



CHINA DUTY FREE GROUP

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A Thriving Duty Free & Travel Retail Market

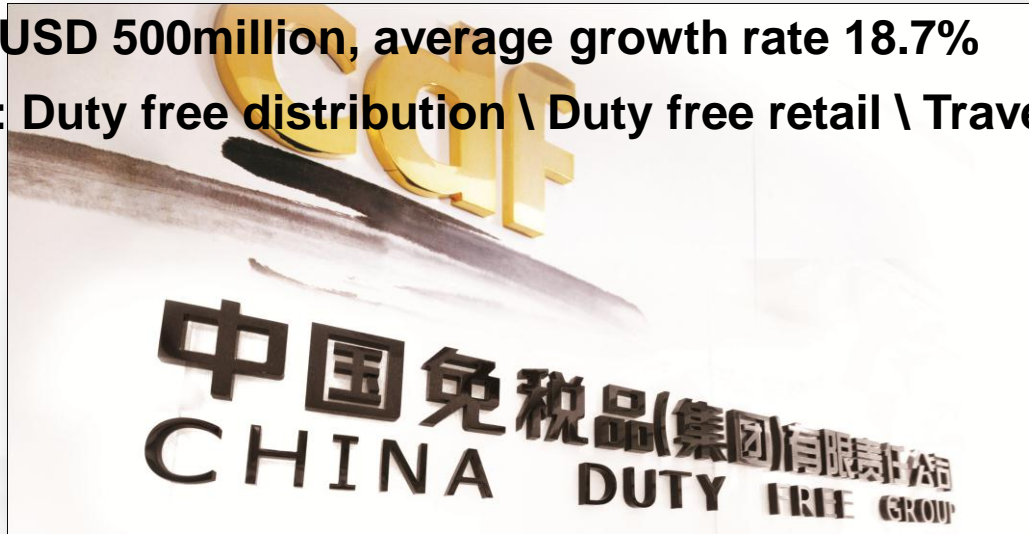
**Charles Chen - Vice President
China Duty Free Group**

▪ Who We Are

- A Thriving Market
- Driving Forces of the Market
- Seize the Development Opportunities

Who We Are

- Established in 1984, operates duty free business national-wide exclusively
- More than 190 retail outlets in China (including HK & Taiwan)
- Sales revenue USD 500million, average growth rate 18.7%
- Core business: Duty free distribution \ Duty free retail \ Travel retail



- **Who We Are**
- **A Thriving Market**
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- **Seize the Development Opportunities**

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Driving Forces of the Market



Driving Forces of the Market

1. Rapid economic growth & increasing purchasing power

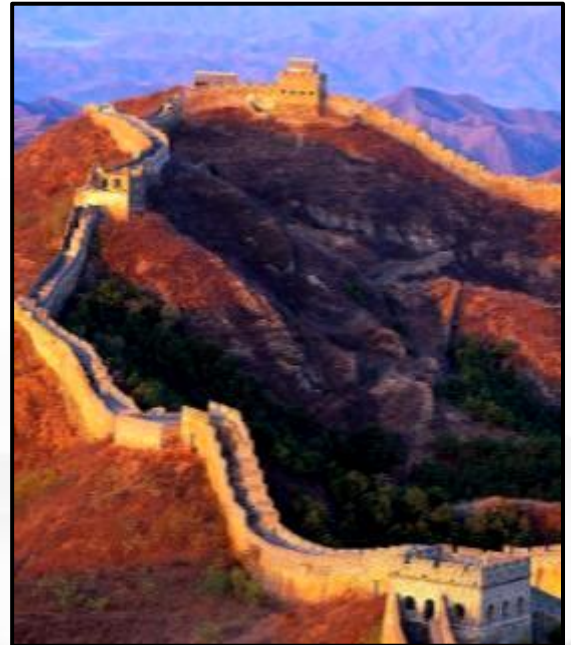
- **GDP ranks No.2 in the world**
 - Average growth rate over the past 10 years: 12%
- **the 2nd largest consumer of luxury goods in the world**
 - Luxury goods consumption: USD 28.6 billion in 2010
 - Luxury goods consumers: 175 million



Driving Forces of the Market

2. Continuous Prosperity of Tourism & Aviation Market

- **the 3rd largest inbound tourism country**
the 4th largest outbound tourism country
 - Inbound: 134 million passengers / year
 - Outbound: 57 million passengers / year
- **A booming aviation market**
 - Domestic: 501 million / year, annual increase + 15%
 - International: 62 million / year, annual increase + 28%



Driving Forces of the Market

3. New polices create new market space

- **Off-shore duty free shopping**

- Hainan Province

- **Free trade & experimental zone**

- Ruili City & Pingtan Area

- **Arrival duty free shop**

- Guangdong Province

- **Tax refund**

- Beijing & other major cities



Driving Forces of the Market

3. New policy creates new market space

- **Hainan off-shore duty free shopping policy**

- CDFG Sany Duty Free Store — China's first offshore duty free shop
- Implemented from April 20th 2011
- Offshore duty free policy creates a huge market

Qualified customers: 9.45 million

Average duty free consumption: 300 USD

A USD 425 million market

Driving Forces of the Market

3. New policy creates new market space

- **Establish special zones & introduce new duty free policy**

- Chinese government is focusing on regional development
- Ruili free trade area & Pingtan comprehensive experimental zone etc.

- **Arrival duty free shop to be approved in 2011**

- Luxury products consumed overseas USD 12.9 billion
- Chinese government intends to shift luxury goods consumption from overseas to within China
- Arrival duty free shops will be approved this year in Guangzhou\Shenzhen\ Zhuhai
- Arrival shops will cover China's main ports
- Projected sales increase: about 30%

Driving Forces of the Market

3. New policy creates new market space

- **Hainan tax refund implemented as pilot project, to be extended to major cities**
 - The State Council approved Hainan province's tax refund policy on 1st Jan 2011
 - Policy will gradually be extended to major cities



Driving Forces of the Market

4. Changes from China airports

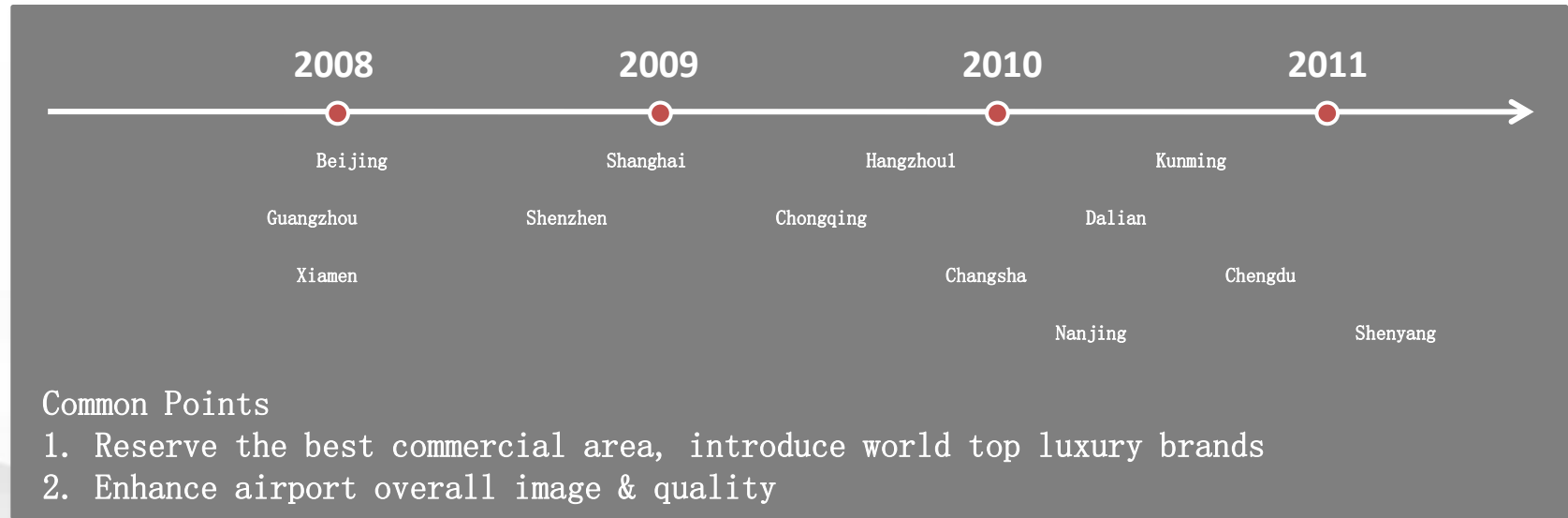
- **Changes in operation philosophy & model**

10 years ago	Today
Government liable	Airports liable
Safety first	Safety + Profits
Aeronautical revenue	Non- aeronautical revenue
Self-running shops	Franchise mode

Driving Forces of the Market

4. Changes from China airports

▪ Trends of the airport retail business



Driving Forces of the Market

5. CDFG leads the development of China duty free industry

- **Guide the government to release the new duty free policy**
 - Introduce local products into duty free shops \ Offshore duty free policy \ Arrival shops etc.
- **Provide overall commercial solution to airport authority**
 - Participate in retail planning for major airports
 - Cooperation on all fronts with Guangzhou \ Hangzhou \ Nanjing \ Dalian \ Xiamen airport



Driving Forces of the Market

5. CDFG leads the development of China duty free industry

- **Constantly improve the operation level of the industry**
 - Actively introduce top international brands

We are the first to introduce Gucci \ Tiffany \ Tag Heuer \ Emporio Armani \ Zenith Montblanc \ Hugo Boss \ Burberry \ Coach \ La Prairie \ Piaget Cartier \ Hermes \ Ferragamo etc. to China duty free market



Driving Forces of the Market

5. CDFG leads the development of China duty free industry

- **Constantly improve the operation level of the industry**
 - Initiate duty free shop expansion & renovation

2006 – 2010

Launched 50 shop expansion & renovation projects

- **Airport:** Guangzhou \ Hangzhou \ Shenyang \ Xiamen
Qingdao \ Nanjing \ Cheung \ Changchun etc.
- **Border:** Heihe \ Ruili \ Suifenhe \ Manchuria \ Dong Ning
Dandong etc.



Driving Forces of the Market



- **Who We Are**
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- **Driving Forces for the Market**
- **Seize the Development Opportunities**

Seize the Development Opportunities

1. Evaluating China duty free & travel retail market strategically

- **Focusing on Chinese Market and consumers**
- **Building sales network & brand popularity**

2. Increasing the inputs to China duty free & travel retail market

- **Actively participating in airport retail expansion & upgrade projects**
- **Speeding up the launching of new products**
- **Increasing the marketing efforts**
- **Granting more favorable supply and retail price privileges**

Seize the Development Opportunities

3. What are the future development opportunities

▪ **Haitang Bay Duty Free Complex — the future of offshore duty free**

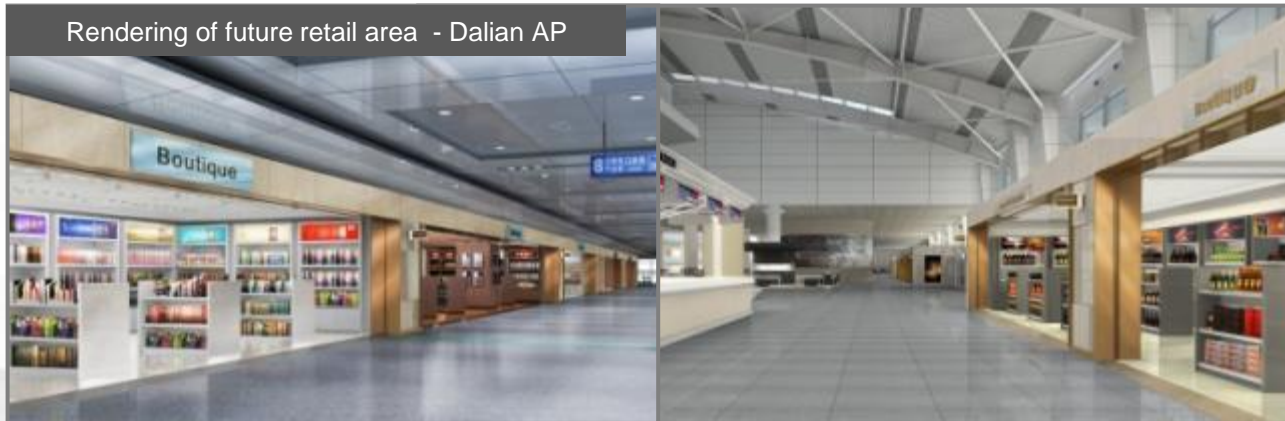
- Project: the world's largest duty free complex
- Location: Haitang Bay, Sanya
- Area: Total - 350,000m² Commercial -150,000m² Duty free - 95,000m²
- Components: Duty free center \ Luxury brand exhibition center \ Designer Hotel \ Catering center etc.
- Progress: Currently at the stage of project planning & design



Seize the Development Opportunities

3. What are the future development opportunities

- **Airport expansion brings business opportunities for luxury retail**
 - Aug. 2011, new int'l terminal of Dalian AP will open
 - Duty free shop: from 700m² to 1800m²
 - Domestic lounge retail upgrade: focus on introducing luxury brands



Seize the Development Opportunities

3. What is the future development opportunities

- **Airport expansion brings business opportunities for luxury retail**

- Dec. 2011, New Kunming Airport will begin operation
- China's largest airport terminal
- Duty free shop: from 460m² to 2300m² , Luxury products retail area reserved in domestic hall



Seize the Development Opportunities

3. What is the future development opportunities

- **Airport expansion brings business opportunities for luxury retail**

List of Airports with Expansion & Reconstruction Plan 2011-2015

Chongqing Airport	2011	The terminal will be increased from 103,000 m ² to 160,000m ²
Xi'an Airport	2012	New T3 terminal will be put into use
Chengdu Airport	2012	The new terminal of 290,000 m ² will be built
Shenzhen Airport	2013	The domestic departure hall will be expanded
Shenyang Airport	2013	The terminal of 200,000 m ² will be built
Tianjin Airport	2013	The terminal of 250,000 m ² will be built
Shenyang Airport	2013	The terminal of 200,000 m ² will be built
Nanjing Airport	2013	The 2 nd terminal of 200,000 m ² will be built
Guangzhou Airport	2014	The 2 nd terminal of 531,000 m ² will be built
Changchun Airport	2014	The terminal of 73,000 m ² will be built
Yantai Airport	2014	The terminal of 98,000 m ² will be built
Beijing Airport	2015	The 2 nd airport will be built, annual throughput reaching 80 million
Wuhan Airport	2015	The 3 rd terminal of 290,000 m ² will be built

Seize the Development Opportunities

3. What is the future development opportunities

- **High-speed railway — A new way to travel & a new market**

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- High-speed railway: timely + safe + economical
No fasten seat belt & No flight delays
 - Example: Beijing - Shanghai
5 hours by high-speed railway VS 2 hours by plane
Train ticket fare is 1/2 that of an air ticket
 - Prediction: 2011 throughput - 308 million
Equivalent to 50% of domestic aviation market
 - Market: a brand-new travel retail market

What will the future market be?



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Thank You!

**Charles Chen - Vice President
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