



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 August, 219 passengers were punished for violating regulations

Since the implementation of the new policy on July 1st, customs has supervised a total of RMB 5.58 billion (US\$819 million) offshore duty free shopping, with a year-on-year increase of 221.9%; the number of items sold totaled 6.122 million, a year-on-year increase of 147.3%; and tourist visits of 832,000, having increased by 54.8% year-on-year. Among them, the amount of offshore duty free shopping in August was RMB 3.09 billion (US\$453 million), with a year-on-year increase of 217.6% and a month-on-month increase of 24% (duty free shopping amounted RMB 2.5 billion in July).

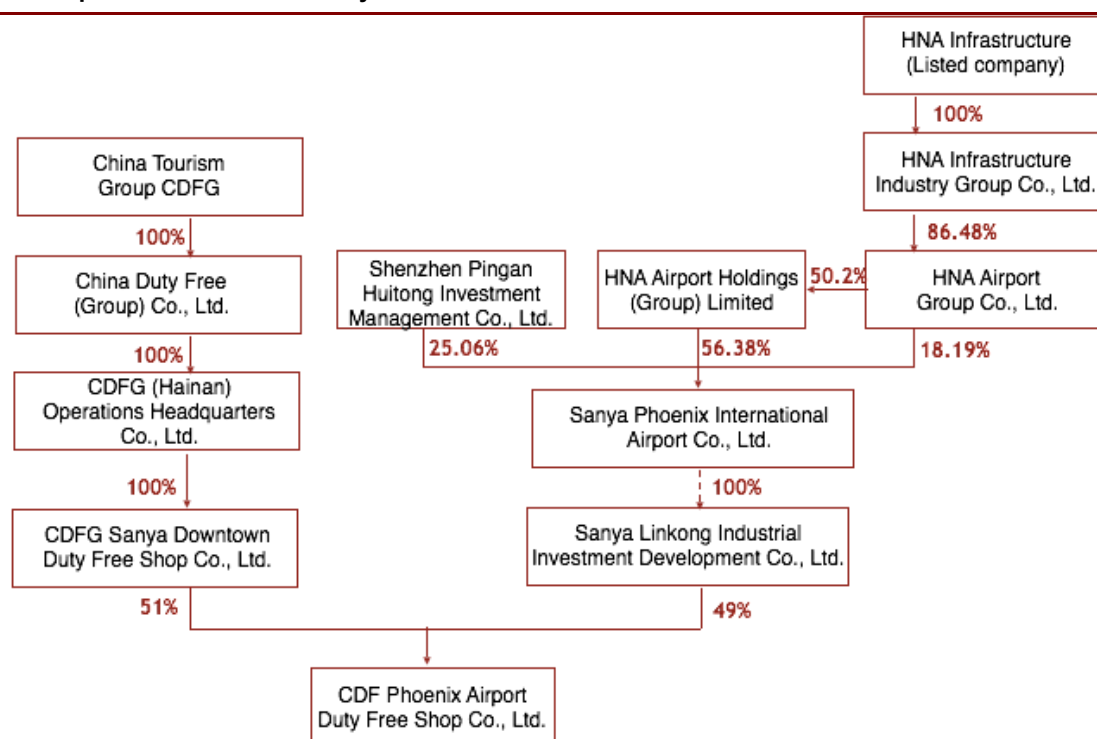
On September 24th, the customs imposed a penalty of “forfeit purchasing duty free goods on outlying islands within three years” on 219 passengers, who violated offshore duty free regulations through the supervision system. At the same time, the customs intercepted and dissuaded 364 passengers who attempted to take duty free goods out of the isolation zone. Among the 219 passengers violating regulations, 28 of them attempted to carry duty free goods off the island against regulations, the rest attempted to resell duty free goods for profit. With a "zero tolerance" attitude, the Customs were about to crack down such behavior to resolutely purify the operating environment of the duty free market in Hainan.

On September 26th, the 2nd Hainan Offshore Duty Free Year-end Ceremony of CDFG was held in Haikou Riyue Square Duty free Shop. The Hainan Offshore Duty Free Year-end Ceremony will last for over three months (from 26th Sep. to 31st Dec.). During the event, CDFG's four duty free stores (Sanya, Haikou Riyue Plaza, Haikou Meilan Airport, Boao) will jointly launch a series of marketing campaigns to meet the diverse demands of the consumers.

1.1.2 Offshore Duty Free Policy: CDFG Opened up a Duty Free Store in Sanya Airport

On September 7th, CDFG announced that its wholly-owned subsidiary Sanya Duty Free Shop Co., Ltd. and Sanya Airport Industrial, a wholly-owned subsidiary of Phoenix Airport, jointly invested RMB 100 million to establish CDF Phoenix Airport Duty Free Co., Ltd., among which Sanya Downtown Duty Free Store invested RMB 51 million, holding 51% of the stakes; Sanya Linkong Industrial invested RMB 49 million, holding 49% of the stakes, and agreed to apply for offshore duty free franchise in accordance with relevant regulations and requirements.

Figure 1-1: Ownership structure of CDFG Sanya

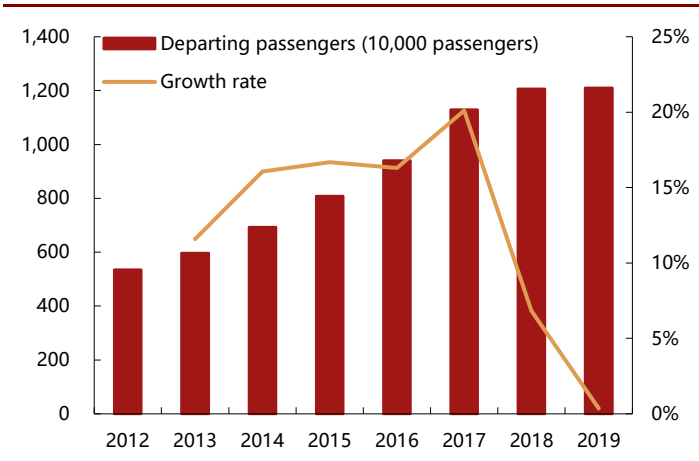


Source: Statement of CDFG, Tian Yan Cha

Sanya Phoenix Airport has a passenger volume of 20.16 million in 2019, equivalent to that of Haikou Airport, and the passenger flow radiates to the central and western regions. Phoenix Airport occupied an area of 105,000 square meters with its T1 terminal (China domestic) and T2 terminal (international, Hong Kong, Macao and Taiwan). In addition, Sanya Aviation City (complex in front of the station) stands opposites the terminal with a construction area of 174,000 square meters and sufficient commercial resources. The passenger flow of Sanya distributes uniformly from west to east, with Nanshan, Dadongtian and Tianya Haijiao in the west; downtown Sanya, railway station, Qianguqing and Yalong Bay in the middle; and Haitang Bay Hotel Group, Atlantis, Wuzhizhou Island and Hehaichang Park in the west. Tourists visiting all parts of Sanya have access to a Duty Free Shop nearby, CDFG Sanya, which is located in Haitang Bay is easily accessible for tourists visiting eastern Hainan; as is the airport shop for those visiting the western and central Hainan, thus are the Duty Free Shops appropriately arranged in Hainan.

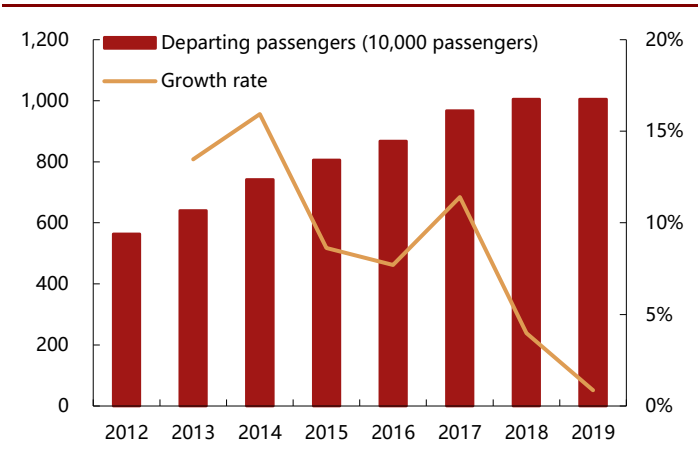
Airport duty free shops, as a starting point and last stop shopping point for most visitors, help to raise the offshore duty free penetration rate. In 2019, the duty free shop at Haikou Meilan Airport achieved a total sales of RMB 2.35 billion (US\$346.2 million), while a net profit of RMB 90.46 million (US\$ 13.32 million) was achieved in the first half of 2019, with a profit margin of 8%. The profit margin of the airport duty free shops are reduced because they need to pay the airport a contracted percentage of its income. The passenger volume and the operating area of Sanya Airport are both slightly lower than those of Haikou Airport. Whereas, the quality of the general passengers visiting Sanya Airport is higher than that of Haikou. Sales in the first-year opening are expected to be from RMB 2 to 3 billion (US\$295 to 442 million).

Figure1-2: Passenger flow of Haikou Meilan Airport



Source: Meilan Airport Company Announcement

Figure1-3: Passenger flow of Sanya Phoenix Airport



Source: Sanya City Statistics Bureau

1.1.3 Offshore Duty Free Policy: CDFG Won the Bidding in Phoenix Coastal Land for High-end Retail Commercial Project in Sanya

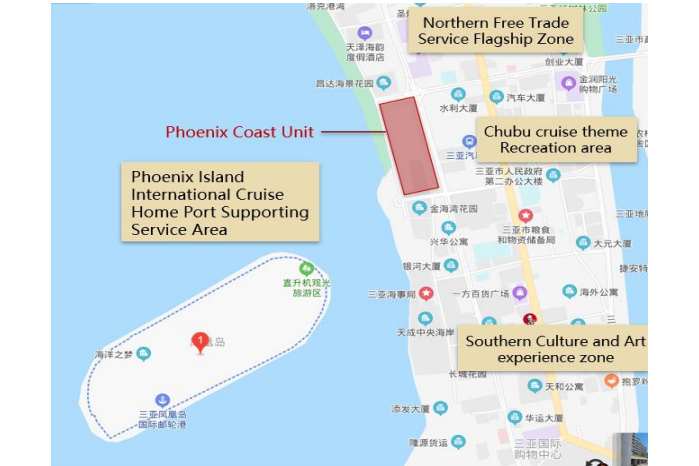
On September 7th, Gree Real Estate announced that its wholly-owned subsidiary Zhuhai Helian Real Estate Co., Ltd. has obtained the usage rights of the state-owned construction land located in Sanya Headquarters Economy and Central Business District Phoenix Coast Unit Control Regulations YGHA3-2-03/05/06/07 and YGHA3-2-10, which is sold publicly online by Sanya City Natural Resources and Planning Bureau, through public bidding. The land covers an area of 32,953 square meters, and the total transaction price is RMB 1.651 billion (US\$243 million). The auctioned land is planned to be used for the construction of the coastal area. The high-end tourism retail business project will help the construction of an international tourism consumption center, aligned with the company's development strategy.

Figure 1-4: Location of Phoenix Coast Project



Source: Baidu Map, Gree Real Estate

Figure 1-5: Facilities around Phoenix Coast Unit



Source: Baidu Map, Gree Real Estate

In order to get the prime site in advance, the Zhuhai Duty Free Enterprises Group plans to build a tourism retail commercial project. The two properties obtained by the company are 94,000 square meters, including a commercial capacity of 63,000 square meters (the total

construction area of CDFG Sanya is about 120,000 square meters and a commercial area of 72,000 square meters), which are planned to be used for the construction of high-end tourism retail Commercial projects, equipped the construction of an international tourism consumption center. At present, the land is to be developed. Considering the area of the land, the estimated construction period is about 2-3 years, with reference to the three-year construction periods CDFG Sanya and Haikou Duty Free City. Large commercial properties suitable for duty free shops in Sanya are very scarce. Therefore, the company's purchase of land in advance is expected to become a major bargaining chip for duty free shops.

Table 1-1: Acquisition of commercial land by Gree Real Estate

No.	Control number	Area (m ²)	Land use	Volume Rate	Capacity area	Building density	Green area rate
1	YGHA3-2-03/05/06/07	2,190.93	Retail commercial land	≤3.5	38,374 m ²	45%	35%
		8,763.72	Commercial and financial land				
2	YGHA3-2-10	21,998.41	Retail commercial land	≤2.5	55,556 m ²	45%	35%
Sum	/	32,953.06	/	/	93,930 m ²	45%	35%

Source: Gree Real Estate

1.1.4 Duty free Airport: CDFG Proposes to Build New Store in Chengdu Tianfu Airport

On September 12th, CDFG issued an announcement that its sub-subsidiary CDFG (Hainan) Operations Headquarters Co., Ltd. and Sichuan Airport Passenger Service Co., Ltd. will jointly invest RMB 80 million (US\$11.9 million) to establish CDF Chengdu Tianfu Airport Duty Free Limited company to operate outbound duty free business. Among them, CDFG invested RMB 40.8 million (US\$ 6.07 million), holding 51% of the shares; Sichuan Airport invested RMB 39.2 million (US\$ 5.83 million), holding 49% of the shares.

In 2019, the passenger throughput of Chengdu Shuangliu International Airport reached 55.859 million, of which the international (regional) passenger volume reached 6.738 million. As of May 31, 2020, 363 routes have been opened, of which 128 are international (regional) routes, 217 are domestic routes, and 18 are transiting domestically to international routes. Compared with international airports in Chongqing, Xi'an, Kunming and other places, Chengdu Shuangliu Airport ranks first in terms of total passenger and international passenger throughput and international (regional) navigation points. It is the leading international hub, covered the central and western regions.

According to the previously issued "Chengdu International Aviation Hub Strategic Plan" (Below referred to as the "Plan") and the introduction of relevant leaders of the Sichuan Provincial Development and Reform Commission, Chengdu's Shuangliu Airport and Tianfu Airport will implement a "two-field one" operation model. At the initial stage of operation, Tianfu Airport was the main hub of Chengdu International Air Hub, undertaking the core functions of passenger and cargo transportation; Shuangliu International Airport was a regional aviation hub that mainly served domestic point-to-point business routes, while retaining the functions of international ports to ensure regional routes, International business aviation business and international alternate flights. In the long term, after the international routes of Tianfu Airport meet the requirements for hub development, research will be conducted to restore the growth of Shuangliu Airport's international routes and gradually evolved into a dual international hub airport system with two integrated and differentiated developments.

The "Plan" also set goals for the two airports: It is estimated that, in 2025, the annual passenger volume of Chengdu International Aviation Hub will reach 100 million passengers and the cargo and mail capacity will reach 1.9 million tons; it is estimated that, in 2035, the annual passenger volume will be 160 million and the cargo and mail capacity will reach 3.5 million tons. If it is enforced with the positioning of the two airports in Chengdu and the division of routes and timetables in the "Plan", Tianfu Airport will play an important role in receiving international passengers in the future. It is conceivable that Chengdu Tianfu Airport's opening as planned in 2021 will be a new revenue stream for CDF Airport's duty free sector.

1.1.5 Downtown Duty Free: Wangfujing Plans to Launch a New Duty free Store in Universal Beijing Resort

On September 7th, the State Council approved the principle "Deepen Beijing's new round of service industry expansion and opening up comprehensive pilot program to build a national service industry expansion and opening up comprehensive demonstration zone." The plan is proposed to promote the quality and upgrade business, cultural and tourism services. Support Wangfujing Pedestrian Street to take the market pivoting in creating an international consumption environment, a high-quality business environment, and an international consumption area. Optimize the layout of duty free shops in the city, coordinate the establishment of departure pick-up points for duty free shops in the city in the airport isolation area, and implement relevant policies for duty free shops.

On September 18th, at the "65th Anniversary Media Communication Conference" held by Wangfujing Group, Wangfujing Group Chairman Du Baoxiang revealed that the company plans to open a commercial complex integrating tax-free, out-of-town and shopping centers in Beijing Universal Resort, which is convenient for customers' one-stop shopping.

Universal Beijing Resort is located in Tongzhou. The main theme park of Universal Studios is the Universal Studios theme park. The first phase of the project includes the Universal Studios theme resort and the first resort hotel under the NUO brand of BTG Group. It is a commercial complex integrated retail, catering and entertainment, expected to open in May 2021. According to the requirements of the Beijing Municipal Government, in the future, Beijing Universal Resort will be built into a cultural tourism industry cluster with international standards.

On September 21, the State Council issued a notice of the overall plan for the pilot free trade zone in Beijing, Hunan, and Anhui and the expansion plan for the pilot free trade zone in Zhejiang. The "China (Beijing) Pilot Free Trade Zone Overall Plan" is proposed to encourage moderate competition and improve duty free shop services. According to the "Plan", the scope of implementation of the Beijing Pilot Free Trade Zone is 119.68 square kilometers, covering three areas: 31.85 square kilometers of science and technology innovation area, 48.34 square kilometers of international business service area (including 5.466 square kilometers of Beijing Tianzhu Comprehensive Free Trade Zone), high-end The industrial area is 39.49 square kilometers. The international business service area is positioned functionally to underline the development of digital trade, cultural trade, business exhibitions, medical and health, international delivery logistics, cross-border finance and other industries, and to create a pilot area for airport economic innovation.

1.2 New Actions on Korean Duty Free Policy

1.2.1 Lotte and Shilla Jeju Store Will Reopen on October 5th

Lotte Duty Free Shop and The Shilla Duty Free Shop in Jeju, which closed indefinitely since June due to the pandemic, announced on September 28th that parts of cosmetics store business will be resumed in Jeju from the 5th of next month in response to requirements of the consumers and settled companies.

The relevant person in charge of Lotte Duty Free Shop said that, in view of the demands of parts of commercial customers like Chinese procurement service, Lotte Duty Free Shop will be temporarily decided to open from 2 to 6 pm after the resumption of business, the shop will be rested on weekends and public holidays. Shilla has not yet decided on the opening scale and operating hour of its Jeju shop.

Lotte and Shilla said it hasn't been yet decided whether the shop in Jeju airport will reopen. The person in charge of duty free shop said:" it will be decided by relevant airport commune whether to operate duty free shops and other commercial facilities. As far as I know, all the local airports have already been closed, as Ministry of Land, Infrastructure and Transport concentrates flights of international route to Incheon airport."

1.2.2 The Franchise of Shinsegae Duty Free Busan is Renewed for Another 5 Years

According to the industry news on September 25th, the Korean Bonded Sales Shop Franchise Review Committee made decision

of updating franchise of Shinsegae Duty Free Busan Shop.

The franchise of Korean duty free shop lasts for 5 years. After expiration, large enterprises are allowed to extend the franchise for 1 time, while small and medium-sized enterprises are allowed to extend the franchise twice. That is, large enterprises can be operated for 10 years, small and medium-sized enterprises can be operated for 15 years.

1.2.3 Procurement Service Is Back, Sales of the Korean Duty Free Shops Increased for 4 Consecutive Months

Sales at duty free shops in South Korea totaled KRW 1.4441 trillion (US\$1.26 billion) in August, according to statistics released by the Korean Duty Free Shop Association on September 29th. Sales increased 15.3% compared with the sales of KRW 1.2515 trillion (US\$1.09 billion) in the previous month. So far, sales of Korean duty free shops have increased consecutively for 4 months, showing a S-trend of recovery.

Sales at duty free shops in South Korea is in a downturn since the outbreak. Korean Duty free sales in February totaled KRW 1.1025 trillion (US\$960 million), equaling to only half of that of the previous month (KRW 2.0247 trillion, which is approximately US\$1.76 billion), and fell to KRW 986.7 billion (US\$860 million) in April. With the recovery of the pandemic, sales of the Korean duty free shops kept growing by a monthly growth rate of over 10% since April. Sales of Korean Duty Free in August have returned to two-thirds of the year-on-year level, increasing nearly KRW 200 billion (US\$174 million) compared with July.

According to analysis, the growth trend of Korea Duty Free Sales benefits from the periodic stability of the pandemic in China. With the gradual recovery of the demand for duty free goods by the Chinese consumers, the demand by the purchasing agents for duty free goods in Korea increase simultaneously. In the absence of independent travelers, the duty free shops have to offer high discounts, commissions and incentives to attract commercial procurement service with monthly purchases of billions of won.

1.2.4 After 2 Failed Bids, Incheon Airport Will Call for a Third Bid in October

On September 23rd, Incheon International Airport Corporation announced that it will recruit operators for duty free shops in six areas of Terminal 1. This is the third time in this year that Incheon International Airport recruit operators for duty free shops at T1 of the fourth phase.

In the first bid in February, Shilla and Lotte won the bid in the DF3 area (Alcohol, Tobacco, Food) and DF4 area (Alcohol, Tobacco, Food) respectively, but both gave up priority negotiation due to the pandemic. The first bid at DF2 area (Perfume, Cosmetics) and DF6 area (Clothing, Groceries) of the airport failed because of insufficient number of bidding enterprises.

During the second bid ended on September 22nd, the bids for all six areas failed because of insufficient number of bidders. It's reported that not a single enterprise bided for franchise at DF2, and only 1 enterprise to participate participated in the bidding in each of the rest areas. The bids have therefore failed, since any bid for duty free shop franchise is only sufficient with at least two bidders according to the regulations.

The application period for the third tender of Incheon Airport is 5th to 12th October, the deadline is 13th October, and the bidding areas and contract conditions are same with the previous time. As mentioned above, there are 6 bidding areas including 4 large enterprise franchise and 2 small and medium enterprise franchise. As for the contract condition, the price bottom of the bidding in each areas is reduced by 30% compared with the first bidding. In terms of rent, the sales commission system will replace the original fixed rental system until the throughput of Incheon Airport restored to 80% of the level before the outbreak. In addition, the floating lower limit of the minimum guarantee amount (-9%), which depends on passenger flow will be canceled. The contract period is 5 years in principle, and can be extended for another 5 years, if the enterprise applicates and meets the evaluation standard.

People in the industry hold unoptimistic views on the third bidding, considering the same contract condition in the case of continuous failed bidding. It is predicted that if the third bidding failed, operators of the duty free shops may be chosen by Incheon International

Airport Corporation. In this regard, a relevant person in charge of Incheon Airport Corporation said: “it will be discussed again according to the bidding result.”

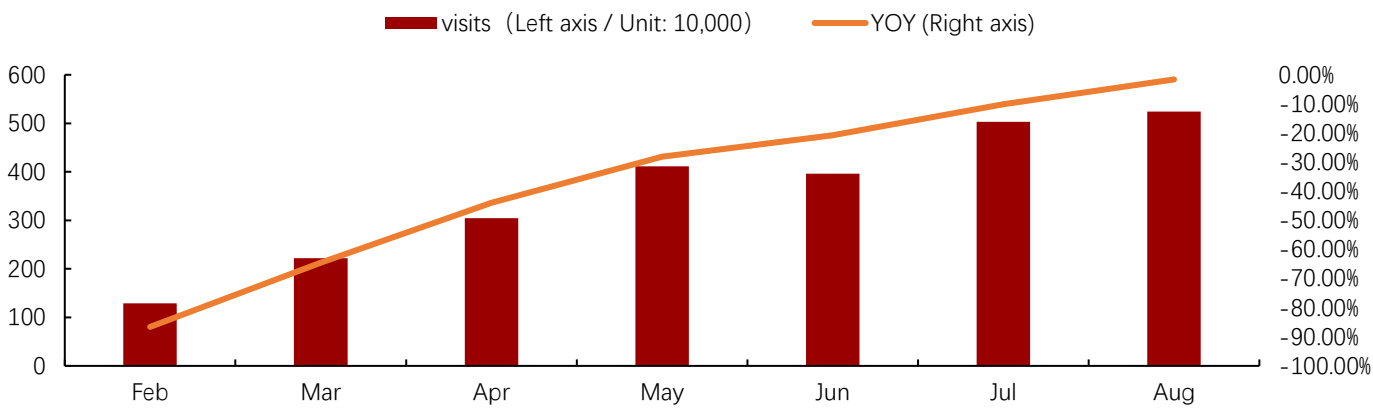
2 Data Tracking

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

Offshore duty free sales continue to increase in Hainan

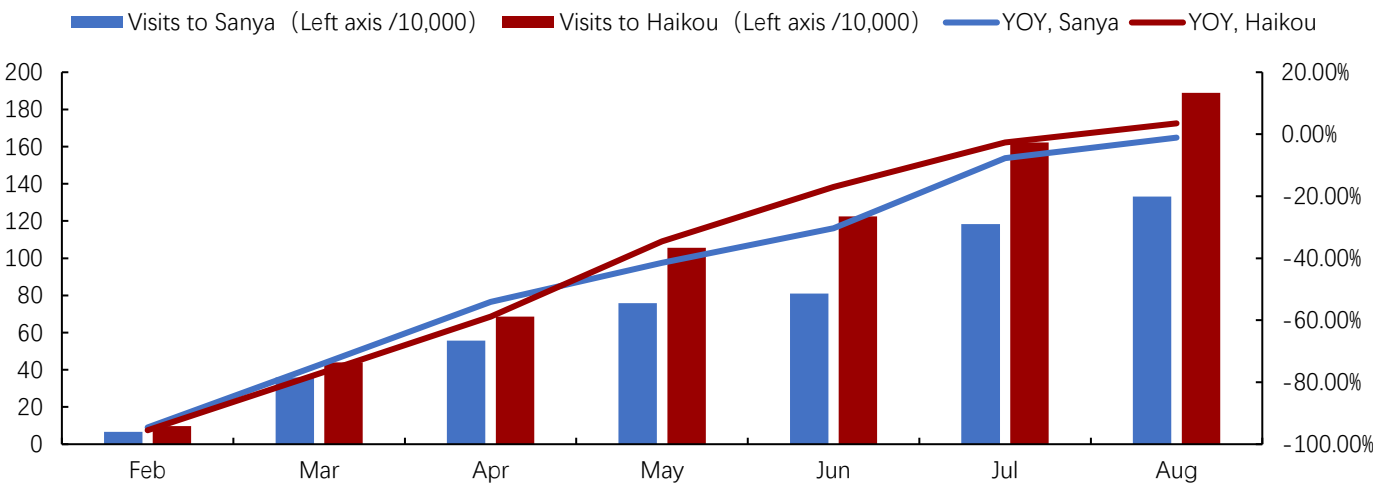
With the domestic epidemic being under control, the tourist arrivals in Hainan gradually recovers. In August, Hainan received 5,240,000 overnight tourists, which is close to the level of the same period last year (a YOY increase of -1.6%). While Sanya is close to the same period last year (3.5%) and Haikou experienced a year-on-year decline(-1.1%).

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

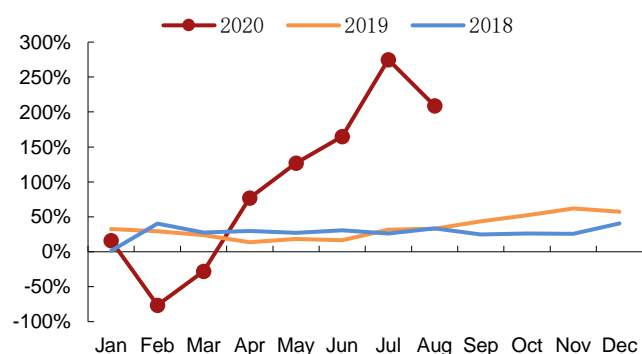


Source: Department of Tourism, Culture, Radio, Television and Sports of Hainan Province

Thanks to the offshore duty free policy, the YOY growth rate of offshore duty free sales of Sanya in August exceeded 200%. In August, the duty free sales of Hainan reached US\$440 million, with a YOY growth rate of 217.6%; per ticket sales increased by 82%, reaching US\$1,011.54. Among them, shops in Sanya contributed US\$345 million to the total sales, having increased 209% YOY, and the per ticket sales reached approximately US\$1,466.

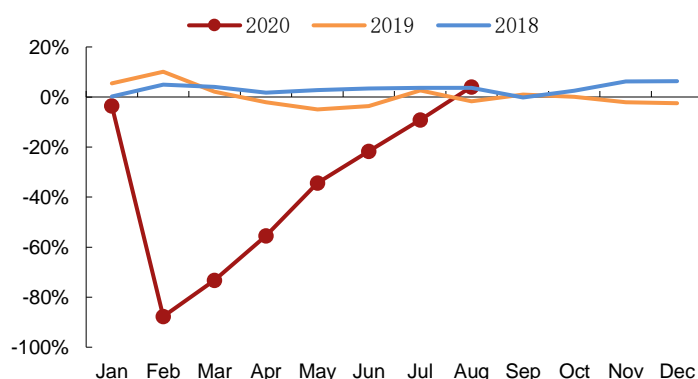
In August, the total number of visitors in Sanya Phoenix Airport reached 1.6237 million, with a YOY increase of 4.09%; the outbound passengers totaled 35,000, with a YOY increase of 6.3% and a MOM increase of 25.07%. From January to August, passengers visiting Sanya Phoenix Airport counted 8.4 million, with a YOY decrease of 37.68%; the total number of outbound passengers was 4,460,600, with a YOY decrease of 34.81%.

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

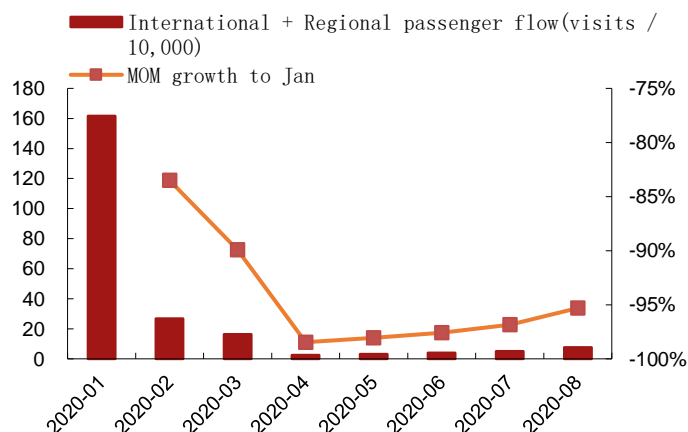


Source: Sanya City Statistics Bureau

International passenger flow continue to decrease, affecting duty free sales

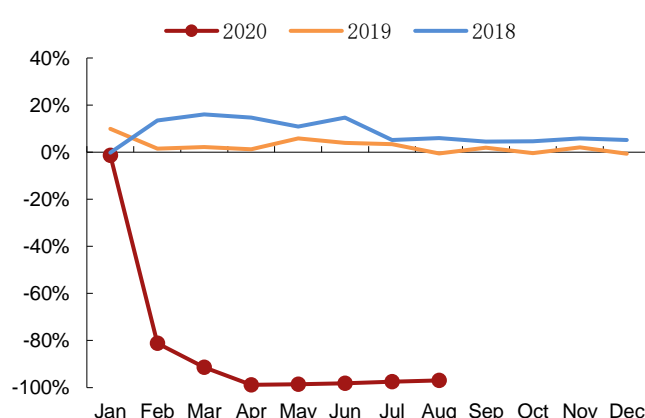
In August, the international pandemic continued to spread, resulting in a significant decline in international flights and passenger flow. Compared to January, the international passenger flow of Baiyun Airport dropped by 98.5%, 98.1%, 97.6% ,96.7% and 95.3%, respectively, in April, May, June, July and August. The duty free income fell at the airport in the meantime. The international passenger flow of Pudong Airport in April, May, June and July dropped by 98.8%, 98.6%, 98.2%, 97.5% and 95.3% YOY, respectively. Sunrise Shanghai and Sunrise Beijing are currently selling their inventories in the form of overseas shopping through Sunrise App. In July, the home-delivery revenue of Sunrise Shanghai and Beijing are from US\$260 million to 290 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

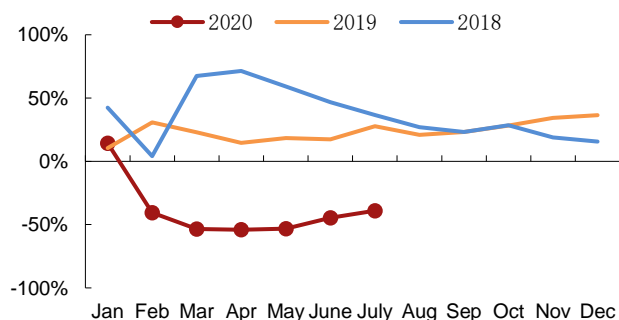


Source: Statement of Shanghai Airport

Korean duty free industry slowly recovers

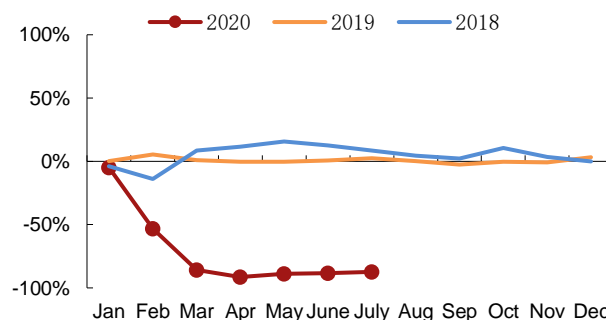
In August, the sales of the South Korean duty free industry totaled US\$1.044 billion, with a YOY decrease of 39.1%, showing a slight improvement compared to the previous month (-44.6%). Korean duty free shopping frequency reached 517,000, with a YOY decrease of 87.4%, equivalent to that of the previous month (-88.4%) . Among them, the consumption of the south korean residents amounted US\$41 million, a YOY decrease of 86.2%; sales contributed by foreign tourists totaled US\$1 billion, a YOY decrease of 29.2%, an improvement from the previous month (-35.2%).

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



Source: KDFA

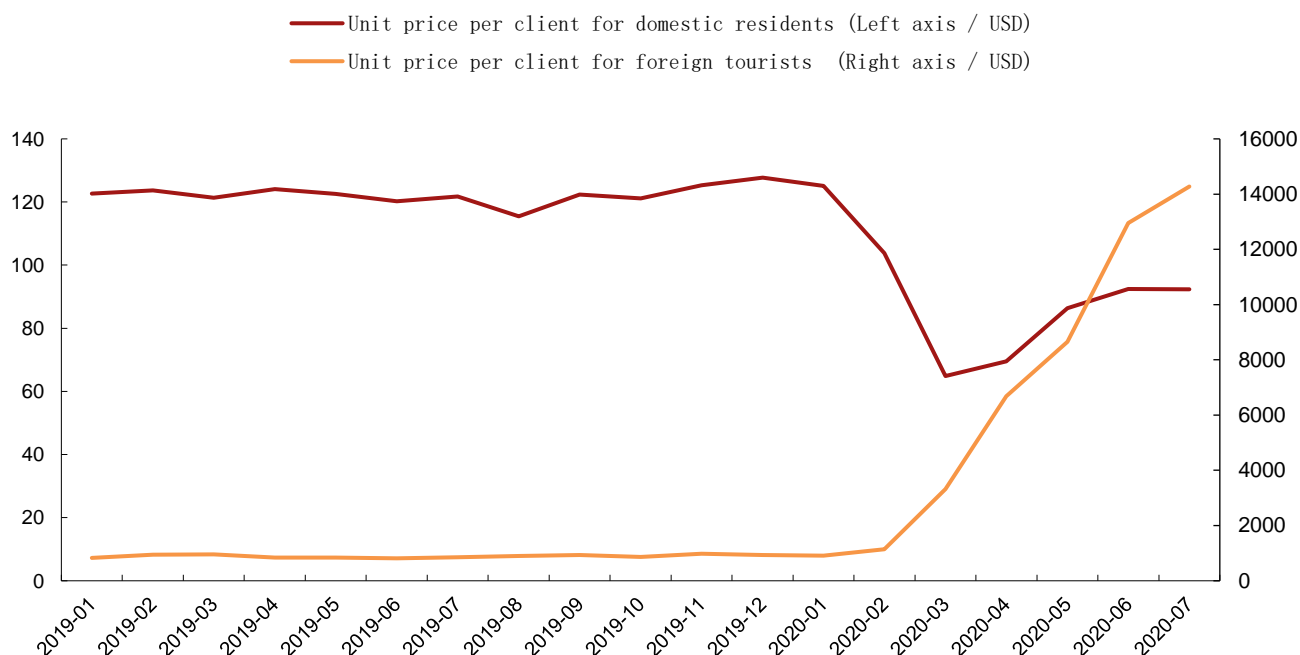
Figure 2-8: YOY growth rate of duty free shopping in South Korea



Source: KDFA

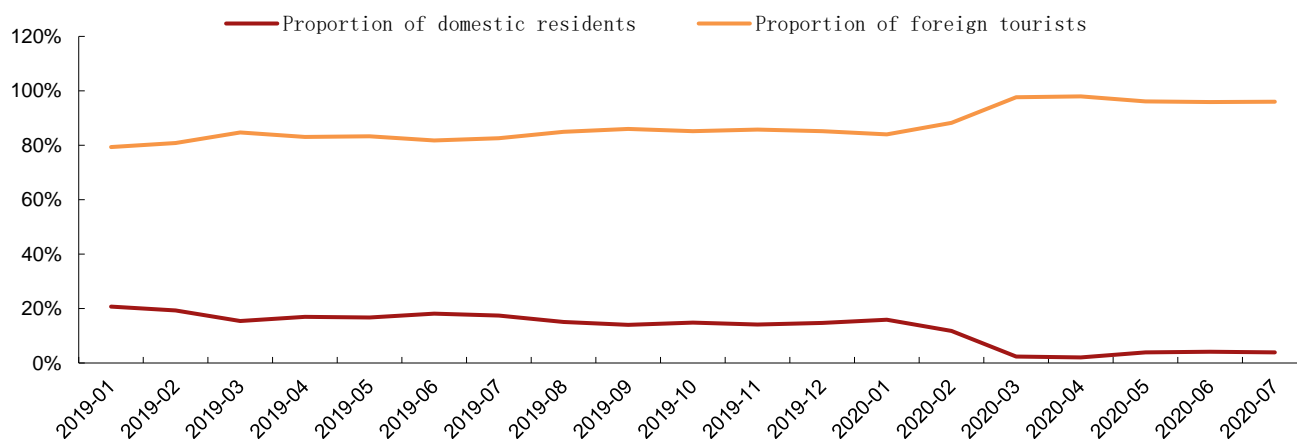
In terms of unit price, in August, the per ticket sales of Korean duty fee was US\$2,019, with a YOY increase of 384%. Among them, the unit price per client of domestic residents was US\$92, a YOY decrease of 24.2%; the unit price per client of foreign tourists was US\$14,275, a YOY increase of 1,575%. In addition, consumption by foreign tourists accounted for 96% of the sales, which means that most of the current duty free sales in South Korea are contributed by foreign tourists.

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

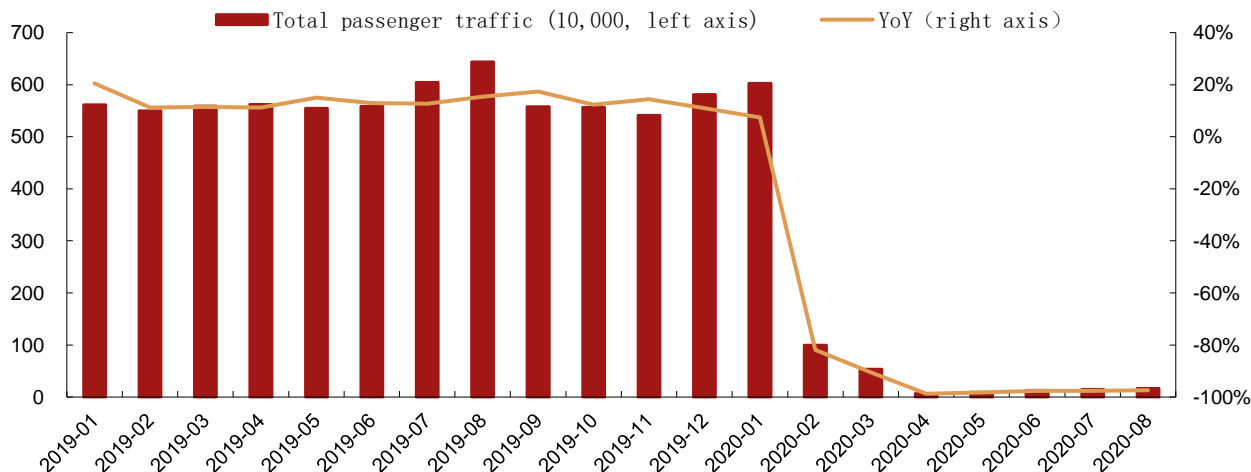


Source: KDFA

2.2 Flight: Immigration isolation canceled in Macau, passenger flow rebounds slightly

The passenger traffic of the six major airlines dropped sharply in August. The six major airlines carried 171,000 passengers on international routes, a decrease of 97.3% YOY. In August, the international pandemic continued to spread, a large number of flights were grounded, and passenger flow (the passenger flow fell by 97.6% in June) remained low. From January to August, the six major airlines carried a total of 8.183 million passengers on international routes, a YOY decrease of 82.2%.

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 of domestic airlines, compared with previous years, the number of international flights carried by airlines in June has dropped significantly. Among them, the passenger volume of Air China's international routes decreased by 97% YOY; that of China Eastern Airlines decreased by 98.1% YOY; that of China Southern Airlines decreased by 96.3% YOY; that of Hainan Airlines decreased by 98.5% YOY; that of Chunqiu Airlines decreased by 98.8% YOY; that of Jixiang decreased by 97.5% YOY.

2.3 Destination: International passenger flow continues to be sluggish due to the impact of the pandemic at home and abroad

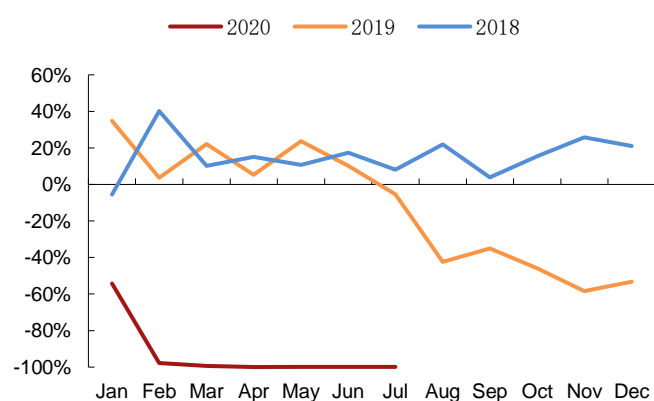
Affected by the pandemic, the outbound passenger flow from mainland China is basically zero, and the same is true for mainland China to Hong Kong, Macao and Taiwan. In August 2020, affected by the pandemic, the passenger flow from mainland China to Hong Kong dropped by 99.51% YOY; and the passenger flow from mainland China to Taiwan dropped by 99.51% YOY; Under the influence of the pandemic, passenger flow on Japanese routes decreased by 99.84% YOY; Korean routes decreased by 98.12%; Thai routes decreased by 100%, and in August Vietnamese routes decreased by 98.7%. It is noticed that the The Hong Kong and Macau Affairs Office of the State Council issued an announcement on August 10 that, starting from 0:00 AM on August 12, centralized quarantine medical observation will no longer be implemented for people entering the mainland from Macau for 14 days. Affected by this, the number of mainland visitors to Macau in August reached 200,800. The number of passengers increased by 204% than the previous month.

The specific data are as follows:

In July, Hong Kong received 5,700 mainland tourists, with a YOY decrease of 99.86%. From January to July, Hong Kong received a total of 2.69 million mainland tourists, with a YOY decrease of 91.53%.

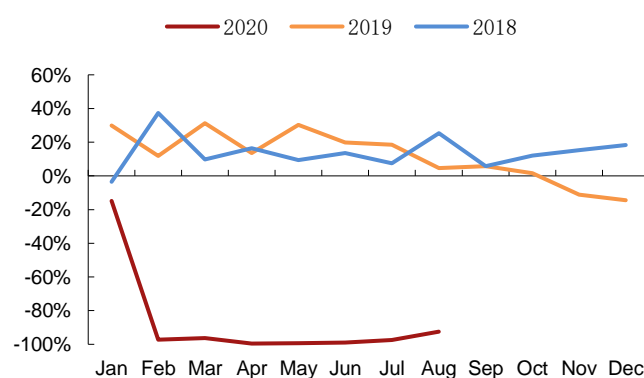
In August, Macau received 200,800 tourists from mainland China, with a YOY decrease of 92.41%, while a substantial month-on-month increase (66,000 tourist visits in July), mainly thank to the fact that from 0:00 August 12th, people entering the mainland from Macau will no longer be subject to centralized isolation and medical observation for 14 days. From January to May, Macau received a total of 2.60068 million mainland tourists, a YOY decrease of 86.65%.

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

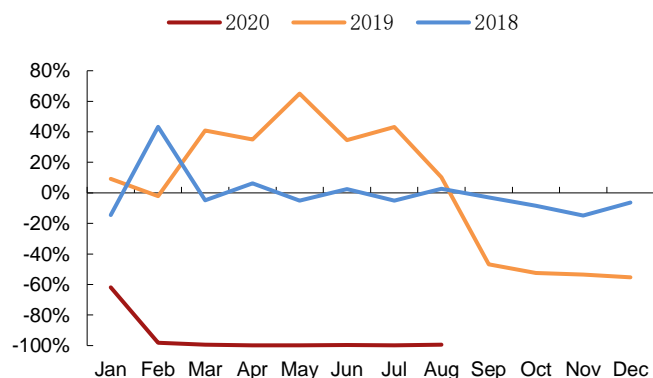


Source: Macao Tourism Data Website

In August, Taiwan, China received 1,400 mainland tourists, a YOY decrease of 99.51%. From January to August, Taiwan received

a total of 102,200 mainland tourists, a YOY decrease of 92.78%.

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

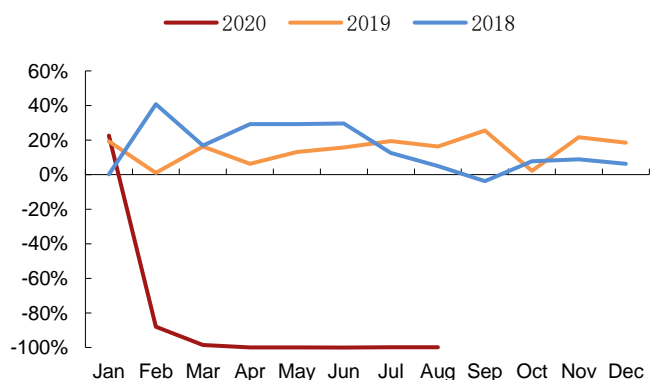


Source: Tourism Bureau, MOTC

In August, Japan received 1,600 Chinese tourists, a YOY decrease of 99.84%. From January to August, Japan received a total of 1.0253 million Chinese tourists, a YOY decrease of 84.43% YOY.

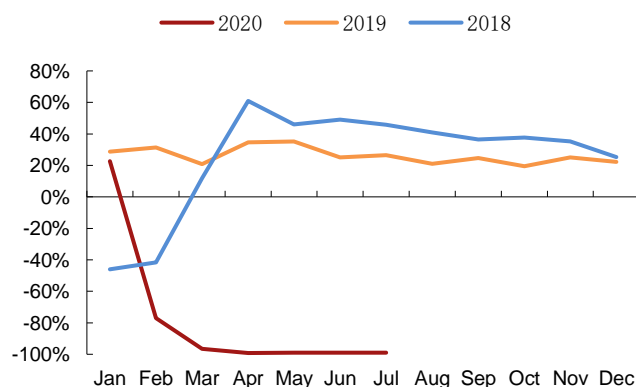
In July, South Korea received 9,700 Chinese tourists, a YOY decrease of 98.94%. From January to July, South Korea received a total of 616,500 Chinese tourists, a YOY decrease of 81.15%.

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

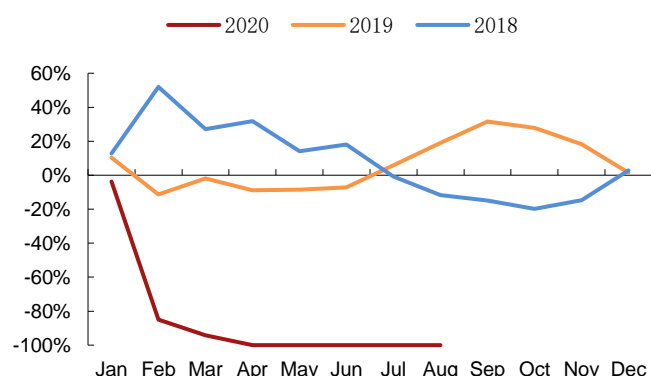


Source: Korea Tourism Organization

In August, Thailand received none Chinese tourists, a YOY decrease of 100%. From January to August, Thailand received a total of 1,247,600 Chinese tourists, a YOY decrease of 83.73%.

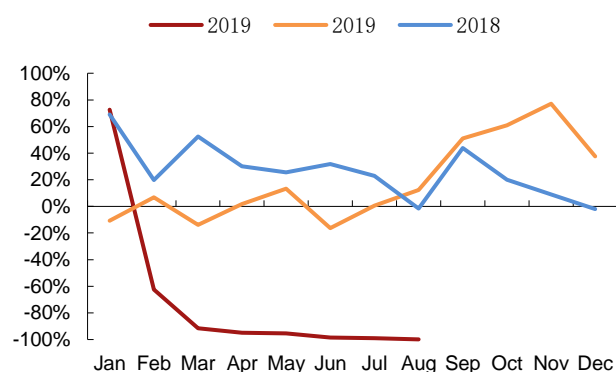
In August, Vietnam received 6,300 Chinese tourists, a YOY decrease of 98.28%. From January to August, Vietnam received a total of 932,700 Chinese tourists, a YOY decrease of 72.34%.

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



Source: Statistics Thailand

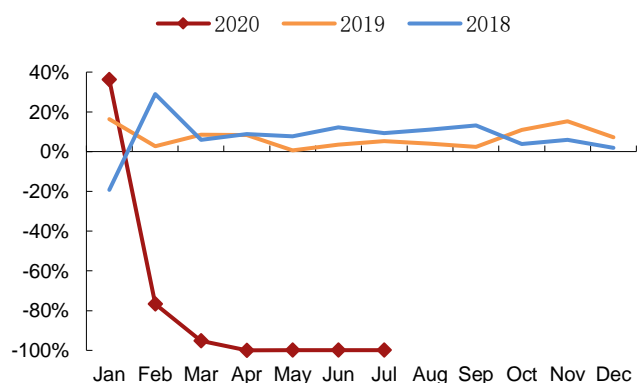
Figure 2-18: Monthly YOY growth in the number of tourists from Mainland China to Vietnam



Source: General Statistics Office of Vietnam

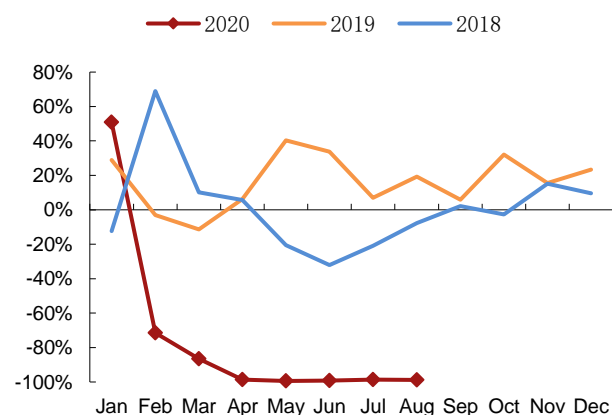
In July, Austria received 600 Chinese tourists, a YOY decrease of 99.57%. From January to July, Austria received a total of 70,200 Chinese tourists, a YOY decrease of 87.71%. In July, Finland received 3,600 Chinese tourists, a YOY decrease of 98.84%. From January to June, Finland received a total of 419,500 Chinese tourists, a YOY decrease of 74.42%.

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

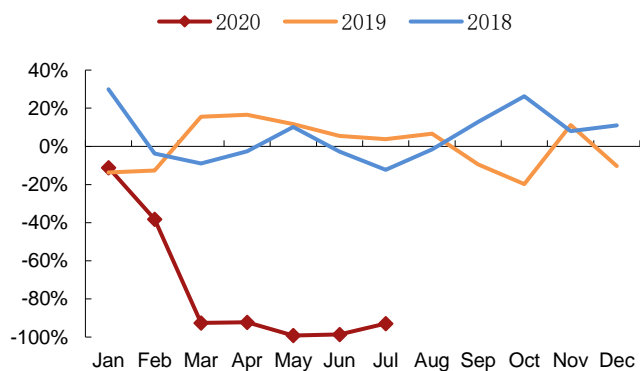


Note: The growth rate reached 181% in January 2017. Source: Statistics Finland

In July, accommodation facilities in Poland received 9,200 Chinese tourists, a YOY decrease of 92.99%. From January to July, Poland received a total of 96,100 Chinese tourists, a YOY decrease of 87.66%.

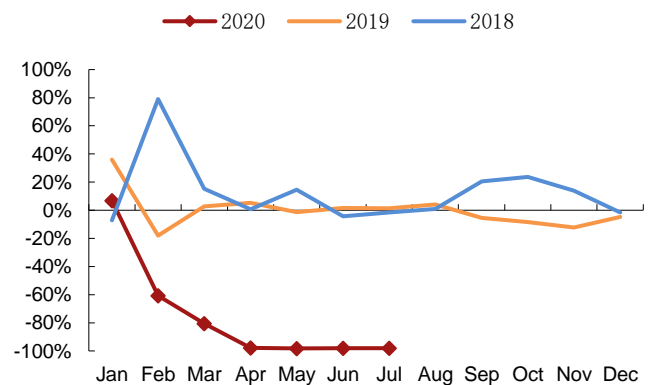
In July, Canada received 1,400 Chinese tourists, a YOY decrease of 98.7%. %. From January to July, Canada received a total of 90,500 Chinese tourists, a YOY decrease of 78.64%.

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

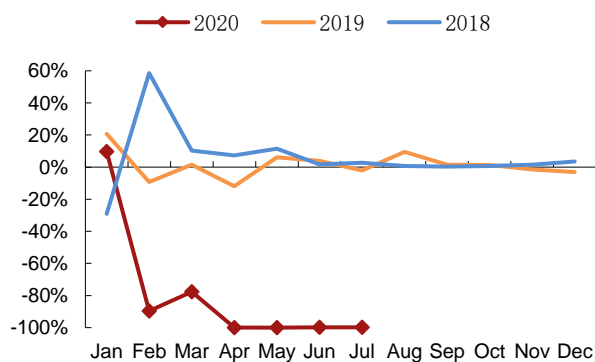


Source: Statistics Canada

In July, Australia's national accommodation facilities received 100 Chinese tourists, a YOY decrease of 99.91%. From January to July, Canada received a total of 206,300 Chinese tourists, a YOY decrease of 76.97%.

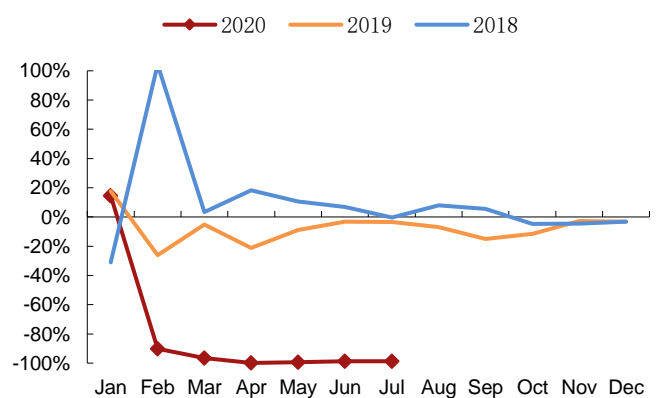
In July, New Zealand received 300 Chinese tourists, a YOY decrease of 99.69%. From January to July, New Zealand received a total of 57,500 Chinese tourists, a YOY decrease of 76.71%.

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 August, 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 August, the search rankings of duty free shops changed only slightly, with the top eight popular duty free shops retaining their places for July. The top five duty free shops searched by the Jessica users were all in mainland China (Table 3-1). Among them, Sunrise Shanghai continues to take the first place in the search ranking in August. Thanks to the favorable duty free policy, the search rankings of the two duty free shops in Hainan have stabilized on the list at second and third respectively. DFS Hong Kong, which ranked 9th in July, dropped to 13th in August, and its ranking has been falling for 3 consecutive months. KIX slipped from 11th in July to 18th in August, and its downward trend in rankings has continued for 6 months. Everrich, which ranked 14th in July, dropped sharply in August and ranked 36th. The 9th and 11th duty free shops on the list in August are JDF Narita and Ipark Shilla, respectively.

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

Name	Aug-20	Jul-20	Jun-20	May-20	Apr-20	Mar-20	Feb-20
Sunrise Shanghai	1	1	1	1	1	1	1
CDFG Sanya	2	2	2	2	2	4	5
CDGF Haikou	3	3	4	5	3	7	9
CDFG Guangzhou	4	4	6	11	10	13	10
Sunrise Beijing	5	5	3	3	4	9	6
Lotte Seoul	6	6	5	6	6	10	3
King Power	7	7	9	8	8	3	2
Heathrow	8	8	14	16	39	14	15
Shinsegae Myeong Dong	10	10	11	9	12	15	34
Shilla Seoul	12	13	12	12	11	8	8
DFS Hong Kong	13	9	7	4	5	5	7
CDFG Hangzhou	16	16	15	14	23	37	40
KIX	18	11	8	7	7	6	4
CDFG Xian	22	18	17	18	14	24	26
Ishop Changi	24	23	31	22	32	20	33
Hong Kong Airport	26	28	21	20	25	23	26
Everrich	36	14	10	10	9	12	50

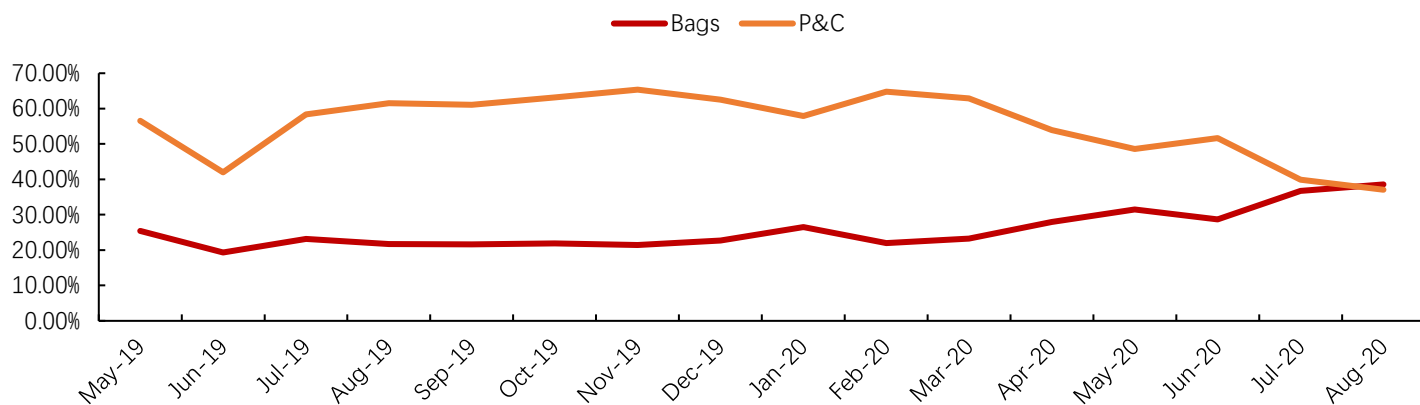
Source: Jessica's Secret

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 continue to drop, in comparison to that of July. In the meantime, the search rate for bags reached 38.57% in July, exceeding that for P&C (37.07%) for the first time in the last 15 months.

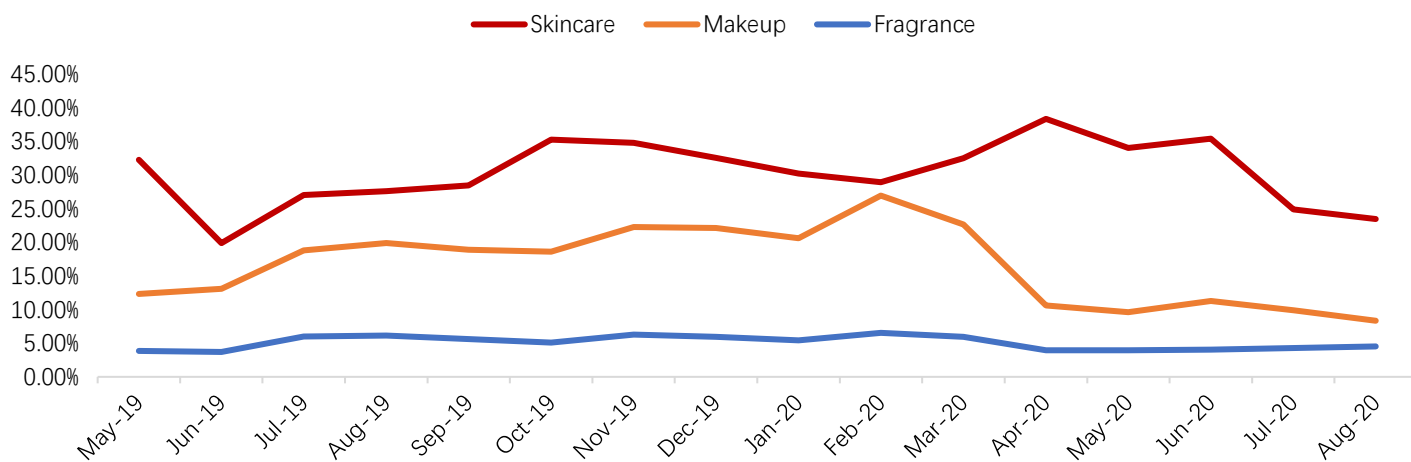
Breaking the P&C category down into skincare, makeup and fragrances, we show their click rates in Figure 3-2. It can be inferred that the decrease of the search rate for P&C in August mainly resulted from the drop in that for its subcategory skincare and makeup. As for fragrance, the search rate changed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

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 August, for the subcategories of P&C and bags in the tables below. As shown in the tables, the search rankings of items change only to a small extent in general.

In category skincare, eight of the top 10 items searched in August were ranked in the top 10 last month. *Estée Lauder Advanced Night Repair Synchronized Multi-Recovery Complex*, rapidly rose and occupied the fourth of the weekly skincare search ranking, after being launched on Jessica's Secret App on July 31st, and ranked 3rd in August. *Clarins Double Serum Complete Age Control Concentrate*, which ranked 22nd in July, ranked 8th in August, having risen 14 places.

Table 3-2: Top 10 popular skincare products

Name	Ranking Aug	Ranking Jul	Change
La Mer The Treatment Lotion	1	2	↑up,1
Estée Lauder Advanced Night Repair Synchronized Recovery Complex II	2	1	↓down,1
Estée Lauder Advanced Night Repair Synchronized Multi-Recovery Complex II	3	-	-

Estée Lauder Advanced Night Repair Synchronized Recovery Complex II Duo	4	3	↓down,1
Clarins Double Serum Complete Age Control Concentrate Duo	5	5	0
Lancôme Advanced Génifique Youth Activating Duo	6	4	↓down,2
Estée Lauder Advanced Night Repair Eye Synchronized Complex Duo	7	7	0
Clarins Double Serum Complete Age Control Concentrate	8	22	↑up,14
SK-II Facial Treatment Essence	9	6	↓down,3
Chanel La Mousse Anti-Pollution Cleansing Cream-to-Foam	10	9	↓down,1

Source: Jessica's Secret

For makeup products, most items ranked top 10 in August ranked in the top 10 last month, except for Dior *Rouge Dior* #028, which ranked 10th in August, ranked 20th in July, having risen 10 places (Table 3-3).

Table 3-3: Top 10 popular makeup products

Name	Ranking Aug	Ranking Jul	Change
Giorgio Armani Lip Maestro Lip Stain #405	1	1	0
Tom Ford Lip Color #80	2	4	↑up,2
Giorgio Armani My Armani to Go Essence-in-Foundation Cushion Foundation #2	3	5	↑up,2
Giorgio Armani Designer Lift Foundation #3	4	10	↑up,6
Tom Ford Eye Color Quad Eyeshadow Palette #04	5	9	↑up,4
Givenchy Prisme Libre Loose Powder Couture Edition #1	6	7	↑up,1
YSL Rouge Pur Couture the Slim Matte Lipstick Rouge Paradoxe #21	7	3	↓down,4
Nars Light Reflecting Setting Powder	8	8	0
Giorgio Armani Power Fabric Foundation #2	9	6	↓down,3
Dior Rouge Dior #028	10	20	↑up,10

Source: Jessica's Secret

Compared with the previous month, the most popular three fragrances have swapped positions in rankings this month. In addition, *YSL Mon Paris edp* rose from the 20th in July to the 8th in August, *Chanel Coco Mademoiselle edp* rose from 16th in July to the 9th in August. The change of the ranking of any other item shortlisted in the top 10 popular fragrances of August didn't exceed 3 places.

Table 3-4: Top 10 popular fragrances

Name	Ranking Aug	Ranking Jul	Change
Byredo Rose of No Man's Land edp	1	2	↑up,1
Jo Malone London Wild Bluebell Cologne edp	2	3	↑up,1
YSL Black Opium edp	3	1	↓down,2
Chanel Bleu de Chanel edt	4	7	↑up,3
Bvlgari Pour Homme edt	5	4	↓down,1
Tom Ford Oud Wood edp	6	6	0
Chance Eau Tendre edt	7	5	↓down,2
YSL Mon Paris edp	8	20	↑up,12
Chanel Coco Mademoiselle edp	9	16	↑up,7
Jo Malone London English Pear & Freesia edc	10	11	↑up,1

Source: Jessica's Secret

Compared with other categories, the search ranking of bags is strongly stable (Table 3-5). Each of the top ten items searched this month had a place in the top ten list last month, with only some of their positions swapped.

Table 3-5: Top 10 popular bags, July 2020

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

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 27th of August 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 14th of September to those on 27th of August (which we show in the last report), an overall increase of small extent can be discovered. 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 78, 80 and 77, respectively. Then come JSIs of King Power and Sunrise Shanghai, which are 85 and 91, respectively. The rest of the listed stores possess no competitive advantage in pricing, having the optimal price levels above the market duty free average.

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

Retailer	JSI	Top 50 Index, Retail	Top 50 Index, Optimal
Sunrise Shanghai	95, ↑	87, ↑	87, ↑
CDFG Sanya	105, ↑	94, ↑	100, ↑
CDFG Guangzhou	102, ↑	91, ↑	96, ↑
DFS Hong Kong	118, ↑	107, ↑	114, ↑
Lotte Seoul	78, ↑	101, -	71, ↑
Shilla Seoul	80, ↑	101, ↓	73, ↓
Shinsegae Myeong Dong	77, ↑	101, ↑	73, -
King Power	86, ↑	98, -	72, ↓
KIX	105, -	101, ↓	101, -
Changi Airport	107, ↑	97, ↑	103, ↑

Source: Jessica's Secret, 2020/09/14

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. 3*, Table 4-1, sampled at 27th August, 2020.

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, Lotte has an advantage in the availability of popular products, having 39 out of the 50 chosen products available, followed by Shinsegae and KIX, having 38. In contrast, Shilla and CDFG Guangzhou only have 24 and 26 out of 50 in stock, respectively.

To compare the price levels of popular brands in the 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.

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

Retailer	JSI	Estee Lauder	Shiseido	SK-II	Lancome	YSL	La Mer	Giorgio Armani	Givenchy	Tom Ford	Dior
Sunrise Shanghai	95	92	91	93	95	93	96	92	93	95	89
CDFG Sanya	105	104	99	99	105	108	106	104	95	106	109
CDFG Guangzhou	102	97	102	101	104	107	97	102	93	105	95
DFS Hong Kong	118	110	113	115	119	118	113	114	118	116	103
Lotte Seoul	78	68	68	78	71	64	73	78	74	78	69
Shilla Seoul	80	72	69	79	71	66	73	82	75	82	72
Shinsegae	77	70	72	77	70	79	73	79	74	77	83
King Power	86	79	73	73	77	85	85	85	80	90	77
KIX	105	95	105	111	102	104	96	101	101	-	-
Ishop Changi	107	105	102	105	100	102	110	105	106	111	-

Source: Jessica's Secret, 2020/09/14

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. For King Power, most of the listed JBSIs are higher than its JSIs, this is because of King Power's promotions for the popular brands; as for Sunrise Shanghai, its JBSIs

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

have risen notably in comparison to the last sampled values⁵, because the duty free shop canceled some of the discounts for the popular products. The promotions of the above mentioned duty free shops 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 and Tom Ford, and that CDFG Sanya has disadvantage in the prices of YSL, La Mer, Tom Ford and Dior.

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 have obvious price advantages. The overall actual prices of P&C items in domestic duty free shops are stable. Sunrise Shanghai discounted some Estee Lauder products by approximately 30% from March to May. The prices of Estee Lauder products then rose in June again, as can be seen from Table 4-3. In March, customers get 25% off for some products by purchasing 3 items or more of the Estee Lauder items at CDFG Sanya and CDFG Guangzhou. This promotion expired at the end of June, and the prices of Estee Lauder products rose in July as shown in the table. In July, King Power issued a large number of coupons, which lowered the prices of P&C products in July. This promotion continued in August, bringing little change to the prices of the listed items in King Power. 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	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
Estee Lauder Advanced Night Repair Synchronized Recovery Complex II 100ml	Sunrise Shanghai	105.53	97.50	97.43	114.76	116.13	116.93
	CDFG Sanya	123.76	122.10	100.99	101.74	137.27	138.22
	CDFG Guangzhou	122.07	122.24	90.99	91.67	123.68	124.54
	DFS Hong Kong	141.67	141.92	171.60	171.61	171.61	171.61
	Lotte Seoul	112.77	112.77	112.77	112.77	112.77	112.77
	Shilla Seoul	110.98	112.77	112.77	112.77	112.77	112.77
	King Power	116.07	110.78	101.45	104.64	102.71	104.13
	KIX	147.22	148.02	148.61	148.97	151.86	151.14
	Ishop Changi	132.73	129.77	131.15	132.59	138.26	138.92
Estee Lauder Advanced Night Repair	Sunrise Shanghai	100.45	85.69	79.17	79.11	90.32	92.03
	CDFG Sanya	58.38	71.53	71.53	71.53	72.06	97.90
	CDFG Guangzhou	60.10	74.16	74.16	74.16	74.71	101.50

⁵ The last sampled values refer to the JBSIs reported in *OTRO Report, Vol. 3*, Table 4-2, sampled at 27th August, 2020.

Duo	DFS Hong Kong	100.42	114.22	114.84	114.83	114.83	107.10
	Lotte Seoul	79.38	79.38	79.38	79.38	79.38	79.38
	Shilla Seoul	78.12	78.12	79.38	79.38	79.38	79.38
	King Power	93.37	92.33	88.12	89.53	75.10	70.34
	KIX	90.71	92.15	92.49	92.94	93.01	94.35
	Ishop Changi	104.28	104.03	101.71	102.79	104.23	106.02
Lancome Advanced Genifique Duo	Sunrise Shanghai	237.96	238.20	220.91	219.25	220.89	215.49
	CDFG Sanya	264.72	264.98	261.44	259.48	261.41	266.35
	CDFG Guangzhou	293.34	264.60	264.97	262.98	264.94	269.95
	DFS Hong Kong	260.05	260.16	260.62	361.26	361.28	361.29
	Lotte Seoul	207.90	207.90	207.90	207.90	207.90	207.90
	Shilla Seoul	204.60	204.60	207.90	207.90	207.90	207.90
	King Power	262.62	259.71	247.87	251.84	217.76	197.84
	KIX	283.04	287.55	288.60	290.01	292.16	297.03
	Ishop Changi	222.08	276.94	270.76	273.64	277.48	282.23
Shiseido Ultimune Power Infusing Concentrate Serum 50ml	Sunrise Shanghai	85.71	85.80	79.57	78.97	79.56	81.07
	CDFG Sanya	102.60	102.70	95.81	95.09	95.80	97.61
	CDFG Guangzhou	96.59	93.14	93.27	92.57	93.26	95.02
	DFS Hong Kong	110.72	110.37	110.97	110.96	110.96	110.97
	Lotte Seoul	70.40	70.40	70.40	70.40	70.40	70.40
	Shilla Seoul	70.40	70.40	70.40	70.40	70.40	70.40
	King Power	69.19	60.37	60.23	61.20	55.36	56.09
	KIX	95.75	97.27	97.63	98.10	98.17	99.59
	Ishop Changi					100.64	102.36
SK-II Facial Treatment Essence Duo Set (2 x 230ml)	Sunrise Shanghai	272.45	272.72	252.93	251.03	252.90	260.88
	CDFG Sanya	294.48	294.78	290.83	288.65	290.80	299.98
	CDFG Guangzhou	255.85	278.72	279.10	277.01	279.07	287.88
	DFS Hong Kong	348.24	347.16	349.03	349.00	349.02	355.74
	Lotte Seoul	223.38	223.38	223.38	223.38	223.38	226.44
	Shilla Seoul	220.32	220.32	223.38	223.38	223.38	226.44
	King Power	229.91	227.36	229.04	220.47	206.35	191.76
	KIX	314.11	319.12	320.29	321.85	322.08	327.04
	Ishop Changi	295.79	266.94	261.81	270.01	270.01	311.59

Source: Jessica's Secret

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

Name	Retailer	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
Giorgio Armani To Go Cushion Foundation 02	Sunrise Shanghai	63.74	59.11	58.67	59.11	59.81	60.97
	CDFG Sanya	67.32	66.42	65.92	66.41	67.20	68.51
	CDFG Guangzhou	66.46	65.71	65.22	65.71	66.49	67.63
	DFS Hong Kong	75.72	76.13	76.12	76.13	76.13	76.13
	Lotte Seoul	46.20	47.52	47.52	47.52	47.52	48.18
	Shilla Seoul	46.86	40.26	40.26	46.20	46.20	67.63
	King Power	58.40	59.72	60.68	56.77	52.24	48.56
	KIX	70.30	70.68	70.96	70.96	66.98	67.33
	Ishop Changi	67.30	66.01	68.06	69.01	69.86	70.68
Giorgio Armani Lip Maestro Lip Stain 405	Sunrise Shanghai	28.65	26.57	26.37	26.56	26.88	27.40
	CDFG Sanya	32.51	32.08	31.84	32.08	32.46	33.09
	CDFG Guangzhou	32.23	31.80	31.56	31.79	32.17	32.80
	DFS Hong Kong	28.33	28.39	36.77	36.77	36.77	36.77
	Lotte Seoul	25.20	25.20	25.20	25.20	25.20	25.55
	Shilla Seoul	24.85	21.35	21.35	24.50	24.50	24.50
	King Power	28.46	28.05	28.50	29.39	22.08	26.81
	KIX	35.15	35.34	35.48	35.57	36.26	33.23
	Ishop Changi	34.15	33.50	34.52	35.01	35.44	35.86
Givenchy Prisme Libre Edition Couture	Sunrise Shanghai		44.66	44.62	44.65	42.47	47.13
	CDFG Sanya	52.28	51.58	51.19	51.58	52.19	53.20
	CDFG Guangzhou						
	DFS Hong Kong	65.45	65.81	65.80	65.80	65.81	65.81
	Lotte Seoul	41.58	41.58	41.58	41.58	41.58	42.21
	Shilla Seoul	40.95	41.58	41.58	41.58	41.58	42.21
	King Power	60.13	60.45	60.69	60.84	62.02	62.02
	KIX	44.66	44.66	44.62	44.65	42.47	56.84
	Ishop Changi	59.55	58.22	58.84	59.66	60.40	61.11

YSL Fusion Ink Cushion Foundation 20	Sunrise Shanghai	49.27	45.70	45.35	45.69	46.24	47.13
	CDFG Sanya	55.15	54.41	54.00	53.69	54.34	55.39
	CDFG Guangzhou	54.43	54.41	54.00	54.40	55.05	56.12
	DFS Hong Kong	50.87	50.96	61.93	61.93	61.94	61.93
	Lotte Seoul	33.60	37.80	37.80	37.80	37.80	38.40
	Shilla Seoul	41.18	36.54	36.54	36.54	36.54	37.12
	King Power	69.99	56.03	50.49	52.43	51.46	47.83
	KIX	61.98	62.31	62.56	62.56	64.88	59.46
	Ishop Changi	55.03	53.80	54.37	55.14	55.81	56.47
YSL Rouge Volupte Shine	Sunrise Shanghai	30.22	28.03	19.48	28.03	28.36	28.91
	CDFG Sanya	33.23	32.79	32.54	32.78	33.17	33.82
	CDFG Guangzhou	31.05	31.09	30.86	31.09	31.46	32.07
	DFS Hong Kong	30.91	30.97	38.06	38.06	38.06	38.06
	Lotte Seoul	18.48	22.05	22.05	22.05	22.05	22.40
	Shilla Seoul	23.43	20.79	20.79	20.79	20.79	22.40
	King Power	24.64	25.38	25.79	26.60	26.11	24.26
	KIX	34.23	34.41	34.55	34.63	35.30	32.35
	Ishop Changi	31.35	30.58	30.91	31.34	31.73	32.10

Source: Jessica's Secret

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

Name	Retailer	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
Jo Malone London English Pear & Freesia Cologne 100ML	Sunrise Shanghai	101.50	93.75	99.16	110.38	111.69	113.86
	CDFG Sanya	112.80	111.29	92.04	92.73	125.11	127.54
	CDFG Guangzhou	128.91	127.19	94.67	95.38	128.69	130.46
	DFS Hong Kong					141.93	141.93
	Lotte Seoul	84.32	84.32	84.32	84.32	84.32	84.32
	Shilla Seoul	81.13	93.10	95.20	95.20	92.48	85.68
	King Power	96.00	95.40	93.09	96.01	98.13	99.14
	KIX						
	Ishop Changi					135.49	138.42
Jo Malone London Wild Bluebell Cologne edp 30ML	Sunrise Shanghai	54.49	50.33	53.36	59.37	60.08	61.25
	CDFG Sanya	61.23	60.41	49.97	50.34	67.92	69.24
	CDFG Guangzhou	65.89	65.01	48.39	48.75	65.77	67.05
	DFS Hong Kong					77.41	77.42
	Lotte Seoul	42.16	42.16	42.16	42.16	42.16	

	Shilla Seoul	40.26	46.20	47.60	47.60	46.24	42.84
	King Power	48.00	47.70	46.54	48.01	44.18	44.63
	KIX						
	Ishop Changi				68.00	68.18	69.65
Tom Ford Fabulous edp 50ML	Sunrise Shanghai	270.43	213.07	212.92	250.77	253.76	258.69
	CDFG Sanya	251.06	251.40	197.66	199.13	268.67	273.89
	CDFG Guangzhou	264.98	261.44	194.61	196.06	264.53	269.66
	DFS Hong Kong					309.66	309.67
	Lotte Seoul	203.77	200.90	200.90	200.90	200.90	203.77
	Shilla Seoul	177.94	203.77	203.77	203.77	177.94	180.81
	King Power	230.64	230.10	233.79	241.15	236.70	239.13
	KIX						
	Ishop Changi				278.92	279.62	285.67
YSL Black Opium edp 50ML	Sunrise Shanghai	89.81	83.29	82.67	83.28	84.27	85.91
	CDFG Sanya	105.56	104.15	103.37	104.14	105.38	107.43
	CDFG Guangzhou						
	DFS Hong Kong	119.36	120.00	119.99	120.00	120.00	120.00
	Lotte Seoul	98.80	65.52	65.52	65.52	65.52	66.56
	Shilla Seoul	72.42	64.26	64.26	64.26	64.26	64.26
	King Power	82.58	78.82	80.08	82.60	81.07	81.91
	KIX	99.90	100.44	100.84	100.84	107.81	98.81
	Ishop Changi	101.45	99.50	102.58	104.02	105.30	106.54
YSL Mon Paris EDPS 50ML	Sunrise Shanghai	95.39	88.47	87.81	88.46	89.52	91.25
	CDFG Sanya	105.85	104.43	103.65	104.42	105.67	107.72
	CDFG Guangzhou	107.43	110.93	110.10	110.92	112.25	114.42
	DFS Hong Kong	119.36	120.00	119.99	120.00	120.00	120.00
	Lotte Seoul	66.78	66.78	66.78	66.78	66.78	67.84
	Shilla Seoul	74.55	66.15	66.15	66.15	66.78	66.78
	King Power					72.92	65.04
	KIX	95.31	95.83	96.21	96.21	99.19	98.81
	Ishop Changi	94.71	92.52	93.51	94.82	95.98	97.11

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.

In August, Sunrise Shanghai canceled over 400 different promotions, and added less than 20 new ones. Its main promotions in August include cashback and "buy any N save x%" for designated products. The number of products covered totaled about 350, which is significantly less in comparison to that of July (over 3,000). Among them, products covered by cashback totaled 70. As for "buy any N save x%" , consumers get x% off when purchasing N items in a designated group (N lies between 1 and 3, and x depends on the designated group). We show the promotion information and number of discounted items for different P&C brands in Sunrise Shanghai in Table 4-6, where the information on promotion is converted into ranges of discount rates.

It is evident, that the variety of popular brands discounted in August reduced in comparison to July, as did the number of items covered by the promotion. In terms of discount rates, lowest discounts are seen for Guerlain, YSL and Lancome, with the lowest discount 50%.

Table 4-6: Discounts for the popular P&C products in Sunrise Shanghai, August 2020

Brand	Number of discounted items	Discount
Jo Malone London	12	10%~15%
Nars	9	10%~30%
Guerlain	8	15%~50%
YSL	7	20%~50%
Lancome	6	20%~50%
Dior	4	15%~25%
Giorgio Armani	2	30%
Tom Ford	1	15%
La Mer	1	15%

Source: Jessica's Secret App

We show the main promotions of King Power in August in the tables below. As shown in Table 4-7, King Power offers “buy N and save x%” for designated products, which is similar to the promotion in Sunrise Shanghai. In addition, consumers get discounts for some products when they consume up to a certain amount. Notably, there are overlaps in the products covered in Table 4-7 and Table 4-8, for which the discounts are stackable, resulting in a lowest final discount of 40%.

Compared to July, King Power slightly adjusted its promotions in August, the discounts for specific brands remain unchanged, while the amount of consumption required to obtain some discounts has been increased. The specific changes are: the amount required for a 5% to 15% discount has been increased from THB8,000 (US\$256) to THB12,000 (US\$320); the amount required for a 10% to 20% discount has been increased from THB10,000 (US\$384) to THB15,000 (US\$480); the amount required for a 12% to 30% discount remain unchanged as THB60,000 (US\$1,920).

Table 4-7: Discounts for some P&C products in King Power, August 2020

Brand	Number of discounted items	Discount
D&G	116	10%~15%
Sulwhasoo	34	10%~15%
Dior	34	10%
Biotherm	31	20%
Shiseido	26	10%~15%
The Body Shop	19	10%~20%
YSL	10	30%
Anessa	8	10%~15%

Source: Jessica's Secret App

Table 4-8: Discounts and correspondent amount of consumption required in King Power, August 2020

Consumption required (US\$)	Number of discounted items	Discount
320	10,941	15%
	587	10%
	1,980	5%
480	10,941	20%
	587	15%
	163	12%
	1,749	10%
1,920	167	30%
	18	25%
	582	20%
	223	12%

Source: Jessica's Secret App

In August, other duty free shops offered promotions as well. CDFG Sanya provided "Flash sale" and "Buy any N and get up to X% off", the range of discounts vary from 10% to 20%. Among all the promotions of CDFG Sanya, "Buy 1 for 10% off, Buy 3 and get 15%" covered a largest number of products (over 600). In the meantime, CDFG Sanya allowed up to 40% off for a few P&C products, watches and wine. In Shilla Ipark, consumers get cashback as well as gifts if they purchase specific products or if they consume up to a certain amount. Dufry offered different promotions in its shops all around the world. 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.

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 as well as 1% cashback; 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 Hong Kong Purchasing Agents

In the last reports, we explored the duty free shopping environment in South Korea and Japan, through interviews with the purchasing agents. As is known, the number of Hong Kong purchasing agents exceeds one million, yet according to our price analysis, the prices of the duty free products in Hong Kong don't appear advantageous in comparison to those in Korea or in Thailand. To explore the profit margin of the Hong Kong purchasing agents, we interviewed two Hong Kong purchasing agents.

Edwards: Where offers low prices, purchasing agents follow

Edward (alias), was a software development engineer and part time purchasing agent before the outbreak. Right now, he has quit his job and become a full-time purchasing agent. Except for Hong Kong, Edward purchases products for his customers in Korea, Europe, Thailand and the duty free shops in China mainland as well. Before the outbreak, Edward earned a monthly income of about RMB35,000 (US\$5,180). His annual income from being a purchasing agent is between RMB5 million to RMB7 million (US\$740,000 to US\$1,036,000), in which the gross profit is approximately RMB300,000 (US\$44,400). Edward notes that, a common purchasing agent earns a profit of 10% to 15%, products of higher unit prices generally brings higher profits. While he earns only about 5%, because in addition to the consumers, he supplies products to some other purchasing agents as well, for lower profits.

According to Edward, Hong Kong is a preferred purchasing destination for him, firstly because he has access to a low duty free price in Hong Kong, and secondly because he lives in Shenzhen, which makes travelling to Hong Kong saves both time efficient and cost effective. Edward travels twice to Hong Kong every month, usually on weekends, and he spends approximately RMBone million (US\$148,000) every year purchasing duty free products for his Chinese customers in Hong Kong. Edward told us, as long as his profit is ensured, he purchases all kinds of products for his customers in Hong Kong, including grocery, baby products, P&C products and luxuries. We are also informed from Edward that consumers get the lowest prices of different brands of products in different countries or regions, for example in Hong Kong, Van Cleef & Arpels has price advantage than in other countries or regions, and Salvatore Ferragamo are also sold cheaper in Hong Kong than in Europe.

Edward introduced us three ways to obtain optimal prices in Hong Kong:

1. Group Purchase. By group purchasing, consumers can get high value gifts when they purchase up to a certain amount. When a consumer purchases up to RMB500,000 (US\$74,000) for example, he or she can choose gifts worth RMB500,000 (US\$74,000) from the list of designated products by the merchant. That is, consumers get as much as 50% off.

2. Insourcing. Consumers with very high consumption have access to internal discounts through negotiation with duty free shops. For example, a well-known global duty free shop gives customers with a purchase amount of RMB6 million (US\$886,800) a maximum 60% off. Edward told us that purchasing agents with internal discounts can easily meet the high consumption requirements by combining with a few other purchasing agents.

3. Small Beauty Shops. We are informed from Edward that some beauty shops in Hong Kong purchase from duty free shops in South Korea and Thailand, which sufficiently reduces their purchasing cost, and thus enabling them to attract consumers through lower prices.

On the implementation of offshore duty free in Hainan, Edward said that he also travelled to Hainan purchasing for customers, but since his consumption in Hainan has reached the duty free limit of RMB100,000 (US\$14,780), he will not visit Hainan again this year. Edward considers offshore duty free as a potential threat to his purchasing business, because Hainan offers good price for ordinary consumers, and some of his customers may choose to shop in Hainan in person. Despite this, Edward is still optimistic about his business. He believes that where there are low prices, there are purchasing agents. As long as there is sufficient price difference between commodities in various countries and regions, there is profit margin for purchasing agents.

Fiona: I receive hardly any order since July

Fiona (alias), 30, is a full-time purchasing agent. Fiona's purchase locations are mainly Hong Kong and South Korea. The products she purchases for her Chinese customers are mainly P&C products, mainly Lancome, Estee Lauder, SK-II and Kiehls. Fiona's annual cost of purchasing duty free products is about RMB500,000 (US\$73,900), and her profit margin is about 10%. Fiona travels to Hong Kong about five times a year, and the general value of each purchase is between RMB30,000 and RMB50,000. Fiona said that duty free products are sold cheaper in South Korea than in Hong Kong, but she still purchases in Hong Kong occasionally because it is close to Guangdong, where Fiona lives, making her purchase cheap and convenient.

Fiona usually visits DFS Hong Kong for purchasing. She simply purchases products at the original prices in the duty free shops, and then sells them to customers at an increased price. Fiona does not go to small beauty shops to purchase, despite of the lower prices they offer, because she can't afford losing the trust of her customers in case she bought fakes.

On the implementation of offshore duty free in Hainan, Fiona made it clear that her purchasing business had already been affected. Since Fiona's customers mostly live in southern regions of China like Guangdong, plus that the duty free price in Hainan is attractive to ordinary customers, many of her customers are willing to go shopping in Hainan in person. In this regard,

Fiona expressed her helplessness: "There are too few orders since July." Taking into account the time cost and expense of purchasing agents, going to Hong Kong for only a few orders may indeed make them unable to make ends meet.

6 Overview of Duty Free System in the UK

Recently, the European duty-free market has undergone significant changes. The UK has released its post-Brexit duty free policy. There has been a flurry of interpretations of the policy changes, some of which may be misleading and confusing. In this issue, we will take a look at the recent UK policies and help our readers analyse the changes to UK's duty free industry post-Brexit.

6.1 Airport Duty-Free Sales Undermined

One aspect of the new UK policy that has attracted widespread attention is the decision not to carry out tax-free sales of goods such as electronics and clothing at airports from January 2021, following the end of the Brexit transition period. In fact, there had been suggestions that the UK should expand the scope of the tax-free sales, but the government believes that such goods may be brought back into the country by UK residents, which may undermine the country's high street retail industry. Eventually the government not only did not expand the scope of the tax-free policy, but also canceled the airport tax-free sales of such products for all passengers.

6.2 Post-Brexit Tariff Policy Changes Between UK and EU

We all know that the transfer of goods across customs borders is subject to customs duties. In general, the international transfer of goods can be generally divided into two categories: goods for trade and personal items. When goods for trade and personal items are imported into the customs border, customs duties will be levied on them according to different set of rules. Postal parcels of a domestic resident's personal items mailed into the customs borders from abroad will constitute importation of the personal items and will be subject to certain customs duties in accordance with the customs regulations of his or her country. When an international passenger goes shopping abroad and brings the items back to the country with him or her, he or she is actually importing the items. In order to balance the personal needs of passengers and the regulation of importation, countries will generally set a limit on the number or value of the goods passengers bring back. Goods within the limit will not be taxed, while goods exceeding the limit will be subject to customs duties. The duty-free store is a way for countries to encourage foreign travelers to spend money within their own borders and to attract their residents to give up bringing back foreign goods as their personal belongings and instead choose to spend money in their own countries after completing customs procedures. Generally speaking, imported duty-free goods are exempt from customs duties and domestic-produced duty-free goods are exempted from value-added tax and excise tax.

The EU is a customs union which removes the tariffs and quantitative restrictions for the trade of goods between members. With the transition period of Brexit ending, borders between the UK and the EU have also taken on the significance of taxation borders. Travelers between the UK and the EU cannot take advantage of the various tax benefits within the EU, and are subject to the same tax obligations as other international travelers. The UK has therefore decided to apply the duty free shopping policy that apply to travelers to non-EU countries to those travelling to EU countries. As per the government announcement, from January 2021, travelers departing for the EU will also be able to purchase alcohol and tobacco products free of excise duty and VAT at ports, airports and international train stations.

Conversely, travelers returning to the UK from the EU can no longer bring back unlimited amount of alcohol and tobacco products or other personal items as their personal goods which can be exempted from customs duties. After the transition period, travelers returning to the UK from the EU will only be able to carry a limited amount of personal items in accordance with international practice. They shall comply with the customs regulations and bring back limited goods. Items exceeding the limit shall be declared to customs and taxed as required. However, the UK government has indicated that the limit will be kept

at a relatively generous level. For example, travelers can bring back 42 litres of beer, 18 litres of still wine plus 4 litres of spirits or 9 litres of sparkling wine free of customs duty.

6.3 VAT Refund Retail Undermined

In the travel retail industry, apart from the familiar duty free sales, there is also a way of tax free sales. The general practice is that passengers pay taxes when shopping in retail stores that are eligible for tax refund, they can declare their purchases at the customs when they leave the country and. For eligible tax-refund goods, the customs or retailers will repay the value-added tax and excise tax collected at purchase.

The latest policy in the UK shows that it is no longer feasible for foreign passengers to consume in tax refund retail stores and declare at departure to obtain tax refunds. Passengers must deliver the goods from the retail store directly to their overseas address after shopping. This means that although value-added tax and excise tax are exempted during shopping, when such postal parcel enters the customs of the passenger's residence, it may also be taxed by the customs as imported goods. For example, according to China's customs policy, such retail products cannot enjoy the preferential tax policies for cross-border e-commerce retail, and must be levied as normal imported personal items. Thus, e-commerce may be more convenient and affordable for customers.

Above are the three main changes of the new UK policy. Although there are some misunderstandings in some media, such as confusing tax refund with duty free shopping, the general interpretation is correct, which is that the UK travel retail industry will be severely hit. In response, the UK Travel Retail Forum has expressed its 'grave disappointment' at the government's policy. However, it seems that the UK government is not accepting the industry's view and is determined to abandon the duty-free and tax free market when the Brexit transition period ends.

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In 2015, Mirko led 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 in monitoring the dynamic global pricing data. The innovation has drawn the widespread attention in travel retail industry, and has shaped "Jessica's Secret" as a renowned big data provider in travel retail industry.



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