

2025 Hainan Travel Retail Whitepaper

Moving forward with
resilience to embrace
unlimited opportunities



Foreword

Hainan is the only off-shore duty-free shopping destination in China, and its travel retail market is steadily gaining momentum. Despite fluctuations in 2024, the first quarter and the fourth quarter recorded 44.6% and 24.9% quarter on quarter growth respectively, reflecting a thriving market. According to the latest policy, the annual duty-free shopping quota for offshore tourists in the Hainan Free Trade Port is CNY 100,000, one of the highest globally. This and the high-quality line-up of duty-free stores on the island has attracted a large number of domestic and foreign tourists and contributed to the development of Hainan's thriving travel retail sector.

But times are changing and Hainan is having to evolve accordingly. Hainan has launched new tourism models such as "self-driving tours + camping" and "low altitude tourism". It has also continued to pursue policy innovation and business integration in order to further diversify business types and service models across the travel retail sector, consolidating its market leadership. However, global economic uncertainty has resulted in greater volatility across the travel retail sector, globally and in China. In particular, against the backdrop of inflationary pressure and the related erosion of spending power, the models that Hainan has traditionally used to promote tourist spending are facing stiff challenges. Consumers' increasing focus on value for money is driving the travel retail industry to constantly innovate service models and improve the quality of its offer. At the same time, the rise of emerging markets, such as Southeast Asia and the Middle East, has also brought about a new competitive landscape for Hainan.

In the face of these changes, Hainan needs to focus on core areas—such as tax regime innovation, operations and management, and application of AI technology—to upgrade and expand the local travel retail market. KPMG China and The Moodie Davitt Report launched *the 2025 Hainan Travel Retail Whitepaper* in the fifth year, which provides a comprehensive overview of the duty-free and travel retail markets from a global perspective, offers insights into Hainan's travel retail sector, including its current situation and development trends, and provides a forecast for tax reforms that will take hold after a separate customs jurisdiction is put in place in Hainan. The report aims to serve as a valuable reference for decision-makers in the industry, help enterprises accurately understand sector dynamics, and promote the high-quality development and sustainability of Hainan's travel retail sector.

Nicole Zhang
Senior Office Partner, Hainan
KPMG China

Martin Moodie
Founder & Chairman,
The Moodie Davitt Report

Contents

01 / Data-driven insights into the travel retail market from a global perspective

02 / A data-based overview of the global travel retail market

03 / Hainan's travel retail market: Trends and insights

04 / Outlook on the Hainan travel retail market after island seal-off

Conclusion

01

Data-driven insights into the travel retail market from a global perspective

- Data-driven insights into the travel retail market from a global perspective
- The rising popularity of service-oriented consumption is redefining the structure of consumer spending and the competitive landscape in the retail market
- Chinese consumer sector 2024 buzzwords



Data-driven insights into the travel retail market from a global perspective

Integrated development of the travel retail and duty-free sectors

As the name implies, "travel retail" is a combination of tourism and retail business. Merchants operating under this model provide goods and services targeting tourists in various scenarios in transportation hubs or tourist destinations. Airports, cruise ports, high-speed railway stations and border ports tend to see large flows of tourists, and as a result, they are ideally suited for retail consumption. As merchants mainly operate under a rent sharing or franchise model, their operating results are highly dependent on steady tourist flows. In case of force majeure factors, such as flight cancellations or travel restrictions, the travel retail market is often severely impacted.

The duty-free industry is an important pillar of the travel retail market. The sector is unique in that it sells goods that are exempt from customs duties, value-added tax and consumption tax to eligible tourists. This not only enhances the attractiveness of the destination in the eyes of tourists, but also improves the competitiveness of the local retail market. Duty-free stores in airports, urban areas and cruises can

meet the immediate needs of tourists, and international luxury brands have a significant influence in such markets. Due to tax incentives, among other factors, duty-free goods are usually cheaper than those available in the retail market, which increases consumers' willingness to make purchases and drives the development of the entire travel retail ecosystem.

The duty-free industry sells duty-free goods specifically for eligible international tourists, such as inbound tourists. These goods usually include cosmetics, alcohol and luxury goods, and as they are tax-exempt, they are priced more competitively. According to the latest policy, the annual duty-free shopping quota for offshore tourists in the Hainan Free Trade Port is CNY 100,000 (approximately USD 14,191), one of the highest quotas globally.

In 2023, Guangzhou Baiyun International Airport again ranked among the top 20 airports in terms of passenger traffic. Meanwhile, emerging markets such as Southeast Asia and the Middle East are on the rise

Based on the *World Airport Traffic Dataset* released by Airports Council International (ACI) World in July 2024, the total number of air passengers globally amounted to about 8.7 billion in 2023, an increase of 30.6% over 2022. This is 94% of the pre-pandemic level (2019). In 2023, the top 20 airports saw a 26.4% jump in passenger traffic compared with 2022, serving 1.41 billion passengers who accounted for 16% of global passenger traffic. Hartsfield-Jackson Atlanta International Airport (ATL) topped the list in 2023, followed by Dubai International Airport (DXB) and DALLAS/FORT WORTH Airport (DFW). Notably, Guangzhou Baiyun International Airport, which had dropped to 58th place in 2022, was again among the top 20 in 2023, ranking 12th. Meanwhile, Tokyo International Airport (HND) rose 11 places to fifth place, returning to its 2019 level; and Incheon International Airport (ICN) also ranked among the top 20, with its passenger traffic recording the largest year on year increase at 213.8%.

At the same time, the *ACI World Airport Traffic Forecast (WATF) 2024-2053* released by ACI in February 2025 pointed out that eight of the top 20 airports in 2023 were in the United States. In line with predictions in the previous report, the United States still ranked first in 2023, followed by China and India.

With international travel recovering and Chinese tourists returning, Japan jumped to fourth place (although it was predicted to be sixth). In terms of medium and long-term trends, China and the United States are expected to be on par, while India, with its expanding international airline network, is expected to continue to strengthen its position as the world's third largest market. Over the next 30 years, emerging markets such as Southeast Asia and the Middle East are expected to rise; and in particular, Indonesia is predicted to rank fourth in 2053. The United Arab Emirates, Saudi Arabia and the Philippines are also expected to be among the top 20 markets within 30 years.

According to the WATF report, global passenger traffic is expected to grow by 9% to 9.5 billion in 2024. From 2024 to 2043, global passenger traffic is expected to grow at a compound annual growth rate (CAGR) of 3.4% to 17.7 billion passengers. The number of passengers is expected to reach 18.7 billion by 2045 and rise to 22.3 billion by 2053 (with an expected CAGR of 3.0% from 2024 to 2053), about twice the forecast for 2024.

Figure 1 Top 20 Busiest Airports in The World in 2023

2023	2022	2019	Airport	2023	% CHANGE VS 2022	% CHANGE VS 2019
1	1	1	ATLANTA,USA (ATL)	10,465	11.7 ↑	-5.3 ↓
2	5	4	DUBAI, UAE (DXB)	8,699	31.7 ↑	0.7 ↑
3	2	10	DALLAS/FORT WORTH,USA (DFW)	8,176	11.4 ↑	8.9 ↑
4	8	7	LONDON,UK (LHR)	7,918	28.5 ↑	-2.1 ↓
5	16	5	TOKYO,JAPAN (HND)	7,872	55.1 ↑	-7.9 ↓
6	3	16	DENVER,USA (DEN)	7,784	12.3 ↑	12.8 ↑
7	7	28	ISTANBUL, TURKEY (IST)	7,603	18.3 ↑	45.7 ↑
8	6	3	LOSANGELES, USA (LAX)	7,505	13.8 ↑	-14.8 ↓
9	4	6	CHICAGO,USA (ORD)	7,389	8.1 ↑	-12.7 ↓
10	9	17	NEW DELHI, INDIA (DEL)	7,221	21.4 ↑	5.4 ↑
11	10	9	PARIS,FRANCE (CDG)	6,742	17.3 ↑	-11.5 ↓
12	58	11	GUANGZHOU,CHINA (CAN)	6,317	142 ↑	-13.9 ↓
13	11	20	NEW YORK,USA (JFK)	6,246	13 ↑	-0.1 ↓
14	13	12	AMSTERDAM,NETHERLANDS (AMS)	6,189	18 ↑	-13.7 ↓
15	15	22	MADRID, SPAIN (MAD)	6,018	18.9 ↑	-2.5 ↓
16	18	15	FRANKFURT,GERMANY (FRA)	5,936	21.3 ↑	-15.9 ↓
17	36	18	SINGAPORE,SINGAPORE (SIN)	5,874	83.1 ↑	-13.7 ↓
18	17	31	ORLANDO,USA (MCO)	5,774	15.1 ↑	14.1 ↑
19	12	30	LAS VEGAS, USA (LAS)	5,767	9.4 ↑	11.6 ↑
20	99	14	INCHEON,KOREA (ICN)	5,624	213.8 ↑	-21 ↓

Source: ACI, KPMG Analysis

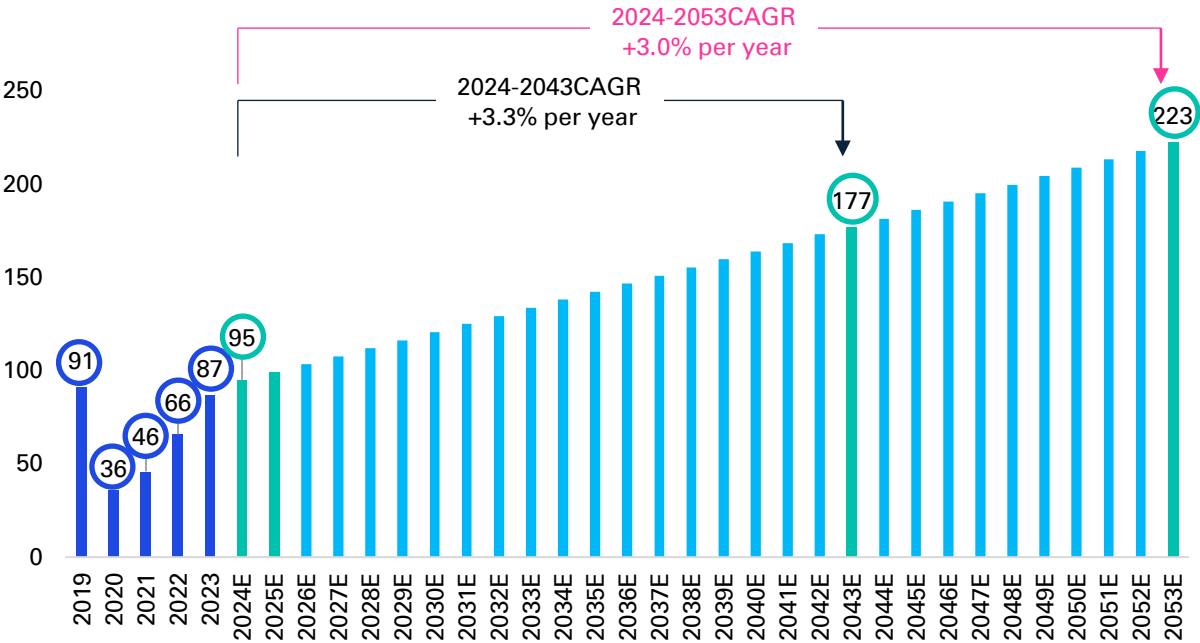
Figure 2 Top 20 Passenger Traffic Markets Worldwide 2023-2053

Rank	2023	2043	2053
1	United States	United States	China
2	China	China	United States
3	India	India	India
4	Japan	Spain	Indonesia
5	Spain	Indonesia	Spain
6	United Kingdom	Turkey	Turkey
7	Turkey	United Kingdom	United Kingdom
8	Brazil	Japan	Mexico
9	Germany	Mexico	Japan
10	Italy	Brazil	Vietnam
11	Russian Federation	Italy	Thailand
12	Mexico	Russian Federation	Brazil
13	France	Thailand	Saudi Arabia
14	Australia	Germany	Russian Federation
15	Indonesia	Saudi Arabia	Italy
16	Canada	Vietnam	United Arab Emirates
17	Korea	France	Germany
18	United Arab Emirates	United Arab Emirates	France
19	Thailand	Canada	Canada
20	Vietnam	Korea	Korea

Source: ACI, KPMG Analysis

Note: 2042 and 2052 rank is ACI forecast

Figure 3 Long-term Global Air Passengers Forecast 2016-2053 (100 million passengers)



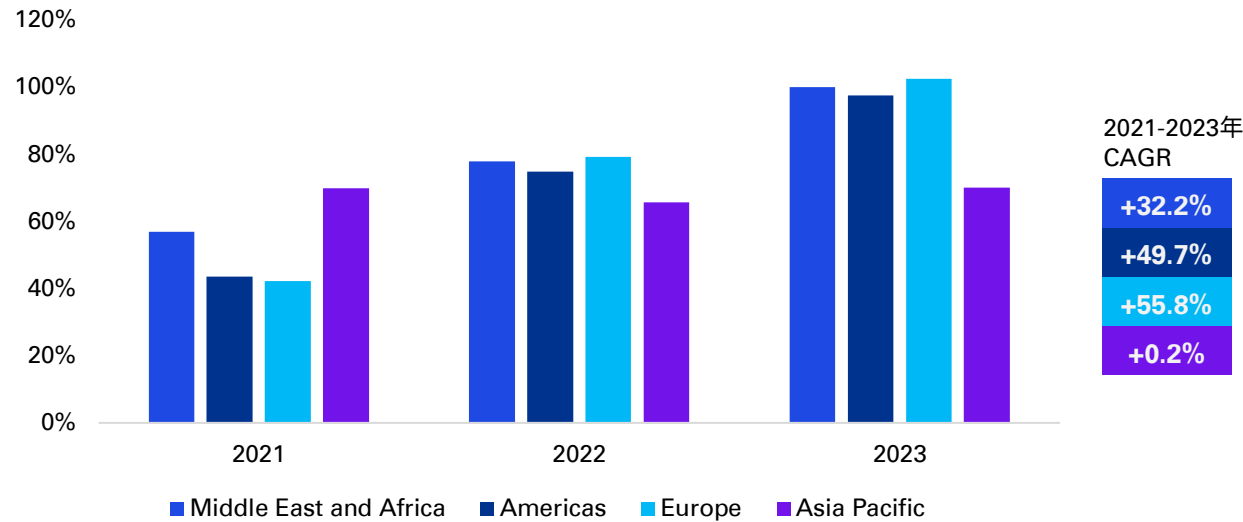
Source: ACI, KPMG Analysis

A data-based overview of the global travel retail market

The 2024 Hainan Travel Retail Whitepaper jointly released by KPMG China and Moodie Davitt stated that the global travel retail market grew at a CAGR of 9% to USD 86.4 billion from 2009 to 2019. Although the market is expected to gradually recover in the post-pandemic era, returning to the 2019 level will take time.

This view is also corroborated by another report. According to Travel Retail’s Next Chapter: Innovating Beyond Technology Key to Regaining Market Momentum released by Kearney, net sales of the travel retail market grew at a CAGR of 20.1% from 2021 to 2023. Net sales in 2023 were USD 72.1 billion, representing an increase of 18.2% year on year, equivalent to 84.2% of the 2019 level.

Figure 4 Recovery of Tourism Retail Markets in Major Regions of The World 2021-2023(%)



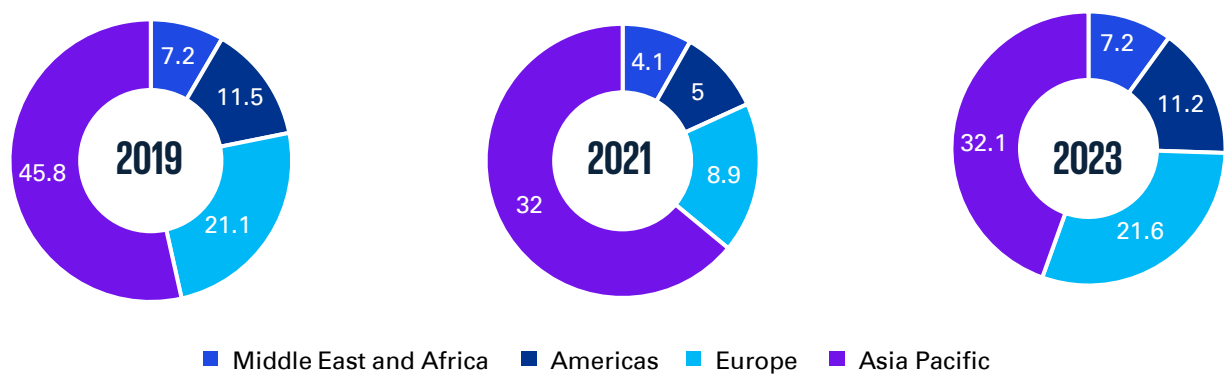
Source: Kearney analysis, KPMG Analysis

Note: Based on 2019

From a regional perspective, the recovery is uneven, especially in the Asia Pacific (ASPAC) region, which faces major challenges in returning net sales to the 2019 level. Apart from the ASPAC region, sales in almost all other regions have approached or reached the 2019 level. The ASPAC region recorded a CAGR of only 0.2% from 2021 to 2023, in stark contrast to Europe, which saw the strongest recovery

momentum, posting a CAGR of 55.8% and a year on year growth rate of 29.3% in 2023. At the same time, the Americas have also seen a strong recovery, recording a CAGR of 49.7% and a year on year growth rate of 30.2% in 2023. The Middle East and Africa also performed well, with a CAGR of 32.5% from 2021 to 2023 and year on year growth of 28.6% in 2023.

Figure 5 Net Sales of Tourism Retail in Major Regions of The World in 2019, 2021 and 2023 (billion USD)



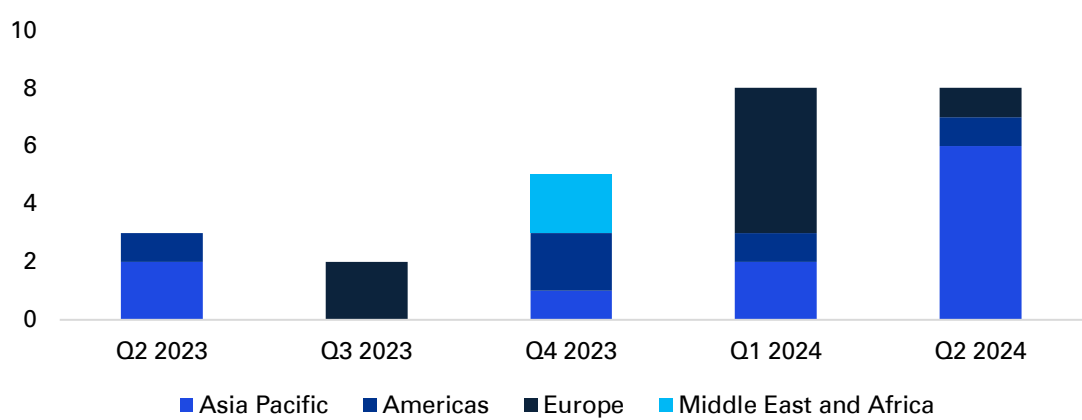
Source: Kearney analysis, KPMG Analysis

Increased concentration seen in the global travel retail market, while ASPAC focuses on franchise-based development

According to data from the *Travel Retail Industry Database & Insights 2024/25* published by DFNI, significant shifts occurred in global airport franchise operations between the second quarter of 2023 and the first half of 2024. During this period, the number of franchise contract changes or extensions rose unevenly before peaking in the second quarter of 2024. The ASPAC region played a leading part in these franchise changes, recording six change events in the second quarter of 2024. China was noteworthy in this respect, with Guangzhou Baiyun Airport and Wuxi Shuofang Airport signing one new franchise contract each. At the same time, China (including Macao SAR) and South Korea signed three new contracts each during this period, accounting for the highest percentage of franchise change events in the ASPAC region. Europe was also relatively active in this regard in the first quarter of 2024, posting a total of five

contract changes or extensions. Among these, Turkey accounted for a significant share. During the first quarter of 2024, Istanbul Sabiha Gokcen International Airport and Edinburgh Airport each signed and renewed agreements with Avolta Group. In contrast, there were few franchise changes in the Americas, the Middle East and Africa. In the fourth quarter of 2023, new contracts were signed for Jeddah International Airport in Saudi Arabia and Cotonou Cadjehoun International Airport in Benin. Changes in the Americas were mainly driven by the United States, which accounted for 40% of the changes in the region. In 2025, the ASPAC market, especially China and South Korea, may continue to see the fiercest competition in the travel retail market, while Hainan's adjusted duty-free policy may trigger changes in the global duty-free industry.

Figure 6 Key Statistics on Airport Retail Franchise Contract Amendments and Extensions, Categorised by Quarter 2023-H1 2024



Source: DFNI, KPMG Analysis

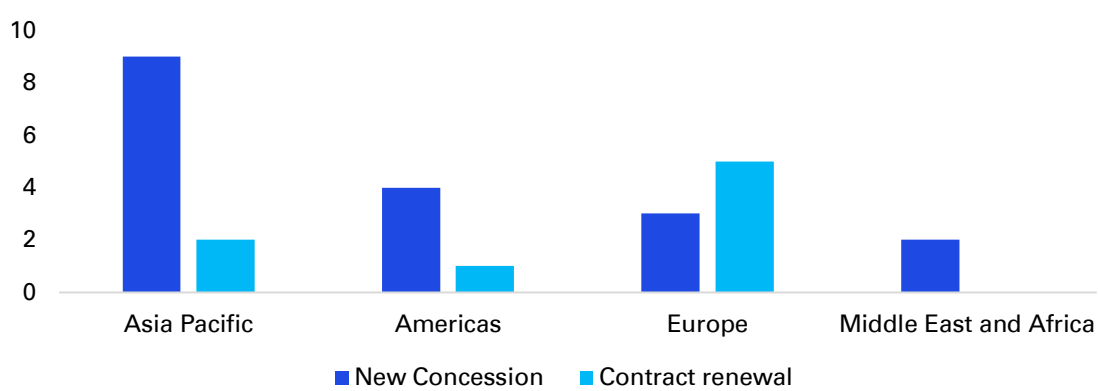
In terms of event types, the ASPAC region was the standout in the number of new contracts, with a total of nine new contracts (accounting for 80%) and two renewals. The Chinese Mainland and Macao SAR shared first place with three events, which was a testament to the strategic importance of the Greater China region in global duty-free business. Next was the European market, with five contract renewals (accounting for 60%) and three new contracts. A comparison of the two regions points to an expanding ASPAC market where enterprises are competing fiercely and being replaced by one another, and a stable European market where partnerships are being continued and deepened.

Statistics regarding franchise changes in the Americas indicate that the market is relatively stable, with four new contracts signed and one renewed. This stability may reflect the saturation of the regional market, and potentially external factors such as a sluggish tourism

industry. In contrast, the Middle East and Africa region was the least active, with only one new contract signed and no contract renewals, which may be the result of the regional economic environment or geopolitical factors.

On the whole, China, Turkey, the United States and South Korea were hubs in their regional markets, recording two to three events each, reflecting their leading position in global duty-free business and the potential of their travel retail markets. Meanwhile, Denmark, Canada, India, Indonesia and other emerging markets each had one event that was either a new contract or renewal, indicating that they were gradually tapping into duty-free business, although the scale of their markets is small. At present, the global duty-free industry is highly concentrated and unbalanced across regions, but emerging markets are providing a new source of growth for the industry.

Figure 7 Key Statistics on Airport Retail Franchise Contract Amendments and Extensions, Categorised by Type 2023-H1 2024



Source: DFNI, KPMG Analysis

Ranking of global travel retailers in 2023: Swiss-based Avolta regains first place, and South Korea’s duty-free industry faces challenges

According to the Top 20 Travel Retailers list released by Moodie Davitt in July 2024, Avolta, a Swiss travel retailer, returned to the top spot based on its strong performance, while China Duty Free Group fell to second place. Meanwhile, Lagardere Travel Retail, Lotte Duty Free and DFS Group ranked third, fourth and fifth respectively. It is worth noting that Lotte Duty Free and Shilla Duty Free, two duty-free giants in South Korea, ranked fourth and sixth respectively,

while Shinsegae Duty Free and Hyundai Duty Free ranked eighth and thirteenth respectively. In 2019, Lotte Duty Free and Shilla Duty Free ranked second and third respectively globally, and they both declined by one place in 2023. This shift reflects the dynamic changes occurring across the global travel retail market and also the challenges facing South Korea’s duty-free industry.

Figure 8 Top Travel Retailer Rankings 2023 (by turnover, € million)



Source: Moodie Davitt Report, KPMG Analysis

The rising popularity of service-oriented consumption is redefining the structure of consumer spending and the competitive landscape in the retail market

Players in the travel retail market are competing more on experience than on product

In the past two decades, changes in the global economy and diversifying consumer demand have profoundly transformed consumption patterns. Consumers are paying more attention to experience and services, which has brought unprecedented challenges for traditional retailers. Against this backdrop, online shopping platforms have made it easier for consumers to compare prices and services, forcing retailers to provide more competitive products and personalised services. Meanwhile, standardised traditional retail models are inadequate to meet consumers' increasingly personalised needs.

At present, online and offline models are being increasingly integrated in China's travel retail market, and a growing number of consumers are pursuing a better shopping experience. In the future, offline retail may further evolve and become just an extension of online platforms, and in order to succeed, industry

players will also need to shift their focus from products to high-end experiences and value creation. For example, in the luxury industry in recent years, international brands have opened high-end stores in China that provide customised, exclusive services for VICs (very important clients) to strengthen customer loyalty and improve the consumer experience.

As the economy recovers, business owners are facing two challenges: how to stabilise their VIC base, and how to attract mainstream consumers at the same time. Trends indicate that going forward, the ability of travel retail industry players to compete will depend not only on their products, but also on whether they can provide high-end, customised services with a human touch. 2025 is expected to mark a turning point for travel retailers in Hainan and China as they generally shift from retail-based to experience-based expansion.

The structure of service consumption is changing as the proportion of the service industry in national economies rises

An increasing proportion of the service industry in the economy and expanding service consumption are symbolic structural changes in economic modernisation. This trend aligns with the laws of economics, although a variety of measures are needed—such as upgrading of demand, technological innovation and policy support—to build a positive cycle.

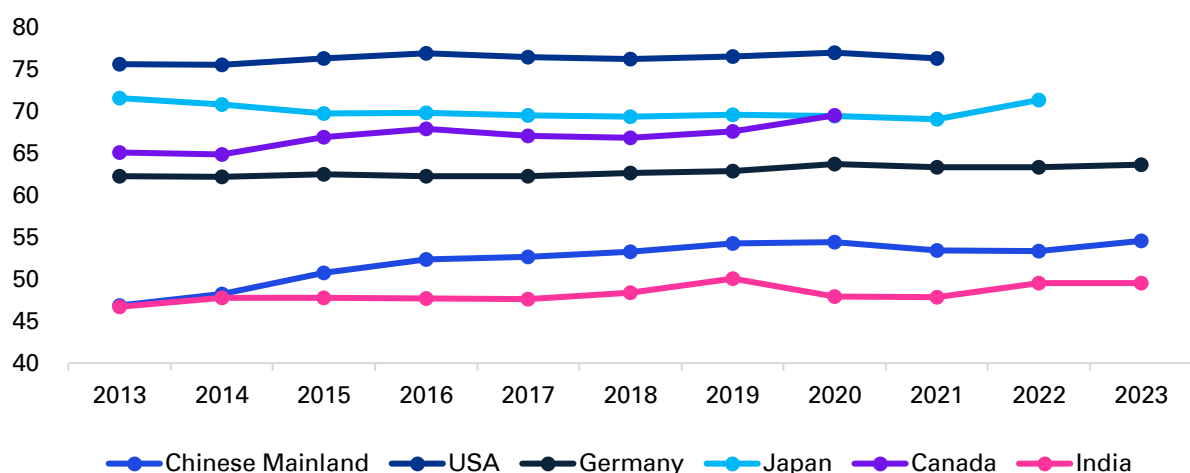
Internationally, the service sector accounts for a consistently high proportion in highly service-oriented economies. For example, in the United States and Japan, the service industry as a share of their economies has remained at a high level of about 70% for a long time. Despite calls for re-industrialisation,

the US service industry as a proportion of the economy remains high. The weight of the service sector in developed economies such as Canada and Germany has remained between 60% and 70%, reflecting the stability of their industrial structures.

In 2013, China's service industry surpassed that of India for the first time in terms of its proportion in the national economy. Since then, it has continued to grow steadily, and has stabilised at more than 50% since 2015. This reflects a shift in China's economy from a manufacturing-oriented model to a service-oriented one and is also a result of active guidance from policymakers and effective tapping of market demand.



Figure 9 Value Added of China's Service Industry of Selected Countries/Regions 2013-2023(% of GDP)



Source: World Bank Group, KPMG Analysis

Note: The World Bank Group has not disclosed the data of the USA in 2022-2023, Canada in 2021-2023 and Japan in 2023

In terms of its contribution to the economy, the service industry has become an important engine for economic growth. Data shows that the added value of China's service industry increased from 46.1% in 2013 to 54.6% in 2023, and the contribution of final consumption to the national economy also increased from 50.0% in 2013 to 82.5% in 2023.

Technological innovation played a key role in this process. New-generation information technology, such as 5G and AI, has not only spawned new businesses such as cross-border e-commerce and direct shipment services among offshore duty-free retailers, but also profoundly changed consumer habits and lifestyles. For instance, in respect of direct shipment services, tourists can place an order for duty-free goods online that can be shipped directly from bonded warehouses, making geographical constraints no longer a problem.

Meanwhile, policy support has provided an institutional guarantee for the development of the

service industry. The government has effectively stimulated the service market by introducing measures such as reducing taxes and fees and relaxing restrictions on market entry. For example, the presence of international luxury brands and the cultivation of talented service professionals have not only improved the quality of services available in the domestic market, but have also created favourable conditions for consumption upgrading.

Going forward, as China's economy continues to grow, the service industry will account for an expanding proportion, and this will also improve the quality of services. In this process, the industry will hit a bottleneck if talented service professionals are in short supply. Therefore, a pool of talented professionals with service expertise will be key to the high-quality development of the service industry. Especially in service-intensive industries such as travel retail, any player that is able to provide quality services is well-positioned for success.

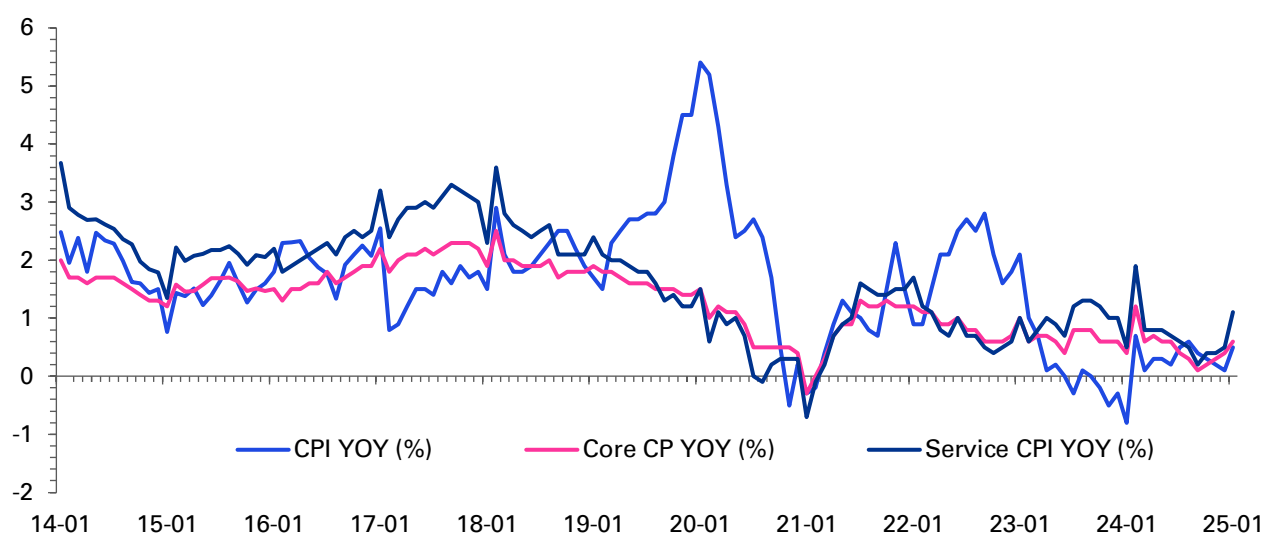


The contribution of tourist spending to core CPI is expected to continue to rise year on year

Cumulative year on year growth in the consumer price index (CPI) was 0.2% in 2024, which is basically the same as in 2023, indicating that inflationary pressure was under control as demand recovered. Core CPI inflation (excluding energy and food) remained low, reflecting that instead of simply absorbing price increases, consumers wanted value for money. On a monthly basis, in January 2025, core CPI rose 0.2 percentage points year on year to 0.6%, up for the fourth consecutive month, and reflecting a month on month increase of 0.5%. Despite periodic fluctuations, CPI inflation for services has remained relatively stable. From late 2019 to early 2020, restrictions on economic activity led to a sharp decline in prices across the service industry. From 2021 to 2023, as the

economy and consumption recovered, the prices of high-end vacations, hotels and catering rose as a result of pent-up demand. From late 2024 to early 2025, CPI inflation for services has ticked upward, slightly increasing by 1.1% year on year. After excluding the impact of higher tourism and catering demand during the Spring Festival holiday, it is clear that consumers are willing to pay a premium for high-quality experiences during peak travel seasons (Spring Festival and Golden Week), further pushing up prices. However, the fact that services have seen limited price increases indicates that competition remains fierce, as evidenced by the promotions and discounts offered by online travel agency (OTA) platforms.

Figure 10 China consumer price index (CPI), Core CPI and Service CPI YOY growth 2014-2025(%)



Source: Wind, KPMG Analysis

Against the backdrop of general price increases, although inflationary pressure is under control, consumer spending power is declining, which has an obvious impact on the travel retail industry. Compared to luxury goods, gold products and other inflation-proof categories, traditional tourist spending items (air tickets, hotels and catering) may suffer a greater impact. As a key component of core inflation, service

prices are closely related to the recovery of the post-pandemic travel market. As the base is low, the year on year contribution of consumer spending to core CPI inflation is expected to continue to increase in the short term. In the future, how to strike a balance between price-sensitive mainstream consumers and high-end experience-oriented consumers will become a key challenge for the travel retail industry.

a. The impact may be temporary. As economic activity returns to normal, the impact of the low base will decrease. In addition, this trend will be affected by factors such as government policy support and changes in the global economy.

Demand for tourism services grew in 2023, and high-end customised experiences found favour with tourists

“

In the past, tourists went abroad to explore a different landscape. Now, with high-quality travel experiences available in the domestic market, more tourists are spending locally. As the global tourism industry is being reshaped, emerging markets are developing rapidly, giving rise to more competition and cooperation in the region. In this context, domestic travel retailers are leveraging digital technology, AI and big data to capture consumer demand, launch customised ads, and improve the travel, entertainment and service experience (such as exclusive travel routes for VIPs, guided tours, small group tours, etc.); and this trend is driving the growth of the high-end market.

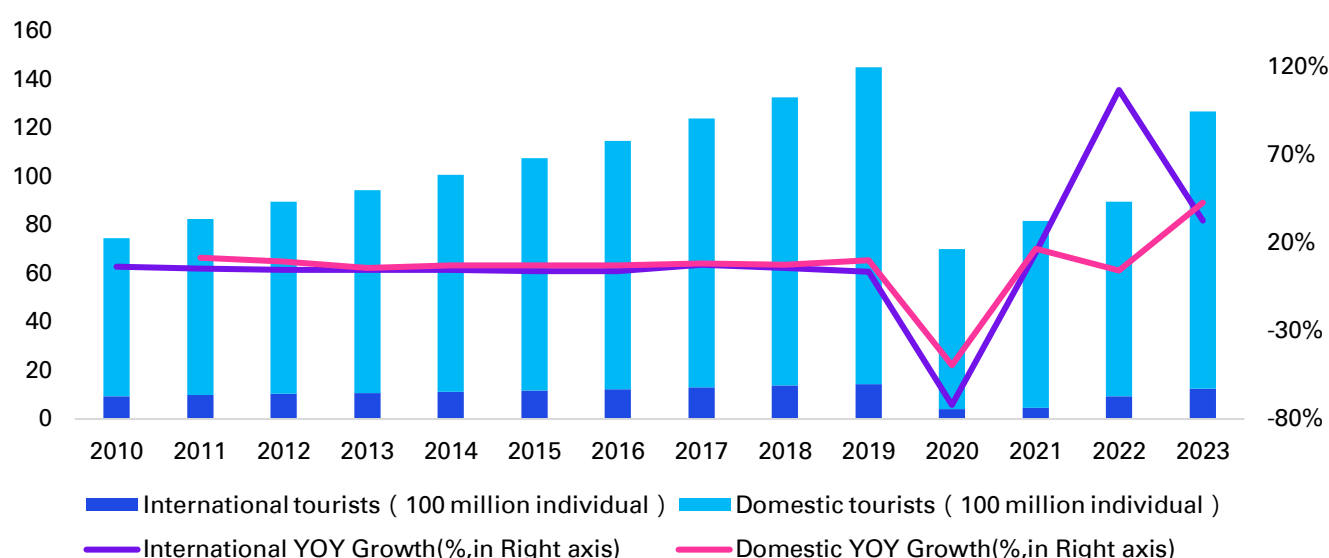
”



Based on data from the World Tourism Cities Federation, from 2010 to 2019, the total number of global tourists (including domestic and international travellers) grew steadily at an annual average rate of 7.3%. By 2023, the total number of global tourist arrivals reached 12.673 billion, a year on year increase of 41.6%, higher than the 2017 level and equivalent to 87.4% of the 2019 level. In terms of international travel, due to the high base and pent-up travel demand released in the previous year, growth slowed in 2023, although both the number of tourist arrivals and tourism sector income grew. Globally, the number of international tourists reached 1.256 billion in 2023, and total tourist sector income reached CNY

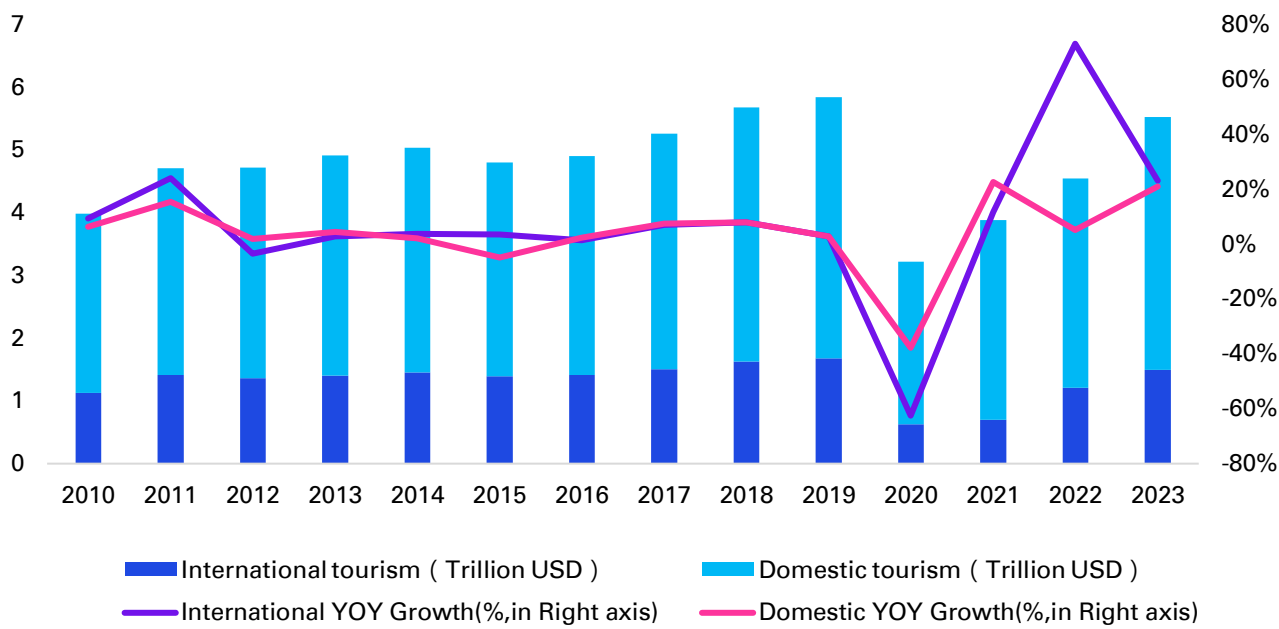
1.49 trillion, up 32.3% and 23.1% respectively year on year. The domestic tourism industry performed better still, with its growth rate experiencing a significant rebound in 2023 as tourists chose to travel domestically instead of going abroad. As for the reasons behind this trend, first, consumers have adopted a more rational approach to spending amid the economic downturn. Second, the domestic tourism industry has been relying on digital, personalised and high-end services to attract consumers. By integrating innovative experiences, players have been reshaping the industrial chain and business models to drive sustainable development.

Figure 11 Market Size of Global Tourism in Terms of Individual Trips 2010-2023 (100 million Individual, %)



Source: World Tourism Cities Federation, KPMG Analysis

Figure 12 Market Size of Global Tourism in Terms of Revenue 2010-2023 (Trillion USD, %)



Source: World Tourism Cities Federation, KPMG Analysis

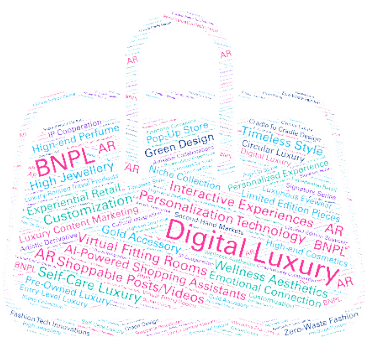


Chinese consumer sector 2024 buzzwords

The *Semi-annual Report on the Consumer & Retail Sector in China 2024H2* highlights that buzzwords among Chinese consumers are steadily evolving and reflect the latest expectations for the consumer goods sector. This section provides a summary of buzzwords across five sub-sectors, and the buzzwords include terms such as "sustainable fashion," "fashion

collaboration," "changeable styles," "ice-and-snow sports," "scientific and technological innovation," "healthy lifestyle," "functional food and beverage," "intestinal revitalisation," "downmarket" and "marketing." These buzzwords provide us with an illustration of the evolving landscape of the consumer goods sector.

Luxury and fashion



Sustainable fashion

Green design, circular luxury, second-hand markets, fashion-tech innovation, zero-waste fashion, cradle-to-cradle design

Digital trends

NFT and blockchain, digital assets, crypto art, quality assurance, omnichannel experience, augmented reality, digital luxury, virtual fitting rooms, personalised technology, interactive experiences, AI-powered shopping assistants, luxury content marketing, buy-now-pay-later (BNPL), shoppable posts/videos

Self-pleasing consumption

Self-care luxury, customisation, personalised experience, experiential retail, luxury-related travel products, wellness aesthetics, emotional connection

Fashion collaboration

Cross-industry collaboration, IP cooperation, artisanal collaboration, signature series, cultural integration, derivative art, limited edition souvenirs

Value-retaining items and "low-price" pieces

Pre-owned luxury, limited-edition pieces, timeless style, high-end jewellery, gold accessories, high-end cosmetics, high-end perfume, luxury eyewear, pop-up stores, niche collections, entry-level luxury

Health and beauty



Sustainability

Clean beauty, pure beauty, transparent labels, cruelty-free, natural and organic ingredients, environmentally friendly, makeup bottle recycling, no additives, plastic-free, compostable, locally-sourced

Tech innovation

AI-powered skin detection, nanotechnology, personalised skincare solutions, virtual makeup try-on, household beauty instruments, intelligent health monitoring devices, personalised and customised medical products, nutritional scanners, sports trackers

Diversified perfume preferences

Natural fragrance, customised fragrance, IP co-branding, localised limited-edition scents, Asian fragrance, men's perfume, niche perfume, salon perfume, woody perfume, floral perfume, fresh notes

Healthy lifestyle

Natural healing, gut microflora balance, sleep health, scalp care, health monitoring devices, health supplements, nutritional agents, mental health, Chinese regimen

Functional skincare

Active ingredients, multi-functional, plant extracts, fermentation components, enzyme technology, anti-aging, skin stability, nicotinamide, sodium hyaluronate, panthenol, tocopherol, centella asiatica extract, vitamin C and its derivatives, psoralen, ceramides, puri-xylane, salicylic acid

Source: *Semi-annual Report on the Consumer & Retail Sector in China 2024H2*, KPMG Analysis

Chinese consumer sector 2024 buzzwords

Apparel and footwear



Changeable styles

Retro trends, China-chic style, deconstruction, multi-functional clothing, unisex design, minimalism, lightweight outdoor clothing, sportswear, natural-themed outfits, ethnic elements, ancient style, new Chinese style

Digitalisation

Digital printing, personalised customisation, high-tech fabric, new fabric technology, virtual experience, 3D technology, simulation and visualisation techniques

Sustainability, health and environmental protection

Sustainable textile fabrics, organic fibres, synthetic fur, low-impact circular synthetic filler, certified ethnic down and feather, animal wool alternatives, plant-based fibre insulation, clothing rental, clothing recycling and reconstruction, massage shoes, shock absorption and breathability

Winter sports

Down jacket, cotton coat, cashmere sweater, wool overcoat, outdoor jacket, thermal underwear, ski apparel, ski gloves, heating fabrics, snow boots, ski shoes, skating shoes, warmth-retention, windproof, waterproof

Food and beverage



Health preferences

Sugar-free, low-fat, gluten-free, organic, low-calorie, non-GMO, whole grain, high-protein, probiotic, fruit and vegetable food, Chinese health drink, coconut water, sugar-free soda, sugar-free tea, drinking water

Functional foods and beverages

Protein powder, electrolyte water, meal replacement powder, abdominal gummies, fat-burner drink, low-carb, instant meal replacements, energy bars, matcha powder, chicken breast, beef, low-sodium

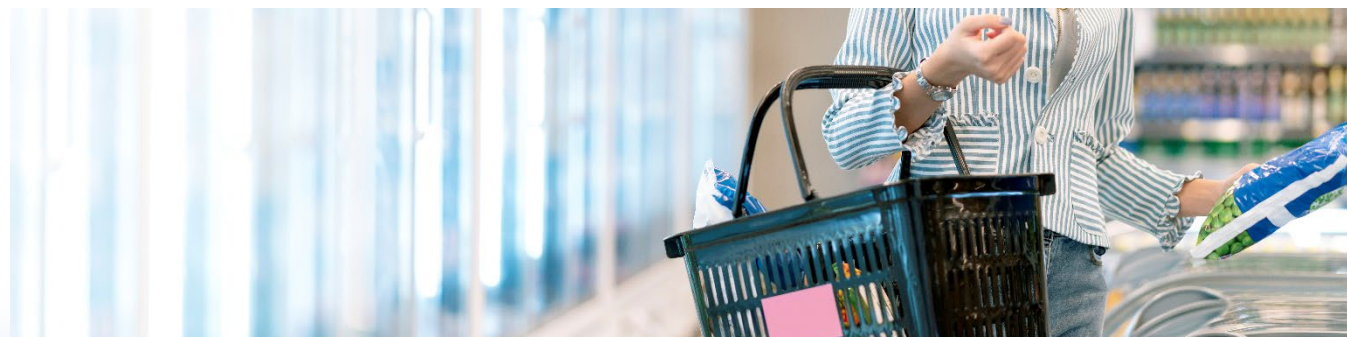
Plant-based products

Plant-based beverages, herbal teas, plum syrup, high-fibre and plant-based protein drink, plant milk, plant-based meat, plant butter, plant eggs, soy products, diverse recipes

Gut rejuvenation

Beverages containing fruit and vegetable fibre, probiotic drinks, natural foods, fermented foods, organic food, yogurt, dietary fibre, lactic acid bacteria, gut microflora balance, gastrointestinal health

Source: Semi-annual Report on the Consumer & Retail Sector in China 2024H2, KPMG Analysis



Chinese consumer sector 2024 buzzwords

Restaurants



healthy diet concepts

Light cuisine concept, light salad, high-end simple meals, sandwiches, zero-waste, eco-friendly packaging, fruit and vegetable drinks, food and medicine homology

Downmarket

Western fast food, fast-food snacks, small hot pot, reasonably-priced stir-fry, value-for-money, price reduction, brand penetration, satellite stores, mini shops, portable shops, takeout shops, chain catering brands, bubble tea price war

New dining trends

Catering enterprises going global, intelligent ordering system, unmanned restaurant, VR dining technology, Internet celebrity restaurant, social group buying, communal table, experience-based catering, local specialty dishes, prepared meals

Marketing

Store exploration via live streaming, social media check-ins, catering challenges, food group buying, food live streaming, KOL cooperation, catering co-branding, catering IP, catering account operations, emotional value

Source: Semi-annual Report on the Consumer & Retail Sector in China 2024H2, KPMG Analysis



02

A data-based overview of the global travel retail market

- Analysis of Hainan's consumer goods and offshore duty-free markets
- Comparison of travel retail business models: Hainan and South Korea

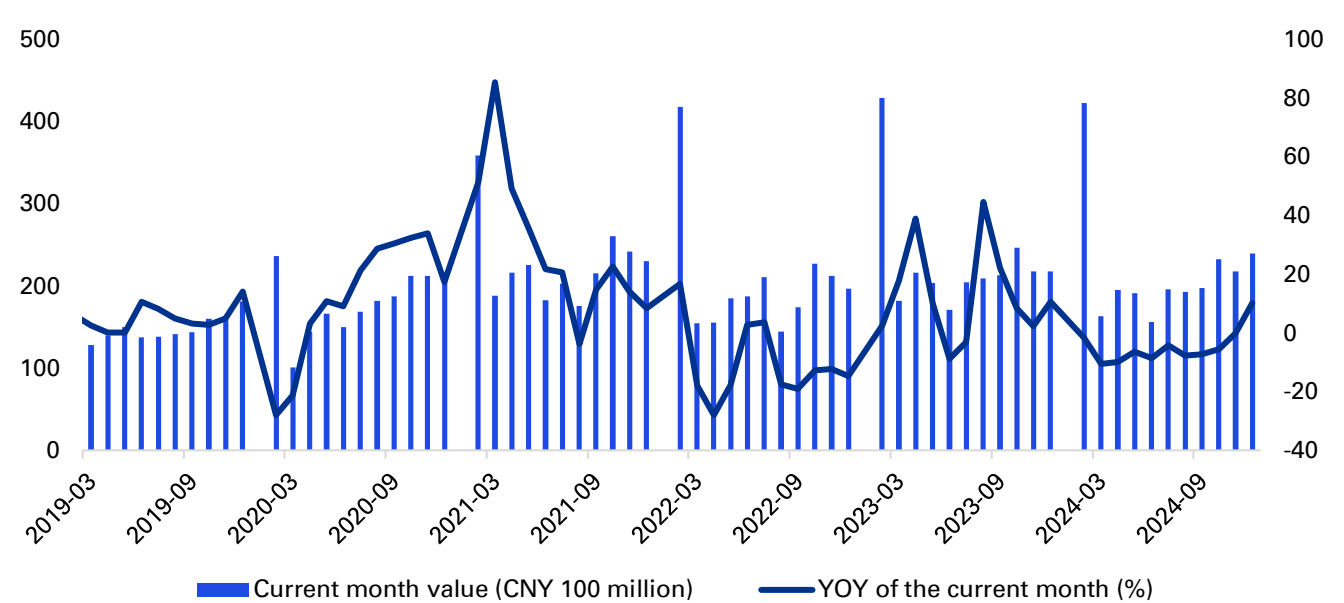
Analysis of Hainan’s consumer goods and offshore duty-free markets

Consumer goods sales in Hainan declined at a slower pace, and the consumer market remained stable under policy support

In 2024, total retail sales of consumer goods in Hainan stood at CNY 240.561 billion, a year on year decrease of 4.2%. However, the decrease was 2 percentage points lower than that in the first three quarters. With the implementation of the consumer goods trade-in policy, sales of consumer goods grew 17.5% quarter on quarter in the fourth quarter, which effectively boosted market participants’ confidence. In the fourth quarter, the year on year growth rate of consumer goods sales was again positive at 1.2%, 7.6 percentage points higher than that in the third quarter. On a monthly basis, total sales of consumer goods in

December hit an annual high (excluding the value of CNY 42.228 billion for January and February that was combined for statistical purposes), rising by 10.1% despite a high base and demonstrating strong consumption momentum. On the whole, from 2019 to 2024, the consumer market in Hainan remained stable, but due to the macro environment and policy changes, the market experienced significant short-term fluctuations. As policies continue to be introduced to promote consumption, they could deliver greater momentum for the market and lay the foundation for future growth.

Figure 13 Total Retail Sales of Consumer Goods in Hainan YOY Growth 2019-2024 (CNY 100 million, %)



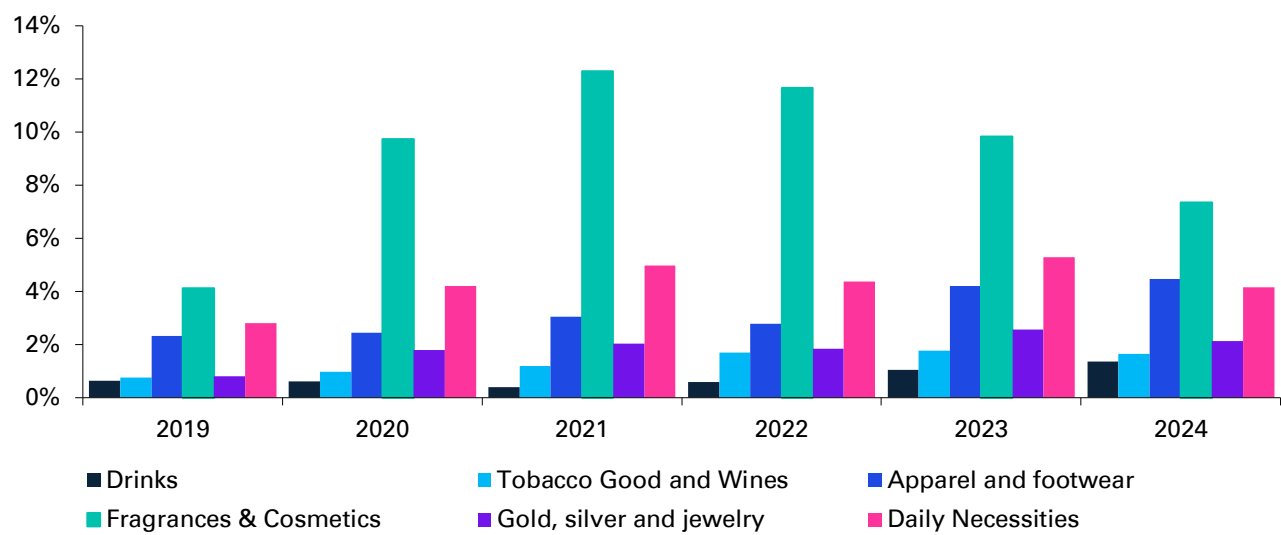
Source: Hainan Provincial Bureau of Statistics, KPMG Analysis

Note: The February data in this chart represents the absolute value of the cumulative total from January to February, as published by the National Bureau of Statistics in February.

In terms of product categories, cosmetics remained the top category in the travel retail market, thanks to the continued offshore duty-free policy and a low threshold for consumers (low prices and high sales volumes). At the same time, the market share of luxury products (such as high-end watches and jewellery) remained generally stable. Under Hainan’s duty-free policy, these expensive items can still attract high-net-worth consumers. From 2021 to 2022, as foreign travel was restricted, a large portion of

domestic high-end consumer demand was satisfied in Hainan. In fact, as consumers who previously went shopping abroad turned to Hainan’s duty-free channels, the travel retail market thrived during those two years. However, as restrictions on outbound tourism were lifted in 2023, some high-end consumers returned to overseas markets, resulting in a decline in the consumption of luxury goods and high-end cosmetics in Hainan.

Figure 14 Proportion of Retail Sales in Tourism-Related Product Categories in Hainan 2019-2024 (%)



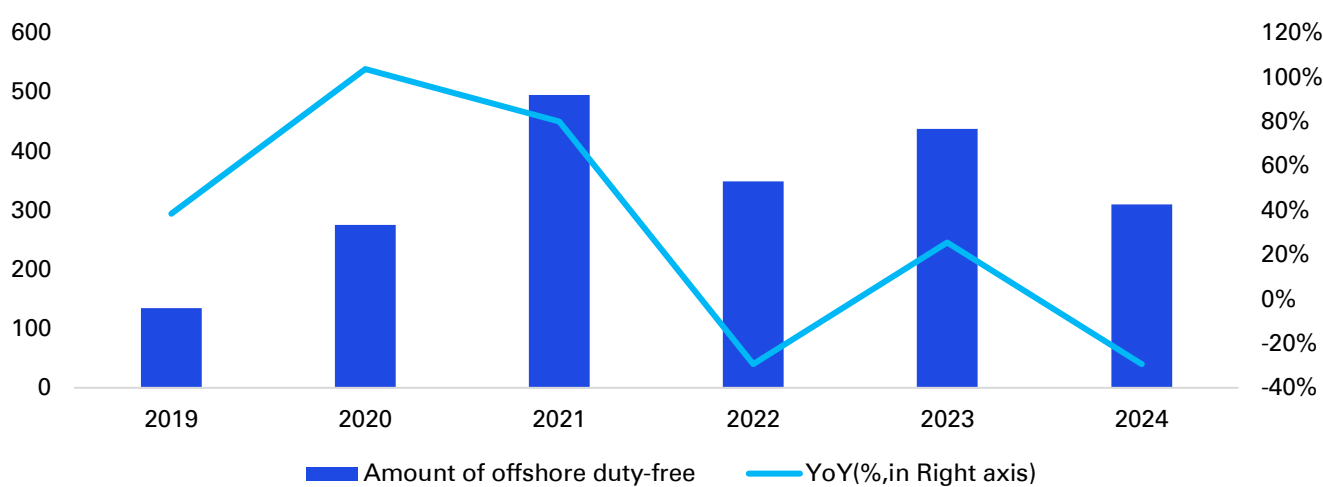
Source: Hainan Provincial Bureau of Statistics, KPMG Analysis

In 2024, Hainan’s offshore duty-free market remained resilient and development potential under pressure

As mentioned previously, the growth momentum of the ASPAC travel retail market has slowed, mainly due to the fact that when global economic activity recovered in 2022, travel was still restricted in Hainan. According to data from Haikou Customs, in 2023, offshore duty-free spending in Hainan increased by 25.4% year on year, indicating the resilience of the local travel retail market as the pandemic was kept under control. Despite fluctuations in 2024, the first quarter and the fourth quarter recorded 44.6% and 24.9% quarter on quarter growth respectively,

reflecting a thriving market. In 2024, which marked the last year of the 14th Five-Year Plan, sales by duty-free operators posted strong growth, and international brands set up operations in Hainan at a quick pace. In 2025, as the implementation date for independent customs draws near, the government is expected to introduce additional policies to promote the sustainable development of Hainan’s travel retail industry. We believe that with policy support, the local travel retail market could strengthen its resilience and fully tap its potential.

Figure 15 Amount of Offshore Duty-Free and YoY growth of Hainan 2019-2024 (CNY 100 million, %)



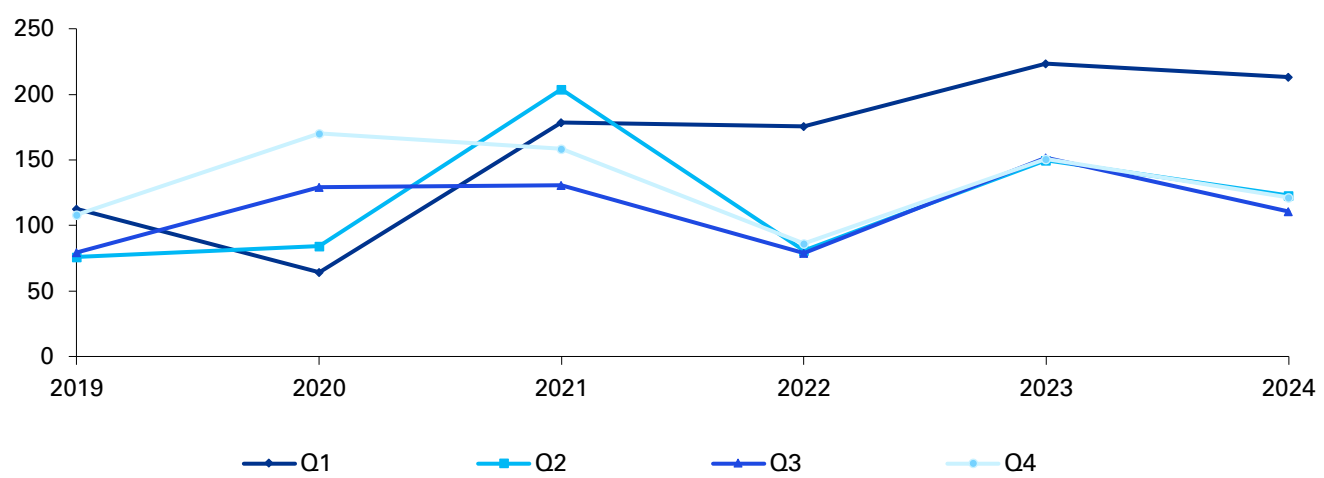
Source: Haikou Customs, KPMG Analysis

Hainan’s offshore duty-free market faces pressure as high-end consumers shop abroad

In 2022, due to travel restrictions and fewer flights, Hainan failed to fully attract overseas consumers, resulting in a significant decrease in the number of duty-free shoppers. Although foreign travel was restricted, consumer demand for duty-free products was not entirely absorbed by Hainan, hindering the growth of the market. In 2023, although the travel market gradually recovered, overseas shopping did not fully recover, which—in combination with government-led promotions and duty-free policies—brought about a rebound in Hainan's offshore duty-free market. However, in 2024, overseas shopping saw

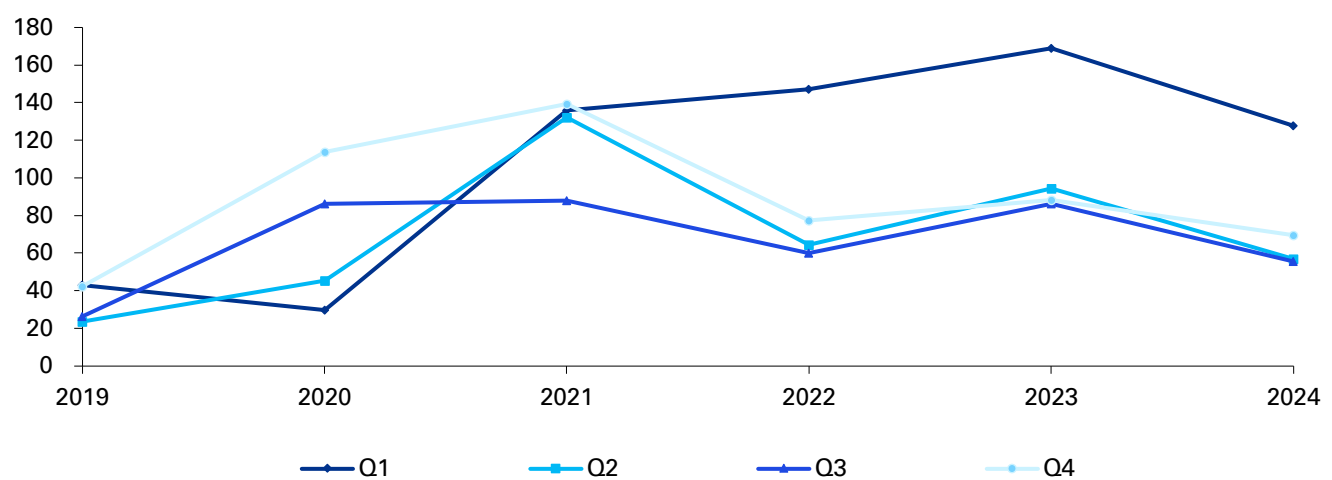
a full recovery, and more high-end consumers went shopping abroad. In addition, the rise of Chinese brands’ products diverted consumers from some international brands, again putting pressure on Hainan's travel retail market. In terms of offshore duty-free shopping in 2024, according to data from Haikou Customs, a total of 5.683 million consumers spent CNY 30.94 billion on 33.082 million items in Hainan, reflecting a decline from 2023 and indicating that the market was under pressure amid intense competition.

Figure 16 Number of Quarterly Offshore Duty-Free Shoppers in Hainan in 2019–2024 (10,000 individual)



Source: Haikou Customs, KPMG Analysis

Figure 17 Value of Quarterly Offshore Duty-Free Shopping in Hainan in 2019–2024 (CNY 10,000)



Source: Haikou Customs, KPMG Analysis

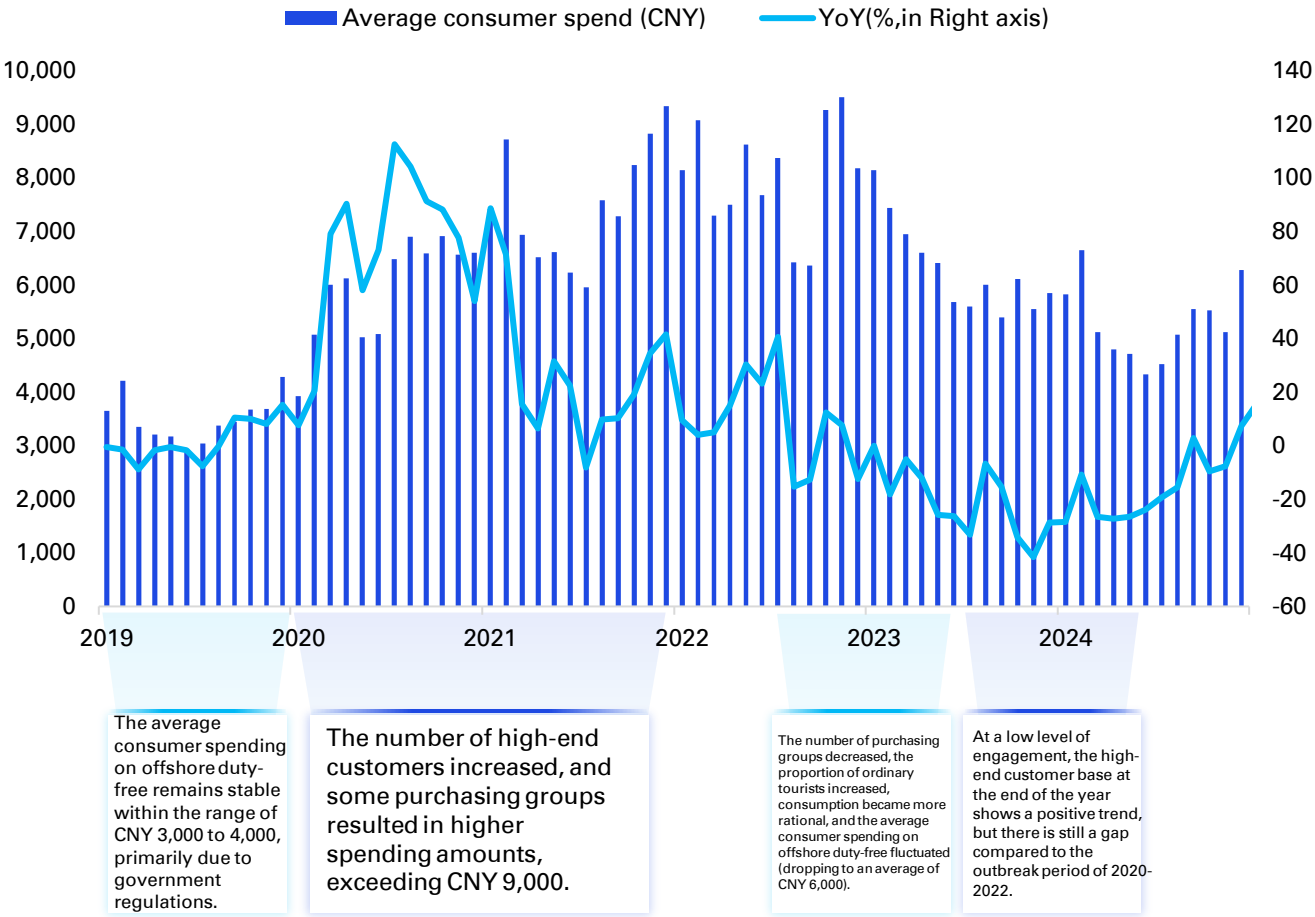
Since 2019, the average consumer spend on offshore duty-free items in Hainan has fluctuated significantly along with the year on year growth rate. From 2019 to early 2020, average consumer spend grew slightly but remained generally stable in the range of CNY 3,000-4,000. However, in July 2020, Hainan introduced a new duty-free policy, increasing the duty-free quota from CNY 30,000 to 100,000 and adding new duty-free categories such as electronic products. As a result, average consumer spend rose rapidly, posting year on year growth of 112.7% for the month. This policy was also responsible for the high growth recorded from the second half of 2020 to 2022. During this time, international travel was restricted, and consumers interested in overseas shopping returned to the domestic market, resulting in a release of pent-up demand for luxury goods and high-end cosmetics, pushing up average spending to CNY 9,000 in December 2021.

From 2022 to 2023, average consumer spend dropped significantly and was below CNY 6,000 in some months, recording negative year on year growth. On one hand, as policies on pandemic control were

adjusted and international travel recovered, high-end consumers went back to Hong Kong SAR, Japan, Europe and other regions for shopping, diverting consumers with high spending power from Hainan's offshore duty-free market. On the other hand, in 2023, the government strengthened supervision and took measures to crack down on smuggling, including “purchase by proxy,” which also contributed to the decline in average consumer spend.

In 2024, the Hainan government issued a series of policies to boost the duty-free industry, such as the *Notice on Improving the Policies on Duty-Free Stores in Cities*, which cancelled the quota for shopping in urban duty-free stores. Afterwards, due to the increasing number of international tourists, average consumer spending went up. Going forward, Hainan still needs to attract more high-end consumers and drive the steady growth of the island's offshore duty-free market in the long term by continuously optimising policies, improving the shopping experience and strengthening market players’ ability to compete through differentiation.

Figure 18 Average Consumer Spend on Offshore Duty-Free Shoppers in Hainan 2019-2024 (CNY,%)



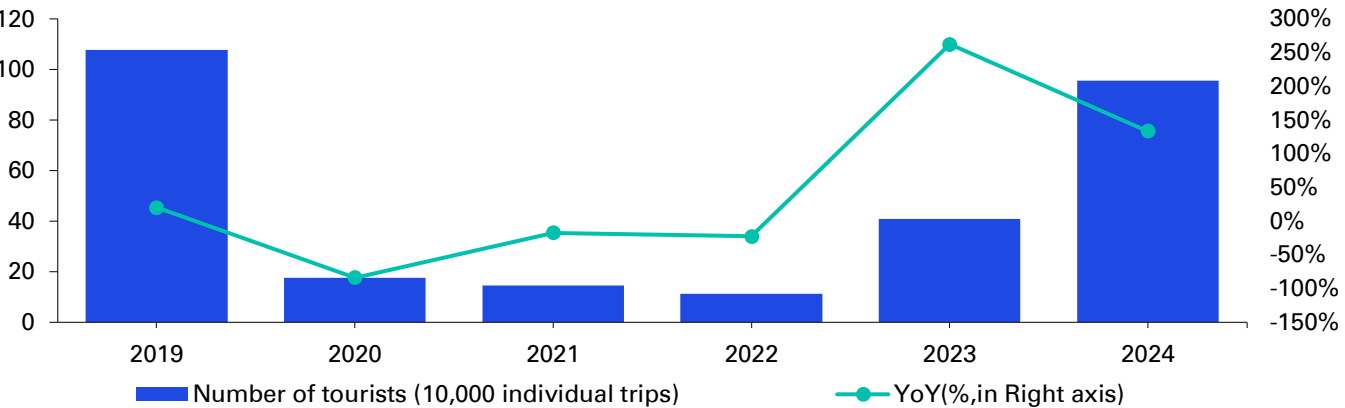
Source: Haikou Customs, KPMG Analysis

In terms of the recovery of Hainan’s inbound travel market, in 2019, the number of inbound foreign tourists staying overnight reached a historical high of 1.079 million before dropping sharply during the period from 2020 to 2022. As international flights resumed, in 2023, the number of inbound tourists staying overnight on the island grew 262.4%. Although the growth rate fell to 133.8% in 2024, the number climbed to 957,000, sustaining the momentum for recovery. It is worth noting that the slowdown in 2024 was partly due to the high base, and partly due to changes in the competitive landscape—first-tier cities such as Shanghai pursued innovative policies in order to compete for international tourists.

Policy-wise, Hainan and Shanghai both benefited from the upgraded visa-free policy. Since the visa-free policy for 59 countries was implemented in Hainan in

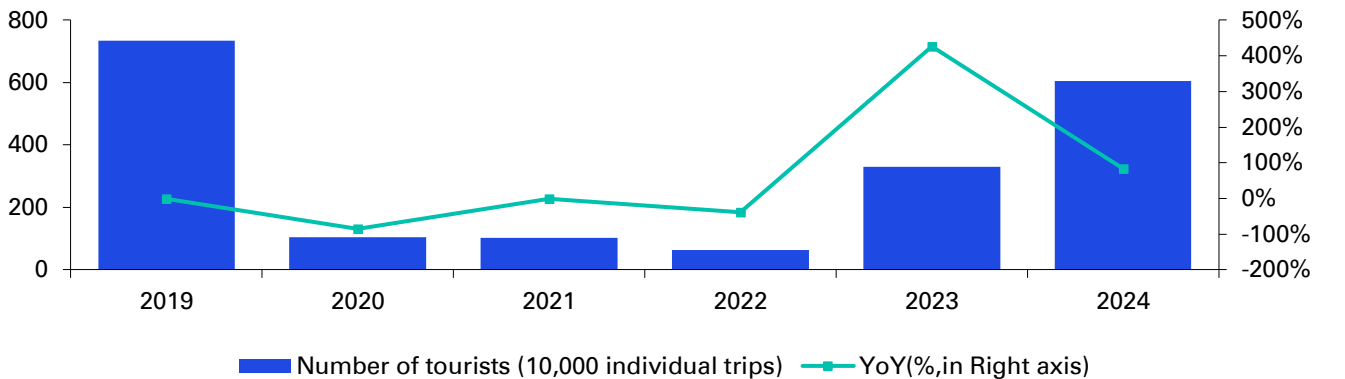
2024, tourists from regions like Southeast Asia and Russia have been flocking to the island. According to data regarding medical-related tourism in the Boao Lecheng International Medical Tourism Pilot Zone, in the first half of 2024, more than 200,000 tourists visited the pilot zone, reflecting year on year growth of 49.59%.¹ Thanks to the upgraded 144-hour visa-free policy, Shanghai received more than 6.05 million inbound tourists staying overnight in 2024, including 4.8 million foreigners, representing growth of more than 100%.² The city benefited from its position as an international aviation hub (during the year, the number of international flights at Shanghai Pudong International Airport reached 87.0% of the 2019 level)³ and its clusters of luxury retailers. However, it should be noted that Hainan remains irreplaceable among certain customer groups by virtue of its offshore duty-free policy and tropical coastal resources.

Figure 19 Hainan's inbound Foreign Tourists Staying Overnight in 2019-2024 (10,000 individual trips, %)



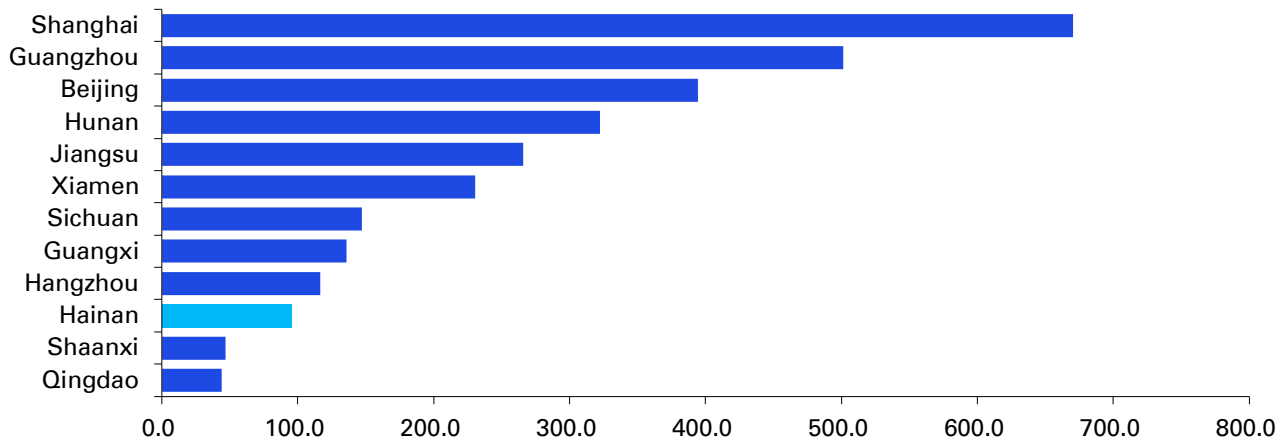
Source: Department of Tourism, Culture, Radio, Television and Sports of Hainan Province , KPMG Analysis

Figure 20 Shanghai's Inbound Overnight Tourists in 2019-2024 (Including Compatriots from Hong Kong SAR, Macau SAR and Taiwan Region, 10,000 individual trips, %)



Source: Shanghai Municipal Administration of Culture and Tourism, The Xinhua News Agency, KPMG Analysis

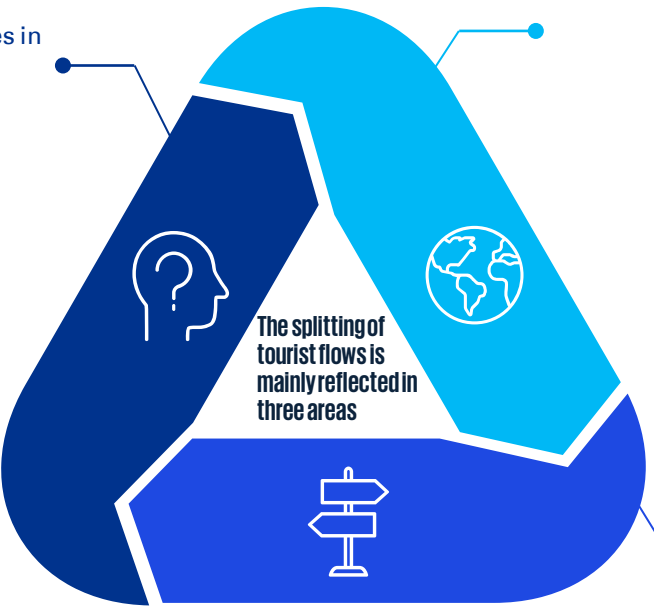
Figure 21 Inbound Tourists in Some Visa-Free Transit Areas in 2024 (Including Compatriots from Hong Kong SAR, Macau SAR and Taiwan Region, 10,000 individual trips, %)



Source: Haikou Customs, KPMG Analysis

Figure 22 Structural analysis of the tourist flows split across regions

Hainan still has weaknesses in terms of the “soft environment” for tourists, such as language and international payments



International tourists’ travel activities in China have become more centralised in the Yangtze River Delta urban cluster where there are considerable synergies in cultural and tourism activities (144-hour visa-free travel between Shanghai, Jiangsu and Zhejiang). This trend has diverted a large flow of tourists who are planning long trips

As a tier-1 city, Shanghai boasts comparative advantages in commercial facilities. It has the second largest cluster of global retailers in the world, with 98% of first-rate international brands operating there. From May 2018 to December 2023, more than 4,500 international and domestic brands launched new products globally from Shanghai, and 5,840 first stores were opened. In this regard, the city ranked first nationally in both quantity and quality.⁴

Source: KPMG analysis

In addition, during the new year holidays, cities in Hainan introduced incentives targeting the offshore duty-free market, such as consumer coupons, to drive duty-free shopping. For example, since December 2024, the Haikou Municipal Bureau of Commerce has successively issued duty-free coupons worth CNY 26 million. Haikou Customs data showed that during the 2025 Spring Festival holiday (28 January to 4 February), average consumer spending on offshore duty-free items was CNY 8,706, an increase of 4.1%⁵

compared with that in 2024 (CNY 8,360). The government said that the next step would be to deepen the "performing arts + tourism + consumption" model, organise large-scale events linked to concerts, encourage duty-free merchants to extend business hours as appropriate to promote the development of diverse "duty-free+" business formats, and create new hotspots for consumption to boost the duty-free market.⁶

Comparison of travel retail business models: Hainan and South Korea

The offshore duty-free industry in China and South Korea: Hainan’s market is growing with strong policy support, while the South Korean market is facing challenges, though it is well-developed

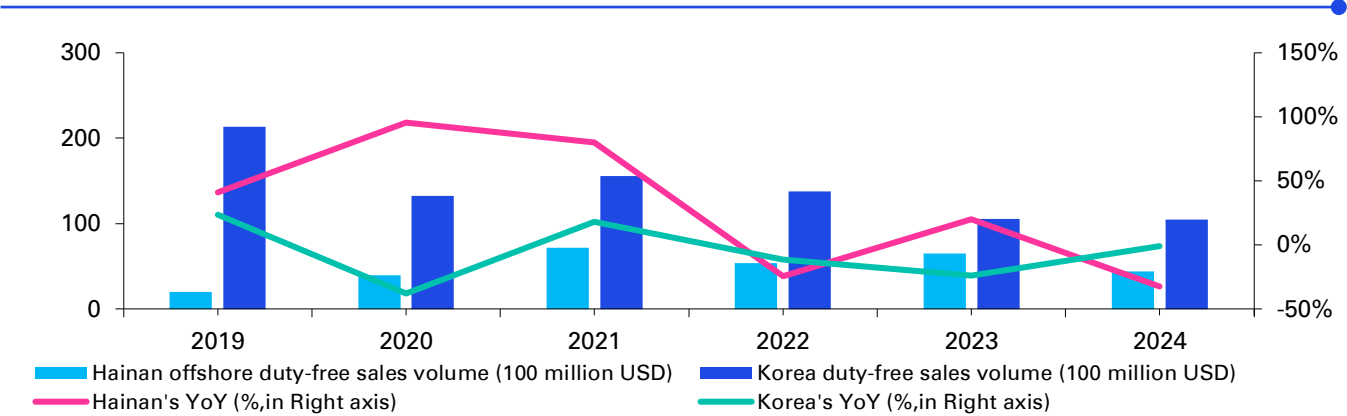
As the only free trade port for offshore duty-free shopping in China, Hainan has developed rapidly in recent years with policy support, promoting the growth of tourism and retail and the economy as a whole. In contrast, as a leading travel retail market globally, South Korea boasts a mature brand and international tourist base, and it has been an industry leader for a long time. However, the global travel retail landscape has changed in recent years. Against this backdrop, the South Korean duty-free industry is facing challenges, while the expanding Hainan market is providing new momentum for growth.

In the post-pandemic era, domestic tourists are the main consumer group in Hainan’s offshore duty-free market. Its offshore duty-free revenue has slowed down after peaking in 2021; and in the post-pandemic era, the proportion of domestic tourists has significantly increased. In 2023, the amount of offshore tax exemption in Hainan reach CNY 43.76 billion (USD 6.51 billion), but in 2024, as foreign travel resumed, more consumers went shopping abroad, resulting in a year on year decrease of 33.0% in the tax exemption amount.

In 2021, South Korea’s revenue from the duty-free industry reached a historical high of USD 15.573 billion. It then declined in 2022 and recorded a drop of 24.0% in 2023. The scale of revenue shrank slightly in 2024, posting a year on year decrease of 1.0%. The main reasons for this contraction include the rapid development of China’s travel retail market, the unbalanced recovery of the international travel industry, and changes in consumer demand.

It is worth mentioning that, as the largest offshore duty-free operator in Hainan, China Duty Free Group experienced a decline in its business performance in 2024, although sales in its duty-free stores located in airport arrival and departure areas increased significantly. In 2024, China Duty Free Group’s revenue from its duty-free stores in Beijing’s airports (including Capital International Airport and Daxing International Airport) increased by more than 115% year on year, while that of duty-free stores in Shanghai’s airports (including Pudong International Airport and Hongqiao International Airport) increased by nearly 32% year on year.⁷ This was mainly due to the increasing number of countries from which tourists can enter China visa-free, the continuous optimisation of China’s visa-free transit policies and the steady growth of international passenger flights.

Figure 23 Comparison of Offshore Duty-Free Amount in Hainan and South Korea 2019–2024 (USD 100 million, %)



Source:Haikou Customs,Korea Duty Free Association,KPMG Analysis

Note: The offshore duty-free sales volume in Hainan is calculated in USD based on the average exchange rate of CNY against the USD in the previous year.

With China’s economy and travel industry recovering at a quicker pace, in the eyes of tourists from northern and central China and those from Jiangsu, Zhejiang and Shanghai, a visit to Japan or South Korea costs as much as one to Hainan, either in terms of time or money. However, the former two regions boast advantages in branding, quality of service, and experience and offer more attractions for tourists with shopping needs.

A comparison of the number of offshore duty-free shoppers in Hainan with that in South Korea shows that, in 2022, which marked the start of the recent slowdown in the Hainan market, there were 4.22 million offshore

duty-free shoppers in Hainan, down 37.0% year on year. In the same period, the South Korean travel retail market recorded a steady performance, with 10.83 million shoppers, up 60.0% year on year; and it has continued to expand since then. In 2024, the South Korean travel retail market was still growing, although the growth rate slowed; in contrast, the number of offshore duty-free shoppers in Hainan declined to 5.683 million, a year on year decrease of 16.0%. In addition to fewer tourists and tightening macroeconomic conditions, lower spending by the middle class is also an important reason for this trend, as consumers are cutting down on non-essentials.

Figure 24 Comparison of the Number of Offshore Duty-Free Shoppers in Hainan and South Korea 2019–2024 (10,000 individual, %)

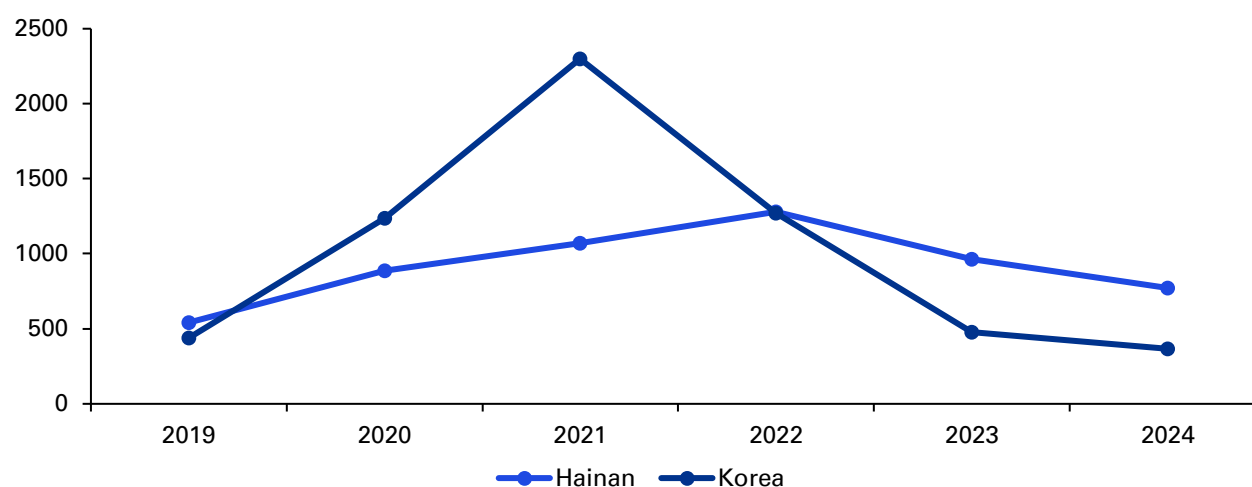


Source: Haikou Customs, Korea Duty Free Association, KPMG Analysis

From 2022 to 2024, average consumer spending on offshore duty-free items in Hainan tumbled below USD 1,000 from the USD 1,200-1,300 range. In addition, domestic e-commerce platforms have been engaging in fierce price wars in the beauty and personal care segment, intensifying pressure on Hainan's offshore duty-free market. Notably, during this period, the number of duty-free shoppers in South Korea increased significantly, but average spending fell by nearly USD 900. This may be due to measures taken by the South Korean government to strengthen supervision of purchases of luxury goods by proxy, as well as the growing offshore duty-free market in China, resulting in a contraction of purchases by proxy and a drop in average spending.

Since 2022, a weak Japanese yen has attracted more tourists to Japan, which has diverted tourist flows from the Korean travel retail market. In general, the travel retail market in South Korea has not returned to its 2019 level, with the number of shoppers at about 58.7%, and sales at just 49.0%, of their 2019 levels. At the same time, with the devaluation of the Korean won and resulting inflationary pressure, duty-free retailers are facing greater inventory pressure. Against this backdrop, Hainan needs to improve its overall shopping experience and branding to strengthen its competitiveness. 2025 may witness intensifying competition between the two travel retail markets.

Figure 25 Comparison of Average Consumer Spend on Offshore Duty-Free Shoppers in Hainan and South Korea 2019–2024 (USD)



Source: Haikou Customs, Korea Duty Free Association, KPMG Analysis

Note: Average consumer spending is calculated in USD based on the average exchange rate of CNY against the USD in the previous year.

03

Hainan's travel retail market: Trends and insights

- Hainan's integrated culture + tourism model has injected new strength into the tourism sector and raised the island's tourism revenue
- Profile of travel retail consumers in Hainan
- Policy-driven intelligent and green transformation: integrating AI technology and the “dual carbon” goals in travel retail
- Highlights in the Hainan travel retail market

Hainan’s integrated culture + tourism model has injected new strength into the tourism sector and raised the island’s tourism revenue

Development of Hainan’s tourism industry: an important consumption destination driven by duty-free shopping and cultural tourism consumption

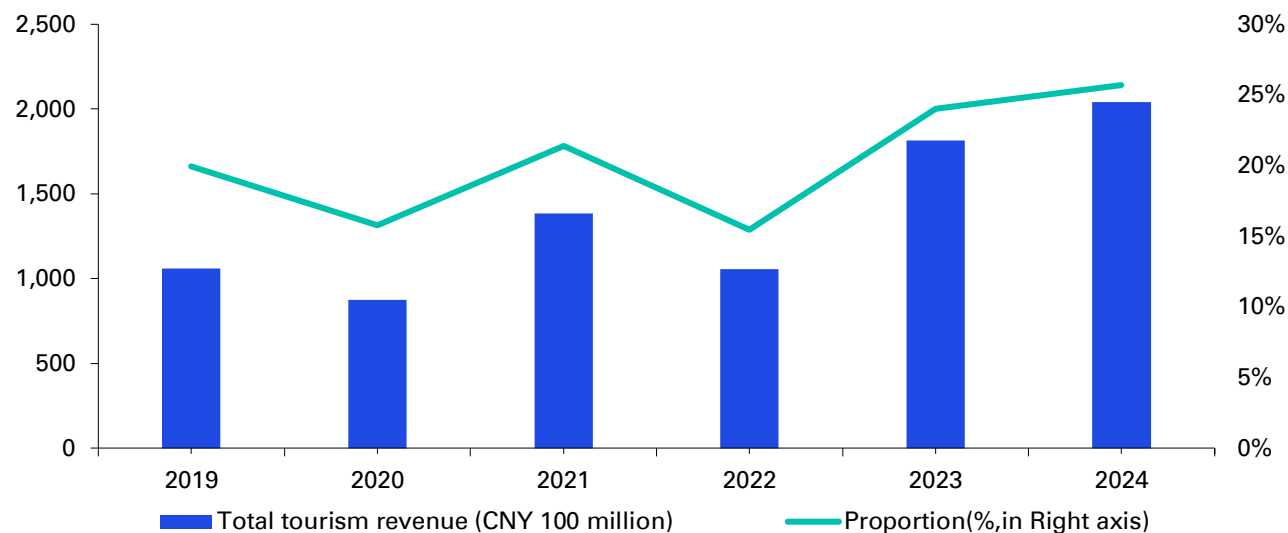
Hainan is at the forefront of China’s reform and opening up and is a core area for the free trade port programme, and in recent years, it has seen its tourism revenue increase year by year. From tourism and duty-free shopping to traditional retail models and new consumption scenarios, the island has gradually become a prime destination for Chinese and global consumers.

Recently, Hainan’s tourism revenue has been moving upward, especially after the implementation of the duty-free policy. In 2020, the island’s tourism revenue reached CNY 87.286 billion, accounting for 16% of the

province’s GDP. In 2024, revenue further increased to CNY 204.014 billion, accounting for 26%. The travel industry is undoubtedly a pillar of the local economy. According to data released by the Hainan Tourism and Culture Department, during the 2025 Spring Festival (28 January to 4 February), the island received 9.5145 million tourist arrivals and recorded CNY 15.127 billion in tourism revenue, up 48.8% and 62.7% respectively compared with the same period last year.⁸ Both figures represented new highs.

Cultural and tourism consumption has become a new hot spot. Tours around the island, museums and local featured activities are increasingly popular. During the Spring Festival (28 January to 4 February), 418,000 tourists participated in various events across the island, driving tourist spending of CNY 990 million.⁹

Figure 26 Hainan’s Total Tourism Revenue and Its Proportion in Provincial GDP 2019-2024 (CNY 100 million, %)



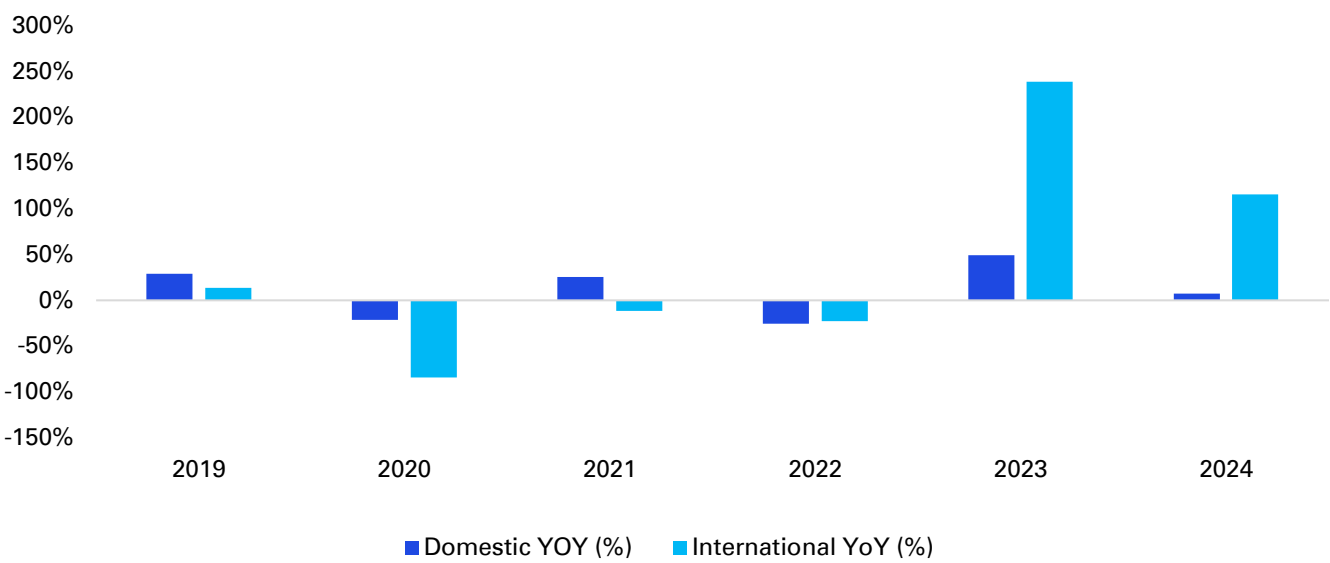
Source: Department of Tourism, Culture, Radio, Television and Sports of Hainan Province , KPMG Analysis

Despite strong policy advantages, Hainan needs to do more to drive spending by international tourists

Hainan’s tourism sector still depends on domestic tourists. The number of domestic tourist arrivals increased from 64.3268 million in 2020 to 96.0979 million in 2024, and the figure is still growing. In 2024, Hainan’s tourism revenue from domestic tourists stood at CNY 199.577 billion, up 10.8% year on year and accounting for 98.0% of Hainan’s total tourism revenue. During the year, the number of international tourist arrivals was 1.11 million, an increase of about 115.6% over the previous year; and the island generated tourism revenue from international tourists amounting to USD 620 million (approximately CNY

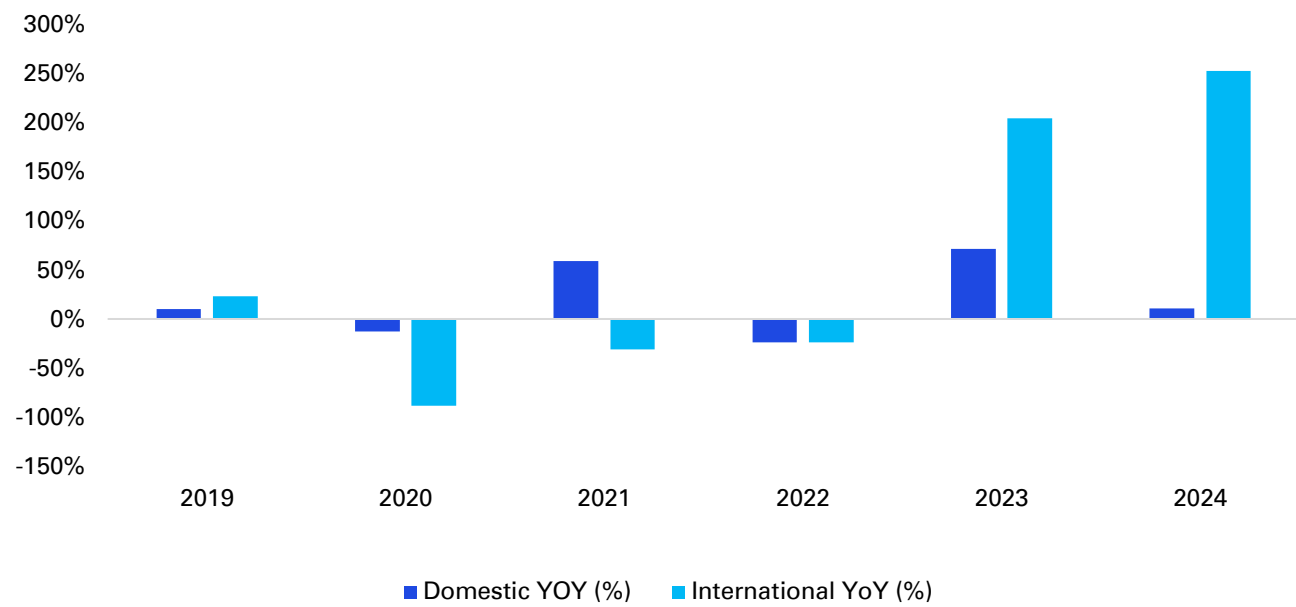
4.37 billion), an increase of about 252.9% over the previous year (denominated in CNY). Both figures have been growing consistently over the past six years. Despite the rapid growth in the past two years, which was measured from a low base, ground-breaking progress still remains to be made, and there is still a long way to go before the island can achieve its strategy of building itself into a hub for international tourism and consumption. To enhance its international competitiveness, Hainan still needs to take further actions to explore new possibilities and improve the quality of development.

Figure 27 YOY Growth of Hainan Tourists ' Consumption in International and Domestic 2019-2024 (%)



Source: Department of Tourism, Culture, Radio, Television and Sports of Hainan Province , KPMG Analysis

Figure 28 YOY Growth of Total Tourism Revenue in International and Domestic 2019-2024 (%)

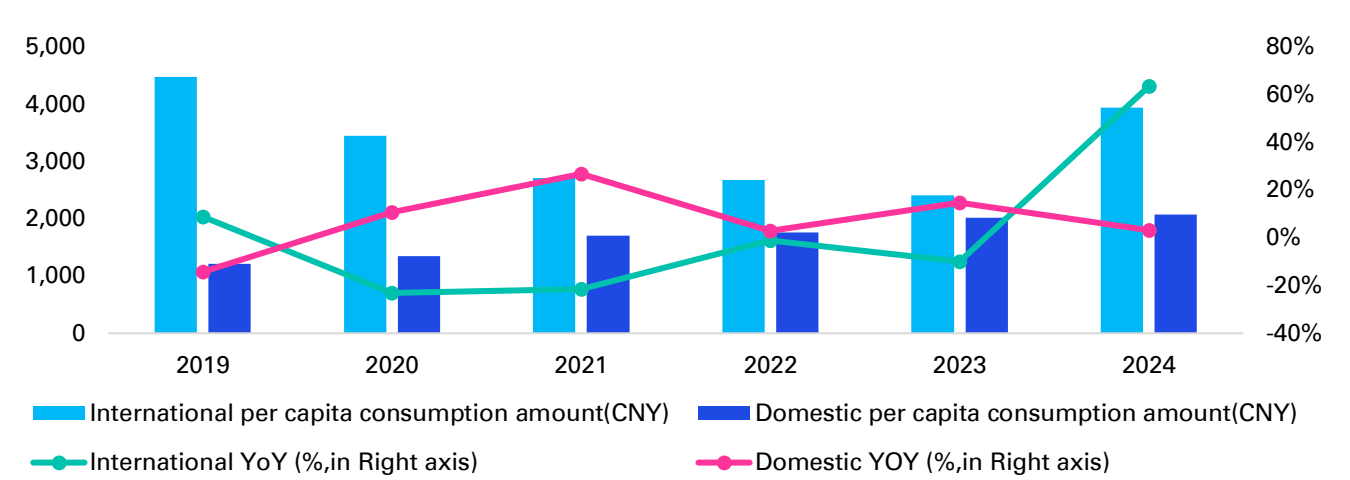


Source: Department of Tourism, Culture, Radio, Television and Sports of Hainan Province , KPMG Analysis

In terms of average tourist spending, international tourists spent more in Hainan in 2019, with per capita spending of approximately CNY 4,481 (USD 677.2), an increase of 8.8% year on year (denominated in CNY), which was a high level in recent years. In 2024, as international tourism recovered, due to factors including increased supply of high-end travel services and Renminbi weakness vis-à-vis the US dollar, per capita spending by international tourists in Hainan amounted to CNY 3,941 (USD 559.3), up 63.7% year on

year (denominated in CNY) and equivalent to more than 80% of the 2019 level. The growth rate of per capita consumption by domestic tourists dropped slightly to 3.2% in 2024, but in terms of the amount, it was still the highest level in the last six years. These figures show that per capita consumption by international tourists has been recovering, while that by domestic tourists has been growing at a relatively flat rate.

Figure 29 Hainan's Per Capita Tourism Consumption in International and Domestic 2019-2024 (CNY, %)



Source: Department of Tourism, Culture, Radio, Television and Sports of Hainan Province , KPMG Analysis

Note: Per capita consumption by international tourists is calculated in CNY at the average exchange rate of USD against the CNY in the previous year.

Top level policies help the construction of international consumption centers, optimise the inbound tourism environment, and improve the policy system of duty-free shops and departure tax rebates

In March 2025, the State Council issued *Several Measures to Support the Cultivation and Construction of International Consumption Centre Cities*, which proposed promoting the concentration of global consumption resources, optimising the consumption environment for inbound tourists, and further improving policies for duty-free stores and tax rebates at departure. This issuance provides strong policy support for the construction of international consumption centres in key provinces and municipalities such as Beijing, Tianjin, Shanghai, Guangdong and Chongqing, and also lays out the direction for improving the overall level of international consumption in China. It is worth noting that although the policy is mainly aimed at relevant local governments and national ministries, it has sent a signal that will have a wide demonstration effect. In particular, as the central government is committed to building Hainan into an international tourism and consumption centre, the island can expect to benefit from opportunities brought by the policy.

From a practical perspective, Hainan has continued to deepen its duty-free shopping policies in recent years.

Since 2024, the province has successively introduced a number of innovative measures, including increasing the duty-free quota, covering more commodity categories and optimising the tax rebate process, which have significantly raised the island’s attractiveness in the eyes of international tourists. In addition, Hainan has also made positive progress in facilitating inbound travel. In July 2024, the 144-hour visa-free policy for tourist groups from Hong Kong SAR and Macao SAR was officially implemented, delivering new momentum for the inbound tourism market. In December 2024, to follow up on the existing visa-free policy, the National Immigration Administration announced that Hainan would implement a visa-free policy for inbound tourists from 59 countries, a visa-free transit policy for international cruise ships, and a policy allowing foreign tourists to stay up to 240 hours without a transit visa.

By taking these actions, Hainan is gradually strengthening its position as an international destination for tourists and consumers. By attracting tourists with high spending power, Hainan will not only improve the quality of tourism services, but also take its travel retail market to new heights. With continuous policy support, Hainan is expected to become a benchmark for the development of international consumption centres in China in 2025 and beyond.

Profile of travel retail consumers in Hainan

Profile of the next generation of consumers: analysis of preferences, demands and purchase motivations

According to the *Overall Plan for the Construction of Hainan Free Trade Port*, independent customs operations will soon be implemented across the island of Hainan. Afterwards, the duty-free policy for consumers departing the island will take effect to help boost the development of Hainan's travel and cultural sectors and other related industries and attract more consumers. However, the province will continue facing challenges from duty-free stores expanding in other parts of the Chinese Mainland and neighbouring markets.

Despite the current complex and volatile market environment, duty-free sales in Hainan have remained stable. In 2024, 5.683 million buyers generated total sales of over CNY 30 billion for the island. Based on consumption purposes and preferences, this section divides travel retail consumers in Hainan into four categories—young consumers, middle and high-income consumers, short-term travellers, and foreign tourists—in order to help readers better understand market demands and optimise service strategies.

Figure 30 Profiles of four typical types of consumers in Hainan Province

Young consumers	Middle and high-income consumers	Short-term travellers	Foreign tourists
<p>Young consumers spend time in Hainan for leisure and vacation, large cultural performances, and sports events, or they travel to Hainan for shopping and tourism.</p>	<p>They spend time in Hainan for leisure and vacation, business meetings or business visits as there are many high-end resorts and hotels in the province.</p>	<p>Short-term travellers spend time in Hainan to enjoy a warmer winter (in particular people over 60 years old from northern China), or attend large cultural performances and sports events (particularly young people).</p>	<p>They take advantage of the visa-free policy to attend large international exhibitions, sports events and cultural performances in the province.</p>
<p>Consumer preferences</p> <p>They like to purchase fashionable and trendy products such as cosmetics, skincare products, luxury goods, and electronic products.</p>	<p>Consumer preferences</p> <p>They pay close attention to brands and quality and prefer high-end luxury goods, watches, jewellery, alcohol and other products.</p>	<p>Consumer preferences</p> <p>Elderly consumers tend to purchase quality health care products, food, and other products with high cost performance, while young travellers prefer goods that satisfy their need for social connection.</p>	<p>Consumer preferences</p> <p>They like to buy unique Hainan or Chinese souvenirs or gifts for relatives and friends.</p>

Source: KPMG analysis



Young consumers: Hainan's rich tourism resources and abundant shopping destinations meet their needs

Young consumers are the core consumer group for Hainan's travel retail market. According to data from Tongcheng Travel, in the first three quarters of 2024, post-90s and post-00s consumers accounted for more than half of all tourists in the province, demonstrating the importance of young consumers to the market.

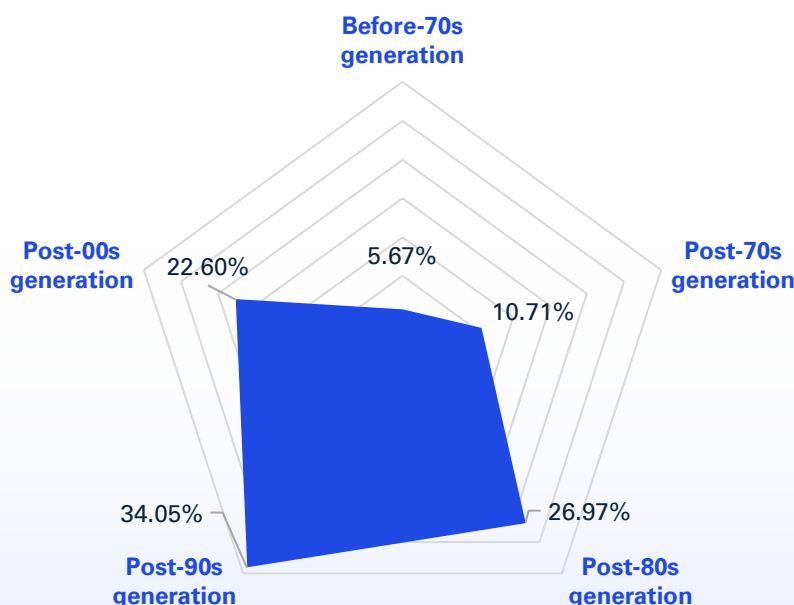
Hainan's rich tourism resources attract large numbers of young people. First, the island boasts unique natural resources, including high-quality marine tourism resources, natural tropical rainforests, and unique historical and cultural attractions that cannot be seen in other tourist cities in China. Second, in May 2024, the Department of Finance of Hainan Province jointly released the *Measures of Hainan Province on Further Promoting the Linkage of Culture, Sports, Travel and Business Exhibitions to Expand Consumption* with other departments, with the aim of encouraging the organisation of international and domestic concerts, music festivals, and theatrical performances in the province by providing incentives of up to CNY 3 million.¹⁰ This policy has resulted multiple popular international events being held in Hainan, including the "Vultures Listening Experience World Tour Listening Party - Haikou Station," the first concert of Charlie Puth's Asia tour, and the Philadelphia Orchestra Concert, which have attracted many young fans and music enthusiasts and benefited the province's travel retail industry. For example,

42,000 tickets were sold for Kanye West's concert, with 96.2% of tickets purchased by travellers, generating tourism revenue of CNY 370 million for Haikou city. Moreover, concert audiences are entitled to a 10-15% purchase discount and other concessions in Haikou International Duty-Free City, which helped drive CNY 56 million in duty-free sales.¹¹

Hainan is also actively creating more attractions for younger travellers. The province opened its highway loop in December 2023 and the Hainan Tropical Rainforest National Park Scenic Road in December 2024, improving the accessibility of its tourism resources and creating a "self-driving tours + camping" trend among younger generations travelling in Hainan. According to statistics from the Department of Tourism, Culture, Radio, Television and Sports of Hainan Province, during the Spring Festival holiday, Hainan's highway loop saw 2.356 million passengers, and the scenic road received 246,000 passengers, with large numbers of tourists visiting various scenic spots and rural tourism sites along these roads.¹²

Hainan's enriched tourism offerings are drawing an increasing number of young people to the island, and these young people are active consumers with diversified needs. They are keen to purchase fashionable and trendy products, with preferences including cosmetics and skincare products, luxury goods, electronic products, and the like, which should be an important focus for the development of Hainan's travel retail industry.

Figure 31 Age Distribution of Core Customers group in Hainan Travel Retail Market Q1-Q3 2024 (%)



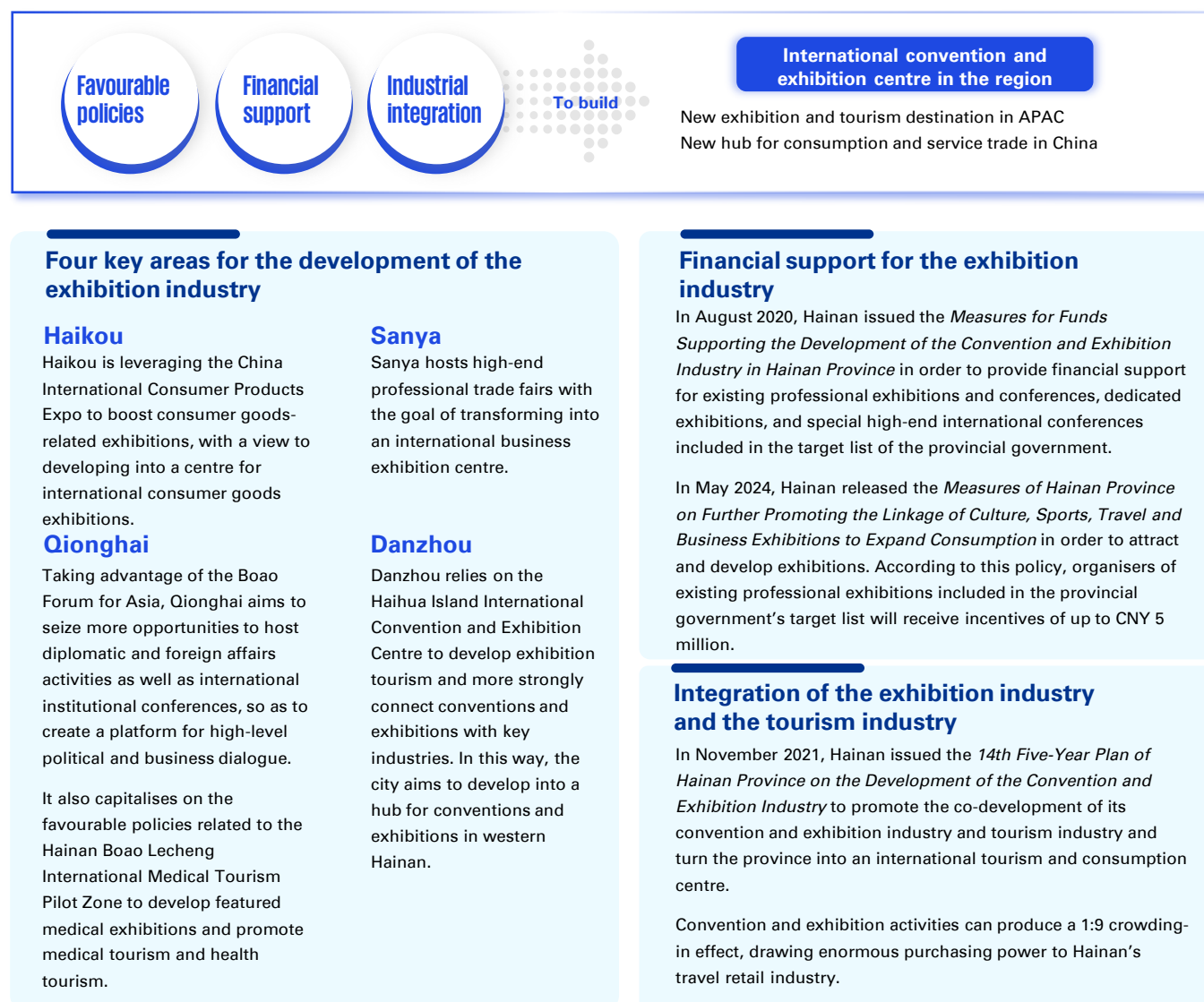
Source: Tongcheng Travel Holdings Limited, KPMG Analysis

Middle and high-income consumers: Numerous exhibitions and high-end vacation resources are drawing people with high consumption power to Hainan

Hainan province attaches great importance to the cultivation and development of the exhibition economy, having issued a series of policies to attract and develop high-quality exhibitions. According to Hainan province's convention and exhibition schedule for 2024, it hosted 30 provincial exhibitions during the year, including five exhibitions and 25 conferences that covered 15 areas, such as the digital economy, artificial intelligence, biomedicine, e-commerce and jewellery.¹³

Large exhibitions not only draw a large number of travellers to the province, but also stimulate its duty-free retail market. During exhibitions, duty-free shopping malls in Hainan should seize opportunities by actively offering promotional benefits and innovative consumption scenarios. For example, during the China International Consumer Products Expo in March 2024, some duty-free malls developed innovative consumption scenarios based on the features of the expo, launched special promotional activities for expo visitors, and optimised precision marketing strategies, significantly increasing their traffic and contributing to the high-quality development of the duty-free retail sector.

Figure 32 Exhibition Economy plan of Hainan Province



Source: KPMG analysis

Notably, most exhibition participants are from high-income groups, including corporate executives, professionals, investors and financial practitioners. These travellers boast high purchasing power and tend to spend on high-end products. By offering premium vacation resources that closely align with their needs, Hainan is able to retain these individuals for a longer time on the island, further promoting the

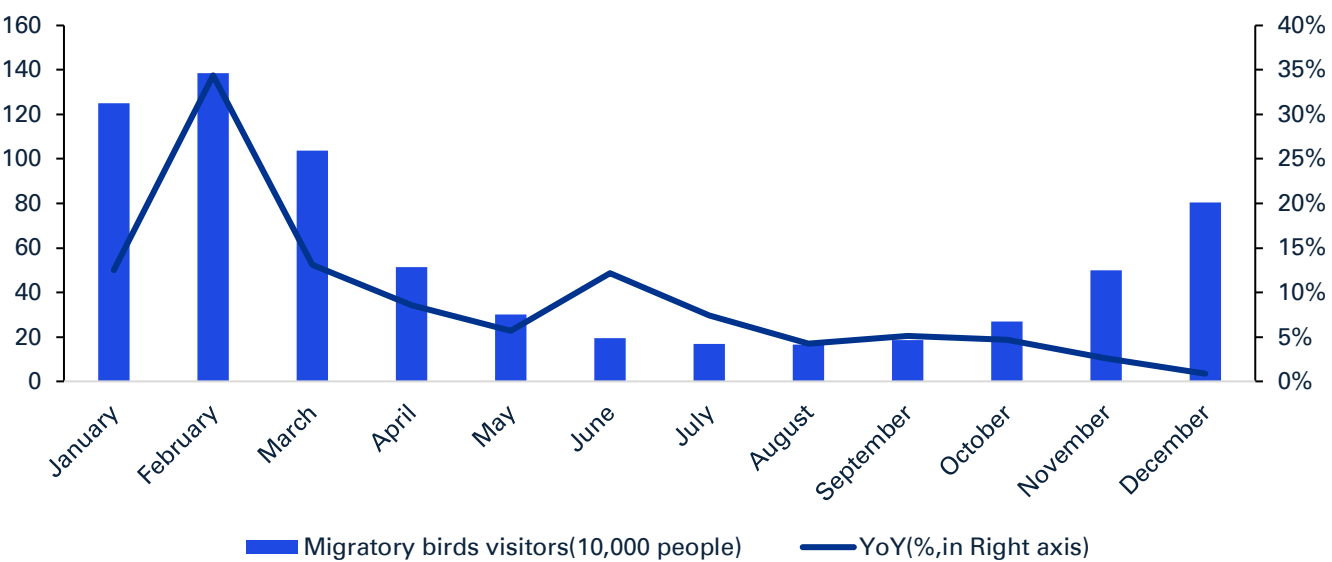
development of the local travel retail industry. The consumer behaviours of high consumption groups suggest that they pay more attention to brands and quality and prefer high-end luxury goods such as watches, jewellery, and alcohol. As important consumers in Hainan's travel retail market, high consumption groups provide strong momentum for the growth of duty-free retail in the province.

Short-term travellers: With its warm climate, Hainan attracts both young and old people who dislike cold winters

According to data from the Department of Tourism, Culture, Radio, Television and Sports of Hainan Province, the island received more than 1 million winter visitors from January to March 2024, indicating that the Spring Festival holiday and cold weather brought large numbers of tourists to the province. From April to October, the tourism industry

experiences its slow season, with the number of tourists falling to the lowest level in August and September. However, the year on year growth rate in these two months still trended upward. In November, the number of tourists began to rise again and reached 805,500 in December, making it the fourth highest month during the year, and showing that winter tourists were returning to Hainan. It is worth noting that in 2024 the number of such tourists grew year on year in each month, indicating that Hainan is attracting an increasing number of returning tourists.

Figure 33 Monthly Winter Visitors Numbers and YOY Growth in Hainan in 2024 (10,000 people,%)

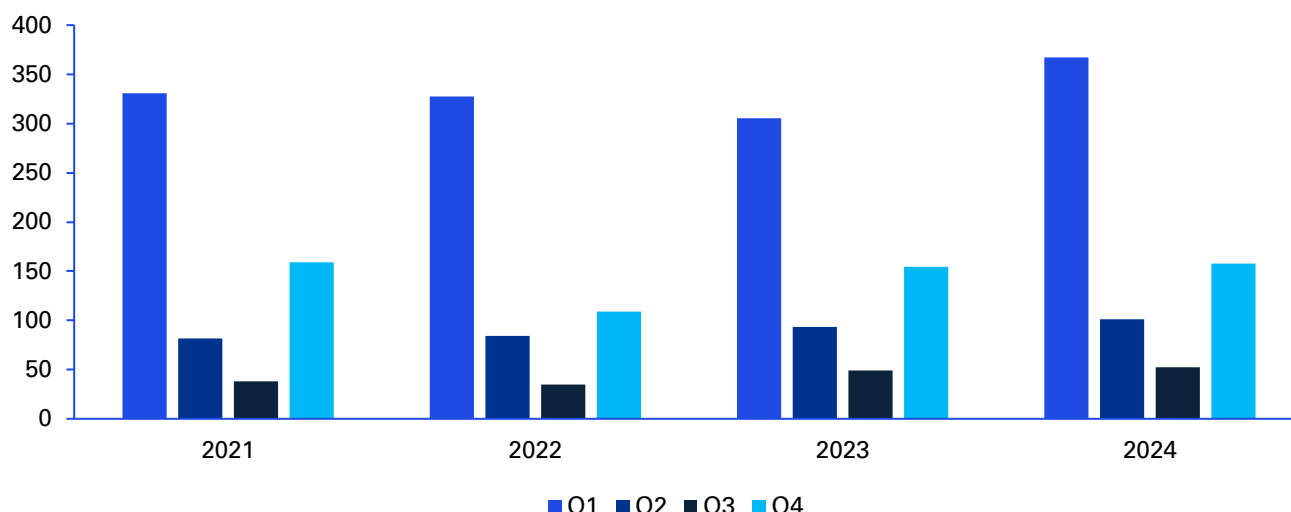


Source: Department of Tourism, Culture, Radio, Television and Sports of Hainan Province , KPMG Analysis

On a quarterly basis, the first quarter always sees the peak of tourist season, reliably exceeding the other quarters. Generally, it draws about 3-4 million tourists each year, and it saw a record high in 2024. The fourth quarter draws the second highest number. After a slump in 2022, the number of returning tourists quickly bounced back in 2023, with year on year growth amounting to 41.7%. The fourth quarter of 2024 saw 1.57 million tourists, around 79.0% of the

total in the same quarter in 2019, indicating that the scale of returning tourists with high purchasing power has been expanding, benefiting the winter vacation market. For Hainan, the second and third quarters are the slow season, drawing fewer tourists. In summer, domestic tourists tend to prefer other tourist destinations such as Yunnan and Guizhou where they can avoid the heat.



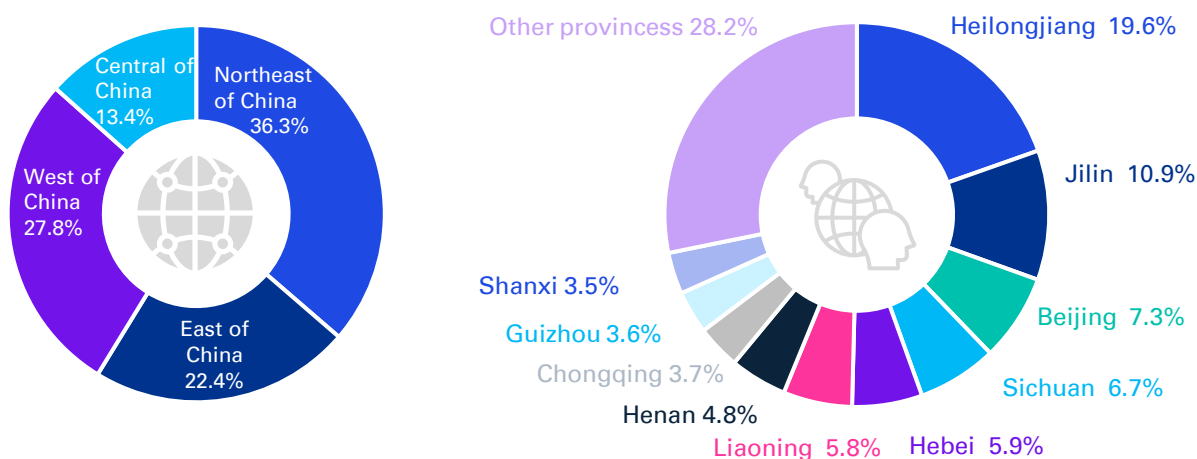
Figure 34 Quarterly Winter Visitors Numbers in Hainan 2021-2024 (10,000 individual Trips)

Source: Department of Tourism, Culture, Radio, Television and Sports of Hainan Province, KPMG Analysis

With its superior geographical location offering a warm climate, Hainan has become an ideal shelter in winter for a large number of elderly people. According to data from Ctrip, in the week following China's National Day holiday in 2024, winter tourism orders from "silver-haired people" (aged 50 or above) increased 2.86 times compared with orders received during the National Day holiday, with Haikou and Sanya receiving 36% and 27% more orders respectively.¹⁴ This indicates that Hainan has become one of the most popular destinations among elderly tourists from northern China.

The *Study on the Basic Characteristics of Elderly Winter Tourists in Hainan Province and Their Health*

Care Needs released in July 2024 analysed 119,000 elderly winter tourists aged 65 or above who were highlighted by the Statistical Information Centre of the Hainan Provincial Health Commission. The study pointed out that elderly winter tourists from the three northeasternmost provinces of China—Heilongjiang, Jilin and Liaoning—outnumbered those from other provinces and accounted for about 36.3% of the total. The study also found that 27.6% of the highlighted tourists suffered from one key disease, and 9.9% suffered from two or more key diseases at the same time. Therefore, they need a certain level of medical and health services and products when staying in Hainan.

Figure 35 Distribution of Elderly Winter Visitors in Hainan (%)

Source: *Chinese Journal of Health Policy, Television and Sports*, KPMG Analysis

Considering the changes in the market environment and the growing consumption demands of elderly tourists, Hainan is also actively exploring healthcare service offerings and new forms of business. To promote and support the development of the healthcare industry, Hainan has issued the *Implementation Opinions on Strengthening Elderly Care in the New Era* in 2022, the *Three-Year Action Plan of Hainan Province for the Development of Elderly Undertakings and the Elderly Care Service System (2023-2025)* in 2022, the *Ordinance of Hainan*

Province on Elderly Care Services in 2023, and the *Three-Year Action Plan of Hainan Province for Promoting the Development of the Healthcare Industry (2025-2027)* in 2025. These policies aim to encourage the industry to launch unique local products and products that meet international standards, steadily increase supporting facilities for the elderly, and pursue integrated industry development, so as to turn the province into a pivotal healthcare tourism destination in China.

Figure 36 Development of the Silver-Haired Economy in Hainan



Source: KPMG analysis

Consumption patterns suggest that elderly consumers tend to purchase quality healthcare products, food, and household products with high cost performance, while young travellers prefer fashionable and trendy products that satisfy their needs for social connection.

At the same time, similar to elderly tourists from northern China, more and more young people are travelling to Hainan in winter to escape the cold weather. Data from Qunar shows that from November 2024 to the end of January 2025, hotel room orders from customers aged 25-36 for stays of one month or longer increased 2.5 times compared with the same period in 2019.

Moreover, Hainan's cultural performances and sports events have also attracted many young people to live or spend their holidays on the island. For example, the Tour of Hainan 2024 cycling race—which included five stops in Ledong Li autonomous county, Sanya city, Wanning city, Wenchang city and Haikou city—drew over 4,200 contestants, of whom 20.0% were from outside the island and 3% were from abroad. Moreover, the 5-stop event attracted more than 200,000 tourists, directly contributing tourism income of more than CNY 10.455 million, and indirectly generating economic benefits of CNY 15.682 million.¹⁵ During the event, travel retail achieved significant growth.

Foreign tourists: Since the visa-free policy was extended from 144 hours to 240 hours and various important activities were organised, foreign tourism to China has been surging

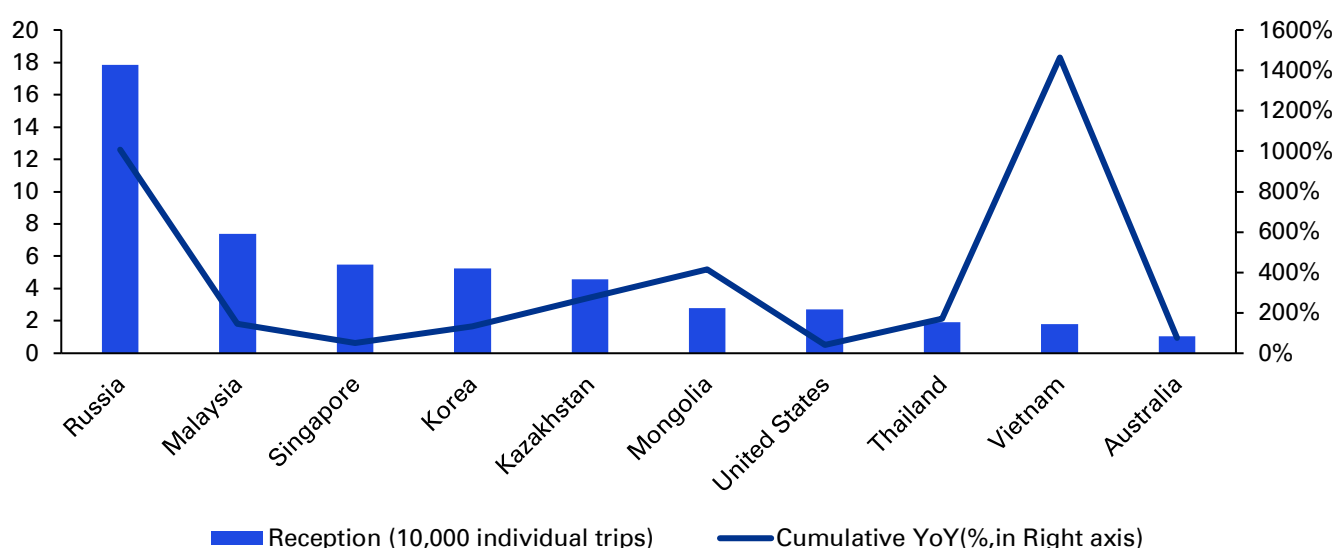
In 2024, the National Immigration Administration continued to optimise its visa-free policy, which has helped encourage more foreigners to come to Hainan to travel, conduct business, attend sports competitions and exhibitions, and participate in other activities. The specific measures include:

- In February, the National Immigration Administration extended the visa-free policy to cover 59 countries, allowing their citizens to enter Hainan more easily;
- In July, the National Immigration Administration announced the 144-hour visa free policy for group tourists from Hong Kong and Macao to Hainan;

- In December, the National Immigration Administration further extended the visa-free policy to 240 hours, and included Hainan in the list of visa-free policy provinces, allowing foreigners to enjoy visa-free transit in all parts of the island.

According to statistics from the Department of Tourism, Culture, Radio, Television and Sports of Hainan Province, 1.11 million tourists entered Hainan in 2024, representing year on year growth of 130.9%. Hainan's foreign tourists mainly came from neighbouring countries (such as Russia, South Korea, Kazakhstan and Mongolia) and Southeast Asian countries (such as Malaysia, Singapore, Thailand and Vietnam). In 2024, the number of tourists from Russia increased 1,007% year on year to 178,400, ranking Russia first in terms of number of tourists to Hainan. Meanwhile, tourists from Vietnam increased at the highest pace.

Figure 37 Hainan's Reception of Overseas Tourists in 2024 (10,000 individual trips, %)



Source: Department of Tourism, Culture, Radio, Television and Sports of Hainan Province, KPMG Analysis

Changes in consumer demands around price, experience and emotional value, and pursuit of business diversification and service innovation

Enterprises in Hainan understand that price competition alone will not boost travel retail, and therefore they are focusing on experience and emotional value

In 2024, sales of perfume and cosmetic products in Hainan's duty-free market suffered a decline. A Japanese cosmetics group pointed out in its financial report for the first three quarters of 2024 that its travel retail revenue fell by 21% year on year to JPY 85.8 billion (about CNY 4.12 billion). The group wrote, "The sales volume was relatively low in Hainan and South Korea due to a significant reduction in consumption by Chinese tourists."¹⁶ In its annual report, it also mentioned, "Our business in China was shifting from growth driven by large-scale promotions to sustainable growth driven by consumer demand-focused brands, merchandise and value." Additionally, an international cosmetics brand pointed out in its third quarter financial report, "Although the travel retail industry trended upward in the third quarter, it still faced pressure, particularly in Hainan."¹⁷

At present, outbound travel is picking up, and a large number of middle-class consumers are flocking to Europe, Japan and other countries. Because of the depreciation of the Japanese yen, the number of people travelling and shopping in Japan has grown significantly along with their consumption. Comparatively, Hainan has less of a price advantage. Changes in the economic environment have also led to a decline in consumer income expectations, so

consumers have become more cautious with their spending. Therefore, price competition alone will not result in long-term advantages. Instead, enterprises should focus on consumer demand and enhance consumer experience and emotional value to cultivate competitive advantages in major travel retail markets.

In 2024, Hainan's travel retail industry expended significant effort to improve consumer experience and create emotional value, achieving fruitful results. For example, Sanya International Duty-Free Shopping Complex took actions to create a "five senses" experience by tailoring music in the shopping mall according to the 24 solar terms, creating innovative "miniature landscapes," cooperating with brands to develop unique "fragrance labels," and automatically adjusting temperatures, while adding amenities and services such as clothing modification, leather care, and parent-child playgrounds.¹⁸ These efforts have turned the mall into an intelligent and comfortable shopping space that offers excellent services, and consumer experience and emotional value have also been improved in the stores of brands within the mall. During the year, the flagship store of a cosmetics brand provided consumers with professional skin testing, so as to help customers choose suitable skincare products, and consumers also had the chance to take part in the process of making rose essential oil in the store.¹⁹



Case 1: Japanese travel retail highlights scenario experiences

Japanese travel retailers are skilled in creating scenario experiences, and they can serve as a useful example for the Hainan Free Trade Port. In Japan, some duty-free department stores have developed service platforms and set up special reception rooms for overseas consumers. Consumers can order goods online and choose cross-border delivery. In addition, certain duty-free department stores have strengthened ties with wealthy overseas members and expanded their service teams to better meet the consumption needs of these members. Meanwhile, some cosmetics brands have set up partnerships with middle and high-end business hotels and placed their products within the hotels, so as to better reach potential customers and boost sales. With Chinese tourists increasing in Japan, one Japanese cosmetics brand launched a special online Chinese inquiry service and a WeChat mini app covering various aspects of Japanese tourism, in order to forge closer bonds with Chinese consumers.

According to statistics from the Japan National Tourism Organization, tourists from the Chinese Mainland rank second in number among all countries/regions, following South Korea. In 2024, tourists from the Chinese Mainland increased 187.9% year on year to 6.981 million. In terms of consumption amount, tourists from the Chinese Mainland ranked first, spending JPY 1.7338 trillion (about CNY 81.2 billion). Specifically, in terms of shopping consumption, tourists from the Chinese Mainland are the largest group, accounting for 31.9% of total shopping by inbound tourists.²⁰ In short, tourists from the Chinese Mainland are important customers for Japan's duty-free retail industry.

In December 2024, the Ministry of Foreign Affairs of Japan officially announced the relaxation of its visa policy for Chinese citizens by adding five new provisions. Notably, it added a 10-year multiple-entry visa for Chinese tourists. This was the first time for Japan to offer such a multi-entry visa, meaning that it attaches great importance to Chinese tourists. With the relaxation of Japan's visa policy, more Chinese tourists are expected to travel to Japan in the future, which may affect the travel retail market in Hainan.

Hainan is exploring new areas of tourism such as low-altitude tourism and cultural tourism, and pursuing travel retail diversification and service innovation

With a focus on developing into an international tourism and consumption centre, Hainan aims to build a multi-faceted modern tourism industry system consisting of low-altitude tourism, cultural tourism and other types of tourism. In January 2024, the Department of Tourism, Culture, Radio, Television and Sports of Hainan Province released the *Three-Year Action Plan of Hainan Province for the High-Quality Development of the Tourism Industry (2024-2026)*, which represents an important policy for building the island’s brand image and driving industrial and product integration to develop the cultural and tourism industry. According to statistics from the Department of Tourism, Culture, Radio, Television and Sports of Hainan Province, Hainan has set up 38 cultural tourist attractions, and it received a total of 7.9 million museum visitors in 2024. Since the opening of the Hainan Provincial Intangible Cultural Heritage Exhibition Centre, more than 2 million people have visited the centre.²¹ Favourable policies have enabled Hainan’s cultural and tourism industry to enter the fast lane of development. As a new type of tourism, low-altitude tourism is emerging rapidly in Hainan as well, and has gradually become an important part of Hainan’s travel retail market. In 2024, the Hainan

Provincial Development and Reform Commission issued *Hainan’s Three-Year Action Plan for Low-Altitude Economic Development (2024-2026)* with other departments, in order to explore new tourism scenarios with low-altitude aircraft and support the cities and counties along Hainan’s highway loop, such as Haikou and Sanya, in enriching the types and content of low-altitude tourism. As early as 2023, Sanya had issued interim measures for the development of low-altitude tourism²² to encourage economic activities in this field and provide special funds accordingly, so as to promote the integrated development of low-altitude tourism and other industries. Owing to Hainan’s favourable policies and clean air, many low-altitude tourism projects—such as helicopter sightseeing, hot air balloon sightseeing, paragliding, and parachuting—have become popular among tourists.

Against the backdrop of the transformation of the tourism industry, consumers are paying more attention to the cost performance of goods and the quality of services. In response to changes in consumption demand, Hainan’s travel retail industry is vigorously developing new tourist attractions as part of its supply-side reform efforts in order to cultivate stronger competitive advantages and boost the province’s tourism and consumption.



Case 2: Hainan develops low-altitude tourism

In January 2025, a low-altitude route was officially opened between Haikou and Zhanjiang for transportation and tourism, allowing passengers to cross the Qiongzhou Strait by helicopter. This is not only a faster method of transportation, but also an excellent low-altitude travel programme that gives travellers the chance to take in coastal scenery such as the Mulan Bay of Wenchang, the windmill coast, and the Zhanjiang Bridge from a close distance.

With its unique location, pleasant climate, policy support and sound industrial foundation, Hainan is ushering in various opportunities for the rapid development of low-altitude tourism. As low-altitude aircraft technology continues to evolve and policies are optimised, low-altitude tourism in Hainan will increasingly become a high-end industry featuring standardisation and intelligence, serving as an important part of tourism across the province and bringing new growth potential to the island’s travel retail industry.

Policy-driven intelligent and green transformation: integrating AI technology and the “dual carbon” goals in travel retail

In March 2025, the State Council issued the *Special Action Plan for Boosting Consumption*, which proposes to promote the in-depth integration of travel retail, green consumption and “AI+” to help upgrade the consumer market. In terms of travel retail, the plan emphasises expanding consumption in the cultural and sports tourism market, deepening the integration of commerce, travel, culture, sports, healthcare and other fields, and cultivating innovative, diversified consumption scenarios. In terms of green consumption, it proposes to increase support for trade-ins, promote the green and intelligent upgrading of large durable consumer goods such as

automobiles, household appliances and furniture, and support pilot programmes for circulating used products. In terms of “AI+,” the plan recommends driving the development, application and promotion of new technologies such as autonomous driving and new products such as wearable intelligent devices. Through these measures, the plan aims to inject new momentum into the consumer market, promote high-quality economic development and support the achievement of the “dual carbon” goals.

Promoting the application of AI technology in travel retail to facilitate intelligent transformation

AI technology is profoundly reshaping the travel retail industry. In particular, it is optimising the tourist experience and driving the intelligent transformation of the industry by more quickly matching supply and demand. According to data from China Tourism Academy, as of 2023, 5G networks covered 3,382 4A and 5A scenic spots in China, or 89.0% of the total, and 450 million travellers had placed travel orders online, accounting for 42.1% of total Internet users in China. This shows that applying digital technology in the field of tourism consumption has delivered remarkable results.

Policies related to the Hainan Free Trade Port have underlined the importance of the adoption of big data, artificial intelligence and other emerging technologies in travel retail. In 2018, Hainan released the *Implementation Plan of Hainan Province for Building an International Tourism Consumption Centre*, proposing to build a “smart business circle.” In 2021, it issued the “14th Five-Year Plan” of Hainan Province for *Building an International Tourism Consumption Centre* to promote the deeper integration of digital technology and tourism consumption, and the province also launched a WeChat mini programme and application called “Smart Travel Hainan,” which have significantly improved tourist satisfaction and loyalty.

In 2024, Hainan put forward the *Ordinance of Hainan Free Trade Port on Promoting the Digital Economy* to emphasise efforts to support the application of virtual reality (VR) and other technologies, promote the

development of smart tourism, and facilitate new retail business models such as off-shore duty-free shopping and smart stores. Driven by such policies, Hainan has started to engage in practical exploration in many areas. Some scenic spots are piloting AI-powered tour guides and drone-assisted inspections. Meanwhile, several duty-free stores have adopted AI-enabled customer services, unmanned payment solutions, intelligent shopping guides and other technologies to improve the customer experience. Some scenic spots are also using AI technology to develop immersive experiences. In addition, Hainan has further promoted the digital transformation of the travel retail industry through duty-free shopping policies, cross-border e-commerce cooperation and other measures.

However, compared with tier-1 cities such as Beijing, Shanghai, Guangzhou, Shenzhen and Hangzhou, Hainan is still behind in digital technology application and smart tourism development. For example, there are gaps in 5G network coverage, promotional policies, and financial support; the level of product differentiation in the travel retail industry is low; innovative AI applications are insufficient; the AI talent pool and R&D capacity are relatively weak; and financial investments and preferential tax policies are limited. All these factors have hindered the innovative application of AI in travel retail.

Figure 38 “AI + travel retail” Development Trend in Hainan

Technology application: promoting the diversification of smart tourism products

Digital transformation: VR, augmented reality (AR) and other technologies are being used together with naked-eye 3D, holographic projection and other innovative equipment to create pleasing experiences in cultural museums, archaeological parks, and other tourist attractions.

Internationalisation: Market players offering digital cultural and creative products are encouraged to sell them to the rest of the world. The province also endeavours to attract more foreign tourists by showcasing smart tourism stories through international exhibitions, online platforms and other channels.

Example: Guangzhou vs. Hainan

Guangzhou: The city has built China’s first intangible cultural heritage community using metaverse technology, combining the virtual world with reality to showcase Guangzhou’s unique intangible cultural heritage and stimulate the evening economy.

Hainan: The “AI + holographic projection + evening tour” business model can be adopted in Haitang Bay in Sanya, Wanning and other places to create a unique evening tour experience on the island.

Policy: offering refined policies to clarify the direction of technology application

Policy refinement: Hainan should further detail the direction and specific measures for AI technology application in travel retail.

Example: Shenzhen vs. Hainan

Shenzhen: The city has put forward a clear plan to actively build demonstrative scenic spots for AI application in cultural tourism, promote AI-enabled cultural and creative designs, exhibition events and other activities, and promote the development of AI translators that are accessible anytime anywhere.

Hainan: The province should pay attention to infrastructure construction to fully support major tourist attractions, hotels, duty-free stores and other areas.

Infrastructure: building a comprehensive technological innovation and talent introduction system

Technological innovation: Hainan is cooperating with colleges and universities to set up professional courses that cover AI technology and tourism management, aiming to cultivate multi-disciplinary professionals; and it has established strategic partnerships with world-leading technology companies to introduce cutting-edge AI technologies and management approaches.

Talent introduction: The province issues favourable policies to attract top AI professionals and teams from home and abroad; and it provides housing subsidies and startup funds to create an inviting environment for innovation and entrepreneurship.

Data sharing: It has established a tourism data sharing platform to share tourism data held by government departments with enterprises.

Example: Beijing vs. Hainan

Beijing: The capital city has set up the “Zhongguancun Science City Phase-III Science and Technology Growth Fund,” which is providing funding of CNY 10 billion to fuel the development of AI and related industries.

Hainan: The province can set up a “Smart Tourism Innovation and Development Fund” to provide a green channel for funding “AI + travel retail” projects. This fund should feature simplified project initiation, approval and other procedures, so as to accelerate project implementation.

Source: KPMG analysis

Exploring the path of green consumption and travel retail in line with the “dual carbon” goals in Hainan

At present, Hainan has achieved some progress in the construction of a green consumption system and the green transformation of its travel retail industry. To promote the construction of a green consumption system, Hainan has built a “1 + N” policy system based on the “dual carbon” goals, and vigorously encouraged the adoption of green lifestyles by promoting energy-saving equipment and green durable consumer goods, among other efforts. However, policy implementation and coverage in green consumption areas (such as green product certification and promotion of low-carbon consumption) are still insufficient. For example, duty-free shopping for traditional products still dominates the travel retail market, and systematic policy support is not yet being used to promote low-carbon products.

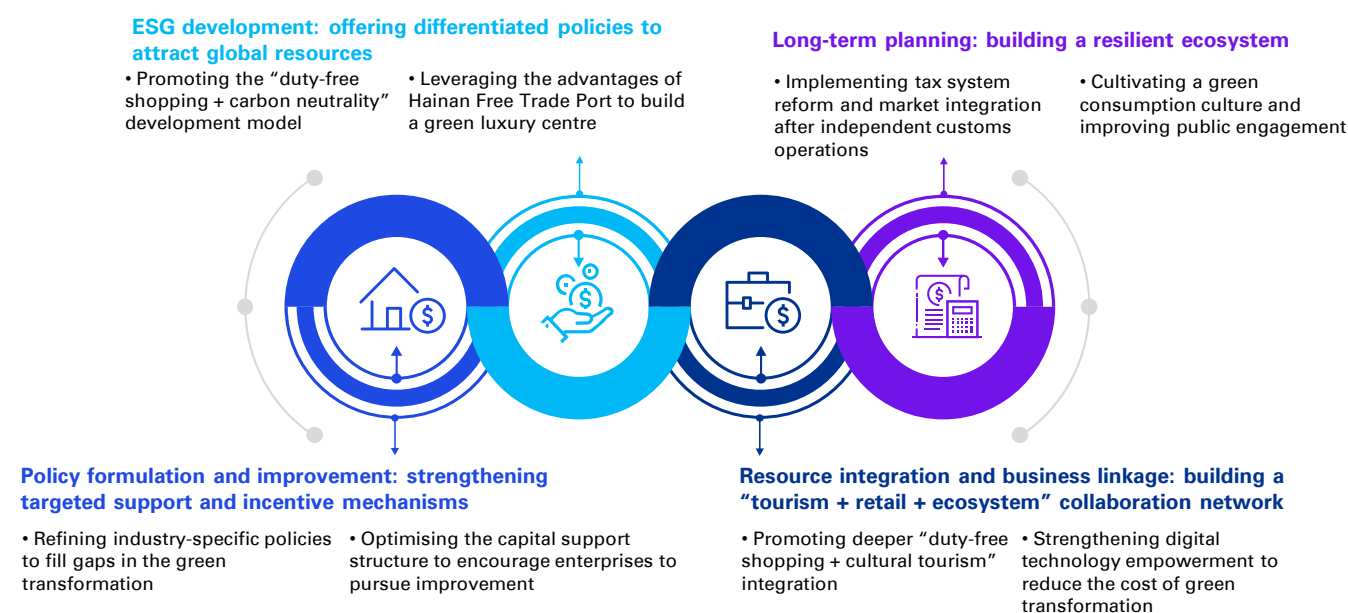
In terms of the green transformation of the travel retail industry, although off-shore duty-free sales continue to grow in Hainan, the industry remains more focused on market expansion and consumption upgrading, and it is paying less attention to detailed measures for green supply chain management (such as logistics emissions reduction and package recycling). But recently, Hainan launched the “exhibition + duty-free shopping” business model and set up a customs clearance green channel for cruise ship tourism, marking its initial efforts to pursue green transformation.

Additionally, Hainan's existing policies mainly offer

general support, such as green finance support and energy-saving equipment subsidies. For example, the *Implementation Plan of Hainan Province on Carbon Peaking* issued in 2022 included relevant requirements for the advancement of Hainan’s tourism industry that prioritised green, low-carbon development. Moreover, related policies for the travel retail industry have not been included in the province’s priorities. In particular, policies on carbon emissions accounting and green supply chain management of enterprises should be improved, as the province still relies on general policies to supervise and support relevant enterprises, which results in low effectiveness.

The coverage of Hainan's existing green finance instruments is relatively narrow. These products mainly promote industrial energy conservation and carbon reduction projects and energy transformation. Support for green consumption and tourism remains in the early stages. The incentive and subsidy policies vigorously promoted by the government—such as consumer goods trade-in policies, off-shore duty-free vouchers and sales incentives—are not clearly connected with green finance instruments. Special financial products for green supply chains are also lacking. In addition, financing channels for the low-carbon transformation of tourism-related infrastructure remain unclear. In light of these issues, Hainan has a long way to go in exploring the “cultural tourism + green finance” and “consumption + green finance” models.

Figure 39 “Green finance + travel retail” Development Trend in Hainan



Source: Haikou Customs, KPMG analysis

Hainan needs to promote the sustainable development of its travel retail industry across the four areas of “targeted policies, business integration, technology empowerment and cultural guidance.” In the short run, it can rely on the existing policy framework to optimise incentive mechanisms; and in the long run, it needs to build a system of green

standards that aligns with international practices, and take advantage of the favourable free trade port policy to attract global resources. By encouraging collaboration in multiple areas to continuously improve relevant systems, Hainan is expected to develop into a new green transformation benchmark for the global travel retail industry in the future.

• Highlights in the Hainan travel retail market

Hainan's position in the global market



📌 A new star

Since the offshore duty-free policy was launched in 2011, the duty-free sales volume has increased from CNY 1.6 billion in September 2012²³ to CNY 30.94 billion by the end of 2024, up 1900%, representing an impressive success story.

📌 A core driver of the ASPAC market

According to the *2024 Hainan Travel Retail Whitepaper*, the ASPAC region accounted for 52% of the global duty-free and travel retail market in 2022. In addition, in terms of the perfume and cosmetics category, ASPAC accounted for 43.7% of the global retail market for the year. As the centre for duty-free consumption in China, Hainan has attracted a large number of international brands.

📌 Policy and advantages of the free trade port

Hainan is also globalising its travel retail market through a range of measures, including tax incentives and removal of market barriers for foreign investors. In the *Master Plan for the Hainan Free Trade Port*, the government has put forward the goal of developing the island into a high-level, globally influential free trade port by 2050.

Hainan's market position in China



📌 A leader in the national offshore duty-free market

Hainan is now China's largest special economic zone, the largest pilot zone for free trade and the only free trade port with Chinese characteristics. In recent years, Hainan's offshore duty-free market has accounted for a rapidly increasing share of China's travel retail market and has become the main duty-free shopping channel for domestic consumers. According to official data, in 2023, offshore duty-free sales in Hainan exceeded CNY 43.7 billion, reflecting year on year growth of 25.4%. In addition, as the only offshore duty-free shopping destination in China, Hainan is a leader in the national retail market.

📌 Encouraging consumers to return with policy support

According to the *Report on the Work of the Hainan Provincial People's Government*, 2024 was a crucial year for the Hainan Free Trade Port as it moved ahead with the plan for independent customs operations. During the year, the free trade port's offshore duty-free sales reached CNY 47.03 billion²⁴. As the government steps up efforts to build the island into an international tourism consumption centre, offshore duty-free shopping is of great significance in attracting consumers back to the domestic market. In 2025, the Hainan Provincial Government aims to continue to bolster the market by taking measures such as issuing consumer vouchers and optimising the "Delivery upon Purchase" model.

Figure 40

Comparison of Domestic and International Market Conditions for Offshore Duty-Free Shopping in Hainan

	Global market	Chinese market
Market size	Hainan boasts a globally unique policy for its offshore island tax exemption, making it one of only four regions worldwide to implement such a policy. As China's sole offshore duty-free shopping destination, Hainan stands as a trailblazer in the national retail market.	According to its work report, the Hainan Provincial Government plans to optimise its offshore duty-free policy, promote diversification, accelerate the integration of Duty-free Plus models, and increase offshore duty-free sales to CNY 52 billion in 2025
Brands	Dominated by international brands	International brands enjoy advantages, although local brands are gradually rising
Policy support	Free trade port policies designed to globalise the market	Offshore duty-free policies designed to draw consumers back to the domestic market
Competitive landscape	A competitor to traditional travel retail markets such as South Korea, Dubai and Singapore	Hainan's offshore duty-free channels have become the top shopping destination in China's travel retail market, surpassing duty-free stores in airports and cities
Challenges	A high dependence on international brands, consumers going shopping abroad	As outbound travel recovers, duty-free channels in Hong Kong SAR and Macau SAR could divert tourist flows from Hainan

Source: KPMG analysis

04

Outlook on the Hainan travel retail market after island seal-off

- Further updating and optimising tax policies for Hainan Free Trade Port
- Hainan to operate "parallel duty systems" for travel retail in the short and medium term





Further updating and optimising tax policies for Hainan Free Trade Port

In April 2018, the CPC Central Committee announced its decision to support the construction of a pilot free trade zone in Hainan province. Following the implementation of various policies, the construction of the Hainan Free Trade Port has been picking up pace, and the free trade port policy system has been basically set up based on a main framework that consists of zero tariffs, low tax rates, a simplified tax system and "free and convenient trade, investment, cross-border capital flows, entry and exit, and

transportation, as well as safe and orderly data flows." At the same time, the system is being steadily upgraded to boost efficiency. 2025 marks the year when the Hainan Free Trade Port will commence independent customs operations. Since the end of 2024, the central government and Hainan provincial government have emphasised efforts to accelerate the implementation of core policies related to the Hainan Free Trade Port on many important occasions and in many important documents.

Emphasising independent customs operations by the end of 2025 on important occasions, and steadily implementing the "zero tariff, low tax rate and simplified tax system" policy

The Ministry of Foreign Affairs held an event to promote the Hainan Free Trade Port globally

On 4 December 2024, the Ministry of Foreign Affairs held an event in its Blue Room to globally promote the Hainan Free Trade Port. The campaign was themed "Local Practices of Chinese Modernisation—Hainan Free Trade Port: New Era, New Mission, New Opportunities," and Foreign Minister Wang Yi delivered an opening speech.²⁵

During the event, Feng Fei, secretary of the CPC Hainan Provincial Committee, emphasised the global positioning of the Hainan Free Trade Port, and pointed out that currently Hainan boasts the most favourable tax policies in the country and is gradually implementing the "zero tariff, low tax rate, simplified tax system" policy, which includes an income tax rate of 15.0% for both enterprises and individuals. These policies can benefit all kinds of business entities. In addition, Hainan is adopting the shortest negative list for foreign investments in the country, and has implemented China's first negative list on cross-border service trade. At the same time, Hainan has the most relaxed entry policy, and visa-free transit has become a popular way for foreigners to enter the province. Trading and investment in Hainan are expected to see less restrictions and greater

convenience after independent customs operations begin from the end of 2025.²⁶

During the event, Liu Xiaoming, governor of Hainan province, noted that the province is accelerating the construction of a "4+3+3" modern industrial system and is committed to becoming an important base for the development of new quality productive forces. This system includes:



Conference on promoting the independent customs operations of the Hainan Free Trade Port

On 2 January 2025, the first working day of the year, the Hainan Provincial Party Committee held a conference in Haikou to promote the independent customs operations of the Hainan Free Trade Port, kick-starting the last step of the effort.

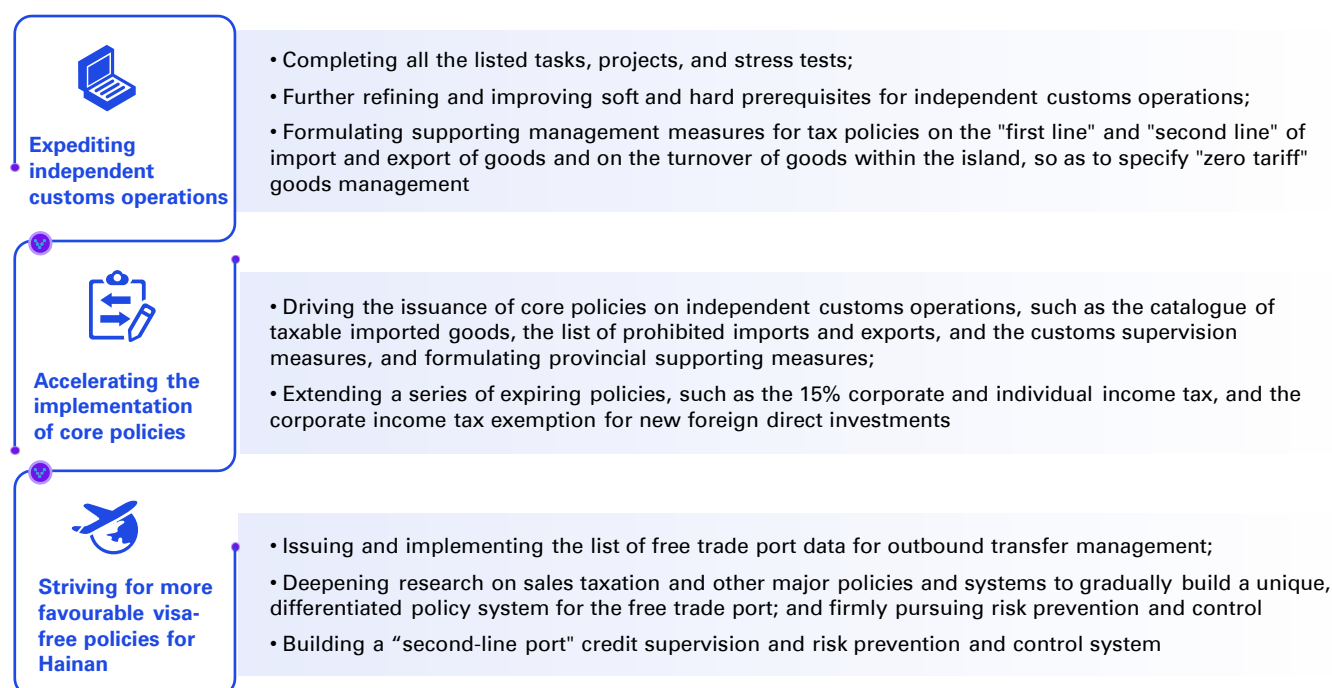
It stressed that the **commencement of independent customs operations by the end of 2025** is an important task specified in the *Overall Plan for the Construction of the Hainan Free Trade Port*, and a landmark and milestone project for the construction of the Hainan Free Trade Port. The conference called on all concerned parties to adhere to the established goals, make progress as planned, strictly follow the timeline, implement the "three lists" of tasks, projects and stress tests with down-to-earth efforts, accelerate the implementation of the core policies for the Hainan Free Trade Port, and coordinate reform, opening up and high-quality development endeavours before and after independent customs operations.²⁷

2025 Report on the Work of the Hainan Provincial People's Government

On 14 January 2025, the fourth session of the Seventh Hainan Provincial People's Congress was held in Haikou. Liu Xiaoming, governor of Hainan province, delivered the report on behalf of the provincial government during the session.

The report noted that the Hainan Free Trade Port underwent steady construction in 2024; and the listed tasks, projects, and stress tests were performed in line with annual targets. Following the **goal of commencing independent customs operations by the end of 2025**, Hainan will continue to promote the implementation of the **"zero tariff, low tax rate and simplified tax system"** policy to optimise its tax environment, attract more foreign-funded enterprises and professionals, and drive high-quality economic growth.²⁸

Figure 41 Arrangements for Independent Customs Operations as Per the 2025 Report on the Work of the Hainan Provincial People's Government



Source: The People's Government of Hainan Province, KPMG analysis

Cai Qiang, Director of the Department of Finance of Hainan Province, stated: "We are ready, we are going all out, and we are full of confidence."





During the Two Sessions in March 2025, Cai Qiang, representing Hainan Province's Finance Department, talked about independent customs operations in Hainan during a group activity. In an interview, he emphasised: "We are ready, we are going all out, and we are full of confidence." 2024 marks the start of independent customs operations in Hainan.

The Hainan Provincial Party Committee and the Hainan Provincial People's Government will focus on the following four key aspects:

- 1 Implementing the three lists as the framework for independent customs operations.
- 2 Accelerating the implementation of core free trade port policies that define Hainan's unique status.
- 3 Conducting pressure tests: Evaluating the impact and feasibility of these measures.
- 4 Building a sound and efficient risk management system: Addressing risks such as smuggling and ensuring the smooth operation of the sealing process.

The key tax policies related to the four pillars of the tax system stipulated in the Overall Plan for the Construction of the Hainan Free Trade Port are expected to remain effective in the short term

Figure 42 Four Pillars of The Tax System Stipulated in The Overall Plan for The Construction of the Hainan Free Trade Port

 Zero tariffs	 Low tax rates <small>* Subject to specific conditions</small>	 Simplified tax system	 Rule of law
<p>Before independent customs operations:</p> <ul style="list-style-type: none"> • Zero tariffs for specific goods only <ul style="list-style-type: none"> ▪ Negative list * 1 ▪ Positive list * 3 • Zero tariffs for processing trade if added value ≥ 30% • Offshore duty-free amount: CNY 100,000/person/year <p>Before 2035:</p> <ul style="list-style-type: none"> • All goods are entitled to the zero-tariff policy, except those on the negative list 	<p>Before 31 December 2027:</p> <ul style="list-style-type: none"> • 15% corporate income tax for favoured enterprises • 15% individual income tax for high-end professionals and professionals in short supply • Tax exemption for foreign investment income • 100% tax depreciation and accelerated depreciation for capital expenditure <p>Before 2035:</p> <ul style="list-style-type: none"> • The 15% corporate income tax policy will be extended to cover all enterprises (except for those on the negative list) • Individual income tax will be levied at 3%, 10% and 15% for individuals who have stayed for a total of 183 days 	<ul style="list-style-type: none"> • China's pilot programme on tax system simplification reform • Simplifying and consolidating the value-added tax, consumption tax, vehicle purchase tax, urban maintenance and construction tax and other taxes, and collecting sales tax in respect of retail goods and services <p>Before 2035:</p> <ul style="list-style-type: none"> • Fiscal revenue allocation will be adjusted <ul style="list-style-type: none"> ▪ Revenue from direct tax will be shared between the central and local governments ▪ Revenue from sales tax and other domestic taxes will be allocated to local governments 	<ul style="list-style-type: none"> • Focusing on the essence of business and the creation of value • Trying not to become a tax haven • Following OECD and BEPS principles • Strengthening international information exchange

Source: The People's Government of Hainan Province, KPMG analysis

The "double 15%" income tax policy and foreign investment tax exemption policy have been extended to the end of 2027

In January 2025, the Ministry of Finance and the State Administration of Taxation issued Caishui Notice [2025] No. 3 and Caishui Notice [2025] No. 4 to clearly extend the "double 15%" income tax policy and foreign investment tax exemption policy to 31 December 2027. This decision is likely to provide further support for the development of the Hainan Free Trade Port and attract more high-end professionals and competitive enterprises. The notices also emphasise that current applicable conditions, such as the positive list of corporate income tax incentives and the income ratio requirements, will remain unchanged to ensure the continuity and stability of policies.

Hainan may release the first batch of "simplified tax system" measures when appropriate after China implements its new Value-Added Tax Law

On 25 December 2024, China passed its new *Value-Added Tax Law*, which will become effective on 1 January 2026. Given that a certain amount of time and efforts will be needed to implement the law nationally, Hainan is expected to release and implement its first batch of "simplified tax system" measures (to combine the four types of taxes and one type of fee previously charged as indirect taxes into a sales tax) some time after 2026. This should further streamline Hainan's tax system, improve its tax efficiency and create a more convenient business environment for enterprises.



In conclusion, key tax policies for independent customs operations by the end of 2025 are expected to focus on customs affairs management. These will include a number of core policies, such as the tariff collection list, the prohibited and restricted imports list of Hainan, the zero-tariff policy on value-added processing trade, and the tax collection and management policy on the "first line" and "second line" of import and export of goods and on the turnover of goods within the island.

Hainan to operate "parallel duty systems" for travel retail in the short and medium term

At present, there are duty-free retailers and non-duty-free retailers in Hainan's retail sector. Retailers can operate offshore duty-free business only after obtaining administrative franchises from relevant authorities. With the granted offshore duty-free license, the licensed retailer are exempt from tariff and value-added tax, and consumption tax is also not levied, making these enterprises highly competitive against non-duty-free retailers.

Based on our current understanding of the legislature's logic, we anticipate that Hainan's travel retail market is likely to take the following development trajectory:

01 First, duty-free retail and non-duty-free retail may continue to coexist in the short and medium term.

Despite the parallel duty system, during this period, Hainan will continue to offer unique tax policies on imported consumer goods compared with other offshore duty-free areas around the world.

- Before Hainan's independent customs operations and new sales tax system are implemented, it is adopting the same tax policies as the rest of the Chinese Mainland:
 1. Tariffs, import value-added tax and consumption tax are levied on consumer goods imported to the island;
 2. The island implements the same value-added tax system as the rest of the Chinese Mainland, and the value-added tax levied on wholesalers and retailers is ultimately borne by end consumers;
- After Hainan's independent customs operations and new sales tax system are implemented, wholesalers' and retailers' global competitiveness and profitability should improve significantly:
 1. Enterprises engaging in imports on the island will be completely exempted from tariffs (except for a few on the negative list), regardless of whether importers have an offshore duty-free licence, import value-added tax and consumption tax are expected to be replaced by sales tax;
 2. Enterprises engaging in wholesale on the island will no longer be subject to value-added tax, regardless of whether they have an offshore duty-free licence. A unified sales tax system will be implemented;
 3. Enterprises engaging in retail with an offshore tax-free licence will be exempt from sales tax as usual.

China's innovative trade liberalisation and facilitation measures in Hainan, such as independent customs operations and sales tax, represent a profound economic adjustment that will require the modernisation of its governance system and capacity.

- Customs supervision departments need to precisely strike a balance between national security and efficient trade and exercise effective supervision on the import and export of goods at the first line (i.e. national borders) and the second line (i.e. borders between the free trade port and the rest of the Chinese Mainland).
- Government agencies need to engage in efficient overall coordination to ensure a seamless policy transition, so as to provide a solid institutional guarantee for the smooth operation of the free trade port.
- Meanwhile, tax authorities need to quickly adapt to the new tax system, optimise service processes, and improve the efficiency and transparency of tax collection and management.

In addition, taxpayers need to take time to get familiar with the new tax policies and operating procedures, and make adequate financial and tax plans in advance. It is necessary to keep calm amid the buzz. Therefore, we recommend that the following steps be taken prior to the official implementation of the new policies:

- The government should release the core policies as soon as possible, so that market players have enough time to study and adapt to them, review and optimise internal processes, revise contract terms, update internal information systems, and implement other measures accordingly;
- A small number of enterprises should be selected to pilot the regulatory measures and new tax system that have been designed to promote trade liberalisation and facilitation, so as to gain insights into the risks that may arise during the implementation of various supporting measures and the new tax system as well as areas that need to be optimised. This should help ensure the smooth transition to and long-term stable operation of the measures and the new tax system.

02 Second, suggest phasing in the entire duty-free scheme in Hainan retailing market over the long term.

The Hainan Free Trade Port may witness significantly change towards its offshore duty-free policy in a long run. In the future landscape, retailers in the Hainan Free Trade Port will no longer be categorised as licensed retailers and non-licensed retailers, except for inbound and outbound duty-free shops at ports. Instead, an entire duty-free scheme in Hainan retailing market will be implemented to waive import tariffs while levying retail sales tax at the final retailing stage.

With the offshore duty-free policy replaced by the entire duty-free scheme, all enterprises engaging in retail on the island will be exempted from import tariffs on consumer goods and subject to a simplified retail sales tax, which will create business opportunities for more retailers.

Meanwhile, a substantial duty-free quota will be offered to luggage and postal articles of travellers leaving Hainan through the "second line" borders back to mainland (similar to or even higher than the latest quota offered to Hong Kong SAR), with the aim of extending the duty-free scheme to benefit residents in other parts of the Chinese Mainland. To some extent, the entire duty-free scheme will simplify customs supervision procedures as travellers will no longer need to consider the source of goods for tax purposes when leaving the island, thus improving the effectiveness of supervision.

03 Third, during the "parallel duty systems" period when the entire duty-free policy has not yet been fully implemented, we recommended that the new policy be piloted among Hainan residents as soon as possible.

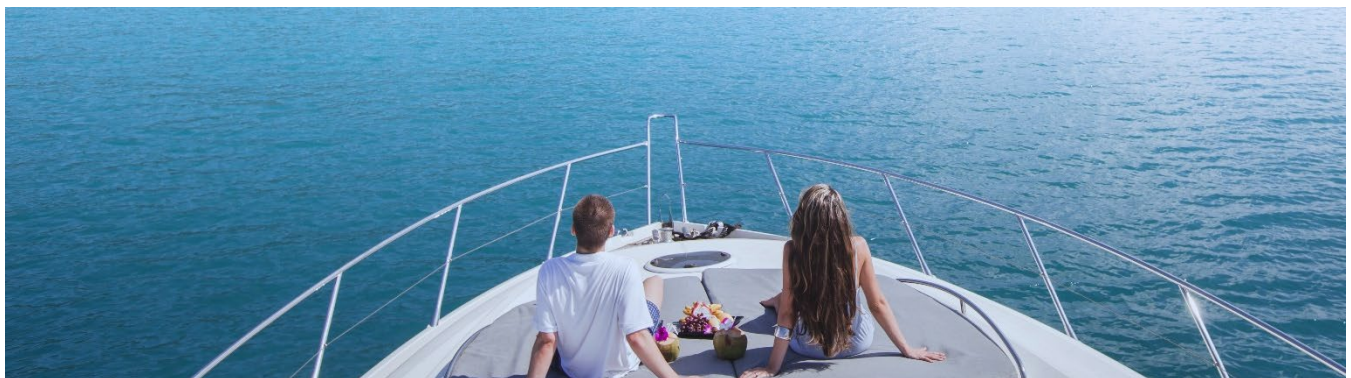
For goods on the positive list of imports for Hainan residents, they may be allowed to make purchases without paying the tariff, value-added tax and consumption tax, and without paying the retail sales tax after the tax is introduced.

The tax exemption for Hainan residents may be different from that for travellers in terms of the application scope, tax type, and geographical applicability.

It may cover a greater variety of business entities, bringing opportunities for ordinary retailers. Unlike the offshore duty-free licence system that is subject to strict approval and quantity control, the tax exemption for Hainan residents may be subject to relatively loose controls. The government is expected to implement an admission system, so that qualified business entities can apply to the government via a public service platform to establish resident-oriented duty-free stores.

As the government promotes a smooth transition to the simple tax system, we anticipate that the travel retail market in Hainan will operate under a "duty-free + non-duty-free" policy framework in the short term. Under this framework, we expect tax exemptions to be offered to travellers leaving the island and residents on the island, and tax refunds to be granted to travellers leaving the Chinese Mainland, while tax will be levied on traditional online and offline purchases, repurchases, innovative cross-border O2O commerce pilot projects, etc.

In the long term, the onshore duty-free policy will be implemented, creating opportunities for more retailers. By diversifying their business to cover customer groups at multiple levels, different types of market players will pursue development by sharing brand resources, member resources and logistics resources in order to optimise and enrich the consumption structure.



Conclusion

2025 marks the final year of China's 14th Five-Year Plan and a critical year for the Hainan Free Trade Port's effort to commence independent customs operations and open up further to the world. During the year, Hainan aims to steadily pursue high-quality development, accelerate the implementation of core policies, promote the primary initiative of independent customs operations, build a modern industrial system, drive technological innovation and industrial integration, develop new quality productive forces, and activate markets, with a view to promoting a sustained economic recovery. In this report, KPMG China has focused its analysis on the advantages of the Hainan Free Trade Port in areas including tourism and retail, as well as the latest dynamics of integration between duty-free policies and cultural tourism, so as to deliver professional insights into the competition among enterprises and brands in Hainan's travel retail market.

Going forward, Hainan's travel retail market is poised for development and is expected to become an important global hub for travel retail. From a government perspective, the Hainan Free Trade Port is optimising the business environment and promoting fair competition through institutional innovation and clear market positioning. The government will regulate travel retailers to ensure coordinated operations of different types of enterprises, with the goal of creating a virtuous business circle and a sound development environment for all sorts of enterprises, reducing operating obstacles, and boosting market confidence. From a market perspective, as China continues to open up its tourism market and the global tourism market continues to expand, Hainan's travel retail industry is reaching a broader range of consumers from around the world. The Hainan Free Trade Port will fully leverage its online resources and duty-free policies, carry out special marketing and international cooperation initiatives, and optimise the structure of consumption in order to strengthen its position as an international centre for tourism consumption. The province will strive to gain a more important role in the global travel retail market by attracting high-quality domestic customers and pleasing consumers who choose the island over overseas destinations. From a business perspective, both duty-free and ordinary retailers will make great efforts to develop new tourism products and pursue digital transformation to improve service quality. By harnessing new technologies such as artificial intelligence and big data, the travel retail industry could efficiently match supply and demand, deliver tailored services, and create diversified, green and intelligent businesses to better meet the changing needs of consumers.

Citations

No.	Headline	Issued by	Date
1	Hainan has become a popular destination for tourists with healthcare needs	Department of Tourism, Culture, Radio, Television and Sports of Hainan Province	Aug-24
2	Shanghai witnessed 6,705,900 tourist arrivals in 2024, a year on year increase of 84%	Xinhua News Agency	Jan-25
3	2024 Global Civil Aviation Flights Report	www.fxbaogao.com	Jan-25
4	FIRST in Shanghai! International brands launch their products globally from Shanghai	Shanghai Municipal Commission of Commerce	Apr-24
5	Tourists spent CNY 2.1 billion on offshore duty-free items in Hainan during the 2025 Spring Festival holiday	General Administration of Customs	Feb-25
6	Haikou issues duty-free coupons worth CNY 26 million	Haikou Municipal Bureau of Commerce	Dec-24
7	China Tourism Group Duty Free Corporation Limited Results Announcement of 2024	China Tourism Group Duty Free	Jan-25
8	With 9.5145 million tourists bringing in CNY 15.127 billion in revenue, Hainan's tourism sector hit new highs during the 2024 Spring Festival holiday	Hainan Daily	Feb-24
9	Hainan: The number of tourists and tourism revenue reached new highs during the 2024 Spring Festival	www.news.cn	Feb-24
10	Incentive of up to CNY 3 million! Hainan Issues Detailed Rules for the Implementation of Incentives for Large Concerts, Music Festivals, and Outstanding Theatrical Performances	Department of Tourism, Culture, Radio, Television and Sports of Hainan Province	Jun-24
11	"Kanye Economy" brings Haikou CNY 370 million of income	Global Times	Sep-24
12	Spring Festival Tourism: Observation Why did Hainan's "highway loop and tourist road" become the top tourist attraction during China's Spring Festival?	hinews.cn	Feb-25
13	Hainan offered support to 30 provincial exhibition projects during the year	Hainan Commerce Department	Jun-24
14	Sanya and Haikou have become a popular destination in southern China for the elderly to avoid cold winters	Haiba News	Oct-24
15	Winter travel orders nearly tripled! Returning elderly tourists are driving up the market, and real estate enterprises, insurance firms and hotels are focusing more on long-term stay travellers AgeTravel	Lv Raowei, AgeClub reporter	Dec-24
16	Shiseido's financial report for the third quarter of 2024	Shiseido	Nov-24
17	L'Oréal's third-quarter sales in 2024	L'Oréal	Oct-24
18	Sanya International Duty-Free Shopping Complex received more than 70 million tourists from across the world during the past 10 years	Hainan International Tourism Radio	Sep-24
19	"Global Shopping" in Hainan	Hainan Daily	Sep-24
20	The weak yen drove Japan's tourism industry to a record high, with Chinese tourists surging in 2024	YICAI	Jan-25
21	9 highlights and 10 major breakthroughs! Hainan's tourism, culture, radio, television and sports sectors achieved high-quality development in 2024	Department of Tourism, Culture, Radio, Television and Sports of Hainan Province	Jan-25
22	Interim Measures of Sanya City for the Development of Low-Altitude Tourism	The People's Government of Sanya City	Jul-23
23	Analysis of offshore duty-free shopping in Hainan since the implementation of the duty-free policy	Haikou Customs District	Oct-12
24	2025 Report on the Work of the Hainan Provincial People's Government	The People's Government of Hainan Province	Jan-25
25	The Ministry of Foreign Affairs holds an event to globally promote the Hainan Free Trade Port	Ministry of Foreign Affairs	Dec-24
26	Feng Fei's speech at the event held by the Ministry of Foreign Affairs to globally promote the Hainan Free Trade Port	The People's Government of Hainan Province	Dec-24
27	The Hainan Free Trade Port holds a conference on promoting independent customs operations	The People's Government of Hainan Province	Jan-25
28	2025 Report on the Work of the Hainan Provincial People's Government	The People's Government of Hainan Province	Jan-25

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>

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2025 KPMG Advisory (China) Limited, a limited liability company in Chinese Mainland and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. Printed in Chinese Mainland.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

April 2025 launch