



Oriental Travel Retail Observer Travel Retail Journal

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1 Focus of the Month

1.1 New Actions on China Duty Free

1.1.1 Offshore Duty Free Policy: sales continued to grow in September, with fragrances, watches, and jewelry as the main categories

In September, offshore duty free continued to develop in Hainan, with sales growth rate exceeding 220%. The sales of duty free in September was RMB 3.03 billion (US\$455.7 million), approximately equaling that of August (RMB 3.09 billion, which is US\$464.7 million), with a year-on-year increase of 228%. The number of consumers totaled 458,000, with a year-on-year increase of 77%. The per ticket sales was RMB 6,616 (US\$955.05), with a year-on-year increase of 85%. Specifically, CDFG Sanya contributed RMB 2.39 billion (US\$359.5 million) to the total revenue in September, with a year-on-year increase of 241%.

From July 1st to October 19th, the customs supervised a total of RMB10.85 billion on offshore duty free shopping, 11.628 million items, and 1.439 million consumers, with an increase of 218.2%, 142%, and 58.5%, respectively. Among them, the duty free shopping transactions from October 1st to October 19th reached to RMB 2.24 billion, with a year-on-year increase of 187%. Specifically, the top three categories of goods purchased in pieces were cosmetics (with 7.801 million sold pieces, accounting for 83.5% of total pieces sold), perfumes (with 458,000 sold pieces, accounting for 4.9%), and jewelry (with 160,000 sold pieces, accounting for 1.7%). The top purchases in terms of sales are cosmetics (RMB 4.21 billion, which is US\$633.2 million, accounting for 48.9% of the total sales), watches (RMB1.05 billion, which is US\$ 157.9 million, accounting for 12.2%) and jewelry (RMB1.05 billion, which is US\$ 157.9 million, accounting for 12.2%).

1.1.2 State Taxation Administration of the People's Republic of China issued rules to regulate the taxation of offshore duty free shops

On October 10th, the State Taxation Administration of China issued the "Administrative Measures for the Exemption of Value-Added Tax and Consumption Tax, Tax Declaration, and Data Transmission for Offshore Duty Free Shops in Hainan". The regulations will be officially implemented on November 1st.

The "Administrative Measures" stipulates that if an offshore duty free shop concurrently operates projects subject to value-added tax and consumption tax, the sales of the offshore duty free goods and taxable items shall be accounted for separately. The sales of offshore duty free goods shall be exempt from value-added tax and consumption tax. The sales of non-offshore duty free commodities shall be subject to value-added tax and consumption tax in accordance with current regulations.

In this respect, Stephen Peng, a senior partner of Jincheng Tongda & Neal, holds that prior to the promulgation of the "Administrative Measures", in principle, offshore duty free consumption will not be levied on value-added tax and consumption tax. However, the specific tax operation is not clear. The "Administrative Measures" promulgated this time, as an executive document of the taxation department, clarify the consumption tax and value-added tax management system from three aspects: applicable subject, tax management, and data transmission, which can prevent loopholes in implementation.

1.1.3 Offshore duty free has become the strongest boost, China Duty Free Group's (CDFG) third quarter performance has increased significantly

On October 27th, CDFG announced its first three quarters' report. The report shows that in the first three quarters of 2020, CDFG's total operating income was RMB 35.14 billion (US\$5.28 billion), with a year-on-year decrease of 2.81%. In addition, the income in the third quarter was RMB 15.83 billion (US\$2.38 billion), with a year-on-year increase of 38.97%. The net profit attributable to the parent was RMB 2.23 billion (US\$335.60 million), with a year-on-year increase of 141.9%, thanks to the implementation of the new offshore duty free policy in Hainan. The sales of luxury luggage, watches and precious jewelry with

high gross profit margins increased significantly compared to the same period last year.

The substantial increase in CDFG's performance in the third quarter mainly resulted from the new offshore duty free policy first implemented on July 1st. According to official data from the Hainan Free Trade Port, Hainan has achieved an offshore duty free sales of RMB 8.61 billion (US\$1.30 billion) in the third quarter of 2020, with a year-on-year increase of 227.5%. In addition, sales of Sunrise home-delivery successfully offsets the impact of its high accrued rent for duty free shops at airports in Beijing and Shanghai. In the third quarter, CDFG's other payables were RMB 7.12 billion (US\$1.07 billion), with an increase of approximately RMB 5 billion (US\$752.50 million) from the beginning of the period. This was mainly due to the provision of the rent for duty free shops at the airport. At the end of 2020, the actual rent will be determined after negotiating with airports in Beijing and Shanghai.

1.1.4 Wangfujing Duty Free entered into a strategic cooperation with Utour Group Co.,Ltd. to develop "traveling & shopping" business

Around October 15th, Utour Group announced that it signed a strategic cooperation agreement with Wangfujing Duty Free. The two parties plan to jointly develop a "traveling & shopping" business in the domestic duty free shops and the Hainan Free Trade Port. They are to develop domestic and foreign travel retail business, depending on the loyal customers, years of destination experience, and understanding of Chinese consumers' demands by Utour Group, as well as the advantages in products, brands and travel retail operations of Wangfujing Duty Free and Wangfujing Group.

In terms of cooperation content, Utour Group will take advantages of its customer base and channels of travel agency, and explore possibilities of cooperation with Wangfujing Duty Free in businesses such as duty free at departure, duty free at arrival, offshore duty free, and downtown duty free.

In terms of duty free shop operations, the two parties intend to open up duty free shops through equity cooperation, starting from the sales side and product supply side to realize the entire industry chain cooperation including procurement, operation and sales of the duty free shops. In addition, the two parties will realize member resource sharing by superimposing member discounts and sharing member channels to provide data support for the operation of duty free shops. They also plan to explore intelligent duty free supply chain management based on technologies such as big data and artificial intelligence.

In fact, as early as February this year, Utour Group and CDFG signed the "Framework Agreement on Strategic Cooperation between CDFG and Utour Group", which stipulates that the two parties will jointly develop domestic and overseas along the "the Belt and Road". The business model of "traveling & shopping" was negotiated. In addition, to enter the duty free track, Fosun Holiday and Caissa Tourism cooperated with Hainan Development Holdings Co., Ltd and CNSC, respectively. As the duty free industry liberalizes limited competition in the future, cooperation between tourism enterprises and duty free shops will become more frequent.

1.1.5 Alibaba takes a stake in Dufry and plans to establish a joint venture

On October 5th, Dufry announced that Alibaba Group plans to invest in Dufry for up to 9.99% of its post-issuance share capital. As part of the cooperation, the two parties will form a joint venture company with Alibaba Group holding 51% and Dufry holding 49% of its shares, to develop travel retail business by digitizing Dufry's business. According to the content of the cooperation, Alibaba will introduce its established network in China and its digital technology support. Dufry will contribute to the joint venture's existing travel retail business in China and support the cooperation through its supply chain and strong operational skills.

Dufry has maintained a leading position in the global travel retail industry for many years, including duty-paid and duty-free

business, covering 65 countries and regions, with more than 2,500 stores. It started operations in China in 2008, and currently operates duty-paid shops in airports in Shanghai and Chengdu, with business in Hong Kong and Macau as well. However, due to the COVID-19 pandemic, Dufry's revenue fell to CHF1.587 billion (US\$1.74 billion) in the first half of this year, having decreased approximately 62% year-on-year, and its global ranking dropped from first to second.

Julián Díaz, CEO of Dufry, said: "By developing existing and new business models in offline and online travel retail fields, we believe that the joint venture will take advantage of growth opportunities and will support Dufry as a global leader of the digital travel retail companies. We aim to better serve our customers and provide them with complete products, services and personalized support on all platforms and devices."

1.2 New Actions on Korean Duty Free Policy

1.2.1 Extension of the policies of "Third party overseas return "and " Domestic sales" for duty free inventories

On October 27th, Korea Customs Service announced that it would temporarily extend the policies of " Third party overseas return" and "Domestic sales" for duty free inventories. The former is extended to the end of the year, while the expiration date for the latter is to be decided.

The "Domestic sales" policy was announced by Korea Customs Service against the problem of the overstock of duty free goods caused by the COVID-19 pandemic. The policy was implemented since April 29th, allowing duty free retailers to directly sell duty free stocks, which have been backlogged for more than six months, to local Korean channels (department stores, home shopping, electronic commercial and other channels).

The "Third party overseas return" policy would have expired on October 29th. As first announced, the policy only allowed retailers to return eligible inventory goods to the suppliers, and later the scope of return was expanded to commercial operators in any country.

Relevant data shows that the "third-party overseas return" policy has made an important contribution to the revenue and the reduction of inventories of the major duty free shops in South Korea. From May to September, Korean duty free shops have achieved 1,305 transactions through the "third-party overseas return " policy, with a total transaction amount of US\$469 million, of which the transaction amount of cosmetics totaled US\$440 million, accounting for more than 90% of the total sales. Among them, the sales achieved from July to September accounted for 85%, totalling US\$398 million.

1.2.2 The bidding for franchise of duty free shops at Incheon Airport T1 were aborted 3 times, and the designated contract procedures were pushed forward

The bidding for franchise of duty free shops the six duty free zones (DF2, 3, 4, 6, 8, and 9) of the T1 Terminal of Incheon Airport were rejected three times due to an insufficient number of participants. To this end, Incheon Airport announced on October 26th that it will adopt a designated contract form to discuss contract matters with domestic companies such as Shinsegae, Lotte, Shilla, and some well-known overseas duty free retailers.

According to business analysis, there are two reasons for duty free enterprises to abandon the Incheon Airport bids.

Firstly, the passenger flow of Incheon Airport has been severely affected by the pandemic and isn't expected to recover in the short term. Relevant data shows that the number of international passengers at Incheon Airport in January was 6.26 million, and the passenger flow dropped sharply to 603,000 in March and continued to decline thereafter. In September, the number of international tourists was as low as 197,000, with a year-on-year decrease of 96.4%. According to business forecasts, it will take at least 3 to 4 years for the passenger flow of Incheon Airport to recover to its level of 2019.

Secondly, considering the purposes for duty free shops to enter airports, franchise at Incheon Airport doesn't appeal necessary to large duty free shops. Relevant staffs believe that one important purpose for duty free shops to enter airports is to enhance bargaining power with brands and help duty free shops enter well-known overseas airports. Nowadays, with the continuous growth of the sales of downtown duty free shops and online ones, large duty free shops already possess considerable bargaining advantages. Besides, most of the large duty free shops have already settled in overseas airports. For example, Shilla has already settled in the other two of the three major airports in Asia, so it is no longer that necessary to settle in Incheon Airport.

1.2.3 Partially restored China Korean Air routes, Lotte Gimhae International Airport store will resume operations

Lotte Duty Free started to re-operate part of its store in Gimhae International Airport in Busan on October 15th. This store has been suspended for 7 months due to the suspension of flights between China and South Korea after the pandemic outbreak.

Since October 15th, the operation of Gimhae International Airport's Qingdao-Busan route resumed to once a week. This is the first time that Gimhae International Airport has reoperated its international routes after half a year. On the day when the route resumes, Lotte Duty Free opened for approximately two hours according to the flight schedule to Qingdao (8:30 am and 10:35 am). It is reported that if the booking rate of related flights exceeds a certain target, Lotte Duty Free will reopen.

1.2.4 Takashimaya will close its duty free shop

Under the influence of the COVID-19 pandemic, Japan is now strictly restricting immigration, with international flights drastically reduced. Takashimaya Duty Free Shop is officially closed on October 31st.

Takashimaya Duty Free Shop is located in Takashimaya Times Square, Tokyo. It caters to tourists visiting Japan. Its business includes bonded duty free shops and tax free shops. The store is a joint venture established in 2017 by department store company Takashimaya, All Nippon Airways Trading Company and Hotel Shilla co., Ltd. holding 60%, 20% and 20% of the shares, respectively.

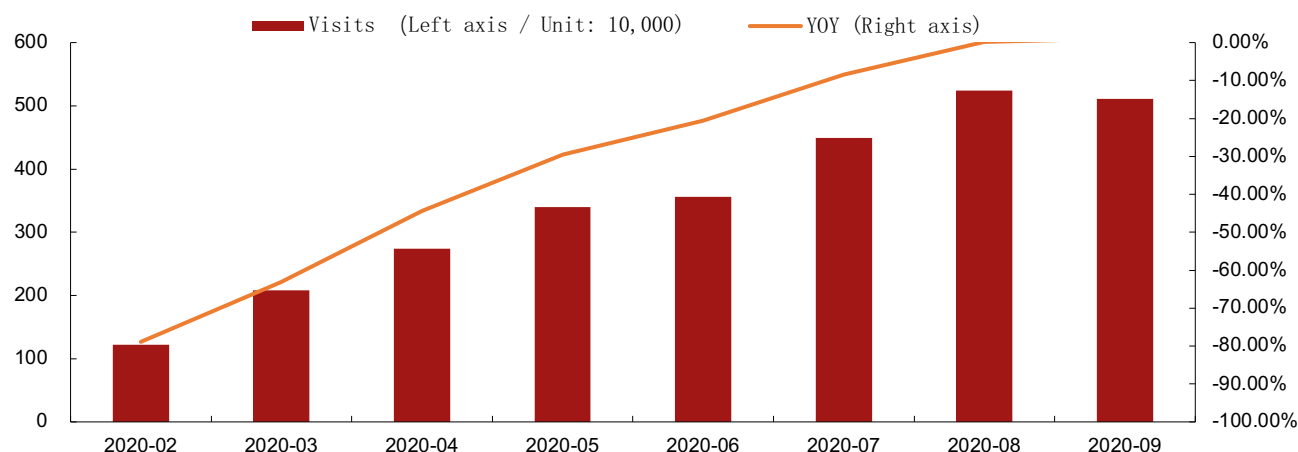
According to the official announcement, the Takashimaya Duty Free Shop was temporarily closed since March 14th. Although the duty free shops resumed operations in some of the tax-free areas in May, the duty free areas have been closed for half a year, with no prospect of resuming business. In the context of second wave of the pandemic and a sharp decline in the number of international tourists, Takashimaya chose to finally stop operating its duty free shop and liquidate its personnel and property.

2 Data Tracking

2.1 Duty Free: Offshore duty free sales continue to increase in Hainan, Korean duty free industry accelerate to recover

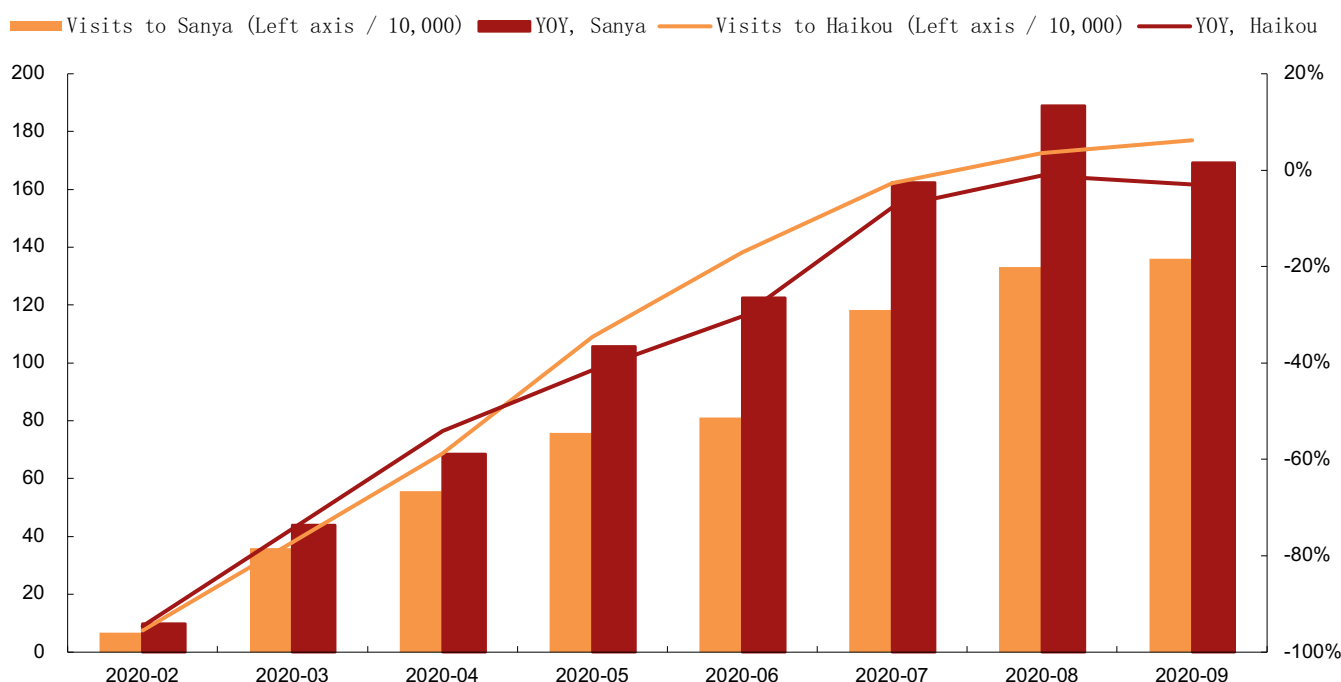
With the domestic pandemic being under control, in September, tourist reception in Hainan increased positively year-on-year for the first time since the outbreak. As shown in Figure 2-1, tourism reception in Hainan grew by 0.3% YOY in September (YOY growth rate was -1.6% in August). In the meantime, the number of overnight tourists reached over 5,110,000 in Hainan, with a YOY growth of 1.1%; that in Sanya rose by 6.2% (which was 3.5% in August); and that in Haikou experienced a decline by 3.0% (which was 3.5% in August).

Figure 2-1: Monthly overnight tourist reception in Hainan



Source: Department of Tourism, Culture, Radio, Television and Sports of Hainan Province

Figure 2-2: Monthly overnight tourist reception in Sanya and Haikou, 2020



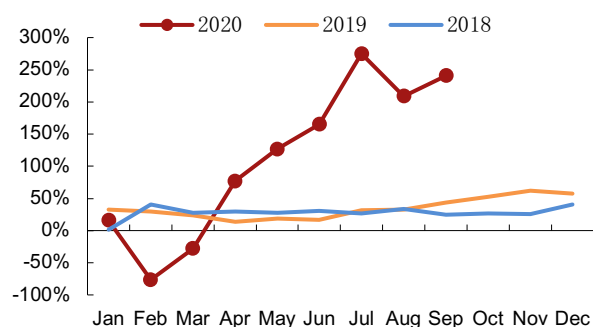
Source: Department of Tourism, Culture, Radio, Television and Sports of Hainan Province

Thanks to the offshore duty free policy, the YOY growth rate of offshore duty free sales of Sanya exceeded 220% in September. Duty free sales totaled RMB 3.03 billion (US\$45.24 million) in Hainan, with a YOY growth of 228%, almost equalling that for August. In September, 458,000 duty free transactions were accomplished in Hainan, with a YOY growth rate of 77%. The per ticket sales reached RMB 6,616 (US\$988), with a YOY growth of 85%. Notably, CDFG Sanya contributed RMB 2.39 billion to the total sales, with a YOY growth rate of 241%.

From July 1st to October 19th, the customs supervised offshore duty free sales of RMB 10.85 billion (US\$16.20 million), number of commodities purchased about 11.63 million, and 1.44 million consumers, with YOY growth rates of 218.2%, 142% and 58.5%, respectively. From October 1st to October 19th, offshore duty free sales totaled RMB2.24 billion (US\$33.44million), with a YOY growth of 187%.

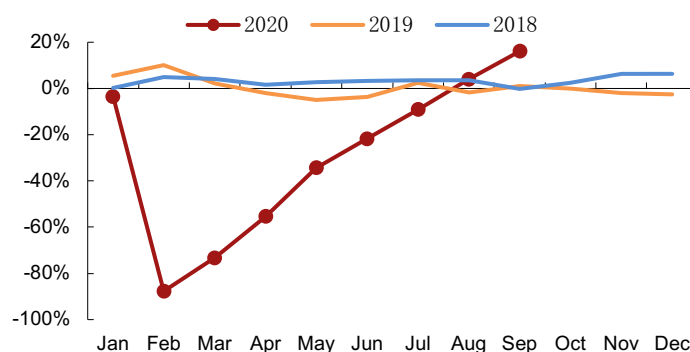
In September, the number of visitors in Sanya Phoenix Airport reached 1.59 million, with a YOY increase of 16.08%; the outbound passengers totaled 778,000, with a YOY increase of 15.74% and a MOM decrease of 6.83%. From January to September, passengers visiting Sanya Phoenix Airport counted over 9.99 million, with a YOY decrease of 32.73%; the number of outbound passengers totaled 5,238,500, with a YOY decrease of 30.29%.

Figure 2-3 : Monthly YOY growth in sales of duty free goods in Hainan Islands



Source : Ministry of Commerce

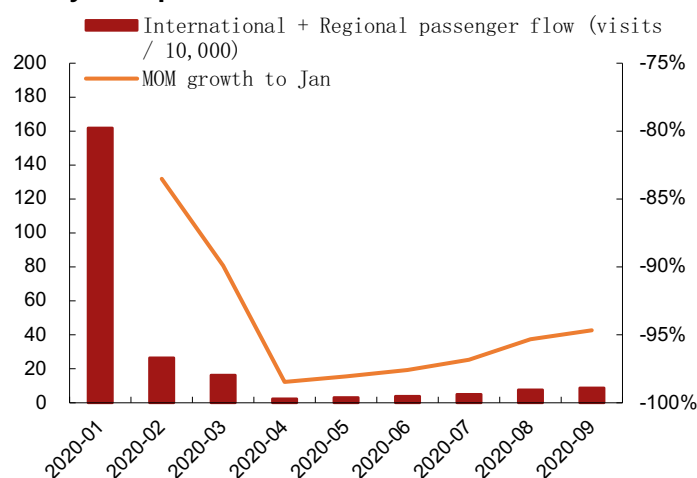
Figure 2-4 : Monthly YOY growth rate of passenger of Sanya Phoenix Airport



Source: Sanya City Statistics Bureau

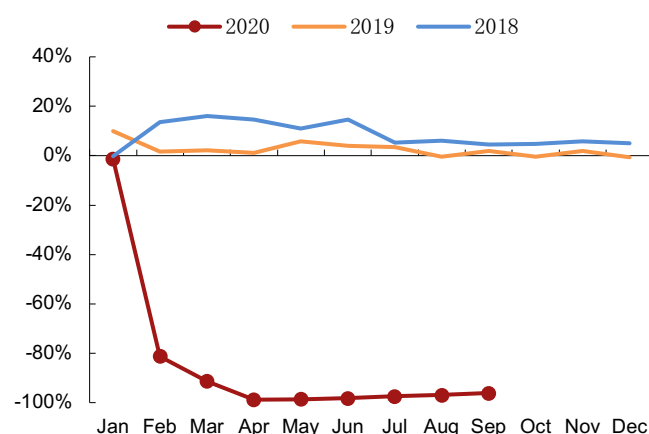
In September, the international pandemic continued to spread, resulting in a significant decline in international flights and passenger flow. Compared to January, the international passenger flow of Baiyun Airport dropped by 98.5%, 98.1%, 97.6%, 96.7%, 95.3% and 94.7%, respectively, in April, May, June, July, August and September. The duty free income fell at the airport in the meantime. The international passenger flow of Pudong Airport in April, May, June, July, August and September dropped by 98.8%, 98.6%, 98.2%, 97.5%, 96.9% and 96.2% YOY, respectively. Sunrise Shanghai and Sunrise Beijing are currently selling their inventories in the form of cross-border e-commerce through Sunrise App. In September, the home-delivery revenue of Sunrise Shanghai and Beijing is estimated over RMB one billion (US\$149 million).

Figure 2-5 : International + Regional passenger flow trend of Baiyun Airport



Source : Statement of Baiyun Airport

Figure 2-6 : International + Regional passenger flow trend of Shanghai Airport

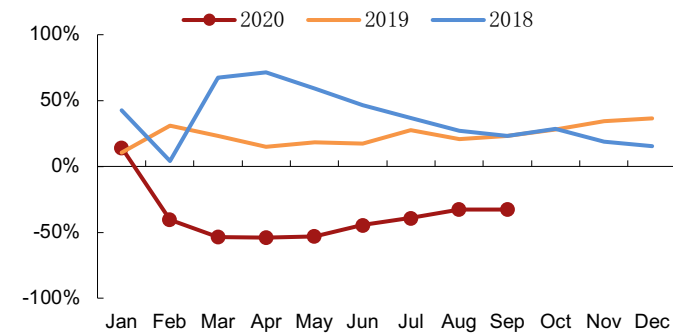


Source : Statement of Shanghai Airport

In September, South Korean duty free sales totaled US\$1.26 billion, with a year-on-year decrease of 32.7%, the growth rate

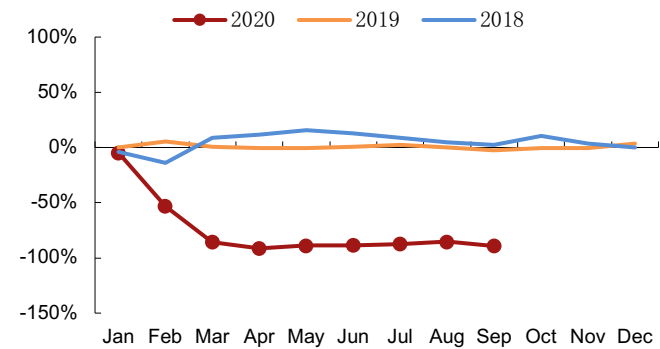
approximately equals that of the previous month. Duty free transactions totaled 425,000 in September, with a YOY decrease of 89 %, smoothing down slightly in comparison to the previous month (-85.4%). In specific, the duty free consumption of the South Korean residents amounted US\$37million, with a YOY decrease of 86.1%, and a slight MOM decrease. 97% of the South Korean duty free sales was contributed by foreign tourists, totaling US\$1.22 billion, with a YOY decrease of 24.0%, equaling the decrease rate of the previous month.

Figure 2-7 : YOY growth in duty free sales in South Korea



Source : KDFA

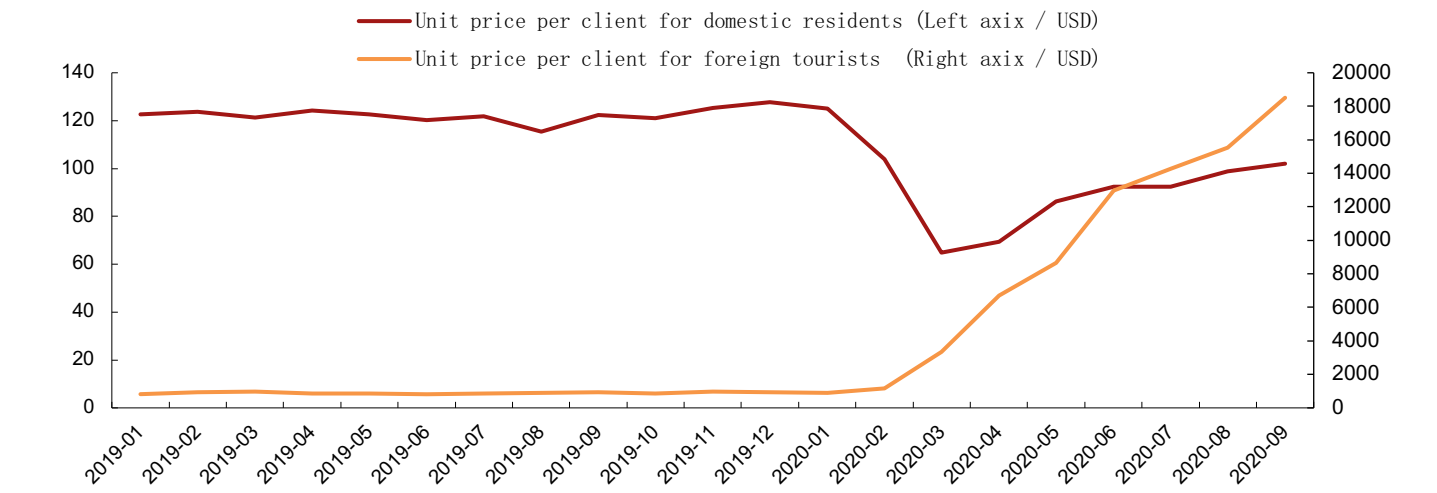
Figure 2-8 : YOY growth rate of duty free shopping in South Korea



Source : KDFA

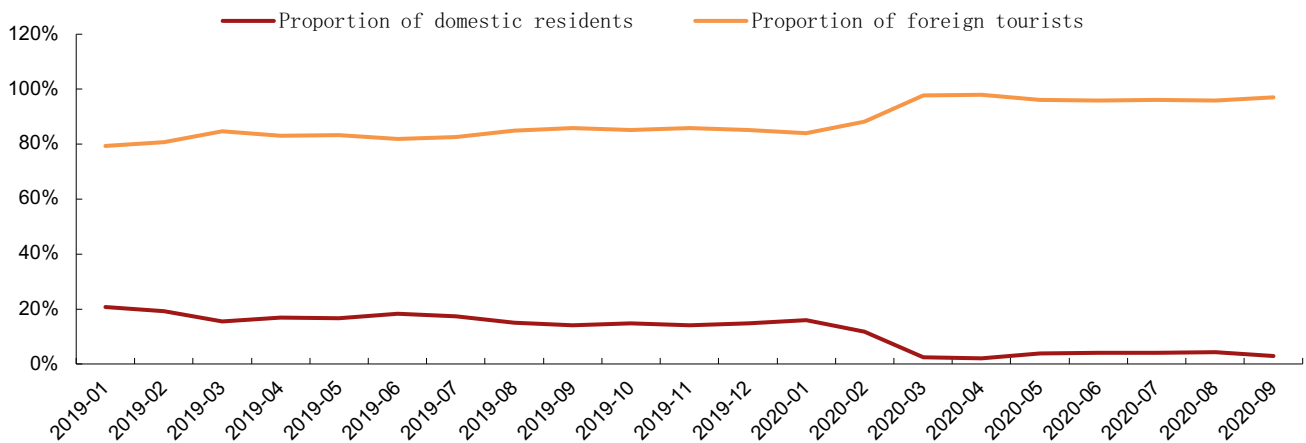
In terms of per ticket sales, in September, the per ticket sales of Korean duty fee was US\$2,965, with a year-on-year increase of 515%. Among them, the per ticket sales of domestic residents was US\$102, with a year-on-year decrease of 16.6%; the per ticket sales of foreign tourists was US\$18,511, with a year-on-year increase of 1,890%.

Figure 2-9 : Duty free shopping unit price per client for Korean residents and foreign tourists



Source : KDFA

Figure 2-10 : Proportion of duty free shopping amount for Korean residents and foreign tourists

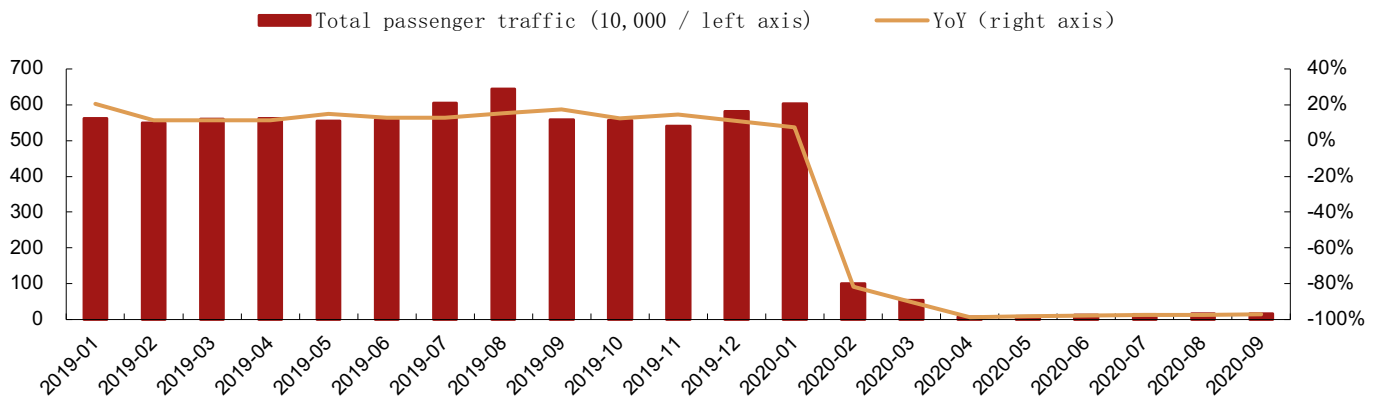


Source : KDFA

2.2 Flight: International passenger flow fell dramatically in September, with no sign of recovery

The passenger traffic of the six major airlines dropped sharply in September. The six major airlines carried 172,000 passengers on international routes, with a decrease of 97.3% YOY. In September, the international pandemic continued to spread, a large number of flights were grounded, and passenger flow remained low. From January to September, the six major airlines carried a total of 8.35 million passengers on international routes, with a YOY decrease of 81.5%.

Figure 2-11 : Summary and growth rate of monthly passenger traffic on international routes of the six major airlines



Note: The six major airlines refer to Air China, China Eastern Airlines, China Southern Airlines, Hainan Airlines, Spring and Autumn and Jixiang.

Source: Airline company statement

From the data published by the domestic airlines, compared with the previous years, the number of passengers carried by international airlines dropped significantly in September. Among them, the passenger volume of Air China's international routes decreased by 97.1% YOY; that of China Eastern Airlines decreased by 97.9% YOY; that of China Southern Airlines decreased by 95.2% YOY; that of Hainan Airlines decreased by 97.8% YOY; that of Chunqiu Airlines decreased by 99% YOY; that of Jixiang decreased by 95.9% YOY.

2.3 Destination: Immigration isolation canceled in Macau, passenger flow rebounds slightly

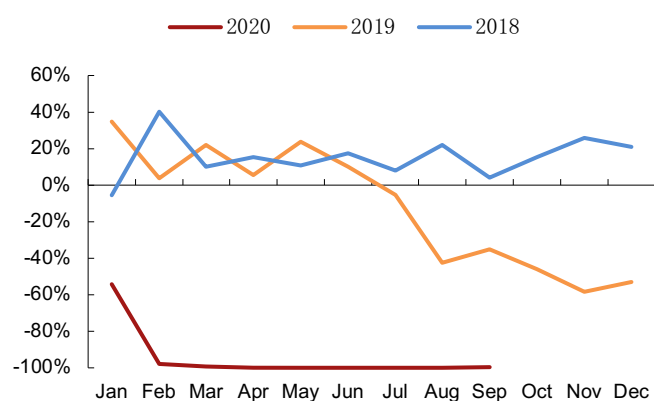
Affected by the pandemic, the outbound passenger flow continued to be low. In August, the passenger flow from mainland China to Hong Kong dropped by 99.92% YOY; and the passenger flow from mainland China to Taiwan dropped by 99.51% YOY; passenger flow on Japanese routes decreased by 99.63% YOY; that on Korean routes decreased by 97.18%; that on Thai routes decreased by 100%. In October, passenger flow on Vietnamese routes decreased by 98.98%. It is noticed that the The Hong Kong and Macau Affairs Office of the State Council issued an announcement on August 10th that, from 0:00 AM August 12th, the 14-day centralized quarantine medical observation will no longer be implemented for people entering the mainland from Macau. As a result, the number of visitors visiting Macau from the mainland reached 200,800 in August, with a MOM growth of 204%.

The specific data are as follows:

In September, Hong Kong received 6,200 tourists from mainland China, with a year-on-year decrease of 99.74%. From January to September, Hong Kong received a total of 2.70 million mainland tourists, with a year-on-year decrease of 92.70%.

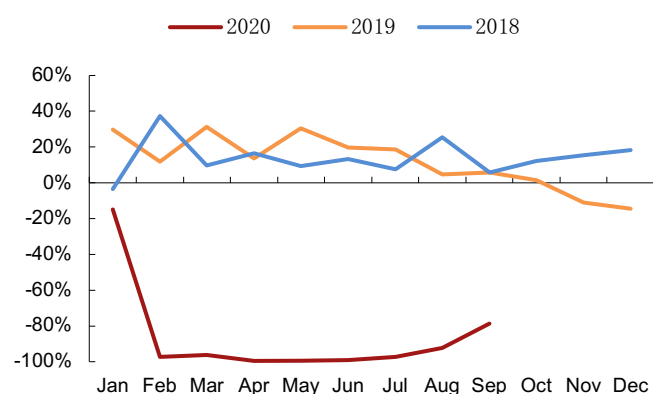
In September, Macau received 412,500 tourists from mainland China, with a YOY decrease of 78.57%, while a substantial month-on-month increase of 105%, mainly thank to the new announcement. From January to September, Macau received a total of 3.02 million mainland tourists, a YOY decrease of 85.93%.

Figure 2-12 : Monthly YOY growth in the number of tourists from Mainland China to Hong Kong



Source : HKTB PartnerNet

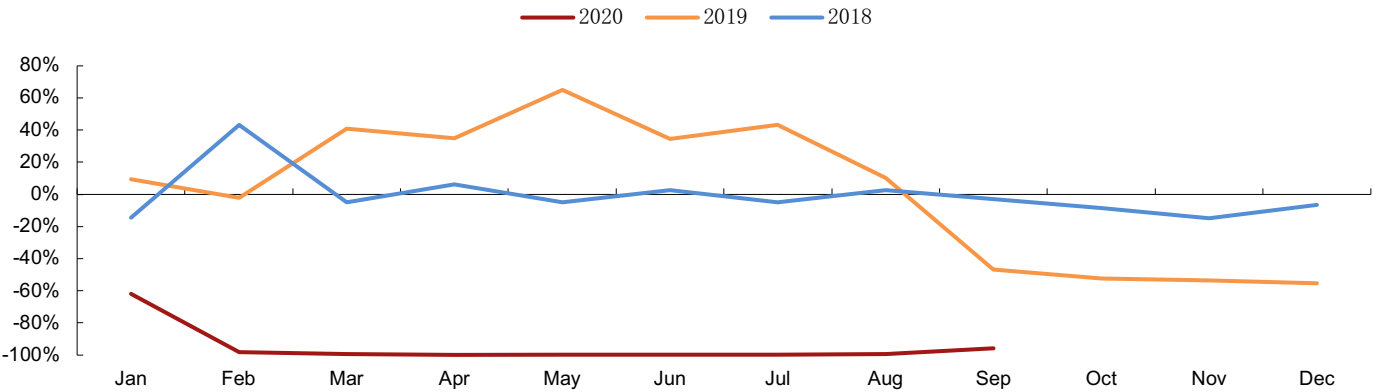
Figure 2-13 : Monthly YOY growth in the number of tourists from Mainland China to Macao



Source : Macao Tourism Data Website

In September, Taiwan, China received 5,000 mainland tourists, with a year-on-year decrease of 95.73%. From January to September, Taiwan received a total of 107,200 mainland tourists, with a year-on-year decrease of 95.53%.

Figure 2-14 : Monthly YOY growth in the number of tourists from Mainland China to Taiwan , China

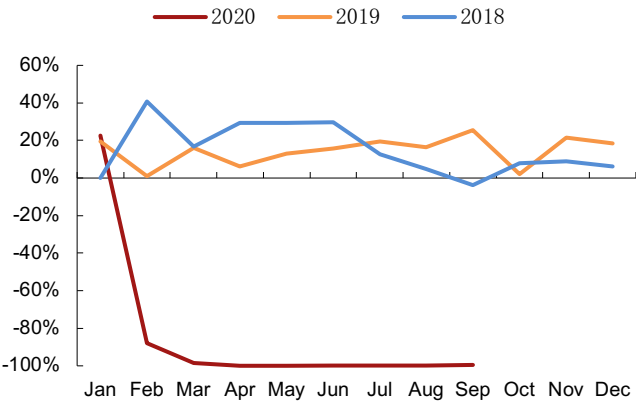


Source : Tourism Bureau,MOTC

In September, Japan received 3,000 Chinese tourists, with a year-on-year decrease of 99.63%. From January to September, Japan received a total of 1.03 million Chinese tourists, with a year-on-year decrease of 86.11%.

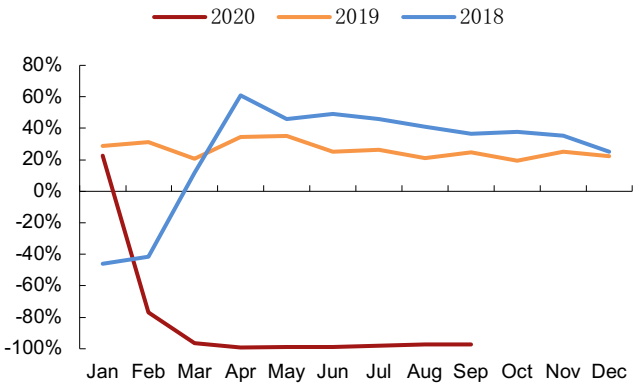
In September, South Korea received 15,300 Chinese tourists, with a year-on-year decrease of 97.17%. From January to September, South Korea received a total of 657,800 Chinese tourists, with a year-on-year decrease of 85.19%.

Figure 2-15 : Monthly YOY growth in the number of tourists from Mainland China to Japan



Source: Japan National Tourism Organization

Figure 2-16 : Monthly YOY growth in the number of tourists from Mainland China to South Korea

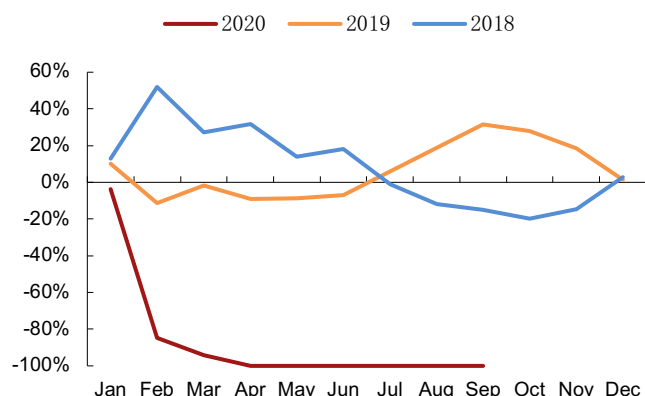


Source : Korea Tourism Organization

In September, Thailand received no Chinese tourists. From January to September, Thailand received a total of 1.25 million Chinese tourists, with a year-on-year decrease of 85.35%.

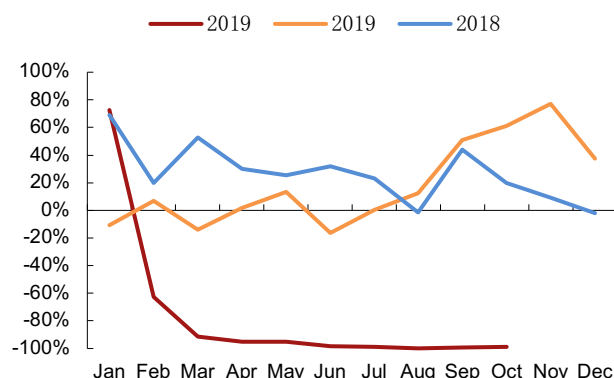
In October, Vietnam received 6,100 Chinese tourists, with a year-on-year decrease of 98.98%. From January to October, Vietnam received a total of 943,800 Chinese tourists, with a year-on-year decrease of 79.41%.

Figure 2-17 : Monthly YOY growth in the number of tourists from Mainland China to Thailand



Source: Statistics Thailand

Figure 2-18 : Monthly YOY growth in the number of tourists from Mainland China to Vietnam

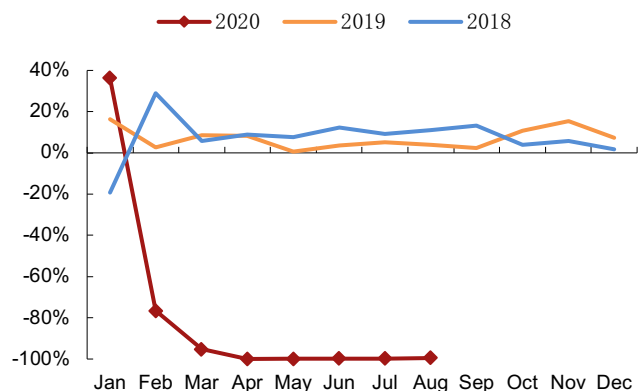


Source: General Statistics Office of Vietnam

In August, Austria received 700 Chinese tourists, with a year-on-year decrease of 99.45%. From January to August, Austria received a total of 70,900 Chinese tourists, with a year-on-year decrease of 89.79%.

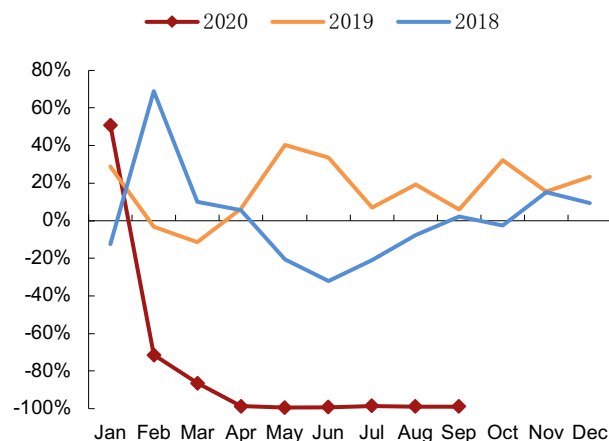
In September, Finland received 2,500 Chinese tourists, with a year-on-year decrease of 98.85%. From January to September, Finland received a total of 421,900 Chinese tourists, with a year-on-year decrease of 77.30%.

Figure 2-19 : Monthly YOY growth in the number of tourists from Mainland China to Austria



Note: The growth rate reached 96% in January 2017. Source: Statistics Austria

Figure 2-20 : Monthly YOY growth in the number of tourists from Mainland China to Finland



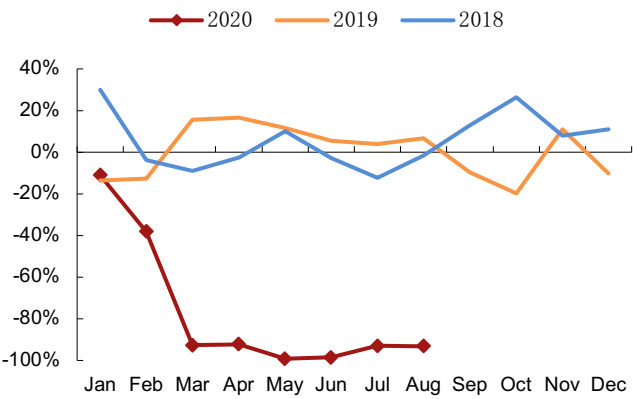
Note: The growth rate reached 181% in January 2017. Source: Statistics Finland

In August, accommodation facilities in Poland received 9,600 Chinese tourists, with a year-on-year decrease of 93.17%. From January to August, Poland received a total of 105,700 Chinese tourists, with a year-on-year decrease of 88.51%.

In August, Canada received 2,300 Chinese tourists, with a year-on-year decrease of 97.88%. From January to July, Canada

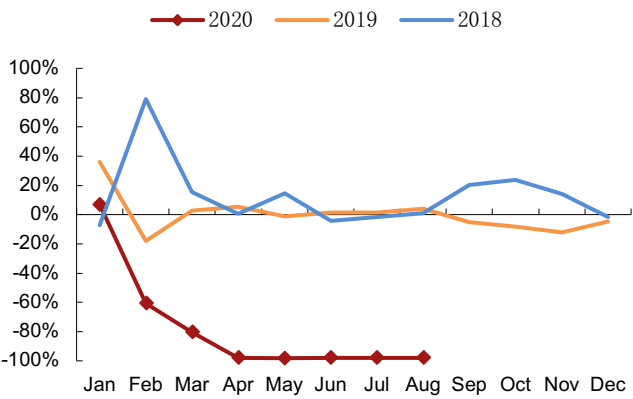
received a total of 92,700 Chinese tourists, with a year-on-year decrease of 82.51%.

Figure 2-21 : The number of Polish accommodation facilities receiving Chinese tourists increases monthly YOY



Source: Polish Statistics Office

Figure 2-22 : Monthly YOY growth in the number of tourists from Mainland China to Canada

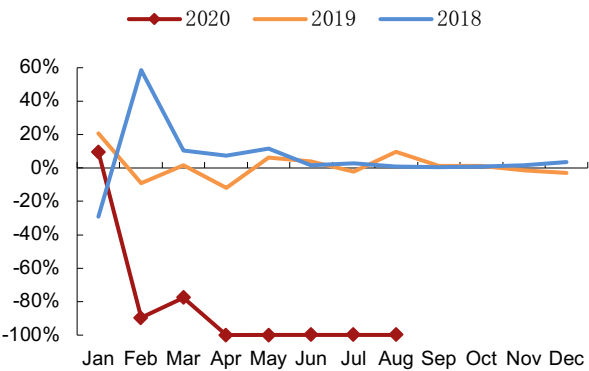


Source : Statistics Canada

In August, Australia national accommodation facilities received 200 Chinese tourists, with a year-on-year decrease of 99.88%. From January to August, Australia received a total of 206,400 Chinese tourists, with a year-on-year decrease of 76.97%.

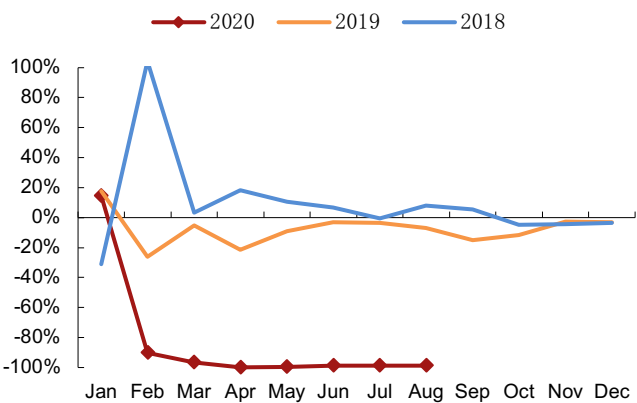
In August, New Zealand received 400 Chinese tourists, with a year-on-year decrease of 98.60%. From January to August, New Zealand received a total of 57,900 Chinese tourists, with a year-on-year decrease of 79.03%.

Figure 2-23 : Monthly YOY growth in the number of tourists from mainland China to Australia



Source: Statistics Australia

Figure 2-24 : Monthly YOY growth in the number of tourists from mainland China to New Zealand



Source: Statistics New Zealand

3 Consumer Trends

3.1 Popularity of the Duty free Shops

Due to the pandemic, consumers are restricted from leaving the country. In September, the focus of travel retail consumers is still in China mainland. We rank the popularity of duty free shops based on the data collected with Jessica' s Secret App and show the results in Table 3-1.

In September, the search rankings of duty free shops changed only slightly, with the top five popular duty free shops unchanged, and they are all located in mainland China. In September, the overall ranking of overseas duty free shops further declined, while the ranking of domestic duty free shops rose slightly. The 8th and 9th of the list are occupied by Shilla Ipark and DFS Macao, respectively. It is notable that, DFS Macao rose from the 17th to the 8th, possibly thanks to the recent cancelation of entry quarantine for tourists from mainland China visiting Macao.

Table 3-1: Search rankings of popular duty free shops

Name	Sep-20	Aug-20	Jul-20	Jun-20	May-20	Apr-20	Mar-20
Sunrise Shanghai	1	1	1	1	1	1	1
CDFG Sanya	2	2	2	2	2	2	4
CDGF Haikou	3	3	3	4	5	3	7
CDFG Guangzhou	4	4	4	6	11	10	13
Sunrise Beijing	5	5	5	3	3	4	9
King Power	6	7	7	9	8	8	3
Lotte Seoul	7	6	6	5	6	6	10
Heathrow	10	8	8	14	16	39	14
CDFG Hangzhou	13	16	16	15	14	23	37
Shinsegae Myeong Dong	14	10	10	11	9	12	15
DFS Hong Kong	15	13	9	7	4	5	5
Shilla Seoul	18	12	13	12	12	11	8
KIX	19	18	11	8	7	7	6
CDFG Xian	20	22	18	17	18	14	24
Hong Kong Airport	23	26	28	21	20	25	23
Ishop Changi	25	24	23	31	22	32	20
Everrich	35	36	14	10	10	9	12

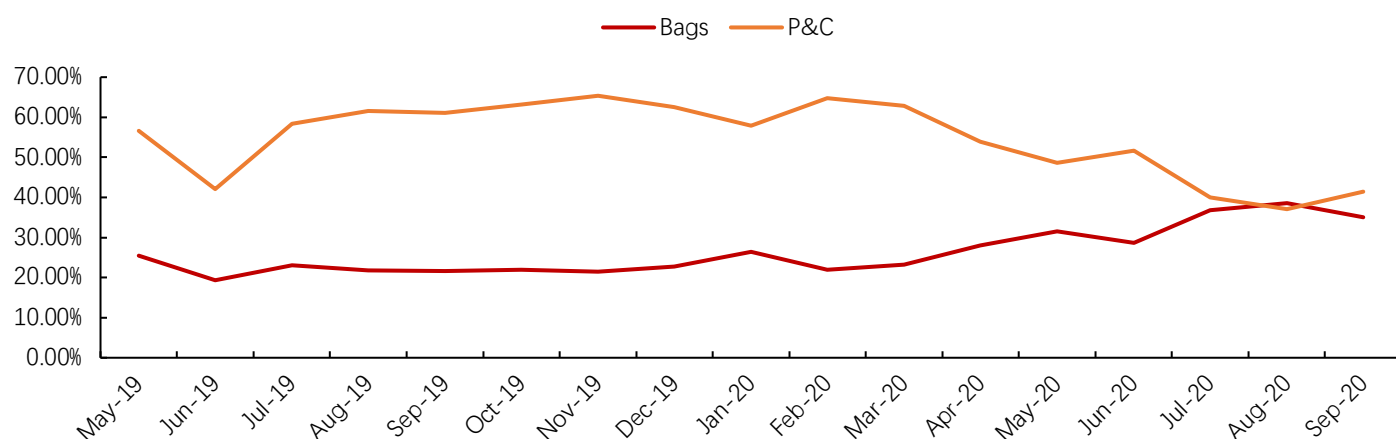
Source: Jessica' s Secret

3.2 Popularity of Products, by Category

We observe comparative popularity of different categories of products by looking at their search rates by Jessica' s users. As shown in Figure 3-1, the search rate for P&C rebounded to 41.38% in September, overtaking that for bags (35.06%).

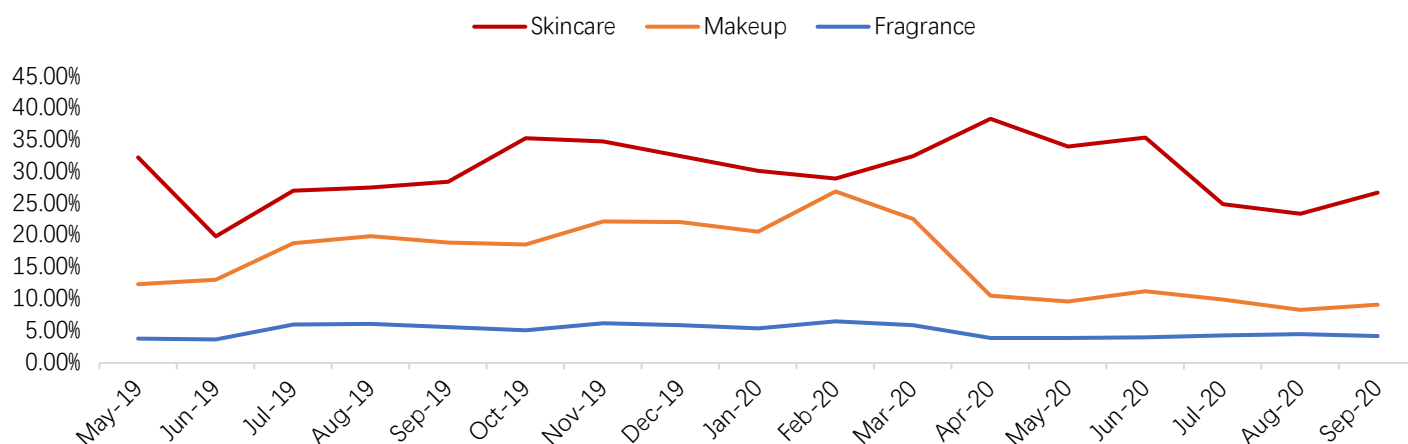
Breaking the P&C category down into skincare, makeup and fragrances, we show their click rates in Figure 3-2. It can be inferred that the increase of the search rate for P&C in September mainly resulted from the rise in that for its subcategory skincare. As for makeup and fragrance, the search rates changed only slightly compared to those of August.

Figure 3-1: Historical search rates of the P&C products and bags



Source: Jessica's Secret

Figure 3-2: Historical search rates of skincare, makeup products and fragrances



Source: Jessica's Secret

3.3 Popularity of Some Products, by Subcategory

We observe the relative popularity of some products by ranking their searches by the Jessica users. The rankings are shown for the top 10 popular products in September, for the subcategories of P&C and bags in the tables below.

As shown in Table 3-2, all the top 10 skincare items searched in September were ranked in the top 20 in August. Among them, the item with the largest increase in popularity is *Estée Lauder Advanced Night Repair Synchronized Multi-Recovery Complex II Duo*, having risen 11 places.

Table 3-2: Top 10 popular skincare products

Name	Ranking Sep	Ranking Aug	Change
La Mer The Treatment Lotion	1	1	0
Advanced Night Repair Synchronized Recovery Complex II	2	2	0
Clarins Double Serum Complete Age Control Concentrate Duo	3	5	↑up,2
Lancôme Advanced Génifique Youth Activating Duo	4	6	↑up,2
Estée Lauder Advanced Night Repair Synchronized Multi-Recovery Complex II Duo	5	16	↑up,11

Estée Lauder Advanced Night Repair Synchronized Multi-Recovery Complex II	6	3	↓down,3
Chanel La Mousse Anti-Pollution Cleansing Cream-to-Foam	7	10	↑up,3
La Mer Crème de la Mer	8	15	↑up,7
Clé de Peau Beauté Correcting Cream Veil	9	13	↑up,4
Clarins Double Serum Complete Age Control Concentrate	10	8	↓down,2

Source: Jessica's Secret

For makeup products, most items ranked top 10 in September ranked in the top 20 in August. Among them, the items with the largest increase in popularity are *Lancome Absolue Fluid Foundation Shade #100* and *Estee Lauder Futurist Aqua Brilliance #1C1*, having risen 12 and 11 places, respectively.

Table 3-3: Top 10 popular makeup products

Name	Ranking Sep	Ranking Aug	Change
Giorgio Armani Lip Maestro Lip Stain #405	1	1	0
Giorgio Armani Designer Lift Foundation #3	2	4	↑up,2
Tom Ford Lip Color #80	3	2	↓down,1
Giorgio Armani My Armani to Go Essence-in-Foundation Cushion Foundation #2	4	3	↓down,1
Tom Ford Eye Color Quad Eyeshadow Palette #04	5	5	0
YSL Rouge Pur Couture The Slim Matte Lipstick Rouge Paradoxe #21	6	7	↑up,1
Lancome Absolue Fluid Foundation Shade #100	7	19	↑up,12
Nars Light Reflecting Setting Powder	8	8	0
Giorgio Armani Power Fabric Foundation #2	9	9	0
Estee Lauder Futurist Aqua Brilliance #1C1	10	21	↑up,11

Source: Jessica's Secret

Among the most popular fragrances, *Jo Malone London Wild Bluebell Cologne edp*, *Byredo Rose of No Man's Land edp* and *YSL Black Opium edp* all ranked within top 3 since March this year, with some of their places swapped each month. In September, the fragrance item with the largest increase in popularity is *Diptyque Philosykos edt*, having risen 19 places.

Table 3-4: Top 10 popular fragrances

Name	Ranking Sep	Ranking Aug	Change
Jo Malone London Wild Bluebell Cologne edp	1	2	↑up,1
Byredo Rose of No Man's Land edp	2	1	↓down,1
YSL Black Opium edp	3	3	0
Chanel Bleu de Chanel edt	4	4	0
Tom Ford Oud Wood edp	5	6	↑up,1
Chanel Gabrielle edp	6	13	↑up,7
Chance Eau Tendre edt	7	7	0
Diptyque Philosykos edt	8	27	↑up,19
Tom Ford Rose Prick edp	9	15	↑up,6
Chanel Coco Mademoiselle edp	10	9	↓down,1

Source: Jessica's Secret

In September, the search ranking of the bags wasn't as stable as in the previous months (Table 3-5), but compared with other

categories, the change in the ranking can still be identified as small. Among the most popular bags listed, the item with the largest increase in popularity is *LV Nano Speedy*, having risen 8 places.

Table 3-5: Top 10 popular bags

Name	Ranking Sep	Ranking Aug	Change
LV NéoNoé Rose Poudre	1	1	0
LV Nano Speedy	2	10	↑up,8
Dior Book Tote Oblique Bag	3	9	↑up,6
Chanel Lambskin Gold-Tone Metal Black Mini Flap Bag	4	5	↑up,1
Gucci Online Exclusive 1955 Horsebit Bag GG Supreme, Brown	5	8	↑up,3
LV Mini Dauphine	6	2	↓down,4
LV Multi Pochette Accessoires Digital Exclusive Prelaunch, Kaki	7	3	↓down,4
LV Pochette Accessoires	8	4	↓down,4
Gucci GG Marmont Small Matelassé Shoulder Bag, Black Leather	9	7	↓down,2
Chanel's Gabrielle Small Hobo Bag, aged calfskin, smooth calfskin & black metal, black	10	14	↑up,4

Source: Jessica's Secret

4 Pricing and Promotion

4.1 Price Indexes of the Duty Free Stores

In this part, we compare prices between duty free stores based on Jessica's Simple Index (JSI)¹. We show the JSI for the main duty free stores on 13th of October in Table 4-1, and marked the change of each JSI value compared with the last sampled value² (where "↑" refers to a rise in the value, "↓" refers to a decrease in the value, and "-" indicates identical values). Comparing the price indexes of the representative duty free shops on 13th of October to those on 14th of September. As shown in the table, Lotte, Shilla and Shinesegae price their general products lower than the other duty free shops observed, having the JSI of 76, 78 and 76, respectively. Then come JSIs of King Power and Sunrise Shanghai, which are 86 and 95, respectively. The rest of the listed stores possess no competitive advantage in pricing, having the optimal price levels above the market duty free average.

¹ Earlier this year, Jessica's Secrets established its price comparing system, Jessica's Simple Index (JSI). JSI calculates the general price level of a specific store by comparing the prices of the common products that it sells to the world's average prices of those products. For purposes of comparison, a virtual store, Jessica Standard Store, was established, containing all the common duty free products being sold in duty free shops all over the world. The price of a specific product in the Jessica Standard Store is defined by its average price in different duty free stores over the world, at the time spot of interest. JSI of a specific target store is calculated as follows: JSI = $\frac{\text{Sum of the optimal prices of the shared products in the target store}}{\text{Sum of the optimal prices of the shared products in the Jessica Standard Store}} \times 100$

The "shared products" refers to all the products being sold in the target store, which are included in the Jessica Standard Store at the same time. As for the optimal prices used in calculating JSI (in both the target store and the Jessica Standard Store), we take into consideration of all promotions, including all obtainable discounts, coupons, membership points, cashback and gifts. It is straightforward, that the greater the value of JSI, the higher the general price level of a specific store is, and vice versa.

² The last sample value refers to the value of JSI or Top(50) Index listed in *OTRO Report, Vol. 4*, Table 4-1, sampled at 14th September, 2020.

Table 4-1: Price indexes for the representative duty free stores

Retailer	JSI	Top 50 Index, Retail	Top 50 Index, Optimal
Sunrise Shanghai	95, ↑	91, ↑	91, ↑
CDFG Sanya	105, -	97, ↑	102, ↓
CDFG Guangzhou	102, -	93, ↑	98, ↑
DFS Hong Kong	116, ↓	110, ↑	116, ↑
Lotte Seoul	76, ↓	101, -	75, ↑
Shilla Seoul	78, ↓	103, ↑	74, ↑
Shinsegae Myeong Dong	76, ↓	102, ↑	71, ↓
King Power	86, -	103, ↑	75, ↑
KIX	103, ↓	100, ↓	99, ↓
Changi Airport	104, ↓	96, ↓	103, -

Source: Jessica's Secret, 2020/10/13

To identify the pricing strategies in different duty free shops, we compare their Top(50) Index³ using their retail prices and optimal prices, respectively. The results are shown in Table 4-1. It can be inferred that the duty free retailers in China Mainland induce consumption by setting lower prices for popular products. The Top (50) Index for Sunrise Shanghai, CDFG Sanya and CDFG Guangzhou are significantly lower than their own JSI as well as the market average (which is 100 by definition), as are some other Chinese duty free stores not shown in the Table, like Sunrise Beijing and CDFG Haikou. In comparison, South Korean duty free shops attract customers through cashback, which can be identified by comparing the retail price indexes and the optimal price indexes of the Lotte, Shilla and Shinsegae, respectively.

It is notable that, 41 products out of the 50 most popular ones are available in the CDFG Sanya, followed by Shinsegae Myeong Dong, having 39. In contrast, Ishop Changi and CDFG Guangzhou only have 22 and 25 out of 50 in stock, respectively.

To compare the price levels of popular brands in different duty free shops, Jessica's Secret employs the price index named Jessica's Brand Simple Index (JBSI)⁴. Table 4-2 shows the JBSI for ten popular P&C brands in various duty free stores, and the JSI for each store is listed on the left for comparison.

³ Observing the actual prices in the common duty free shops, we find that, some duty free shops attract customers by lowering the prices of popular products. In order to identify this strategy, we selected 50 P&C products which are most popular among Chinese consumers according to the Jessica Index, and calculated the price indexes of specific duty free shops containing these popular products only. This price index is defined as Top(N) Index, where N refers to the number of products included, and it is calculated as follows:

$$\text{Top(N) Index} = \frac{\text{Sum of the prices of the selected shared products in the target store}}{\text{Sum of the prices of the selected shared products in the Jessica Standard Store}} \times 100$$

⁴ JBSI = $\frac{\text{Sum of the prices of the shared products of the target brand in the target store}}{\text{Sum of the prices of the shared products of the target brand in the Jessica Standard Store}} \times 100$, the prices used in the calculation refers to the optimal duty free price of the products

Table 4-2: JBSI of popular duty free shops for some P&C Brands

Retailer	JSI	Estee Lauder	La Mer	SK-II	Lancôme	Shiseido	Dior	Giorgio Armani	Givenchy	YSL	Tom Ford
Sunrise Shanghai	95	89	95	91	91	87	94	90	92	93	91
CDFG Sanya	105	104	106	98	103	99	104	103	98	107	110
CDFG Guangzhou	102	98	97	100	103	102	96	104	94	108	105
DFS Hong Kong	116	111	113	109	115	110	102	111	115	116	113
Lotte Seoul	76	68	70	76	69	68	68	76	73	62	75
Shilla Seoul	78	70	70	76	68	68	69	79	74	69	79
Shinsegae	76	69	72	75	68	71	82	77	74	78	74
King Power	86	81	95	79	76	79	78	87	81	85	91
KIX	103	98	97	100	103	102	96	104	94	108	105
Ishop Changi	104	104	106	101	98	106	-	104	104	98	109

Source: Jessica' s Secret, 2020/10/13

As shown in the table, the JBSIs for Estee Lauder, Shiseido and Dior of the listed duty free shops are generally lower than the JSIs of the shops, indicating that the retailers focus promoting popular brands. Take King Power for example, its JBSI of Shiseido, Dior, Lancome and SK-II are lower than its JSI, the promotions of King Power will be discussed in detail in Part 4.3. Thanks to cashback in the Korean duty free shops, their JBSIs are lower than the market average (which is 100 by definition). It can be inferred from the table, that CDFG Guangzhou, whose overall price level is close to the market average, has disadvantage in the prices of Lancome , YSL , George Armani and Tom Ford, and that CDFG Sanya has disadvantage in the prices of YSL, Tom Ford and La Mer.

4.2 Prices for P&C Products in the Duty Free Stores

We compare the prices among the duty free shops of interest by looking at several popular products from each of the three subcategories of P&C. The historical prices are shown for each subcategory, namely, skincare, makeup and fragrances, in Table 4-2, Table 4-3 and Table 4-4, respectively. The prices shown in the tables are the optimal prices, which take into consideration of all promotions, including all obtainable discounts, coupons, membership points and cashback.

Thanks to high cashback in South Korea, the P&C products in the Korean duty free shops possess obvious price advantages. The overall actual prices of P&C items in domestic duty free shops are stable. As can be seen from the table below, the prices of the listed products decrease significantly in CDFG Sanya in September. This attributes to the National Day Promotion in CDFG Sanya launched at the end of September. The specific activities include '20% off for 5' and '20% off for 4' , for different combinations of products. Promotions in King Power continued to ongo in September , a slight decrease of its products can be seen from the tables below. In September, Sunrise Shanghai discounted some top popular products, such as YSL Black Opium, whose price decreased to a notable extent after having 20% off (table 4-5). Compared with other duty free shops listed, DFS Hong Kong, KIX and Ishop Changi have no price advantage in the listed products.

Table 4-3: Price fluctuation, skincare (Unit: US\$)

Name	Retailer	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Estee Lauder Advanced Night Repair Duo	Sunrise Shanghai	85.69	79.17	79.11	90.32	92.03	93.88
	CDFG Sanya	71.53	71.53	71.53	72.06	97.90	79.90
	CDFG Guangzhou	74.16	74.16	74.16	74.71	101.50	103.54
	DFS Hong Kong	114.22	114.84	114.83	114.83	107.10	107.10
	Lotte Seoul	79.38	79.38	79.38	79.38	79.38	80.64
	Shilla Seoul	78.12	79.38	79.38	79.38	79.38	80.64
	King Power	92.33	88.12	89.53	75.10	70.34	65.76
	KIX	92.15	92.49	92.94	93.01	94.35	94.31
	Ishop Changi	104.03	101.71	102.79	104.23	106.02	112.61
Lancôme Advanced Genifique Duo	Sunrise Shanghai	238.20	220.91	219.25	220.89	215.49	229.59
	CDFG Sanya	264.98	261.44	259.48	261.41	266.35	217.37
	CDFG Guangzhou	264.60	264.97	262.98	264.94	269.95	275.38
	DFS Hong Kong	260.16	260.62	361.26	361.28	361.29	361.29
	Lotte Seoul	207.90	207.90	207.90	207.90	207.90	211.20
	Shilla Seoul	204.60	207.90	207.90	207.90	207.90	211.20
	King Power	259.71	247.87	251.84	217.76	197.84	184.96
	KIX	287.55	288.60	290.01	292.16	297.03	296.92
	Ishop Changi	276.94	270.76	273.64	277.48	282.23	283.57
Shiseido Ultimune Power Infusing Concentrate Serum 50ml	Sunrise Shanghai	85.80	79.57	78.97	79.56	81.07	82.70
	CDFG Sanya	102.70	95.81	95.09	95.80	97.61	79.66
	CDFG Guangzhou	93.14	93.27	92.57	93.26	95.02	96.93
	DFS Hong Kong	110.37	110.97	110.96	110.96	110.97	110.97
	Lotte Seoul	70.40	70.40	70.40	70.40	70.40	71.50
	Shilla Seoul	70.40	70.40	70.40	70.40	70.40	71.50
	King Power	60.37	60.23	61.20	55.36	56.09	56.18
	KIX	97.27	97.63	98.10	98.17	99.59	99.55
	Ishop Changi	-	-	-	100.64	102.36	102.85
SK-II Facial Treatment Essence Duo Set (2 x 230ml)	Sunrise Shanghai	272.72	252.93	251.03	252.90	260.88	262.86
	CDFG Sanya	294.78	290.83	288.65	290.80	299.98	241.81
	CDFG Guangzhou	278.72	279.10	277.01	279.07	287.88	290.07
	DFS Hong Kong	347.16	349.03	349.00	349.02	355.74	355.74
	Lotte Seoul	223.38	223.38	223.38	223.38	226.44	226.44
	Shilla Seoul	220.32	223.38	223.38	223.38	226.44	226.44
	King Power	227.36	229.04	220.47	206.35	191.76	192.76

	KIX	319.12	320.29	321.85	322.08	327.04	326.61
	Ishop Changi	266.94	261.81	270.01	270.01	311.59	310.90
La Mer The Treatment Lotion 150ml	Sunrise Shanghai	127.17	126.81	123.57	124.29	124.17	120.20
	CDFG Sanya	130.89	130.67	127.33	128.07	121.97	120.38
	CDFG Guangzhou	-	-	-	-	-	-
	DFS Hong Kong	-	-	-	-	-	-
	Lotte Seoul	112.83	112.83	112.83	112.83	112.83	120.69
	Shilla Seoul	131.20	131.20	131.20	131.20	131.20	120.69
	King Power	136.40	135.28	138.53	140.95	112.33	114.72
	KIX	119.83	121.32	120.51	121.66	120.20	123.38
	Ishop Changi	135.87	135.24	134.14	136.90	137.16	136.59

Source : Jessica' s Secret

Table 4-4: Price fluctuation, makeup (Unit: US\$)

Name	Retailer	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Giorgio Armani To Go Cushion Foundation 02	Sunrise Shanghai	59.11	58.67	59.11	59.81	60.97	61.44
	CDFG Sanya	66.42	65.92	66.41	67.20	68.51	55.22
	CDFG Guangzhou	65.71	65.22	65.71	66.49	67.63	-
	DFS Hong Kong	76.13	76.12	76.13	76.13	76.13	76.13
	Lotte Seoul	47.52	47.52	47.52	47.52	48.18	48.18
	Shilla Seoul	40.26	40.26	46.20	46.20	46.20	46.20
	King Power	59.72	60.68	56.77	52.24	48.56	48.56
	KIX	70.68	70.96	70.96	66.98	67.33	67.24
	Ishop Changi	66.01	68.06	69.01	69.86	70.68	69.76
Estée Lauder Double Wear Stay-In-Place Makeup 1W1 Bone5	Sunrise Shanghai	31.62	31.59	37.32	37.77	38.03	38.79
	CDFG Sanya	35.36	29.44	29.46	39.75	40.02	32.66
	CDFG Guangzhou	38.86	29.13	29.14	39.32	39.59	40.39
	DFS Hong Kong	49.02	49.02	49.03	49.03	49.03	49.03
	Lotte Seoul	31.50	31.50	31.50	31.50	31.50	32.00
	Shilla Seoul	31.50	31.50	31.50	31.50	31.50	32.00
	King Power	35.25	35.58	36.94	36.26	36.76	36.83
	KIX	-	41.32	41.33	42.13	41.93	41.92

	Ishop Changi	-	-	45.29	45.84	46.06	46.07
Givenchy Prisme Libre Edition Couture	Sunrise Shanghai	44.66	44.62	44.65	42.47	47.13	47.49
	CDFG Sanya	51.58	51.19	51.58	52.19	53.20	42.89
	CDFG Guangzhou	-	-	-	-	-	-
	DFS Hong Kong	65.81	65.80	65.80	65.81	65.81	65.81
	Lotte Seoul	41.58	41.58	41.58	41.58	42.21	42.21
	Shilla Seoul	41.58	41.58	41.58	41.58	42.21	42.21
	King Power	44.12	44.63	44.32	45.03	44.97	32.19
	KIX	44.66	44.62	44.65	42.47	56.84	56.76
	Ishop Changi	58.22	58.84	59.66	60.40	61.11	60.69
YSL Fusion Ink Cushion Foundation 20	Sunrise Shanghai	45.70	45.35	45.69	46.24	47.13	47.49
	CDFG Sanya	54.41	54.00	53.69	54.34	55.39	44.65
	CDFG Guangzhou	54.41	54.00	54.40	55.05	56.12	56.55
	DFS Hong Kong	50.96	61.93	61.93	61.94	61.93	61.93
	Lotte Seoul	37.80	37.80	37.80	37.80	38.40	38.40
	Shilla Seoul	36.54	36.54	36.54	36.54	37.12	37.12
	King Power	56.03	50.49	52.43	51.46	47.83	48.08
	KIX	62.31	62.56	62.56	64.88	59.46	59.38
	Ishop Changi	53.80	54.37	55.14	55.81	56.47	55.86
YSL Rouge Volupte Shine	Sunrise Shanghai	28.03	19.48	28.03	28.36	28.91	29.13
	CDFG Sanya	32.79	32.54	32.78	33.17	33.82	27.26
	CDFG Guangzhou	31.09	30.86	31.09	31.46	32.07	32.31
	DFS Hong Kong	30.97	38.06	38.06	38.06	38.06	38.06
	Lotte Seoul	22.05	22.05	22.05	22.05	22.40	22.40
	Shilla Seoul	20.79	20.79	20.79	20.79	22.40	22.40
	King Power	25.38	25.79	26.60	26.11	24.26	24.39
	KIX	34.41	34.55	34.63	35.30	32.35	32.31
	Ishop Changi	30.58	30.91	31.34	31.73	32.10	31.96

Source : Jessica's Secret

Table 4-5: Price fluctuation, fragrances (Unit: US\$)

Name	Retailer	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Jo Malone London English Pear & Freesia Cologne 100ML	Sunrise Shanghai	93.75	99.16	110.38	111.69	113.86	114.73
	CDFG Sanya	111.29	92.04	92.73	125.11	127.54	109.24
	CDFG Guangzhou	127.19	94.67	95.38	128.69	130.46	131.45
	DFS Hong Kong	-	-	-	141.93	141.93	141.93
	Lotte Seoul	84.32	84.32	84.32	84.32	84.32	84.32
	Shilla Seoul	93.10	95.20	95.20	92.48	85.68	85.68
	King Power	95.40	93.09	96.01	98.13	99.14	99.65
	KIX	-	-	-	-	-	-
	Ishop Changi	-	-	-	135.49	138.42	137.48
Jo Malone London Wild Bluebell Cologne edp 100ML	Sunrise Shanghai	93.75	99.16	110.38	111.69	112.46	114.73
	CDFG Sanya	111.29	92.04	92.73	125.11	125.98	109.24
	CDFG Guangzhou	126.48	125.53	126.47	127.97	128.86	131.45
	DFS Hong Kong	-	-	-	141.94	141.93	141.93
	Lotte Seoul	84.32	84.32	84.32	84.32	84.32	84.32
	Shilla Seoul	93.10	95.20	95.20	92.48	92.48	92.48
	King Power	95.40	93.09	96.01	98.13	89.58	89.72
	KIX	-	-	-	-	-	-
	Ishop Changi	-	-	-	136.81	137.46	138.68
Tom Ford Fabulous edp 50ML	Sunrise Shanghai	213.07	212.92	250.77	253.76	258.69	249.56
	CDFG Sanya	251.40	197.66	199.13	268.67	273.89	225.12
	CDFG Guangzhou	261.44	194.61	196.06	264.53	269.66	275.65
	DFS Hong Kong	-	-	-	309.66	309.67	309.67
	Lotte Seoul	200.90	200.90	200.90	200.90	203.77	203.77
	Shilla Seoul	203.77	203.77	203.77	177.94	180.81	180.81
	King Power	230.10	233.79	241.15	236.70	239.13	240.38
	KIX	-	-	-	-	-	-
	Ishop Changi	-	-	278.92	279.62	285.67	285.04
YSL Black Opium edp 50ML	Sunrise Shanghai	83.29	82.67	83.28	84.27	85.91	73.67
	CDFG Sanya	104.15	103.37	104.14	105.38	107.43	86.60
	CDFG Guangzhou	-	-	-	-	-	-
	DFS Hong Kong	120.00	119.99	120.00	120.00	120.00	120.00
	Lotte Seoul	65.52	65.52	65.52	65.52	66.56	66.56
	Shilla Seoul	64.26	64.26	64.26	64.26	64.26	64.26
	King Power	78.82	80.08	82.60	81.07	81.91	81.51
	KIX	100.44	100.84	100.84	107.81	98.81	98.68
	Ishop Changi	99.50	102.58	104.02	105.30	106.54	105.38
YSL Mon Paris EDPS 50ML	Sunrise Shanghai	88.47	87.81	88.46	89.52	91.25	91.95
	CDFG Sanya	104.43	103.65	104.42	105.67	107.72	86.83
	CDFG Guangzhou	110.93	110.10	110.92	112.25	114.42	115.29
	DFS Hong Kong	120.00	119.99	120.00	120.00	120.00	120.00

	Lotte Seoul	66.78	66.78	66.78	66.78	67.84	67.84
	Shilla Seoul	66.15	66.15	66.15	66.78	66.78	66.78
	King Power	-	-	-	72.92	65.04	66.61
	KIX	95.83	96.21	96.21	99.19	98.81	98.68
	Ishop Changi	92.52	93.51	94.82	95.98	97.11	96.90

Source : Jessica' s Secret

4.3 Promotions of the Duty Free Stores

According to the market information collected by Jessica' s Secret App, promotions in duty free shops mainly include cashback, "buy any N save x%" , "buy any N get 1 free" , and "buy any 2 get 50% on the second" . Jessica' s Secret is collecting information on promotions in different shops and converges the information into discounts.

The main promotions in Sunrise Shanghai in October include cashback and "buy any N save x%" for designated products. With "buy any N save x%" , consumers get x% off for the designated items when they purchase N (which very often lies between 1 and 3) pieces of them in a designated product list.

We look at the recent promotions in Sunrise Shanghai by showing the promotions for some popular brands on 26th of October in Table 4-6, where the information on promotion is converted into ranges of discount rates. On 26th October, the discounted products in Sunrise Shanghai totaled over 16,000, in which many are included in more than one activity. As shown in the table, lowest discounts are seen for YSL, Dior, Guerlain, Lancome, Tom Ford, Shiseido and Nars, with the optimal discount of 50%. In terms of number of items discounted, Dior, Tom Ford and Guerlain ranked top 3, with 355, 284 and 243 discounted products, respectively.

Table 4-6 : Promotions for some popular brands in Sunrise Shanghai

Brand	Number of discounted items	Discount
Dior	355	5%~50%
Tom Ford	284	5%~50%
Guerlain	243	5%~50%
YSL	174	5%~50%
Estee Lauder	169	5%~33%
Jo Malone London	155	5% ~ 33%
Lancome	153	5%~50%
Giorgio Armani	149	5% ~ 37%
Shiseido	141	5%~50%
Nars	121	5%~50%
Clarins	118	5% ~ 30%
Bobbi Brown	103	5% ~ 37%
La Mer	63	5% ~ 30%
SK-II	46	5% ~ 15%
Helena Rubinstein	32	5% ~ 37%

Source: Jessica' s Secret App, 2020/10/26

The main promotions in CDFG Haikou in October include "Special price for the National Day" , "Buy 3 for 15% off, Buy 5 and get 20%" , "Discounts for the category" (such as 10% off for all watches and wines), "Special offer for the brand" and discounts for designated products. Specifically, the promotion "Buy 3 for 15% off, Buy 5 and get 20%" covered more items

than any other promotion, with over 3,000 items included.

We look at the recent promotions in CDFG Hainan by showing the promotions for some popular brands on 26th of October in Table 4-7, where the information on promotion is converted into ranges of discount rates. On 26th October, the discounted products in CDFG Haikou totaled over 4,600, in which many are included in more than one activity. As shown in the table, lowest discounts are seen for Shiseido, with a few items discounted by 50%, most of the other listed bands promote their products by offering 15% to 30% off. In terms of number of items discounted, Estee Lauder, YSL and Lancome ranked top 3,

Table 4-7 : Promotions for some popular brands in CDFG Haikou (Duty Free Shop at Meilan Airport)

Brand	Number of discounted items	Discount
Estee Lauder	207	15%~29%
YSL	178	15%~30%
Lancome	175	15%~30%
Guerlain	145	15%~30%
Bobbi Brown	122	15% ~ 20%
Giorgio Armani	112	20% ~ 30%
Clarins	106	15% ~ 20%
Shiseido	104	15% ~ 50%
Jo Malone London	103	15% ~ 20%
La Mer	75	15% ~ 20%
SK-II	65	15%~29%
Nars	48	15% ~ 20%
Tom Ford	37	15% ~ 20%
HR	25	15% ~ 20%
Dior	13	15%~30%

Source: Jessica's Secret App, 2020/10/26

We show the main promotions of King Power in September in the tables below. As shown in Table 4-8, King Power offers “buy N and save x%” for designated products. In addition, consumers get discounts for designated products when they consume up to a certain amount. Notably, there are overlaps in the products covered in Table 4-8 and Table 4-9, namely, discounts for these products are stackable, resulting in a highest final discount of 40%(for instance, an item is allowed for 30% off and an additional discount of 10%, as the consumption amount is fulfilled, its final discount is then 37%). The listed promotions lasted from 1st to 30th September.

Compared to those in August, the specific promotions of King Power in September changed as follows: the optimal discount for consumption up to THB10,000 (US\$320) was lowered from 15% to 10%, and the number products discounted was reduced significantly for the same consumption amount; the number of products discounted by 20% rose from 10,941 in August to 13,698 in September, for consumers spending over THB 15,000 (US\$480); in addition, many more products were added to the discount list in September, for consumers spending over THB60,000 (US\$1,912).

Table 4-8: Discounts for some P&C products in King Power

Brand	Number of discounted items	Discount
Biotherm	31	20%
Sulwhasoo	29	10%~15%
Laura Mercier	16	10%~15%
Clinique	14	20%

Shiseido	11	10%~15%
IPSA	8	10%
YSL	8	30%
Aveda	2	10%~15%

Source: Jessica's Secret App , 2020/09/30

Table 4-9: Discounts and correspondent amount of consumption required in King Power

Consumption required (US\$)	Number of discounted items	Discount
318	1,569	10%
	1,880	5%
478	13,698	20%
	1,387	15%
	181	12%
	1,880	10%
1,912	407	30%
	570	20%
	13,698	15%
	223	12%

Source: Jessica's Secret App , 2020/09/30

In addition to the duty free shops presented above, other duty free shops offered similar promotions as well. Dufry offered different promotions in its shops all around the world in September. Its main promotions include: "Buy any 2 and get up to 33% off" , "Buy any 3 and get up to 33% off" , "Buy any 4 and get up to 25% off" , "Buy any 2 and get 1 for free" and "50% off for the second" . The promotion offered differ between the Dufry shops. In Shilla Ipark, consumers get cashback as well as gifts if they purchase specific products or if they consume up to a certain amount.

Except for discounts provided by the retailers, there are stackable discounts offered by third parties. For example, third-party coupons can be used in Sunrise Shanghai to get 5% off and 1% cashback at the same time; in King Power 2% off and 7% cashback, and in KIX 5% off and 2% cashback (the above mentioned discounts and cashback are valid simultaneously).

5 Interviews with Thai Purchasing Agents

Gina: Direct mail from Thailand poses a major threat to the purchasing agents

Gina, 35, was a full-time purchasing agent living in Thailand. Gina used to purchase about RMB50,000 (US\$7,474) to RMB100,000 (US\$14,948) of goods for her customers every month, and her income from being a purchasing agent is usually between RMB20,000 (US\$2,989) and RMB30,000 (US\$4,484). Gina seldom visits duty free shops, as she travels quite few between China and Thailand. Mostly, Gina purchases local Thai products for her customers, such as latex pillows, medical products and cubilose, as well as some popular luxury goods. These goods are then transported back to China through some small land transportation logistics companies, which is cheap, but takes two or three weeks for the goods to arrive.

Gina introduced us her ways to obtain optimal prices purchasing in Thailand. For local Thai products, Gina usually negotiates with the shop owners for internal discounts, since she purchases in large scales. As for the luxuries, they can be obtained with discounts of as low as 50% when promoted at end of the year in the Thai shopping malls.

On the implementation of offshore duty free policy in Hainan, Gina finds it unattractive to purchasing agents like herself, taking into consideration of the costs travelling to Hainan. Gina doesn't take offshore duty free as a threat to her purchasing business. Never the less, Thai purchasing agents are currently struggling to survive, being struck by the cross-border e-commerce. Having been a Thai purchasing agent for years, Gina recalled that, being a Thai purchasing agent brought her considerable profit about five years ago, as there were less competition. With the recent development of the cross-border e-commerce, customers now have access directly purchasing from Thailand. Although the overall price of "home-delivery from Thailand" slightly outweigh that of the purchasing agents, consumers prefer home-delivery because of the dependable source and shorter delivery time.

Helen: Due to the pandemic, the Thai purchasing service industry might not recover

Helen, 25, was a full-time purchasing agent living in Thailand before the outbreak. Helen mainly purchases local Thai products such as medical products, latex pillows and food for her customers. She usually visits the local pharmacies, and send the goods by land transportation back to China. The transportation usually takes over two weeks. Helen visits King Power when she travels to China from Thailand, purchasing cosmetics, skincare products and some luxury goods for her customers. Her membership card gives her an overall 20% off at King Power. In addition, cashback from the third-party platforms, also reduces her purchase cost. Helen revealed that her profit margin was between 10% and 15%.

Affected by the pandemic and the political environment in Thailand, Hellen returned to China and found a job being a teacher. She's now selling her inventories, which are purchased from Thailand and brought back to China before the outbreak. On the implementation of the Hainan offshore duty free policy, Helen didn't find it reducing her orders. However, as she is now running out of inventories, and packages from Thailand hardly enter China due to the pandemic, Helen's purchasing business can't continue for much longer.

Ivan: the purchasing business suspended due to the pandemic, with no sign to recover shortly

Ivan is a tour leader, and a part-time purchasing agent. He takes tourists to Thailand about three times a month before the outbreak, and purchased during his trips. Ivan spends annually over RMB 2,500,000 (US\$ 373,067) purchasing for his customers in Thailand. Mostly, Ivan visits King Power and enjoys an overall 20% off with a membership card. He buys cosmetics, skincare products and luxuries as his customers require and carry them back to China with himself. Ivan told us that the profit margin of a common Thai purchasing agent is between 10% and 15%, but as some of Ivan's inventories are sold to other purchasing agents for lower profits, his general profit margin is below 10%.

Ivan prefers King Power than the duty free shops in other countries for the following reasons.

First, all products sold in King Power are labeled as "from King Power", so that their sources are known for Ivan's customers. Ivan has no worries about his customers being informed of the price of the products from the label, because he obtains 20% off with a King Power membership card as well as other irregular discounts offered by King Power.

Second, the products preferred by Chinese consumers are more likely to be available in King Power than in other duty free shops. This might partly because of the slight higher price level in King Power, but also because Chinese customers visiting King Power are mainly common customers instead of purchasing agents, so that products are more evenly consumed. In comparison, customers visiting South Korean duty free shops are mainly purchasing agents, who make bulk purchases of the popular products, so that the popular products are very often sold out.

Due to the pandemic, Thai tourism industry is stagnating, and Ivan's purchasing business is thus suspended. Ivan noticed that many of his potential consumers are turning to the offshore duty free in Hainan, which poses a great threat on him. Ivan admits the attraction of offshore duty free to common consumers, and believes the annual consumption limit of offshore duty free isn't too low for individual consumers. Ivan holds that, once formed, the shopping habits are very difficult to change for the consumers. Even if Thai purchasing industry recovers in the future, those who are used to shopping in Hainan would hardly turn to the purchasing agents again.

6 Comparison of China's Duty-free Enterprises and Cross-border E-commerce Import Retailer

6.1 The summary and comparison form

Comparative Matters		Duty Free	Cross-border E-commerce Import Retailers
Admission system		Because of the licence administration , the admission is difficult.	The admission is a low difficulty.
Regulatory requirements	Business Mode	The good imports and retails again.	The bonded import : it imports the good, and also pays the tax to sell. The direct import : it sells the good, and secondly imports.
	Consumption Limitation	RMB 100,000 (US\$ 14,960) per year for offshore duty free	RMB 26,000 (US\$3,889) per year
	Goods Variety	There are 45 kinds of goods on the offshore duty free.	There are 1,321 categories.
	Customer Source Restriction	Passengers at arrival/departure and the offshore passenger	No limitation
	Tax Burden of The Commodity	The tariff and the import link tax is avoided.	The tariff is avoided, and the import link tax is imposed at 70%.
	Tax Burden of The enterprise	The payment of the franchise fee is required.	No special tax
	Consumer Protection	Unclear	The cross-border e-commerce platform should be responsible for consumers

6.2 Admission system comparison : the admission system of the cross-border e-commerce enterprise is more looser

Duty free: because of the licence administration , the admission is difficult

The admission system of the duty free industry has been introduced in the first issue of TR Outlook. Generally speaking, China's duty free industry currently carries out the permit admission system, the duty free enterprise need to obtain the duty free licence, and bids to get the operation of the duty free store. It is more difficult for the new market participant to enter the duty free industry.

Cross-border E-commerce Import Retailers: the admission is free, and the pilot city continues to increase

(1) The industry admission requires the telecommunication business licensing and the customs registration procedure

We have introduced the market access requirement for cross-border e-commerce businesses in the second issue of TR Outlook. When cross-border e-commerce operators enter the market, they need to conduct some procedures, such as the telecommunication business licensing of the Ministry of Industry and Information Technology, and registers a series of procedures at customs. Compared to the duty free industry, the entry threshold of the cross-border e-commerce import retailer is much lower, and the market is more free.

(2) The policy allows to increase the pilot city, and the business is more convenient

It is advantageous to develop the cross-border e-commerce retail import business in pilot cities (see below in the analysis of the business mode). There are eighty-seven pilot cities have been identified, and the entry threshold of the cross-border e-commerce retail import business is significantly lowering.

6.3 Regulatory requirements comparisons: duty free goods are available at high discounts, while the cross-border e-commerce is more convenient

6.3.1 Business Mode

The duty free: it imports before it retails, the whole process is supervised by the customs

The business mode of the duty free good is similar to the common retail. A duty-free enterprise firstly imports the goods and becomes the owner of the good, and then it sells them in the duty free shop. According to the *Measures of General Administration of Customs of the People's Republic of China for the Supervision and Administration of Duty Free Shops and Goods* (Order of the General Administration of Customs No. 240), the duty free enterprise should handle the duty free import procedure to import the duty free good; duty-free goods should be stored in special warehouses, and the warehouse management system should be reported the customs to keep on record. Warehouse in/out records, sales records and inventory records of the duty free good should be audited by the customs. According to the work need, the competent customs can send their staff to the duty free shop for the supervision. Thus, it can be seen that the whole selling of the duty free good is under the customs supervision.

¹ *Circular on Improving the Regulation of Cross-border E-commerce Retail Imports* (Shang Cai Fa [2018] No.486) has listed 37 pilot cities. Then in the *Circular on Expanding the Pilot Program for Cross-border E-commerce Retail Imports* (Shang Cai Fa [2020] No.15), 50 more cities are included as pilot cities.

Cross-border E-commerce: Bonded Online Shopping Import and Direct Express Import

For the comparison with the duty free retail business mode, we choose only the e-commerce mode of the cross-border retail import to analysis here.

(1) Bonded Import for Online Shopping: Bonded Import and Retail by Tax, Fast Logistics, Low Transportation Costs but with Inventory Risk

Bonded import means that, the good are imported into China before selling, and it is stored in a special supervised customs area or a bonded logistics center. After the goods are sold, the customs will compare the transaction, the payment and logistics

information. If all information can match, enterprises shall pay the tax and deliver the goods from the bonded area to the consumers.

As the mentioned above, the cross-border e-commerce retail import business process in the pilot cities is more simpler and convenient. The customs supervision method of cross-border e-commerce retail bonded imports in pilot cities is labelled as *"Bonded Imports for Online Shopping"*, with the customs supervision code 1210. Under this mode, imported goods are supervised as personal items; the documentary of the customs clearance requirement is not too much; the process is fast; and without the requirement for import permission if the goods are imported for the first time. The bonded import model in non-pilot cities is *"Bonded Imports for Online Shopping A"*, with the customs supervision code 1239. Under mode 1239, goods are supervised as imported goods, when the good imported into the bonded area. It means there is a high strict requirement for customs clearance documents and inspection and quarantine. Therefore, the process is more time-consuming. When the good is out of the bonded zone, it is supervised as personal itmes.

(2) Direct Express Import: Import After Retail, Small Inventory but Time-Consuming

Direct express import means that, after a consumer purchases the product from an overseas company, the product is shipped from overseas. The customs declaration procedures is handled, after the customs compares the payment, logistics, and transaction information. The customs supervision code is 9610.

6.3.2 Consumption Limitation

Duty free: Limited in 45 Categories of Goods in Hainan with Maximum of RMB 100,000 (US\$ 14,960)

Since the duty free consumption means the state concedes the taxation, there is generally a limit on the consumption amount. For example, according to the current *"Announcement on the Duty-free Shopping Policies for Tourists Departing from Hainan Island"* (Announcement of the Ministry of Finance, the General Administration of Customs and the State Taxation Administration [2020] No. 33), a total of 45 categories of duty free goods can be sold at present, with an annual consumption limit of RMB 100,000 (US\$ 14,960). There are quantitative limits on cosmetics, mobile phones and alcoholic beverages, but other categories are no limits, such as the perfume, the jewelry, the handicraft, the clothing and the apparel.

Cross-Border E-commerce: 1321 Items of Goods with Maximum of RMB 26,000 (US\$3,889)

According to *"The Commodity List of Cross-Border E-commerce Retail Imports (2018 Edition)"*, identified by 8-digit tariff code, 1,321 items are available for sale, including a variety of food, clothing and apparel, household goods, electrical appliances and digital products. These goods are commonly found in the daily life. Some of them are limited to the bonded import of the online shopping. According to *"The Circular on Improving Tax Policies for Cross-border E-commerce Retail Imports (Cai Guan Shui[2018] No. 49)"* the limit for one single transaction of cross-border e-commerce retail imports is RMB 5,000 (US\$748), and the annual transaction limit is RMB 26,000 (US\$3,889).

6.3.3 Customers Limitation

Duty free: Passengers at arrival/departure and the offshore passenger

Cross-border: No limits on customers

6.3.4 Tax

Duty free: Duty Free for Goods while the Enterprise Collects The Concession Fee

Imported duty free goods are exempt from customs duty and VAT and excise tax on importation, while domestically produced duty free goods are exempt from VAT and excise tax. For enterprises, according to the *"Notice on Printing and Distributing*

the Measures for the Payment of Concession Fees for Duty Free Commodity (Cai Qi [2004] No. 241)” and its supplementary circular (Cai Qi [2006] No. 70), duty free enterprises shall pay a concession fee to the state at the rate of 1% of the annual sales revenue.

Cross-border E-commerce: Tax Rate Have a Discount on Goods, while Regular Enterprises Pay Taxes

The cross-border e-commerce retail imports the good are subject to the customs duty, the VAT and the import value-added tax. The individual consumers are the tax obligor to purchase the cross-border e-commerce retail import good. The actual transaction price which includes the freight and insurance charges are the taxable price. The overseas e-commerce enterprise, e-commerce trading platform enterprise or logistics enterprise is as a collection and payment agent. In accordance with the “Circular on Tax Policy for Cross-Border E-commerce Retail Imports” (Cai Guan Shui [2016] No. 18), the tariff rate for cross-border e-commerce retail imports imported within the shopping limit is temporarily set at 0%; the import VAT and excise tax are temporarily levied at 70% of the statutory taxable value.

Meanwhile, cross-border e-commerce importers pay taxes as normal businesses.

6.3.5 Consumer rights and interests protection

Duty free: The responsibility of the seller is not clear

On the question of whether duty free enterprises should bear the same responsibility for products to consumers as ordinary commodity retailers, some people are of the view that the sale of duty free products should also comply with laws and regulations such as the “Product Quality Law” and the Law on the “Protection of Consumers’ Rights and Interests”, and that consumers have the right to enjoy China’s Three Guarantees policy if they think there is a quality defect of their products. The duty free shop shall cooperate with the handling. However, in practice, due to the special characteristic of the duty free regulation and travel shopping, it may be difficult for consumers of duty free goods to defend their rights. For example in the China Duty Free Group’s return policy, the sold duty free good cannot be exchanged, and the test report of the sold duty free good is necessary for returning defected goods.

Cross-border E-commerce: E-commerce platforms should establish a risk prevention and control mechanism for the commodity quality and safety

According to the “Circular on Improving the Regulation of Cross-border E-commerce Retail Imports” (Shang Cai Fa [2018] No.486), cross-border e-commerce platforms are obliged to establish management systems for trading rules, transaction security, protection of consumer rights and interests, and handling of undesirable information within the platform. Cross-border e-commerce platforms should carry out the authentic verification of subject identity, when Cross border e-commerce enterprises apply to settle in the platform. They are also obliged to establish a self-regulatory system for handling consumer disputes and safeguarding consumer rights. When consumers purchase goods on the platform and their legitimate rights and interests are damaged, the platform must actively assist consumers to defend their legitimate rights and interests, and fulfils its responsibility to pay compensation in advance.

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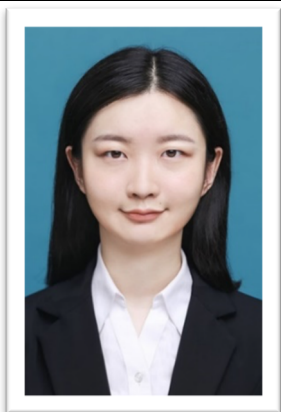
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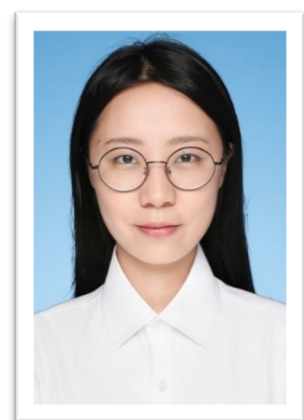
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