

# Mainland China and HK Luxury Market Insights: “Retrieve customer values for growth and sustainability”

February, 2023





# Content

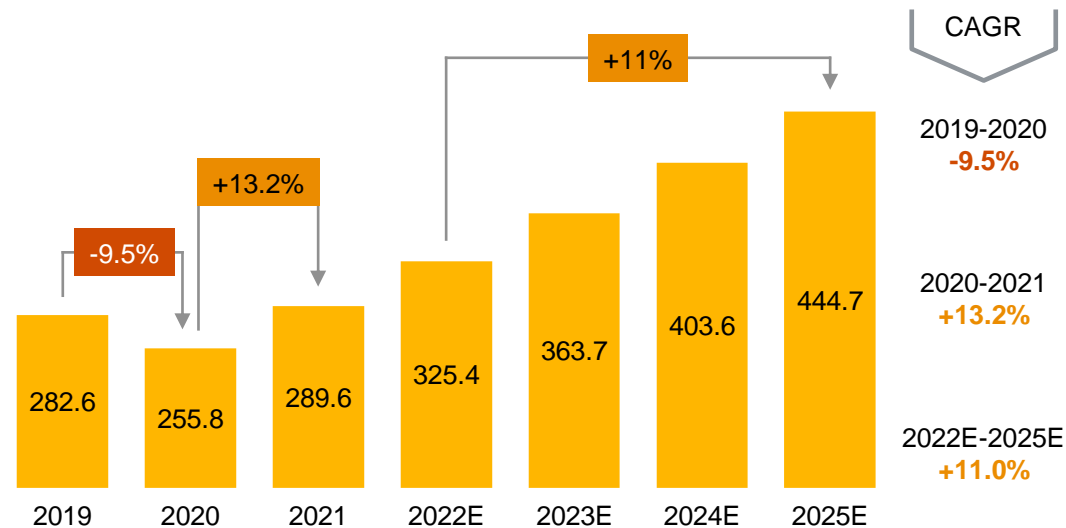
## 1 Global Luxury Market

## 2 Mainland China and Hong Kong Luxury Market

## Overall Luxury Market Outlook:

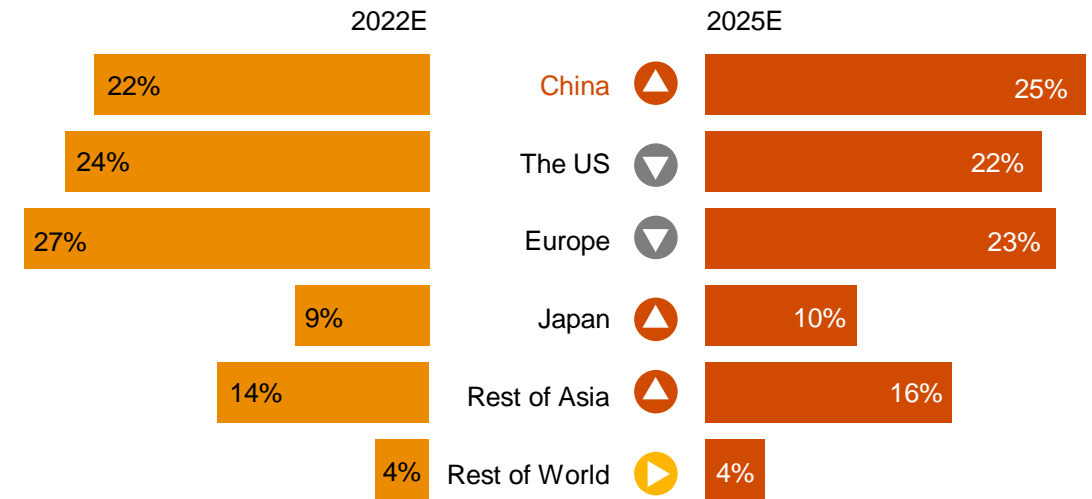
Global market is recovering as traveling and socialising have resumed progressively and even exceeding the pre-pandemic level

Global Luxury Market Size (\$ billion)



- **Global luxury market:** has grown back and exceeded the pre-covid level as luxury brands become more inclusive by expanding their products to a **broader consumer base and new sales channels**
- **The US & EU markets:** led the global growth with strong recovery driven by **resonant consumer desire** for socialization and consumption in 2022

Luxury Market Share by Region

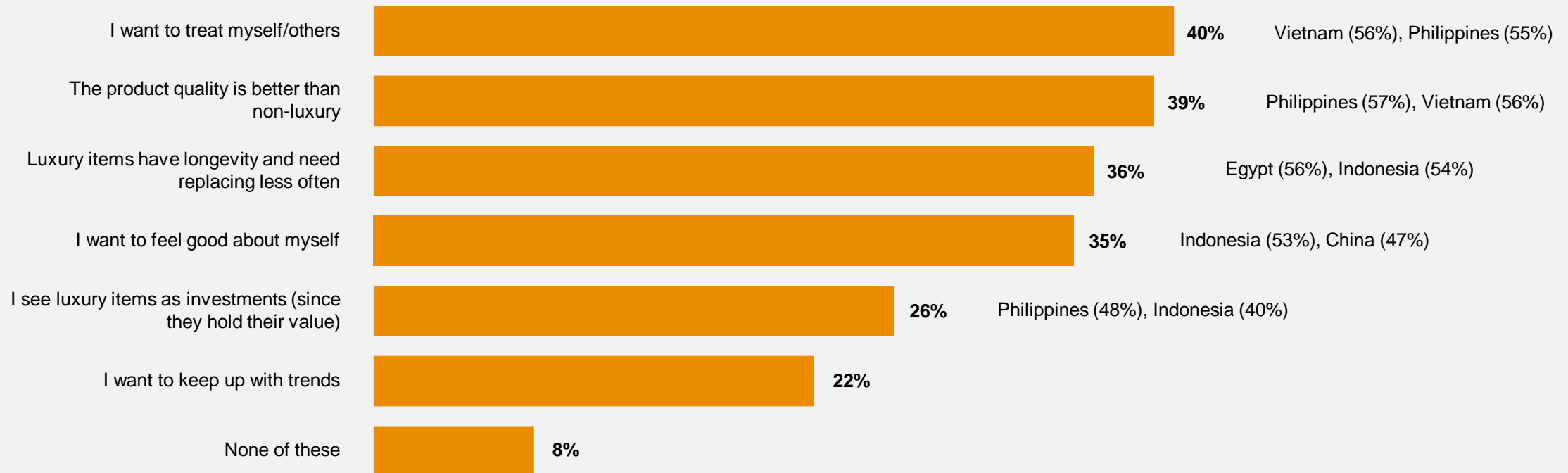


- **APAC region:** was impacted by the lock down of China in 2022 H1 and prolonged COVID-19 restrictions in H2, and **growth rate slowed down, but still has unleashing potential** due to the higher internet penetration, social media exposure and increasing consumption power of young generations

## Overall Luxury Market Outlook:

There is still appetite for future spend on luxury or designer goods in order to treat ones or others and the perception of better quality

### Reasons for buying luxury or designer products <sup>1)</sup>



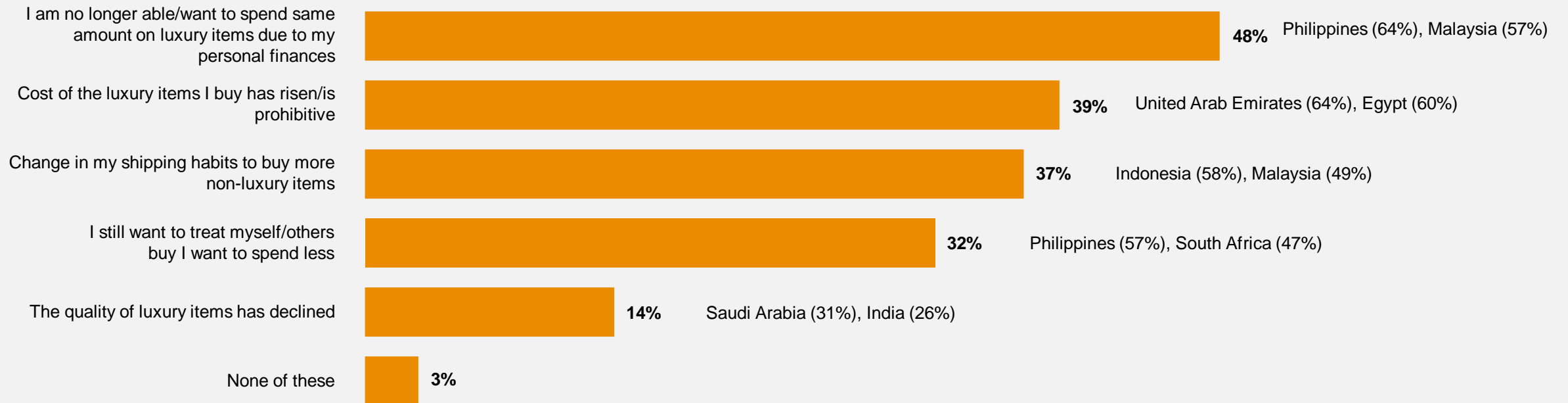
Notes: Base - Those who are going to spend money on luxury or designer products (7,071)

Source: PwC Global Consumer Insights Survey – Pulse 5

## Overall Luxury Market Outlook:

Personal finances and rising costs of luxury items are primarily why consumers plan to spend less on luxury goods

### Reasons for reducing spend on luxury or designer products <sup>1)</sup>



Notes: Base - Those who are going to spend less money on luxury or designer products (3,762)

Source: PwC Global Consumer Insights Survey – Pulse 5

## Global Waves Influencing China Market:

### Inclusive, Integration, Circularity and Metaverse

#### Global Forward Looking Waves Influencing China Luxury Market

1

##### High Net Wealth Individuals remain the key of luxury

- **HNWIs**: mainstream with less economic impact and **increasing consumption**
- Prefer: **Exclusivity, Scarcity, Value preservation & Mystery**

2

##### Diversified Offerings and DTC Transformation

- Offerings: Targeting **broader** customer by the **expansion** of product & service portfolios
- DTC: **Integration & Partnership** to enhance consumer experiences

3

##### Promote Sustainability, Transparency & Circularity

- Value Chain: Promoting **Traceable & Sustainable** value chain
- Circularity: Encouraging **Resale, Recycle, Rental and Shared model**

4

##### Metaverse & High-tech to reinvent customer journey

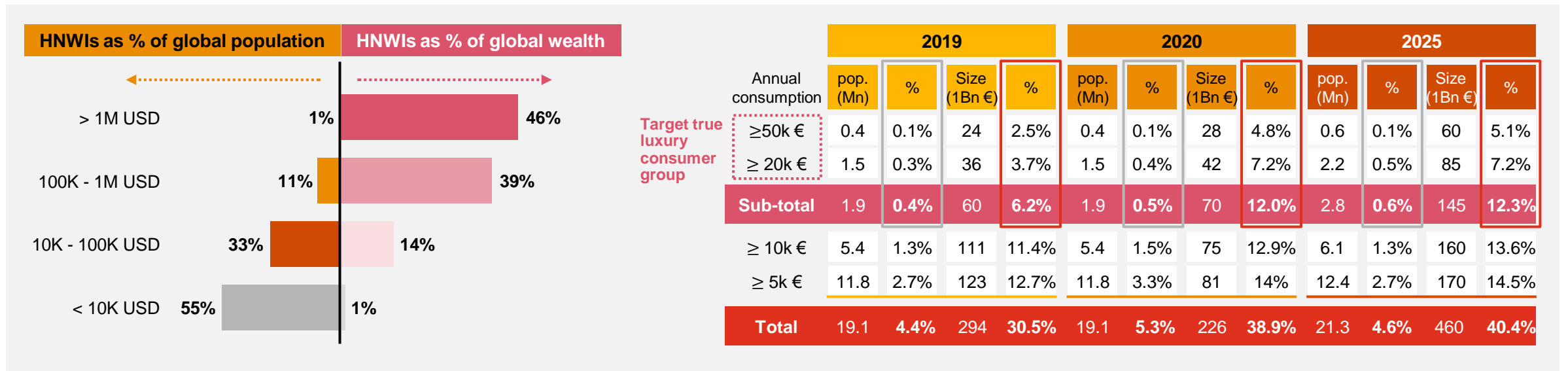
- Immersive: Consumer engagements **by Metaverse & high-tech innovation**
- NFTs: **Touchpoints of younger generations**

1 HNWI's are less vulnerable to economic fluctuation, with a stabler structure and increasing consumption level, accounting for ~46% of the global wealth

**HNWIs have more consumption power and willingness to purchase luxury goods, and are growing fast and steadily globally**

- **HNWIs** <sup>1)</sup>: Total wealth of HNWIs reached USD **1,916 bn** in 2020 globally, increasing by **4 times** compared with 2000

- **Mainstream: HNWIs** are less vulnerable to the economic cycle and may contribute **~40%** of the total global luxury market consumption in 2025 in estimation
- **Mass luxury goods consumers:** due to the economic impact and personal income declining, the overall consumption of this group **dropped to 355 bn Euro with YoY decrease of 47% in 2020**



Notes: 1) HNWI: high net worth individuals, with personal wealth > 1M USD  
 Source: Euromonitor, PwC analysis

## 2 The underlying meaning of luxury is being disrupted and brands are targeting broader customers by offering more flexible and customized products & services

### Expand product lines to attract younger customers

LVMH keeps investing in high-street fashion brands:

- 2021.7, acquired majority stake in Off-white
- 2022.1, acquired minority stake in New-York based label Aimé Leon Dore

Gucci has launched a series of collaborated collections:

- Gucci x Adidas
- Gucci x the North Face
- Gucci x Doraemon

.....

### Create affordable product & service options

Hermès launched a skincare and **cosmetics line** in 2020, with much cheaper prices than leather products

LVMH invested in HEAT & launched '**mystery box**', offering affordable & desirable products (Loewe / LV and fashionable brands) at fixed price<sup>1)</sup>

### Innovate DTC model by integrating digital technology

Burberry partnered with Apple to develop "**R message**" App to directly improve personalized communication

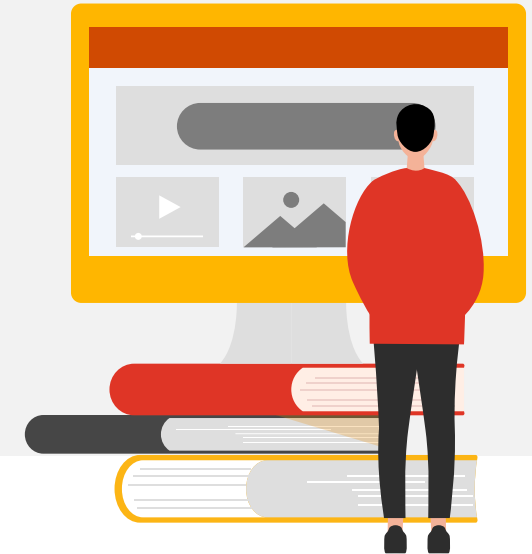
Chanel launched a "Lip scanner" App, allowing customers to use cellphone camera to identify a color and then match a Chanel's lipstick **by AI**

Notes: 1) e.g. 499 RMB – 2,599 RMB

Source: Brands' annual reports, Official websites, PwC analysis

### Key Implications:

- **Be more inclusive: to broader audience in addition to the excessively wealthy class**
  - Like 'buy-now-pay-later' service at check out
- **DTC: to enhance accessibility and consumer journey experience**
  - Consolidation, integration & partnership





### 3 Sustainable development & circularity are two key trends with luxury brands' increasing awareness to avoid risks and questionable actions along the value chain

#### Promote sustainability and traceability

- **Luxury brands:** are actively **prioritising sustainability along the entire value chain**, covering sourcing, production, operations, usage etc.
- **Luxury consumers:** are more willing to **accept and pay premium price for sustainable products and concepts**

**70%** **Carbon Emission Upstream**, e.g. materials, mfg. etc.

**30%** **Carbon Emission Downstream**, e.g. retail, logistics, usage etc.

**66%** **Consumers** Consider **sustainability** when buying luxury goods

#### Customer Attentions:

Resource Consumption

Pollution

Animal Welfare

Fair Treatment

Source: Brands' annual reports, Official websites, PwC analysis

**Prada** pioneered the movement to go **100% fur-free** in response to the Humane Society's campaign in 2020

**Hermès** launched a **mushroom leather-based version** of its classic Victoria handbag, available to buy in 2021

**Kering Material Innovation Lab** is developing 100% natural & non-toxic biodegradable **dyeing substitute solution**

**LVMH** launched NONA SOURCE, in 2021 to **resell high-quality fabrics & leathers in stock at competitive prices (up to 70% discount)**, to encourage **creative re-use** of materials

#### Close sustainable value chain with Circularity

- **Circularity:** trigger **resale, recycle, rental and shared** market with great growth potential
- **Global second-hand luxury market:** expected to increase by **CAGR of 13%** from 2021 to 2027

- **Gucci** partnered with The RealReal to launch an online shop, **only featuring second-hand Gucci items**
- For each Gucci order completed through The RealReal, the NGO named 'One Tree Planted', as The RealReal's partner, will plant a tree for the customer

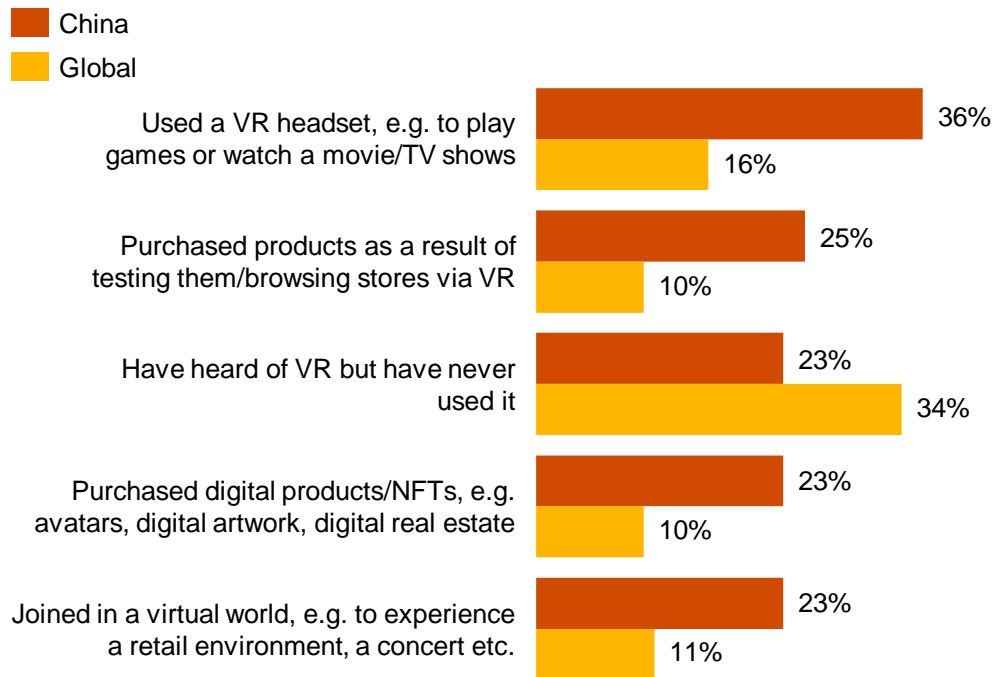
**Valentino** launched Vintage services in 2021, which allows customers to **resell items for credit** and further use the credit to purchase new Valentino collections at flagship stores

- **Richemont** entered **pre-owned** timepieces business by opening Watchfinder e-store on Net-A-Porter & Mr. Porter
- Customers can get personalized advice and services from **watch specialists**

## 4 Luxury brands are competing to leverage Metaverse and innovative technologies to enhance and even overturn consumer experiences

- Leading luxury brands pioneer metaverse via customized digital connections to market themselves and enhance loyalty effectively
- Consumers are more receptive to using the metaverse to experience, engage with, or discover brands and products

### Customer Survey: How to engage with virtual reality



Source: Brands' annual reports, PwC Global Customer Survey; PwC analysis

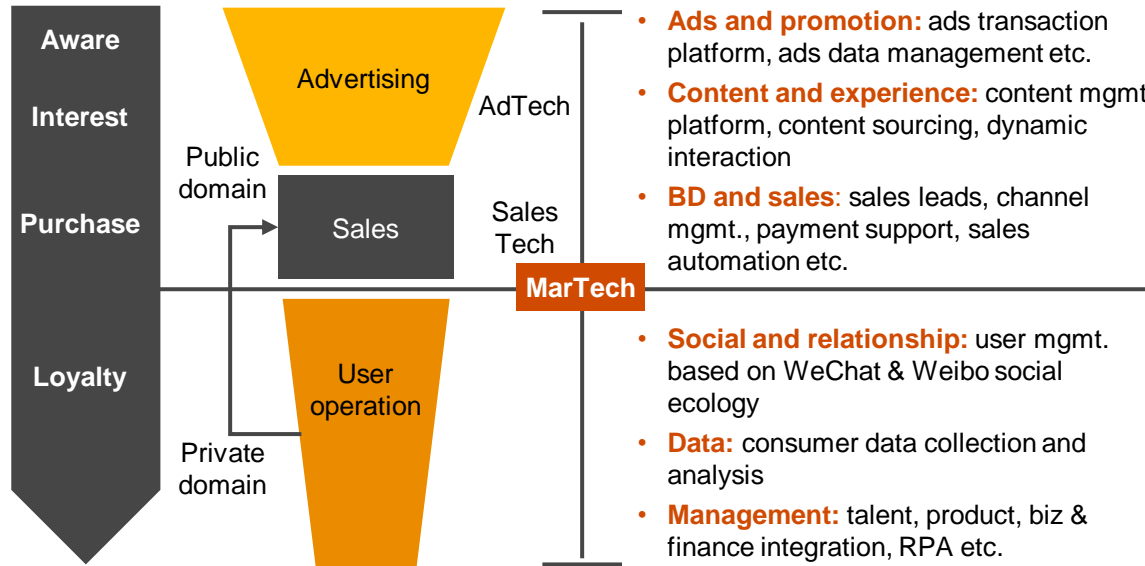
### Functions of Metaverse



## 4 Tech-driven marketing decisions become a core competitive advantage

and rapid changes in consumers' purchasing behaviour catalyse development of MarTech

In the AIPL marketing closed loop<sup>1)</sup>, MarTech covers the entire marketing value chain



- **Ads and promotion:** ads transaction platform, ads data management etc.
- **Content and experience:** content mgmt. platform, content sourcing, dynamic interaction
- **BD and sales:** sales leads, channel mgmt., payment support, sales automation etc.
- **Social and relationship:** user mgmt. based on WeChat & Weibo social ecology
- **Data:** consumer data collection and analysis
- **Management:** talent, product, biz & finance integration, RPA etc.

- **Core of MarTech: Marketing Transformation**, i.e. to support marketing decisions, and ultimately achieve business growth
- **Core competency:** The ability to implement **omni-channel, all-scenario and full-link marketing solutions**

### MarTech Application<sup>2)</sup> Recommendation

1

#### MarTech application matches enterprise development

- Gradually improve digital marketing capabilities based on readiness

2

#### Selection of MarTech service providers

- **Criteria:** Successful cases, technical functions & pricing
- **KSF**<sup>3)</sup>: Learn from top MarTech providers & leading practices

3

#### Adaptation of internal teams

- E.g. eliminate CMO and replace it with CGO (Chief Growth Officer), **integrating** marketing, user service & product strategy

4

#### Data security and privacy protection

- Focus on **content creation**, customer experience & channel management
- Meet regulation compliance and balance data security & authenticity
- Enhance **consumer data privacy protection**

Notes: 1) AIPL: Aware – Interest – Purchase – Loyalty; 2) The user teams of MarTech products include marketing, sales, strategy department, etc. The communication and feedback among these departments make the concept of "data-driven growth" possible; 3) KSF: key success factor

Source: PwC MarTech

A woman with dark hair, wearing a black dress and large earrings, is looking at a display case filled with various pieces of jewelry, including necklaces, bracelets, and rings. She is holding a wooden handle of the display case.

# Content

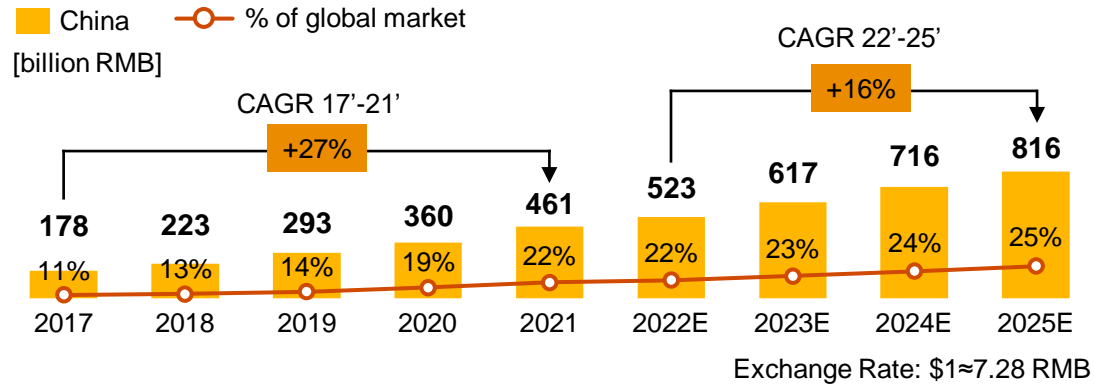
## 1 Global Luxury Market

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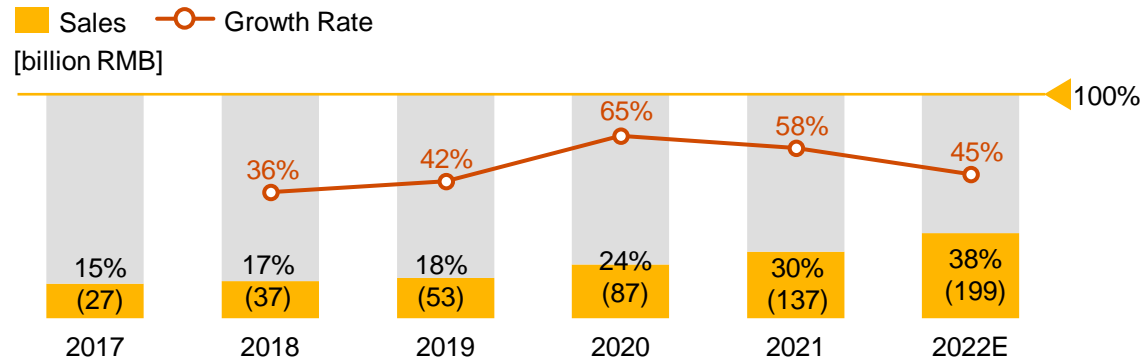
# China Luxury Market Outlook:

In 2022, China luxury market growth slowed down, however the market is expected to regain with pandemic-enhanced opportunities

## Market Potential: CAGR will be 16%+ from 2022E-2025E

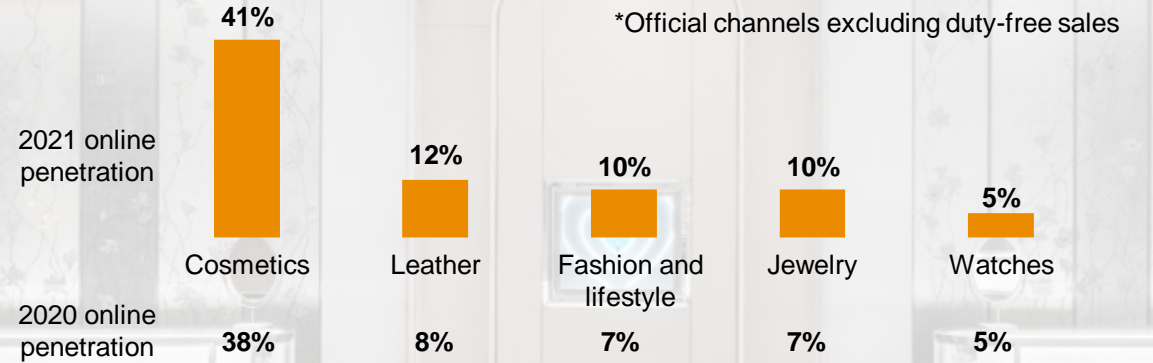


## China online luxury market size keeps increasing

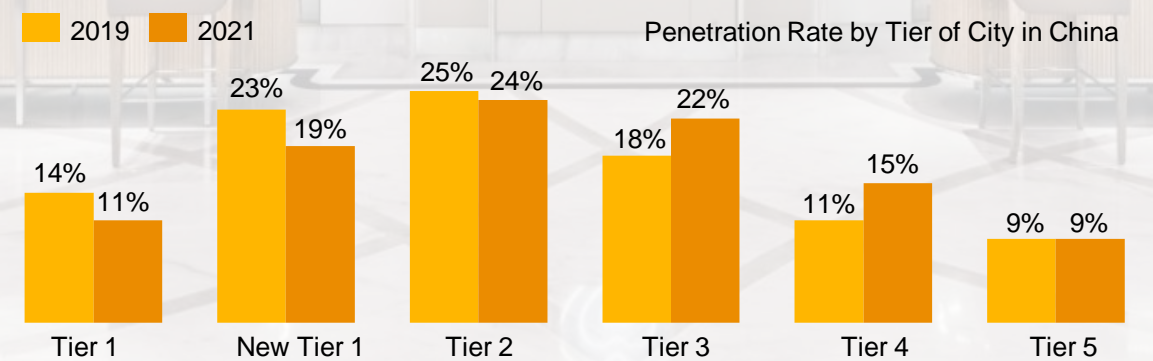


Source: Euromonitor, Frost & Sullivan, Desktop research, PwC analysis

## Most luxury categories still have low online penetration rate



## Luxury market penetration rate in lower tier cities is growing



## China Luxury Market Trends:

Younger generations, Chinese traditions,  
Increasing online penetration and Duty-free market deployment

### China Forward Looking Luxury Market Trends

1

**HNWIs & Post 90s are dominating China market**

- **HNWIs:** Key focus with strong consumption power
- **Post 90s:** New wave include Gen Z & future Alpha, prefer **socialisation, individuality, novelty & self-achievement**

2

**China becomes a key market for major luxury brands**

- **Chinese festival-oriented** new products & limited editions launching
- Customized/localized offerings **with traditional Chinese culture**

3

**Luxury brands are accelerating online journey**

- Channel: brands **accelerate** digital transformation and online deployment
- Product: **traffic products** as major categories, like cosmetics & fragrance

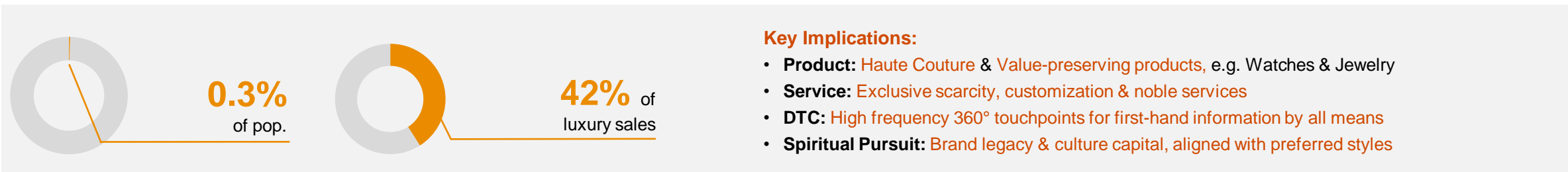
4

**Duty-free channel is a key growth driver for Luxury**

- **Duty-free channel:** breaks new ground for luxury
- **Hainan:** attractive as a promising **duty-free channel to ignite new growth engine** for luxury brands in China

# 1 Mainland China - HNWI<sup>2</sup>: The True Luxe prefer to invest in premium luxury products, with AGR<sup>1</sup>) of ~25%, valuing exclusivity, scarcity, distinction and mystery

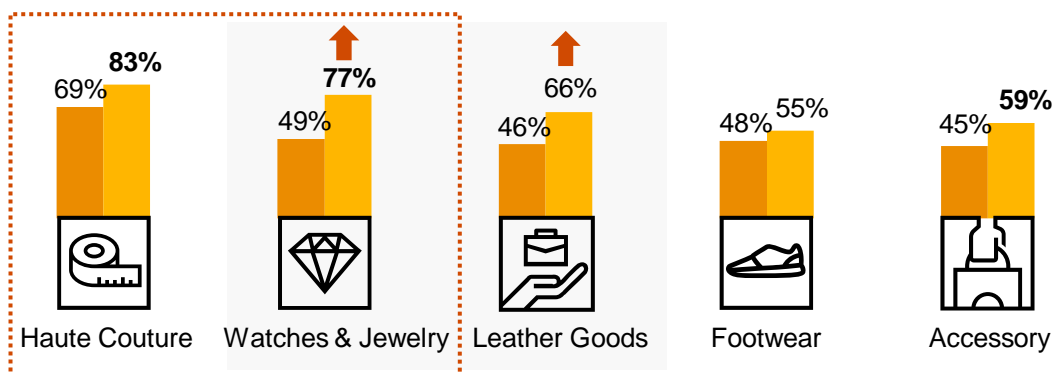
## China True Luxe<sup>2</sup>) Preference and Opportunities



## Category: Haute Couture and Watches & Jewelry

### 2021 Luxury Penetration of True Luxe

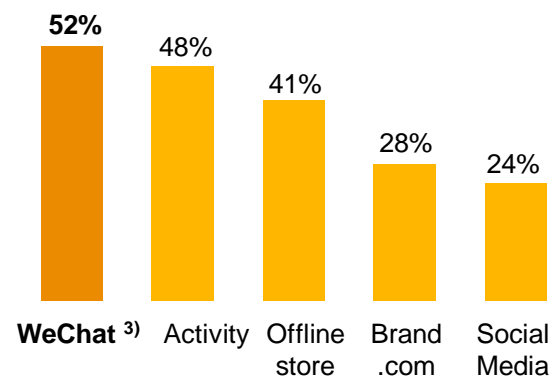
■ Avg. 
 ■ True Luxe 
 ↑ YoY Pen.% increases 5%+



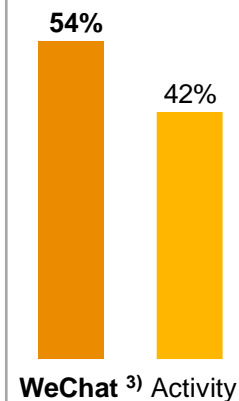
## Service: Exclusive, 360° Touchpoint, Distinctive

### Discover & Research

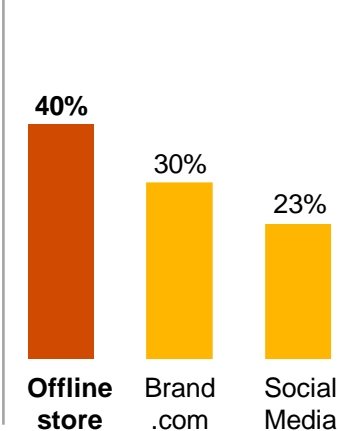
[% of respondents<sup>4</sup>]



### Compare



### Purchase



Note: 1) Annual growth rate; 2) Net wealth > 10M RMB; 3) TMI Survey Results: Including official account, mini program and sales assistants comm.; 4) TMI Survey Results: N=4700

Source: Desktop research, TMI 2021 Luxury Consumer Survey, PwC analysis

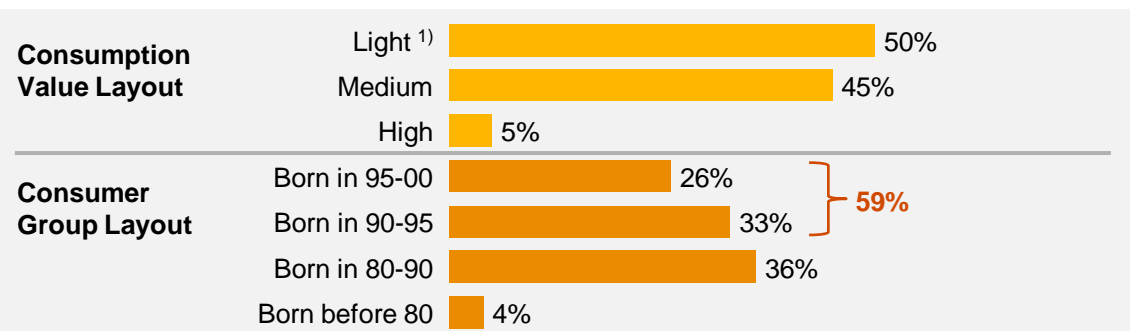
# 1 Mainland China - Post 90s: Become the rising contributors to China's luxury market, and brands incorporate more diversified designs and Chinese culture to meet their preferences

## “Socialisation”, Individualism”, “Ever-shifting” and “Self-reward”

- **Prefer:** Self-reward, social, avant-garde & extreme novelty
- **Light luxury consumers:** Become the focus of traffic competition
- **Outdoor Social Events:** Sports / technical apparels, e.g. Arc'teryx



## Post-90s including Gen Z, accounting for ~59% of China's Luxury Incremental Market

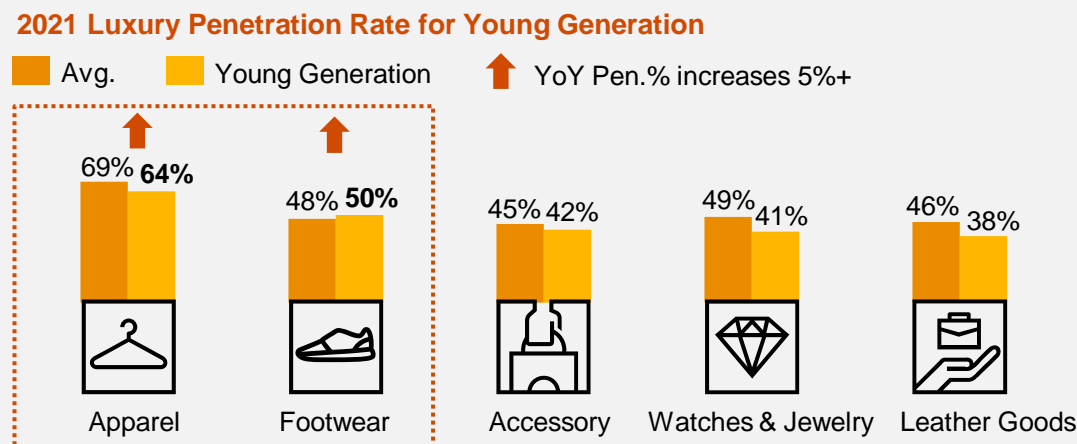


Notes: 1) Light: annual consumption value less than RMB 50,000; Medium: RMB 50,000-300,000; High: > RMB 300,000  
Source: PwC analysis

## Luxury designs become more tailored to young people's preferences

- **Product:** Apparel & footwear signify personality, demonstrating “He” economy
- **Promotion:** Enhance brand mkt. with socialization scenarios to maximize traffic, and “fashionable Chinese style” is favorable, esp. for Gen Z
- **Channel:** Drive disruption by both online innovation & novel offline popups

## Category: Apparel & Footwear Signify Individualism



Moncler & POP MART, featuring MEGA COLLECTION 1000% SPACE MOLLY X Moncler

Gucci's collaboration with Chinese IP Marsper

Pandora introduced koi (锦鲤) charm



## Mainland China - Luxury brands value China market and leverage Chinese festivals and traditional culture as unique Strategy to compete in the market

### Chinese festivals and traditional culture become the moment to win market share and consumer preferences

- **Chinese festivals:** Global limited editions/first launch and China tailor-made products
- **Chinese traditional culture:** Embed the concept/story into brands & services to win Chinese consumers
- **A promising consumer base:** Active, young and large with great consumption power, which is attractive for Luxury brands to win the market

#### Distinct Charm of traditional Chinese culture is referred by luxury brands

- LVMH launched CHA LING, integrating Chinese tea and French skincare & incorporating traditional Chinese medicine theories and offered massage & scraping in stores
- Historical West Sichuan architecture style with Tiger Installation, incorporating fine art, designed furniture and local culture into store display and new products

#### Luxury brands are active in marketing activities around Chinese festivals to gain market presence with positive brand value and image advocated by the country

##### Online Branding & Marketing

- Tmall luxury pavilion<sup>1)</sup> engaged with luxury giants like LVMH, Kering, Chanel, etc. to launch an average of over 30k new products every month since 2021
- In 2022 Qixi festival, luxury brands launched more than 800 Qixi Festival-limited new products on Tmall Luxury Pavilion

##### Offline Celebration

- Chanel opened No.1 Red Camellia series theme flash store in Shenzhen, 2022
- Bottega Veneta displayed “Happy New Year” on the Great Wall in 2022
- Vacheron Constantin limited watch, inspired by Chinese traditional clothing



Bogner participated in Tmall Luxury “Double 11” in 2022, first time  
 Dior 2022 Qixi Limited: constellation Collection  
 Bogner: prestige skiing luxury brand

Notes: 1) the mainstream online luxury channel in China

Source: Official websites, PwC analysis

### Accelerate digital transformation and online journey

- **Pricing:** Optimise **price coverage and product drainage strategy** to improve users' Lifetime Value contribution
- **Category:** Premium luxury brands (e.g. Hermès, Chanel etc.) start with **fragrance & cosmetics categories** on EC as **traffic products**

Brand	Official Website	WeChat mini program	JD.CO M	Tmall Luxury	Launch in Tmall
Hermès	√	√	*	○	2021/01
LV	√	√	√	X	
Chanel	○	○	*	○	2019/08
Gucci	√	√	*	√	2020/12
Burberry	√	√	*	√	2019/04
Prada	√	X	*	√	2020/03
Balenciaga	√	X	*	√	2020/05
Givenchy	√	√	*	○	2018/03
Jimmy Choo	√	√		√	2021/09
Saint Laurent	√	√	*	√	2021/02
Dior	√	√	*	○	2020/05
Prada	√	X	*	√	2020/03

√: all categories ○: only Fragrance & Cosmetics \* : JD self-operation

Source: PwC analysis

### Brands have differentiated product layout on different online channels

- **Over 200+** luxury brands have entered Tmall Luxury Pavilion <sup>1)</sup>, due to the **large traffic**, mainly selling **cosmetics and apparels**
- **Farfetch** attracts **Niche brands**, but commission (~30%) & bargaining power is high
- In 2021, Farfetch entered Tmall Luxury Pavilion, in partnership with Alibaba & Kering

Parameter	Tmall Luxury Pavilion	Farfetch
Source and GMV contribution	<ul style="list-style-type: none"> <li>• Tmall self-operation + brand direct operation: 60-70%</li> <li>• Other channels: 20%-30%</li> </ul>	Supplied by buyer's shop
Product type GMV contribution	<ul style="list-style-type: none"> <li>• Baggage: ~50%</li> <li>• Apparel: 20%+</li> <li>• Shoes: 10%+</li> <li>• Watches and accessories: 10%+</li> </ul>	<ul style="list-style-type: none"> <li>• Apparel: 50%</li> <li>• Shoes: 20%</li> <li>• Baggage: 16%</li> <li>• Accessories: 5%</li> </ul>
# of users	Covering ~280M consumers	MAU ~500K
Target consumer profiling	<ul style="list-style-type: none"> <li>• Mainstream: Fashion + light luxury users</li> <li>• Over 50% are 25-35 years old, in Tier1 &amp; 2 cities</li> <li>• Female are over 70%</li> <li>• Gen Z has outstanding growth rate</li> </ul>	<ul style="list-style-type: none"> <li>• MC users avg. age: ~33.2</li> <li>• &lt;30 years old is 35%</li> </ul>
ATV <sup>2)</sup>	<ul style="list-style-type: none"> <li>• Fashion + light luxury users: 2k-3k RMB</li> <li>• Premium luxury users: ~6k RMB</li> </ul>	<ul style="list-style-type: none"> <li>• Overall: US\$770 (Y19)</li> <li>• PC users: US\$901 (Y19)</li> </ul>
Purchase frequency	<ul style="list-style-type: none"> <li>• Overall: 1.3 times</li> <li>• No apparent differentiation among groups</li> </ul>	<ul style="list-style-type: none"> <li>• Overall: 3.3 times (Y19)</li> <li>• PC users: 58.6 times</li> </ul>

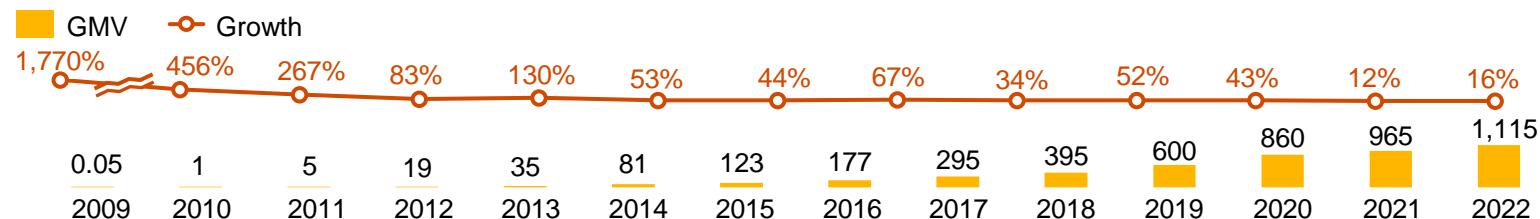
Notes: 1) the major online luxury channel in China; 2) Average Transaction Value

## Mainland China - 2022 'Double 11': Tmall ranked the first in the transaction EC<sup>1)</sup> platforms and TikTok ranked the first in the livestream platforms

### 2022 'Double 11' from 20:00 Oct. 31 to 23:59 Nov. 11, total GMV reached 1,115.4 billion RMB

- **T-mall:** Did not announce the 2022 'Double 11' GMV officially, but claimed that it is almost the same as that of last year (540.3 billion RMB in 2021)
- **T-mall:** The most diversified year with 290k+ brands, millions of merchants & KOLs participation and more than 21 million commodities
- **JD:** Did not announce the 2022 'Double 11' GMV either, but indicated positive increase over last year

### 2009-2022 'Double 11' GMV [billion RMB]



### 2022 'Double 11' Top 10 Categories by GMV

Household & Personal Care ▶ 51.4%	Furniture ▶ 32.6%	Maternal & Infant Care ▶ 19.0%
Apparel & Footwear ▶ 51.1%	Appliance ▶ 31.6%	Healthcare ▶ 18.8%
Food & Beverage ▶ 46.9%	Education ▶ 24.4%	Mobility ▶ 15.4%
Beauty & Skin Care ▶ 43.5%	Pet Supplies ▶ 20.2%	

### 2022 'Double 11' GMV by Platform Category

Integrated E-Commerce <sup>2)</sup>	Live-Stream E-Commerce	New Retail	Community Group Buying
934.0 bn RMB	181.4 bn RMB	21.8 bn RMB	13.5 bn RMB

Notes: 1) E-commerce; 2) Tmall: 58.03% of total GMV of integrated transaction platform

Source: PwC analysis

**T-mall 'Double 11':** 200+ Luxury brands participated with 100k+ new products launch

- **Category:** Incl. luggage, apparel, jewellery, cosmetics etc. as popular categories and limited, customised, co-branded, special and new product series
- **New Joiner:** Brunello Cucinelli, Messika and Bogner (prestige skiing brand) participated in Tmall 'Double 11' for the first time
- **Promotion:** Tmall launched 12-month interest free instalments of 200k+ products covering all categories, and 24-month for some high-end luxury products

**JD 'Double 11':** Luxury categories incl. luggage and footwear in THE J SHOP grew by 180%+ YoY

- **LVMH:** GMV of top brands, such as Bvlgari, Celine, Fendi and Loewe etc., increased by 12 times YoY
- **Other luxury brands:** GMV of 28+ luxury flagship stores, incl. Burberry, Qeelin, Bally, Coach, Marni etc., increased by 150%+ YoY

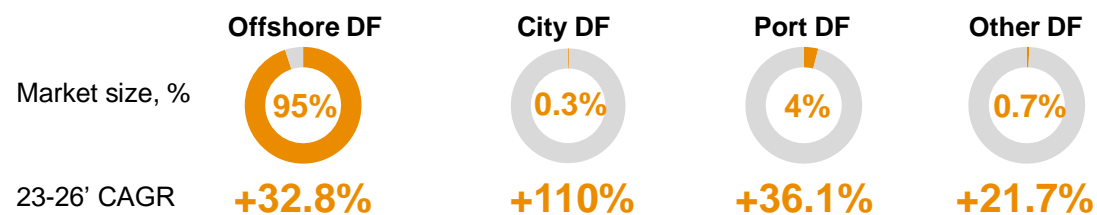
**Resale Market:** Second-hand premium luxury products also become a highlight & an opportunity

- **"Revitalization" the new fashion:** circular-fashion and sustainable consumption gradually become the mainstream of luxury consumers' life
- **Top 3 resale:** Chanel Classic Flap, Louis Vuitton Speedy and Hermès Kelly

## Mainland China - The Hainan market is strategically important for luxury brands to speed up expansion in China, due to the outstanding performance, tax advantages and business opportunities

### Hainan duty-free market is an important channel for luxury brands

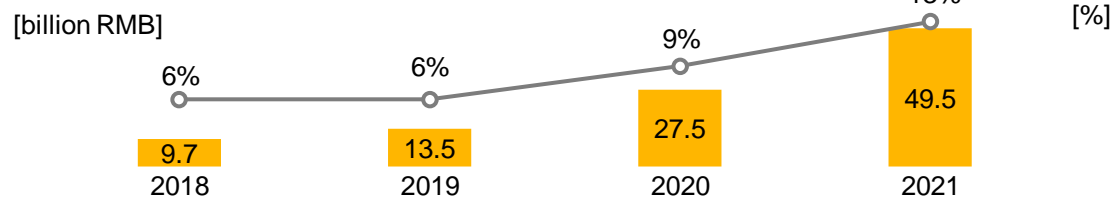
- **Duty-free channel** breaks the new ground for luxury market
- Hermès, Kering and LVMH are **accelerating expansion** in China



### Hainan Offshore Duty free Market, ~13% of China's Luxury Market

—○— Hainan Offshore Duty Free Sales Ratio of China Luxury Market

■ Hainan Offshore Duty Free



2021 Hainan offshore DF store sales reached **60B RMB**, GR of ~84%

**9.68 million** consumer purchase, GR of ~73%

~19.8% of Total Retail Sales of Consumer Goods

Source: China Customs statistics, PwC analysis

### Hainan duty-free market is an important channel for luxury brands

- After the closure operation of the whole island in 2025, **categories not included in the catalogue** of imported taxable commodities are allowed to be imported through Hainan free trade port **with exemption from tariff**

Taxes <sup>1)</sup>	General import and retail	CBEC	Duty-free retail	Personal items direct mail
Import tariff	√	Exempted under quota		
Import consumption tax	Part of high-end consumer goods	√		
Import VAT	√	√		
Personal postal articles tax				√
VAT in circulation	√			
Franchise fee for duty-free goods			√	
Consumer consumption limitations	Unlimited	5,000 per transaction, RMB 26,000 per year	Quantity limitation for categories, 100,000 / year	RMB 1,000 per package

**Largest tax advantage**

Notes: 1) Only major taxes are considered in the analysis

## Objectives in Master Plan

### From 2020

- Publish a Master Plan on 1 June
- Launch establishment and early arrangement of FTP

### By 2025

- Harvest early achievements from free and convenient trade and investments

### By 2035

- New Height of China's opening to the World
- Free & convenient flow of trade, investment, cross-border capital & transportation

### By 2050

- A high-level FTP with strong global influence in all respects
- Secure and orderly data transfers

## Major Priorities



### Free Flows

- Free and convenient flow of Trade, Investment, Cross-border Capital, People and Transportation



### Independent Customs Operations

- Free flow through the First Line, and efficient control at the Second Line



### Fully Authorized by Law

- Most simplified tax system with low tax rates



### Secure and Orderly Data Transfers

- Launch pilot projects on security management of cross-border data transfers

## Encouraged Industries



### CPR 1)

- ▶ Tax Free Quota up to RMB100,000 / person / year



### TMT

- ▶ Relax limitations for foreign investment



### Financing

- ▶ Reform policies on cross-border securities investment and financing flexibility



### Modern Services

- ▶ RHQ / shipping services / professional services



### HNT

- ▶ Build Smart Hainan



### Offshore Trading

- ▶ Replace bank pre-audit with post-audit



### Transportation

- ▶ More relaxed shipping administration



### Tourism

- ▶ International tourism and consumption center

## Mainland China - Tax policies at the Hainan Free Trade Port is beneficial to both corporate business and individual talents development

Tax Category	Before 2025		Before 2035	
	Taxpayer / Taxable Activities	Preferential Policy	Taxpayer / Taxable Activities	Preferential Policy
Corporate Income Tax ("CIT")	Enterprises in Encouraged Industries with <b>registration and substantial operation record</b> in Hainan FTP	Reduced rate as of <b>15%</b> levied since 1 June 2020	Enterprises in industries that are <b>not negative listed</b> , with registration and substantive operation in Hainan FTP	Reduced rate as of <b>15%</b> levied
	Enterprises in <b>Tourism, Modern Service</b> and <b>High-tech industries</b> set up in Hainan FTP	Tax exemption for income from newly increased overseas direct investment		
	<b>All</b> Enterprises in Hainan FTP	Capital expenditures allowed to <b>fully deducted</b> from taxable income or depreciated and amortised at accelerated speed		
Individual Income Tax ("IIT")	<b>High-end</b> and <b>urgently-needed</b> talents working in Hainan FTP	Tax exemption for factual tax burden over <b>15%</b> tax rate	Individual resided in Hainan FTP for an aggregate of <b>183 days or more</b> within a single tax year	Progressive Tax Rates as of <b>3%, 10% and 15%</b> levied
Tariff	(Before port closure and taxation simplification) Imported production equipment for <b>own use, excluding</b> prohibitive import and non-exemption goods	Import duties, import value-added tax and consumption tax will be exempted	(After port closure and taxation simplification) <b>All</b> of the imported goods, <b>excluding</b> import taxation list	Import duties will be exempted



- **Simplified taxation system - Simplify and combine VAT, consumption tax, vehicle purchase tax, urban maintenance and construction tax and educational surtax, while carry out sales tax on retail**

## China's PIPL Impact:

Luxury brands running business in China should assess and react to PIPL, as luxury consumers put more emphasis on privacy & information security

### Challenges & Opportunities of PIPL

#### Challenges

##### Extraterritorial applicability

- International companies located outside China & have collected or intend to collect PI from China **should assess**, and may need to **set up a special agency or appoint a representative** for data protection affairs

##### Get personal consent & regulate automated decisions

- Big data analysis for **personal behaviors, pricing** etc., will be **regulated strictly & legally used** for transparency, privacy, info. safety and fairness
- Thus, increase the challenges in **data collection & application, and automated decision-making**

##### Cross-border data transfer

Different levels of **assessments / conditions** shall be conducted/met depending on **data sensitivity & risk**, including

- a certification of personal information protection <sup>1)</sup>
- a security assessment <sup>2)</sup>
- a contract & other conditions <sup>3)</sup> applicable

#### Opportunities

##### Private domain and membership system mgmt.

Brands can build **long-term trust & relationship with consumers** to:

- **Obtain user-authorized personal information**
- Provide **membership benefits** and avoid the **big data-enabled price discrimination & misleading in marketing**

##### Optimize internal data management to avoid risks

- Organize implementation of **compliance & rectification plan**
- Determine the operation **authority level** based on information **sensitivity**
- Apply security technical measures such as **encryption and de-identification**

##### Enhance digital asset management capabilities

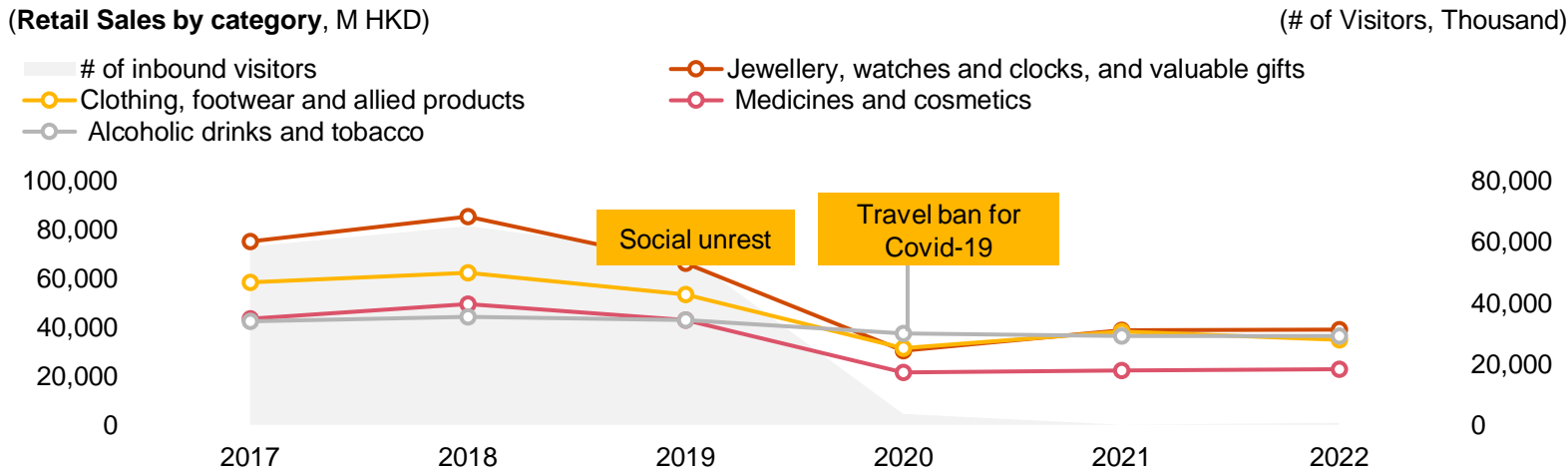
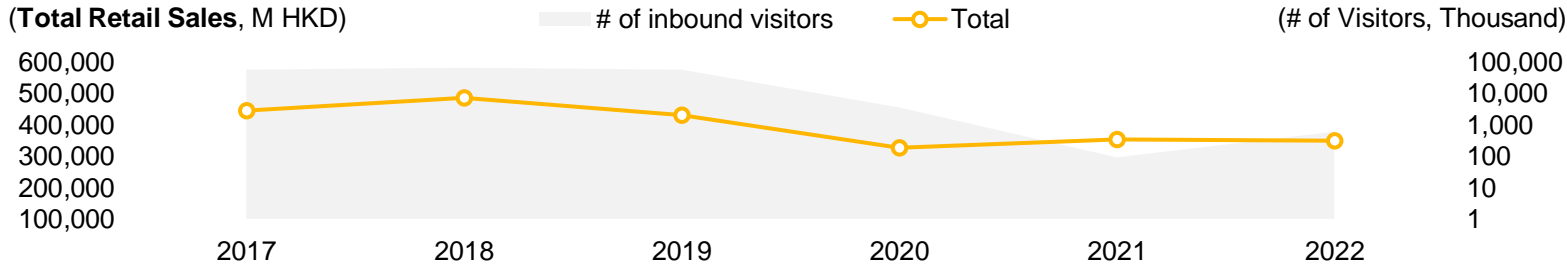
- Develop **advanced algorithm** to manage data as digital asset to maximise data utilisation

Notes: 1) certified by a professional institution; 2) organized by the national cyberspace authority has been passed; 3) prescribed by laws, administrative regulations or the authorities are met

Source: PwC PIPL analysis

# Hong Kong - Hong Kong's luxury retail landscape has been dramatically transformed over the past 3 years

**Inbound travellers declined dramatically due to social unrest and 3 years of border closure BUT local consumption managed to salvage part of the retail sales**



Source: Hong Kong Tourism Board, HKSAR Census and Statistics Department, Public Data

**In 2022, Hong Kong lost its 1st rank for most expensive commercial rent location**

**1**

**New York 5<sup>th</sup> Avenue**  
 Us\$2,000 / sqf / year  
 (+14% compared to pre-Covid)

**2**

**Hong Kong TST**  
 US\$1,436 / sqf / year  
 (-41% compared to pre-Covid)

**3**

**Milan Via Montenapoleone**  
 Us\$1,380 / sqf / year  
 (+9% compared to pre-Covid)

Over the past 3 years, HK also saw a number of multinational luxury brands (e.g. Victoria's Secret, Folli Follie) and other clothing, apparel and accessories brands (e.g. Topshop, Gap) **exited the market**, impacting the diversity of HK overall retail offering.

**From 2020-2022, USA and China have already surpassed Hong Kong to become the largest export market for Swiss watches**

**Top 3 Swiss watch exports markets**

Global ranking	2022	2021	2020	2019	2018
1	USA	USA	China	Hong Kong	Hong Kong
2	China	China	USA	USA	USA
3	Hong Kong	Hong Kong	Hong Kong	China	China



## Hong Kong - The transformation of Hong Kong's luxury market is likely to continue, as Mainland China has become a solid alternative

### Luxury brands have shifted their investment to the Mainland

- Brands have revisited their store footprints and **almost all of them downsized** the number of stores operated in Hong Kong since 2020



In 2020, PRADA closed its largest flagship store in HK



In 2021, LV closed its boutique in Times Square Causeway Bay



From 2020 to 2022, CTF closed 15% of its stores in HK but almost doubled its stores in Mainland China, with 3,100 new sales points

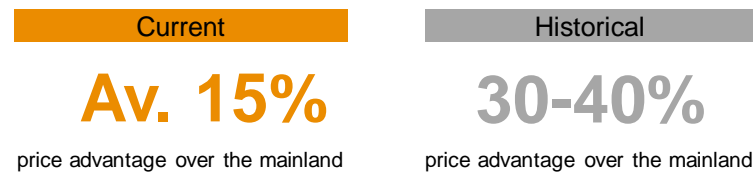
- By contrast, **brands have continued to invest in Mainland China** and **new brands** have set up over recent years in Mainland China only, bypassing Hong Kong

In 2021, **55%** of the world's new luxury brand stores **opened in China**

**16** large luxury retail projects have landed **in Shanghai**

### Price difference is reducing

- Hong Kong price difference with Mainland China has **reduced over time** (subject to currency exchange fluctuation)



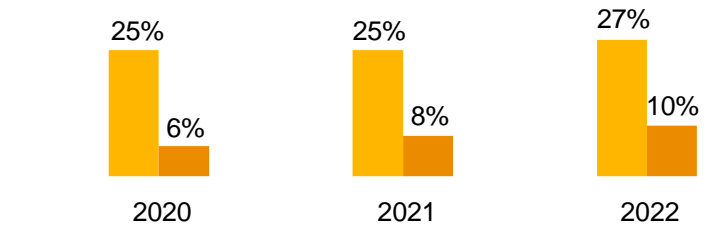
- Hong Kong pricing difference will be under **further threat once Hainan market becomes fully duty-free by 2025**

### Mainland E-commerce remains highly competitive

- E-commerce penetration is generally significantly lower in Hong Kong** than in Mainland China, even if it has increased over the past years. Luxury retail e-commerce remains very small in Hong Kong.

#### E-commerce penetration

China Mainland (Yellow) Hong Kong (Orange)



- E-commerce growth potential in HK remains weaker than in China**, due to the specific geography of Hong Kong and the ease of access to physical stores (particularly true for luxury).

# 3 Hong Kong – Hong Kong however remains in a unique position to rebound, if it changes its offering and focus

## 1. Positioning Hong Kong as a regional high-end luxury retail centre

As customer services' standards have largely been harmonised between Mainland China and Hong Kong sales' points, the focus should be more on

- 1) unique products offerings and/or products customisation
- 2) being on the forefront of the latest international trends
- 3) leveraging Hong Kong's cosmopolitan shopping experience

to cater to Asia high spenders and offer differentiation with Mainland China.



Hong Kong has however seen some very exclusive offerings and new concepts opened by existing luxury brands

E.g. 2022 Audemars Piguet Maison, Piaget "Salon"

With retail footprint continuing to expand in China, and the Hong Kong market having been resized to cater to a smaller local + tourists base, the future for offline retail in Hong Kong lies perhaps in the development of new premium flagship stores in upcoming large high-end real estate developments.



E.g. Flagship stores of premium luxury brands announced in the revamped Lee Gardens location. New World – 11 SKIES project or Central Harbourfront project also likely to represent new luxury retail development opportunities in the mid-term.

## 2. Leveraging the Greater Bay Area (GBA)

The future of luxury retail in Hong Kong will also be linked to leveraging the GBA: certain areas of Shenzhen, Guangzhou and a large part of Guangdong Province remain underserved in terms of high-end malls and points of sales, whilst customers living in the GBA are likely to continue to be attracted by Hong Kong as a shopping destination.

## 3. Develop North Asia e-commerce strategy

As the local e-commerce market will remain small, Hong Kong can however play a role to become a North Asia platform for e-commerce deployment, leveraging its geographic location to service both the Mainland and other North Asia territories in a way that cannot be properly addressed by e-commerce platforms located within Mainland China.



## E2E Supply Chain:

Greater Bay Area (GBA) is an option for D&L<sup>1)</sup> set-up for both cost-effectiveness and flexibility to balance APAC and China demands

As an alternative for logistics set-up, GBA has various distinct advantages



- Closer and more harmonious development between Hong Kong / Macao and China
- Better access to different markets especially for trade & logistics
- Various FTZ: Nansha, Qianhai, Hengqin
- Location advantages and connectivity with Hainan

More bonded ports are now under development

FTZ / FTP	Bonded Zone / Port
1 Nansha Area	• Nansha Bonded Port Area (2008)
2 Qianhai & Shekou	• Qianhai Bay Bonded Port Area (2009) • Qianhai Shenzhen-Hong Kong Commerce Trade and Logistics Town (new)
3 Hengqin Area	• /
4 Hainan Free Trade Port	• Yangpu Bonded Port Area (2007) • Haikou Integrated Free Trade Zone (2011) • Sanya Bonded Logistics Center (new) • Haikou Airport Comprehensive Bonded Zone (new)

More duty free operators set-up stores and APAC CDC in GBA

### New Duty Free Business

- China's 14th Five Year Plan proposes to expand duty free areas to other cities include GZ & SZ
- Yantian, Qianhai, Luohu district of Shenzhen proposed to build duty free shopping hubs

### Logistics Initiatives for Enhanced Flexibility among APAC and China

- CDFG announced to set up its APAC Regional CDC in Qianhai Bay Bonded Area
- A few renowned 3PLs (Li & Fung, Sinotrans Logistics) will relocate their business to the Qianhai Trade and Logistics Town

Notes: 1) Distribution and Logistics

Source: PwC analysis

## E2E D&L model design:

Setting up distribution centers (DC) in Hong Kong/GBA/Hainan will have different benefits on lead time to market, cost and business synergy

	Available D&L Model for Hainan Duty Free Business	Lead Time (Day)	Takeaways
<p>Example</p> <p><b>Model 1</b> DC in HK</p>	<p>Overseas WH → HK airport → HK DC → Sanya In-transit WH → Store</p>	<b>29</b>	<ul style="list-style-type: none"> <li>• Longest lead time</li> <li>• Higher WH cost</li> <li>• Synergy with local HK/Macau business</li> </ul>
<p><b>Model 2</b> Bonded WH at GBA</p>	<p>Overseas WH → Airport in GBA → Bonded WH in GBA → Sanya In-transit WH → Store</p>	<b>18~19</b>	<ul style="list-style-type: none"> <li>• Shorter lead time</li> <li>• Lower WH cost compared with HK</li> <li>• Synergy with GBA</li> </ul>
<p>Feasible since Aug. 2021</p> <p><b>Model 3</b> Bonded WH at Hainan</p>	<p>Overseas WH → Hainan Airport → Hainan Bonded WH → Sanya In-transit WH → Store</p> <p>Via airport in mainland China</p>	<b>16~19</b>	<ul style="list-style-type: none"> <li>• Shortest lead time</li> <li>• Hainan bonded area is still under construction, and service quality to be further assessed</li> </ul>

## Key Takeaways:

Luxury market is recovering fast from the pandemic,  
luxury brands should get ready and respond to the recovery, disruptions and new opportunities

- **Global:** Despite two years of tremendous turbulence, the global luxury market is recovering from the pandemic with more **strength, resilience** and **agility**
- **APAC:** APAC has become the **main growth engine** of global market, with **China as the main driver**. While **Korea, Vietnam and Middle East** could be the next growth point with high potential

### Sustainability

- Prioritise **ESG strategy** and **sustainable value chain**
- Create **innovative sustainable business model**
- Design and launch **green initiatives** to engage with customers



Sustainable Sourcing



Biodiversity & Eco-design Products



Transparent & Traceable operations



Sustainable Sourcing



Biodiversity & Eco-design Products

### Consumer: HNWs & Post 90s as the Focus



Diversity



Novelty



Individualism

#### Branding

- **Brand Value:** Be **distinctive, attractive & localised**
- Marketing:
  - Promote **sustainable consumption**
  - Enhance **branding with innovative scenarios** to maximise sales

#### Consumer Experience

- **Differentiation:** Demonstrate by **leading strategy, operational excellence & cutting edge tech**
- **Attractiveness:** Offer **innovative, exclusive & exceptional lifetime experiences**

#### Offerings

- **Diversified Portfolios:** Attract broader **customers** and meet **diversified preferences**
- **Culture Capital:** Fulfil **identity motivations** and enhance **emotional & spiritual pursuit**

#### DTC Disruption

- **DTC Transformation:** **directly engage** and seamlessly **react to the fast changing demands**
- **Integration:** Enhance **DTC & E2E supply chain** capabilities by consolidation or ecosystem partnership

### Digitalisation

- Accelerate **online penetration** to achieve sustainable growth
- Optimise **omni-channel mgmt.** by **distinctive & efficient** digital strategy and transformation



LV released Louis The Game



GUCCI Digital Showroom



Chanel The AR Fitting Room of the Future

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