents' outbound frequencies are at the ordinary level of 1-3 times per year. The frequency of 1-3 times accounts for 70% of the total sample,

while the high frequency of more than 5 times per year accounts for 18.8%.

Figure 62: Family structure of the respondents

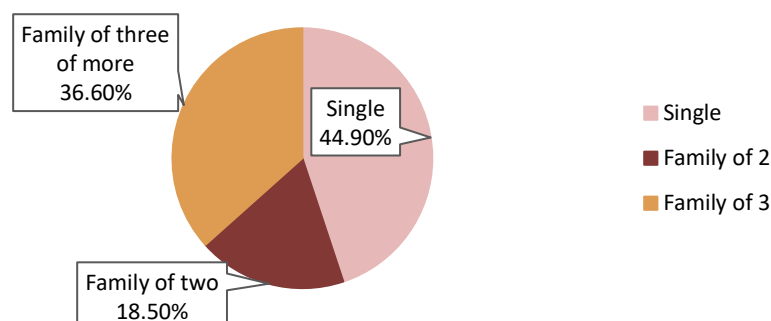
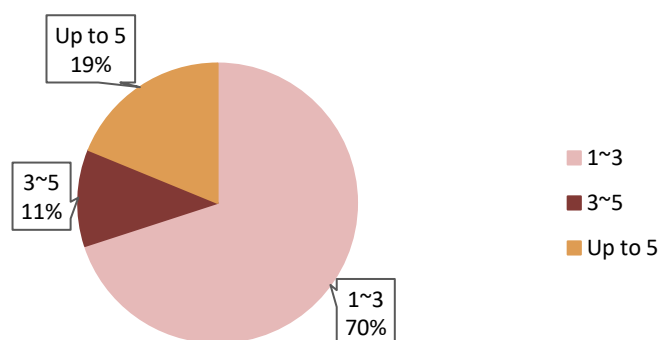


Figure 63: Outbound travel frequency of the respondents



2. Shopping Preference

Duty-free shops are preferred by mostly respondents if they shopping during outbound trips. Among the respondents' Choices, duty-free shops at the airport account for 41.5%, downtown duty-free shops account for 29.1%, and a total count of the two are 70.6%. However, the local department stores still account for 25.7%, not much less than the proportion of downtown duty-free shops. Considering the price and channel advantages of duty-free shops, downtown duty-free shops still have spaces for future development.

More than 80% of the respondents spend no more than 50,000 RMB on duty-free products in a year, which is an ordinary degree, among which the spending below 20,000 RMB accounts for 56.8%, the spending between 20,000 and 50,000 account for 27%. Only few of them spend over 50,000RMB on duty-free goods within a year.

Figure 64: Choice of shopping places

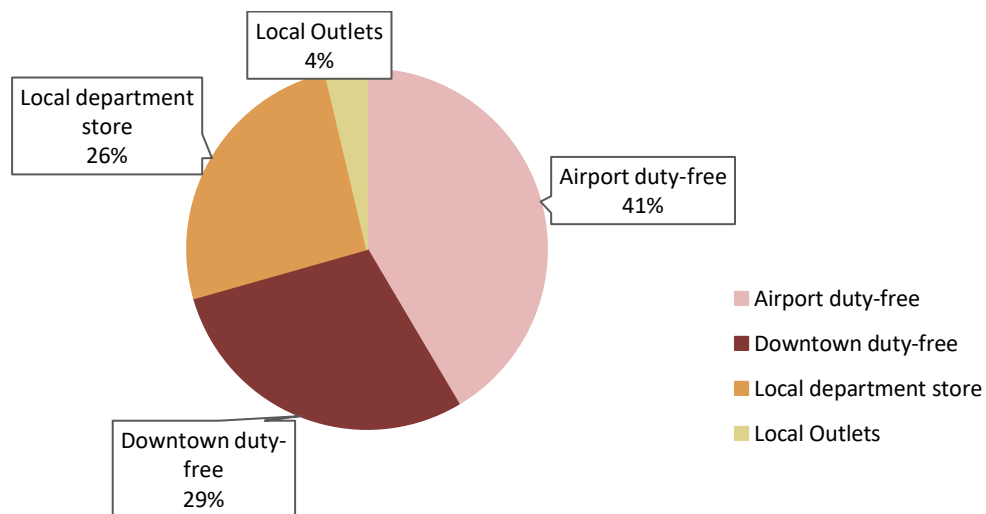
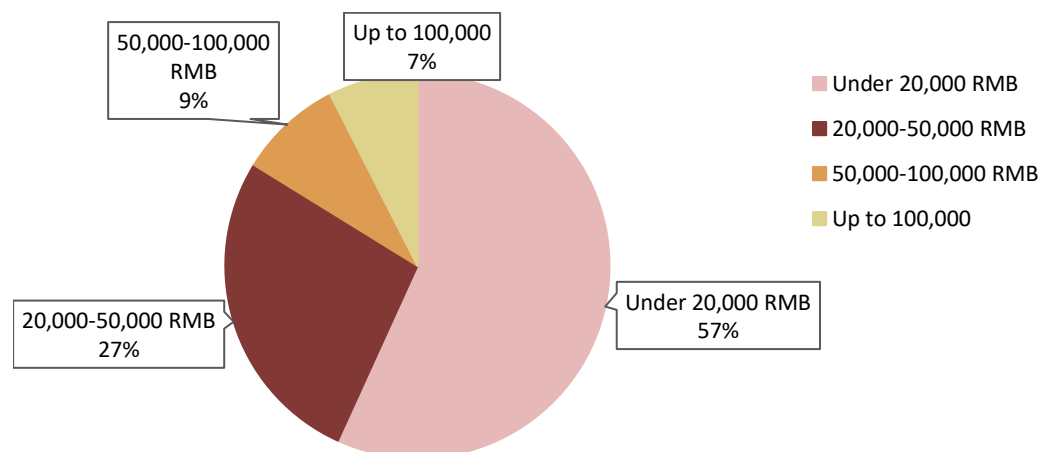


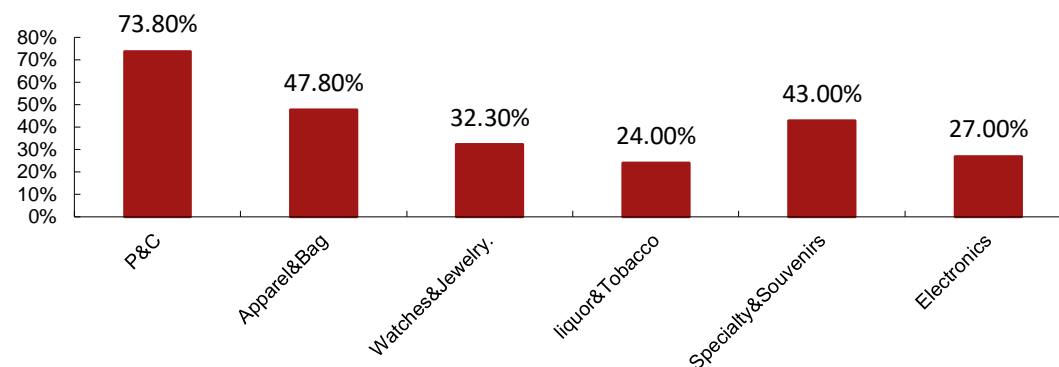
Figure 65: Total spending on duty-free products in a year



Perfume and cosmetic are most popular products in outbound shopping. In a multiple-choice question, 73.8% of the respondents said they would give priority to P&C products. This option has opened a big gap with other options.

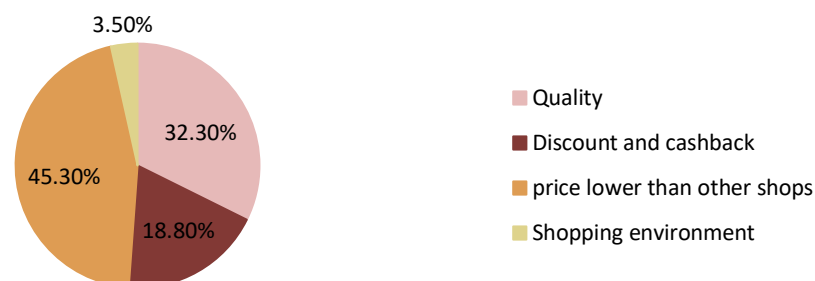
47.8% of the respondents would give priority to clothes and bags. 43% of the respondents chose specialty and souvenirs. 32.3% of the respondents chose watches and jewelry. The choice for electronic devices and tobacco and alcohol are comparatively lower, which are 27% and 24% respectively.

Figure 66: Choice for duty-free products (Multiple choice question)



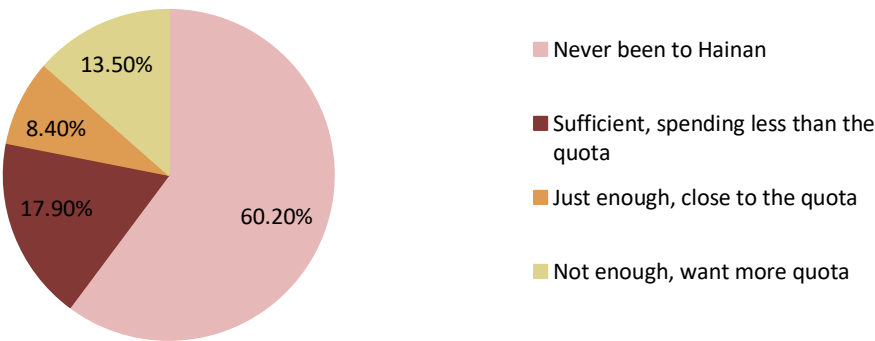
While purchasing duty-free products, price is the most concerned factor for respondents, followed by quality. 45.3% of the respondents indicated that whether the price is lower than other destinations is the most concerned, while 32.3% of them showed more concerned on if the quality is consistent with local department stores. 18.8% of the respondents were most concerned about the way to obtain discount or cashback. However, most of the consumers do not regard the shopping environment as the primary factor. Merely 3.5% of the respondents were most concerned about whether the shopping environment is comfortable.

Figure 67: What is concerned while purchasing duty-free products



60.2% of the respondents have never been to Hainan for shopping, suggesting Hainan still has a large potential in duty-free market. This year, Hainan has launched its online supplementary shopping mall. More customers may be attracted. Besides, regarding the current duty-free shopping quota for Hainan offshore travelers, 17.9% of the respondents indicated that the amount was sufficient, 13.5% of them indicated that the amount was insufficient, and 8.4% indicated that it was just enough.

Figure 68: The attitude towards current quota for duty-free shopping

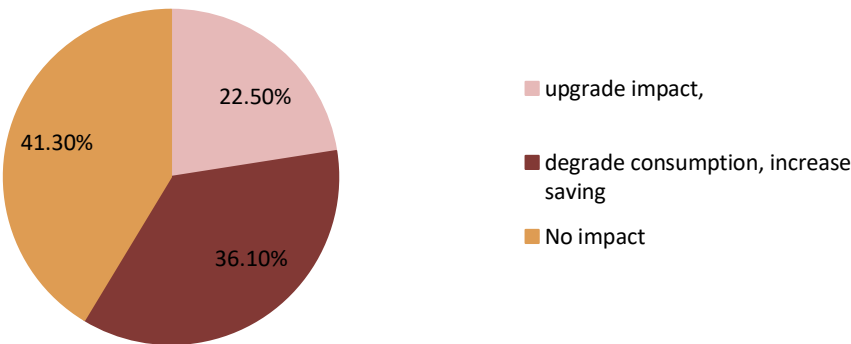


3. The impact of COVID-19 on consumption

The COVID-19 causes a certain negative impact on the consumer’s desire to consume. 36.1% of them hold the opinion that they will degrade their consumption after the epidemic. Considering the downward pressure on the economy, they will also increase their savings.

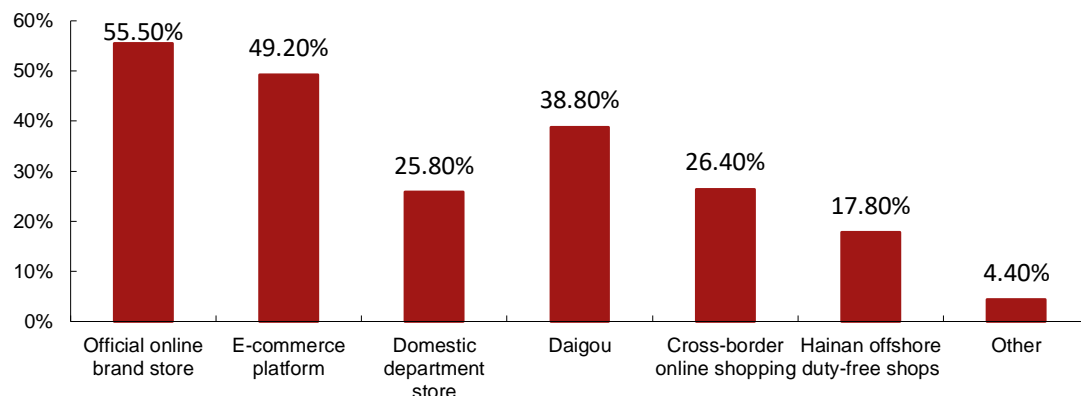
However, the epidemic also has a certain stimulating effect on consumption. 22.5% of the respondents said that they will upgrade their consumption on the contrary, because the life is impermanent and they should carpe diem. In addition, 41.3% of them indicated that their consumption mentality will not be affected by the epidemic.

Figure 69: Consumption after epidemic



Official online brand channels and online e-commerce are the most popular substituted shopping channels owing to the impact of COVID-19. In the multiple-choice question, 55.5% of the respondents will choose official online channels of the brand, including online malls, Mini Program and APP. 49.2% of them prefer Large e-commerce platform including Tmall and JD.com etc. In addition, daigou is another popular substituted channel, which was chosen by 38.8% of the respondents.

Figure 70: The substituted channel of outbound shopping



Large discounts ought to be provided to attract visitors, if the cross-border online shopping may takes more than 14 days. 23.6% of the respondents indicated that only more than 30% OFF be offered, they will choose cross-border online shopping. Meanwhile, 23.4% of the respondents asked for 20% OFF. Therefore, over half of the respondents who are 20%-30% cheaper are required.

If the price of cross-border online shopping is 10%-20% cheaper than that in China, the longest delivery time should be controlled within 7-14 days. 9.8% of the respondents showed that they are willing to wait for around 1 months, while 13.3% of them chose 14-21 days. Another 39.2% of them preferred 7-14 days, and 24.8% of the respondents could merely tolerant 5-7 days.

Figure 71: If it takes 14 days to wait for the cross-border online shopping, how much discount do you want to obtain

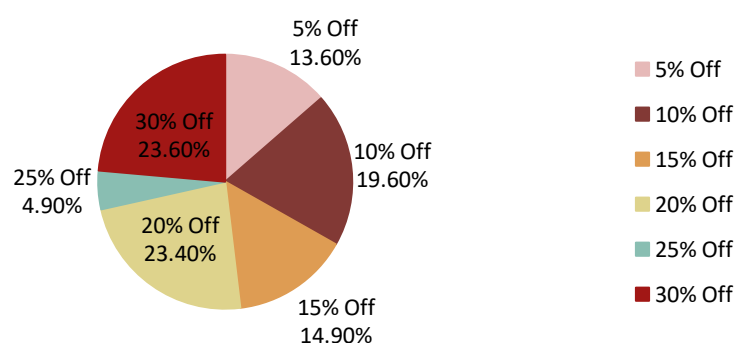
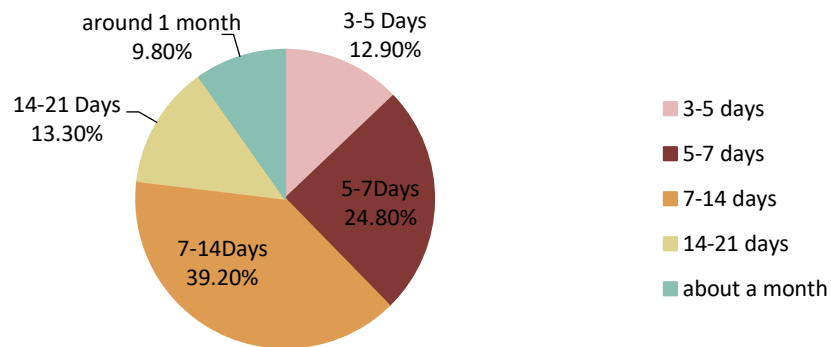
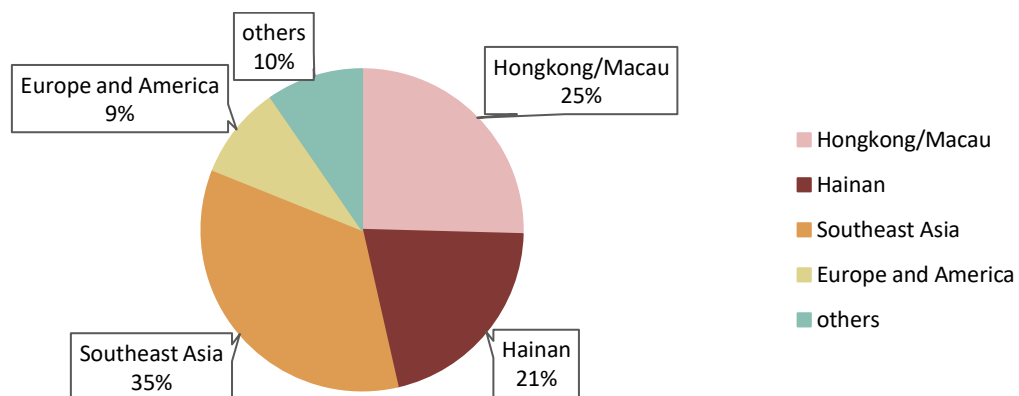


Figure 72: If cross-border online shopping offers 10%-20% discount more than domestic stores, the longest time you are willing to wait



After the epidemic, the first-choice travel destinations of respondents were Southeast Asia, Hong Kong, Macao and Hainan in order. 34.6% of the respondents chose Southeast Asia, 25.4% of them chose HK and Macao, and 21% of them chose Hainan. The proportions of Europe, America and other regions are relatively low, which are 9.3% and 9.6% respectively.

Figure 73: First-choice of travel destination after Covid-19



Expert Opinion on Hainan

Policy Interpretation of Hainan's Travel Retail and Duty-free Industry

Since the *Guiding Opinions on Supporting Hainan's Comprehensive Deepening of Reform and Opening-up* was promulgated by the CPC Central Committee and the State Council in 2018, International tourism consumption center has been set as one of Hainan's strategic positions. The government has been vigorously promoting the opening-up of the tourism consumption industry. In line with this strategic position, we take the travel retail market in Hainan as an entry point. We will first introduce the related policy documents and then analyze the investment policy direction and industry prospects reflected for overseas business participants.

(1) China's policies to promote Hainan's travel retail industry in recent years

Table 9: China's policies to promote Hainan's travel retail industry in recent years

Date	Issuer	Title	Highlight
April 14, 2018	CPC Central Committee and State Council	Guiding Opinions on Supporting Hainan's Comprehensive Deepening of Reform and Opening-up	Decide the strategic position of Hainan to be an international tourism consumption center
Sep.24, 2018	State Council	China (Hainan) Free Trade Pilot Zone Overall Plan	Decide the strategic position of Hainan to be an international tourism consumption center
Nov.27, 2018	Ministry of Finance, General Administration of Customs, and State Taxation Administration	Announcement on Further Adjustment of Duty-free Shopping Policy for Travelers Leaving Hainan Island	Raise the duty-free shopping limit and increase the variety of duty-free goods
Dec.10, 2018	People's Government of Hainan Province	Implementation Plan for Hainan Province to Improve Consumption Promotion Mechanism	Relax market access restrictions in the service and consumption sector and develop cruise tourism around Hainan
Dec.12, 2018	National Development and Reform Commission	Implementation Plan for Hainan Province to Build an International Tourism Consumption Center	Promote tourism industry, develop Hainan into a duty-free shopping center and fashion consumption center
Feb.28, 2020	23 ministries and administrations including Ministry of Finance, Ministry of Commerce, General Administration of Customs, and State Taxation Administration	Implementation Opinions on Promoting Consumption Expansion and Quality Improvement and Accelerating the Formation of a Strong Domestic Market	Further develop the duty-free industry
March 20, 2020	People's Government of Hainan Province	Hainan Province Post-Epidemic Reinvigoration Plan for Tourism Industry	Reinvigorate the tourism industry by efforts in financial support, tourism

		——30 Actions to Reinvigorate the Tourism Industry (2020-2021)	products, marketing, promotion, internationalization, human resource and other areas
June 1, 2020	State Council	Overall Plan for the Construction of Hainan Free Trade Port	Further opening up to build the Hainan free trade port

(2) Development Prospects of Travel Retail Industry Reflected in Policies

- a. More International Brands Will Be Introduced to Develop Hainan into an International Shopping Center
- a) Duty-Free Shopping Limit May Be Further Raised to Release Market Potential

Since the implementation of the duty-free shopping policy in 2011, Hainan's duty-free shopping limit has been raised for four times. The restriction on number of purchases has been partially removed, and the types of the duty-free goods have been enriched. The current maximum shopping amount is RMB 100,000 (approximately USD 14,100), as published in the *Overall Plan for the Construction of Hainan Free Trade Port* during the Two Sessions. It is foreseeable that the consumption demand in Hainan will be further stimulated, providing a broader market for the travel retail industry.

- b) The Government Plans to Introduce More International Brands in Order to Improve the Internationalization Level of Hainan's Tourism Consumption Market

Early in 2018, in the *Guiding Opinions on Supporting Hainan's Comprehensive Deepening of Reform and Opening-up and Implementation Plan for Hainan Province to Build an International Tourism Consumption Center*, China's central government proposed to attract international high-end and fashionable brands to develop Hainan into a "world-renowned international tourism consumption destination". Hainan government's *Post-Epidemic Reinvigoration Plan for Tourism Industry* promulgated this year also mentions to encourage the duty-free stores to increase its commodities' brand variety, and to introduce measures to enhance the internationalization of Hainan's tourism industry. The latest *Overall Plan for the Construction of Hainan Free Trade Port* still adheres to the positioning of "international tourism consumption center".

While encouraging the development of tourism consumption, the

government has also made great efforts to optimize the investment environment and attract investors. The Hainan government has issued the Hainan Provincial Business Environment Optimization Action Plan (2019-2020), which aims to improve the legalization, internationalization, and facilitation level of the business environment and to form a good investment environment. In *Overall Plan for the Construction of Hainan Free Trade Port*, the Government attaches greater importance to "innovation and improvement of the investment freedom regime", while "focusing on trade and investment liberalization and facilitation", supporting the free and convenient flow of cross-border capital. The new policy demonstrates an open attitude towards foreign investment. With policy encouragement, it will be easier for foreign travel retailers and brands to enter into Hainan market in the future.

- b. Foreign Duty-free Groups May Be Allowed to Enter China
- a) Hainan Government Is Striving to Open Up the Duty-free Industry for Foreign Investors

In March this year, Department of Commerce of Hainan Province stated that it is currently cooperating with the Haikou Customs and other departments to communicate with relevant administrations and ministries of the central government to strive for a more open duty-free policy and is promoting to introduce world-famous duty-free groups to operate duty-free stores in Hainan.² This means that limitations on foreign duty-free groups investing in China may be relaxed. Foreign duty-free groups may obtain duty-free business license to in the future so that they can have a share in Hainan's extremely potential duty-free consumption market.

- b) The Opening-up of China's Duty-free Industry

- i) Around 2000, Foreign Investment Was Clearly Prohibited

In the *Regulations on Further Strengthening the Centralized and Unified Management of Duty-Free Businesses* in 2000³, the relevant authorities made it clear that the duty-free industry should

² Sina Finance, *Hainan planning to relax duty-free policy for leaving travelers, CITS, the duty-free leading enterprise may be hit*, <https://finance.sina.com.cn/stock/observe/2020-03-26/doc-iimxyqwa3411602.shtml>, March 26, 2020.

³ The *Regulations on Further Strengthening the Centralized and Unified Management of Duty-Free Businesses* (Cai Wai Zi [2000] No.1) was published in 2000. The document was issued in 2000, and some of its provisions may have been lagged behind the practice. For example, in the case of foreign investment, as described below, although the *Regulations on Further Strengthening the Centralized and Unified Management of Duty-Free Businesses* prohibited foreign participation in the duty-free business, there are still cases of foreign participation in practice.

maintain the nature of national monopoly and franchise operation. Joint ventures or cooperative operation with foreign investors are prohibited. Any participation by foreign investors in disguise is forbidden. Prior to this, the State Council also issued similar rules in 1986.⁴

ii) Latest Policies for Duty-free Stores at Ports Leave Space for Foreign Investment

However, China's market access regulations have changed in recent years after the 2000 regulations. The current *Special Administrative Measures on Access of Foreign Investment (Negative List)* and *Special Management Measures on Access of Foreign Investment in Free Trade Pilot Zones (Negative List)* impose no special restrictions on foreign investment in the duty-free industry. In the *Negative List for Market Access* (2019 Version), the Ministry of Finance and the General Administration of Customs are responsible for approving the establishment of duty-free premises and the establishment of duty-free stores. We believe that in absence of any provisions in the two negative lists for foreign investment, domestic and foreign investments in China's duty-free industry shall be managed under the same principles and policies and the *Negative List for Market Access* (2019 Version) shall apply. The Ministry of Finance is responsible for prior approval of industry access, while the General Customs Administration is responsible for subsequent administrative registration.

China promulgated the *Interim Measures for Administration of Duty-free Stores at the Port of Entry* in 2016 and *Interim Measures for Administration of Duty-free Stores at the Port of Exit* in 2019. Although there are some differences in details, the two interim measures have similar logic. Both rules stipulate that enterprises that have been approved by the State Council to holding the duty-free business license and have continuously operated duty-free stores at ports or in the city in recent years should be allowed to bid for operation rights for the duty-free stores on an equal basis,⁵

⁴ See the *Notice on Prohibition of Jointly Operating Duty-Free Stores with Foreign Investors and Further Strengthening the Centralized Management of Duty Free Sales Business* approved by the State Council in Feb.21 1986.

⁵ According to Article 4 of the *Interim Measures for Administration of Duty-free Stores*, enterprises that have been operating duty-free stores for imported and exported commodities in the past three years are allowed to bid for operation rights; according to Article 9 of the *Interim Measures for Administration of Duty-free Stores at the Port of Exit*, enterprises that have been operating duty-free stores for imported and exported goods at the port or in the city in the recent five years, are allowed to bid for operation rights.

regardless of geographic restrictions and restrictions on types of their duty-free stores. Duty-free stores shall be controlled by enterprises with duty-free business license with shareholding ratio of more than 50%. It means that theoretically enterprises that do not have the license, including foreign investors, can cooperate with qualified enterprises by way of equity participation.

c) The Proposed Opening-up Needs More Time for Clearer Signal

In the development of China's duty-free industry, except for several airport duty free stores in Beijing and Shanghai that had been specially approved for a majority shareholding of foreign investment, duty-free enterprises holding the licenses and duty-free stores are controlled by state-owned enterprises.⁶ With the *Foreign Investment Law* coming into force this year, the management systems of pre-establishment national treatment and negative list for foreign investment is increasingly clear and in-depth. Combined with the above statement made by the Department of Commerce of Hainan Province in March, we are looking forward to further interpretation by laws and regulations of the "pre-establishment national treatment" of the duty-free industry. It may be a clearer signal to allow foreign investors to participate in the industry, or the opening-up for foreign investors for duty-free business licenses.

d) Brief Introduction of Compliance of Duty-Free Stores

i) Establishment

The two interim measures mentioned above make it clear that the establishment of duty-free stores at ports requires the application by government departments in accordance with regulations. Specifically, the establishment of duty-free stores at the port of entry shall be submitted to the State Council for approval by the Ministry of Finance and other ministries and departments.⁷ The application of establishing the duty-free stores at the port of exit shall be submitted by the local government to which the port belongs or the Civil Aviation Administration of China to the Ministry of Finance together with other ministries and administrations for examination and approval.⁸

⁶ Sunrise Duty Free was once a foreign-invested enterprise approved by the Chinese government to operate airport duty-free stores. However, it was then acquired by China Duty Free Group. There is currently a small amount of foreign investment in the duty-free industry, but the industry is dominated by state-owned enterprises.

⁷ See Article 5 of *Interim Measures for Administration of Duty-free Stores at the Port of Entry*.

⁸ See Article 7 of *Interim Measures for Administration of Duty-free Shops at the Port of Exit*.

ii) Bidding for Operation Rights

If the application for the establishment is approved, or if the original business contract of the duty-free store expires, the duty-free store's operating right shall be determined through bidding.⁹ Bidding shall abide by the relevant laws and regulations such as the *Tendering and Bidding Law* and the *Implementing Regulations on the Tendering and Bidding Law* to ensure fair competition.¹⁰ As mentioned above and unless otherwise stipulated by the State Council, enterprises that have been approved by the State Council to hold the duty-free business license and have continuously operated duty-free stores in recent years can participate in the bidding process equally. Duty-free stores must be independent business entities.¹¹ The legal entity of duty-free stores shall be absolutely controlled by the enterprises with the duty-free business license (the shareholding ratio shall be greater than 50%).¹² Theoretically, foreign investors without the business license can have a minority equity participation. The operating period of the determined operating entity shall not exceed 10 years.¹³ After the operating right is confirmed, the bid inviter or the port owner shall file with the relevant government departments in accordance.

iii) Customs Registration and Declaration

According to the requirements of the *Measures of General Administration of Customs for the Supervision and Administration of Duty-Free Stores and Goods*, the operating entity of duty-free stores shall have a duty-free goods selling place and a duty-free goods supervision warehouse and that meet the customs' supervision requirements. It shall also have a computer management system that meet the customs' supervision requirements to provide information to the customs on the entry into and exit from the warehouse, and sales of duty-free goods.¹⁴

⁹ See Article 7 of *Interim Measures for Administration of Duty-free Stores at the Port of Entry* and Article 10 of *Interim Measures for Administration of Duty-free Shops at the Port of Exit*.

¹⁰ See Article 1 of *Supplementary Provisions to the Interim Measures for Administration of Duty-free Stores at the Port of Entry* and Article 10 of *Interim Measures for Administration of Duty-free Shops at the Port of Exit*.

¹¹ *Regulations on Further Strengthening the Centralized and Unified Management of Duty-Free Businesses*, Article 14: Duty-free stores must be independent, self-operated and self-financed corporate enterprises... ..

¹² See Article 4 of *Interim Measures for Administration of Duty-free Stores at the Port of Entry* and Article 9 of *Interim Measures for Administration of Duty-free Shops at the Port of Exit*.

¹³ See Article 8 of *Interim Measures for Administration of Duty-free Stores at the Port of Entry* and Article 16 of *Interim Measures for Administration of Duty-free Shops at the Port of Exit*.

¹⁴ See Article 7 and Article 10 of *Measures of General Administration of Customs for the Supervision and Administration of Duty-Free Stores*.

It shall submit an application to the competent customs authority one month before starting the business. After passing the inspection by the competent customs, it shall go through the filing procedures with the competent customs.¹⁵ During the operation of duty-free stores, the import of, entry into and exit from the supervision warehouse and sales of duty-free goods shall be recorded in corresponding documents and submitted to the competent customs.¹⁶

iv) Foreign Exchange Management and Franchise Fees

According to the *Notice on the Issues Relevant to Foreign Exchange Administration of Duty-Free Commodities* issued by the State Administration of Foreign Exchange in 2006, duty-free sales can be priced and settled in foreign currencies. The quota of the foreign exchange under the current accounts of duty-free enterprises and duty-free stores shall be examined and approved based on 100% of the enterprise's actual income under the current accounts. Combined with the provisions on freedom of capital transfer in Article 21 of the *Foreign Investment Law*¹⁷ and the further opening up of the finance and investment sector in the *Overall Plan for the Construction of Hainan Free Trade Port*, the duty-free stores are under a relatively liberal and relax policy on foreign exchange, which can meet the needs for investment and business operation.

According to the *Measures for the Payment of Franchise Fee for Duty-Free Goods* of the Ministry of Finance in 2004, the duty-free enterprise is required to pay franchise fee to the state at 1% of its annual sales revenue. The duty-free enterprise should also submit its annual report to the local financial supervision commissioners' office.

c. Recent Policies Suggest New Sales Channels for Travel Retail

¹⁵ See Article 11 of *Measures of General Administration of Customs for the Supervision and Administration of Duty-Free Stores*.

¹⁶ See *Measures of General Administration of Customs for the Supervision and Administration of Duty-Free Stores*, Article 14,15,16,17 and 18..

¹⁷ *Foreign Investment Law*, Article 21: A foreign investor may, in accordance with the law, freely transfer inward and outward its contributions, profits, capital gains, income from asset disposal, royalties of intellectual property rights, lawfully obtained compensation or indemnity, income from liquidation and so on within the territory of China in CNY or a foreign currency.

a) Hainan's Plan for Cruise Tourism Can Provide New Sales Channel for Travel Retail

In the *Implementation Plan for Hainan Province to Build an International Tourism Consumption Center* and the *Implementation Plan for Hainan Province to Improve Consumption Promotion Mechanism*, Hainan plans to expand its cruise tourism market, cooperate with world-renowned cruise companies, develop international cruise tourism and attract foreign cruise tourists. This provides a new direction for travel retailers. Cruise tourism in Hainan will be greatly integrated into international cruise routes. Foreign travel retailers and brands can seize this opportunity to expand sales channels in combination with cruise tourism.

It should be noted that, although the two new regulations in recent years have left policy space for foreign-invested duty-free stores at ports, the legislative practice for duty-free stores on cruise still stays relatively old. The latest legislative is still the *Regulations on Further Strengthening the Centralized and Unified Management of Duty-Free Businesses* promulgated in 2000. It is unclear about the market access for foreign investors to participate in the cruise duty-free industry. In the current on-cruise duty-free market in China, there are foreign duty-free brands operating on foreign cruise ships of international routes that provide services for Chinese consumers. In view of Hainan's future plan of "cooperating with world-renowned cruise companies to include Hainan in the international tourism 'one-way multi-stop' route"¹⁸ and "accelerating the development of Sanya into an international cruise mother port, supporting the construction of a cruise tourism pilot zone to attract international cruise ships to register"¹⁹, foreign duty-free companies can temporarily choose not to directly enter into China's cruise duty-free industry, and can provide services to the Chinese consumers through foreign cruise ships on international routes.

b) Policies Promote an Online Plus Offline Service Model, Foreign Travel Retailers and Brands Should Explore Online Market

The *Implementation Opinions on Promoting Consumption Expansion and Quality Improvement and Accelerating the Formation of a Strong Domestic Market* mentions that the government encourages the development of new consumption models such as online and offline integration, and promotes online and offline interaction. The

¹⁸ See *Implementation Plan for Hainan Province to Build an International Tourism Consumption Center*

¹⁹ See *Overall Plan for the Construction of Hainan Free Trade Port*

Implementation Plan for Hainan Province to Build an International Tourism Consumption Center proposes to strengthen strategic cooperation with domestic and foreign e-commerce enterprises, improve the cross-border e-commerce procedures for transaction, payment, logistics, foreign exchange settlement and other sales procedures. In line with the above mentioned policies, an online platform for duty-free shopping run by China Duty Free Group has been put into operation. Tourists can still enjoy duty-free shopping within 180 days after leaving Hainan. If foreign travel retailer and brands plans to explore the Hainan market, it is necessary to pay more attention to combine online and offline business and to provide creative travel shopping experience.

i) Self-built E-commerce Platforms Shall Be Governed by the *E-commerce Law*

According to Article 2 of the *E-commerce Law*, "E-commerce activities conducted within the territory of the People's Republic of China shall be governed by this Law." According to the *Measures of General Administration of Customs for the Supervision and Administration of Duty-Free Stores and Goods*, the storage and sales of duty-free goods should be within the territory and subject to customs supervision. This means that the entire process of sales of duty-free goods should take place in China. Therefore, the *E-commerce Law* should be applied to the online sale of duty-free goods.

Existing domestic e-commerce platforms for duty-free goods are mainly self-built websites. They also belong to e-commerce operators as defined in Article 9 of the *E-commerce Law*²⁰. According to the *Electronic Commerce Law*, such e-commerce operators shall comply with the following important requirements:

1. Registration and disclosure of registration: E-commerce operators shall register themselves as market subjects according to the law.²¹ They shall always have information about its own business licenses and the administrative licenses published in a prominent position on its homepage²²;

²⁰ E-commerce Law, Article 9: For the purpose of this Law, "an e-commerce operator" refers to a natural person, a legal person or an unincorporated association that carries out business activities through information networks such as the Internet to sell commodities or offer services, including operators of e-commerce platforms, business operators on e-commerce platforms, and other e-commerce operators that sell commodities or offer services on the website they develop themselves or through other network services... ..

²¹ Article 10 of *E-commerce Law*

²² Article 15 of *E-commerce Law*

2. Authenticity of information: E-commerce operators shall disclose information about commodities or services in a comprehensive, faithful, accurate and timely manner. They shall not engage in false or misleading publicity activities by means of fictitious deals, fabricated user comments or otherwise to cheat and mislead consumers²³;
3. Neutrality of search results: While displaying search results of commodities or services to consumers according to their interests, preferences, consumption habits and other personal characteristics, e-commerce operators shall also provide consumers with options irrelevant to their personal characteristics, and respect and equally safeguard the lawful rights and interests of consumers²⁴;
4. Transparency administration of user information: E-commerce operators shall expressly indicate the methods and procedures for consulting, correcting and deleting users' information and deregistering users' accounts, and shall not set irrational conditions on the possibility to consult, correct and delete users' information and deregister users' accounts²⁵;
5. Obligation to provide data: E-commerce operators shall provide relevant e-commerce data information if they are required to do so by related competent authorities pursuant to the provisions of laws and administrative regulations.²⁶

ii) Compliance Requirements for E-commerce Will Be Further Refined

In addition to the currently effective *E-Commerce Law*, there are a number of legislations on the way, which put forward more detailed requirements for e-commerce. For example, the *Administrative Measures for the Public Disclosure of E-commerce Information* (Draft for Comment) issued by the Ministry of Commerce stipulates detailed requirements for information disclosure. The State Administration for Market Regulation's *Measures for the Supervision and Administration of Online Transactions* (Draft for Comment) specifies multiple rules and requirements in the *E-commerce Law*. If foreign duty-free brands and travel retailers wish to conduct online business, they should continue to follow the legislative developments in this regard.

²³ Article 17 of *E-commerce Law*

²⁴ Article 18 of *E-commerce Law*

²⁵ Article 24 of *E-commerce Law*

²⁶ Article 33 of *E-commerce Law*

iii) Other Laws and Regulations That E-commerce Operators Need to Pay Attention to

In addition to the above compliance requirements, online sales of duty-free goods also need to comply with the general laws and regulations on sales of goods. For example, content of advertisements must comply with the Advertisement Law. As stipulated in the Anti-Unfair Competition Law, e-commerce operators must not insert any link into products or services of other operators to compel a destination jump without the approval. E-commerce operators should also abide by the requirements on quality assurance and return and exchange policy according to the Consumer Rights and Interests Protection Law and the Interim Measures for Seven-day Unconditional Return of Online Purchased Goods.

Expert Group



Name: Mirko Wang

Position: CEO & Founder

Office: Beijing

E-mail: meng.wang@jescard.com

In 2015, Mirko lead the team to start the second round of startup business. With his deep understanding of travel retail industry, he has led the team to design and develop the APP called “Jessica’s Secret” which enables Chinese tourists to compare prices worldwide, as well as the data tool “Price Monitoring System” which assists travel retailers and brands monitoring the dynamic global pricing data. The innovation has received the widespread attention in travel retail industry, and has shaped “Jessica’s Secret” as a renowned big data provider in travel retail industry.



Name: Mei Lin

Position: Chief analyst of social service industry

Office: Shanghai

E-mail: meilin@cmschina.com.cn

Non-practicing member of certified public accountant, bachelor/master of Nanjing University/Shanghai Jiaotong University 2015-2017. Engaged in social service industry research at BOCI Securities. Best analysts of New Fortune of 2015 and 2016. In 2017, joined China Merchants Securities. Wind gold analysts in the restaurant and tourism industry of 2018 and 2019. Sina Gold Kirin for emerging analysts in the social services industry of 2019. Best Industry Analysis Team of 2019 Golden Bull Awards.



Name: Stephen Peng

Position: Senior Partner

Office: Beijing

E-mail: pengjun@jtnfa.com

Mr. Peng is one of the most preeminent lawyers in China in cross-border investment and international trade. Mr. Peng is the first Chinese counsel defending China in WTO hearings and he represents China in the negotiation of digital economy/e-commerce in the WTO and in the negotiation of bilateral investment treaty with the EU. Mr. Peng actively participated in the enactment of China’s foreign investment law and overseas investment regulations. He is also advisor to the newly established Department of Pilot Free Trade Zone and Free Trade Port under China’s Ministry of Commerce.

Editors



Name: Li Xiumin

Position: Social service analyst

Office: Shanghai

E-mail: lixiumin1@cmschina.com.cn

Zhejiang University/Fudan University Bachelor of Finance/Master, joined China Merchants Securities in June 2018, focusing on hotels, tax exemptions, and catering.



Name: Jin Hongyu

Position: Layer Assistant of Jincheng Tongda Law Firm

Office: Beijing

E-mail: jinhongyu@jtnfa.com

Bachelor of Laws at Beijing Foreign Studies University

Master of International Economic Law at Chinese University of Hong Kong.

Joined Jincheng Tongda Law Firm in 2019, focusing on overseas investment and international investment rules research.



Name: Xu Mengdi

Position: Data Analyst

Office: Beijing

E-mail: alana.xu@jescard.com

Use visual graphics to comprehensively display enterprise business data, view various business indicators through various data analysis dimensions. Provide various data reports for industry media, duty-free retailers and brands, including price analysis, user behavior analysis, market trend analysis, etc. Integrate industry resources, integrate airline data, price data, and user behavior data to form a forward-looking industry report.