pwc

Mainland China and Hong Kong Luxury Market:

Unlock infinite growth possibilities and sustainable value of luxurious lifestyle

April 2024

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3 Key Takeaways: Be the ‘BEST’ Luxury Brand

1

Global: Be Creative, Pioneer as a 'VICTOR'

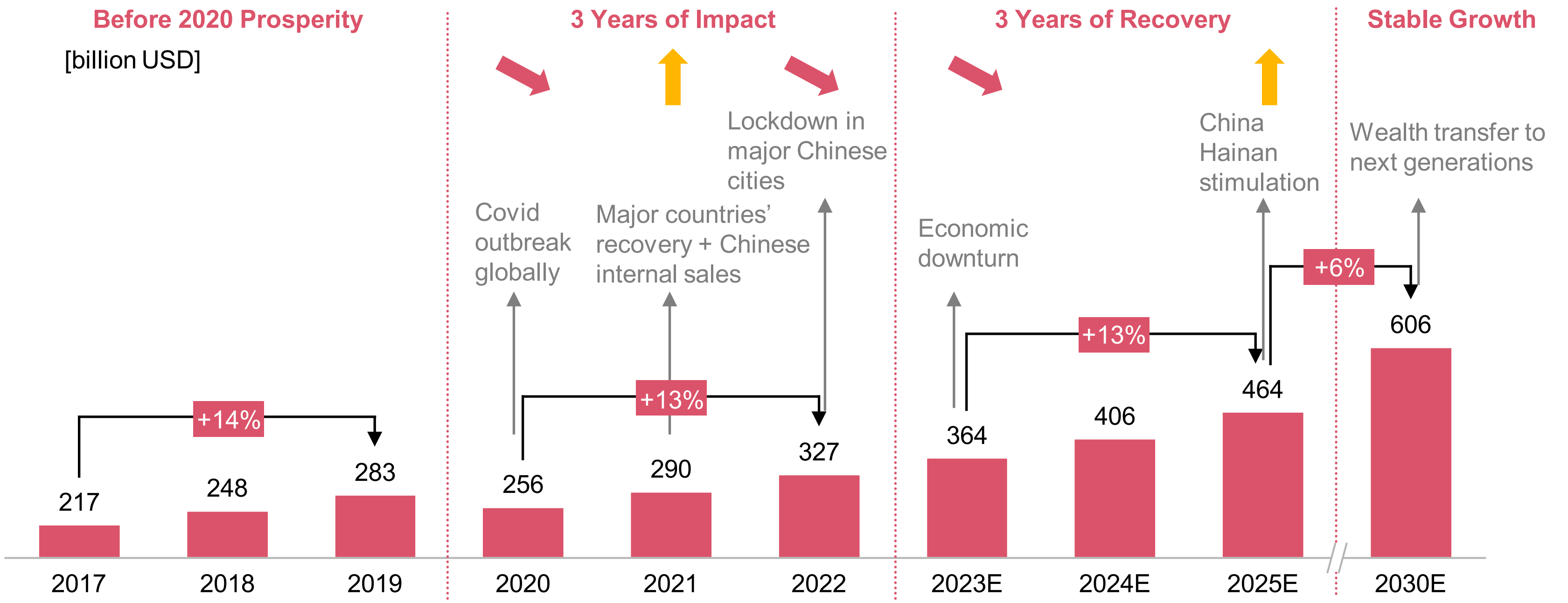
- VIC **VIC** Services
- T Sustainable **T**ransition
- O Exquisite **O**fferings
- R SEA **R**egions

Global Outlook: The global personal luxury market is recovering gradually and China is expected to become the top market by 2030

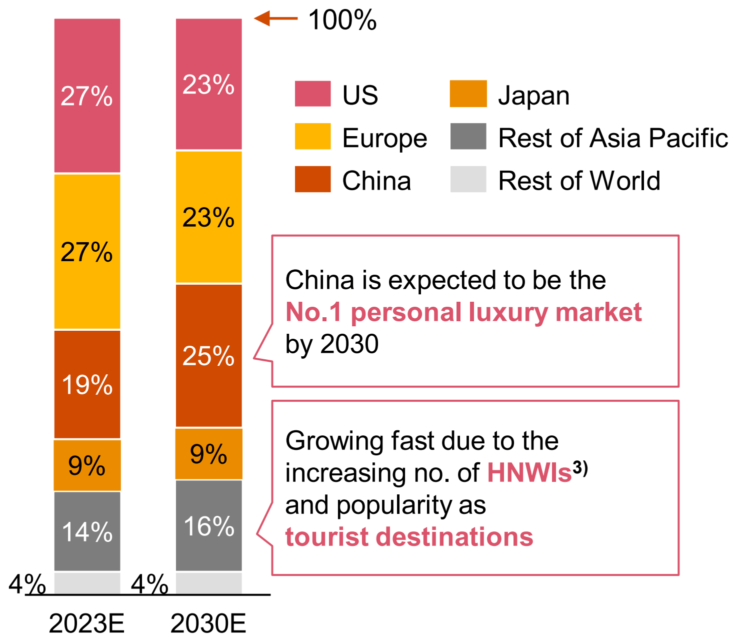
Personal Luxury Market Size Scope in this Report[1)]

- Apparel and Footwear
- Leather Goods
- Premium Beauty and Personal Care
- Jewellery and Timepieces
- Eyewear
- Writing Instruments and Stationery

PwC China Forecast: Global Luxury Market Size, 2017-2030E[2)]



PwC China Forecast: Luxury Market Share & Forecast by Region



Notes: 1) PwC China forecast for market size covers 6 categories incl. 'Apparel and Footwear, Leather Goods, Premium Beauty and Personal Care, Jewellery and Timepieces, Eyewear and Writing Instruments and Stationery', but excludes service, lifestyle, furniture and home furnishing and art toys; 2) The reason for the higher prediction for 2025 in this report compared with our '2023 Report' (2025E is $444.7 billion) is mainly due to the latest dynamics we have observed incl. ① rise of the Hainan market in China, ② wealth transfer to younger generations, and ③ emerging of the SEA markets; 3) Hight Net Worth Individuals

Source: PwC analysis

Global Trends: Dedicate to VIC services, sustainable transition, exquisite offerings & SEA regions to achieve and lead global luxury triumphs

VIC

VIC[1] Services

- **360° ultimate services:** Prestigious and impeccable experiences throughout the entire consumer journey
- **Exclusivity for the privilege:** Private VIC boutiques with dedicated spaces, customised products and invitation-only access

T

Sustainable Transition

- **Consumer mindset:** Favour sustainable brand commitment with positive ESG attributes, willing to pay premium
- **Luxury essentials:** Be influencers to guide young VICs towards sustainable luxury lifestyle and expand to sustainable consumers

O

Exquisite Offerings

- **Ultra-premium:** Delicate craftmanship along the value chain, emphasising high value preservation, brand aesthetics and lifetime services
- **Ultimate cultural attribution:** Resonate individualism and self-expression

R

SEA[2] Regions

- **Markets:** Target Singapore, Malaysia, Thailand & Vietnam beyond traditional luxury markets[3] due to rising HNWIs, tourists influx and foreign investment
- **Tactics:** Focus on HNWIs/UHNWIs[4] and tourists with clearly defined and differentiated strategy

Notes: 1) VIC: Very important clients, represent top 1-2% of total customers of a brand in terms of consumption; 2) SEA: Southeast Asia; 3) Including Europe, the US, China, etc. 4) Ultra High Net Worth Individuals
Source: PwC analysis

VIC

VIC Services

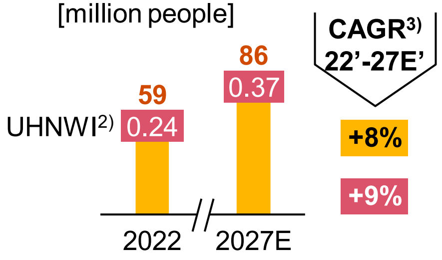
Deliver best quality & highest standard, more personalised & customised products and services with uttermost delights during the full consumer journey

VICs: Extremely important and younger VICs are emerging

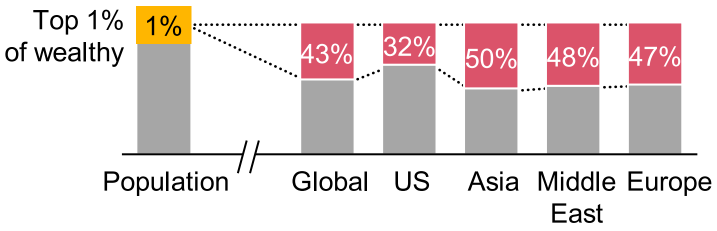
VIC Features

- Fast growing group with **huge consumption power**
- **Constant & comprehensive demand** despite of economic fluctuation
- Pursue **scarcity, exclusivity & 360° services with highest expectations** for luxurious lifestyle

No. of Global Millionaires[1)]
[million people]



Top 1% wealthy people hold 43% of world's financial assets[4)]



New VICs: Wealth passed to younger generations for the next 20-30 years

US: ~$ 72.6 trillion
UK: ~$ 6.9 trillion

(2023 US GDP ~$27.4 trillion)
(2023 UK GDP ~$3.3 trillion)

Exceptional & Memorable Experience along the Entire VIC Consumption Journey

Pre-sales (Awareness & Interest) – 360° Engaging

- Fashion Show + Travel Arrangement
- 1-on-1 Video Promotion + Selection
- **Multi-activity engagement:** Art exhibition, craftmanship experiencing etc.

Alexander McQueen 2022
Organised a multi-day New York experience for US VICs, including runway show + luxury tour

Purchase – Irreplaceable Offerings

- **Space:** Exclusive VIC stores and VIC room
- **Product:** Limited and premium edition, precisely customised products with design and tailor perfection, unprecedented technics
- **Service:** First-time order, dedicated sales, impeccable care

Gucci Salon 2023
1st VIC store in US, provided the latest & limited items (>40K EUR) with private services (1 customer at one time)

Thom Browne 2023
Launched 1st collection of 58 sets Haute Couture[5)], including a wedding dress

After-sales (Maintenance & Loyalty) – Extreme Value Creation

- **Social:** VIC parties and events, interactions with brands' senior management and designers
- **Consumer caring:** Festival/birthday/mental & spiritual need

Hennessy 2023
Exclusive private social dinner for Mr. Maurice Hennessy and VICs, and tasting Hennessy's most exclusive limited-edition

Notes: 1) Global Wealth Report 2023, UBS; 2) Ultra High Net Worth Individuals: Wealth >50 million USD, UBS; 3) Compound annual growth rate; 4) CNN, 2023; 5) Haute Couture: is very rare marked by superior craftsmanship and is usually made by hand, by a team of artisans - each with his or her own specialty. One Haute Couture collection should have more than 50 sets, and 25 of which should be completed by the Chief Designer. Most importantly, Haute Couture should be approved and certified by the French Fashion Association and the French Ministry of Industry

Source: UBS, CNN, PwC analysis

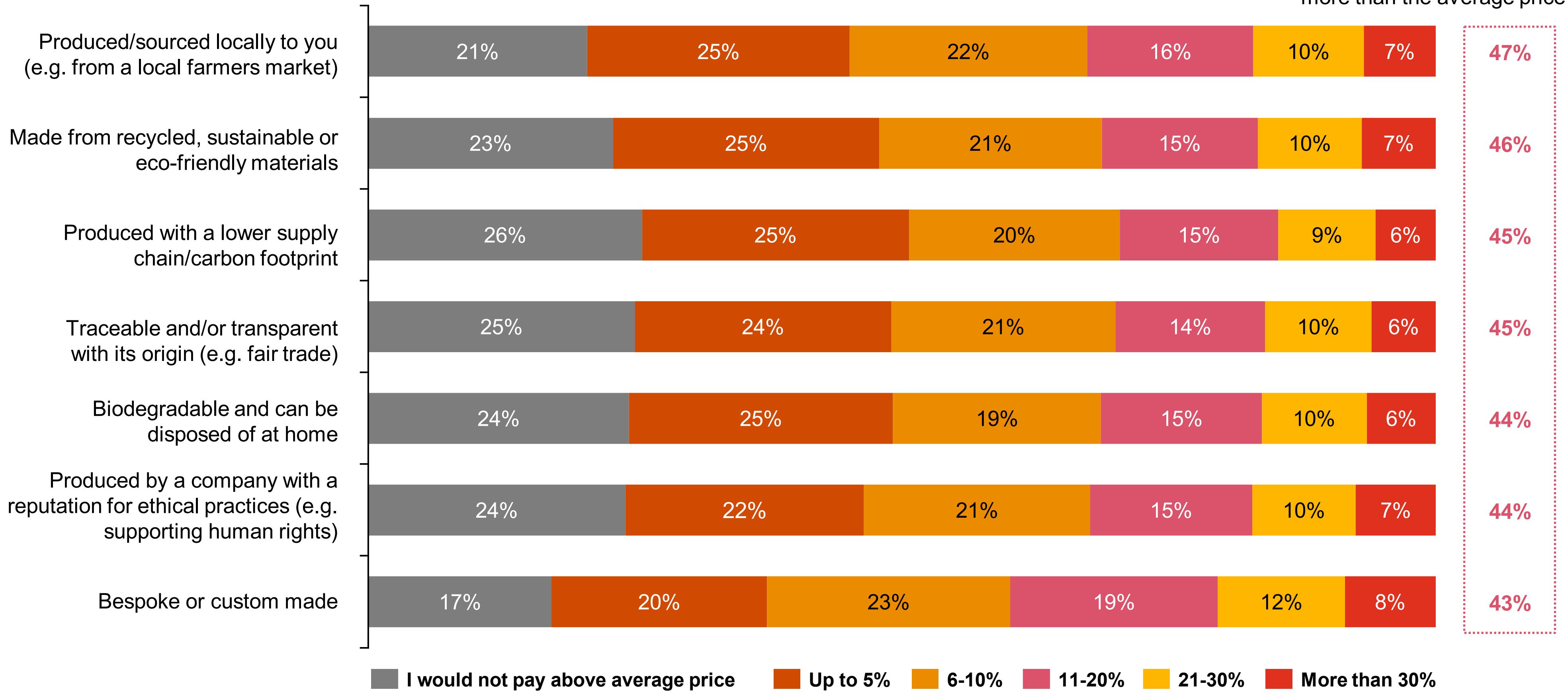
T

Sustainable Transition

Consumer Mindset: Pay increasing attention to sustainable consumption, 40%+ consumers are willing to pay up to 10% above the average price for products and services with positive ESG attributes globally

% above average price consumers would pay for a product that is…[1)]

% of respondents willing to pay up to 10% more than the average price for ESG features



Millennials and Gen Z appear most willing to pay above average prices

Notes: 1) Based on PwC Global Consumer Insights Survey FY23 Pulse 6 results

Source: PwC Global Consumer Insights Survey - Pulse 6, base: All respondents (8,975)

Consumer Mindset: …among global regions, consumers in most MEA & SEA regions, India and China are willing to pay ~20% above average especially for trustworthy products made from recycled, sustainable or eco-friendly materials

Willing to pay up to 20% above average price for ESG features[1)]

		Middle East and Africa (MEA)					SEA						Asia Pacific						Americas				Western Europe			
	Global	Egypt	UAE	South Africa	Qatar	Saudi Arabia	Philippines	Indonesia	Malaysia	Vietnam	Thailand	Singapore	India	Chinese mainland	Australia	South Korea	Hong Kong	Japan	Brazil	USA	Mexico	Canada	France	Spain	Germany	Ireland
Bespoke or custom made	20%	44%	26%	28%	27%	23%	29%	34%	18%	22%	21%	10%	27%	28%	17%	12%	13%	12%	27%	19%	19%	13%	16%	15%	15%	16%
Produced by a company with a reputation for ethical practices e.g. supporting human rights	17%	38%	29%	25%	25%	20%	34%	29%	21%	21%	20%	6%	31%	22%	9%	9%	13%	5%	23%	19%	17%	10%	11%	11%	11%	10%
Made from recycled, sustainable or eco-friendly materials	17%	31%	31%	22%	24%	14%	33%	28%	15%	26%	16%	8%	31%	21%	10%	9%	7%	6%	22%	17%	16%	10%	11%	12%	12%	10%
Produced/sourced locally to you (e.g. from a local farmers market)	17%	30%	28%	26%	21%	20%	36%	28%	22%	18%	18%	7%	27%	22%	12%	9%	7%	6%	20%	18%	15%	11%	16%	12%	12%	10%
Biodegradable and can be disposed of at home	16%	34%	20%	18%	26%	16%	32%	28%	15%	24%	20%	8%	30%	20%	11%	7%	9%	5%	22%	17%	19%	9%	13%	13%	11%	11%
Traceable and/or transparent with its origin (e.g. fair trade)	16%	32%	25%	21%	22%	24%	25%	29%	18%	23%	21%	8%	28%	20%	10%	11%	10%	6%	21%	16%	15%	7%	12%	10%	9%	10%
Produced with a lower supply chain/carbon footprint	15%	30%	25%	19%	21%	21%	25%	23%	15%	15%	16%	7%	26%	19%	10%	11%	7%	6%	18%	15%	15%	8%	12%	10%	8%	10%
Mean % spend above average price	9.77	15.3	13.2	11.76	13.47	11	14.59	14.32	10.12	12.13	11.28	6.84	14.13	11.79	7.65	8.04	7.63	5.07	11.41	9.41	10.08	6.69	8.34	7.81	7.34	7.53

Increasing willingness to pay above an average price – the darker the yellow, the greater the likelihood of paying 20%+ above the average price

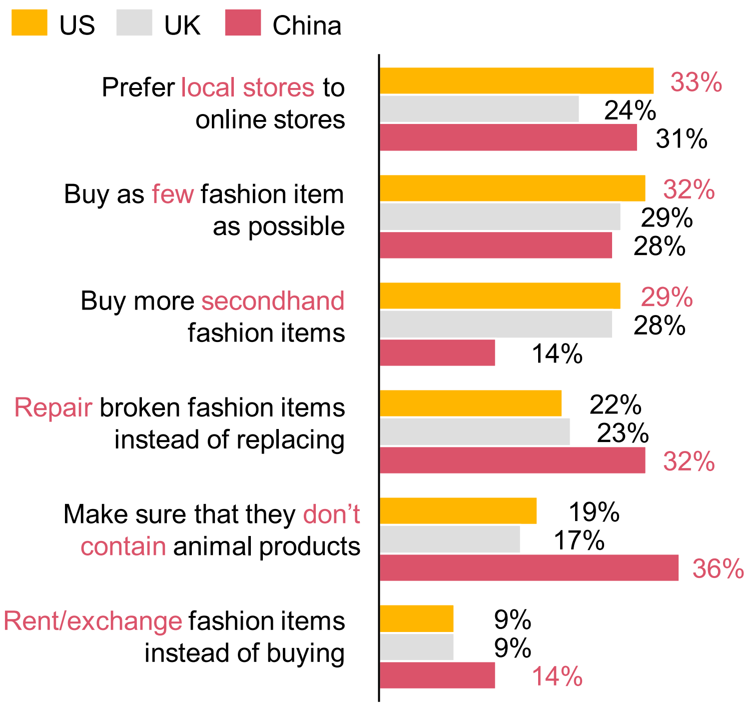
Notes: 1) Based on PwC Global Consumer Insights Survey FY23 Pulse 6 Results, including 8,975 respondents who were at least 18 years old and were required to have shopped online at least once in the previous year across 25 territories
Source: PwC Global Consumer Insights Survey - Pulse 6, base: All respondents (8,975)

Luxury Essentials: Luxury groups should take the role as Activist & Influencer to promote sustainable luxury and expand consumer base for new revenue stream

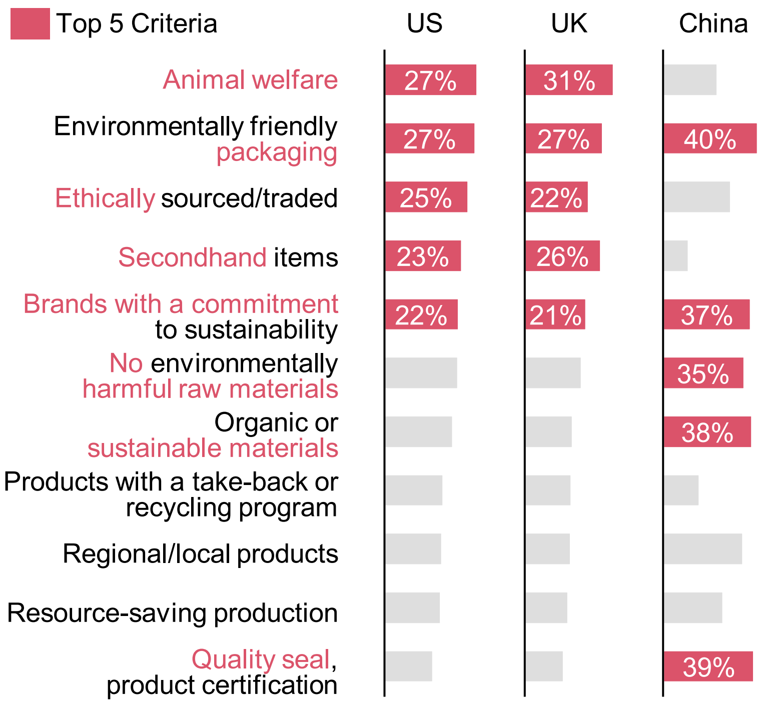
Luxury Group's Sustainable Transition: From Eco-design, Materials to End-of-life Recycle

- Explore innovative raw and package materials, waste reuse and recycle, secondhand platform, fine and long-lasting design and manufacturing, repair workforce, and rental programme development etc.

Consumer Shopping Preferences for Sustainable Fashion[1)]



Consumer Shopping Sustainability-related Criteria for Apparel and Footwear[2)]



Key Takeaway

Based on the survey results of consumer preference and sustainability mindset,

Luxury groups should be…

The activist-

- **Global headquarter (HQ):** Actively innovate across the industrial value chain to bolster brand reputation and business value
- **Regional branches:** Support HQ initiatives and targets while localising and implementing sustainable practices with uniqueness across diverse regions

The influencer-

- **Consumer impact and engagement:** To embrace sustainable lifestyles through visualised marketing, online and offline immersive experience, tangible rewards and recognition among young VICs

Notes: 1) & 2) Based on Statista Consumer Insights Sustainable Consumption Survey in June 2023, covering 1,035 respondents in US (16-83 years old), 1,033 respondents in UK (16-90 years old) and 1,043 respondents in China (16-84 years old)
Source: Statista Consumer Insights Sustainable Consumption Survey, PwC analysis

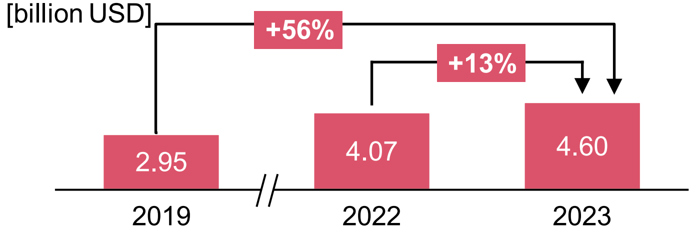
O

Exquisite Offerings

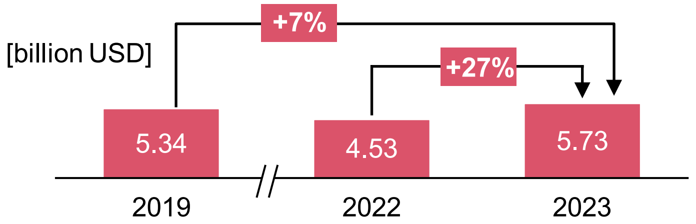
Ultra-premium and Cultural Attribution: Luxury giants vie for ultra-luxury or culturally distinctive features resonate individualism in premium fragrances

Premium fragrance is growing fast in major global luxury markets

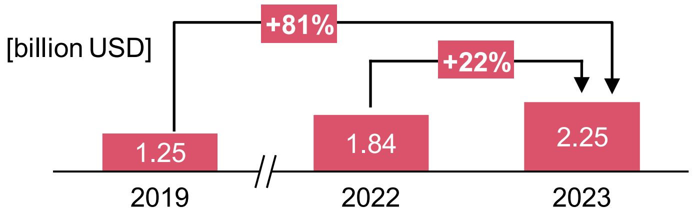
US Premium Fragrance Market Size[1]



EU Premium Fragrance Market Size[2]



China Premium Fragrance Market Size[3]



Luxury brands step forward into ultra-premium and niche fragrance in beauty sector

- **Ultra-premium:** Pursue the entire value chain luxury, incorporating exquisite details from formula innovation, bottle design (famous designer or architect) & materials to sales (pricing & target clients)
- **Cultural attribution:** Emphasise all-around distinctiveness from product to packaging resonate individualism, self-expression and personal identity

	Brand	Formula	Packaging	Specialty	Price (RMB)
Ultra-premium Fragrance	**Maison Psyché** by Rémy Cointreau (2022)	Best ingredients worldwide[4] are brewed in oak barrels	★ Baccarat crystal decorated with gold, diamonds	★ Top VVIC only by offer	~39K/100ml
Ultra-premium Fragrance	**Les Extraits** by Louis Vuitton (2022)	★ Apply precious ebony agarwood, customised rose essential oil, etc.	★ Sculptural hand-polished caps showcase LVMH Foundation building[5]	n.a.	4.3K/100ml 375K/set[6]
Culturally Attributed Fragrance	**Melt Season** Invested by ELC's NIV[7] (2023)	★ Oriental & Unisex, adding Chinese flavours e.g. Dahongpao, Sichuan peppercorns, etc.	n.a.	★ Limited 300 sets/ month	1.28K/100ml
Culturally Attributed Fragrance	**Document** Invested by L'Oréal's China fund (2022)	★ Chinese scents and ingredients: Wormwood, ginger, fennel, etc.	★ Chinese classical mortise & tenon design	Integrate Zen culture	1K~1.9K/30ml

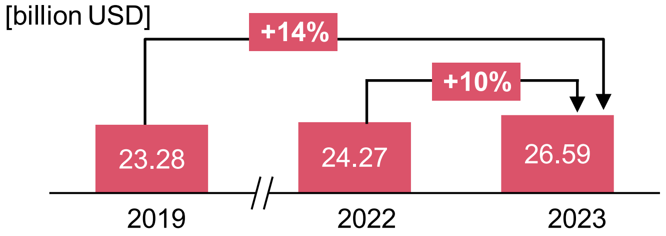
Notes: 1) The data accessible to the NPD group only included the first 10 months; 2) & 3) Statista - the whole year data; fragrance includes perfume and eau de toilette; 4) Best ingredients scoured from the earth: Alexanor (bergamot from Calabria), Belle-Dame (roses from Grasse), Alcyone (Indian Jasminum grandiflorum), Hamadryas (Madagascar bourbon vanilla) and Nymphalis (patchouli from Indonesia); 5) Designed by Frank Gehry, a famous architect; 6) Include Flaconnier des Extraits designed by Frank Gehry and all five bottles in Les Extraits Collection; 7) New Incubation Ventures

Source: Euromonitor, Statista, PwC analysis

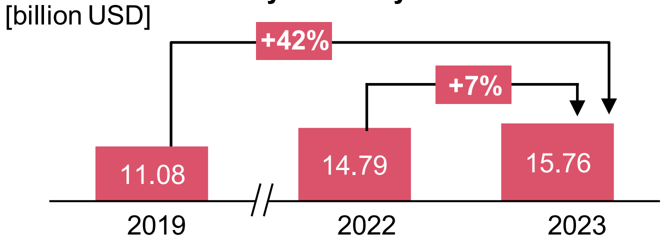
High and Sustainable Luxury: Highly investable and sustainably crafted jewellery is reshaping the luxury jewellery market, propelling new growth

High value-preservation & appreciation jewellery is growing fast globally, especially in China

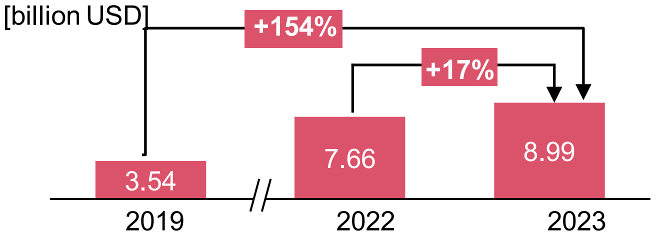
Global Luxury Jewellery Market Size[1)]



US Luxury Jewellery Market Size[2)]



China Luxury Jewellery Market Size[3)]



Luxury brands actively enrich portfolio of high jewellery[4)] & sustainable jewellery

- **High jewellery:** Serve more HNWI/UHNWI customers and provide highest standard of lifetime services
- **Sustainable jewellery:** Improve ESG performance and meet demand from sustainable consumers to stimulate new revenue streams
- **Men's jewellery:** Gender-neutral and men's KOL preferences consequently drive the growth potential of 'He' economy

High Jewellery

Balenciaga 2023

- Collaborated with Jacob & Co.
- 18K white gold & 15~36ct hand-set diamonds tailored to street style (Graffiti art)
- 4 limited editions, offered offline only

Saint Laurent 2023

- First high jewellery collection
- Gold, diamonds & other precious materials
- Collection-level jewellery

Enrich portfolio with brand aesthetics

Sustainable Jewellery[5)]

Boucheron 2022

- Jack de Boucheron collection with Cofalit
- Cofalit: Industrial waste (include asbestos) vitrified, heated to 1400°C to make the material inert

Prada 2022

- Eternal Gold: 1st luxury jewellery collection using 100% certified[6)] recycled gold
- Traceability for diamonds & gold from mining to retail on website

Responsible practice capture new consumer

Men's Jewellery

LV 2024

- Launched 1st men's high jewellery collection Les Gastons Vuitton
- 16 items incl. rings, necklaces, earrings, bracelets, etc.

Richemont

- Cartier, Piaget, and Van Cleef & Arpels, etc. launched men's jewellery
- Quite popular among male stars

Boost the popularity of men's jewellery

Notes: 1) Statista; 2) & 3) Euromonitor; 4) Most luxurious jewellery that is non-repeatable, original and avant-garde; 5) Sustainable Jewellery: jewellery has a lesser impact on the environment and/or the workers who produce it; 6) Certified Recycled Gold: meeting 'Chain of Custody' standards set by the Responsible Jewellery Council

Source: Euromonitor, Statista, PwC analysis

R

SEA Regions

SEA is the next high potential destination beyond traditional luxury markets[1)] and major brands are actively deploying and promoting sales and branding

Demand: High growth potential is foreseen in major SEA countries

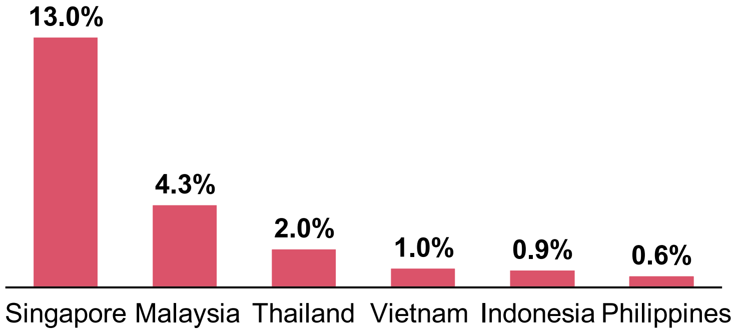
HNWIs Increase

High-income groups are increasing fast, especially in Singapore, Malaysia, Thailand and Vietnam

By 2030…

- **Singapore:** The **highest %** of millionaires[2)] in Asia Pacific
- **Vietnam:** >2 million adults will hold >$500,000 wealth, even more than that of Singapore

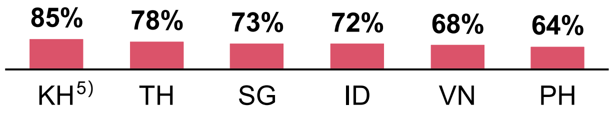
% of Millionaires in Top 6 SEA countries by 2030[3)]



Luxurious Tourism Boom

Travel recovery & luxury hotels open stimulate travel economy and luxury consumption

% of Travel Recovery, Jan. ~ Nov., 2023[4)] (Compared to 2019)



Rich luxury hotel portfolio with new luxury hotels entering

- **Vietnam:** Accor and Inter-Continental will be doubled before 2027; Wyndham will be tripled (reach 20) by 2024
- **Singapore:** Mandarin oriental (upgraded in 2023), Edition (opened in 2023), etc.
- **Thailand:** Andaz (opened in 2023), Six Senses Samui (upgraded in 2023), Four Seasons Tented Camp Golden Triangle (~20K RMB/day) etc.

Supply: Luxury groups are actively deploying and expanding in SEA regions

Luxury Groups' Glocalisation

Mainly target HNWIs/UHNWIs and tourists with clearly defined and differentiated strategy

Multiple Brands Entered

- Van Cleef & Arpels 1st store in Vietnam 2023
- Loewe 1st store in Vietnam 2023
- Acne Studios 1st store in SEA 2023

Louis Vuitton 2023

Yayoi Kusama's Dancing Pumpkins exhibited in Siam Paragon, Thailand

Bulgari 2022-23

High jewellery trunk show in Singapore, Thailand and Malaysia

Notes: 1) Including Europe, the US, China, etc.; 2) & 3) Holding wealth >1 million USD, HSBC; 4) According to arrivals of January-November in 2023, which was updated recently on 13th Jan., 2024, Outbox; 5) KH: Cambodia, TH: Thailand, SG: Singapore, ID: Indonesia, VN: Vietnam, PH: Philippines

Source: HSBC, Outbox, PwC analysis

2 China: Be Bold, Take the No. 1 'SLOT'

SL 3 **S**trategic **L**evers

O 2 **O**perations

T 1 **T**ransformation

China Outlook: China's personal luxury market is growing steadily post-pandemic and is expected to be revitalised by 2025 Hainan 'seal-off' policies

Key Drivers

Consumer

Massive Intergenerational Wealth Transfer
~3 trillion USD wealth will be passed to younger generations in 10 years[1), creating significant spending power and immense demand for luxury products & services

New Customers Exploration
Demand from new / special customer groups remains unfulfilled, e.g. children, pregnancy, PWI[2), etc.

Experience

New Sub-segments Booming
Experiential and luxurious lifestyle is pursued especially by young HNWIs & UHNWIs and sustainable luxury is evolving

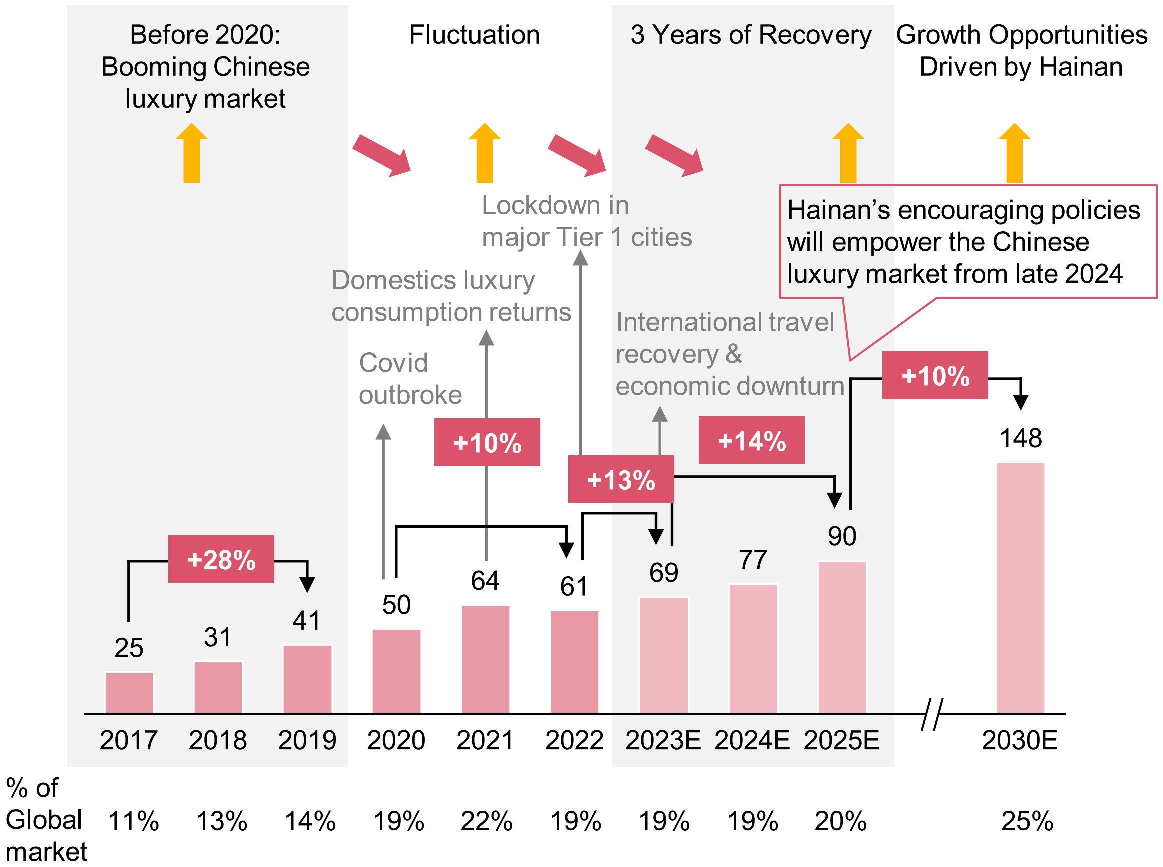
Channel

Online Services Further Improved
Online channels are optimised and better leveraged for accurate marketing and sales conversion based on its characteristics

Offline Channel Expansion
Penetration increase in lower-tier cities by integrating city uniqueness and culture heritage, premium luxury and trendy dynamics

High Growth Potential in Hainan
More preferential policies are being launched, especially after 2025, creating greater high-value opportunities for tourist products & services

PwC China Forecast: China Personal Luxury Market Size, 2017-2030E



Notes: 1) 2022 Chinese Family Office Industry Trends Report, Hurun; 2) PWI: People with impairment
Source: PwC analysis

China Trends: Embrace 3 strategic levers, enhance 2 channels and establish 1 foundation to take the No. 1 ‘SLOT’ in China and enter a new era of luxury universe

3 Strategic Levers

Promising Consumers of Sustainable Luxury
- 2nd generation of HNWIs (quiet luxury)
- Sustainable consumers (sustainable luxury)
- Special consumers: Children, pregnancies, PWIs[1] etc. (caring luxury)

Growing Categories with Value Preservation & Spiritual Capital
- Luxury jewellery
- Premium beauty & personal care
- Upscale home furnishing

Exceptional Experience of Luxurious Lifestyle
- Outdoor sports & high-end travel
- Exhibition, entertainment & art toy

2 Operations

Traditional Channels
- Online: Differentiated and accurate deployment
- Offline: Lower-tier cities and culture tourism destinations
- HK: Experience-combined fine living

Hainan Duty-free Market
- New model post-seal-off: General store → duty-free
- Reinforce segments: Cosmetics, jewellery and timepieces
- Potential segments: Yachting, surfing and cruises

1 Transformation

Sustainable Supply Chain – ‘TRACE’ Principle
- Strategic Values: **T**rusted **R**esilience **A**gile **C**ircular **E**co-friendly
- Key success factors for sustainable supply chain at each stage

Notes: 1) PWI: People with impairment
Source: PwC analysis

SL

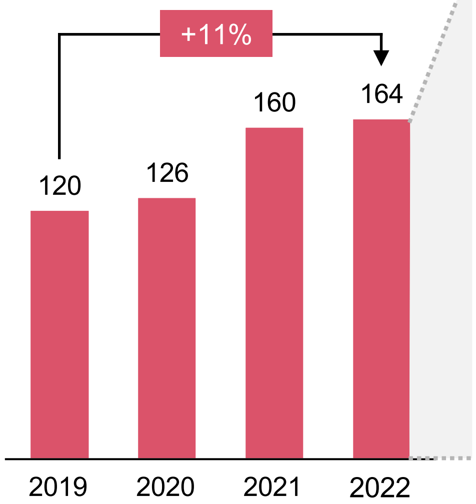
3 Strategic Levers

2nd generation of HNWIs: Will inherit vast wealth, favouring sustainable values, quiet luxury[1)] & a desire for upscale social experiences resonating with elite class

2nd generations of HNWIs in China will succeed substantial wealth

HNWIs' Wealth in Chinese mainland

[trillion RMB]



72%
of HNWIs completed or plan for wealth succession

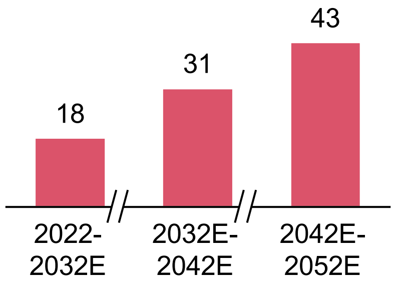
6.4 years
average year to begin wealth succession

Features and Preferences of 2nd Generation of HNWIs

2nd generations of HNWIs

Wealth passing to the 2nd generation of HNWIs

[trillion RMB]



Features	Preferences
Affluent Background • Grow up rich • International & technological education and mindset	**Luxurious Lifestyle** • Prefer luxury assets such as private jet and superyachts
Occupied Parents • Busy with business and work since childhood	**Genuine Service** • To fulfill emotional needs and cultural capital
Social Activist • Influenced by family business, aspiring to enrich personal connections	**Social Satisfaction** • Display status & elite class in social occasions
ESG Embracer • Focus on legacy and impact (e.g. sustainable investing, philanthropy)	**Quiet Luxury** • No flash, no logos • Sustainable and meaningful aligned with their values

Luxury brands should enhance…

- **ESG integrated brand legacy:** Embed the concept of utmost care, sympathy for the planet and the whole society
- **Timeless and minimalist style:** Emphasise eternal staples with spectacular design and impeccable quality, e.g. classic trench coats, finest cashmere, etc.
- **Upscale social experiences:** Craft unparalleled high-end occasions (e.g. curated vineyard tours) to resonate with elite social class and desire for extraordinary

Notes: 1) Quiet luxury is a reinterpretation of minimalism, emphasising investment-worthy items, exquisite craftsmanship and high-quality materials, but almost without exaggerated design or prominent logo

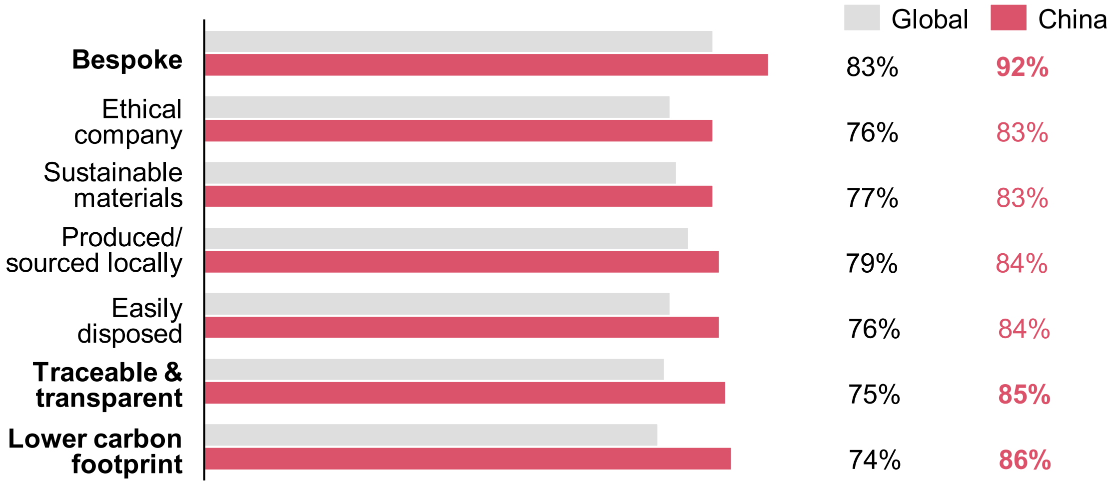
Source: UBS, Hurun Report, PwC analysis

Sustainable Consumers: Is a unique group who cherish healthy lifestyle and meaningful sustainable features, and are willing to pay higher price premium

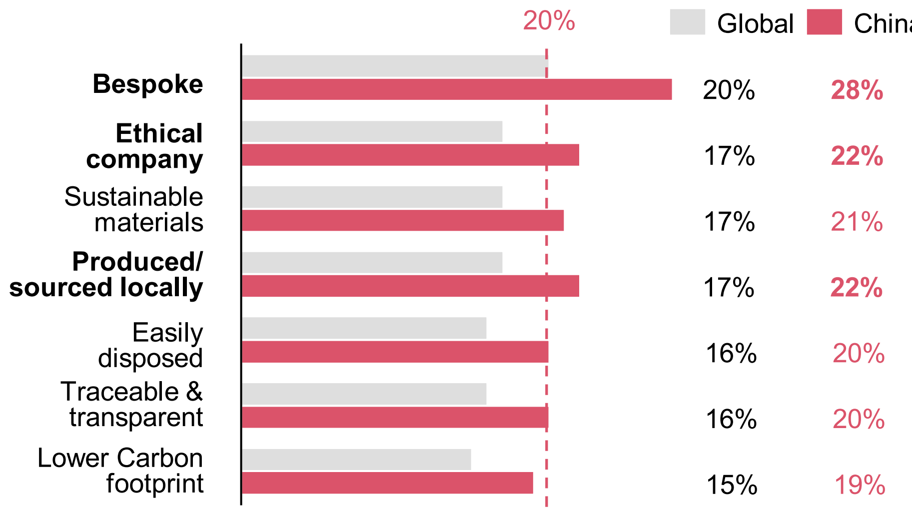
Sustainable Consumer

High expectations on and willingness to pay for meaningful ESG attributes, e.g. eco-friendly design, product safety & quality, authenticity & transparency (natural material, ingredients) and brand's social responsibility and reputation

% Likelihood of Paying Premium for the ESG Feature, 2023[1)]



Willing to Pay up to 20% Above Average Price for the ESG Feature, 2023[2)]



Millennials and Gen Z appear most willing to pay for favourable ESG products

Leading luxury brands are actively innovating ESG products by eco-system partnership to attract more sustainable consumers

Kering

- Partner with Vitrolabs
- Develop 1st cow-free lab-grown leather from cell cultures

Stella McCartney

- World's first-ever garments made from vegan, lab-grown Mylo™ mushroom leather

Chanel

- N°1 DE CHANEL: 1st eco-friendly collection, including perfume, cosmetics, skin care products

Gucci

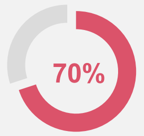
- 1st 100% Carbon-captured Alcohol Fragrance
- Launched in Singapore & China, 2023

Notes: 1) & 2) Based on PwC Global Consumer Insights Survey FY23 Pulse 6 Results, including 8,975 respondents who were at least 18 years old and were required to have shopped online at least once in the previous year across 25 territories
Source: PwC Global Consumer Insights Survey - Pulse 6, base: All respondents (8,975), PwC analysis

Special Consumers: Explore new consumers and capture high demand potential from children, pregnancy and PWI[1)] with special needs for caring luxury[2)]

Children: Target A&F[3)] and premium beauty products

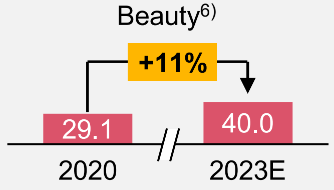
- Art extracurricular activity: Lead to demand for cosmetics
- Stylish Post-90s parents: Focus on children's health & individualism, with lower price sensitivity & higher quality expectation



Young parents (interviewed) plan to increase consumption of luxury, especially for **children** in 2022[4)]

Chinese Children[5)] Market Size

[billion RMB]

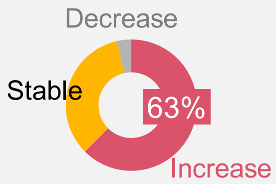


Unique product features:

- Emphasise natural, safety, quality and non-irritation

Pregnancy: Target light sports and premium beauty products

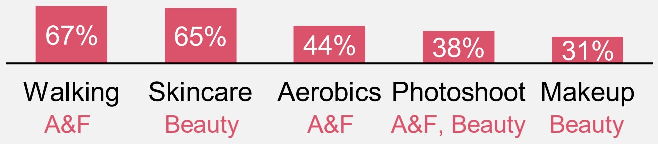
- Exquisite pregnancy: Boost spending from pregnancy preparation stage and onwards
- Focus on health and beauty: A&F and beauty demand keep increasing



63% respondents increased expense in pregnancy preparedness in China in 2023[8)]

Chinese Pregnancy Advanced Lifestyle Choices[9)]

[%]



Differentiated competitiveness:

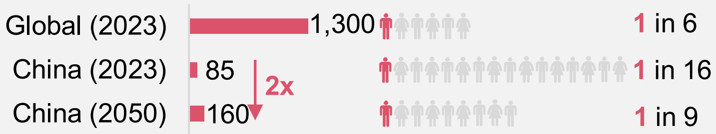
- Demonstrate safety, self-pleasure, professionalism, extreme comfort and care

PWI: Target tech-driven tools and value creation services

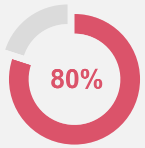
- Niche but booming: Fast growing group has accessible needs & triggered business opportunities
- Huge potential with limited fulfillment: Inadequate products, auxiliary tool or dedicated service offerings

Population with impairments[10)]

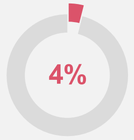
[million people]



PWI Favour of Makeup[11)]



Brands Offer Adaptive Products[12)]



L'Oréal world's 1st AI makeup applicator[13)]

Seize growth opportunities by:

- New products: Skincare/cosmetic products for scars & birthmark, packaging innovation for convenience, etc.
- Dedicated service & tool: Voice assistance, high-tech tools (AI makeup), value-added training & customer care

Notes: 1) PWI: People with Impairment; 2) Caring Luxury: Originated from ESG concept which emphasises on sustainability and social responsibility 3) A&F: Apparel & Footwear; 4) Young parents surveyed (no. of respondents are ~10,000) refer to the post-90s parents; 5) Children: Under 11 year old, according to Euromonitor's definition; 6) Euromonitor; 7) Huaon; 8) Iimedia, Respondents interviewed=3,102, survey conducted in Nov., 2023; 9) Alibaba, in 2023; 10) Data is from WHO (World Health Organisation) and the State Council of China; 11) Cosmetics business; 12) P&G; 13) L'Oréal world's first handheld, ultra-precise computerised makeup applicator, called HAPTA

Source: Euromonitor, WWD, Iimedia, Huaon, Alibaba, WHO, PwC analysis

Luxury Jewellery: With attributes of rarity, enduring worth and appreciation potential, holds promising expansion prospects in China market

Focus on Luxury Jewellery & Premium B&PC[1)]

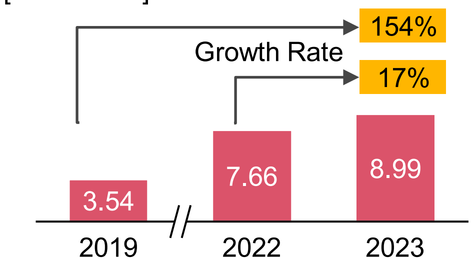
China Luxury Market CAGR[2)]

2018-2023		2023-2028E
25%	1 Luxury Jewellery	15%
16%	2 Premium B&PC	14%
22%	Luxury Leather Goods	9%
14%	Luxury A&F	6%
14%	Luxury Timepieces	10%
2%	Luxury Eyewear	0%

1 Luxury Jewellery: Exquisite Masterpiece and Service Perfection

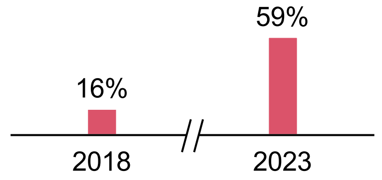
China Luxury Jewellery Market Size[3)]

[billion USD]



% of Chinese Young People Purchasing Gold[4)]

25-34 age group has become the mainstream consumers' of jewellery



TASAKI 2022

Co-branded with anime 'Chain-saw Man' and launched new collections with 'sharp teeth'

Scarcity & Social Attributes
- Individualism
- Identity expression
- Scarcity shopping

Cultural Legacy
- Demonstrate brand value & culture capital
- Highlight Chinese & trendy culture

Value Preservation & Increment
- Resist economic fluctuation
- Secondhand market booming

- **Flagship products** promote purchasing enthusiasm among **HNWIs**
- **Impactful co-branding & cultural expression products** promote increasing penetration among **young generations**

Notes: 1) Premium B&PC: Premium Beauty and Personal Care, premium B&PC refers to aggregation of premium color cosmetics, premium fragrances, premium skin care and other premium beauty and personal care.; 2) & 3) Euromonitor; 4) The 2023 Gold Jewelry Industry Insight Report

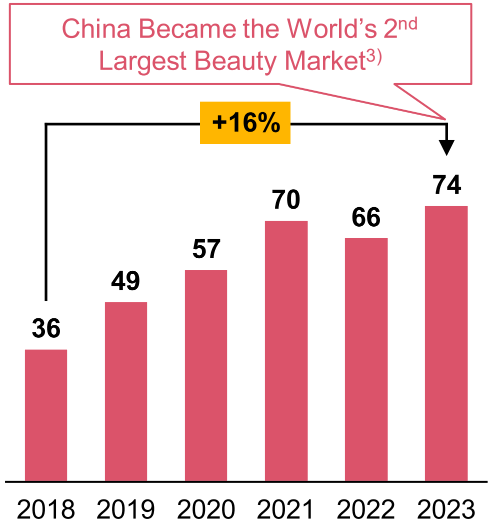
Source: Euromonitor, PwC analysis

Premium B&PC[1]: Incorporate Chinese elements, rapid innovation, and responsible marketing strategies to capitalise the favourable outlook of the B&PC market

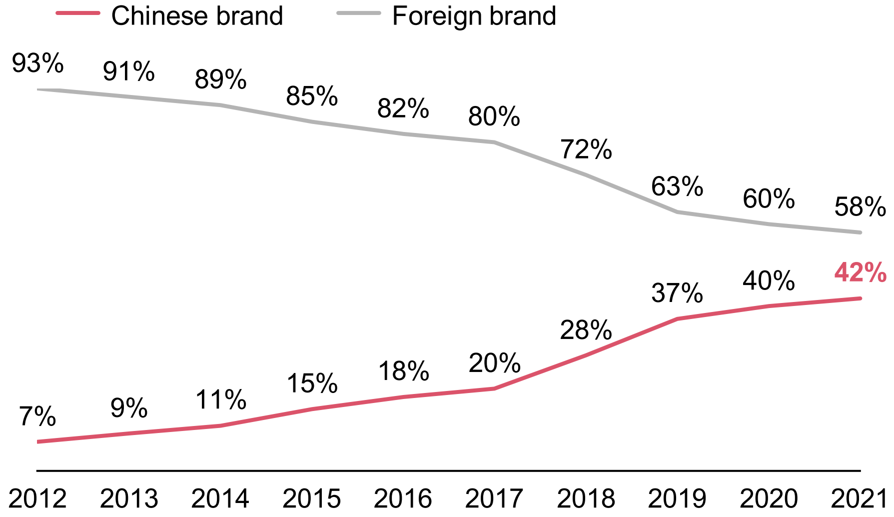
2 Chinese brands have cannibalised the market share of foreign brands

Chinese Premium B&PC[2] Market Size

[billion RMB]



Market Share of Key players in Chinese Skin Care Market



The supervision & penalty of Chinese B&PC policies is becoming stricter

Policy Name	Effective Date	Issuer	Key Points
'Regulations on the Supervision & Administration of Cosmetics'	Jan 2021	State Council of China	• The evidence for functional claims shall be published on the website appointed by NMPA[4]
'The Measures for the Administration of Cosmetics Labeling'	May 2022	NMPA[4]	• Regulate the standard labeling of cosmetic ingredients & prohibited functional contents
'Enterprises to implement the provisions for the supervision and management of the main responsibility for the quality & safety of cosmetics'	Mar 2023	NMPA[4]	• Cosmetics company shall appoint a person in charge of quality & safety with at least 5 years of related experience, before the products GTM[5]

- **Incorporate Chinese elements:** Leverage Chinese art / medicine / cultures as unique strategy to compete with Chinese local B&PC brands under prevailing China-chic
- **Rapid innovation:** Build up early advantages through rapid innovation to compete for voice and attention
- **Responsible marketing:** Avoid misleading or exaggerated advertisement / promotion to comply with Chinese stricter industry regulations

Notes: 1) B&PC: Beauty and Personal Care; 2) Euromonitor, premium B&PC refers to aggregation of premium colour cosmetics, premium fragrances, premium skin care and other premium beauty and personal care; 3) General Administration of Customs; 4) National Medical Products Administration; 5) Go to market

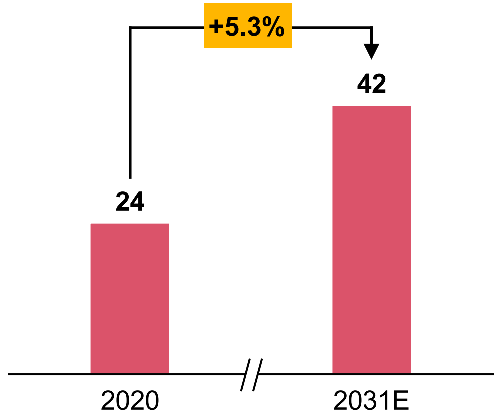
Source: Euromonitor, PwC analysis

Upscale Home Furnishing: Revitalise adaptable design, circular business model and immersive showroom-based marketing to promote deluxe living

Emerging segment urges healthy and spiritual furniture

Global Luxury Home Furnishing Market Size[1)]
[billion USD]

Asia Pacific is at the top of the consumption list and will continue to grow rapidly



Health & Safety

10x

Star anti-bacteria and anti-formaldehyde product growth up to 10 times[2)] in 2022

Spiritual Design

10x

'Wabi-sabi home' growth

20x

'Art prints' growth in 2022[3)]

Demonstrate brand aesthetic & living attitude

- Demonstrate brand value and individualism
- Focus on safety, comfort and best quality
- Provide genuine care and spiritual capital, soothing and self-healing

Design upgrade: Adaptable and natural inspired

LOVESAC

Furniture LEGO (e.g. upgradable and changeable) for lifelong companion

LV furniture

Bring consumers back to nature, e.g. cloud, flower, cocoon shaped

Business innovation: Second-hand resale and rental model

William Sonoma

Partnership with Charish[4)] for vintage furniture resale

West Elm

Partner with rent the runway to rent out upscale home decors

Lifestyle showroom communication: E-sports and Children

Living Style Group (from Fung Group)

E-sports room featuring ergonomic living to maximise physical wellness

Circu

Magical and fantasy-themed children's furniture inspired by animals and fairy tales

Notes: 1) Allied Market Research; 2) & 3) JD, 2022; 4) A popular secondhand platform in the US with 100K+ active users
Source: Euromonitor, PwC analysis

Outdoor Sports & High-end travel: Emphasise professionalism in skiing and cycling, while expanding multi-sensorial ultra-luxe travel in diverse scenarios

Outdoor Sports: Prioritise skiing & cycling

Major Outdoor Sports Markets[1]

Focus	Skiing	Cycling	Camping	Frisbee	Hiking
Annual Per Capita Expense (RMB)	**4,910**	**4,033**	3,323	3,000	2,110
Conversion Rate[2] (2023)	21%	33%	36%	25%	47%
Consumption Products	Clothing, Equipment, Venue Tickets	Clothing, Equipment	Equipment	Clothing, Equipment	Clothing, Equipment, Venue Tickets

Clothing Equipment Venue Tickets

Arc' teryx 2022
Opened Academy Store in Beidahu offering professional skiing tutorial by fully certified trainers

Dior 2023
Collaborated with professional sports brands (POC, AK SKI & DESCENTE) on skiing gear, skis and sportswear etc.

High-end Travel: Multi-sensorial scenarios in exquisite and diverse forms

Willing to Pay for High-end Travel Experiences, China 2023

89% Have an urgent and strong desire to travel[3]

71% Will increase no. of future trips[4]

82% Travel budget has increased in 2023 compared to 2019[5]

Hospitality

LV 2023
Will open its 1st hotel with an iconic monogram trunk facade, at Champs-Élysées in Paris

J Hotel 2021 (Jin Jiang)
Ultra-premium luxury ESG brand crafts authentic Chinese flair and art in the clouds

Cuisine

Dior 2023
1st Café DIOR in Chinese mainland, echoing 1940s French chic style of the Montaigne flagship store in Paris

Relaxation services

LV 2023
World's 1st VIP lounge at Qatar Airport to expand luxurious travel and leisure services

Market entry:

- **Products:** R&D / collaborate on / acquire outstandingly professional & fashionable apparel, footwear, equipment & accessories
- **Experience:** Pop-up stores at skiing venues, art show & exhibitions, online exclusive & offline flagship stores with most proficient guidance & training services

Expand luxury universe:

- **Multi-sensorial scenarios:** Provide high-end travel experience by extending cuisine, hospitality and relaxation services for unparalleled luxury lifestyles
- **Exquisite & diverse forms:** Restaurant, cafés and teahouses for cuisine; Spas, salon, gyms & entertainment for hospitality; lounges and cruises for trip & relaxation services

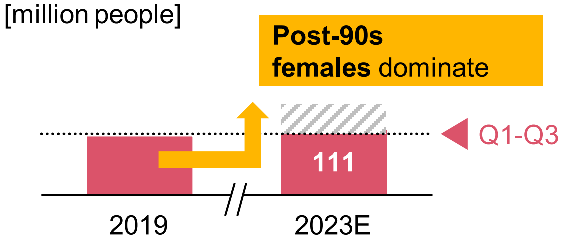
Notes: 1) 2023 Outdoor Living Trends Report, Little Red Book; 2) Conversion rate: Interest-participation conversion; 3) & 4) & 5) TMI (2023 Tencent Marketing Insight)
Source: Little Red Book, TMI, PwC analysis

Exhibition, Entertainment and Art Toy: Are dominated and favoured by younger generations. Luxury brands may actively leverage these art forms to attract target and extremely high-value consumers like young HNWIs

Art & Entertainment: Target theater, exhibitions, trendy destinations

- **Increasing demand:** From a large pool of active young consumers with great consumption power and expenditures are growing rapidly, with socialising purpose

Cumulative audience of commercial performances[1)]



Top 3 most favourable culture experience[2)]

- Drama and exhibition
- Trendy destination (e.g. café)
- Cultural venue

Valentino 2023
Partnered with Sleep No More to promote its 2023AW collections

Louis Vuitton 2023
Opened three temporary bookstores in Shanghai, showcase LV travel-themed books and offer coffee

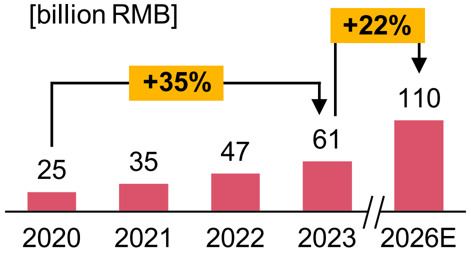
Market expansion: Luxury groups with **rich cultural and artistic heritage** can…

- Leverage art, exhibition, entertainment for traffic attraction & brand value promotion
- Partner with theatres, exhibitions, trendy destinations, museums to market new products, limited editions and expand brand impact etc.

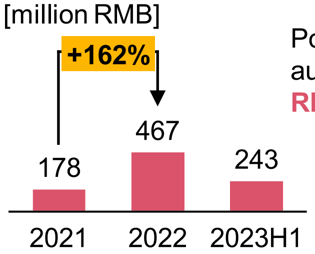
Art Toy: Prioritise high-end, limited edition and collection-level

- **Burgeoning market:** Mainstream consumers including Millennials, Gen Z & A
- **Collection-level:** Shifting to high-end collections, limited editions, co-branding etc.

Chinese Art Toy Market Size[3)]



Pop Mart High-end Series Revenue[4)]



Pop Mart Burning Fire auction price reached **RMB 230,000**

Balmain 2024
Partnered with Pop Mart unveiled a exclusive New Year's Mega Space Molly (RMB5,999/699 pieces only)

Gucci 2023
2nd collaboration with Marsper, a collection inspired by Gucci Cosmos (RMB8,000-18,000)

Market entry: Luxury brands may consider…

- Collaborating with celebrated partners/designers/architects etc. to pioneer luxurious art toys along the entire value chain, from design, material, packaging, to pricing
- Tailoring to next generations of wealthy consumers' ever-changing tastes, e.g. young HNWIs and UHNWIs

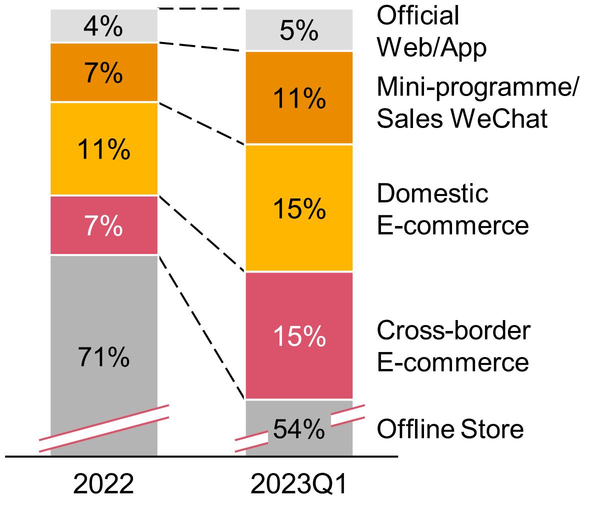
Notes: 1) China Association of Performing Art; 2) China Tourism Academy; 3) Frost & Sullivan; 4) Pop Mart Annual Report
Source: PwC analysis

2 Operations

Online: Deliver best services and accurate offerings along consumer journey based on differentiated channel characteristics and deployment strategy

Online channel penetration rate keeps increasing

Luxury Consumption Channel Distribution in 2023[1)]



Policies encourage development of e-commerce channels

Ministry of Commerce (2024)

Promote digital consumption and support healthy development of livestream E-commerce, instant retail and other new business model

Strengthen channel features and seize growth opportunities by enhancing consumer interest-consumption-loyalty journey and greatly increase sales conversion rate in each step

	Integrated E-commerce	Content Platform	WeChat
	Sales-oriented, with shelf features	Strong traffic, interest-oriented	High stickiness, private domain
Competitive differentiation	Rich product offerings and responsive customer services enhance 'shelf' feature **1.5x** vs. 2022 — 'Double 11': 1st hour[2)] no. of people ordered on Tmall Luxury **>20** Brands — 1st hour Tmall GMV exceeded whole day revenue in 2022[3)]	Memorable experience & constant sharing, e.g. fashion week/celebrity livestream **Hermès** official account on Little Red Book promoting brand culture & craftsmanship **Little Red Book** as prioritised platform for event communication, e.g. **Fendi** x Heytea	Interactive and China-specific membership operation & engagement **LA MER** launched interactive app to engage consumers in low-carbon travel, by offering testers/samples etc.
Growth Opportunities	Leverage AI to interact with consumers and empower pre-sale experience and improve 1-on-1 & after-sale service[4)] **Make Up For Ever** partnered with AYAYI, China's first 'Meta-human' virtual influencer, to enhance consumer interaction	Strengthen interest-to-sale conversion, improve customer service, & ensure authenticity & traceability **Dior Beauty** is 1st luxury brand to start livestream on official Tiktok account **>300%** Luxury A&F: highest GMV & fastest growth rate (>300 %)[5)] **186%** Luxury timepieces growth rate[6)]	Enhance video account and high-quality content to better realise conversion from public to private domain **Cartier** displayed 'Into the Wild' livestream in Moment's ads, and realised >10 million exposures

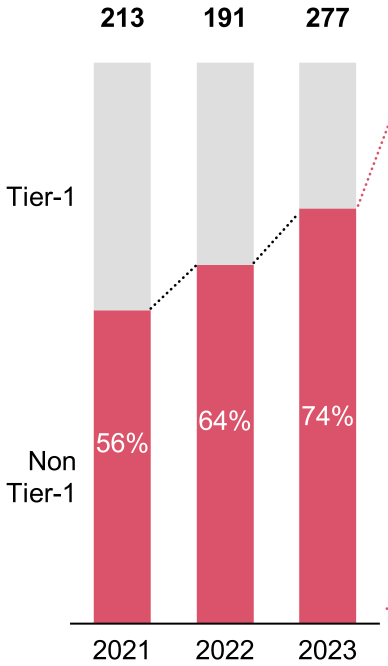
Notes: 1) Tencent Marketing Insight (TMI), 2023; 2) & 3) Oct. 31st, 2023; 4) After-sale service including refund, exchange, repair & maintenance etc.; 5) & 6) TikTok shop luxury category's GMV and YoY growth in 2023
Source: PwC analysis

Offline: Expand lower-tier cities by entering high-end shopping malls or cultural districts with distinct features and trendiness to increase growth and traffic

Siting & City Culture: Select high-end shopping centres, especially in cultural & tourist destination

China City Distribution of New Luxury Stores Opening[1)]

Focus more on non Tier-1 cities



Non Tier-1 City

Cities Rank that Launched the Most Luxury Brand "First Store" in 2023[2)]

	No. of Stores	Name of Shopping Mall	
1 Lanzhou	13	Mixc	High-end Shopping Malls
2 Shenzhen	12	Mixc	
3 Zhengzhou	11	DavidPlaza	
4 Hefei	7	Mixc	
5 Sanya	6	CDF Mall II[3)]	

High-end Cultural Tourism

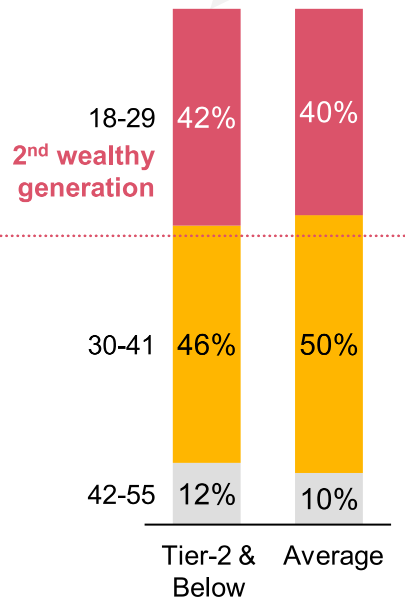
Chengdu Citanggai: Historical district focus on art and culture[4)]

Suzhou Renhengcang: Suzhou garden style street district

Design & Interaction: Highlight city features and fashion trends to satisfy young consumers

China Luxury Consumer Age Distribution in 2023[5)]

Trend, culture & individual expression



Store Design

Regional Features

Cartier: Taikoo Li, Chengdu

Decorated with hand-painted Ba Shu landscape and Chengdu city tree

Hermès: Deji Plaza, Nanjing

Store decoration materials including bamboo, wicker and Yuhua stone

Sustainability

Origins: Deji Plaza, Nanjing

One of the 1st batch of sustainable pilot stores (6 Estee Lauder stores worldwide in the 1st batch)

City Limited

Marni Market Tour

Pop-up stores link cities in various provinces and launch limited edition in each city

Notes: 1) & 2) Luxe.Co; 3) Haitang Bay CDF Shopping Mall II; 4) Citang Street memorised the art and culture history of Chengdu, which used to be a bookstore street and had the Sichuan Art Club, etc. cultural and historical building; 5) TMI
Source: Luxe.Co, PwC analysis

Offline - Case: Zhang Yuan adaptive design and K11 MUSEA incorporated ESG concepts and perfectly combined arts & culture with commercialisation

Shanghai Zhangyuan-Fengshengli (Opened in 2022)

Traffic, fashion, and rejuvenation:

Diverse stores meet ‘all-time’ demands, and most popular brand matrix offer novel experiences and the latest fashion

Bakery & coffee, unique restaurant, fashion market, live house & bar

Gucci’s art wall
Lancome ‘DRAMA’ pop-up

Urban Revival Revitalised the Neighbourhood

Respect history & culture, in-situ & conservation development

30K people Average daily flow[1)]

80K people Maximise daily flow[2)]

40% Traffic increase on weekend & holiday[3)]

Culture, style, and high-end:

Simultaneously satisfy luxury, fashionable, experiential demand

Louis Vuitton 2022
World 1st dedicated furniture and homeware store (appointment-only), also including fragrance salon, café and bar

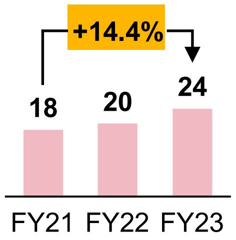
Dior 2022-23
Multiple designer collections limited-time stores with ever-changing hot themes

Hong Kong K11 MUSEA (Opened in 2019)

Overall sales and premium brands sales soared 120% & 260%, compared with before 2020[4)]

Fulfill both younger generations and HNWIs

No. of Visits[5)]
[million Man-time]



HNWIs: High-end boutique

Younger generation: Fashion buyers shop, lifestyle stores, etc.

Art & Culture Focus

Art Area
‘Opera Theatre’ art installation, ‘Design Republic’ street art, and ‘K11 Art House’ film & performances

MoMA Design Store 2019
1st time launched in GC[6)], as most forward-thinking and discerning design store[7)]

Sustainable Lifestyle

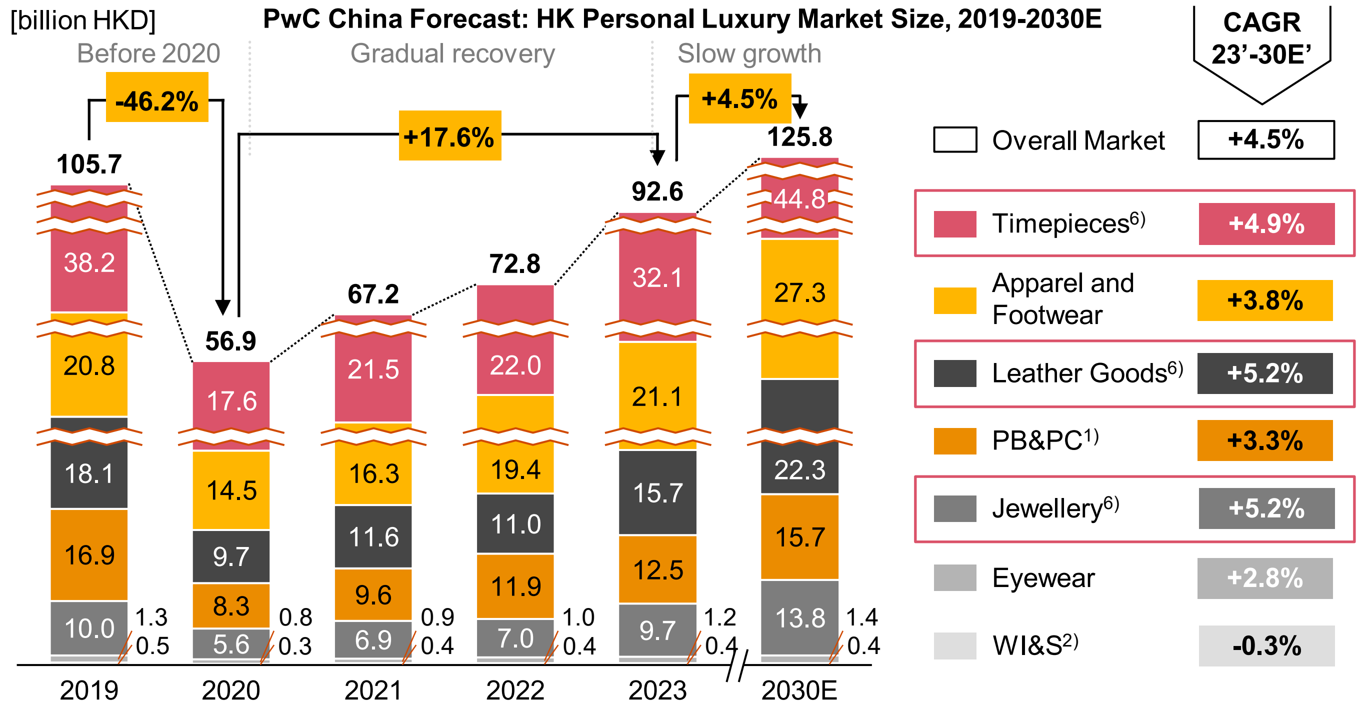
Green Building
50K sq. ft. green wall, indoor green plant windows, rooftop farms

Nature Discovery Park
HK 1st urban biodiversity nature museum with the sustainability theme

Notes: 1) & 2) & 3) 2023, Eastmoney; 4) As of August 2023, China Daily; 5) Annual Report; 6) GC: Greater China; 7) Only 5 MoMA Design stores worldwide
Source: PwC analysis

Hong Kong: Is recovering slowly, while opening high-profile stores with superior services and seasonal striking exteriors have become a breakthrough for traditional categories

HK personal luxury market has gradually recovered

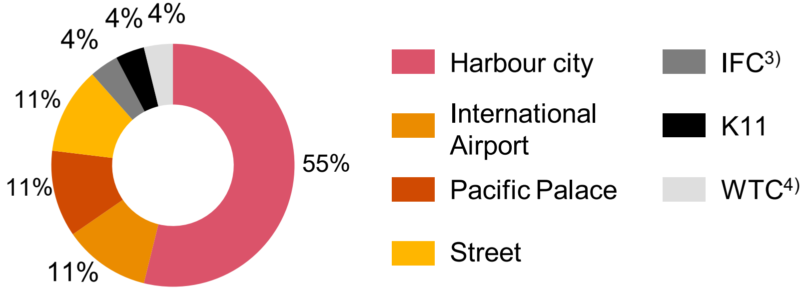


- **Slow growth estimated in 2023-30 driven by policy stimulation:** Optimised 'multi-entry permits' policy (in discussion) and consumption incentives (e.g. promotional air ticket, coupons, etc.)
- **But HK is still facing major challenges:** Less price advantage due to HKD appreciation against RMB and narrower global price gap, as well as intensified competition from Hainan and Shenzhen

Features of Newly Upgraded Luxury Stores in HK

Location: Centralised in Harbour City, emphasising the city centre, tourist gathering spots and luxury brand cluster

2022-2023 Luxury Stores Distribution & Upgrades



Store Features: Striking exterior and service upgrade

DeBeers 2023
Special facade radiating with the brilliance of a natural diamond

LV 2023
Eye-catching Yayoi Kusama themed decors

Chanel 2023[5]
Asia's 1st repair & experience centre offers ultimate care, repair and alteration service

Hermès 2023
VIC-only holiday decoration DIY

Notes: 1) PB&PC: Premium B&PC refers to aggregation of premium color cosmetics, premium fragrances, premium skin care and other premium beauty and personal care; 2) Writing instruments and stationery; 3) IFC: International Finance Center; 4) WTC: World Trade Center; 5) in Henley Building at Prime Central CDB district, and consumers can participate in the repair process for better experience and communication; 6) Combined total of Timepieces, Leather Goods and Jewellery categories in this chart: approximate Total of 'Jewellery, watches and clocks, and valuable gifts' per HK Census and Statistics
Source: PwC analysis

Hong Kong: More luxury brands have changed directions, embracing HK's experience economy in areas of culture, entertainment, delicacy and fine living

Luxury brands are elaborating experiential economy, combing entertainment, culture, and delicacy

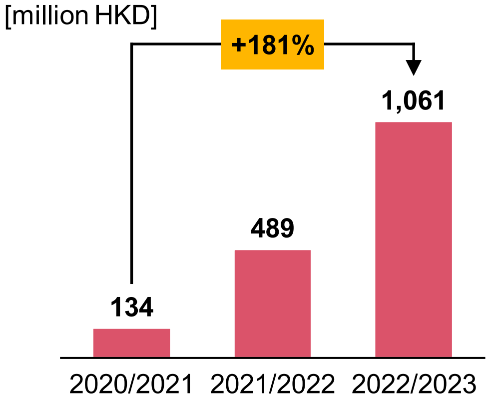
'New' Travelers

Shopping First → **Experience First**

- Culture Heritage
- Concert & Show
- Trendy Destination
- Michelin Cuisine
- Traditional Flavour
- Shooting Location
- Art & Exhibition

Luxury x Entertainment & Culture

URBTIX Ticket Revenue[1)]



Entertainment

Louis Vuitton 2023
1st Hong Kong fashion show at the art and culture centre, Tsim Sha Tsui

Hermès 2023
Poetic and cinematic performance show to immerse the audience in an imaginary universe

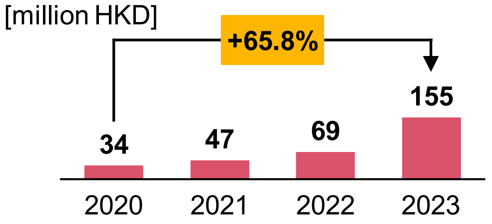
Culture

Cartier 2023
Presented exhibition - 'cartier and women' jewelry showcase in Hong Kong Palace Museum

Chanel 2023
First-ever partnership with cultural institution (M+ cinema) to restore 9 classic HK movies

Luxury x Cuisine

Luxury Foodservice Revenue



Baccarat 2023
Collaborated with Michelin chef to create a restaurant[2)] that incorporates Baccarat crystals into its design

Louis Vuitton 2024
Opened a pop-up store and cafe showcasing 2024SS collection and partnered with Michelin restaurant to offer a unique menu at Harbour City

Notes: 1) URBTIX (Urban Ticketing System) provides one-stop ticketing services mainly for hirers or event presenters and audiences of the Leisure and Cultural Services Department performance venues; 2) Cristal Room Restaurant, at the Landmark
Source: Euromonitor, PwC analysis

Hainan Market Summary: As the 2025 'seal-off' policy is approaching, Hainan will become the 3rd domestic offshore area after Hong Kong and Macau, offer various tax incentives and generate enormous business opportunities

2025 'Seal-Off' Policy in Hainan (Hainan 2025 Policy)

- **Overview:** Hainan will become a special area featuring independent customs supervision by 2025, and will implement special supervision policies and operating model shown as below:

Over-seas

Free flow through the 1st line[1]: Goods and articles will be exempted from customs supervision and freely transferred

Hainan 'Liberalisation on the island'

Company/Institution
Accurate and efficient supervision with low-interference

0 tariff goods
Exempted from routine regulation

Control at the 2nd line[2]: Goods and articles will be subject to customs supervision and taxation

Other areas of Chinese mainland

The 'seal-off' policy is favourable for the deployment of luxury groups

- **Tax Advantages:** Duty-free categories are expanded, 0 tariff, turnover tax will be reformed, preferential corporate tax and individual income tax

	Before 'Seal-Off' (2020–2025)	After 'Seal-Off' (2025–2035)
Tariff/ Consumption Tax/VAT	**List Management:** Goods of 4 categories[3] are exempted from tax	**Expand Scope:** All allowed goods are exempted from tariff **Turnover tax will be reformed**
Corporate Tax	**Only Encouraged Companies[4]**: 15%	**Companies Except for those on the Negative List:** 15%
Individual Income Tax	**High-end/High-demand but scarce Talents[5]**: 15%	**Residency in Hainan>183 Days:** 3%/10%/15% tax based on income

Opportunities in Hainan Market

1 Flourishing Duty-free Market

- **Strong Growth:** 2023-2025E CAGR of the Hainan duty-free market may reach 91%
- **Favourable Policies:** Trigger expansion of luxury brands, sports and leisure tourism

2 High Potential Segments

- **Existing Market:** Enhance cosmetics, jewellery and watch categories
- **Emerging Market:** Expand yachting, surfing and cruise with local characteristics

3 Operating Model After 'Seal-off'

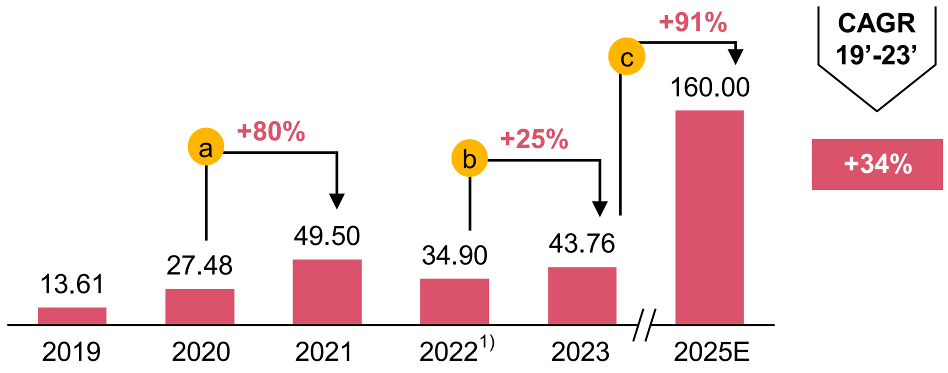
- **Short Term:** Luxury groups may operate general stores[6] only
- **Long Term:** Brands and DFO may be the same within China and DFO license may be cancelled

Notes: 1) 1st Line: between Hainan and overseas beyond the customs territories of PRC; 2) 2nd Line: between Hainan and the other regions within the customs territories of the PRC; 3) The 4-category list includes: production equipment imported by enterprises for own use, ships/aircrafts/yachts imported to for transportation and tourism, raw and auxiliary material and imported goods consumed by the island residents; 4) Companies listed in the Industrial Structure Adjustment Guidance Catalogue 2024, Encouraged Foreign Investment Industries Catalogue 2022, Catalogue of Encouraged Industries in Hainan Free Trade Port 2024; 5) Talents listed in Qiong〔2022〕No. 31 Policy; 6) General stores refer to the stores in Hainan that do not have duty-free licenses

Source: Hainan Development and Reform Commission, PwC analysis

1 Hainan Market Outlook: Favourable 'seal-off' policies, coupled with enhanced sports and leisure tourism will accelerate the growth of Hainan market, positioning it as a pivotal battleground for luxury groups

Policies have propelled the flourishing of the Hainan duty-free market



	2019	2020	2021	2022	2023	CAGR 19'-23'
No. of Duty-free Consumers [million person-time]	3.84	4.48	6.72	4.22	6.76	+15.2%
No. of Duty-free Stores	4	7	10	11	12	+31.6%

a **Market Boom in 2020 - 2021:** Fueled by optimised duty-free policies, featuring higher quotas, broader categories, expanded eligibility and frequencies

b **Market Recovery in 2022 - 2023:** Driven by visa exemptions, extended international routes, and a new pick-up upon purchase policy

Favourable 'seal-off' policies will further stimulate its growth

c Trigger the Expansion of Luxury Brands

	Tariff	Franchise Fee/ B2C Sales Tax
Dufy-free Operators:	0	4% Franchise Fee
General Stores[2)]:	0	Hainan turnover tax reform is under discussion

Close the Gap

c Promote Sports and Leisure Tourism

- **Sports Tourism:** Create a sport-centric province that hosts world-class sporting events
- **Leisure Tourism:** Establish a globally renowned tropical coastal leisure and wellness centre

110 million RMB (in 2023)	40 billion RMB (by 2025)	10% of GDP (by 2025)	Home Port (by 2030)
Special fund for cultural and sports activities	Target sports & fitness market size in Hainan	% of the wellness industry of Hainan's GDP	Develop a modern international cruise home port[3)]

Notes: 1) Deep drop due to strict covid-19 control and provision policy; 2) General stores refer to the stores in Hainan that do not have duty-free licenses; 3) Integrate various functions such as cruise tourism, route operations, duty-free consumption, transportation hub, cultural leisure, etc.

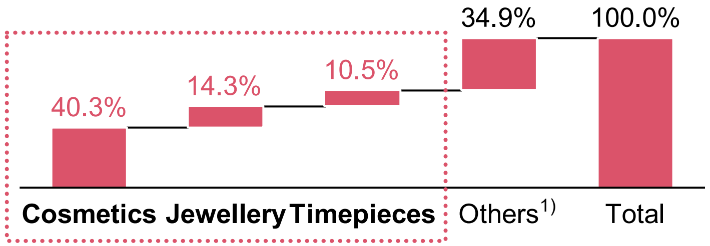
Source: Hainan Development and Reform Commission, Hainan Provincial Department of Tourism, Culture, Radio, Television and Sports, The People's Government of Hainan Province, PwC analysis

2 High Potential Segments: In addition to reinforce cosmetics, jewellery and timepieces in Hainan, luxury groups may also consider expanding to nautical categories through collaboration with upscale venues

Existing market: Cosmetics, jewellery and watch

Categories

% of Duty-free Revenue in First 3 Quarters in 2023



YoY growth **+4.8%** **+71.4%** **+50%**

Cases

Gucci & Ritz-Carlton salon event in Haikou

OMEGA's Seamaster Summer Blue launch in Sanya

Emerging market: Yachting, surfing and cruise

Sports Tourism

Yachting

[Sanya, 2023]

84.7% YoY

1,008.7K yacht tourists

Chanel pop-up yacht club on Long Island

Surfing

[Sanya, 2023/02-2023/10]

202% CAGR[2)]

329 surf clubs

Dior & Edition pop-up store with surfing products in Sanya

Leisure Tourism

Cruise

[Hainan Xisha cruise line, 2023]

405% YoY

149.4K domestic tourists

Dior's wellness spa cruise trip in Paris

Implications

- **Hainan serves as crucial channel for cosmetics, jewellery and watches:** Continuously to enhance these categories in Hainan market
- **Expand nautical products with localised characteristics:** Such as surfboards and suits, and introduce products inspired by local nautical features
- **Collaborate to provide luxurious experience:** Partner with cruises, resorts, surf and yacht clubs for themed pop-up stores and offer exclusive services

Notes: 1) Others include 42 categories account for 34.9% of the total duty free revenue in Hainan; 2) CAGR of 2021-2023

Source: Hainan Provincial Department of Tourism, Culture, Radio, Television and Sports, PwC analysis

3 Operating Models After 2025 ‘Seal-off’: Within first few years of ‘seal-off’, luxury groups may operate general stores[1)] only, with the possibility for less difference with DFO in long run

Within the first few years after ‘seal-off’

Operating Models of Luxury Brands

Directly Owned: May only operate general stores
due to the difficulty in obtaining duty-free licenses

Overseas | **Hainan**

Overseas Suppliers → Purchasing Centre in Hainan → **General stores[1)] vs. Duty-free stores (DFO)[3)]** → B2C: turnover tax, under discussion[2)]

No tariff

Tourists Stay in Hainan: No further tax

Tourists Leaving Hainan:
- **Potential** taxes for General stores
- No further tax for DFO within quota

Product Categories

- Limited categories for DFOs
- High-unit-price products, such as apparel, leather goods, luxury jewellery and timepieces, etc.
- Competitive products

Required Capabilities

- **Store Location:** In mature tourism centres (Sanya, Haikou, etc.) and essential pathway for departing the island (airports, ports, etc.)
- **Pricing Strategy:** Balance with traditional channel pricing
- **Supply Chain:** Build up travel retail supply chain and self-operated bonded warehouse / distribution centre to benefit from short lead time, cost-effectiveness and flexibility to access Asia Pacific and Greater Bay Area, etc.

Afterwards (maybe after 2028)

Operating Models of Luxury Brands

Directly Owned: Less difference between duty-free stores and general stores
As new duty-free licenses may be released or existing ones may be cancelled along with the maturation of infrastructure and the retail market mechanisms in Hainan

Overseas | **Hainan**

Overseas Suppliers → Purchasing Centre in Hainan → **Stores** → Further tax reform

No tariff

Tourists Stay in Hainan: No further tax

Tourists Leaving Hainan: No further tax within quota

Product Categories

- Full categories
- Low-unit-price products, such as eyewear, perfume, cosmetics and accessories, etc.
- Traffic products

Required Capabilities

- **Governmental Relationships:** To secure better location
- **Differentiated SKUs:** Distinct product categories and SKUs from general stores
- **Pricing Strategy:** Overall strategy to balance omni-channel pricing, including general stores in Hainan (with no tariffs but subject to sales tax) and traditional channels[4)]

Notes: 1) General stores refer to the stores in Hainan that do not have duty-free licenses; 2) Turnover tax treatment in Hainan is still under discussion; 3) & 4) Traditional channels refer to stores outside of Hainan subject to tariffs, import VAT and consumption tax
Source: PwC analysis

T

1 Transformation

Strategic Value: As the foundation for realising all the opportunities, a sustainable supply chain will contribute to substantial financial outcomes

Policy Requirements

Global: ISDS[1)]

- Disclose sustainability and climate-related risks, opportunities and absolute GHG emissions throughout the entire value chain

Europe: CSRD[2)]

- Mandatory requirements for the value chain risk management and quantified short/mid/long-term targets disclosure

China: 'China's Green Development in the New Era' White Paper

- Develop green systems, including green factories, supply chains, packaging, logistics etc.

Sustainable Supply Chain Definition & Characteristics: TRACE

Sustainable Supply Chain[3)]

is the management of **environmental, social and economic impacts and the encouragement of good governance practices**, throughout the lifecycles of goods and services

Trusted	Resilient	Agile	Circular	Eco-friendly
Drive ethical, responsible and transparent practices	Secure ability to withstand and recover from disruptions	React to uncertainties quickly and efficiently	Maximise utilisation efficiency and create closed-loop ecosystem	Prioritise low carbon and ecological well-being

Achieved Values

- Accelerate Growth
- Mitigate Risks
- Elevate Brand Impact
- Enhance Consumer Engagement
- Optimise Cost

Notes: 1) ISDS: IFRS sustainability Disclosure Standard; 2) CSRD: Corporate Sustainability Reporting Directive; 3) United Nation
Source: PwC analysis

Key Success Factors: To establish a centralised, synergised and efficient supply chain, it's essential to capture key success factors for each stage to maximise business values (1/2)

	Supplier Management	Product Design	Sourcing	Packaging
Key Success Factors	**Engaging**	**Innovating**	**Responsible**	**Evolving**
Key Initiatives	• Supplier Life-cycle Management • Supplier Empowerment	• Material and Technology Revolution • Design Innovation	• Green Benchmarking • Certified Traceability	• Material Substitution • Weight & Size Minimisation
Strategic Values	**Mitigate Risks** **Elevate Brand Impact**	**Accelerate Growth** **Elevate Brand Impact** **Enhance Consumer Engagement**	**Mitigate Risks** **Optimise Cost**	**Enhance Consumer Engagement** **Optimise Cost**
Best Practices	• **Supplier Management:** Integrate ESG into supplier Codes of Conduct, supervision and assessments • **Supplier Empowerment:** Provide ESG training, host supplier forums, and co-invest in cutting-edge technology	• **Material and Technology Revolution:** Transit to bio-based, recycled or cell-cultivated materials while pioneering CCUS[1] and AI • **Design Innovation:** Adopt adaptable design and introduce sustainable / inclusive product series or brands	• **Green Benchmarking:** Provide quantifiable guidelines to benchmark and evaluate souring decisions • **Certified Traceability:** Utilise blockchain and digital codes to certify the authenticity and traceability of products	• **Material Substitution:** Employ certified, recyclable and degradable materials, or utilise enzymatic recycling technology • **Package Minimisation:** Embrace minimalist packaging through 'N in 1' designs and lightweight options

Notes: 1) CCUS: Carbon capture, utilisation and storage

Source: PwC analysis

Key Success Factors: To establish a centralised, synergised and efficient supply chain, it's essential to capture key success factors for each stage to maximise business values (2/2)

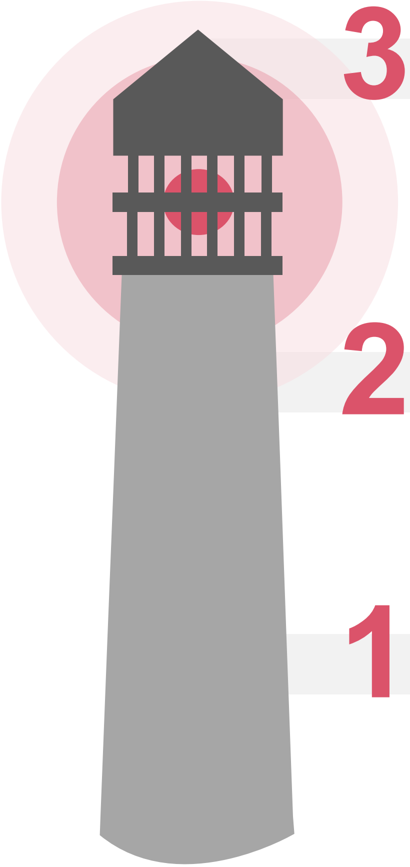
	Warehouse & Logistics	Operation & Store	Circularity
Key Success Factors	**Planning**	**Standardising**	**Prolonging**
Key Initiatives	• Network Optimisation • Sustainable Logistics • Green and Smart Warehousing	• ESG-linked Business Management • Sustainable Retail	• Recycle, Reuse and Remake • Resale, Rental and Shared
Strategic Values	**Accelerate Growth** **Mitigate Risks**	**Elevate Brand Impact** **Enhance Consumer Engagement** **Optimise Cost**	**Accelerate Growth** **Optimise Cost**
Best Practices	• **Network Optimisation:** Implement an E2E automated network planning system • **Sustainable Logistics:** Leverage intermodality, optimise routes and invest in innovative renewable energy / fuel • **Green and Smart Warehousing:** Evolve towards a carbon-neutral and intelligent hub	• **ESG-linked Business Management:** Develop ESG profit & loss model to quantify ESG impact of the company's activities into monetary value for business decisions • **Sustainable Retail:** Formulate life-cycle green store standards that encompass both embodied and operational aspects	• **Recycle and Remake:** Initiate consumer engagement activities with an incentive mechanism to recycle and remake for reuse • **Resale, Rental and Shared:** Develop or invest in a resale and rental platform to enhance product utilisation and extend life cycle

Source: PwC analysis

3 Key Takeaways: Be the 'BEST' Luxury Brand

Key Takeaways: Luxury Groups should be the ‘**BEST**’ in offerings, management and operations to dominate the rapidly evolving market in the upcoming decade

Pioneer as a ‘VICTOR’



Take the No. 1 ‘SLOT’

3 Strategy Levers

Promising Consumers
- VICs & 2nd generation of UHNWIs/HNWIs
- Sustainable consumers
- Special consumers: Children, pregnancies & PWI[1)]

Growing Categories
- Premium fragrance
- Luxury jewellery
- Premium B&PC[2)]
- Upscale home furnishing

Exceptional Experience
- Skiing & cycling
- High-end travel
- Exhibition & entertainment
- Art toy

2 Operations

Traditional Channels
- **Online:** Differentiated accurate deployment
- **Offline:** Lower-tier cities and culture tourism destinations
- **HK:** Experience-combined fine living

Emerging Channels
- **SEA:** Singapore, Vietnam and Malaysia
- **Hainan:** Sports & leisure tourism, post-seal-off operation model

1 Transformation

Sustainability Foundation
- **Consumer Mindset Reinvention:** Be the activist and influencer to promote sustainable luxury lifestyle among young VICs
- **Sustainable Supply Chain - TRACE:** Trusted, Resilient, Agile, Circular, Eco-friendly

Be the ‘BEST’

Build up Visionary Strategy
- Ultra-luxe + culturally attributed offerings
- 360° ultimate luxurious lifestyles
- Sustainability integrated innovations

Enlighten Omni-channel Operation
- Fast-evolving operation model
- Precise cross-channel differentiation
- Seamless and consistent experience

Sustain Value Chain Transformation
- Sustainable supplier empowerment
- Interactive consumer engagement
- Collaborative government & industrial alliance

Notes: 1) PWI: People with impairment; 2) B&PC: Beauty & personal care
Source: PwC analysis

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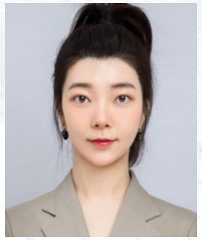

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