



**Serving a fast-changing, fast-growing
Chinese traveler market**

Charles Chen, President of China Duty Free Group

An aerial night view of a complex, multi-level highway interchange in a city. The roads are illuminated by streetlights, and the surrounding buildings are lit up. A large white graphic element, consisting of a vertical bar and a rounded rectangle, is overlaid on the center of the image.

The Changing Chinese Travel Market



*Geopolitical
risks*

*China – US
trade war*

*Exchange
rate
fluctuations*

*Consumption
downtrending*

Do these factors affect the outbound travel of Chinese consumers?

Do they affect Chinese consumers' passion for shopping?

1.Chinese travel market overview

(1) China is the world's largest outbound travel market in terms of number of outbound travelers and spending on outbound travel

World's largest source of
outbound travelers

130

MILLION PERSON

Number of Chinese outbound
travelers in 2017

World's No.1 spending
on outbound travel

115.29

BILLION USD

Spending on outbound travel
in 2017

1. Chinese travel market overview

(2) Strong growth momentum

Multiple factors have contributed to the strong growth of Chinese outbound travel market: increased national income, relaxed travel visa, increased knowledge and desires for destinations, easier access to travel information online, increased international airlines and air routes from China, among others.

Outbound travel grew 15% YOY compared to first half of 2017



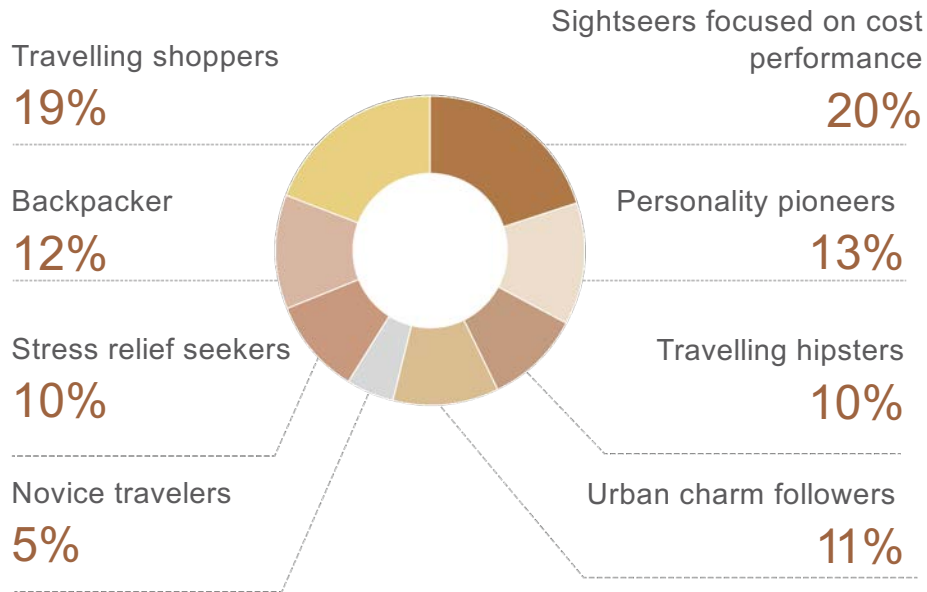
First half of 2017



First half of 2018

2.Key characteristics of Chinese travel market

(1) More sophisticated travelers



- The outbound travel market is growing and the traveler preference and behavior are also evolving, as travelers and their behavior become more complicated
- According to the latest outbound travel research by McKinsey, the Chinese outbound traveler population is divided into eight major categories

Source: Deep Insight into Chinese Outbound Travel Market published by McKinsey in September 2018.

2.Key characteristics of Chinese travel market

(1) More sophisticated travelers

- Segments of Chinese travel market : the middle class, millennial generation and Z generation



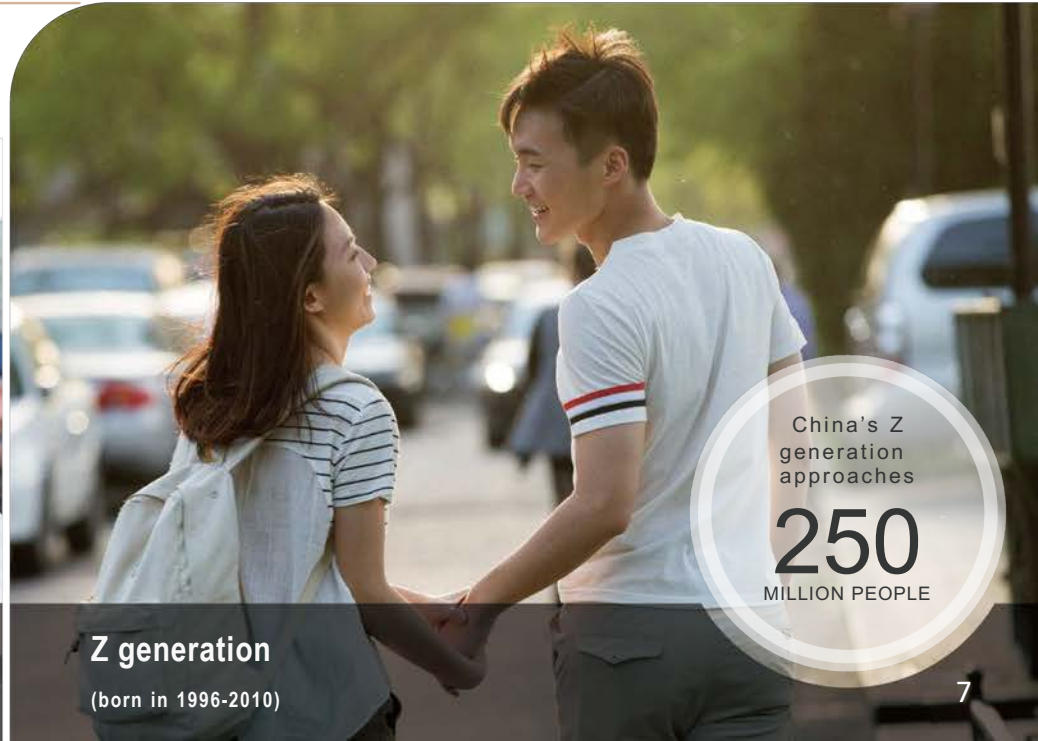
Chinese middle class

(born in the 1960's and 1970's)



Millennial generation

(born in 1980-1995)



China's Z generation approaches

250

MILLION PEOPLE

Z generation

(born in 1996-2010)

2.Key characteristics of Chinese travel market

(1) More sophisticated travelers

**Commonalities of the middle class,
millennial generation and Z generation**



**Price sensitive and
research before
purchase**



**Personalized,
unique products
and experiences**



**Seek for new and
innovative shopping
experience, savvy
with online shopping**

2. Key characteristics of Chinese travel market

(1) More sophisticated travelers

Conventional,
brand loyalty

**Pursue high value,
unique, exclusive
products**

Middle class

**Differences
among middle
class, millennial
generation and Z
generation**

Millennial
generation
and Z generation

- Millennial generation are creative, trend setters
- Z generation relies on social media channels to share their experiences

2.Key characteristics of Chinese travel market

(2) Increasingly diversified ways of travel

Airplane, train, cruise and self-driving have become the preferred mode of travel for Chinese travelers. In recent years, Chinese cruise travel market saw annual average growth rate of 40% and China's annual cruise traveler population is expected to reach 10 million in 2030, making the country the largest cruise travel market in the world.



2.Key characteristics of Chinese travel market

(3) Influence of Internet to behaviors of Chinese consumers

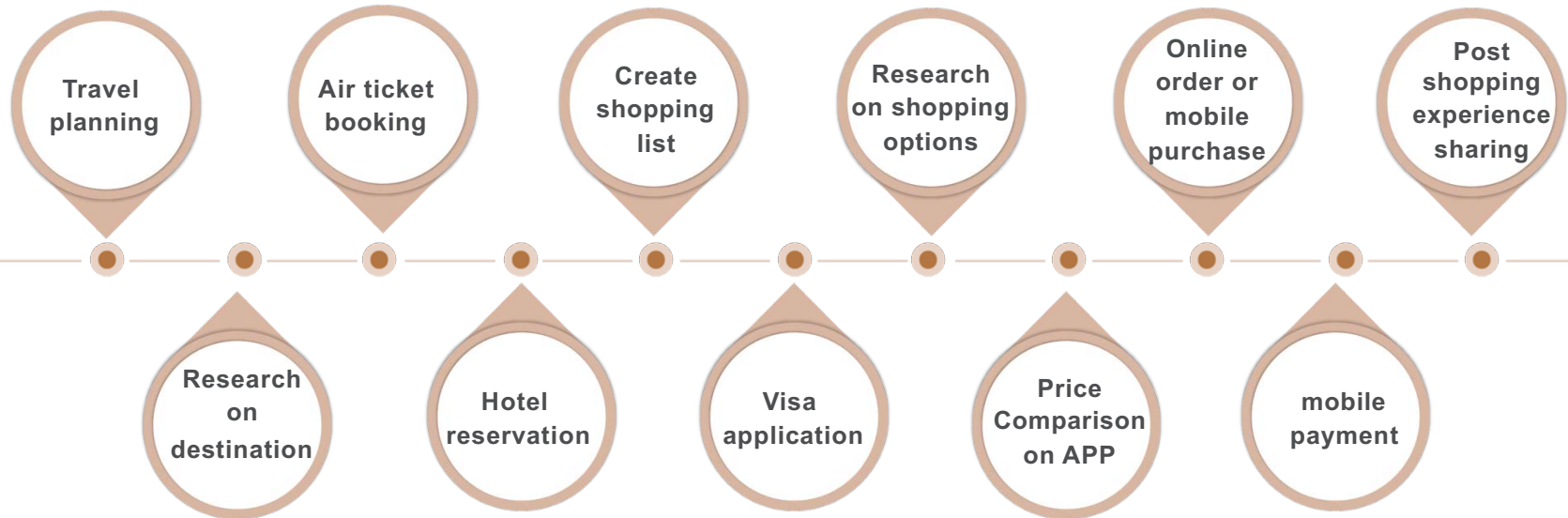
Internet has made Chinese consumers world-leading in online shopping volume and number of online shoppers



2.Key characteristics of Chinese travel market

(3) Influence of Internet to behaviors of Chinese consumers

Mobile and internet has changed the way Chinese travelers plan their travel and purchasing behaviour





How should we adapt to Chinese consumers

1. Offer seamless omni-channel experience to travelers in all presence



Downtown



Airport



Border



In-flight



Cruise



Seaport



Railway



Diplomat



Passenger station

International Airport duty-free stores

Hong Kong Airport
Beijing Airport
Shanghai Airport
Guangzhou Airport
Macau Airport

Offshore duty-free stores

Sanya International Duty Free Shopping Complex

Downtown duty-free stores

Beijing
Shanghai
Dalian
Qingdao
Xiamen
Cambodia
Macau

2.Wide range of assortment



Widest range of assortment:

Provide widest range of assortment across duty-free industry, with total of 14 categories across liquor, tobacco, beauty, fashions n accessories, food n general merchandises.



Brand offering:

Approximately 1000 brands offering to our customers



Largest number of products:

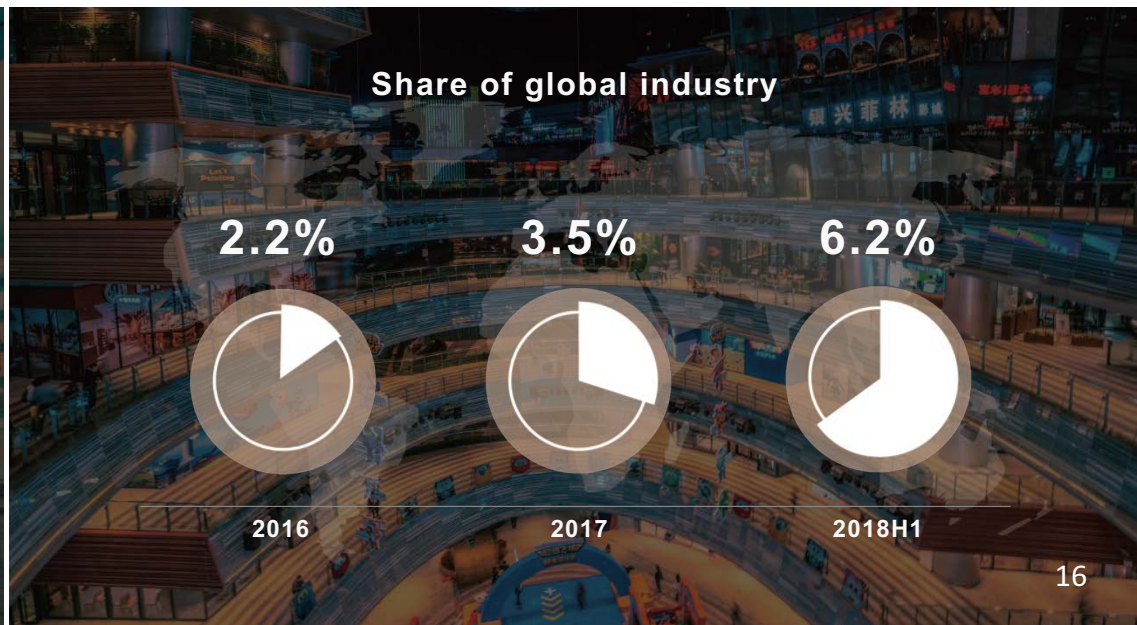
Nearly 90,000 products across the wide range of assortment.



Professional and international merchant teams to constantly seeking for new and attractive products

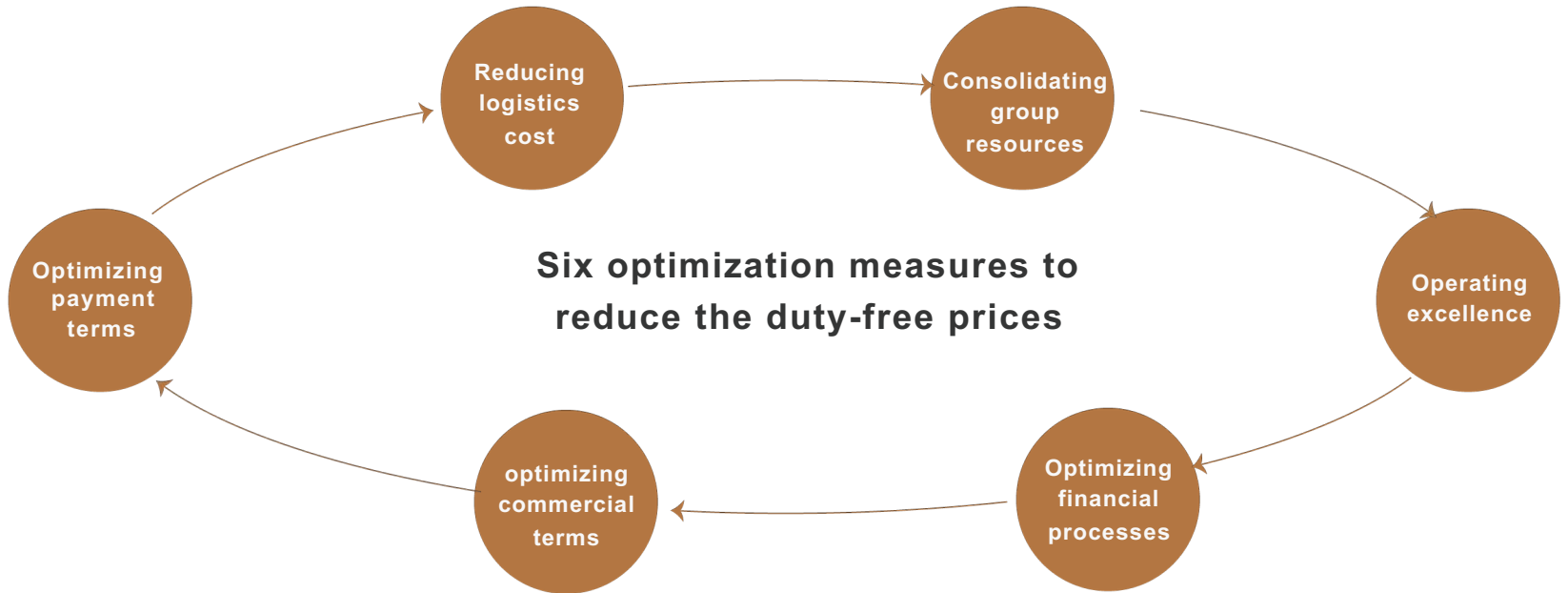
3. Offer best duty-free prices to consumers

- (1) Make leaping-forward breakthroughs at many major hub airport channels, significantly increase its duty-free market, thus effectively lowering the duty-free prices with the remarkable scale effect.



3. Offer best duty-free prices to consumers

(2) Optimization in six areas to increase profit and minimize operating cost



How should we adapt to Chinese consumers

4. Use of digital technology to enhance consumer shopping experience

- (1) Provide seamless omni-channel shopping experience to allow consumer to shop any time, any where, at their convenience



How should we adapt to Chinese consumers

4. Use of digital technology to enhance consumer shopping experience

(2) Use of interactive technology to enhance consumer experience and engagement

Digital bartender–Tasting Bar



Wine interactive table



How should we adapt to Chinese consumers

5. Holistic service to increase consumer satisfaction and brand loyalty



VIP member services

- Airport limousine service
- VIP lounge
- Personalized travel planning
- Priority check out service

Widest network of after-sales service centre in China

- Service guarantee for customer complaint: Acknowledge within 3 hours and resolve within 24 hours
- Only retailer with full coverage in China with after-sales service centres
- Consistent after-sales services standard and processes



B R A N D I N G

**How should brand owners adapt
to Chinese consumers**

How should brand owners adapt to Chinese consumers

1. Provide more duty-free exclusive products to attract consumers

- ▲ Brand to create exclusive and attractive products for duty free market
- ▲ Increase duty free competitiveness and differentiation vs domestic market



Duty Free exclusives are highly sought after by consumers

How should brand owners adapt to Chinese consumers

2. Tighten supervision over e-commerce online sales channels to preserve brand image

Many 3rd party online channels are able to promote and sell luxury goods with non controlled price, this has direct impact to the duty-free channels and affect brandimage and loyalty



IV

How should airport authorities adapt to Chinese consumers

How should airport authorities adapt to Chinese consumers

1. Offer favorable rent and commercial terms

Shanghai Airport initiative to provide duty-free operators with favorable commission rate for fashion categories



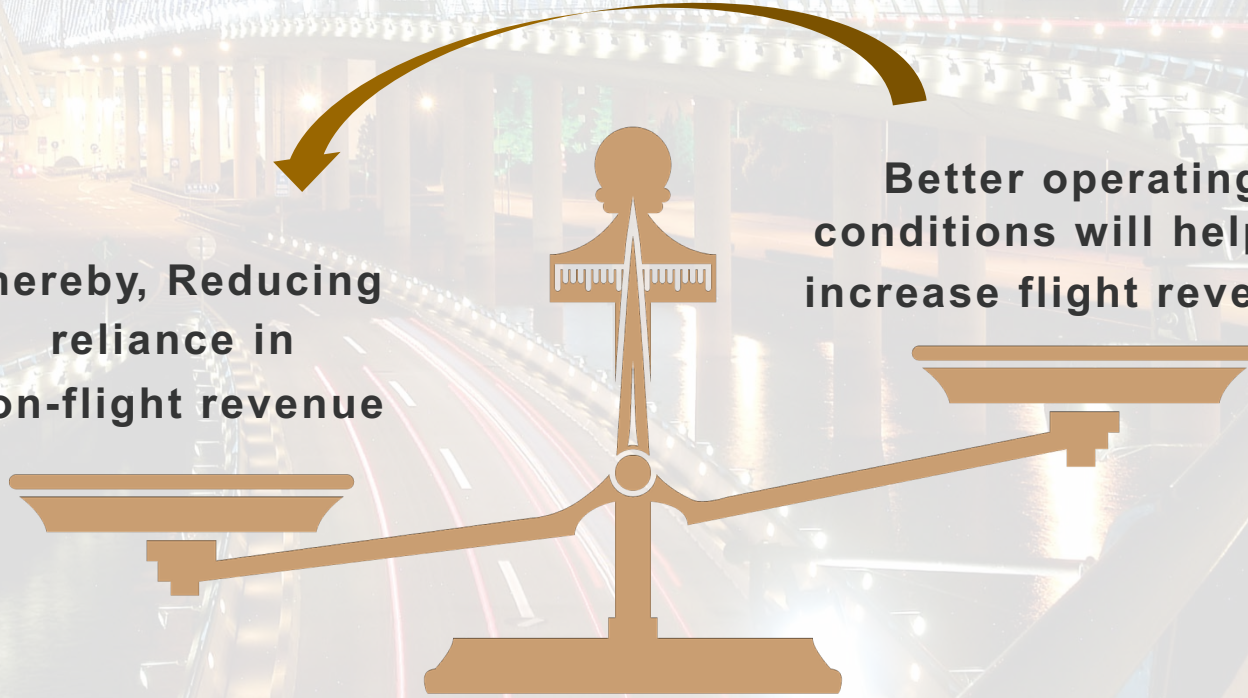
This initiative is able to attract new international brands and increase luxury shopping options

How should airport authorities adapt to Chinese consumers

2. More flight revenue and reduced reliance upon non-flight revenue

Thereby, Reducing
reliance in
non-flight revenue

Better operating
conditions will help to
increase flight revenue



How should airport authorities adapt to Chinese consumers

3. Cancel or reduce the control over duty-free prices to improve the commercial image of airports

▲ Airport low-price competition is detrimental to the commercial image of airports

▲ Assess based on brand and assortment variety, cancel or reduce assessment and control of duty-free prices





Win-win strategy
Working together to create a better
future for Chinese travel retail market