

QUALITY BRANDS HAINAN
FREE TRADE ISLAND PROCUREMENT COMPANY

Hainan Free Trade Island

Building sustainability through innovative leadership



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Foreward

The tourism and retail sectors are booming in the Hainan Free Trade Port, the largest free trade zone in China, with significant progress being made in transforming the island into an international tourism and consumption hub.

In 2023, Hainan's total retail sales grew by 10.7%, while local duty-free sales reached RMB 43.76 billion, a 25.4% increase. These numbers indicate a strong momentum in tourism and retail, highlighting a rapid recovery in the consumer market.

With its integrated, open travel retail market and vibrant travel and shopping options, Hainan has become a leader in the consumer industry. In 2023, supported by government policies, the Hainan Free Trade Port pioneered a new development model focused on experience-based consumption, luxury offerings, duty-free business, and high-end retail. Additionally, several travel retail companies in the area have begun digital transformation efforts, integrating online and offline channels to align with local consumer trends and enhance their competitiveness.

In this dynamic period, innovations in the tax regime, operations management, and technological advancements will significantly influence the growth and expansion of the local travel retail market. To aid local travel retail enterprises in understanding industry conditions, QBHTIPC has launched this project. The report provides an in-depth analysis of the global travel retail market and Hainan's local market, demonstrating how demand and supply are coordinated in the Hainan Free Trade Port. It also outlines the future path of the local market, emphasizing its resilience, which will help industry professionals, investors, and partners stay updated on industry trends.

Looking ahead, Hainan's travel retail market will offer substantial support for China's consumer sector and play a key role in bolstering the real economy and promoting industrial development. To succeed in the coming years, stakeholders in Hainan must think creatively, identify forward-looking insights, and be courageous in exploring new opportunities.



THE GLOBAL PERSPECTIVE
ON HAINAN'S TRAVEL RETAIL MARKET

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Understanding the Travel Retail and Duty-Free Sectors

'Travel retail' refers to a vast global business sector centered around shopping by travelers, both domestic and international. It is a sub-sector of two main industries—aviation and tourism—meaning that any positive or negative changes in these industries directly affect travel retail.

The duty-free channel, which involves selling goods free of duty and tax to international travelers, anchors travel retail. However, there are unique exceptions where duty-free rights extend to domestic travelers, such as in the Hainan Free Trade Port in China, Jeju in South Korea, and Okinawa in Japan—known as 'offshore duty-free.'

Duty-free sales occur in various locations: airports, seaports, certain downtown duty-free stores, onboard airlines, cruise ships, and ferries, at land border crossings, in specialized stores serving diplomatic and military personnel, and online through established duty-free retailers. The types of products sold duty-and/or tax-free differ by country and jurisdiction (for instance, there is no duty-free shopping between European Union member countries). Items purchased under these regulations can be brought into destination countries in specified quantities, known as allowances. The Hainan Free Trade Port boasts the world's most generous annual offshore duty-free allowance, set at RMB 100,000 (approximately USD 14,191 based on the 2023 exchange rate).

Recovering from the COVID-19 Pandemic

Until 2020, the duty-free industry was highly resilient, bouncing back quickly from crises like natural disasters, terrorism, and economic turmoil. However, the COVID-19 pandemic disrupted this trend, impacting the industry globally. According to the United Nations World Tourism Organization (UNWTO), global tourism faced its worst year in 2020, with international arrivals dropping 74% year-on-year and destinations welcoming 1 billion fewer visitors due to travel restrictions and decreased demand.

Recovery has varied worldwide, with Asia being the slowest to rebound in passenger traffic and travel retail spending. Despite this, the outlook is increasingly positive. Airports Council International (ACI) World's 2023–2052 World Airport Traffic Forecasts report offers optimism, projecting global passenger traffic to reach 9.7 billion by the end of 2024, surpassing pre-pandemic levels. This number is expected to double by 2042 and increase 2.5 times by 2052.

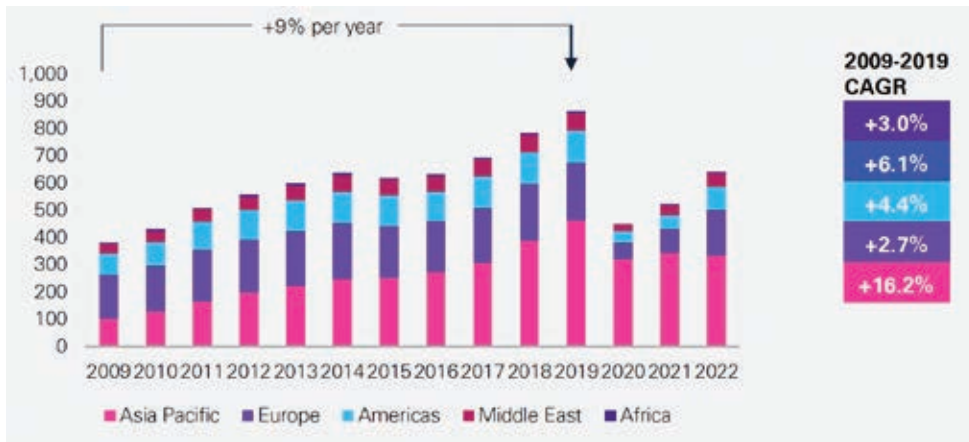
Key points from the report include:

- Global passenger traffic is projected to grow at a CAGR of 4.3% from 2023 to 2042 and 3.6% from 2042 to 2052.
- By the end of 2024, international passenger traffic is forecasted to reach nearly 4 billion, with domestic traffic at 5.7 billion.
- By 2042, international traffic is expected to reach 8.7 billion, and domestic traffic 10.6 billion.
- The global passenger market is expected to shift from advanced to emerging and developing economies.
- From 2023 to 2042, advanced economies are projected to have a 3.2% CAGR in passenger traffic, while emerging economies will see a 5.4% CAGR.
- Population growth and rising incomes in emerging markets will drive increased air travel demand.

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Key Metrics of the Global Duty-Free Industry

Since 2020, the global travel retail market has rebounded, yet regional growth rates and market sizes vary significantly. The Asia Pacific region, a major player in the global travel retail industry, reached approximately USD 33.4 billion in 2022, representing over 50% of global duty-free sales. Countries like China and South Korea have notably accelerated their travel retail sectors, emerging as pivotal growth engines worldwide. Conversely, Europe and North America have experienced comparatively subdued performance in their travel retail markets.



Global Travel Retail Market Size: 2009-2022 (in US\$ billions)

The next charts illustrate the global duty-free market in 2022 compared to 2021 across regions and product categories, highlighting the profound impact of the pandemic. In 2019, the market surged by +10% year-on-year, reaching a record high of US\$86.4 billion. At that time, no one in the industry could have anticipated the challenges that lay ahead.

2022 Regional Market Share Analysis



- Asia Pacific: 52.00%
- America: 13.44%
- Africa: 0.99%
- Middle East: 7.77%
- Europe: 25.99%



- Other shops: 50.20%
- Ferries: 2.32%
- Airport shops: 45.65%
- airlines: 1.91%

2022 Chanel Market Share Analysis



- Fragrances & Cosmetics: 43.70%
- Wines & Spirits: 14.00%
- Watches, Jewellery & Fine Writing: 7.70%
- Confectionery & Fine Food: 5.40%
- Fashion & Accessories: 14.10%
- Tobacco Goods: 8.50%
- Electronics, Gifts & Other: 6.60%

2022 Category Market Share Distribution

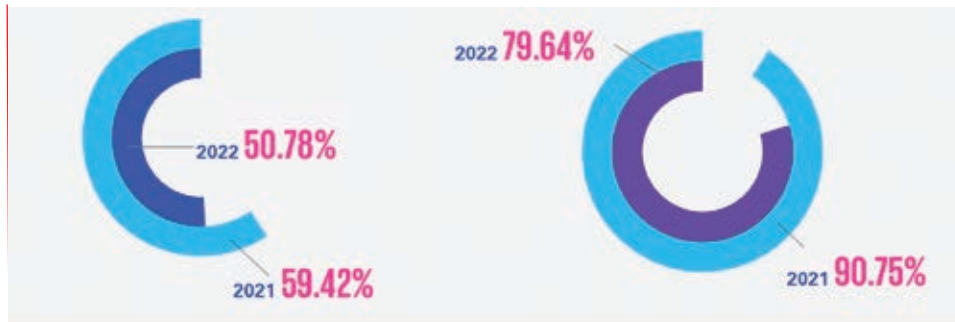
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Top Travel Retailers Worldwide

According to Moodie Davitt's report for 2022, six of the top 10 duty-free retailers globally were located in the Asia Pacific region, while three were situated in Europe, and only one in the Americas. In terms of market share, China Duty-Free Group and Dufry were the largest, capturing 16.27% and 15.44% of the global market respectively. Lotte Duty-Free followed closely with a market share of 9.65%. Based on these figures, the concentration ratio (CR4) of the top four companies in the global travel retail market was 50.78%, and the concentration ratio of the top eight companies (CR8) reached 79.64%. This indicates a high level of market concentration in 2022 by standard measures.

China Duty Free Group (CDFG) has led the global travel retail market by sales since 2020, maintaining this position through 2022. The 2023 rankings, expected in July 2024, will likely confirm CDFG's top spot. CDFG's rise is significant, moving from 19th place in 2010 to fourth in 2019, with sales over €6 billion.

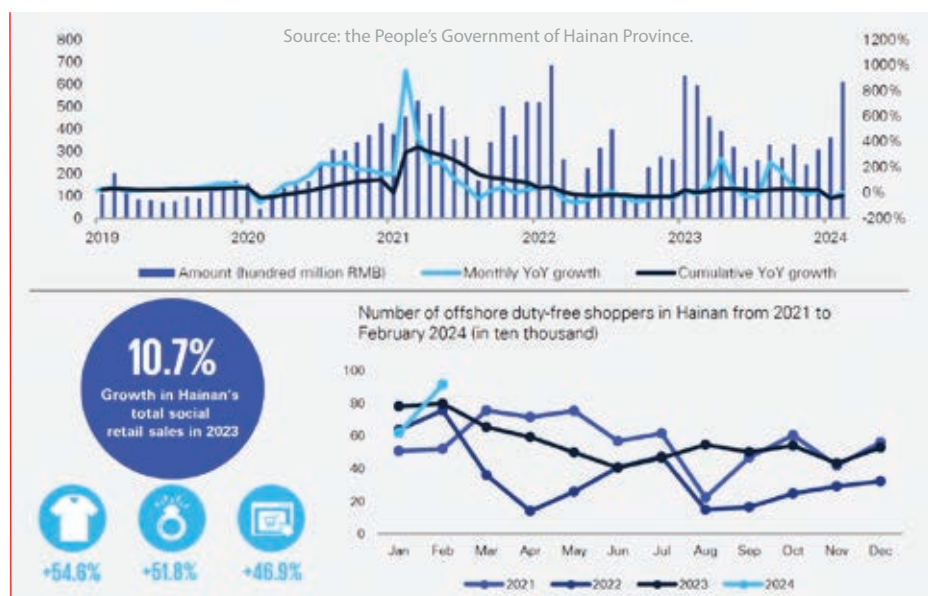
The Hainan offshore duty-free policy helped it grow during the pandemic in 2020, securing its top position. The planned downtown duty-free shops in Mainland China by 2024 will further boost its market leadership, aligning with government goals to increase domestic consumption.



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The Success Story of Hainan

The greatest success story of the 21st century, this business has evolved from a single shop in Sanya in 2011 to a multi-billion-dollar industry featuring some of the world's largest duty-free stores. Offshore duty-free sales in Hainan province increased by 25.4% year-on-year in 2023, reaching CNY 43.76 billion (about USD 6.21 billion), according to Haikou Customs. The number of shoppers rose by 59.9% to 6.756 million. In 2023, 90 million Chinese and foreign tourists visited the island, boosting tourist turnover by 188.6% and increasing total tourism revenue by 71.9% year-on-year. Rapid development in hospitality, transportation, and retail contributed 29.3% to the local economy. These trends highlight the success of Hainan's policies and its appeal as an international tourist destination.



Customs jurisdiction and investments

After establishing an independent customs jurisdiction, Hainan is expected to attract more domestic and foreign enterprises and diversify its industry structure. Focusing on tourism, modern services, high technology, and tropical agriculture, the Hainan Free Trade Port will become more globalized and attract more international tourists once the customs jurisdiction for local airports is completed and infrastructure is improved. From the perspective of modern services and high-tech industries, Hainan will integrate more effectively into the global innovation network, attracting international innovation resources and high-quality enterprises and talents. Additionally, Hainan's agricultural enterprises will find it easier to access international markets and export local products.

Here we present the recent changes in Investment and Consumption:

RMB Convertibility

In the future, Hainan will facilitate the free convertibility of the RMB, allowing capital to flow freely in and out of the country. This will attract numerous trade enterprises and be crucial for businesses looking to engage in overseas investment and trade, thanks to relaxed capital controls.

Open Internet

A submarine optical cable connecting Hainan with Hong Kong has been laid, providing the island with direct access to the international Internet. Hainan will become the third region in China, after Hong Kong and Macao, to open up the Internet.

Free Flow of Foreigners, Foreign Capital, and Foreign Goods

Hainan currently offers visa exemptions to tourist groups from 59 countries and plans to introduce individual arrival visas. The island will enhance its exit and entry policies to allow freer movement for foreigners and Chinese citizens, facilitating easier global expansion for Chinese enterprises.

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Future Offshore Trade Hub

The Hainan Action Plan aims to develop the island into a new offshore international trade hub, making it one of China's three major offshore trade centers. Hainan's advantages, including low tax rates, zero tariffs, and free capital flows, position it as an ideal trade center and capital settlement facilitator.

Here we present the new features of QBHFTIPC in Hainan:

Optimization of Policies, Regulations, and Services

The General Administration of Customs and other departments are supporting the Hainan Free Trade Port by continuously optimizing regulatory measures. They are relaxing shopping policies while ensuring effective risk management, following the principle of "effective risk management before taking big steps."

Diversified Marketing Methods and Products

Hainan's duty-free stores are blending physical operations with emerging online channels. The island's duty-free policy now includes cosmetics, household appliances, jewelry, and other products, meeting diverse consumer needs and offering more shopping options.

Boosting Tourism Consumption and Promoting Domestic Spending

Hainan's tax exemption policy attracts tourists, encouraging them to shop and promoting economic development. Tourists enjoy tropical weather and purchase duty-free and overseas goods at lower prices than in their home regions, thus promoting the return of overseas spending and boosting domestic consumption.

Significant Price Advantages with Rising Tax Exemption Quota

Hainan's tax exemption policy results in duty-free goods being priced more competitively than in other regions of China. This allows consumers to purchase imported goods at lower prices in Hainan's duty-free shops.

Since 2020, private equity and venture capital (PEVC) investment in Hainan's retail and consumer goods industry has grown annually. As of March 2024, a notable investment and financing event in Hainan amounted to RMB 250 million.



Since 2023, Baidu's search index indicates a growing interest in terms like "Hainan independent customs" and "Hainan Free Trade Zone," with the former reaching a rating of 400. Additionally, user demand mapping shows a strong correlation between these two popular searches.



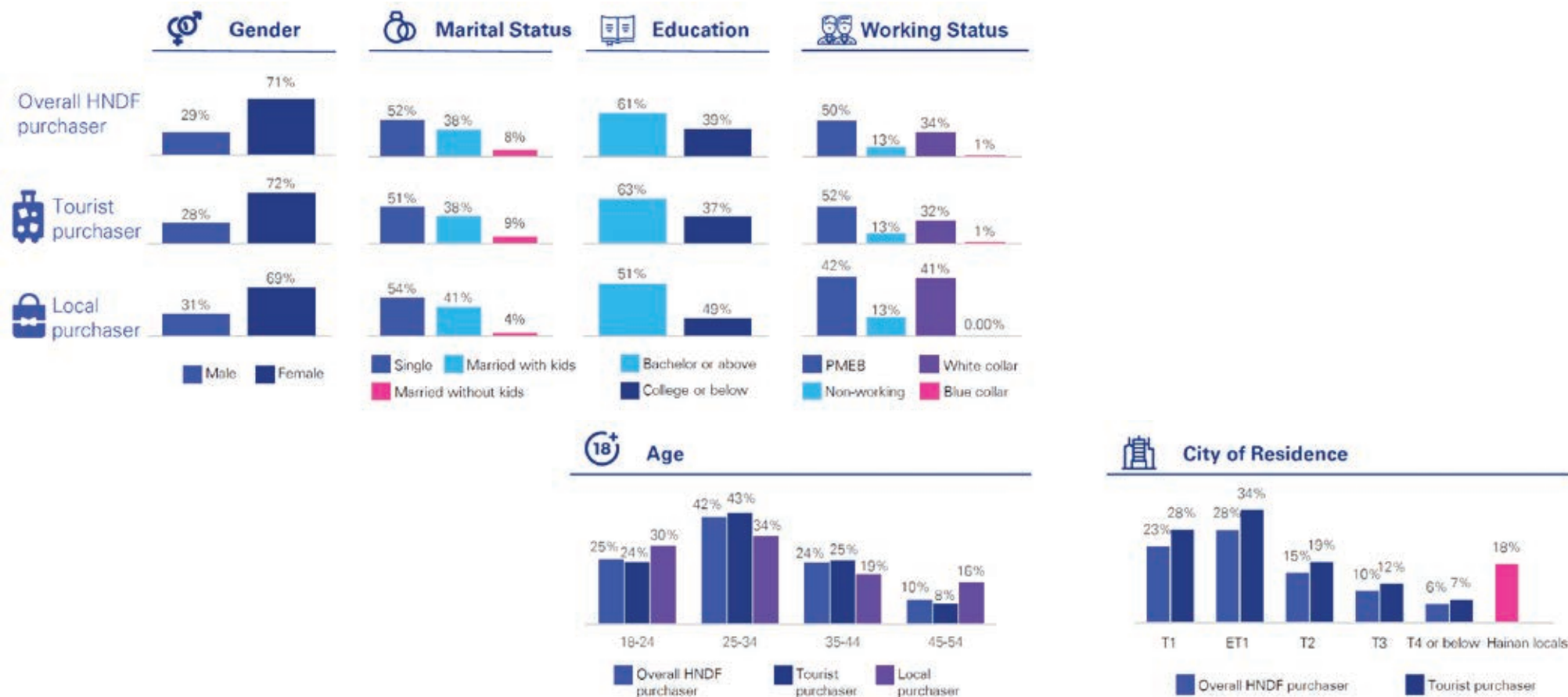
**CONSUMPTION TRENDS:
SUPPLY AND DEMAND**

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Supply and Demand: Trends in Consumer Behavior

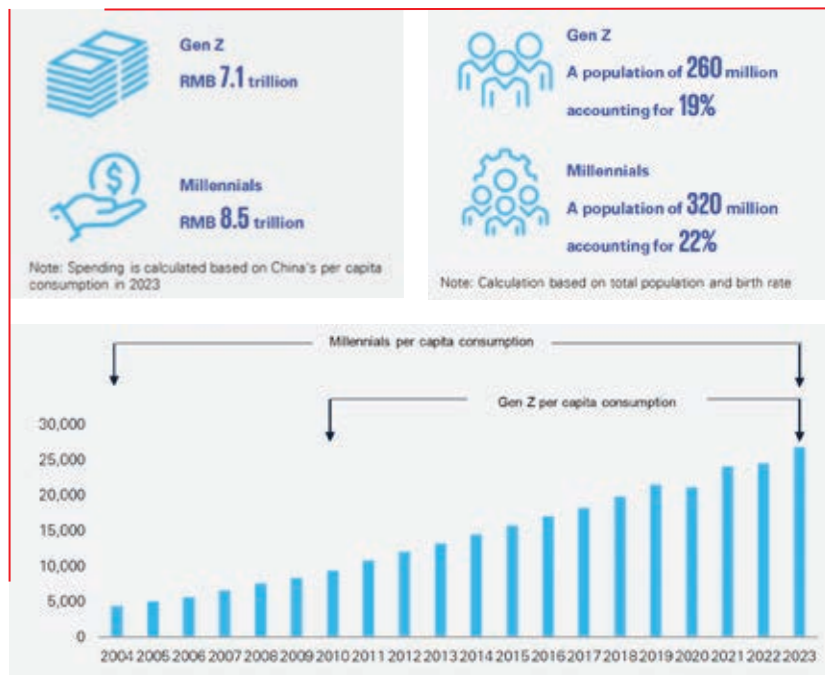
China's rapid economic growth and enhanced living standards have fueled the expansion of the travel retail market. To gain insight into consumer trends in Hainan's duty-free sector and the contributing factors, this chapter analyzes consumer behavior using supporting data. Note that due to rounding, the percentages might not total 100%.



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Millennials vs. Gen Z: A Study in Consumer Behavior

Millennials and Generation Z are the primary age groups examined in the survey, and their consumer behaviors vary based on occupation, income, and attitudes towards consumption. Currently, Millennials remain the dominant consumer group in the market, prioritizing quality, customer service, and brand value, yet they are more cautious in their purchasing decisions compared to Generation Z. In contrast, Generation Z focuses on living comfortably and spends more on entertainment, clothing, and cosmetics.



Male Consumers: Shaping the New Economic Landscape

In the past, the travel retail market primarily targeted women, reflecting outdated views on consumption and gender roles. Female consumers were prioritized, while male consumers were often overlooked. However, the April 2023 Men's Consumer Insights Report revealed that the number of male Internet users in China reached 611 million, making up 50.5% of total users. These figures indicate that the spending power of male consumers has been underestimated. With men's active online presence and purchasing power, the "male consumer-driven economy" is emerging as a significant market niche.

This trend aligns with findings from the luxury industry, where men account for over 60% of first-time luxury goods buyers. The men's fashion segment is expected to play an essential role in the travel retail industry moving forward.

Additionally, factors such as age and marital status influence consumption behavior. Among respondents, 61% had a bachelor's degree or higher, and these individuals tended to make more rational purchasing decisions, valuing quality. Tourists outnumbered residents among buyers, which is typical for the travel retail market. Notably, married consumers with children and unmarried consumers are key market players, with the latter representing more than half of buyers. Unmarried consumers are often more assertive, focused on self-improvement, and place a high value on personal image and quality of life. New consumption scenarios are emerging to cater to these buyers, driving the development of innovative high-quality business models.

In summary, the travel retail market is shifting from being female-dominated to one where men are also significant participants. This shift, along with increasingly diverse consumer attitudes, is creating new opportunities and challenges for market players.

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Shift to Experiences Boosts Luxury Brand Performance

Over the past two decades, the global luxury market has experienced substantial growth, driven largely by emerging economies such as China, where "non-core customers" have emerged as the primary consumer group. These middle-class buyers possess a significant purchasing power and a strong inclination towards luxury goods. Recent research from the Hainan Study indicates a balanced income distribution among these consumers, with half having annual household incomes exceeding RMB 240,000, and the other half below this threshold. Notably, nearly 30% of these "non-core customers" belong to the higher-income bracket, earning more than RMB 360,000 annually, underscoring the luxury market's appeal to high-net-worth individuals.

Moreover, 56% of these consumers are non-local tourists, whose average annual household income is RMB 350,000, highlighting both the attractiveness of the travel retail market and non-local tourists' preference for high-quality goods.

Occupationally, professionals, management officers, and self-employed individuals comprise 50% of "non-core customers," with general white-collar workers constituting 34%. This distribution underscores the significant influence of occupation on consumer spending behaviors, whether they are local residents or non-local tourists.

Geographically, over half of "non-core customers" hail from first and second-tier cities, with the latter contributing more significantly, indicative of robust consumer spending trends in emerging urban centers. Additionally, 18% of these consumers are local to Hainan, benefiting from the convenience of purchasing duty-free products, which underscores the synergy between independent customs zones and duty-free shopping initiatives.

However, the consumption behaviors of high-income consumers are notably influenced by economic conditions. During economic downturns, middle-class consumers tend to adjust their spending habits, posing risks for luxury brands. Nonetheless, top luxury brands have demonstrated resilience, as evidenced by their financial reports.

In summary, the growth of the luxury market among "non-core customers" in emerging economies like China reflects evolving consumer preferences and economic dynamics, presenting both opportunities and challenges for luxury brands navigating this dynamic landscape.

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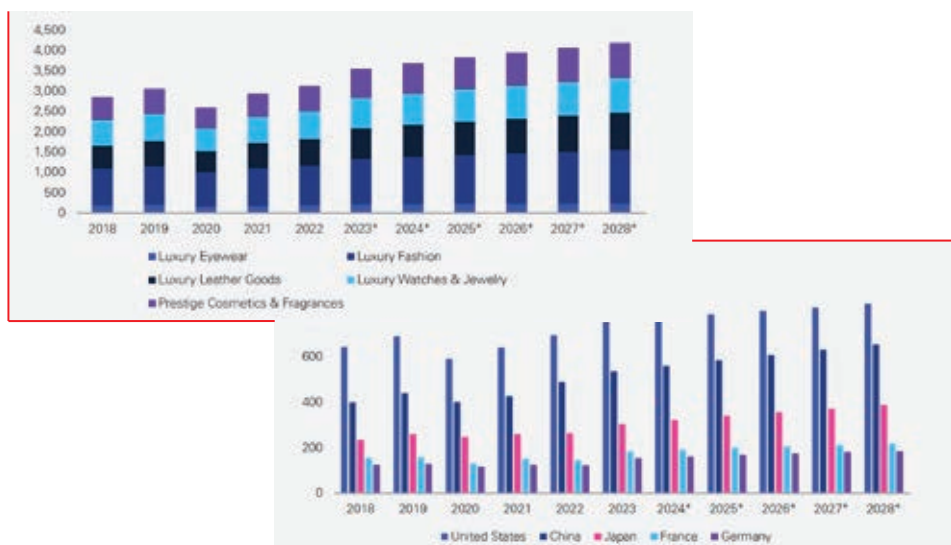
Understanding the Luxury Market Landscape

Over the years, Chinese consumers' preferences in the luxury goods market have evolved significantly. Initially drawn to entry-level luxury items like lipstick and perfume, they have increasingly gravitated towards higher-end products such as leather goods, haute couture, jewelry, and timepieces. In 2023, the global luxury industry achieved a revenue of USD 345.75 billion, marking steady growth over the past decade across various segments including light luxury, hard luxury, fragrances, and investment-grade luxury items.

Despite economic challenges during this period, the luxury market has demonstrated resilience.

Looking forward, China is poised to maintain its position as the world's second largest luxury goods market after the United States, projected to reach a scale of USD 65.4 billion.

This underscores China's growing influence and consumer spending power in the global luxury sector.



Emerging Consumer Trends: Low-Key and Virtual Realities

Chinese luxury consumers are increasingly favoring understated and sophisticated products, leading to a rise in quiet luxury trends that emphasize technology, quality, uniqueness, and elegance. Brands are responding by launching products with minimal branding.

Leading Italian luxury brands like Loro Piana and Brunello Cucinelli, known for their quiet luxury offerings, are intensifying their expansion efforts in China. For example, Loro Piana has opened 14 out of its 39 stores in Mainland China after 2021, including locations in Zhengzhou, Qingdao, and Sanya. Brunello Cucinelli reported a notable 40.4% increase in sales in Asia, including China, reaching EUR 307 million in FY2023, constituting 26.9% of its total sales.

As the quiet luxury trend gains traction, digital collections, Web3, and the metaverse are emerging as significant drivers of innovation in the virtual fashion sector. These advancements are revolutionizing how consumers engage with brands. Virtual reality-driven immersive shopping experiences, accessible via smartphones or computers, are enhancing the consumer journey by enabling virtual product trials without the need for physical store visits.

Furthermore, digital technologies are crucial for attracting Generation Z consumers, who heavily influence consumption patterns as digital natives. For brands, embracing virtual fashion not only meets current market demands but also positions them strategically for future growth.

Overall, virtual fashion represents a pivotal area of innovation in the fashion industry, enhancing consumer experiences and driving brand evolution in a digitally interconnected world.

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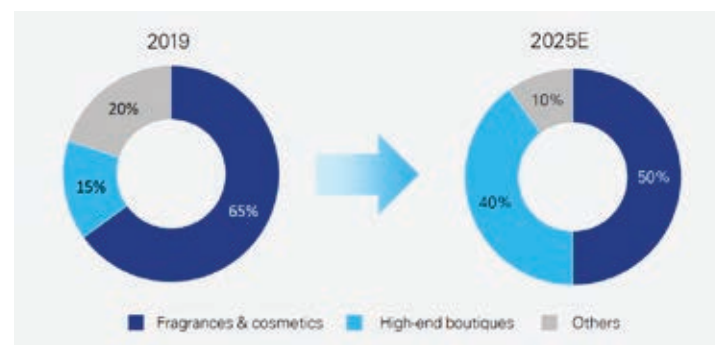
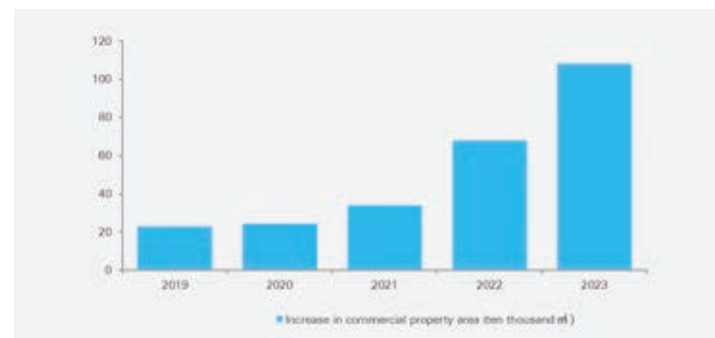
Trends in Duty-Free, Luxury, and Premium Goods

In 2024, Hainan is aggressively advancing its transformation into a leading free trade port and international tourism hub, accelerating the development of business districts and shopping malls across the island. According to winshang.com, by the end of 2023, Hainan boasted 82 shopping malls covering a combined area exceeding 5.74 million square meters. The year saw the opening of 18 new commercial projects, totaling 1.0834 million square meters, marking a 59% increase year-on-year and setting record highs in both project number and area. This trend is expected to continue in 2024 with numerous new commercial ventures slated to open.

With the Hainan Free Trade Port project nearing completion and the establishment of an independent customs jurisdiction imminent, numerous top brands are entering the local market. The proliferation of offshore duty-free shops, buoyed by increased spending power and favorable duty-free policies, further underscores Hainan's attractiveness. Light luxury brands are particularly popular, and clusters of high-end luxury brands are emerging as consumer preferences evolve.

Business districts in Hainan, primarily centered in Haikou and Sanya—renowned tourist destinations—are focal points of development. New commercial properties are specifically targeting duty-free shopping, luxury goods, and high-quality offerings, driving upscale consumer spending. Haikou, as the provincial capital, is strategically diversifying its economic models, promoting consumption, and positioning itself as a livable city and the core of the Hainan Free Trade Port to attract tourists. Meanwhile, Sanya is leveraging its geographical advantages under the Hainan Free Trade Port and International Tourism Consumption Centre initiatives, attracting a growing number of commercial projects.

Overall, Hainan's rapid commercial development underscores its significant potential as a commercial powerhouse, with expanding and upgrading offerings in high-quality goods and duty-free consumption poised to elevate its stature in the global marketplace.



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The Evolution of Global High-End Luxury Retail



In the first half of the 19th century, feudalism in Europe was in decline, and this period saw the emergence of numerous luxury brands primarily catering to the noble class. Originating mainly from France and Italy, these brands specialized in luggage, clothing, perfume, jewelry, and other luxury goods.

The latter half of the 19th century through the first World War marked a transformative period driven by the industrial revolution and colonial expansion. These developments generated significant wealth, giving rise to a new class of affluent entrepreneurs and bankers. Eager to emulate the lifestyle of the nobility, this burgeoning consumer base created a substantial demand for luxury goods.

During this time, select luxury brands began expanding their presence, capitalizing on the increasing wealth and aspirations of the newly affluent class. This period laid the foundation for the global expansion and enduring legacy of many iconic luxury brands.



After World War II, Western economies experienced rapid growth fueled by advancements in transportation and industrial technologies, which facilitated large-scale production and global trade. As personal incomes rose, there was a significant increase in demand for discretionary consumer goods, including luxury items. This economic prosperity laid the groundwork for the flourishing luxury industry.

During the post-war era from the 1940s to the 1970s, many luxury brands seized the opportunity to enter the American market, capitalizing on the growing affluence and consumer appetite for high-end products. This period witnessed the emergence of numerous designer brands, each contributing to the diversification and expansion of the luxury sector. The evolving consumer preferences and economic boom during these decades played a pivotal role in shaping the modern luxury market as we know it today.



The rapid expansion of the Japanese luxury market in the latter half of the 20th century provided a catalyst for global expansion among luxury brands. Encouraged by the success in Japan, brands began to explore markets beyond Europe and the United States, leading to rapid growth in the Asian market. This era saw a significant increase in mergers and acquisitions (M&As) and listings within the luxury sector.

As luxury brands diversified their global footprint, the industry entered a new phase characterized by heightened focus on profitability and return on investment (ROI). These metrics became crucial performance indicators for luxury companies, reflecting their strategic shift towards sustainable growth and financial health. This period marked a maturation of the luxury industry, where strategic business decisions and financial performance became integral to navigating a competitive global market landscape.



Since the beginning of the 21st century, emerging economies, notably China, have emerged as pivotal markets for luxury brands. The share of luxury consumption by Chinese consumers has soared from approximately 1% in 2000 to a substantial 33% by 2017. This dramatic growth underscores China's transformation into a major force within the global luxury market.

Recognizing this immense potential, major luxury conglomerates have steadfastly prioritized and invested in the Chinese market. They have tailored their strategies to resonate with Chinese consumers' preferences and lifestyles, leveraging digital innovation and local partnerships to enhance their market presence and appeal.

Overall, the rise of China as a powerhouse in luxury consumption has reshaped the global luxury industry landscape, prompting brands to recalibrate their strategies and operations to capitalize on this burgeoning market segment.

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Hainan's Future: High-End Retail Driving Travel

The Government Work Report presented at the second session of the 14th National People's Congress outlined several measures aimed at stimulating consumption in China. Key initiatives include fostering growth in entertainment and tourism, improving the business environment, and launching promotional campaigns such as the Year of Consumption Promotion. Specifically for the Hainan Free Trade Port, there's a strategic focus on expanding high-end consumer demand and enhancing coordination between consumption and investment activities. Moving forward, luxury retail complexes are poised to play a pivotal role in driving Hainan's economic growth.

Hainan is currently experiencing unprecedented commercial development, attracting both domestic and international investors. The provincial government continues to support projects within the Sanya Economic Circle, with developments like the MixC Mall in Haitang Bay injecting vitality into Hainan's commercial landscape due to their scale and diverse business models. Efforts to engage international investors are also yielding positive outcomes, further bolstering the influx of high-end enterprises into the consumer sector.

The 4th China International Consumer Products Expo (CICPE) has significantly contributed to Hainan's commercial growth, showcasing new high-quality products and gathering global luxury brands to create exceptional shopping experiences for Chinese consumers. Moreover, Hainan's implementation of a visa-free policy for 59 countries and its promotion of the "1+N" model across the island are paving the way for extensive commercial opportunities.

Hainan is leveraging its strengths in high-end retail and advancing efforts to cultivate new productive forces, which are crucial for driving the high-quality development of the Hainan Free Trade Port. The duty-free retail sector, in particular, has evolved significantly, transitioning to an omni-channel model that integrates digital platforms like cdfonline mall and social media presence on platforms such as Xiaohongshu, WeChat Channels, and Douyin. Hainan Holdings' GDF Duty Free City has also diversified its online channels by establishing platforms on mainstream Chinese e-commerce sites like Taobao, Tmall, and Douyin Mall.

Looking ahead, Hainan will continue to innovate with new technologies and approaches to strengthen the supply chain supporting high-end luxury retail complexes and emerging industries. This digital transformation aims to enhance the consumer experience, expand the duty-free market, and cultivate a distinctive image that showcases the advantages of the Hainan Free Trade Port.

In recent years, Hainan's luxury market has flourished with an increasing number of world-leading brands establishing a presence, indicating promising prospects for the Hainan Free Trade Port. As the port moves towards establishing its independent customs jurisdiction, anticipated benefits such as zero-tariff policies are expected to attract more high-end luxury brands, further diversifying the island's premium offerings and fostering a thriving luxury segment.

Structural shifts in duty-free sales are also anticipated, with analysts predicting the fragrance category to comprise approximately 50% of duty-free sales by 2025, and high-end boutiques to account for 40%. Short-term changes in duty-free consumption patterns will be influenced by relaxed quotas and increased purchase limits, while longer-term trends point towards growing popularity of high-end boutiques as personal incomes rise.

An aerial photograph of a tropical beach. The water is a vibrant turquoise color, with visible ripples and reflections of the sun. In the foreground, a wooden deck with several lounge chairs and a palm tree is visible. The beach is sandy and has some greenery. Several people are swimming in the shallow water. The overall scene is bright and sunny.

HAINAN TRAVEL RETAIL: TRENDS AND FUTURE OUTLOOK

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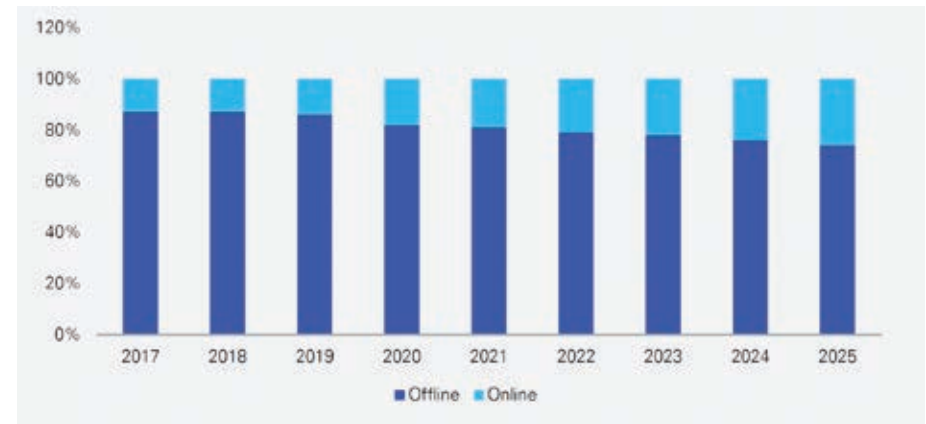
From In-Person to Omni-Channel

In the past, luxury brands maintained a minimal online presence, emphasizing exclusivity and the tactile experience of in-person shopping. However, with millennials and Generation Z driving consumption trends and the rise of prominent luxury e-commerce platforms like Net-A-Porter and Farfetch, global luxury brands have embraced a rapid shift towards the omni-channel business model. This transformation marks a significant evolution in their strategic approach.

Increasingly, luxury consumers are migrating online, prompting brands such as LVMH, Burberry, Chanel, Gucci, and Fendi to establish online portals and amplify their presence on social media with high-quality content. Statista forecasts a substantial rise in online luxury sales, projecting the share to grow from 13% in 2017 to 26% by 2025, underscoring the rapid digital penetration within the industry.

The luxury sector has entered the digital 4.0 era, characterized by the proliferation of online sales channels, integration of digital technology into the shopping experience, and seamless blending of online and offline operations. Brands are leveraging digital advancements to enhance customer service, replicate the in-store shopping ambiance online, and deploy technologies like virtual reality (VR) and augmented reality (AR) in physical stores.

By harnessing digital technology, luxury brands can craft compelling digital marketing content and employ artificial intelligence (AI) to enrich the offline shopping journey. These strategies not only attract new customer demographics but also elevate the overall customer experience, positioning brands competitively in the evolving luxury landscape.



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Digital Technology Transforms Consumer Behavior

The rapid development of digital technology in the Chinese market is revolutionizing the travel retail sector and empowering industry players with unprecedented opportunities. Consumers in China's major cities, particularly first and second-tier cities, heavily favor e-commerce channels for purchasing luxury products, accounting for nearly 80% of total sales. This shift underscores the significant role of digital platforms in luxury retail.

The survey also highlights evolving consumer preferences, with 18% of respondents indicating potential changes in their buying habits if brands increase their use of digital channels to engage consumers. Moreover, 23% of respondents expressed positive sentiments towards brands leveraging innovative technologies such as the metaverse, non-fungible tokens (NFTs), artificial intelligence (AI), and virtual reality (VR) or augmented reality (AR). These technologies are reshaping the luxury shopping experience, necessitating brands to integrate them to enhance consumer engagement and satisfaction.

For luxury brands, the adoption of digital technologies is becoming essential to meet evolving consumer expectations and improve overall consumer experiences. Developing digitally-enabled products and embracing digital innovations not only strengthens brand relevance but also positions brands strategically in the competitive landscape of luxury retail in China.



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Tech-Driven Tourism Boosts Hainan's Economy

The Hainan Free Trade Port, integral to Hainan's economy, is leading the charge in advancing the tourism industry's high-quality development, with technology playing a pivotal role in this transformation. A significant milestone was reached on December 30, 2023, when the General Office of the People's Government of Hainan Province issued the three-Year Action Plan for the High-Quality Development of Hainan's Tourism Industry (2024-2026). This plan emphasizes leveraging technology to promote tourism and implement smart tourism initiatives.

One of the key technologies highlighted is virtual reality (VR), which promises to innovate and elevate business models and consumer behaviors within the tourism industry. By integrating VR and other advanced technologies, Hainan aims to enhance the overall tourism experience and attract more visitors.

Looking ahead, digitalization is expected to profoundly impact the travel retail sector within the Hainan Free Trade Port. This evolution will span several crucial areas including digital infrastructure, innovative marketing strategies, streamlined supply chain management, and targeted marketing efforts. Cross-border e-commerce platforms are poised to offer comprehensive services encompassing pre-, during-, and post-travel stages, thereby enriching user experiences and driving growth in the travel retail industry.

Furthermore, the integration of digital technologies will bolster the industry's capabilities in handling big data, fostering innovation, and promoting collaboration among stakeholders. This strategic embrace of digital transformation is set to position the Hainan Free Trade Port at the forefront of global tourism and travel retail, ensuring sustained development and competitiveness in the evolving market landscape.

Duty-Free and Cultural Tourism

In recent years, due to global COVID-19 control measures, Chinese residents drastically reduced international travel, leading to a surge in domestic luxury goods consumption. Hainan, a crucial travel retail market, capitalized on this trend by attracting a large influx of domestic tourists through gradual relaxations of offshore duty-free policies and leveraging its strategic geographical advantages. However, with international travel restrictions easing, more Chinese residents are now venturing abroad for purchases. According to the China Tourism Academy, outbound tourists from China surpassed 87 million in 2023 and are projected to reach 130 million in 2024, signaling a significant shift that impacts Hainan's tourism dynamics.

To sustain consumption momentum and appeal to both domestic and international tourists, Hainan is integrating innovative "duty-free + cultural tourism" strategies. This dual approach aims to enhance the attractiveness of duty-free shopping by combining it with cultural tourism experiences, thereby synergizing efforts to bolster the vibrant travel retail market in Hainan. The 2023 report from the China Association of Performing Arts highlights record-breaking box office receipts exceeding RMB 14.6 billion from large-scale concerts in mainland China. Embracing this trend, Hainan has integrated offline performances into its tourism economy. This approach, blending "concert + shopping" and "concert + tourism," has successfully boosted local economic activity and elevated Hainan's tourism profile.

For example, Jay Chou's 2023 concert in Hainan attracted 154,600 tourists and generated RMB 976 million in tourism revenue, with a majority (61.5%) coming from outside the province. The event garnered immense online attention, with discussions involving over 1.159 million participants and exceeding 720 million views!

In summary, Hainan's innovative strategies in combining duty-free shopping with cultural tourism and leveraging large-scale performances underscore its commitment to driving tourism growth, fostering economic development, and enhancing its appeal as a premier destination for both domestic and international travelers.

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Policy Support and Tax Reform Boost Consumption

As a special economic zone in China, Hainan benefits from numerous policy advantages, particularly in recent years with the advancement of the Free Trade Port initiative. These developments have unlocked unprecedented opportunities in Hainan's consumer sector.

Please refer to the table on the right to analyze the summary of tax rules implemented in the Hainan Free Trade Port. We have included a brief analysis of the current rules and the planned arrangements following the establishment of an independent customs jurisdiction in 2025.

Based on the above analysis, Hainan's tax regime will align closely with major global free trade ports upon establishing an independent customs jurisdiction. These changes represent a significant systemic leap and pave the way for further trade and investment liberalization in the Hainan Free Trade Port. Characterized by "zero tariffs, low tax rates, and a simple tax system", the new regime will lower operating costs for businesses, enhance competitiveness, and foster a fair, transparent, and efficient business environment.

This development is advantageous for brands planning to invest in Hainan. They will experience lower tax burdens, increased profitability, and enhanced attractiveness to domestic and foreign investors. As the tax system evolves, Hainan's travel retail sector is poised for a promising future.

Overall, despite potential fluctuations, the local market is steadily improving, bolstered by ongoing tax reforms. With these improvements, the Hainan Free Trade Port is set to attract domestic and foreign investors and consumers, injecting vitality into both the local and national economies."

Category	Before	After	Influence
Corporate income tax	Enterprises that are registered in the Hainan Free Trade Port, engage in encouraged industries and have substantial operations pay corporate income tax (CIT) at a reduced rate of 15%.	Enterprises with substantial operations in the Hainan Free Trade Port (excluding those engaged in industries on the negative list) will be subject to CIT at a reduced rate of 15%.	The lower tax burden will enhance the attractiveness of the Hainan Free Trade Port to investors.
Individual income tax	For eligible high-end and urgently-needed talents working in the Hainan Free Trade Port, the portion of their actual personal income tax burden in excess of 15% is exempted.	For individuals who have lived in the Hainan Free Trade Port for 183 days, their income, including comprehensive income and business income originating in the Hainan Free Trade Port, will be taxed at 3%, 10% and 15% as applicable.	The lower individual income tax (IIT) rate will help attract more talents.
Tariffs	Some imported goods are exempted from tariffs, value-added tax (VAT) and consumption tax.	Imports from foreign countries or regions into Hainan will be exempted from import duties. Product imports from the Mainland into Hainan that are produced by enterprises in encouraged industries and that do not contain imported materials or that include imported materials but the added value arising from processing at the Hainan Free Trade Port reaches a certain proportion will be exempted from import duties.	These exemptions will promote trade liberalisation between Hainan and foreign countries and regions.
VAT and other taxes	Tourists who buy duty-free goods and pick up goods offshore are exempted from tariffs, VAT and consumption tax according to relevant regulations.	VAT, consumption tax, vehicle purchase tax, urban maintenance and construction tax, education surcharges and other taxes will be consolidated into sales tax, which will be levied only on business-to-consumer (B2C) business. There is expected to be only one tax category, which will be levied at a single-figure rate.	In addition to promoting imports and exports and flows of modern services between Hainan and foreign countries and regions, this measure will reduce the tax burden on production activities, which will cause the turnover tax cost for business-to-business (B2B) enterprises to converge with that of Hong Kong SAR.

An aerial photograph of a large, modern airport terminal building at sunset. The terminal has a unique, curved, and segmented roof structure with a complex geometric pattern. The sky is filled with vibrant colors of orange, yellow, and pink, with the sun low on the horizon. The terminal is illuminated from within, and the tarmac area is lit with ground lights. Several aircraft are visible at the gates, and ground service equipment is positioned around the terminal. The overall scene conveys a sense of modern infrastructure and global connectivity.

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