KPMG

The Moodie Davitt Report

2024 Hainan Travel Retail Whitepaper

Resilience and leadership through innovation

April 2024

By KPMG China and The Moodie Davitt Report

Foreword

The tourism and retail sectors are thriving in the Hainan Free Trade Port, the largest free trade zone in China, and new breakthroughs are being achieved in the effort to develop the island into an international tourism and consumption destination. In 2023, total retail sales in Hainan increased by 10.7%, and local duty-free sales amounted to RMB 43.76 billion, representing an increase of 25.4%. These figures reflect steady momentum in tourism and retail and point to an accelerating recovery of the consumer market.

With its integrated, open travel retail market and vibrant travel and shopping offerings, Hainan has become a leader in the development of the consumer industry. In 2023, with government policy support, the Hainan Free Trade Port explored a new development model characterised by experience-based consumption, luxury offerings, duty-free business and high-end retail. Meanwhile, a number of travel retail companies in the area have embarked on digital transformation journeys, and they are in the process of integrating online and offline channels to align with local consumer trends and improve their competitiveness.

In this dynamic era, factors such as tax regime innovation, operations management and technological changes will have a significant impact on the upgrading and expansion of the local travel retail market. In order to help local travel retail enterprises better understand industry conditions, KPMG China, The Moodie Davitt Report and L'Oréal have jointly launched the 2024 Hainan Travel Retail Whitepaper. The report offers deep analysis of the global travel retail market and the local market in Hainan and showcases how demand and supply are being coordinated in the Hainan Free Trade Port. The report also looks at the path that the local market will take going forward and explains its resilience, which should help industry professionals, investors and partners keep abreast of industry trends.

In the future, Hainan's travel retail market will offer important support for China's consumer sector and play a significant role in serving the real economy and promoting industrial development. To succeed in the coming years, stakeholders in Hainan should be able to think creatively and identify forward-looking insights, while also summoning the courage to break new ground.

Nicole Zhang
Senior Office Partner, Hainan
KPMG China

Martin Moodie
Founder & Chairman,
The Moodie Davitt Report

Contents

01

Hainan's travel retail market from a global perspective

Defining the travel retail and duty free sectors

'Travel retail' embraces a vast worldwide business sector focused, as the name suggests, on shopping by travellers (be they domestic or international). It is a sub-sector of two principle 'parent' industries – aviation and tourism – and therefore anything that impacts those sectors, positively or negatively, invariably has a knock-on impact to travel retail.

Travel retail is anchored by the duty-free channel – goods sold free of duty and tax, usually to international travellers. However, in three cases (Hainan Free Trade Port in China, Jeju in South Korea and Okinawa in Japan), duty-free rights exist for domestic travellers – so-called 'offshore duty-free'.

Duty-free sales take place at airports and seaports; certain downtown duty-free stores; onboard airlines, cruise ships and ferries; at land border crossings; in specialised stores serving diplomatic and military personnel; and online through established duty-free retailers.

Products that can be sold duty- and/or tax-free vary by country and jurisdiction (there is no duty-free between European Union member countries, for example). Goods bought under these rules can be brought into destination countries in varying quantities, called allowances. The Hainan Free Trade Port annual offshore duty-free allowance of RMB100,000 (equivalent to about USD14,191 at the exchange rate in 2023) is the most generous in the world.

Bouncing back from the COVID-19 pandemic

Until 2020, the duty-free industry, had proven a vibrant and highly resilient business sector, historically rebounding strongly and quickly from regional and international crises (natural disasters, currency fluctuations, terrorism, economic turmoil, SARS, wars and others). But as documented in the 2023 White Paper the COVID-19 pandemic changed all that. Being a global industry offered no protection from a global pandemic; conversely it exposed sector stakeholders to it on all fronts.

Global tourism suffered its worst year on record in 2020, with international arrivals dropping 74 percent year-on-year, according to the United Nations World Tourism Organization (UNWTO). Destinations worldwide welcomed 1 billion fewer international arrivals in 2020 (down to 409 million) than in the previous year due to the COVID-19 crisis, the related fall in demand and widespread travel restrictions.

The pace and level of post-pandemic recovery has varied considerably around the world – Asia being the slowest to revive in both passenger traffic and travel retail spending terms – but the current situation globally is increasingly encouraging given the severity of the crisis.

In that context, Airports Council International (ACI) World's recently published annual World Airport Traffic Forecasts (WATF) 2023–2052 dataset, offers cause for optimism.

The report provides a comprehensive 30-year perspective on airport traffic forecasts at global, regional, and country levels, covering data sourced from 141 countries.

ACI World projects that global passenger traffic (domestic and international) will reach 9.7 billion by the end of 2024 – surpassing pre-pandemic 2019 levels for the first time. The association expects a doubling by 2042 and a 2.5-fold increase by 2052.

"In the long-term, the global passenger market dynamic is expected to transition from advanced economies towards emerging and developing ones as they experience significant urbanization and population increases, often combined with rapid economic growth favourably impacting their disposable income and willingness to travel," ACI World says.

Here are some other key numbers from that report:

- Global passenger traffic is projected to grow at a compound annual growth rate (CAGR) of 4.3% from 2023 to 2042 and 3.6% from 2042 to 2052.
- By the end of 2024, annual international passenger traffic is forecasted to approach the 4 billion mark, with domestic passenger traffic reaching 5.7 billion.
- Looking ahead to 2042, international passenger traffic is expected to reach 8.7 billion and domestic passenger traffic to reach 10.6 billion.
- In the long-term, the global passenger market dynamic is expected to shift, transitioning from advanced economies towards emerging and developing economies.
- Between 2023 and 2042, advanced economies are expected to have a CAGR of 3.2% for total passenger traffic, whereas emerging and developing economies are expected to see a more robust CAGR of 5.4%.
- Sizeable population bases and rapid rises in incomes in emerging markets are the main economic engines driving air transportation demand.

Figure1 Top 20 Passenger Traffic Markets Worldwide 2023-2052

Rank	2023	2042	2052
1	USA	China	China
2	China	USA	USA
3	India	India	India
4	Spain	Indonesia	Indonesia
5	United Kingdom	Spain	Spain
6	Japan	Japan	Torkiye
7	Torkiye	Torkiye	Japan
8	Brazil	United Kingdom	United Kingdom
9	Italy	Russia	Thailand
10	Cermany	Thailand	Vietnam
11	Mexico	Vietnam	Mexico
12	France	Mexico	Russia
13	Indonesia	Brazil	Brazil
14	Russia	Italy	Philippines
15	Canada	Germany	Italy
16	Australia	South Korea	South Korea
17	South Korea	France	Australia
18	UAE	Australia	Germany
19	Thailand	Philippines	France
20	Vietnam	UAE	UAE

Source: ACI ,KPMG Analysis

Note: Ranked ACI Forecast in 2042 and 2052

Global duty free revival

Duty-free shopping is the key component of the global travel retail market and by far its most high profile.

According to Generation Research (see next section for full details), the global duty-free industry was worth US$64.3 billion in 2022 (the 2023 figures are yet to be released). That total represents a 22.9% increase year-on-year (30.5% at constant rates) over a deeply troubled 2021. But the result was still a 26.6% shortfall compared with the all-time record high year of 2019.

For the purposes of assessing the industry's post-pandemic future, we continue to believe that 2019 serves as the appropriate global benchmark. Based on the ACI World traffic projections, we anticipate a strong year in 2024 (building on the recovery that gained pace during 2023), with most major airport and downtown duty-free retailers exceeding 2019 levels. That will build on a robust performance by most major retail players (those in the Republic of Korea excepted) to have declared their 2023 results by the time we went to press with this White Paper.

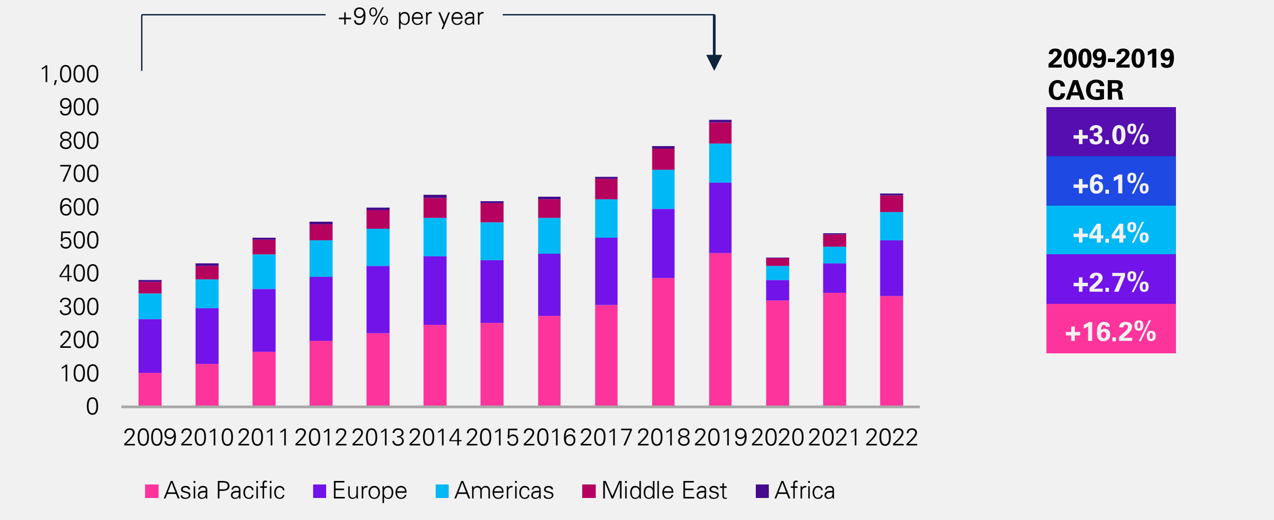
Some notable 2023 top line results have included:

- China Tourism Group Duty Free Corporation (parent of China Duty Free Group, the world's number one travel retailer by sales for the fourth year running in 2023, according to The Moodie Davitt Report): Revenue rose 24.1% year-on-year to CNY67,540 million (US$9.3 billion) [1].
- Avolta (the new 'super force' created by the merger between travel retailer Dufry and food & beverage powerhouse Autogrill: +21.6% year-on-year organic growth (proforma) in turnover to CHF12,534.6 million (equivalent to about USD13,913 million at the exchange rate in 2023) based on constant exchange rates[2].
- Lagardère Travel Retail: 2023 revenue €5,018 million up +27.8% on a reported basis and +23.4% like-for-like[3].
- Hotel Shilla (The Shilla Duty Free): Travel retail revenues slumped -32.2% to KRW2,933.7 billion in 2023, with downtown duty free sales hit severely by a Korea Customs service crackdown on bulk daigou reselling into China (see below for more details on the Korean duty free market).
- Dubai Duty Free: The world's biggest single airport (Dubai International) duty free operation experienced tough times from 2020 through 2022 but as passenger traffic recovered (to 86.4 million, just above pre-pandemic 2019) 2023 sales soared to an all-time high of AED7.885 billion (equivalent to about USD 2.15 billion at the exchange rate in 2023), a +24.4% increase year-on-year and ahead by +6.4% over 2019. Even with retail price increases considered, that was an encouraging response, once again underlines sector resilience.

The global duty free industry in numbers

The global travel retail market has returned to growth since 2020, but there are significant differences in growth rates and sizes between regions. As one of the largest markets in the global travel retail industry, the Asia Pacific market was worth approximately USD 33.4 billion in 2022, accounting for more than 50% of global duty-free sales. In particular, countries such as China and South Korea have seen their travel retail markets develop rapidly, and they have become important growth drivers for the global travel retail market. In contrast, travel retail markets in Europe and North America have been relatively lacklustre.

Figure2 Global Travel Retail Market Size 2009-2022 (in US$ 100 million)



Source: Generation Research ,KPMG Analysis

The charts below, courtesy of Generation Research, show the 2022 vs 2021 global duty-free market by region and product category. They also paint a revealing picture of the impact of the pandemic. In 2019 the market soared +10% year-on-year to an all-time high of US$86.4 billion. No-one in the industry could have imagined the dark days that lay ahead.

Figure3 2022 Reginal Market Share Breakdown

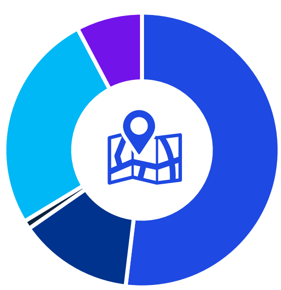


Figure4 2022 Category Market Share Breakdown

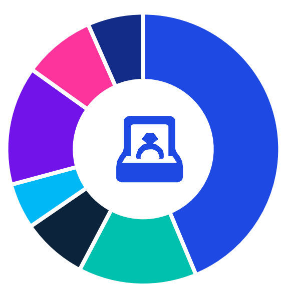
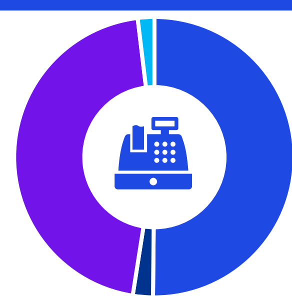


Figure5 2022 Chanel Market Share Breakdown



Source: Generation Research ,KPMG Analysis

Figure6 Duty Free & Travel Retail Sales By Region 2012-2022 (in US$ millions)

Region	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asia Pacific	19,902.2	22,317.9	24,729.4	25,294.4	27,375.3	30,827.3	38,831.9	46,157.3	33,045.8	34,342.2	33,407.5
Europe	19,272.3	20,139.3	20,581.9	18,856.7	18,732.9	20,060.7	20,802.7	21,115.4	6,280.8	8,863.6	16,655.6
Americas	10,855.7	11,162.5	11,725.3	11,276.4	10,853.4	11,655.2	11,799.8	11,492.6	3,822.0	5,030.2	8,637.0
Middle East	5,005.8	5,560.6	5,867.3	5,810.8	5,573.3	5,982.7	6,362.8	6,327.8	2,160.0	3,645.5	4,969.4
Africa	764.0	819.7	848.4	761.7	778.1	786.9	808.6	864.7	315.5	422.9	606.5
TOTAL	**55,800.0**	**60,000.0**	**63,752.3**	**62,000.0**	**63,313.0**	**69,312.9**	**78,605.7**	**85,957.7**	**45,624.0**	**52,304.4**	**64,276.1**

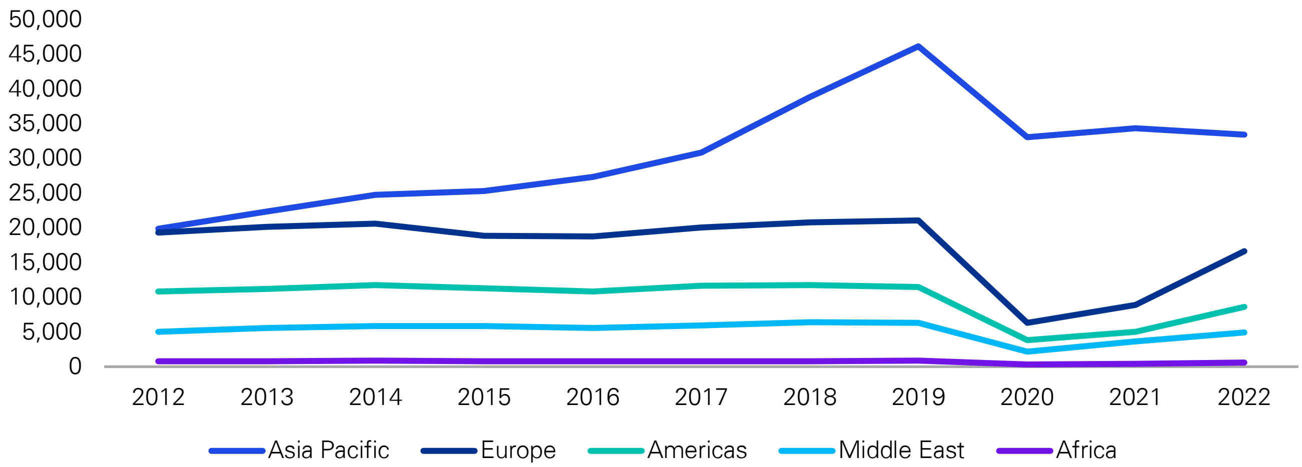
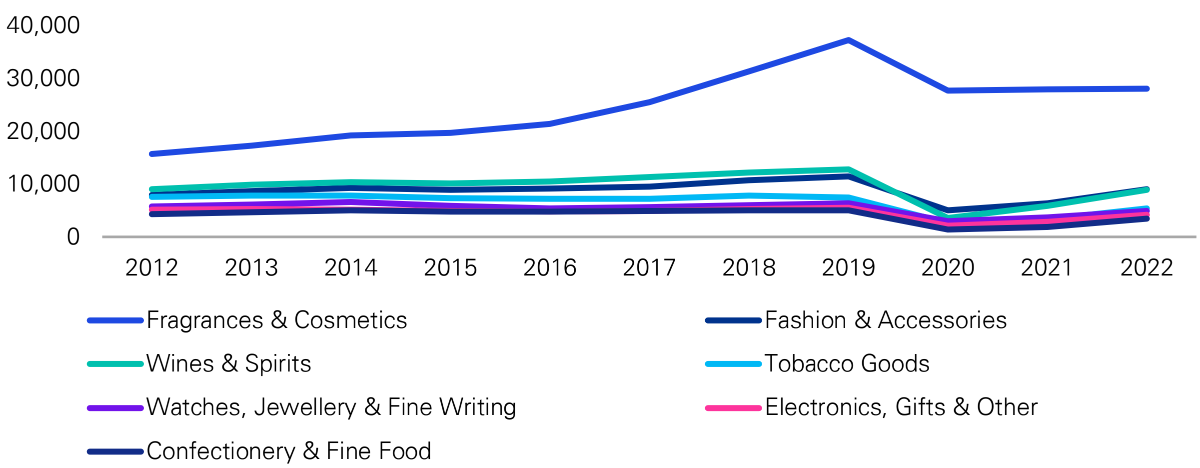


Figure7 Duty Free & Travel Retail Sales By Category 2012-2022 (in US$ millions)

Category	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Fragrances & Cosmetics	15,793.70	17,260.30	19,289.50	19,763.50	21,464.40	25,605.90	31,324.10	37,284.10	27,745.30	28,030.50	28,097.70
Fashion & Accessories	7,955.70	8,755.20	9,272.90	8,998.30	9,128.90	9,540.90	10,806.20	11,459.30	5,042.20	6,437.10	9,078.20
Wines & Spirits	9,091.00	9,862.30	10,437.00	10,150.70	10,463.30	11,350.70	12,165.80	12,769.70	3,662.50	5,881.50	8,976.70
Tobacco Goods	7,626.80	7,851.80	7,908.90	7,353.70	7,228.80	7,229.60	7,827.10	7,453.50	2,649.90	3,350.30	5,454.40
Watches, Jewellery & Fine Writing	5,767.80	6,210.80	6,601.80	5,933.90	5,435.40	5,672.10	6,022.70	6,355.50	2,958.30	3,746.00	4,952.40
Electronics, Gifts & Other	5,188.50	5,314.60	5,162.60	4,924.70	4,800.80	4,920.20	5,330.40	5,579.40	2,169.40	2,943.60	4,225.40
Confectionery & Fine Food	4,376.60	4,745.10	5,079.60	4,875.30	4,791.50	4,993.40	5,129.30	5,056.20	1,396.40	1,915.30	3,491.30
TOTAL	**55,800.10**	**60,000.00**	**63,752.30**	**62,000.00**	**63,313.00**	**69,312.90**	**78,605.70**	**85,957.70**	**45,624.00**	**52,304.40**	**64,276.10**



Source: Generation Research ,KPMG Analysis

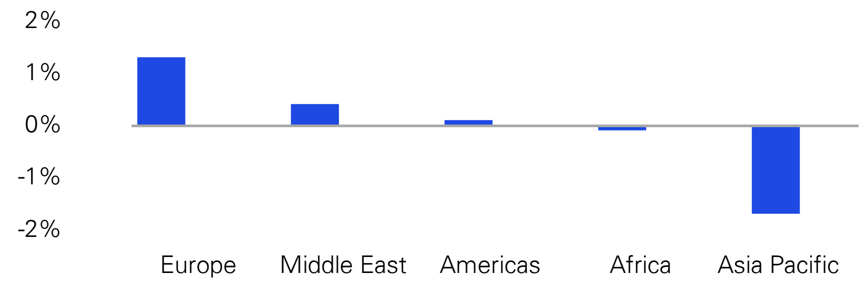
As the regional chart shows, the Asia Pacific region lost out in both sales and share terms in 2022 due to prolonged border closures in key markets and the faster recovery elsewhere in the world. While Asia in general, and China in particular, continued to lag in 2023, we expect a much more robust picture in 2024 as travel in the region continues to surge and Chinese outbound travel accelerates.

Figure8 Duty Free & Travel Retail Sales by Region (in US$ millions)

	FY2022		FY2021		FY2022 VS FY2021		FY2022 VS FY2019	
Region	**Sales**	**Market Share**	**Sales**	**Market Share**	**In US$**	**Market Share**	**In US$**	**Market Share**
Asia Pacific	33,407.5	52%	34,342.2	65.70%	-2.70%	-13.70%	-27.60%	-1.70%
Europe	16,655.6	25.90%	8,863.6	16.90%	87.90%	9%	21.10%	13%
Americas	8,637	13.40%	5,030.2	9.60%	71.70%	3.80%	-24.80%	0.10%
Middle East	4,969.4	7.70%	3,645.5	7%	36.30%	0.80%	-21.50%	0.40%
Africa	606.5	0.90%	422.9	0.80%	43.40%	0.10%	-29.90%	-0.10%
TOTAL	**64,276.1**	**100%**	**52,304.4**	**100%**	**22.90%**	**0%**	**-25.20%**	

Region Market Share% Change 2022 VS 2019

Region	Market Share
Europe	1.30%
Middle East	0.40%
Americas	0.10%
Africa	-0.10%
Asia Pacific	-1.70%



By 2022 Asia Pacific accounted for 52.0% of the global market, similar to the situation in 2019 but far short of the 65.7% in 2021 – a result largely accounted for by the success of Hainan's offshore duty-free sector, referred to as 'the lighthouse of travel retail' by The Moodie Davitt Report, and the enormous daigou reseller market in the Republic of Korea that flourished during the pandemic.

Fragrances and cosmetics continued to hold the lion's share of sales in 2022 at 43.7%, a direct reflection of the South Korean and Hainan markets, where cosmetics generally and skincare specifically are the dominant categories.

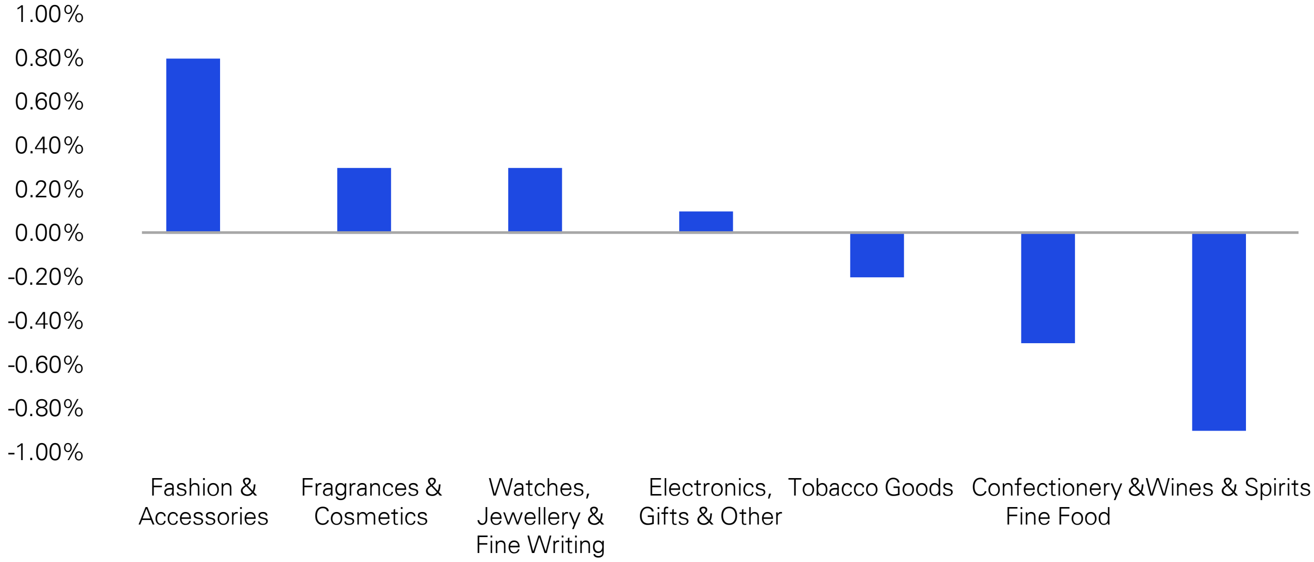
Figure9 Duty Free & Travel Retail Sales by Category (in US$ millions)

	FY2022		FY2021		FY2022 VS FY2021		FY2022 VS FY2019	
Category	**Sales**	**Market Share**	**Sales**	**Market Share**	**In US$**	**Market Share**	**In US$**	**Market Share**
Fragrances & Cosmetics	28,097.7	43.70%	28,030.5	53.60%	0.20%	-9.90%	-24.60%	0.30%
Fashion & Accessories	9,078.2	14.10%	6,437.1	12.30%	41.00%	1.80%	-20.80%	0.80%
Wines & Spirits	8,976.7	14.00%	5,881.5	11.20%	52.60%	2.70%	-29.70%	-0.90%
Tobacco Goods	5,454.4	8.50%	3,350.3	6.40%	62.80%	2.10%	-26.80%	-0.20%
Watches, Jewellery & Fine Writing	4,952.4	7.70%	3,746	7.20%	32.20%	0.50%	-22.10%	0.30%
Electronics, Gifts & Other	4,225.4	6.60%	2,943.6	5.60%	43.50%	0.90%	-24.30%	0.10%
Confectionery & Fine Food	3491.3	5.40%	1915.3	3.70%	82.30%	1.80%	-30.90%	-0.50%
TOTAL	**64276.1**	**100.00%**	**52304.4**	**100.00%**	**22.90%**	**0.00%**	**-25.20%**	

Source: Generation Research ,KPMG Analysis

Figure10 Category Market Share% Change 2022 VS 2019

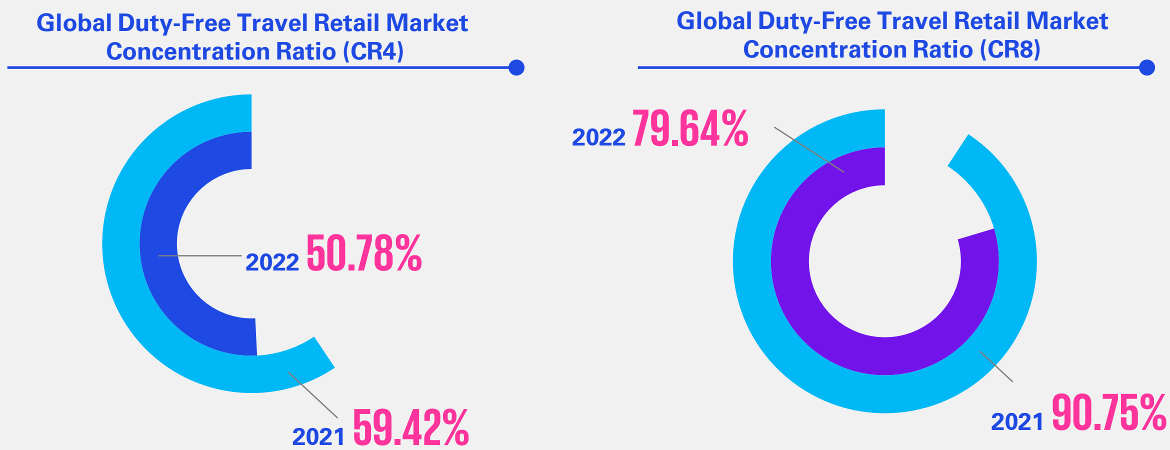
	Market Share
Fashion & Accessories	0.80%
Fragrances & Cosmetics	0.30%
Watches, Jewellery & Fine Writing	0.30%
Electronics, Gifts & Other	0.10%
Tobacco Goods	-0.20%
Confectionery & Fine Food	-0.50%
Wines & Spirits	-0.90%



The world's leading travel retailers

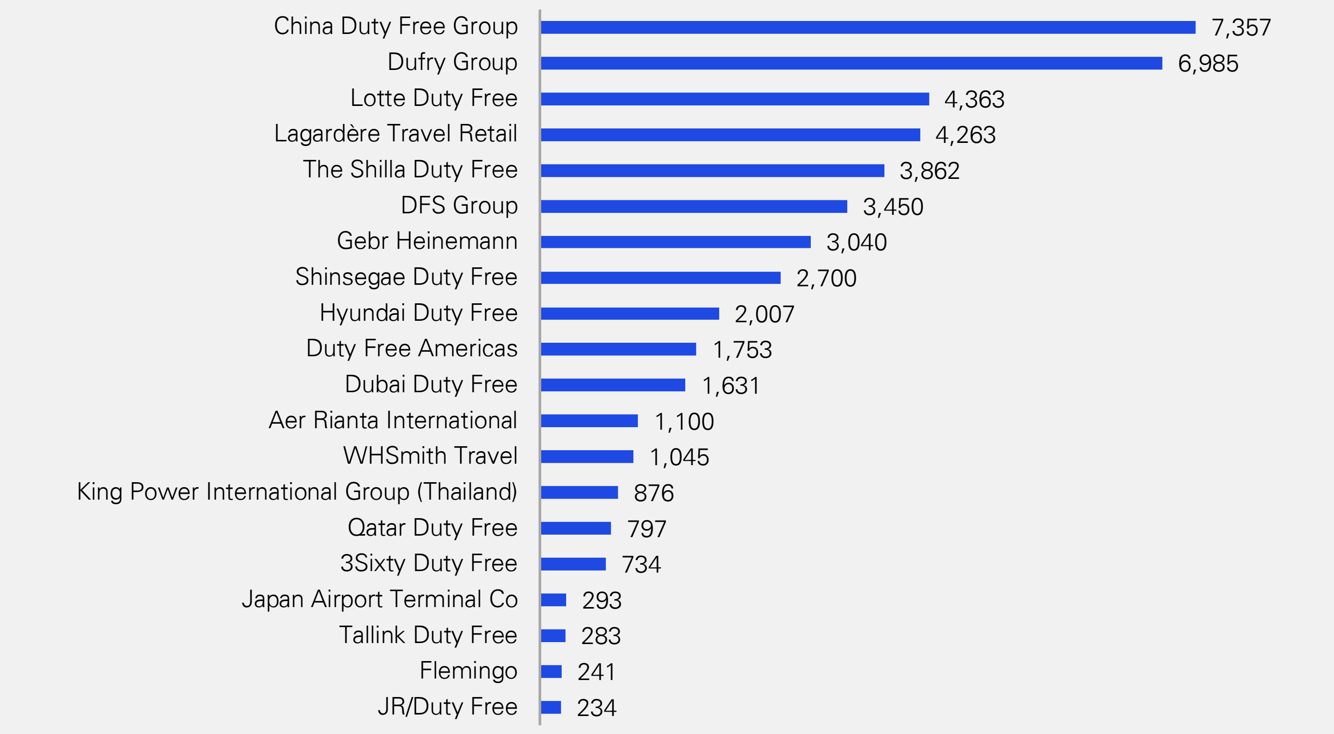
According to Moodie Davitt, in 2022, 6 of the top 10 duty-free retailers in the world were based in the Asia Pacific region, three were in Europe, and only one was in the Americas[4]. In terms of sales, China Duty Free Group and Dufry were the largest duty-free retailers, accounting for 16.27% and 15.44% of the global market respectively, followed by Lotte Duty Free, which accounted for 9.65%[4]. Based on the market share calculations for each duty-free retailer, in 2022, the concentration ratio of four companies (CR4) of the global travel retail market was 50.78%, and the concentration ratio of eight companies (CR8) was 79.64%. In other words, the market was highly concentrated in 2022 by either standard.

Figure11 Global Duty-Free Travel Retail Market Concentration 2021 VS 2022



Source: The Moodie Davitt Report, KPMG Analysis

Figure12 Top Travel Retailer Rankings in 2022 (by turnover, €million)



Source: Moodie Davitt Report , KPMG Analysis

China Duty Free Group (CDFG) remains the world's number one travel retailer by sales, a position it assumed in 2020 and which it consolidated through 2021 and 2022, according to the annual industry benchmark, The Moodie Davitt Report Top Travel Retailers[5].

Although the final 2023 rankings will be published in July 2024, we can forecast that CDFG, part of China Tourism Group Duty Free Corporation (CTG), has reinforced its status as world number one, ahead of its biggest rivals, Avolta (the combination of the Dufry/Autogrill merger) from Switzerland; Lotte Duty Free; Lagardère Travel Retail from France; and The Shilla Duty Free from the Republic of Korea.

As noted in earlier editions of this White Paper, such a ranking in the face of long-established and expert foreign competition represents an extraordinary achievement by CTG and CDFG. The sustained, at times meteoric, growth of CDFG over the past decade can be seen in its steady rise through The Moodie Davitt Report's rankings, published as a guide to the industry's leading players by turnover (and presented in Euros as our standardised currency).

In calendar year 2010, CDFG sales were a relatively modest €329 million, with the company ranked a lowly 19th in Moodie Davitt's global rankings published in mid-2011. At that point the Chinese outbound travel wave that would drive duty free sales over the next decade was still at a relatively early stage of development and the offshore duty free policy that would see Hainan island become the ultimate travel retail hotspots was only announced in 2011.

By 2015, buoyed by Hainan, CDFG ranked 12th in the list, and by 2019 had soared to fourth based on 2019 sales of just over €6 billion. In 2020, thanks to the Hainan offshore duty free policy and CDFG's operation on the island, it was the only leading travel retailer to post any growth in a pandemic-ravaged year and attained the world number one status.

That position is likely to be reinforced in future years following CDFG's heavy investment in the magnificent new cdf Haikou International Duty Free Shopping Complex opened in late 2022; the recovery of outbound travel from Mainland China, the company's recent 49% stake in fellow Chinese travel retailer CNSC; airport victories overseas; and potential M&A activity internationally.

We also anticipate the opening in 2024 (or first half of 2025 latest) of pre-departure downtown duty-free shops in the Mainland. These will allow Chinese outbound travellers to shop for the first time downtown and collect their purchases at the airport – a model that has proven so successful offshore in countries such as the Republic of Korea.

The introduction of this policy, publicly anticipated by CTG leadership, would be consistent with central government's desire to maximise domestic consumption and repatriate spending abroad.

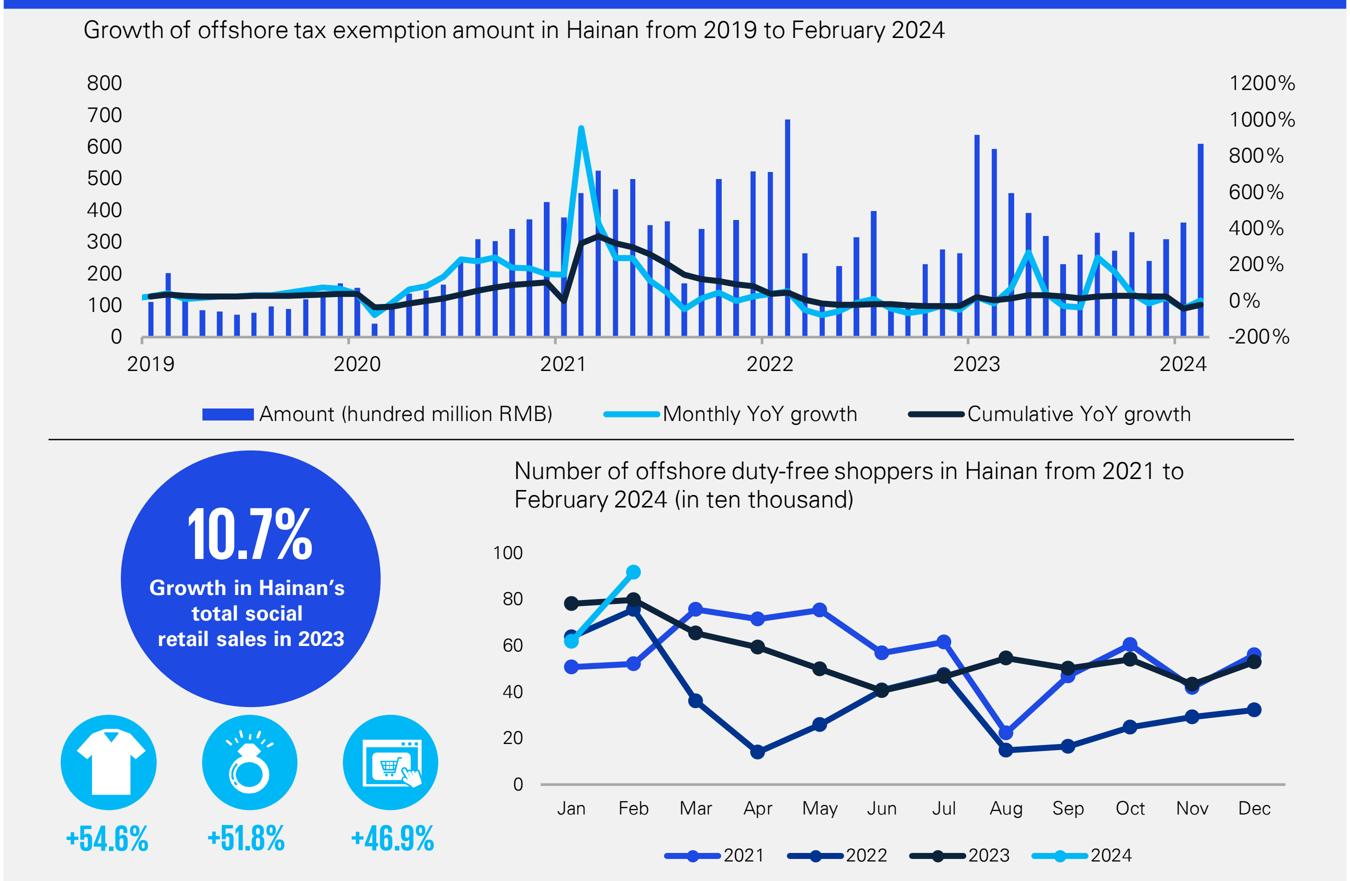
The Hainan success story

Greatest success story of the 21st century. This business has evolved from a single shop in Sanya in 2011 to a multi-billion dollar industry featuring some of the world's biggest duty free stores.

Offshore duty free sales in Hainan province increased +25.4% year-on-year in 2023 to CNY43.76 billion (equivalent to about USD 6.21billion at the exchange rate in 2023), according to Haikou Customs.

The number of shoppers rose +59.9% to 6.756 million. In 2023, 90,006,200 Chinese and foreign tourists visited the island, and tourist turnover was as high as 188.6%, causing total tourism revenue to climb by 71.9% year-on-year. Services such as hospitality, transportation and retail experienced rapid development, contributing 29.3% to the local economy[6]. These upward trends are a testament to the effectiveness of Hainan's policies and to the island's attractiveness as an international tourist destination.

Figure13 Hainan's Travel Retail Market



Source: Wind, the People's Government of Hainan Province, KPMG Analysis

The new duty free 'purchase and pick up' and 'guarantee and pick up' delivery methods introduced in 2022 played a big role in enhancing shopper convenience and driving consumption. The improvements, designed to bring much greater convenience to shopping on the island, are broadly categorised into two key areas – 'Guaranteed pick-up' and 'Buy and pick-up'. The measures increase the conversion rate of visitors to shoppers and reduce logistics costs.

Previously, consumers could only order their shopping and retailers had to package and deliver to the airport, seaport or designated self-collection point before the consumer left the island.

Those policies were the latest in a series of far-sighted measures to support the Hainan Free Trade Port development, to stimulate spending and to help business and consumers alike.

Arguably the most effective of these measures happened on July 1, 2020, when the annual offshore duty-free shopping allowance was tripled to RMB100,000. Simultaneously, the number of categories was extended from 38 to 45 (including cell phones and alcohol, the latter with a 1.5 litre per trip allowance); the previous single purchase limit of RMB8,000 (USD1,250) was removed; and the limit on cosmetics SKU (or stock keeping units) raised from 12 to 30.

Today, Hainan province is a highly competitive travel retail landscape. Its retailers include Hainan Development Holdings (trading as Global Duty Free Premium Plaza in Mova Mall, Haikou); Shenzhen Duty Free Group (Mission Hills, Haikou); in Sanya CNSC (now 49% controlled by CDFG) and Hainan Tourism Investment Duty Free Co; and, in early 2023, Wangfujing Duty Free, trading as Wangfujing International Duty Free Harbour City, in Wanning. The island's predominant player, China Duty Free Group, opened the extraordinary shopping-to-dining-to-entertainment cdf Haikou International Duty Free Shopping Complex in October 2022 to international acclaim, bolstering its other Haikou stores (downtown and airport), and those in Sanya (downtown and airport) and Bo'ao.

Government support for the offshore duty free industry is once again being underlined by the hosting of the fourth annual China International Consumer Products Expo (Hainan Expo) on April 13-18.

The Expo, already established as one of Asia's premier exhibitions, recognises that offshore duty-free is a key component of Hainan's Free Trade Platform programme. The programme, considered of key national importance, will see an island-wide Free Trade Port system focused on trade and investment liberalisation created in the Hainan FTP by 2025 (with full maturity by 2035).

This hugely ambitious event offers international brands and service companies a crucial opportunity to showcase their wares in China and, conversely, for national and local Chinese brands to promote themselves to an influential global audience.

The offshore duty free industry is a symbol of the Chinese government's ambition to retain travelling spend inside the country and to boost domestic consumption. As a market Hainan has its own rules, its own unique customer base (predominantly Chinese) and is an integral component of a 'mega-trend' – to maximise Chinese consumption at home. Hainan offshore duty free plays a dual role for brands – it is a big volume and value channel in its own right, but it also offers an incalculably priceless showcase to consumers across the vast Chinese nation.

Stepping up efforts to establish a customs jurisdiction to attract investment and promote consumption

After an independent customs jurisdiction is established in Hainan, the island is expected to be able to attract more domestic and foreign enterprises and diversify its industry structure. With its focus on tourism, modern services, high technology and tropical agriculture, when the project to establish a customs jurisdiction for the local airports is completed and infrastructure is improved, the Hainan Free Trade Port will become more globalised and attract more international tourists. From the perspective of the modern service and high-tech industries, Hainan will be more effectively integrated into the global innovation network, which will attract more international innovation resources and more Chinese and foreign high-quality enterprises and talents. Meanwhile, Hainan's agricultural enterprises will be able to more easily access international markets to export local products.

Figure14 Impact of The Independent Customs Jurisdiction – Analysis

New changes in investment and consumption

RMB convertibility

In the future, Hainan will become a place where the RMB is freely convertible, and capital will flow freely back and forth from outside the country, which will attract many trade enterprises. For enterprises that intend to engage in overseas investment and trade, relaxed capital controls are crucial.

Open Internet

A submarine optical cable has been laid that connects Hainan with Hong Kong, allowing the island to directly access Hong Kong's international Internet. Hainan will become the third region in China to open up the Internet after Hong Kong and Macao

Free flow of foreigners, foreign capital and foreign goods

At present, Hainan offers visa exemptions for tourist groups from 59 countries, and plans to provide individual arrival visas in the future. Going forward, the island will improve exit and entry policies to allow foreigners and Chinese people to enter and leave freely, making it easier for Chinese enterprises to "go global."

Future offshore trade hub

The Hainan Action Plan will promote the island's development into a new offshore international trade hub, and it will become one of China 's three major offshore trade centres in the future. The island's advantages in terms of low tax rates, zero tariffs and free capital flows make it an ideal choice as a trade centre and facilitator of capital settlement.

New features of duty-free shopping in Hainan

Optimisation of policies, regulations and services

The General Administration of Customs and other departments are supporting the construction of the Hainan Free Trade Port and constantly optimising regulatory measures. While relaxing shopping policies, they are also ensuring that they can effectively manage risks, in line with principle of "being able to exercise effective risk management before taking big steps."

Boosting tourism consumption and promoting the return of consumption to China

Hainan's tax exemption policy is attracting tourists and encouraging them to shop, while generally promoting economic development. Consumers can enjoy the tropical weather, purchase duty-free goods, and purchase overseas goods at lower prices than in their home regions. In this way, Hainan will promote the return of overseas consumer spending and boost domestic consumption.

Diversified marketing methods and products

Hainan's duty-free stores are integrating brick-and-mortar operations with emerging online channels. Meanwhile, the island's duty-free policy has been expanded to cover cosmetics, household appliances, jewelry and other fields, meeting the varied needs of consumers and providing more shopping options.

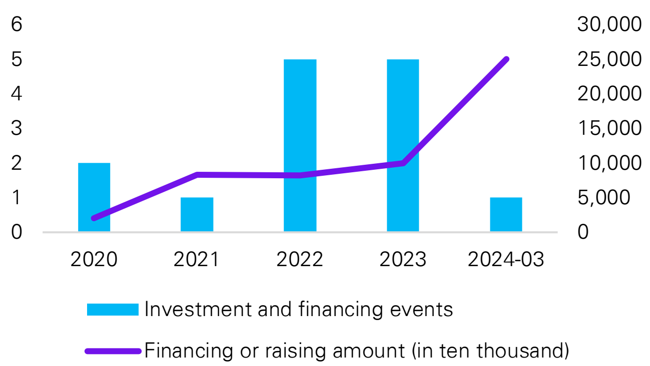
Significant price advantages, with a steadily rising tax exemption quota

Due to the tax exemption policy, duty-free goods in Hainan are priced more competitively than in other regions of China. As a result, consumers who buy imported goods in Hainan's duty-free shops can enjoy lower prices.

Luring Investment + Drawing Attention

Since 2020, private equity and venture capital (PEVC) investment in Hainan's retail and consumer goods industry has increased year by year.

As of March 2024, one investment and financing event amounting to RMB **250** million had been announced in Hainan.



Since 2023, Baidu's search index has shown that searches for terms such as "Hainan independent customs" and"Hainan Free Trade Zone" have grown in popularity, with the former reaching a rating of 400. In addition, user demand mapping shows that these two popular searches are strongly correlated.

Source: Publicly available information, Wind, CVSource, KPMG Analysis

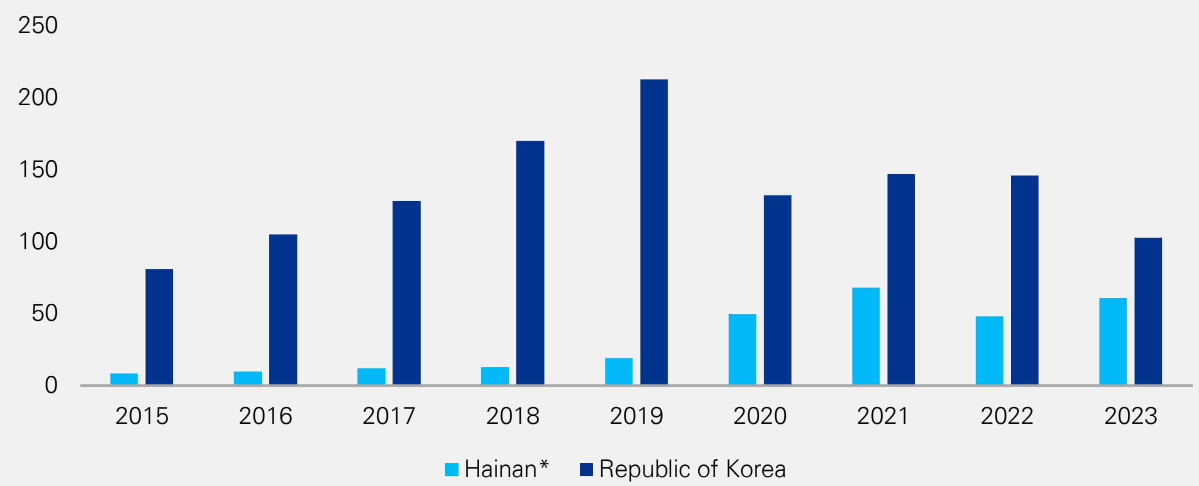
Hainan vs South Korean duty free

As in previous years, we believe Hainan's extraordinary offshore duty free sector success story offers an interesting comparative case study with the world's biggest duty free market – the Republic of Korea.

Both markets have experienced strong growth in recent years, both were reshaped by the COVID-19 crisis (in Korea's case very badly in terms of travel; in Hainan's case mostly positively due to curbing of outbound foreign travel); and both have recently introduced measures to curb daigou reseller activity.

Throughout the COVID-19 pandemic, South Korea was starved of inbound and outbound travellers. With Korean nationals being unable to travel, Korean duty free became overwhelmingly (90%+) about selling to large-scale daigou traders, a reliance that left the sector deeply vulnerable after Korea Customs Service (KCS) moved in late 2022 to curb excessive commission payments to travel agents facilitating the daigou business.

Figure15 Hainan Offshore Duty Free Sales VS Republic of Korea (South Korea) Duty Free Sales 2015-2023 (in US$ 100 million)



Source: The Moodie Davitt Report; Figures rounded; Sales in US$ at prevailing exchange, KPMG Analysis

Note:Excludes duty/tax paid

As a result, duty free retail sales nationwide (excluding inflight retail) in 2023 tumbled by -22.8% to KRW13.7 trillion (US$10.34 billion) last year according to the Korea Duty Free Association. That came despite a +104% increase in customer numbers to 22,090,480, indicating a collapse in average transaction value, the result of the crackdown on daigou trading from late 2022.

As a result, the gap between the Korean and Hainan markets closed significantly last year (see chart above). We believe it will close even further in 2024 due to a far-reaching regulatory change – again instigated by Korea Customs Service – on 1 February 2023.

The changes, created by Korea Customs Service (KCS), relate both to overseas bulk buyers and individual customers.

From 1 February, individual foreign shoppers cannot buy and take from POS more than 50 pieces of any Korean SKU (i.e. bottles of alcohol, cartons of cigarettes, cosmetics and up to 50 other identical items per brand) or ten Korean bags (per brand) and ten Korean watches (per brand).

Simultaneously, shipping such goods by freight cargo (air and sea) out of Korea for individual B2C customers is now prohibited, the customers must hand carry (between China and South Korea).

The guidelines apply both to imported and domestic products. Delivery by air or sea freight is now possible only for carry-over products and in-stock products.

The only stock that can be sold to wholesalers is as follows:

- Cosmetics products that have been in the bonded store for more than two months.
- Other products (including alcohol and cigarettes) that have been in the bonded store for more than three months.

The enormity of this change cannot be overstated. The resultant 'normalization' of the Korean duty free market will be felt at all levels of the sector. Products will have to be developed and sold in line with the consumption demands of genuine travellers – not traders.

Wholesale transactions based solely on prevailing offshore demand may offer temporary relief as a stop-gap measure to overcome crises. But ultimately they risk eroding future demand and saturating consumer purchasing desire. Korean downtown duty-free retailers need instead to adopt creative approaches to engage consumers effectively, aligning with changing trends and styles of travel.

The good news for both Hainan and the Republic is that travel remains an essential and unyielding desire for mankind. While the Korean duty-free industry represents an extraordinary success story over the past 44 years, it must now focus on qualitative growth, leveraging its strength and experience to attract local and international travellers through enticing product offers and alluring online + offline stores.

Building a golden future

In this White Paper, we have considered Hainan's offshore duty free sector within a global context. Despite an anticipated full return to 2019 outbound Chinese travel numbers in the relative short term, we remain confident in the future of the Hainan business.

Close perusal of the recent results from the island's predominant travel retailer – China Duty Free Group – support that optimistic view.

Revenues have been boosted by the late 2022 opening of the new Haikou shopping emporium, which generated around US$950 million in sales last year, roughly a quarter of its Sanya counterpart's equivalent.

More luxury stores will be added in coming months, including Prada, Miu Miu and Gucci, while a 3,000 square metre Whiskey Museum is scheduled to launch in Q3.

Category trends will be closely watched. The reseller changes have meant a decline in the market share held by cosmetics but conversely there is rising demand for accessories (particularly watches and jewellery), fashion, electronics and 'China chic' products. We expect Hainan retailers to focus more on limited-edition and exclusive products that cannot be procured online.

Pricing remains a key issue in Hainan, particularly for beauty products. Many brands are concerned about the impact on their all-important China domestic market sales from a proliferation of cheap products emanating from online retailers such as Douyin or Tmall International or heavily discounted duty free offers.

On an investment call following its 2023 results announcement, CTG said it had been adjusting its pricing strategy and has refrained from participating in an intense price war since FY22. The group is negotiating with brand owners closely to resolve what it called "irrational" pricing and/or mispricing issues, it added.

Hainan's promising retail future is not just about duty free of course, particularly from 2025. Last year Swire Properties and China Tourism Group jointly opened the burgeoning outstanding Sanya Yunjie Island duty & tax paid project in Haitang Bay, studded with some of the world's famous luxury brands including Louis Vuitton, Alexander Wang, Buccellati, Celine, Dior, Fred and many others, bolstered by an extensive food & beverage offer[7].

Swire Properties said its vision is to enhance the project's positioning as a premium international retail destination in Hainan. Look also to nearby Yalong Bay, where DFS Group is opening what it calls world-class, seven-star luxury retail and entertainment destination by 2026.

DFS Yalong Bay involves an "unprecedented" investment into a 128,000sq m site, attracting over 1,000 luxury brands including "iconic" maisons from the retailer's majority owner LVMH Group once fully operational.

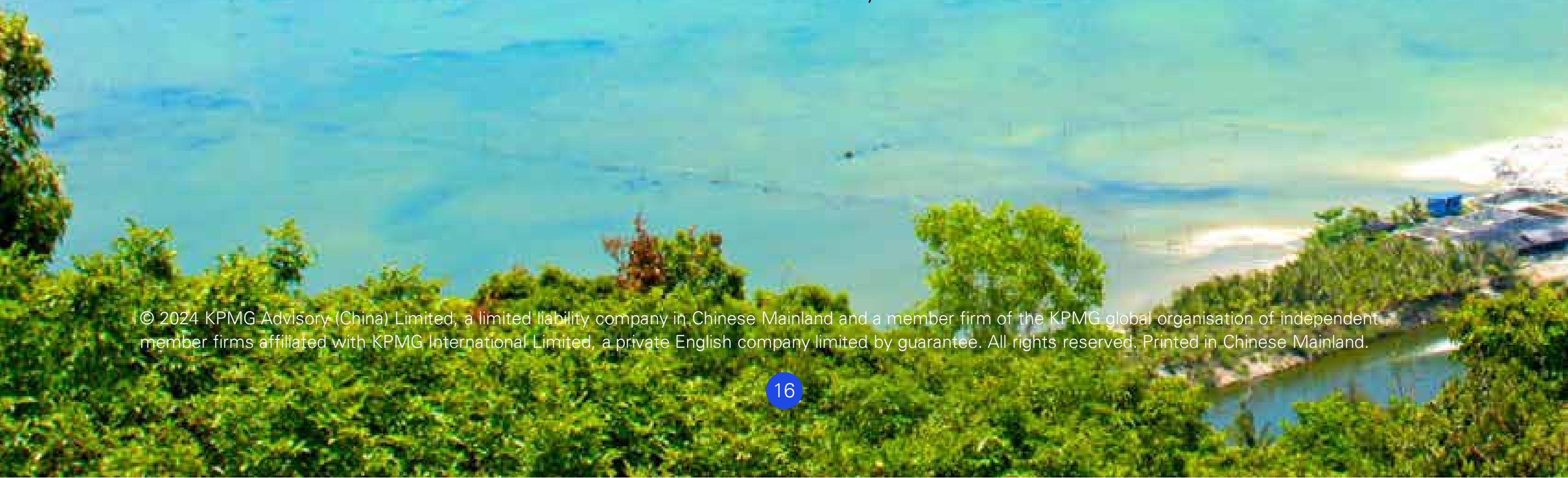
DFS claims Yalong Bay will become Sanya's premier destination for luxury shopping, world-class accommodation, dining, and entertainment, serving international and domestic tourists with innovative, renowned luxury brands and experiences[8].

There will be many other retail, leisure and accommodation developments on the island. All this will enhance Hainan's stature as an attractive, accessible and user-friendly travel destination for Mainland citizens. It has a beautiful, pristine environment and a constantly improving tourism infrastructure. Its Free Trade Port programme is developing with admirable speed, rigour and foresight, auguring well for both economic investment and tourism.

Outstanding tourism, investment and business promotion by organisations such as the Hainan Provincial Bureau of International Economic Development (Hainan IEDB), complemented by the top-class work of media houses such as Hainan Hinews Media Co and others, mean that the virtues of shopping duty free in Hainan are well-known throughout China.

Heavy investment in tourism infrastructure on the island is happening at pace – from highways to hotels, retail to restaurants. The 'culture + business + tourism' formula is surely the key to Hainan's future success as Chinese consumers increasingly seek experiential rather than simply transactional encounters.

In conclusion, Hainan's duty free and travel retail ecosystems will continue to prosper both in the short and long term. One simple but often overlooked statistic driving the business is that only a small minority of Chinese citizens (commonly estimated at 10%) have passports. There are no barriers to visiting Hainan. And many incentives.



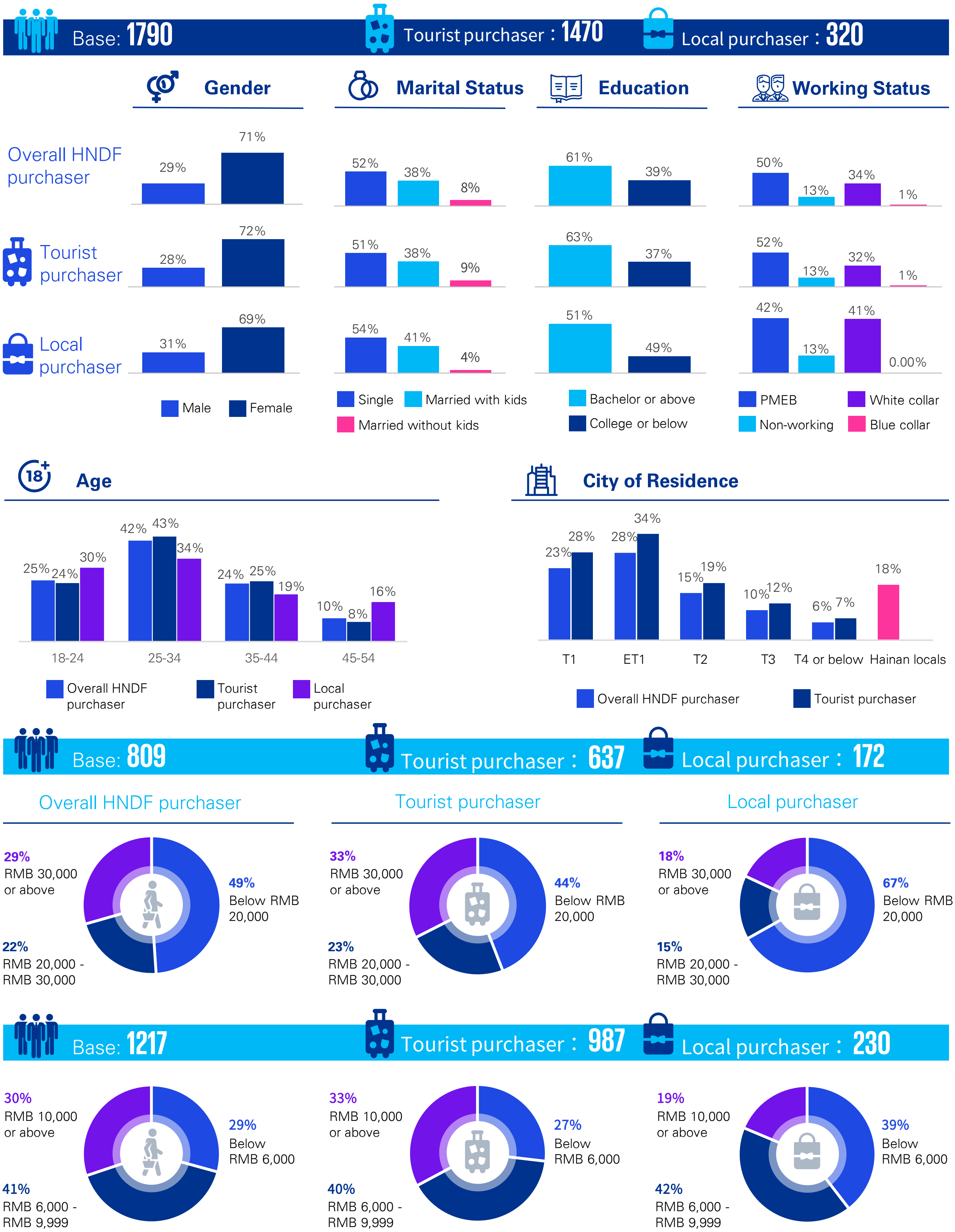
02

Well-coordinated demand in Hainan, with supply driving consumption

Consumption trends: supply and demand

Rapid economic development and improved living standards have propelled the rise of the travel retail market in China. To better understand consumer trends in Hainan's duty-free industry and the factors underlying them, this chapter uses findings from the L'ORÉAL Travel Retail APAC 2024 Hainan Shopper Study to provide unique insights into consumer behaviour that are supported by data. Stratified sampling was adopted for this survey to ensure that the samples were diverse and relevant. The first batch of samples was selected based on the dimensions of gender, age, city, educational background, marital status and occupation, so the first 1,790 respondents who participated were drawn from different social backgrounds. The subsequent two batches, which covered 809 and 1,217 respondents respectively, were based on monthly household income and monthly individual income, revealing the impact of earnings on consumer behaviour. In terms of age, the respondents ranged from 18 to 54, and their occupations included professional managers, white-collar workers, blue-collar workers and other types of work. This wide coverage ensured that the samples were representative in terms of age and occupation. Please note that the percentages may not add up to 100% due to rounding.

Figure16 L'ORÉAL Travel Retail APAC 2024 Hainan Shopper Study



Source: L'ORÉAL Travel Retail APAC 2024 Hainan Shopper Study, KPMG Analysis

Differences in consumer behaviour between Millennials and Generation Z

Millennials and Generation Z are the two main consumer age groups that were analysed in the survey, and individuals in the two groups tend to exhibit different consumer behaviours depending on their occupation, income and attitude towards consumption. Millennials are currently still the main consumer group in the market. They attach more importance to quality, customer service and brand value. However, they are more cautious than Generation Z when making purchase decisions. The latter are keen to live comfortably and spend more on entertainment, clothing and cosmetics.

L'ORÉAL Travel Retail APAC 2024 Hainan Shopper Study reveal significant differences in consumer behaviour across different age groups. Millennials are strong consumers, with 68% of respondents between the ages of 25 and 44 saying they make purchases when travelling. They not only have spending power, but are also willing to spend money on goods they like while travelling. About a quarter of the respondents were between ages 18 and 24, and a high proportion (30%) of these young consumers are from Hainan. In contrast, tourists over age 45 are significantly less willing to make purchases when travelling, with only 8% doing so.

Figure17 Population by Generation in 2023

Gen Z

A population of 260 million

accounting for 19%

Millennials

A population of 320 million

accounting for 22%

Note: Calculation based on total population and birth rate

Figure18 Total Consumption by Generation in 2023

Gen Z

RMB 7.1 trillion

Millennials

RMB 8.5 trillion

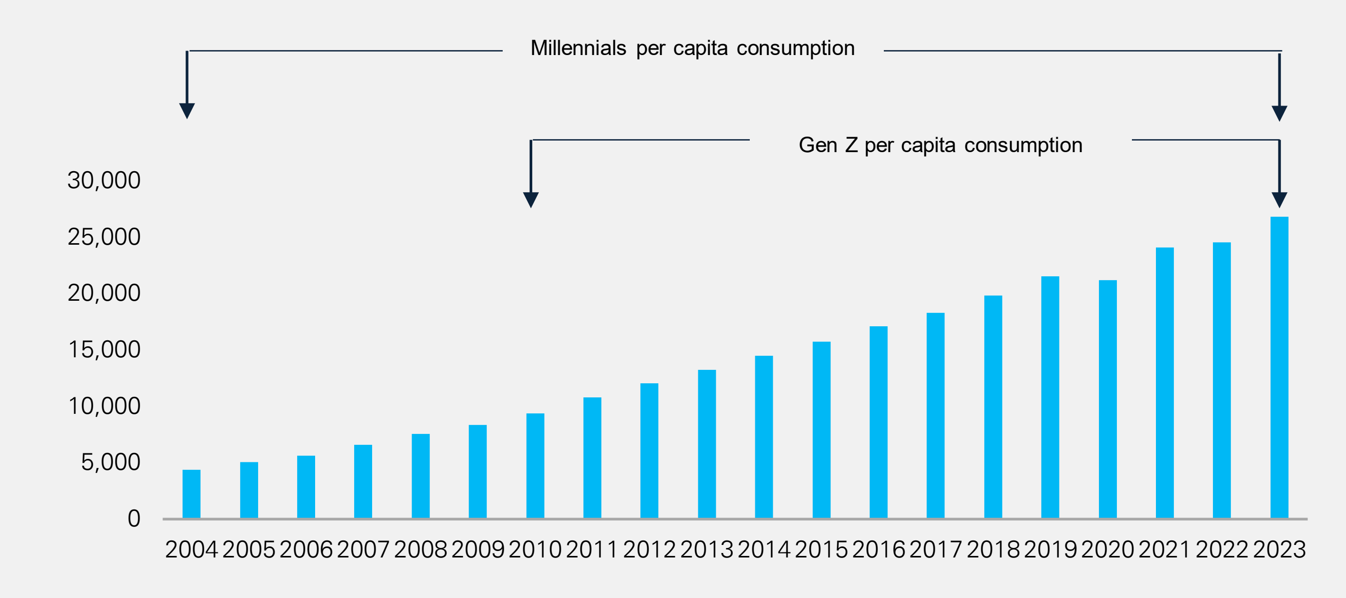
Note: Spending is calculated based on China's per capita consumption in 2023

Source: National Bureau of Statistics, KPMG Analysis

Millennials have made a significant contribution to the "travel + retail" model, mainly due to their more stable spending power, which enables them to feel less hesitant about buying expensive products and services and enjoying the experiences brought by such purchases.

Meanwhile, Generation Z is more price sensitive in respect of shopping while travelling, possibly due to their background and financial circumstances. Generation Z consumers, who grew up in the digital era and can more easily access price information, tend to be more keen to get value for money.

Figure19 Spending by Different Generations（in RMB）



Source: National Bureau of Statistics, KPMG Analysis

Note: Calculations are based on per capita spending by different generations in adulthood

A "male consumer-driven economy" is emerging, and unmarried consumers are attaching greater importance to quality

In the past, the travel retail market focussed only on women, reflecting to some extent outdated ideas about consumption and gender roles. In this sector, female consumers are prioritised, while male consumers tend to be ignored. According to the 2023 Men's Consumer Insights Report released by QuestMobile, as of April 2023, the number of male Internet users in China reached 611 million, representing 50.5% of total users[9]. These figures demonstrate that male consumers' spending power has been underestimated. Thanks to men's active presence on the Internet and their purchasing power, the "male consumer-driven economy" is becoming a more prominent market niche. This development coincides with findings from KPMG's 2023 survey on the luxury industry, which found that men account for more than 60% of first-time buyers of luxury goods. Going forward, the men's fashion segment is expected to play an indispensable role in the travel retail industry.

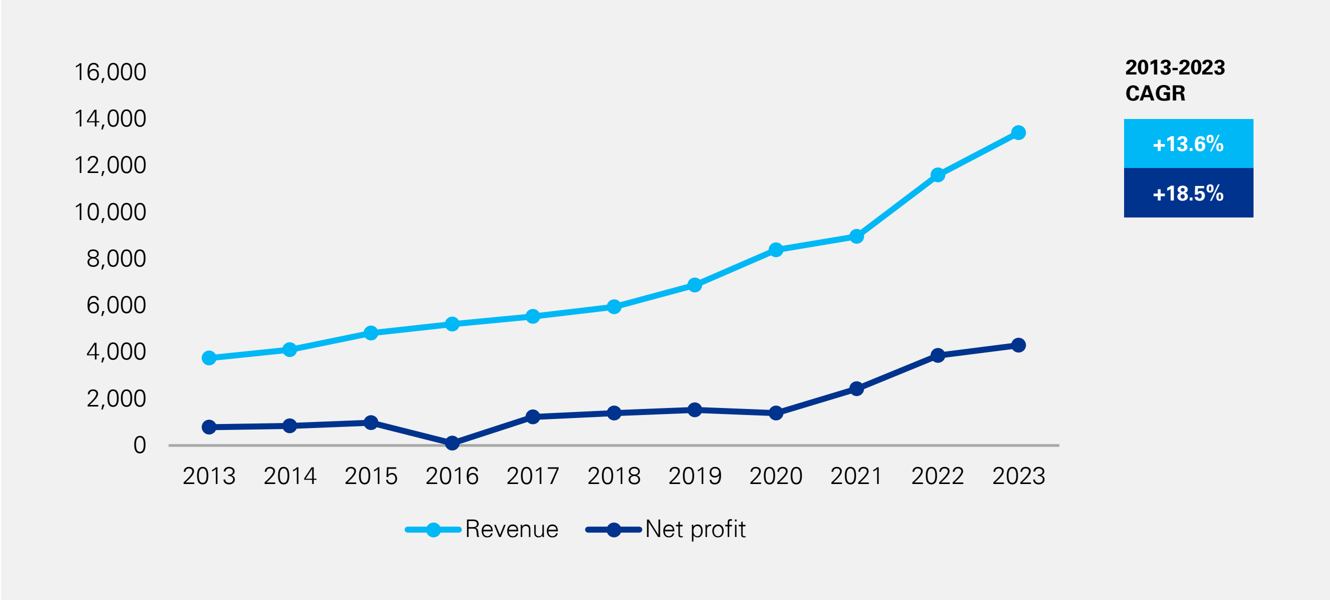
In addition, factors such as age and marital status also have a bearing on consumption behaviour, and in this regard, L'ORÉAL Travel Retail APAC 2024 Hainan Shopper Study has provided us with incisive insights. Among respondents, 61% had a bachelor's degree or above; and when making purchasing decisions, these individuals tended to be more rational and value quality. Meanwhile, among buyers, there were more tourists than local residents, which is typical of the travel retail market. It is worth noting that married consumers with children and unmarried consumers are the key players in the market, with the latter accounting for more than half of buyers. Unmarried consumers tend to be more assertive and focussed on improving themselves, and they attach more importance to personal image and quality of life. New consumption scenarios are emerging to serve these buyers, which is driving the development of new high-quality business models. In a word, the travel retail market is gradually changing from one dominated by women to one in which men are also participating, and increasingly diverse consumer attitudes are presenting new opportunities and challenges for market players.

Top luxury brands are faring well, while middle-class consumer spending is fluctuating, giving rise to experience-based consumption

In the past 20 years, the growth of the global luxury market has been largely driven by certain emerging economies, including China, with "non-core customers" being the main consumer group. This term refers to middle-class buyers who are keen to buy luxury goods and who have a certain degree of purchasing power. In the findings from L'ORÉAL Travel Retail APAC 2024 Hainan Shopper Study , we found that this group of luxury goods consumers was balanced in terms of income, with half of the group having an annual household income of more than RMB 240,000 and half having an income below this level. It is worth noting that higher-income consumers—those with an annual income of more than RMB 360,000—accounted for nearly 30% of "non-core customers," reflecting that the luxury market has deep roots among high-net-worth people. In addition, 56% of "non-core customers" were non-local tourists, whose annual household income stood at RMB 350,000 on average. The high share of non-local tourists not only highlights the lure of the travel retail market, but also non-local tourists' enthusiasm for high-quality goods.

In terms of occupation, professionals, management officers and self-employed businesspeople accounted for 50% of "non-core customers," followed by general white-collar workers at 34%. These figures point to the influence of occupation on consumer spending. Whether consumers are local residents or non-local tourists, their choices are positively related to their profession. In terms of urban distribution, more than half of "non-core customers" are from first and second-tier cities, with those from the latter category contributing 3 percentage points more than those from the former, demonstrating the momentum of consumer spending in emerging cities. In addition, 18% of these consumers are from Hainan, partly because it is convenient for local residents to purchase duty-free products. This also shows how efforts to establish an independent customs jurisdiction have formed synergies with duty-free shopping. However, the behaviour of high-income consumers tends to be deeply affected by the economic environment. When the economy is under pressure, middle-class consumers quickly adjust their approach to consumption, resulting in risks for luxury groups. Nevertheless, a closer look at financial reports released by luxury brands reveals that top luxury brands remain resilient. For example, in its latest financial report, Hermes recorded EUR 13.427 billion in revenue in 2023, representing a year-on-year increase of 21%, and its net profit grew at a compound rate of 18.5%[10]. Although the luxury market has cooled to an extent, top brands remain as resilient as ever.

Figure20 Hermes' Sales from 2013 to 2023 (by turnover, €million)



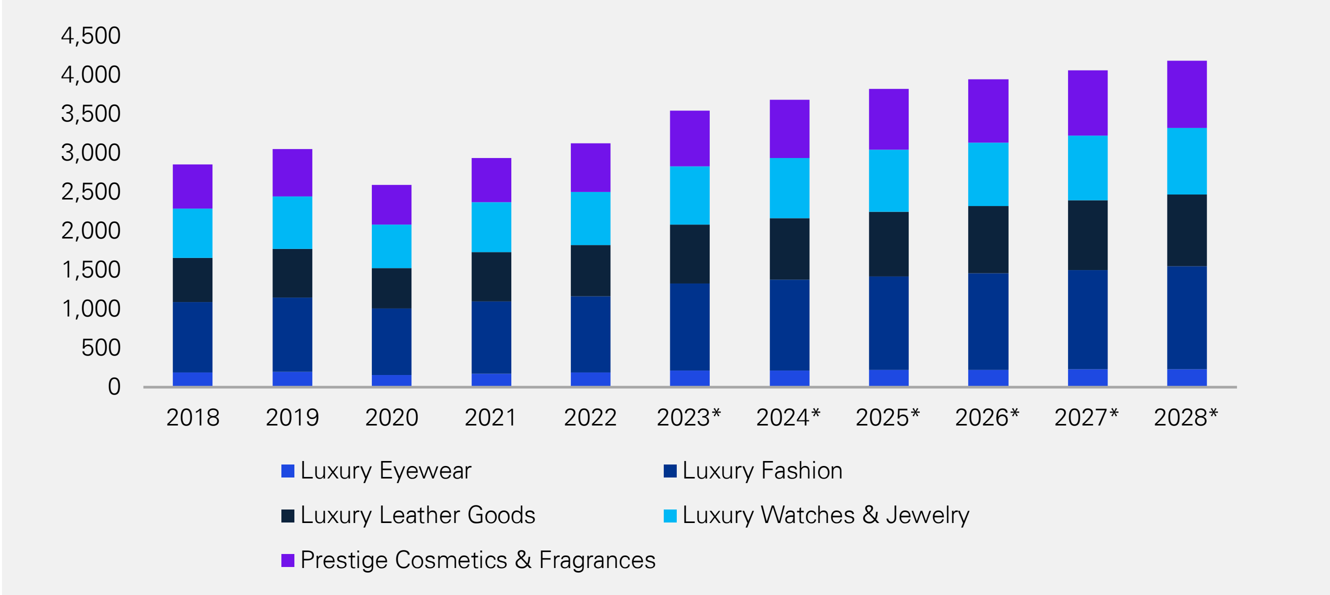
Source: Hermes, KPMG Analysis

In addition to the domestic market, overseas spending by Chinese tourists also accounts for a considerable portion of the revenue of luxury groups. In fact, luxury purchases by Chinese consumers historically were and still are mostly made overseas. For example, under LVMH's fashion and leather segment, overseas purchases by Chinese consumers rose significantly in 2023, accounting for 30% of sales . However, this figure is still significantly lower than that in 2019. A recent survey by Barclays PLC reveals that about 58% of respondents expect to purchase luxury goods in the Chinese Mainland in the next three months, with almost the same share expecting to do so in Hong Kong SAR or Macao SAR[11]. In addition, the habits of Chinese consumers while abroad have undergone structural changes. Pete Wang, chief advisor at Euromonitor International, said that present-day Chinese consumers prefer experience-based consumption, especially sightseeing and healthcare, while young people are keen on outdoor adventure. The historical consumption model has gradually shifted to a more diversified, experience-based one. In this context, luxury groups need to build their presence by turning their focus to new scenarios such as hotels and spas. Co-branding may also represent an innovative approach. To reach consumers more effectively, prominent luxury brands such as Louis Vuitton, Celine and Fendi have opened stores in the duty-free shopping mall in Haitang Bay in Sanya; and DFS, a high-end retailer, has announced that it will open a seven-star mall project in the city. These brands are contributing to the diversification of the local consumer experience.

A deep dive into the luxury market

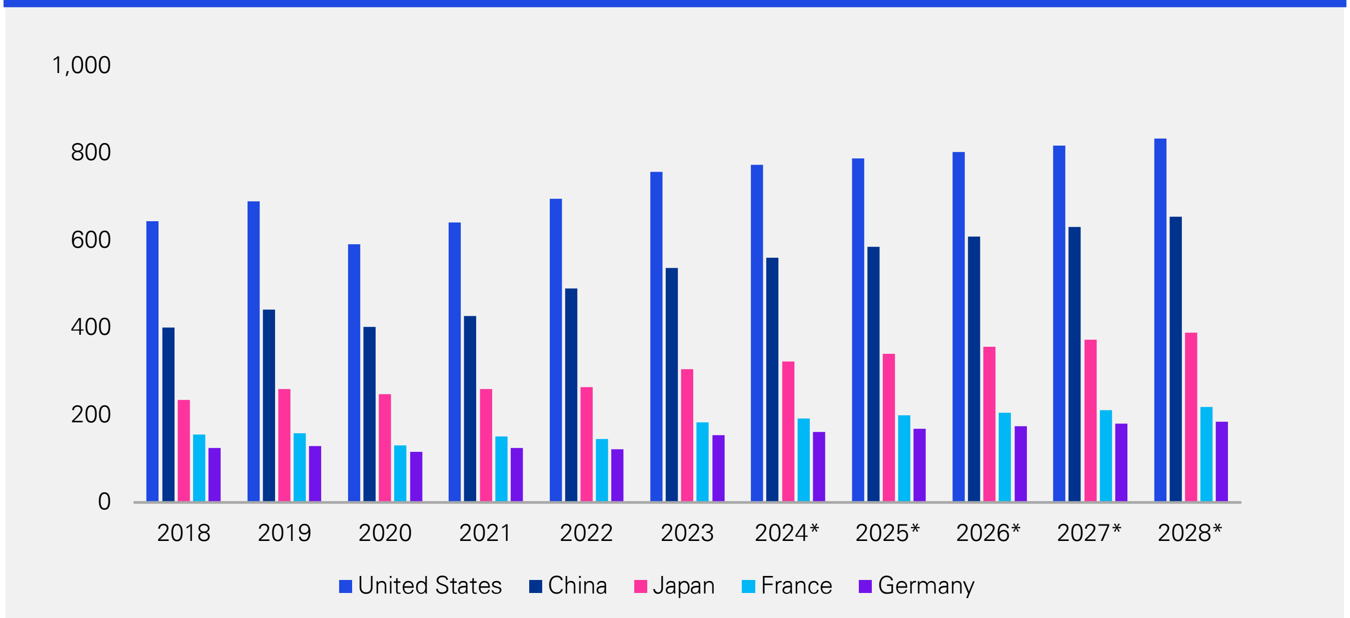
Over the years, Chinese consumers' tastes in the luxury goods market have broadened. After consuming entry-level luxury items such as lipstick and perfume in the early years, they are now exploring more expensive luxury products such as leatherware, high-end clothing, jewellery and watches. In 2023, the global luxury industry recorded USD 345.75 billion in revenue. Over the past decade, global luxury market revenue has been growing steadily across the light luxury, hard luxury, fragrance and investment luxury goods categories. Despite various challenges and mounting pressure on the economy during this period, the luxury market has remained resilient. Looking ahead, after the United States, China will continue to be the second largest luxury goods market, with a scale of USD 65.4 billion.

Figure21 Luxury Market Size Forecasts by Category (in US$ 100 million)



Source: Statista, KPMG Analysis

Figure22 Luxury Market Size Forecasts by Country (in US$ 100 million)



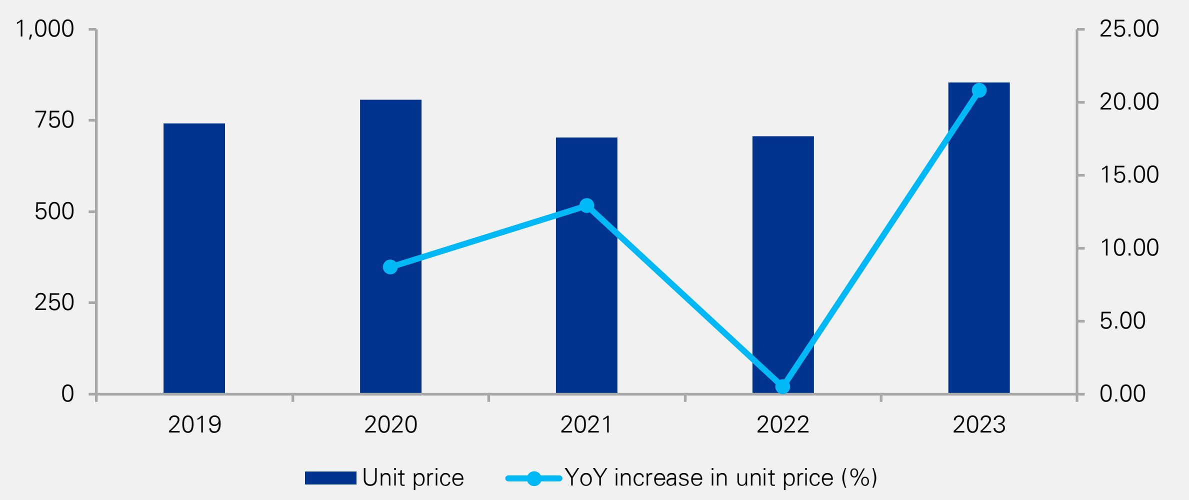
Source: Statista, KPMG Analysis

High-end consumers are emerging, giving rise to new trends in the travel retail market

China has gradually become an important driver of the global luxury market. Notably, duty-free goods are more competitively priced; and as the gap in spending power between different consumer groups widens, high-end shoppers in China tend to favour more cost-effective shopping channels. With their advantages in scale and channels, offshore duty-free shops can offer lower prices. Ongoing efforts to develop the Hainan Free Trade Port are improving the supporting infrastructure for consumers in Hainan, providing a wide variety of luxury brands and offerings, and enhancing the cost-effectiveness of shopping there.

Since the offshore duty-free policy was implemented in 2020, the number of duty-free consumers has increased year after year. Statistics show that total duty-free sales in Hainan's offshore duty-free stores reached RMB 43.76 billion in 2023, a year-on-year increase of 25.4%; and the number of shoppers reached 6.756 million, representing a marked increase of 59.9%. Meanwhile, the number of purchases ticked upward by 3.8%[12]. From 2019 to 2022, consumers transitioned from shopping overseas to shopping in Hainan, giving rise to many purchasing agents and resulting in higher per capita consumption in offshore duty-free stores on the island. Since 2023, ordinary tourists as a share of total consumers in the offshore stores have rebounded, resulting in a decrease in per capita consumption from RMB 8,262 in 2022 to RMB 6,478 in 2023. Despite this downtick, the average value per purchase climbed from RMB 706 to RMB 853, reaching a five-year high.

Figure23 Average Value Per Purchase and YOY Growth 2019-2023



Source: Wind, KPMG Analysis

Evidently, growth in the total amount of consumption in Hainan's offshore duty-free shops has mainly been driven by an increase in the average value per purchase instead of in the number of shoppers. Duty-free goods with high unit prices are the main offerings in Hainan's offshore travel retail market. In the future, luxury consumption is expected to remain strong on the island and drive overall duty-free consumption in China.

Low key and virtuality: two major trends among consumers

Chinese luxury consumers are increasingly keen on sophisticated low-key products, giving rise to quiet luxury trends that focus on technology, quality, uniqueness and elegance. To cater to this low-key trend, brands are launching products featuring as little logo as possible.

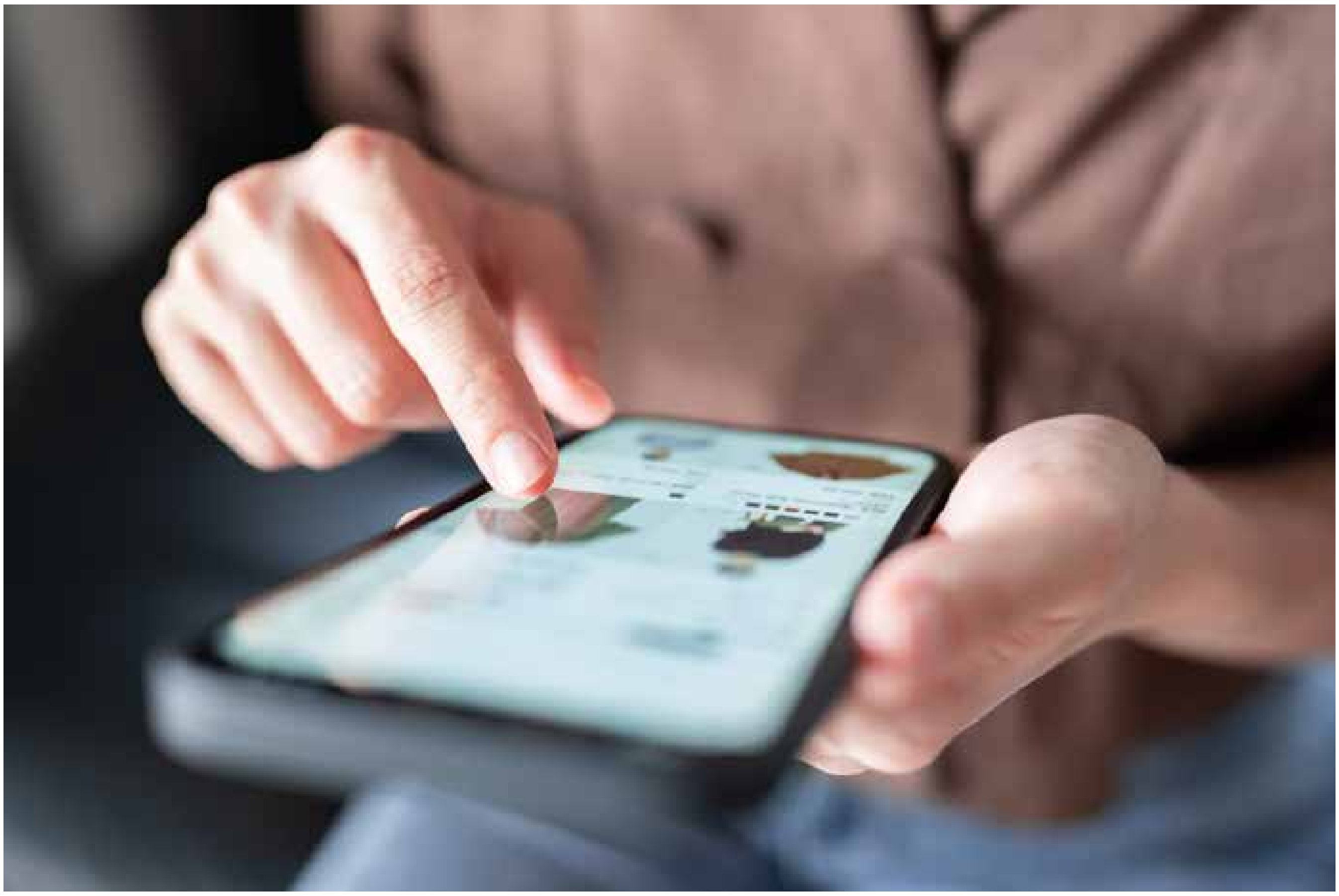
Top Italian luxury brands Loro Piana and Brunello Cucinelli, which are standard bearers in the quiet luxury segment, are speeding up efforts to expand their presence in the Chinese market. For instance, 14 of Loro Piana's 39 stores in the Chinese Mainland were opened after 2021, and some of these are located in Zhengzhou, Qingdao and Sanya. Meanwhile, the latest financial data released by Brunello Cucinelli shows that its sales in Asia, including in the Chinese market, surged by 40.4% to EUR 307 million in FY2023, accounting for 26.9% of its total sales[13].

With quiet luxury becoming a significant trend in the luxury market, digital collections, Web3 and the metaverse are also gaining momentum, providing a strong impetus for innovation in the virtual fashion industry. These developments will have a profound impact on the way consumers interact with brands.

With fashion brands widely applying virtual technology, significant improvements are being made to the consumer experience. For instance, through virtual reality-driven immersive shopping, consumers are able to try out products using their smart phones or computers, obviating the need to visit physical stores.

Digital technology can also help fashion brands attract Generation Z, which is one of the main groups driving consumption. As digital natives, their online lives are as important to them as their lives in the real world. Therefore, pivoting towards virtual fashion is not only an important step for brands to meet current market demand but is also key to their future development.

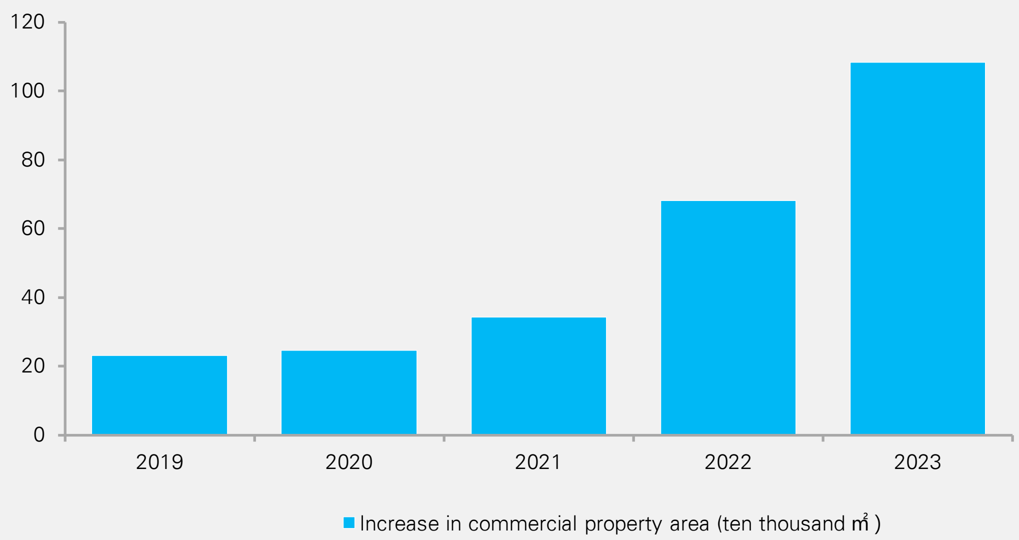
In general, virtual fashion has become an important topic of innovation in the fashion industry, both for the purposes of improving the consumer experience and driving brand development.



The business landscape is growing more vibrant, with duty-free, luxury and premium goods under the spotlight

In 2024, Hainan is continuing its effort to transform into a leading free trade port and hub for international tourism, and business districts and shopping malls are being developed on the island at an accelerated pace. According to winshang.com, at the end of 2023, there were 82 shopping malls in Hainan, with a total area of more than 5.74 million square metres. During the year, 18 new commercial projects opened, covering a total area of 1.0834 million square metres, which reflected an increase of 59%[14] year-on-year and a record high in terms of both number of projects and area. In 2024, many new commercial projects are expected to open for business.

Figure24 Area of New Commercial Projects in Hainan 2019-2023



Source: winshang.com, KPMG Analysis

As the Hainan Free Trade Port project is almost completed and an independent customs jurisdiction will soon be created, several top brands are entering the local market. In addition, driven by rising spending power and duty-free policies, the number of offshore duty-free shops continues to increase in Hainan. Light luxury brands are finding favour with consumers, and clusters of high-end luxury brands are emerging.

According to public data, business districts in Hainan are mostly located in Haikou and Sanya, which are popular tourist destinations. New commercial property projects are focusing on duty-free, luxury and high-quality goods, driving high-end consumption. In terms of commercial project development, as the provincial capital, Haikou is adopting a coordinated approach to the development of the Haikou economic circle, diversifying business models, promoting consumption, and positioning itself as a liveable city and as the centre of the Hainan Free Trade Port to attract tourists. Meanwhile, under the Hainan Free Trade Port and International Tourism Consumption Centre initiatives, a growing number of commercial property projects are being developed in Sanya in a bid to leverage the city's geographical advantages. High-quality offerings and duty-free consumption are steadily expanding and upgrading on the island, bearing testament to its great commercial potential.

Local luxury brands are gaining momentum

Chinese consumers are the largest consumer group in the global luxury goods market, and Generation Z and even individuals born in the 00s are increasingly driving consumer spending in this segment. As their pride in traditional culture grows, Chinese-style brands are thriving. Against this backdrop, luxury brands are integrating Chinese cultural elements such as the zodiac and blue and white porcelain into their products as part of their effort to engage more closely with Chinese consumers.

Chinese traditions are increasingly being integrated into luxury products. To celebrate the Spring Festival and the Year of the Dragon, many international brands launched themed products, such as Giorgio Armani's Year of the Dragon fashion items, Hennessy's New Year brandy, Ferragamo's Year of the Dragon satchels, Estee Lauder's Spring Festival limited edition essences, and shu uemura's Year of the Dragon series. In recent years, in addition to introducing zodiac-themed offerings, more and more international brands have incorporated Chinese elements—including silk, Chinese knots and embroidery—into their designs.

Coordinated development of multiple business models

Taxable business empowers duty-free business

Thanks to opportunities brought by the Hainan Free Trade Port initiative and improving transportation, a new shopping system driven by both taxable and duty-free business is emerging in Hainan's travel retail market. Offshore duty-free stores, onshore duty-free stores, cross-border e-commerce and other business models are combining to draw in consumers and transform the island into an international tourism and consumption destination. Duty-free and taxable operations are closely related in terms of brand, membership and logistics resources.

First, brand resources are crucial to the success of duty-free operations. After years of development, Hainan has established stable partnerships with many brands, which helps attract investors for duty-free business. Extensive brand resources have not only enhanced the competitiveness of duty-free business but have also cultivated a positive image for market participants.

Second, membership resources are also a major advantage for duty-free operations. Members with taxable operations and rich experience in membership operations can provide a stable source of customers and operational support for duty-free business. By exploring the membership ecosystem, duty-free enterprises can more effectively attract and retain consumers, channel members from different business models, and ultimately drive rapid growth.

Finally, logistics resources are also an integral part of duty-free business. A sound logistics system ensures the efficient flow of goods and improves the consumer experience. The presence of several leading logistics enterprises in Hainan has improved logistics efficiency for duty-free businesses in the local market and injected vitality into the duty-free supply chain.

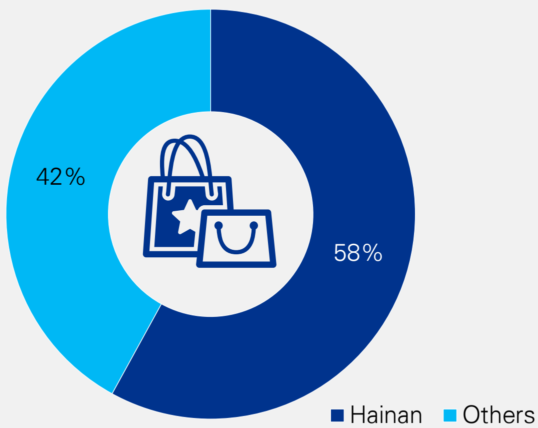
In summary, accumulated resources from taxable operations are essential to the development of duty-free business. Against the backdrop of diversified business models, enterprises can leverage brand, membership and logistics resources to empower duty-free business across multiple dimensions, generate synergies, and promote the sustainable and healthy development of Hainan's travel retail market.

Offshore duty-free stores are driving the travel retail market and forming clusters

As the government steps up efforts to develop the Hainan Free Trade Port, offshore duty-free policies will continue to be improved to provide robust support for the further development of Hainan's retail industry. Local duty-free policies have undergone multiple revisions to cover high-end market segments, expand coverage and deliver greater benefits to consumers. For example, the duty-free shopping quota has been increased from RMB 5,000 to RMB 100,000; the number of duty-free categories has been widened from 18 to 45; consumers departing the island by air, train and ship are now covered, as well as those taking business flights and domestic cruises; enterprises are now allowed to open online stores; origin codes are required to be attached to duty-free goods; and the number of delivery methods has been increased to five. According to Chi Fulin, president of the China Institute for Reform and Development, if the island's policies remain unchanged or are liberalised, by 2025, Hainan's offshore duty-free shopping market is set to exceed RMB 160 billion in value and become the world's largest offshore duty-free market15.

According to data from Tianyancha, in 2023, the number of enterprises across the duty-free industry chain in Hainan grew by 4,471, accounting for 58% of the nationwide increase and representing a 13% increase compared with the number in 2022.

Figure25 The Proportion of Enterprises across The Duty-free Industry Chain in China and Hainan in 2023



Source: Tianyancha[16] , KPMG Analysis

Driven by supportive policies and business scale, offshore duty-free shopping has become the main engine for the growth of Hainan's tourism market, and it has also contributed to the diversification of the local retail industry. With the development of various retail business models, a competitive industry cluster is emerging in Hainan, which will attract more brands and investors to the island. This clustering will also enhance the strength and impact of Hainan's retail industry and help build the island into an international tourism and consumption destination. In terms of development prospects, the establishment of an independent customs jurisdiction will also make Hainan more attractive to tourists. Enterprises that move early to adopt a "duty-free + taxable operations" model will enhance their competitiveness and be better positioned to seize future opportunities and tackle challenges.

The rise of high-end retail complexes

History and trends

France is where luxury goods originated. In the 17th century, Louis XIV built the Palace of Versailles and vigorously promoted the arts. French fashion, jewellery, perfume and other luxury goods became world-renowned and were sought after by nobles and celebrities. In modern times, the luxury industry has gradually globalised; and excellent luxury brands, such as those offering Italian leatherware, Swiss clocks and British clothing, have emerged. These brands have engaged in fierce global competition with each other, promoting innovation and the steady development of the luxury industry. Against this backdrop, global luxury retail complexes have emerged to bring together international luxury brands and high-end services and cater to consumers seeking a unique shopping experience and high-quality lifestyle. These high-end retail complexes are expanding globally and have become an important place for global consumers to pursue high-quality experiences.

Figure26 History of The Global High-end Luxury Retail Industry

From the 19th to early 20th century	World War II to the 1970s	1980s to 1990s	21st century
Luxury was born in Europe	**Luxury goods thrived thanks to the rise of western economies**	**Luxury groups expanded globally, leading to M&As and IPOs**	**Emerging economies are bringing new opportunities to the luxury industry**
In the first half of the 19th century, feudalism in Europe was drawing to a close, and many luxury brands emerged, mainly serving the noble class. Luggage, clothing, perfume, jewelry and other brands mostly originated in France and Italy. From the second half of the 19th century to the first world war, the industrial revolution and colonialism generated immense wealth, creating a large number of wealthy entrepreneurs and bankers who began to imitate the nobility's lifestyle and presenting a bigger consumer pool for luxury goods. Since then, certain luxury brands gradually expanded their footprint.	Western economies recorded rapid growth after the war. Advances in transportation and industrial technologies promoted large-scale production and global trade. Growing personal incomes resulted in higher demand for optional consumer goods, which contributed to a prosperous luxury industry. Many luxury brands began to enter the American market. As the industry thrived from the 1940s to the 1970s, a large number of designer brands emerged.	The rapid growth of the Japanese luxury market encouraged brands to expand globally. Later, other brands began to explore markets outside Europe and the United States, and the Asian market grew rapidly. Luxury brands ushered in a period characterised by M&As and listings. Since then, the luxury industry has entered a new stage of development, and profitability and return on investment have become important performance indicators for luxury companies.	Since the start of the 21st century, emerging economies such as China have become key markets for luxury brands. The share of luxury consumption by Chinese consumers grew from about 1% in 2000 to 33% in 2017, and major luxury groups have maintained a focus on the Chinese market.

Source: Publicly available data[9] , KPMG Analysis

High-end luxury retail complexes will become the key driver of travel retail in Hainan

The Government Work Report delivered at the second session of the 14th National People's Congress put forward various measures to drive consumption, such as actively cultivating new sources of growth for entertainment and tourism, optimising the business environment, and launching Year of Consumption Promotion campaigns. For the Hainan Free Trade Port, efforts should be made to expand high-end consumer demand and better coordinate consumption and investment. Going forward, high-end luxury retail complexes will play a more significant role in driving Hainan's economic growth.

- **Attracting investors**

Hainan is entering an unprecedented period of commercial development during which it is drawing in both Chinese and foreign investors. The Hainan provincial government continues to support Sanya Economic Circle projects, and key projects such as the MixC mall in Haitang Bay have injected vitality into commercial development in Hainan due to their scale and diverse business models. At the same time, Hainan has actively expanded channels for engaging with international investors and continued to optimise services for investors. These trends are conducive to attracting more high-end enterprises from the consumer sector.

The 4th China International Consumer Products Expo (CICPE) has also helped drive commercial development in Hainan. This year's CICPE will focus on new high-quality products and bring together a number of global high-end brands, creating an unprecedented shopping experience for Chinese consumers. Meanwhile, with the province implementing a visa free policy for 59 countries and promoting the "1+N" model across the island, Hainan is ushering in huge opportunities for commercial development.

- **New productive forces are driving the travel retail market**

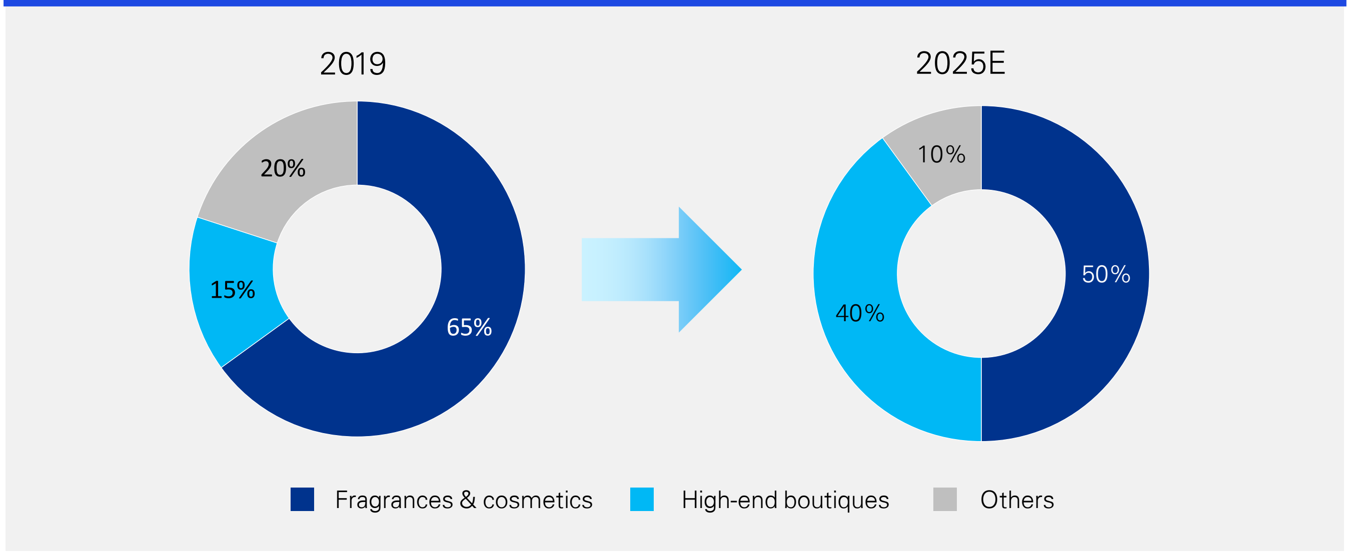
Hainan is leveraging its advantages in high-end retail and accelerating its efforts to cultivate new productive forces in order to open up new possibilities and drive the high-quality development of Hainan Free Trade Port. New productive forces have become a prominent feature of Hainan Free Trade Port's high-end retail development. In recent years, the duty-free retail industry has continued to evolve, and industry players have transitioned from brick-and-mortar stores to an omni-channel model. For example, as part of its effort to vigorously promote digitalisation, China Duty Free Group has launched the cdf online mall for its members, and it has also cultivated an extensive presence on social media platforms, including Xiaohongshu, WeChat Channels and Douyin[17]. Meanwhile, in addition to operating brick-and-mortar stores and offshore duty-free stores, Hainan Holdings' GDF Duty Free City has also been diversifying its online channels by setting up platforms for members and cross-border consumers. In addition, it has built a presence on mainstream Chinese e-commerce platforms, such as Taobao, Tmall and Douyin Mall, to reach more customers. In the future, Hainan will continue to develop new productive forces, and it will promote the adoption of innovative technologies and approaches to empower the supply chain for high-end luxury retail complexes, emerging industries and the industries of the future. In the coming years, the province will rely on the digital economy to improve the consumer experience, expand the duty-free market, and craft a unique image that reflects the advantages of the Hainan Free Trade Port.

- **Hainan's thriving luxury market and outlook**

In recent years, more and more world-leading brands and enterprises have been entering the Hainan market, which augurs well for the Hainan Free Trade Port. The Free Trade Port has recorded impressive economic indicators for exports; and it is taking steps to continually optimise its business climate, open up further and become more globalised, which is conducive to attracting foreign investors and promoting business development. Meanwhile, the Hainan Free Trade Port is encouraging the development of tourism and consumption. After Hainan establishes its independent customs jurisdiction, local preferential policies such as the zero-tariff policy are expected to attract high-end luxury brands to set up operations, which will diversify the island's premium offerings and lay the groundwork for the luxury segment to thrive.

Diverse retail offerings and the higher duty-free quota have resulted in structural changes in duty-free sales. By 2025, some analysts expect the fragrance category to account for approximately 50% of duty-free sales in Hainan, and the high-end boutique category is expected to grow to 40%. In the short term, the relaxed duty-free quota and higher number of duty-free goods that a consumer is allowed to purchase at a single time will lead to changes in tourists' duty-free consumption. In the medium to long term, as personal incomes grow, high-end boutiques are expected to become more popular.

Figure27 Structure of Duty-free Sales in Hainan



Source: UBS, Guosen Securities, KPMG Analysis

03

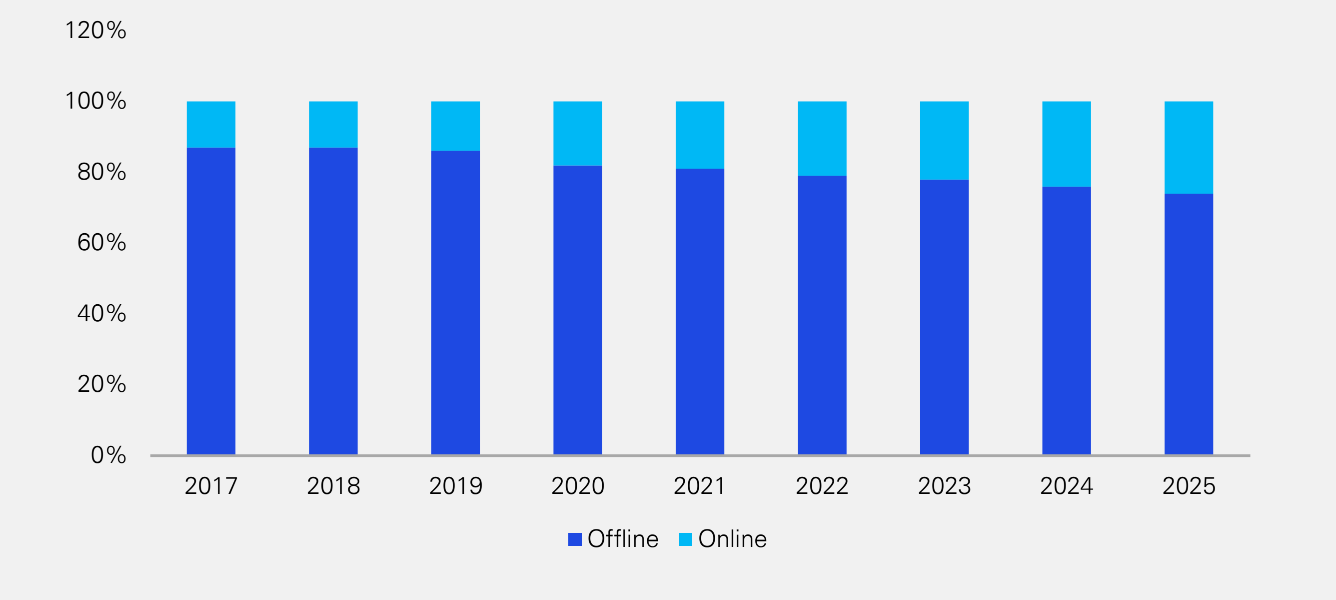
Hainan’s travel retail market: trends and the path ahead

Digital technology

Digitalisation in the global luxury industry: in-person to online and omni-channel

In the past, luxury brands had a very limited presence online, and industry players were keen to uphold their uniqueness. Luxury consumers were more inclined to see and handle items in-person for the experience. However, as digitally savvy millennials and Generation Z increasingly drive consumption for this segment, and luxury e-commerce platforms such as Net-A-Porter and Farfetch rise to the fore, global luxury brands are embracing the rapidly developing omni-channel business model, marking a turnaround in their positioning. Recently, the proportion of offline buyers has shrunk as they have moved online; and in response, brands such as LVMH, Burberry, Chanel, Gucci and Fendi have not only launched online portals, but also increased their presence on social media by publishing high-quality content[18]. Statista predicted that by 2025, the share of online luxury sales will rise from 13% in 2017 to 26%, demonstrating rapid online penetration. The luxury industry has now entered the digital 4.0 era, which is characterised by the growth of online sales channels, the application of digital technology to the shopping process, and the integration of online and offline channels. Against this backdrop, brands continue to explore digital technology, which includes providing more timely and convenient services on online platforms, simulating the offline shopping experience, and increasing the use of technologies such as virtual reality and augmented reality in stores. Using digital technology, brands can create high-quality content for digital marketing; and by using artificial intelligence to enhance the offline shopping experience, brands can capture new customer groups and improve the overall customer experience.

Figure28 Shares of Luxury Sales Through Different Channels

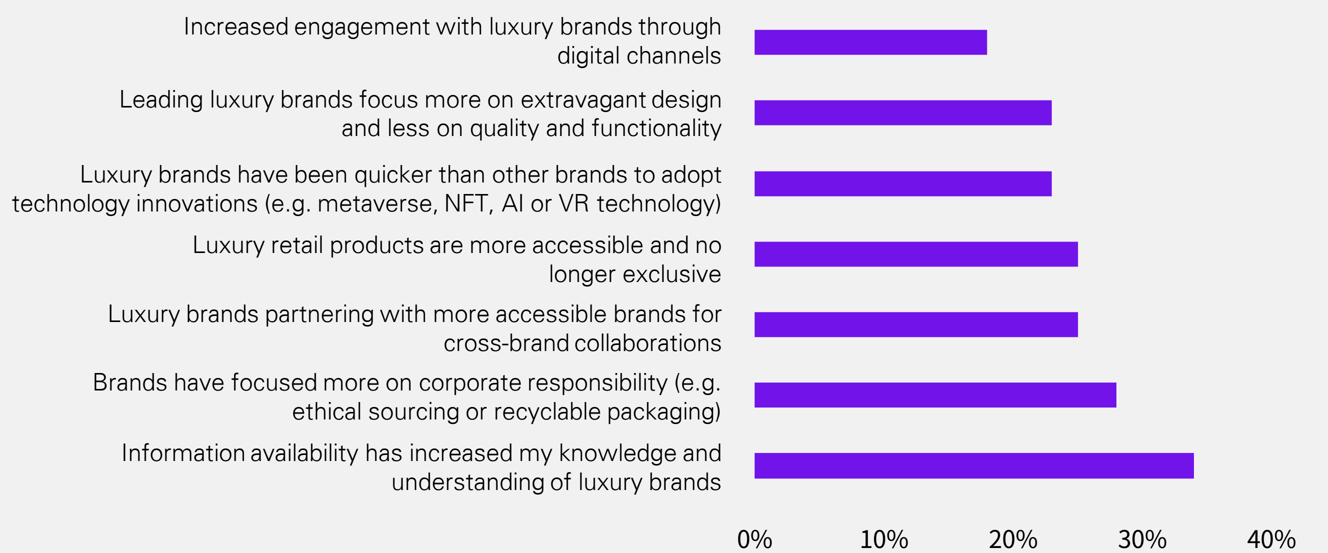


Source: Statista, KPMG Analysis

Digital technology is reshaping consumer behaviour

The development of digital technology is accelerating in the Chinese market, and it is empowering and bringing unprecedented changes to industry players in the travel retail market. According to KPMG's survey of the luxury goods market in June 2022, consumers in China's first and second-tier cities rely heavily on e-commerce channels to buy luxury products, with e-commerce sales accounting for nearly 80% of total sales. In the survey, 18% of respondents said that they may change their buying habits if brands use more digital channels to engage with consumers. Another 23% of respondents held a positive view of brands that adopted innovative technologies such as the metaverse, non-fungible tokens, artificial intelligence, and virtual reality or augmented reality. Technology is reshaping the shopping experience for luxury consumers, and it is imperative for brands to develop digitally-enabled products and adopt digital technology to improve the consumer experience.

Figure29 Factors Affecting Consumers' Buying Habits



Source: Luxury Redefined, Building Trust with Chinese Consumers through Authenticity and Integrity, February 2023, KPMG Analysis

Tourism empowered by technology is driving economic growth in Hainan

As a crucial part of Hainan's economy, the Hainan Free Trade Port is pioneering the high-quality development of the tourism industry and playing a key role in promoting tourism through technology. On 30 December 2023, the General Office of the People's Government of Hainan Province issued the Three-Year Action Plan for the High-Quality Development of Hainan's Tourism Industry (2024-2026) and proposed leveraging technology to promote tourism and develop smart tourism. Advanced technologies such as virtual reality can be applied to innovate and upgrade business models and consumption patterns in the tourism industry. Going forward, applying digital technology to empower the travel retail industry will become an important trend in the development of the Hainan Free Trade Port.

In the future, digitalisation will have a deeper and far-reaching impact on the travel retail industry across areas such as digital infrastructure, marketing innovation, supply chain management and targeted marketing. Digital technology is enabling cross-border e-commerce platforms to provide a one-stop experience for users before, during and after travel, and it will drive growth in the travel retail industry by enhancing big data capabilities and promoting innovation and cooperation.

Duty-free + cultural tourism: two new engines of development

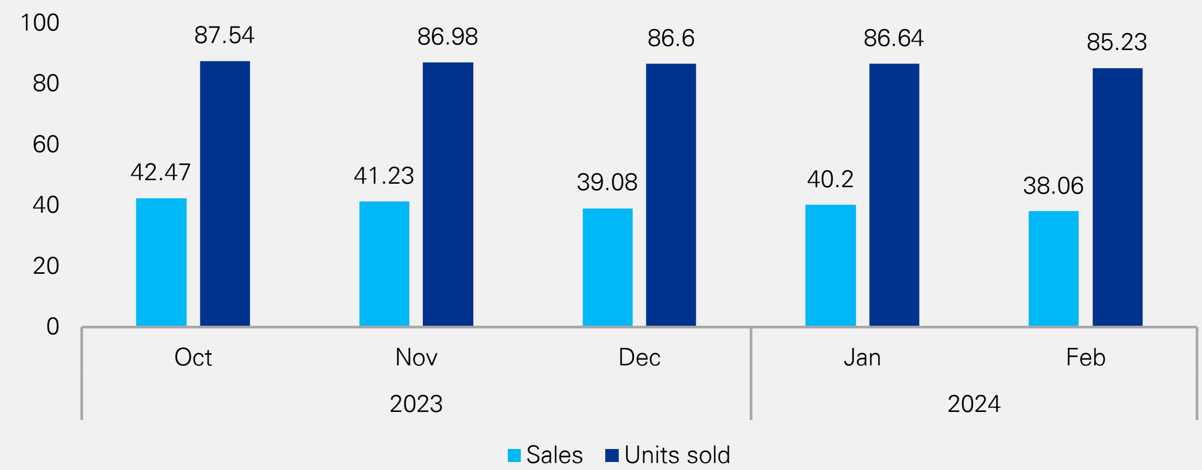
In the past few years, Chinese residents took fewer trips abroad due to the COVID-19 control measures that had been put in place globally. As a result, Chinese consumers returned to the domestic market to buy luxury goods. As one of the most important travel retail markets in the world, Hainan has attracted a large number of domestic tourists and benefited from the return of consumers by gradually relaxing offshore duty-free policies and leveraging its unique geographical advantages. At present, ease of travel between different countries is being gradually restored, and more Chinese residents are going abroad and making purchases. According to data from the China Tourism Academy [19], the number of outbound tourists in China exceeded 87 million in 2023 and is expected to reach 130 million in 2024. This change has had a certain impact on Hainan. To drive consumption and attract domestic and foreign tourists, Hainan is actively exploring a "duty-free + cultural tourism" approach that integrates duty-free shopping with cultural tourism. This two-pronged approach is expected to attract more tourists, contribute to a more thriving travel retail market in Hainan and generate synergies.

Since 2023, there has been a surge in performances across the country. As the saying goes, "A single concert can make a city popular." Going to concerts while travelling is trendy among young people. According to the 2023 Large-Scale Concerts in the Performance Market report released by the China Association of Performing Arts[20] , in 2023, box office receipts of large-scale concerts with an audience of more than 5,000 in the Chinese Mainland reached a record high of nearly RMB 14.6 billion. Against this backdrop, Hainan has pursued innovation in this area and used offline performances to cultivate a new model for the tourist economy, enrich offerings in the tourism market, and integrate the "concert + shopping" and "concert + tourism" models into performances. These efforts have effectively promoted local economic development and improved Hainan's reputation among tourists. According to Hainan Daily[21], Jay Chou's 2023 concert in Hainan attracted 154,600 tourists and generated RMB 976 million in revenue for the tourism sector. Among these tourists, 95,100 were from outside the province, accounting for 61.5% of the total number. These figures demonstrate the popularity of performances and how performances can drive the development of the tourism industry. Topics about the concert were viewed more than 720 million times on the Internet, and 1.159 million Internet users participated in the discussions, which is a testament to the societal impact of these events.

Despite pressure, the fragrance and cosmetics market remains resilient and is still an important driver of the travel retail market in Hainan

Since 2022, the cosmetics market has slowed down significantly across the country. Consumers have grown more rational and mature in their attitudes towards cosmetics. Instead of focussing on brands, they are now attaching more importance to the composition, efficacy and safety of products. In terms of channels, brick-and-mortar sales have declined due to poor logistics, while online channels are characterised by increasingly fierce competition, resulting in fragmented operating models. The fragrance and cosmetics industry finds itself in a dilemma. According to Haikou Customs data, from October 2023 to February 2024, fragrances and cosmetics as a share of total duty-free sales in Hainan hovered around 40%. Mirroring trends seen around lipstick in previous years, consumers have become more sensitive to prices. As Hainan steps up efforts to attract investors, consumer sentiment has been on the rise, which has weighed slightly on fragrances and cosmetics as a share of total sales. On the other hand, over the past five months, in terms of number of units sold, fragrance and cosmetics sales accounted for more than 85%. This figure shows that, due to offshore duty-free policies, fragrance and cosmetics remains the largest category and continues to be popular with travelling consumers. These products have become a key driver of duty-free sales in Hainan. Cosmetics sales have always been an important part of the local travel retail market. In 2023, cosmetics accounted for the largest share of sales of consumer goods by enterprises above the designated size (excluding automobiles)[22]. Globally, Hainan remains the largest travel retail market for fragrance brands[23] , and its importance should not be underestimated.

Figure30 Proportion of Fragrance and Cosmetic Sales (by volume and number of units) in Hainan from October 2023 to February 2024（%）



Source: Haikou Customs District, KPMG Analysis

So far, six offshore duty-free enterprises have built a presence in the duty-free market in Hainan, and they are operating a total of 12 offshore duty-free stores in Haikou, Sanya, Qionghai and Wanning, in a concerted effort to promote the development of the local duty-free industry24. Since duty-free fragrance and cosmetics products are popular among consumers in Hainan, the six major duty-free groups in Hainan have attached importance to the fragrance and cosmetics category and have continued to step up their efforts in this category. For example, in 2022, China Duty Free Group, which ranks first in Hainan's duty-free market, opened Haikou International Duty-Free City, the world's largest offshore duty-free store. It has attracted many prominent beauty brands, while encouraging a number of brands to enter the local offshore duty-free market for the first time. The complex is also home to 10 fragrance brands that have exclusive ties with the Group. Consumers can try the products virtually and customise them. In addition, the complex offers innovative experiences and services such as lessons on fragrances and cosmetics. On Haikou International Duty-Free City's opening day, consumers flocked to the complex, and impressive sales were recorded in the fragrance and cosmetics category[25]. In addition, China Duty Free Group expanded its Haitang Bay project by 65% in late 2023 and became the world's first shopping mall that specialises in high-end cosmetics and perfumes. It is now home to hundreds of fragrance and cosmetics brands, making a significant contribution to the consumption of these products.

Policy support and tax regime reform are promoting consumption

As a special economic zone in China, Hainan enjoys many policy advantages. Especially in recent years, as the Free Trade Port initiative has been promoted, Hainan's consumer sector has seen unprecedented opportunities.

Policy support is pushing the development of the Hainan Free Trade Port to new heights

- **Under a range of favourable policies, the Free Trade Port continues to attract investors**

On 1 March 2024, the National Development and Reform Commission and three other agencies revised and issued the Catalogue of Encouraged Industries in Hainan Free Trade Port (2024), which improves on the previous version. In the latest edition, 33 entries have been added to encourage enterprises to participate in the Free Trade Port. Since the Free Trade Port initiative was launched, more than 180 policies have come into effect, including the zero-tariff list, the 15% income tax for enterprises and individuals, and the tariff exemption for domestic sales of processed goods with a 30% value add. Numerous market players have benefited from these policies. As the benefits delivered by these policies become clearer, more brands and enterprises are pursuing business in the Hainan Free Trade Port, contributing to a thriving consumer retail industry.

- **Systems are being innovated to optimise the Free Trade Port's business climate**

In order to drive policy effectiveness, based on its own conditions, Hainan has pursued a number of innovations and reforms in line with its business climate goals and requirements, and it is establishing an independent customs jurisdiction to provide comprehensive services and support for brands. In July 2023, the Key Tasks of Business Environment Integration and Innovation in Hainan Province in 2023 was issued, which proposed establishing an innovative system based on the principle that "anyone allowed to enter is allowed to do business." This publication also proposed a through-train system covering processes throughout a project, including project planning, attracting tenants, the "land supermarket" and simplified approval procedures. Moreover, at the 2024 Hainan Provincial Conference on the Business Environment, officials stated that the island strives to create a first-class domestic business climate by 2025. In response to popular opinions and requests by businesses, measures will be taken to reduce institutional transaction costs, integrate and innovate systems, and launch landmark reforms, such as the "anyone allowed to enter is allowed to do business" initiative and machine-managed tenders. Certain industry parks and sectors will take the lead in creating a first-class business environment.

- **Efforts are being accelerated to open Hainan's local market on a larger scale**

Relying on the Free Trade Port policies, Hainan is steadily building its brand as a destination for duty-free shopping. Consumers who previously purchased globally are buying locally, contributing to a flourishing consumer market. With consumption upgrading and expanding, a new development pattern is emerging.

Tax regime reform highlights Hainan's advantages and injects vitality into the consumer market

Below is a summary of tax rules that have been implemented in the Hainan Free Trade Port. We have provided a brief analysis of the existing rules and the arrangements that will be implemented after an independent customs jurisdiction is put in place in 2025.

Figure31 Tax Rules Before and After the Establishment of an Independent Customs Jurisdiction in Hainan in 2025 and their Impact

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

Source: Publicly available information, KPMG Analysis

Based on the above analysis, we can see that Hainan's tax regime will be fully aligned with that of major global free trade ports following the establishment of the independent customs jurisdiction. In addition to representing a significant leap at the systemic level, these changes will also mark a step towards further trade and investment liberalisation in the Hainan Free Trade Port in the future. The tax regime will be characterised by "zero tariffs, low tax rates and a simple tax system" and will effectively reduce operating costs for businesses, improve their competitiveness, and create a fair, transparent, and efficient business climate in the Hainan Free Trade Port.

This is good news for brands that plan to invest in Hainan. Under the new tax regime, they will not only find that their tax burden is lower and their profitability is higher, but they will also be better positioned to attract more domestic and foreign investors and high-quality resources to the island and contribute to a prosperous local travel retail market. As the tax system is implemented and improved, Hainan's travel retail market will see a bright future.

In general, the local market is steadily improving. Although there may be ups and downs, we are fully confident about the future. As the tax system is steadily improved, the Hainan Free Trade Port will become a popular destination for domestic and foreign investors and consumers, injecting vitality into the local and even national economy.

Conclusion

In 2023, China's economy staged a recovery, and high-quality development was steadily promoted across various industries. Against the backdrop of the Year of Consumption Promotion organised by the People's Government of Hainan Province, enterprises in the Hainan Free Trade Port's travel retail market focused on making progress while maintaining stability, adjusting product structure, expanding business operations, and safeguarding against risks. As a result, in 2023, their revenues reached record highs. This report highlights the Hainan Free Trade Port's advantages in developing travel retail, explores local digital trends, examines the integration of duty-free shopping with cultural tourism, and provides professional insights for brands operating in Hainan's travel retail market.

Hainan's travel retail market has a bright future. The government is attaching strategic importance to boosting market participants' confidence in the Hainan Free Trade Port. Regarding the province's future tax reforms, the government can clarify the positioning of the Hainan Free Trade Port by establishing effective systems; and it can drive changes in the behaviours of major players in the local travel retail market to ensure that they can contribute to the development of a virtual circle in the market and compete fairly in an obstacle-free business environment. Furthermore, as China's tourism market continues to open up and the global market expands, Hainan's travel retail industry will be gradually globalised. As an international tourism and consumption destination, the Hainan Free Trade Port will leverage online resources and duty-free policies to carry out themed marketing campaigns, engage in exchanges and partnerships, optimise the structure of consumption, and attract high-quality domestic customers and those returning to the domestic market instead of buying globally. Meanwhile, whether they are duty-free operators or retailers, enterprises should focus on developing new tourism products and embark on their digital journeys, with a view to improving the quality of services across Hainan's travel retail industry.

Reference

No.	Publication Title	Publisher	Source
1	In 2023, CNIC's revenue will be 67.5 billion, and the net profit will be 6.714 billion	JRJ	URL
2	Financial Report 2023	Avolta	URL
3	Lagardère press release,Lagardère	Lagardère	URL
4	The Moodie Davitt Report	Moodie Davitt	URL
5	Global Leading Travel Retailer Report	Moodie Davitt	URL
6	Press Conference on Economic Operations in Hainan Province in 2023	The People's Government of Hainan Province	URL
7	Taikoo bet on commercial real estate in Hainan, with a total investment of 7 billion yuan in Sanya "Taikoo Li" in cooperation with China and Belgium	Jiemian News	URL
8	DFS Duffy will build Sanya's first world-class seven star luxury retail and leisure entertainment resort	China Daily	URL
9	2023 Men's Consumer Insights Report	QuestMobile	URL
10	Hermes 2023 Full-Year Results	Hermes	URL
11	Even luxury goods can't go through the cycle | Focus analysis	36 krypton	URL
12	In 2023, the amount of duty-free shopping on the outlying island of Hainan will exceed RMB 43.7 billion	The People's Government of Hainan Province	URL
13	CASA DI MODA BRUNELLO CUCINELLI: the Board of Directors approves the 2023 consolidated financial statements and the 2023 draft financial statements	Brunello Cucinelli	URL
14	Hainan opens 18 new malls during the year: not only tax-free, but also luxury and boutique businesses!	Yingshang	URL
15	How Far Away from Becoming the World's Largest Duty-Free Market - Observations on the Second Anniversary of Hainan's Offshore Duty-Free Policy Implementation	Belt and Road Portal	URL
16	Research framework for the luxury industry: reviewing the development of the luxury industry from the perspective of product systems	ifeng	URL
17	Broad Prospects: Duty-Free Shopping Stimulates New Consumer Dynamics	Xinhuanet	URL
18	Luxury Goods: in-depth market analysis	Statista	URL
19	China Outbound Tourism Development Report (2023-2024)	China Tourism Research Institute	URL
20	2023 Annual Insight Report of Large Concert Released	China Association of Performing Arts	URL
21	How to "Sing" Tourism Economy in Concerts	The People's Government of Hainan Province	URL
22	Total retail sales of consumer goods in December 2023	Hainan Provincial Bureau of Statistics	URL
23	2023 Hainan Travel Retail Whitepaper – Resilience and Reshaping amid Risks	KPMG China	URL
24	In 2023, the amount of duty-free shopping in outlying Hainan will exceed 43.7 billion yuan	The People's Government of Hainan Province	URL
25	Haikou International Duty Free City is about to open, and many first exclusive brands will appear together	The Paper	URL

Contact us

Nicole Zhang
Office Senior Partner, Hainan
KPMG China
P: +86 (898) 6525 3230
W: www.kpmg.com.cn
E-mail: nicole.ll.zhang@kpmg.com

Martin Moodie
Founder & Chairman
The Moodie Davitt Report
P: +44 7710 435683
W: www.moodiedavittreport.com
E-mail: martin@MoodieDavittReport.com

Willi Sun
Partner, Head of Advisory Services, Consumer Markets
KPMG China
P: +86 (21) 2212 3740
W: www.kpmg.com.cn
E-mail: willi.sun@kpmg.com

Dermot Davitt
President
The Moodie Davitt Report
P: +353 851379305
W: www.moodiedavittreport.com
E-mail: dermot@MoodieDavittReport.com

Eileen Lin
Senior Manager, Tax Service, Hainan
KPMG China
P: +86 (898) 6525 3090
W: www.kpmg.com.cn
E-mail: eileen.lin@kpmg.com

Yimei Zhang
China Chief Representative
The Moodie Davitt Report
P: +86 13911573185
W: www.moodiedavittreport.com
E-mail: yimei@MoodieDavittReport.com

kpmg.com/cn/socialmedia

For a list of KPMG China offices, please scan the QR code or visit our website:
https://home.kpmg.com/cn/en/home/about/offices

April 2024 launch