
INDUSTRY OVERVIEW

This section contains certain information and statistics on the industry in which our Group operates. The information set out in this section is derived from various government or official sources that are publicly available, a syndicated report on Travel and Tourism in Hong Kong issued by Euromonitor International Ltd. (“Euromonitor”) in April 2011, a syndicated report on Travel and Tourism in the PRC issued by Euromonitor in April 2011, and an FIT industry review report commissioned by our Group and issued by Euromonitor in May 2011. We and the Sole Sponsor have taken reasonable care in extracting and reproducing the information on the industry in which our Group operates. The information has not been independently verified by us, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters or any other party involved in the Share Offer and no representation is given as to its accuracy. You should not place any undue reliance on such information and statistics contained in this section. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading.

CUSTOM REPORT COMMISSIONED BY OUR GROUP

Our Group commissioned Euromonitor, an independent third party, to conduct an industry analysis of and produce a custom report on, among other things, the current and future business opportunity of the FIT market in Hong Kong; the breakdown of the FIT market by retail channel sales splits; and the competitive landscape of the FIT specialist market.

Euromonitor is an independent market research firm with more than 25 years of industry experience in conducting trade research and detailed local market analysis. Euromonitor conducts market researches which focus on industry, country, company and consumer lifestyle research. Euromonitor analyses companies and markets in more than 200 categories across 80 countries.

Euromonitor delivers market research solutions via four different channels:

- 1) market research databases,
- 2) market research reports,
- 3) reference books, and
- 4) consulting.

The payment of the fee charged by Euromonitor was not contingent on successful Listing. Euromonitor issued the custom report in May 2011. Our Group paid a total of US\$23,005 to Euromonitor for the market research reports provided to our Group for the purpose of this prospectus.

Euromonitor confirms that the custom report was prepared in its ordinary course of business, independent of and not influenced by our Group, and has given and not withdrawn its consent of for our Group to quote from the custom report and to use information contained therein in this prospectus.

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Euromonitor primarily undertook top-down central research with bottom-up intelligence to present a comprehensive and accurate picture of the FIT industry in Hong Kong.

Euromonitor gathered information from multiple, relevant published data sources, including:

- official sources, such as Census and Statistics Department of Hong Kong;
- authority statistics, reports and databases, such as Hong Kong Social and Economic Trends Report, Hong Kong Monthly Digest of Statistics;
- trade associations and other semi-official sources such as TIC, IATA;
- independent analysts or research groups' reports; and
- Euromonitor's internal database.

Furthermore, Euromonitor reconciled these sources against any existing information and knowledge.

Where relevant, brief corporate intelligence and background information was drawn from sources such as annual reports and financial sheets published by leading market participants.

Euromonitor conducted qualitative and quantitative based trade interviews by the assessment of the quality of answers received, and the analysis of that data intelligently and transparently.

To generate an industry consensus on the market size and growth for FIT in Hong Kong, Euromonitor conducted trade interviews with multiple organisations including companies and retailers, as well as industry trade associations, governmental and semi-public organisations and other observers of these markets.

All of Euromonitor's primary and secondary sources are standardised, checked and validated against other primary and secondary sources to ensure a robust research feed for its analysis. Furthermore, a critical analysis of all sources is conducted whereby Euromonitor compared data, insights and hypotheses to arrive at a set of data and conclusions.

Based on secondary research, primary research and data validation, Euromonitor issues the market research report for the ranking for market share and sales network.

Euromonitor adopted its standard practice of both quantitative and qualitative forecast in terms of market size and trends on the basis of a comprehensive and in-depth review of the historical development of the relevant market, and a cross-check with established industry figures or trade interviews, and the use of statistical tools where applicable.

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OUTBOUND TRAVEL OVERVIEW

Definitions

The meaning of the following terms frequently used in this section is further elaborated below.

Departures

Departures refer to the number of residents that travel abroad from their country of residence to another destination country for leisure or business purposes. Residents include students residing abroad for a period of over 12 months. Departures by destination reflect the main departure destination recorded at the country of residence of the outbound traveller. For example, a United Kingdom resident on a trip to Rome with a stop-off in Paris would be recorded under United Kingdom departures to Italy. Data includes foreigners residing permanently in the country of departure including students residing for over a period of one year.

Departure figures exclude outbound trips by same-day visitors, transit passengers and cruise passengers (apart from at the initial point of departure from the country of residence) as this can distort departure figures in important border crossings and cruise destinations. Military personnel and diplomats are excluded, along with displaced people because of war or natural disasters. Transportation crew (air, rail, land and sea) and lorry drivers are also excluded.

Leisure

Tourism for leisure purposes includes leisure, visiting friends and relatives and other purposes (such as sports, education, medical, shopping, religion etc).

Leisure travelling by type is broken down into backpackers, organised tour groups (including school trips and organised sport trips), singles, families, friends, couples (including gay couples) and others. Others include travelling for a wedding etc. Where singles, families or couples go on organised tours or are backpacking then they are considered to fall under the latter. If singles, families or couples are not backpacking or part of an organised tour group, then they are counted in their respective category.

Business

Tourism for business purposes includes all business trips that are taken primarily for business purposes including unmanaged and managed. If business travellers choose to add on a leisure extension to their trip, the departure would still be considered as business as that is the primary motive for the trip.

Market sizing

FIT refers to “frequent individual traveller”, which generally means an individual or a small group of travellers who plan their own travel itinerary instead of purchasing packaged holidays or tour packages through tour operators or tour agents. The components of the itinerary may resemble a

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package tour/holiday, but the itinerary is custom-built for the traveller. FIT packages, comprising air-plus-hotel booking, flights only booking and hotel only booking, are non-tour travel solutions, in contrast with traditional packaged holidays which include a travel itinerary, tour guides, pre-arranged group meals, designated travel dates, transportation and accommodation.

Market sizing has been assessed based on retail sale of relevant FIT products including flights only booking, hotels only booking and FIT packages sold via travel retail channels, including online travel agents, FIT specialists and other travel agencies.

Traditional package holidays are fixed by tour operators and travel agents. These include transportation, accommodation along with a choice of food options ranging from bed and breakfast, mid to full board. It includes dynamic package holidays which are sold online by companies such as Expedia which allow the consumer to combine travel components such as transportation and accommodation. In addition, it also includes “free and easy” packages (otherwise known as FIT) in Asia.

Package holidays have traditionally been to sun/sea/sand destinations for a duration of 7, 10 or 14 days involving a combination of travel/accommodation components and exclude cruise packages including flights and pre-paid services.

FIT specialists refer to third party retailers have an online website and/or have brick and mortar business, and offer principally FIT services, which predominantly include flight and accommodation bookings.

Online agents refer to third party retailers (i.e. tour agents and operators), who only rely on online websites for their sales revenue, and excludes all FIT specialists who have online websites.

Other travel agencies refer to third party retailers (i.e. tour agents and operators), who have a brick and mortar store and may or may not have an online website and offer FIT services alongside packaged holidays.

Travel agents sales are based on gross sales proceeds and equal the total transaction value sold to the consumer (including the price of the product and commission or gross margins).

Market size excludes direct sales and other non-store retail formats.

Overview of Hong Kong Economy

China's ascendancy increases overall outbound travel by locals

Ever since the PRC opened its doors to world trade in the 1970s, Hong Kong has been a large beneficiary due to its geographical proximity and has experienced unprecedented prosperity since its reversion to the mainland in 1997. Hong Kong, being a service-based economy, exports services such as technological know-hows, logistical expertise to the PRC whilst tapping into the mainland's unsaturated marketplace. In recent times, the PRC has rooted itself as a global economic powerhouse in the world economy, leading to a surge in demand for higher value-added services such as financial

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services from Hong Kong. Average GDP per capita in Hong Kong experienced a 15.7% gain in 2010, attributed by the PRC's relative resilience to the global financial crisis. With the PRC as seeming economic safety net, Hong Kong residents will increase their expenditure on consumables and engage in more outbound travel.

But global events will alter outbound travel preferences

Despite strong economic fundamentals and the PRC's relative growth insularity, Hong Kong's economy (and its travel industry) was severely hit by the 2008/2009 global financial crisis due to its large exposure to Western markets. The financial services sector, contributing 15.2% to total GDP recorded 2.9% employee retrenchment rate between 2008 and 2009. Combined with the fall in demand for the real sector, total unemployment figures rose to 5.2% in 2009, the highest recorded since 2003, forcing annual disposable income to fall by 1.4%. 2009 marked the year of budget travel. With tightened purses, Hong Kong residents dug deep for discounted travel and opted for short-haul, low duration trips to neighboring countries. Even though Hong Kong emerged relatively unscathed from the global recession, travel retailers say that present demand for intra-region, short-haul trips remain rife and is expected to rise in the future.

Gross Domestic Product, Hong Kong, 2008 - 2013

	2008	2009	2010	2011	2012	2013
				(Forecast)	(Forecast)	(Forecast)
Gross Domestic Product, HK\$, billion	1,677.0	1,622.2	1,748.1	1,904.5	2,065.3	2,202.9
Gross Domestic Product, % Growth	—	-3.3%	7.8%	8.9%	8.4%	6.7%

Source: Euromonitor

Economic Sentiment Underpins Decision to Travel

Recessionary climate grips business travel

Cost-cutting measures were quickly adopted by local businesses during the grim economic outlook, where outbound travel for businesses saw negative growth of 1.4% from 2008-2009. Air departures for business travel, in particular, fell by 0.5% in the same period due to the relative high transportation cost.

Leisure market remains resilient

Leisure travel however, recorded a relatively stagnant growth in total departures from 2008-2009, with total leisure air departures recording a growth of 2.2%. Emergence of budget air carriers such as Air Asia and Tiger Airways and slashed hotel prices in popular overseas destinations

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coaxed Hong Kong residents to retain their travelling plans. A high savings rate, characteristic of Asian economies, also enabled locals to maintain their consumption lifestyles amidst recessionary periods. Nonetheless, the annual disposable income in Hong Kong fell by 1.4% in 2008-2009, explaining the paled growth in leisure air departure in 2008-2009.

Annual Disposable Income, Hong Kong, 2008 - 2013

	2008	2009	2010	2011	2012	2013
				(Forecast)	(Forecast)	(Forecast)
Annual Disposable Income, HK\$'000	1,328.7	1,310.0	1,413.9	1,523.1	1,624.3	1,736.7
Annual Disposable Income, % Growth	—	-1.4%	7.9%	7.7%	6.6%	6.9%

Source: Euromonitor

High Propensity of Leisure Travel Among Local residents

Working population travel the most in Hong Kong

Trade statistics show that Hong Kong residents averaged 4.5 annual departures (including trips to the PRC and Macau) per capita from 2008 to 2010 and do not show signs of slowing travel frequency. Age concentration of outbound travel, especially in the leisure segment, is mainly driven by travellers aged the age range travel the most, compared to other segments. Individuals falling into the said demography have fewer social considerations than peers from before. Hong Kong authorities observed the median age of first marriage has risen from 29.8 in 1998 to 31.1 in 2008 for men, and 26.9 to 28.4 for women, indicating a trend of late marriage and an even later age for child bearing, freeing up time to travel.

Older population remains keen on travelling

Although Hong Kong faces a greying population, travel frequency is unlikely to abate in the short term. Over the period of 2008 to 2010, Hong Kong residents aged 50 and above reported a positive CAGR of 6.9% growth of leisure travellers, suggesting that age is no hindrance to outbound travel. Coupled with accumulated wealth since their working days, older travellers remain well able to further their travelling pursuits should they retire from the workforce. Travel retailers predict, however, that older travellers will be inclined towards organised tours because of its all-inclusive features.

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Population, Hong Kong, 2008 - 2013

	2008	2009	2010	2011	2012	2013
				(Forecast)	(Forecast)	(Forecast)
Population, '000	6,995.7	7,064.1	7,130.9	7,196.1	7,259.8	7,322.1
Population, % Growth	—	1.0%	0.9%	0.9%	0.9%	0.9%
Aged 15 - 24, '000	937.8	938.8	938.1	936.8	936.4	922.4
Aged 25 - 49, '000	2,926.4	2,915.8	2,904.2	2,891.3	2,880.8	2,861.5
Aged 50 and above, '000	2,226.3	2,320.0	2,413.0	2,504.6	2,587.2	2,681.3

Source: Euromonitor

Holidaying starts young

Younger Hong Kong residents are hooked on travelling from a younger age. Rising household incomes have translated into fattened pocket money allowances, evidenced by the 11.4% increase in 2010 of annual gross income for the residents aged 15 - 24 years old. Forecast CAGR of annual gross income for the said demography is estimated at 5.7% over the period 2008 to 2013. At present, residents aged 15 - 24 comprise an average 17.9%, or 995.9 million leisure holiday goers from 2008 to 2010. Total travel frequency is expected to rise in future as younger travellers will travel more when they accrue higher income upon entering the workforce.

Leisure Traveller Count, Hong Kong, 2008 - 2010

	2008	2009	2010
Total Leisure Traveller Count, '000	5,456.7	5,656.2	5,704.7
Aged 15 - 24, '000	965.8	1,109.1	912.8
Aged 25 - 49, '000	2,717.4	2,661.8	2,738.3
Aged 50 and above, '000	1,279.9	1,347.8	1,497.2

Source: Euromonitor

Future demand for FIT fueled by current travel behavior

FIT offers an alternative method of travel to Hong Kong residents, with added advantages such as privacy when travelling independently and the ability to explore a foreign place at their own pace. With its strong value proposition appealing to Hong Kong residents, more travellers will likely opt for FIT in the future.

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According to the 2010 Asia Pacific Travel Intentions Survey compiled by Visa and Pacific Asia Travel Association (“PATA”), which was conducted in May 2010 and received 6,714 respondents, using an online methodology across 13 countries and territories, including Australia, China, Hong Kong, India, Japan, Korea, Malaysia, New Zealand, Singapore, Taiwan, Thailand, the United Kingdom and the United States, 47% of all respondents organised their own holiday and booked their own flights and accommodations whilst only 18% of all respondents preferred packaged group tours.

Preferred Travel Styles	% of all respondents
Self-organised travel	47
Flexible individual tour	22
Packaged tour group	18
Personal guided tour	10

Source: 2010 Asia Pacific Travel Intentions Survey

OUTBOUND TRAVELLING CHARACTERISTICS IN HONG KONG

Demand Factors

Hong Kong residents, in general, maintain a highly intense lifestyle, work long hours and live in a high-density environment. It is common for people to seek different ways to relax and relieve the slow but steady build-up of pressure. The city’s residents have continued to opt for travel, especially short breaks, as a way to unwind and get away from their day-to-day stresses. Most Hong Kong people prefer to have all their travel related matters pre-arranged, such as all accommodation and flights, prior to leaving. As such, most travellers opt for the convenience of booking both accommodation and flights through a single travel agent.

The number of public holidays in 2010 was 17, with most falling on working days and thus encouraging long weekends, boosting outbound travel.

Hong Kongers celebrate both Western and Eastern Holidays, which further helps to boost tourism. There are holiday periods throughout the calendar year, including the Lunar New Year in January, Easter in April and the long Christmas holidays in December.

Trends

Short-haul travel remains a popular choice for Hong Kong’s residents as they look for leisure trips and short breaks away from the stress of Hong Kong life. Apart from the PRC and Macau as the most popular destinations in 2010 due to their close proximity, holiday takers mostly travelled for less than a week in 2010 to nearby Asian countries, such as Japan, Taiwan and Singapore.

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Hong Kong residents took multiple short trips in 2010 thanks to growing confidence in the economic recovery. Holiday travel is one of the fastest growing categories in terms of consumer expenditure. With the effects of the financial crisis starting to fade, Hong Kong residents started to travel again in 2010. From a 1% decline in 2009, outbound travel recovered with a 4% increase in 2010. Despite the fact that consumer confidence has recovered following the economic downturn, confidence in future prospects remains conservative. Short-haul travel has become preferable as it tends to be cheaper.

Destinations

Mainland China remained the most popular outbound destination in 2010, recording an increase of 3% in terms of number of trips. Closer ties and improved transport links between Hong Kong and Mainland China, as well as smoother procedures at border crossings, further encouraged Hong Kong's residents to visit Mainland China for short breaks.

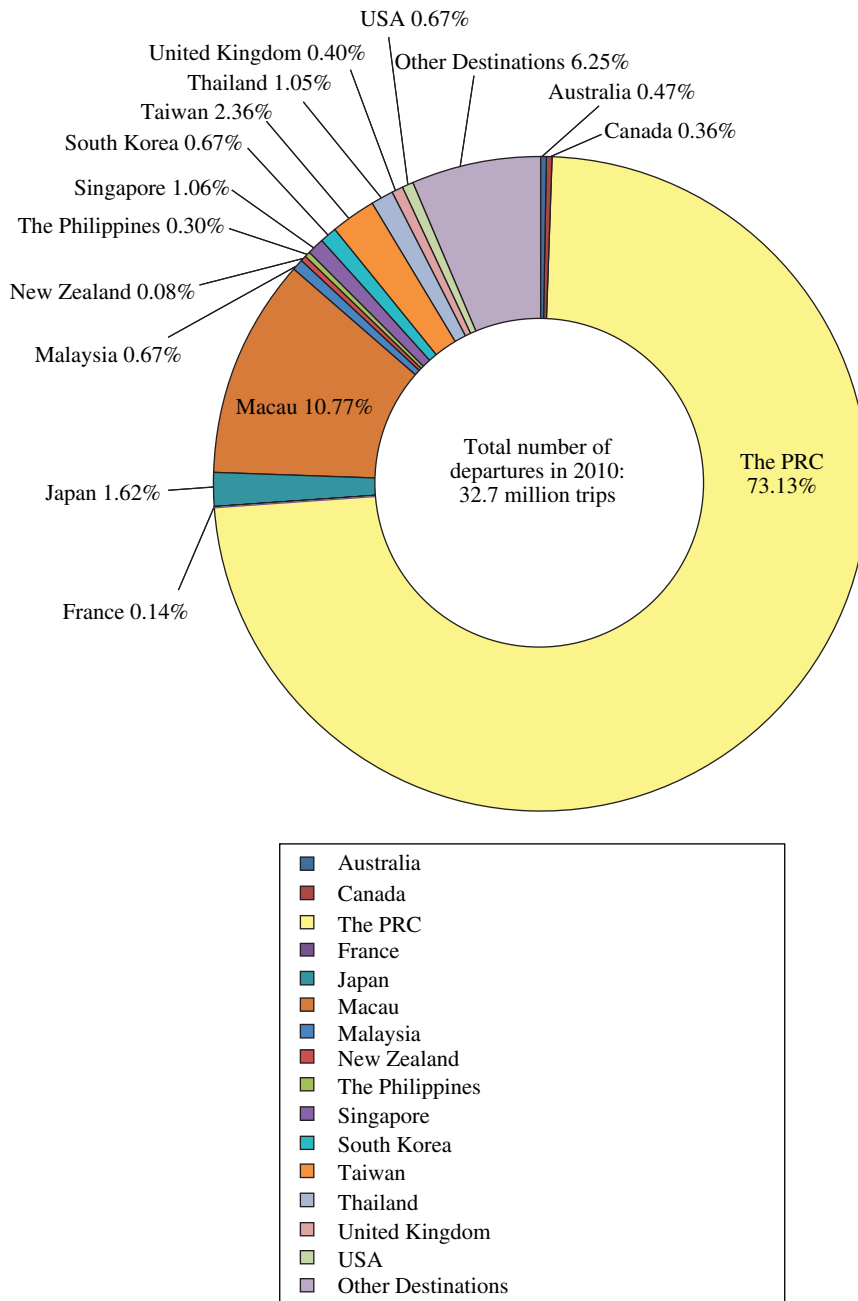
In 2010, the fastest growing outbound destinations in terms of tourist numbers were Japan and Singapore, posting increases of 21% and 22% respectively. This was largely due to the Hong Kong-Japan Exchange Year in 2009, which was launched jointly by the Hong Kong Tourism Board and the Japan National Tourist Organisation, and was extended to early 2010. Large-scale promotions were carried out in both Hong Kong and Japan and there were shopping and accommodation discounts on offer for both nationalities during the Exchange Year. Moreover, Japan also waived the visa requirements for Hong Kong residents.

With extensive tourist attraction development in 2010 in Singapore, large numbers of Hong Kongers travelled to Singapore to experience its casinos and Universal Studios. According to travel agents, Hong Kongers like to travel to countries with new attractions and entertainment facilities.

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The breakdown of destination of outbound trips taken by Hong Kong residents in 2010 is illustrated as follows:

Departures by destination in 2010



Source: Euromonitor

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Outgoing Tourist Expenditure by Country

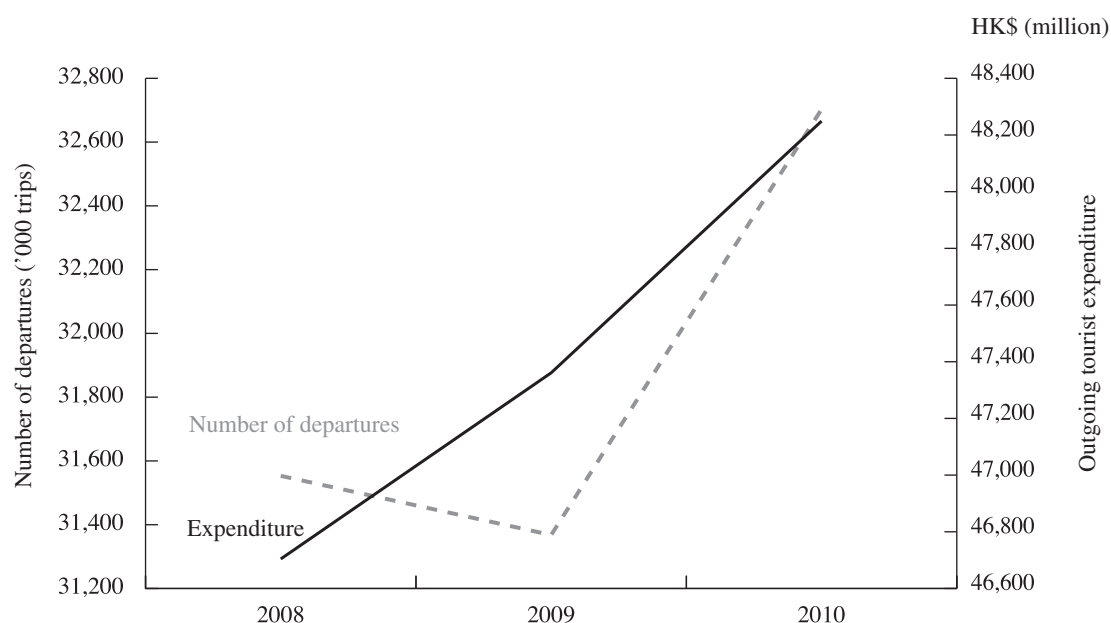
The leading outbound destinations in terms of expenditure in 2010 were the PRC, Macau and Japan, with figures of HK\$18.6 billion, HK\$4.6 billion and HK\$3 billion respectively. Hong Kongers' travel preferences are driven by food and the shops of various destinations as they enjoy visiting countries for their different cuisines, shopping promotions and distinctive scenery.

The fastest growing destinations in terms of outgoing tourist expenditure in 2010 were Singapore and Japan with rises of 23% and 10% to reach HK\$1.7 billion and HK\$3 billion respectively. This is mainly due to the popularity of shopping in Japan, with Hong Kongers taking a keen interest in Japanese fashion and culture, while Singapore offers casinos and world-class hotels and resorts.

Leisure

Growth of leisure departures was strongest to destinations including Japan and Singapore, with 498,000 trips and 232,000 trips made by Hong Kong residents to these two countries in 2010. Japan and Singapore benefited from new resorts, events and attractions in 2010, which whetted the travel appetites of Hong Kong's residents.

Leisure was the main purpose of Hong Kong departures in 2010, accounting for about 59% of trips abroad, up from 58% in the previous year. The number of trips made by Hong Kong residents abroad and the estimated amount of tourist expenditure by them have both grown steadily over the years between 2008 and 2010 as set out below:



Source: Euromonitor

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Business

The number of business departures in 2010 was 13.5 million, up by 3% over 2009. Business trips were severely limited by the financial crisis as company budgets were tightened and travel was replaced to a large extent by teleconferencing.

Business departures are mostly driven short-haul business trips as they have a relatively lower impact on corporate budgets. Since Hong Kong is one of the popular hub for MICE events, there is less need to travel overseas for MICE purpose, which accounted for only 18% share of business travel in 2010.

Length of Outbound Departures

Short-haul trips lasting 0-3 days accounted for the bulk of holidays taken by Hong Kong residents in 2010, accounting for 77% of departures. As discussed above, the PRC, Macau and Taiwan, which together accounted for approximately 86% of total departures in 2010, supported holiday takers' preference for short trips and weekend breaks.

The table below illustrates the length of outbound departures during 2008 to 2010:

Length of outbound departures: 2008-2010

	2008	2009	2010
		'000 trips	
0-3 Days	24,352	24,279	25,148
4-7 Days	3,386	3,325	3,532
Over 7 Days	3,815	3,764	4,023
Departures	<u>31,553</u>	<u>31,368</u>	<u>32,703</u>

Source: Euromonitor from official statistics, trade associations, trade press, trade interviews.

Mode of Transport

Hong Kong residents travel mostly by land, which accounted for 69% of all trips in 2010, thanks to improving transportation systems and border procedures.

Outbound air travel continued to post positive growth in 2010, seeing an increase of 6% to 6.6 million. Many major airlines re-opened routes that had been withdrawn during the economic downturn and saw their load factors approach pre-crisis levels.

Sea transportation also saw a major improvement in 2010 with an increase of 7% as many Hong Kong residents travel to Macau by sea and there was a significant rise in the number of trips between Hong Kong and Macau.

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The table below illustrates the breakdown of departures by mode of transport during 2008 to 2010:

Departures by mode of transport

	2008	2009	2010
		'000 trips	
Air	6,152	6,240	6,621
Land	22,144	21,968	22,703
Rail	227	195	201
Sea	<u>3,030</u>	<u>2,965</u>	<u>3,178</u>
Departures	<u>31,553</u>	<u>31,368</u>	<u>32,703</u>

Source: Euromonitor

Accommodation

According to the 2010 Asia Pacific Travel Intentions Survey compiled by Visa and PATA, accommodation is a very important factor in Asia Pacific tourism. Three-star and four-star hotels were the accommodation of choice for most respondents but travellers from Hong Kong like to be pampered with almost 20% citing five-star hotels as their preferred choice of accommodation. In 2009, expenditure on accommodation accounted for approximately 30% of the total outgoing tourist expenditure.

Prospects

According to the custom report compiled by Euromonitor, over the forecast period Taiwan is expected to be one of the most popular destinations for Hong Kong residents as from September 2010 online visa applications will be implemented. In addition, Taiwan has a different culture and various national events will be held there over the forecast period. Extensive promotional packages are expected to be offered by travel retailers, hotels and airlines.

Other Asian destinations are also expected to see an increase in number of Hong Kongers. Hong Kongers are known for their appetite for travel and so many markets target its residents. Singapore and Japan are expected to see the largest increases in terms of numbers over the forecast period, posting CAGRs of 8% and 7% respectively.

FIT MARKET PERFORMANCE OVERVIEW

General Trends

Overall, the FIT industry experienced a positive growth trend with the exception of 2009, attributed to the recessionary effects from the global financial meltdown, dampening consumer optimism in Hong Kong.

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Historically, the FIT industry grew by 19.6% against the bleak economic outlook and is expected to experience a double-digit year-on-year growth, with a CAGR of 12% in the review period of 2008 to 2013.

FIT Market Size, Hong Kong, 2008 - 2013

	2008	2009	2010	2011	2012	2013
				(Forecast)	(Forecast)	(Forecast)
FIT Market Size, HK\$ million	31,274.7	31,318.9	37,468.0	42,973.7	48,788.1	55,099.2
FIT Market Size, % Growth	—	0.1%	19.6%	14.7%	13.5%	12.9%

Source: Euromonitor

Component Analysis

FIT Package to drive industry growth

The FIT market comprises of three products: FIT packages, flights booking only and hotel booking only, wherein 'FIT Packages' are non-tour travel retail products, in contrast to traditional packaged holidays which include a travel itinerary, tour guides and the like.

Demand for FIT remained buoyant in the review period 2008 to 2013 due to the growing popularity of FIT packages. Since 2006, FIT packages constitute the bulk of the FIT industry with an average segment share of 57.7%. In 2009 however, interviewees qualified that the packaged holiday market, which comprises of traditional and FIT packages, saw a major shift in demand of 10.1% points from the former to the latter.

Reasons for the shift include relative travel cost savings for avid FIT travellers as it is more expensive to purchase flights and hotels separately. In addition, H1N1 flu pandemic, which occurred in 2008 affecting multiple countries across the world, has pushed travellers to select short-haul, low duration travel to facilitate contingency measures wherever necessary.

Consequently, FIT packages make up 64.1% to the FIT industry in 2010, enabling a positive growth of 0.1% in 2009 against the sullen economic landscape. Market players in the FIT industry estimate that FIT packages will continue to dominate the package holiday market and will garner 15% CAGR over the next three years.

Non-FIT components mirror economic outlook

Trade interviewees say that demand for flights only bookings and hotels only bookings tend to be bookings made for business travel because the separate purchase provides better flexibility for working personnel and the locality of hotels offered in FIT packages may not be convenient for work purposes. Thence, the recession 2008/2009 mandated cost cutting measures for businesses which plummeted demand for flights and hotels by 14.2% and 12% respectively.

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Both components recorded double-digit growth upon economic rebound of the Hong Kong economy in 2010, growth is expected to stabilise at 10%, in lieu of the sizeable market size of each by 2013.

FIT MARKET DRIVERS

Historic Drivers

Flexibility and autonomy are most valued attributes for travellers

Travellers today prefer greater flexibility and autonomy of their holidaying experience, which are unavailable through traditional travel packages. With a statutory minimum employment leave of only seven days in Hong Kong, working adults maximise their travelling experience by taking short-haul, ad hoc weekend trips to regional countries such as the PRC, Japan, Taiwan and Singapore. Such annual leave constraints hinder travellers' ability to explore a country in its entirety, a proposition best offered by traditional holiday packages. Hong Kong residents however, are willing to go on multiple trips to explore their country of choice, and prefer to do so independently, with pressure from neither a travel schedule nor group consensus.

Traditional packages, being structured products are also unable to cater to ad hoc travel needs at short notice since a minimum number of travellers are required before a tour can be formed and conducted. FIT packages are sold individually to each customer and can be exercised any time from date of purchase and within the stipulated travel period.

High level of transparency in FIT products

Unlike traditional packages which embed additional costs, FIT products are highly transparent. Only core components such as flight ticketing, hotels or a combination of both are offered, all of which are easy to comprehend. Other add-ons like airport pick-ups or day tours are optional and excluded from the retail price of packages, providing cost clarity for travellers. Hong Kong travellers travel with greater ease and assurance when they are aware of the exact cost breakdown, not having to worry about hidden costs which may inflate the final travel bill.

Strong value-for-money proposition

Innovation of the FIT package: Flight-and-hotel, offers a strong value proposition for cost conscious travellers. Travel agents offer a buffet of flight-and-hotel combinations at discounted prices, which are cheaper than the separate purchase of flights and hotels. Tie-ups with direct suppliers (airlines and hotels) reduce wholesale purchase costs which pass on cost savings to travellers. Such discounts encourage many to switch away from traditional packaged holidays to FIT packages.

Low barriers to foreign travel even when unguided

As popular travel destinations such as the PRC, Taiwan and Singapore speak a common tongue (Mandarin/Cantonese/English), Hong Kong travellers are able to explore these countries with little trouble on their own and derive greater satisfaction via a sense of discovery through FIT holidays.

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Foreign tourism boards such as the Singapore Tourism Board, actively court Hong Kong travellers by creating designated online platforms to locate travel information and attractions conveniently to design ones own unique travelling experience. Visitors information booths and hotlines are easily spotted along major tourist attractions, assuring foreign travellers, including those from Hong Kong that help on the ground is always within reach.

Proliferation of Internet usage for travel planning

Travellers have displayed an increasing reliance on the Internet to purchase and cross-compare flights and hotel offers, instead of relying on tour operators to offer them the best offer. By tapping into the Internet to locate the milieu of travel attractions available in their travel country of choice, Hong Kong travellers can plan their own travel itinerary, cutting down reliance on tour operators.

Future Drivers

Increased capacity to travel with economic recovery

In the aftermath of the global financial crisis, Hong Kong's economy recorded an overall remarkable recovery of 7.8% from 2009 to 2010, implying increased resilience to potential global economic shocks. The restructuring of the Hong Kong economy through its four key industries: financial services, trading and logistics, tourism, and export of professional services, is targeted at diversifying and growing the economy to raise income levels for Hong Kong residents. Growing affluence of Hong Kong residents suggests increased outbound tourism spending and travel frequency especially in FIT-type of travel as supported by aforementioned historic drivers.

Widespread preference for self-planned travel

Trade interviewees remarked that Hong Kong residents are becoming savvier and have turned towards self-planned travel to fulfill their appetite for adventure. Since most FIT travellers are working adults, they are relatively well-versed in utilising the Internet to locate potential travel destinations. Moreover, the overall increase in literacy affords travellers the ability to navigate in a foreign country and encourage attitudinal openness to interact with local residents when being on a FIT package. These shifts in consumer preferences will sustain the rising demand for the FIT industry.

Competition keeps prices affordable

The travel industry has historically been fiercely competitive and is amongst the most fragmented industry in Hong Kong. With a sizeable and fast growing FIT pie within the next few years, market players will rely on price competition to cement market share because of weak product differentiation in the FIT market. Furthermore, Hong Kong residents do not display retailer loyalty and are instead attracted to the best-value proposition. Thus FIT products will remain competitively priced in the future in spite of the growing demand.

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THREATS TO FIT MARKET

Advent of theme-based packages

Unlike its traditional package cousins, theme-based packages are centred about specific travel objectives. Common themes include ‘food trails’, ‘adventure tours’ and ‘eco-travel’ which are steadily gaining a following amongst Hong Kong travellers. Theme-based packages may be more expensive than traditional tours and FIT packages but its positioning as a novelty travel product, appeals to wealthier and curious Hong Kong residents.

Ageing population sustains demand for traditional packaged holidays

Hong Kong, like many developed economies suffer from an ageing population. Traditional packages are historically popular amongst older travellers and families because of its all-inclusive packages. Although the impact of an ageing population is unlikely to dent the FIT industry growth in the review period, its effects will be more pronounced in the long run.

CHANNEL PERFORMANCE OVERVIEW

General Trends

Supporting the FIT industry growth are the three retail channels in Hong Kong. These include online agents, FIT specialists and other travel agencies. At present, other travel agencies form the largest channel size of the FIT industry with a channel share of 47.7% in 2010, down 3.0% in 2008.

Online agents and FIT specialists take up similar market share, with the latter enjoying a marginal edge of 2.3% in channel share over the former. More significantly, unlike other travel agencies, both online agents and FIT specialists experienced a channel year-on-year growth of 23.3% and 25.0% respectively in 2010 signaling a shift in channel preference to purchase FIT products.

FIT Channel Size, Hong Kong, 2008 - 2010

	2008	2009	2010
	<i>HK\$ million</i>		
Online agents	7,471.4	7,594.6	9,367.0
FIT specialists	7,942.0	8,180.2	10,225.3
Other travel agencies	15,861.3	15,544.1	17,875.7

Source: Euromonitor

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FIT Channel Growth, Hong Kong, 2008 - 2010

	2008	2009	2010
Online agents, % Growth	—	1.6%	23.3%
FIT specialists, % Growth	—	3.0%	25.0%
Other travel agencies, % Growth	—	-2.0%	15.0%

Source: Euromonitor

Channel Analysis

Online provides unparalleled convenience

Online agents are preferred by travellers looking for flight or hotel only products because online agents do not retail specific airlines or hotels but offer a comprehensive selection based on simple search requests. Online platforms operate throughout the day, catering to busy travellers even after regular working hours, which cements the channel size and share of online agents in the Hong Kong FIT industry.

FIT specialists know best

With its core value proposition offering FIT products, FIT specialists were instrumental in drumming up public awareness and support for FIT travel. Although it remains unable to compete with other travel agencies in channel value, it has historically experienced the highest channel share growth. Consumers who are looking for FIT travel have a tendency to shop with FIT specialists when they want to book their holiday as they believe in FIT specialists' expertise in providing the best product and price combination as compared to other retailers.

FIT products are simpler to create than traditional packaged holidays

Being the oldest and largest type of travel retailers in Hong Kong, with rich experience in organising packaged tours, it comes as no surprise that other travel agencies constitute almost half of the FIT retail channel. They are able to quickly provide FIT packages in response to the changing demand for FIT as FIT packages are far less complex to organise than traditional packages. Despite the consolidated presence of other travel agencies in Hong Kong, they have steadily ceded market share of the FIT industry to FIT Specialists and online players.

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CHANNEL DRIVERS

Online Agents

Consumer trust fostered by easy retrievable travel information

Online sites' integrity and brand reputation is slated to rise with more Hong Kong residents relying on the Internet as a source for travel information such as online travel guides and travel forums. However, certain online agents do not have phone helplines or brick and mortar outlets where their customers can turn to should they require additional assistance. Market players interviewed by Euromonitor agreed that the lack of local helplines have muted the growth potential of online agents in Hong Kong.

Easy Internet access pushes travellers to online platforms

Widespread adoption of smartphones across Hong Kong with heavy investment to improve the local wireless grid grant users easy access to the web through their mobile devices to search for the best deals. Certain leading online agents have launched applications on smartphones and popular social networking platforms like Facebook, to enable users to share the latest travel deals with their peers, relying on word-of-mouth advertising for product offerings.

High penetration of credit card usage fuel online purchases

As technological adoption soars alongside high credit card penetration in Hong Kong, more residents will be familiar with online shopping and web security, encouraging online purchase of travel products. Younger travellers have a greater affinity with online agents as result of early exposure and participation in online activity during formative years.

FIT Specialists

Well-trained travel consultants optimise channel sales

FIT trade sources say that majority of their business is sourced from walk-in customers looking for quick holiday solution from products offered in-store. Although FIT products are relatively simple, the sheer volume of travel combinations can confound the average Hong Kong traveller. Walk-in customers may seek assistance from FIT consultants who can narrow down a list of FIT packages to cater to their customers' needs efficiently, reducing the decision-making time for each purchase.

Helplines crucial in closing travel deals

As FIT becomes a staple form of travel amongst Hong Kong residents, FIT specialists have invested substantial resources in phone lines to cater to the influx of phone bookings and enquiries. Unlike walk-ins, phone bookings provide great convenience for time strapped business and leisure

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travellers in Hong Kong since they do not have to travel to an FIT outlet to make travel bookings. Interviewees state that Hong Kong travellers prefer the ‘human-touch’ and request for live phone operators to assist them in their phone purchases. A live operator could also clarify their doubts instantaneously, as compared to travellers having to locate their answers from an online platform.

Advertising raises corporate profile and overall sales

FIT channel growth is precipitated by heavy investment in print advertising in daily news media which enjoys a large circulation and is a popular read among young working adults. Interviewees observed that FIT specialists in particular have been frequently featured in other daily publications which are targeted at business readers and regularly feature travel specials. Through widespread advertising, FIT specialists have raised consumer awareness of their product offering and positioning thus carving out a distinct share within the FIT travel industry in Hong Kong.

Other Travel Agencies

Compared to FIT specialists, other travel agencies enjoy a larger presence locally, with 1,572 licensed travel agents registered in Hong Kong as at 30 June 2011. Such scale suggests that FIT products should be competitively priced. Bargaining power of other travel agencies with direct suppliers is stronger since the bulk of the travel market is supplied through the said agencies, pushing down wholesale costs of such products and inherently, the final retail price.

Fundamentally, FIT products are close substitutes to traditional packaged holidays with diminished profit margins. In-country research up to May 2011 found that most other travel agency outlets are filled with posters showcasing and promoting packaged tours. Should they change their targeting strategy and promote FIT packages, they risk sending confusing messages about their corporate identity and area of specialisation. Jumping onto the FIT bandwagon may not be an immediate course to compete with FIT specialists.

Consequently, other travel agencies will retail FIT products upon customers’ request and list a tab for FIT product purchase on their online sites but are unlikely to promote FIT services as aggressively as packaged holidays. It is no surprise that they are likely to lose channel share to the rest of the competition in the FIT market space.

FIT SPECIALISTS OUTLET PERFORMANCE OVERVIEW

Overall CAGR of FIT specialists’ outlet in Hong Kong in the period of 2008 to 2013 is 7.9%, with the surge in outlet growth in 2010 of 15%. This occurrence is attributed to FIT specialists wanting to capitalise on the economic rebound of the domestic economy, to capture a larger market share in lieu of the potential growth in travel traffic.

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Travel retail outlets, Hong Kong, 2008 - 2013

	2008	2009	2010	2011	2012	2013
				(Forecast)	(Forecast)	(Forecast)
Travel retail outlets, No. of outlets	1,775	1,791	1,815	1,832	1,848	1,861
Travel retail outlets, % Growth	—	0.9%	1.3%	0.9%	0.9%	0.7%

Source: Euromonitor

FIT specialist outlets, Hong Kong, 2008 - 2013

	2008	2009	2010	2011	2012	2013
				(Forecast)	(Forecast)	(Forecast)
FIT specialist outlets, No. of outlets	248	261	300	330	347	364
FIT specialist outlets, % Growth	—	5.0%	15.0%	10.0%	5.0%	5.0%

Source: Euromonitor

MARKET SHARE OVERVIEW

The FIT specialists market is highly fragmented because of the ease of setting up new businesses and business outlets in Hong Kong. According to the analysis of Euromonitor, TEL is ranked the top market player in the FIT specialist market in Hong Kong in 2010 with a market share of gross sales proceeds of HK\$1,023 million representing approximately 10% of the total FIT specialist market of HK\$10,225 million in 2010. The second and third major FIT specialist (“Second Player” and “Third Player” respectively) has a market share of approximately 1.3% and 0.7% respectively in 2010.

Company Profiling of TEL

Since its establishment in 1986, TEL has grown to become the top ranked FIT specialist player in Hong Kong. It possessed a wide distribution and retail network spanning a total outlet count of 50, located across Hong Kong Island, Kowloon and the New Territories. All outlets are fitted with multiple phone lines to ensure that enquiring customers during peak and off-peak hours are able to speak to a travel consultant as soon as possible.

In line of the fast growing digitisation of travel bookings, TEL has set up its online website in 2010 and is amongst the first few FIT specialists in Hong Kong to feature instant booking service. Such a move enables TEL to tap into the online market.

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TEL specialises in leisure travel sales, with its outlet located at major shopping thoroughfares and prime residential areas. Strong outlet presence is touted to be crucial in raising consumer awareness and fostering trust with Hong Kong residents.

Based on trade interviews with TEL, the emphasis on customer satisfaction is paramount to its brand reputation and it seeks to provide the ideal FIT solution for its patrons. Unlike most other FIT specialists, TEL has extended phone helpline operating hour, to cater to working individuals who are unable to enquire about or book their travel holidays during working hours.

In spite of the relative infancy of its online platform, TEL will continue to be a leading market player amongst FIT specialists in Hong Kong, given its strong branding and awareness across Hong Kong consumers.

The Second Player has about ten outlets, located at major commercial and shopping districts across Hong Kong. The Second Player has instant booking features available online. The Second Player has overseas branches located in popular city destinations such as Beijing, Shanghai, Macau, Taiwan and Singapore. Its presence in foreign cities provide added security to FIT travellers who can be confident that they have purchased FIT products from a reliable travel retailer given their ability to penetrate into overseas markets. The Second Player's travel consultants possess high language capacity with many conversant in both Mandarin and English, which provides value-added services to expatriates in Hong Kong who are less than fluent in Cantonese.

The Third Player is, through its parent company, related to a leading airline company in Hong Kong. The Third Player has a long standing corporate history of 60 years and possesses one of the largest corporate travel clientele in Hong Kong. Although the Third Player and the leading airline company are separate entities, the Third Player is believed to be able to obtain competitively-priced air tickets on the leading airline company. The Third Player focuses on corporate travel management with luxury auxiliary offerings such as limousine services and the like and has established a strong brand reputation for business travel purposes. The Third Player has divested its business to enter the leisure market by offering discounted leisure packages to its corporate clients, to rake up demand for its leisure travel arm. The Third Player's continual emphasis in corporate travel may hinder its entrance into the leisure travel market. Unlike TEL and the Second Player, the Third Player appeals to the up-market Hong Kong resident, who is less likely to purchase budget FIT products for leisure travel purposes.

THE CRUISE INDUSTRY

Overview

The cruise industry represents a specialised segment of the travel industry and has for some time been one of the fastest growing segments in the world tourism business. The cruise market is characterised by exceptional value proposition, wide appeal, positive guest demographics, a wide range of activities for the tourists, high guest satisfaction rate and favourable supply and demand balance. The industry has seen significant growth over time and it is expected to grow further in the coming years.

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The global cruise industry is looking towards Asia as a major growth engine. With the growing middle class group and the increasing interest of people in cruising activities, this sector provides ample growth opportunities for market participants.

Hong Kong's cruise market

Asia is becoming popular as a new cruise destination, as cruise operators and passengers look for new products and unique itineraries. Located at the heart of Asia's cruising map, Hong Kong is the ideal embarking or disembarking location to a vast number of fascinating cruise itineraries. The Hong Kong Tourism Board is committed to capitalising on this market segment to attract more ship calls and cruise passengers to Hong Kong.

The Hong Kong Government is committed to developing Hong Kong into a leading regional cruise hub, by enhancing both the hardware and software developments in Hong Kong. From the hardware development perspective, the Hong Kong Government is developing a new world-class cruise terminal at the site of the former Kai Tak airport runway ("Kai Tak Terminal") which is expected to handle the simultaneous berthing of two mega cruise vessels with gross tonnage of up to 220,000 tonnes. There is presently one cruise terminal, known as Ocean Terminal, located in Tsim Sha Tsui, Kowloon where most cruise vessels berth. From there, cruise visitors can conveniently explore other parts of the city by public transport. The new Kai Tak Terminal will complement the Ocean Terminal. The first berth of Kai Tak Terminal is expected to be completed around mid-2013 followed by the second berth in 2014.

To enhance co-operation with neighbouring coastal provinces in developing cruise itineraries, the Tourism Commission has been working with four Mainland provinces, namely Fujian, Hainan, Guangdong and Guangxi to set up an information exchange platform, and together have stepped up joint promotion. The new "Cruise South China" website launched by the Hong Kong Tourism Board in early January 2009 carries information on port facilities and tourism resources of Hong Kong and neighbouring provinces. The website was launched to meet the ever-increasing interests and demands of international cruise lines as they look to expand their ship deployment to the Asia region.

The central government of the PRC has helped to encourage cruise tourism in Hong Kong, having introduced a measure in April 2009 to allow Chinese tour groups travelling to Taiwan to sail on vessels homeporting in Hong Kong. The move will boost the number of tourists participating in cruise tourism from and within Hong Kong over the forecast period.

The ongoing development of the Kai Tak Terminal and heavy investment on the part of the Hong Kong government in the research, development and promotion of the local cruise industry will send a strong and unambiguous signal to the major industry players of the rising importance and healthy prospects of the cruise category in Hong Kong.

This is expected to be a strong incentive for significant private investment by travel agents and tourism companies in Hong Kong to develop and grow their capacity and product offerings to meet

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the growing demand for cruise tourism. In addition, the marketing and promotional efforts of the Hong Kong government and unexpected help from the central government will be likely to bring about strong growth in cruise tourism, as well as the expected surge in demand when the new Kai Tak Terminal is finally operational.

E-COMMERCE IN THE TRAVEL INDUSTRY

One of the major factors that has shaped the travel retail industry in recent years is the emergence of the Internet as a widely available source of information and an online booking tool.

Computer systems have long been used to manage airplane reservations. The wide availability of the Internet in recent years has allowed an easy transition of these computerised reservations systems to the Internet, where it is used by travel agencies and also directly by travellers. Customised Internet versions of reservation systems are licensed to traditional travel agents and to travel websites. Used primarily for flight reservations and tickets, travel websites also provide reservations for hotels, rental cars, cruises and package tours, and have become virtual travel agencies.

The 2010 Asia Pacific Travel Intentions Survey compiled by Visa and PATA found that 70% of the survey respondents used the Internet as the information source to research and plan their holidays. Obtaining general information about a destination and related travel advice are the main reasons 95% of travellers go online to plan their holiday. 63% of respondents cited the convenience of the Internet as its appeal because it allowed them to look for information anytime on demand.

Furthermore, Hong Kong has experienced rapid growth in its Internet market. The speed of its expansion was highlighted in the first half of 2001, when Hong Kong had the highest rate of growth in the world for household Internet penetration. There were more than 4 million Internet users in the territory, gaining access using either dial-up or broadband by early 2005. The extensive roll out of sophisticated telecommunications infrastructure has allowed Hong Kong to move quickly in providing more than 90% of all households with access to broadband connectivity. Internet usage in Hong Kong reached 68.8% in 2010, up from 34.1% in 2000, and the city possesses one of the fastest average home broadband speeds in the world.

Despite this, online e-commerce, particularly in travel retail, remains underdeveloped. The small size of Hong Kong and a preference for dealing with a travel agent directly have meant many travel retailers do not offer online purchasing, and a number of websites of local travel agencies are restricted to browsing information.

Travel retailers have long offered consumers information, pricing and booking options on their websites, but it was not until late 2007 that online payments for flight purchases was introduced to the market in Hong Kong. In 2008 online payments for flight purchases became available with a number of travel retailers in Hong Kong. Internet developments in the travel retailer industry are expected to continue going forward.

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Internet developments are expected to result in a reducing gap between smaller and larger players. The cost and technology required for small firms to keep pace with changes is expected to become greater and may make it more difficult for smaller firms to offer the same quality of online services and development as larger firms. Continued improvements in Internet technology will help larger market participants gain cost efficiencies.

Consumers will benefit from improved choices and the ability to take control of the whole booking and purchasing process. These developments are likely gradually to change the way consumers purchase and interact with travel retailers. For example, Cathay Pacific Airways Limited provides a full reservation service for its flights on-line. The service is free, user friendly and offers competitive pricing. Thus, customers can book their air tickets directly with airlines which effectively eliminates the middle-man.

PRC TRAVEL INDUSTRY — DOMESTIC, INBOUND AND OUTBOUND

Domestic Tourism in PRC

Trends

Domestic tourism increased by 10% in volume terms in 2010, due to the Shanghai Expo and Guangzhou Asia Games. Domestic tourism flows to Shanghai saw a growth of 62% in 2010 over the previous year, to reach 81 million. The Guangzhou Asian Games was the other event which boosted domestic tourism flows in 2010.

Destinations

As it was the host of the Guangzhou Asian Games, Guangdong province remained the most popular domestic destination in 2010, with the total number of trips reaching 158 million.

Shanghai recorded the strongest growth in terms of domestic trips in 2010, as a result of the Shanghai World Expo. This event did not only stimulate overall volume flow for local Shanghai citizens, but also, more importantly, brought up the level of visits from other provinces.

Hainan was another popular destination, attracting 25 million trips in 2010; a growth of 16% compared with 2009. In January 2010, the State Council issued Suggestions on Developing Hainan province into an International Tourism Island. With a series of favourable policies and widespread media exposure, tourism in Hainan province was boosted to a significant extent.

Mode of Transport

Land transport remained the dominant mode of transport in 2010 due to its low cost, accounting for a 39% share of total trips, including both business and leisure trips.

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Rail travel was the second most popular option for transportation, accounting for 36% of total trips in 2010. With the Chinese government's investment in rail infrastructure, high-speed railway was preferred by more and more travellers in the PRC, due to its convenience and comfort. Air transportation ranked in third place amongst all the transport options with a 17% share; a slight increase compared with 2009.

Leisure

The number of domestic leisure trips witnessed a growth of 10% in 2010, to reach 837 million trips. Leisure trips accounted for a 68% share of overall domestic trips in 2010.

Business

As the economy started to recover, the number of business trips witnessed a higher growth rate than leisure trips, at 11% in 2010, to reach 392 million trips in 2010, accounting for a 32% share of overall domestic trips.

Domestic Tourist Expenditure

Domestic tourist expenditure in 2010 reached RMB1.2 trillion, thanks to an ongoing increase in the number of trips across the country.

Prospects

Domestic tourism is expected to enjoy a volume CAGR of 6% in the forecast period during 2011 to 2015, and by 2015 the total number of domestic trips is expected to reach 1.6 billion. In line with the national tourism strategy, new tourism packages such as patriotic tourism (visiting Chinese Revolution sites), village sightseeing and farmhouse tours will be further promoted by both travel agencies and local tourism offices.

As China's National Development and Reform Commission approved the building of Hainan province into a world-class vacation and leisure island, domestic trips to Hainan province are expected to achieve the highest CAGR over the forecast period during 2011 to 2015, of 11%.

As the Disney Park is expected to be opened in Shanghai by 2014, the tourism flow to Shanghai is expected to enjoy robust double-digit volume growth in 2015.

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Domestic Tourist Expenditure

	Value <i>RMB million</i>	% value growth
2005	528,586.3	—
2006	622,970.2	17.9
2007	777,060.4	24.7
2008	874,929.6	12.6
2009	1,017,489.4	16.3
2010	1,150,780.5	13.1

Source: Euromonitor

Forecast Domestic Tourist Expenditure

	Value <i>RMB million</i>	% value growth
2010	1,150,780.5	—
2011	1,258,953.9	9.4
2012	1,373,518.7	9.1
2013	1,494,388.3	8.8
2014	1,621,411.3	8.5
2015	1,754,367.0	8.2

Source: Euromonitor

Inbound Tourism in PRC

Trends

Tourist arrivals witnessed a healthy growth trend in 2010, mainly due to economic recovery and two international events being held in the PRC, namely the Shanghai World Expo and Guangzhou Asia Games. Hong Kong, Taiwan and Macau remained the top three inbound countries in 2010, followed by Japan, South Korea and Russia.

The number of inbound visitors from European countries such as Italy, France, Germany and the United Kingdom witnessed positive growth, in contrast to declines in 2009, due to the gradually recovering economy in these countries in 2010 compared with the worse situation in 2009.

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Country of Origin

As China's Special Administrative Regions, Hong Kong and Macau continued to be two of the top inbound countries of origin. Due to the close proximity of Hong Kong and Macau to China, it is convenient and relatively cheap for visitors from these two cities. In addition, the Chinese government removed travel restrictions between these Special Administrative Regions and China, and tended to further encourage tourists in Hong Kong and Macau to travel to China.

The China National Tourism Administration (CNTA) issued a new guideline regarding the further development of inbound tourism flows in 2009. The guideline emphasises the importance of a few areas which could further attract foreign tourists, including launching tourist packages with traditional Chinese culture and improving service standards, such as proper training for tour guides.

Leisure

Leisure arrivals accounted for the majority of the PRC's total inbound tourists in 2010; however, the percentage of arrivals for most inbound source countries for leisure purpose was lower in 2010 compared with 2009. For instance, leisure arrivals from Japan accounted for 68.3% of total inbound Japanese visitors in 2010; slightly lower than 69.4% in 2009. This is mainly because after the decline in business travel during the recession in 2009, economic recovery in 2010 helped to bring business travel to a faster pace of growth.

Organised tour groups still accounted for the biggest share of leisure tourists in 2010 (28%), as the vast size of the PRC, and, more importantly the language barrier for most international travellers, makes tour groups the ideal choice for travel. The more adventurous backpackers and single leisure travellers accounted for a minority of arrivals, at 6% and 4% respectively in 2010.

Business

After suffering a decline in 2009, the number of business travellers from most destinations witnessed a slight increase in 2010 due to gradual economic recovery. For instance, the percentage of business arrivals from Russia and the US within their total inbound flows increased from 39% and 16% in 2009 to 40% and 21% in 2010 respectively.

MICE inbound arrivals accounted for a 32% share of business visitors in 2010; a slight increase compared with 2009. The main reason was because the start of economic recovery encouraged more companies to attend MICE events in 2010.

Prospects

The PRC is expected to continue to witness healthy growth in terms of inbound tourist flows over the forecast period during 2011 to 2015, together with the recovering global economy. According to the twelve plan of the State Council, the Chinese government will continue to put effort into stimulating tourism spending in the PRC.

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Tourist arrivals are expected to increase by a CAGR of 6% in the forecast period during 2011 to 2015, which is stronger than in the review period (2004-2010), which saw a CAGR of 4%. Hong Kong and Taiwan are expected to remain the top inbound tourist countries of origin over the forecast period, due to economic, geographic and historical links with the PRC.

Incoming tourist receipts is expected to see a constant value CAGR of 7% over the forecast period, to reach RMB401.0 billion. With the after-effects of the Shanghai Expo, the promotion of Hainan province as an international tourist island and the opening of the Disney Park in Shanghai, the PRC will remain a popular destination for many international tourists over the forecast period.

With the mounting pressure from the US and other developed countries, the Chinese currency might have further to appreciate against foreign currencies. If this is the case, changing exchange rates could become a threat to the future growth of inbound tourism flows, as international tourists could go to other Asian countries, such as Vietnam or Thailand, which have more favourable exchange rates, and also have rich tourist resources.

Outbound Tourism in PRC

Trends

The number of outbound tourists witnessed double-digit growth in 2010. With the country's strong GDP growth and increasing disposable incomes, more and more Chinese travellers could afford overseas travel. According to trade sources, many Chinese consumers, especially middle-class consumers, have a strong desire to go abroad, using outbound travel as a kind of indulgence or reward for their hard work during the year.

Chinese customs authorities further strengthened the tax policies regarding overseas shopping. Visitors who spend more than RMB5,000 on shopping need to pay tax on the amount over this value. This strengthened tax policy may have curtailed the enthusiasm for outbound travel amongst many Chinese fans of overseas shopping.

The length of outbound departures saw a change in 2010, with the share of departures over seven days and departures between four to seven days increasing from 5.1% and 14.9% in 2009 to 5.4% and 15.4% respectively in 2010; in the meantime, the share of departures for up to three days declined. This indicates that longer overseas stays are becoming more popular amongst Chinese travellers, thanks to ever-increasing disposable incomes.

Destinations

Hong Kong and Macau remained the two leading destinations for the PRC's outbound travellers in 2010, seeing 12 million and 7 million trips respectively. The former is renowned as a shopping paradise which offers lowerpriced products such as cosmetics or consumer electronics. The latter is famous for its casinos and is the only place in the PRC to legally run casinos.

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Japan and South Korea were the third and fourth most popular destinations amongst Chinese tourists in 2010. Outbound tourist flows to Japan and South Korea saw growth of 14% and 20% respectively in 2010. As neighbouring countries, Japan and South Korea are relatively convenient to visit in terms of travelling time. Meanwhile, these two countries have loosened the visa application process for Chinese travellers; further attracting Chinese visitors. In addition, the growing popularity of Japanese and Korean culture amongst younger Chinese consumers also contributed to an increasing desire to travel to Japan and South Korea over the review period.

Leisure

Leisure visitors still dominated departures in 2010, and amongst all types of travelling, organised tour groups continued to account for the largest share, accounting for 5 million trips in 2010. The second biggest category of outbound leisure tourists in 2010 was couples, with a 24% share, as many couples travelling overseas, such as on their honeymoon, prefer a flexible and relaxed travel itinerary. Only 3% of total outbound visitors were backpackers in 2010; slightly higher than the 2% share in 2009.

Business

Economic recovery led to an increase in MICE tourism, and 2010 saw a growth of 13% in MICE departures. With rapid economic development, more and more local Chinese firms are seeking overseas expansion opportunities. Chinese companies consider participating in MICE as an effective way to seek new business development, increase consumer awareness, improve communication with competitors and obtain market information. South America, (including countries such as Brazil) has tended to become a new MICE hub for Chinese firms due to the market attractiveness of such countries.

Prospects

Departures are expected to increase by a CAGR of 10% in the forecast period during 2011 to 2015, to 52 million trips. Due to increasing purchasing power, Chinese tourists have been identified as a “hot commodity” by more and more national tourism boards. Countries such as Thailand, Singapore, Malaysia and Australia try to attract Chinese tourists by setting up tourism offices in the PRC, offering the Chinese language on their tourism websites and easy-to-access visa application guidelines.

According to forecast data from the IMF, China’s macro economy is expected to grow by a CAGR of 7-8% in the next five years, so it will replace Japan and become the second largest global economy by the end of 2010 in terms of GDP, just behind the current largest global economy, the US. Thanks to ongoing robust GDP growth, ever-increasing disposable incomes, as well as increasing demand for overseas travel, outbound tourist expenditure is expected to enjoy a constant value CAGR of 10% to reach RMB527.5 billion in 2015.

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TRAVEL AGENCY AND TRAVEL RELATED RETAIL BUSINESS IN PRC

Trends

The Shanghai Expo and Guangzhou Asian Games boosted domestic tourism flows, which saw a growth of 10% in 2010. Many travel agencies launched relevant holiday packages, such as a Guangzhou Asian Games one-day trip, and Shanghai Expo three-day tour. In addition, with the country's strong GDP growth and increasing disposable incomes, more and more Chinese consumers could afford to travel. As a result, travel retail products witnessed a healthy 9% current value increase, to reach sales of RMB188.3 billion in 2010.

Package holiday remained the most popular travel option, with a current value growth of 14% in 2010. Benefiting from the Shanghai Expo and Guangzhou Asian Games, almost every leading domestic tour operator included an Expo site visit or Guangzhou Asian Games tour within their package holidays. In addition, package holidays offer better value for money than individual travel.

Leisure Travel

Package holidays accounted for the bulk of sales for most retailers, and saw the highest growth in 2010 due to the Shanghai Expo and Guangzhou Asian Games. City break was the second most popular travel option, with a current value growth of 11% in 2010, with the top destinations including Shanghai, Hong Kong and Macau, with the focus being on the extensive shopping facilities available.

Spa packages was another category which enjoyed a healthy increase, with a growth of 9% in current value terms in 2010. With increasing health awareness, more and more Chinese tourists preferred leisure travel which could provide wellness. Spas have an image as places for healing, renewal and relaxation; thus are favoured by many young working professionals who are worn out from their working days. Moreover, under the support of the local government, many areas have explored tourism featuring resort spas, amongst which are Hainan, Guangzhou, Yunnan, Sichuan, Dalian and Qingdao. Hotel/resort spas, usually depending on natural hot springs, are less demanding in terms of investment and regulation, and are more readily embraced by consumers as part of their leisure activities.

Business Travel

Flight only, accommodation only and fly-drive are the three main categories in business travel retail. The percentage of business travel retail in these three categories witnessed an increase in 2010, accounting for 52%, 40% and 6% in these respective categories. Despite the percentage increase, the retail value of flight only corporate business products declined in 2010. Travel agencies faced fierce competition from direct suppliers such as hotels and airlines, as many offer even lower rates to attract corporate travellers.

Car rental was another dynamic category in business travel retail, especially airport business car rental, which saw rapid growth in 2010 due to economic recovery. More and more travel agencies have already included a car rental service within their portfolios.

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Online Travel

Online sales of travel retail products witnessed a value growth of 18% in 2010, to reach RMB20 billion. Amongst all the categories, online traditional package holiday saw a growth of 45% in 2010. This rapid growth was mainly due to attractive online promotions. For example, one of the leading online travel agents achieved 49% growth in its net revenue in the third quarter of 2010 compared with the same period in 2009. Its success was mainly due to its low-priced online packages.

Online social media, with a huge number of users in the PRC, has become one of the important channels which could influence consumers' online purchasing behaviour. Tourists like to seek references and recommendations from social media when choosing a travel agency or an online tour package. Moreover, social media is also a main channel for tour operators to advertise special online promotions. Many travel agencies consider advertisements or blogs in social media to be a key part of their marketing strategies.

Competitive Landscape

There were 20,987 travel retail outlets in China in 2010; an increase of 3% over 2009. The travel retail market remains fragmented, with only 5% of the licensed travel outlets being tour operators. Although the Chinese government lifted restrictions and allowed foreign-owned travel agencies in the PRC from 2003, the market was still dominated by local players in 2010, mainly due to their early entry advantage.

The two major travel agencies led the travel retail market with 10% and 9% value shares respectively in 2010. Both of them are former state-owned travel operators, and still have close links with the China Tourism Board. They have built a strong relationship with airlines, hotels and local tourism administrations; thus are able to benefit from their close relationship with local government.

A travel agency with a low-cost airline, was in third place with a 9% value share in 2010. Its success was because the travel packages launched are linked to its affiliated airline company, thereby offering cost-saving travel options for price-sensitive travellers.

Prospects

Travel retail is predicted to hit sales of RMB252.1 billion in 2015, with a constant value CAGR of 6% in the forecast period. As indicated in the latest five year strategic tourism plan by the Chinese government, considerable investment in infrastructure will be made to push domestic tourism.

Package holiday is expected to continue to see a healthy growth trend, with a constant value CAGR of 9% in the forecast period, to reach RMB116.7 billion by 2015. The main attractiveness of package holidays is the one-stop-service; whereby a tour operator plans the itinerary and catering service, and settles logistics arrangements and accommodation. With the mounting pressure from work, package tours are welcomed by more and more working professionals who are looking for easy and relaxing holidays. Moreover, the tour operators' economies of scale also makes package tours a more cost-efficient travel product compared with self-organised travel.

INDUSTRY OVERVIEW

Spa packages is expected to witness the most dynamic growth, with a constant value CAGR of 9% in the forecast period. With increasing awareness of wellbeing, spas are perceived by more and more Chinese consumers as places for healing, renewal and relaxation.

Online travel retail products is expected to see a constant value CAGR of 15.6% in the forecast period up to 2015.

Travel Retail Outlets by Category

	2005	2006	2007	2008	2009	2010
Outlets						
Tour Operators	878	921	983	1,034	1,094	1,139
Travel Agents	15,595	16,325	17,960	18,653	19,195	19,848
Travel Retail Outlets	16,473	17,246	18,943	19,687	20,289	20,987

Source: Euromonitor

Travel Retail Products Sales

	2005	2006	2007	2008	2009	2010
	<i>RMB million</i>					
Accommodation Only	8,265.4	10,746.0	12,176.9	11,579.1	10,951.2	10,633.6
Adventure/Trekking						
Holiday	1,026.7	1,078.0	1,305.1	1,432.7	1,461.4	1,505.2
City Break	32,901.2	39,658.2	42,233.4	43,568.5	45,746.9	50,733.3
Cruise	4,803.1	5,329.5	6,119.6	6,208.2	6,282.7	6,571.7
Flight Only	18,732.1	21,616.8	23,253.8	22,556.3	21,585.0	20,333.0
Fly-Drive	2,401.5	6,152.4	6,985.3	6,426.1	5,868.6	5,792.3
Other Transport	148.4	154.9	241.7	249.3	274.2	305.7
Package Holiday	54,023.5	62,889.8	66,673.1	68,006.5	66,673.1	76,207.3
Spa Packages	1,209.7	2,931.2	3,596.6	4,080.1	4,504.4	4,900.8
Travel Insurance	1,873.7	2,102.2	2,245.2	2,342.9	2,430.5	2,540.1
Traveller's Cheques	—	—	—	—	—	—
Other Travel Retail						
Products	5,988.4	6,128.6	6,995.9	7,442.3	7,803.2	8,739.6
Travel Retail Products	131,373.7	158,787.6	171,826.6	173,892.0	173,581.2	188,262.6

Source: Euromonitor

INDUSTRY OVERVIEW

Corporate Business Travel Retail Products Sales

	2005	2006	2007	2008	2009	2010
	<i>RMB million</i>					
Accommodation Only	2,868.1	3,857.8	4,517.6	4,388.5	4,172.4	4,210.9
Adventure/Trekking						
Holiday	—	—	—	—	—	—
City Breaks	—	—	—	—	—	—
Cruise	—	—	—	—	—	—
Flight Only	8,747.9	10,354.4	11,417.6	11,255.6	10,814.1	10,491.8
Fly-Drive	57.6	221.5	335.3	359.9	340.4	364.9
Package Holiday	—	—	—	—	—	—
Spa Packages	—	—	—	—	—	—
Travel Insurances	—	—	—	—	—	—
Traveller's Cheques	—	—	—	—	—	—
Other Corporate Business						
Transport	73.2	76.7	120.1	124.4	137.4	154.7
Other Corporate Business						
Travel Retail Products	616.8	704.8	888.5	1,004.7	1,069.0	1,328.4
Corporate Business Travel						
Retail Products	12,363.6	15,215.2	17,279.1	17,133.1	16,533.3	16,550.7

Source: Euromonitor

Leisure Travel Retail Products Sales

	2005	2006	2007	2008	2009	2010
	<i>RMB million</i>					
Accommodation Only	5,397.3	6,888.2	7,659.3	7,190.6	6,778.8	6,422.7
Adventure/Trekking						
Holiday	1,026.7	1,078.0	1,305.1	1,432.7	1,461.4	1,505.2
City Break	32,901.2	39,658.2	42,233.4	43,568.5	45,746.9	50,733.3
Cruise	4,803.1	5,329.5	6,119.6	6,208.2	6,282.7	6,571.7
Flight Only	9,984.2	11,262.4	11,836.2	11,300.7	10,770.9	9,841.2
Fly-Drive	2,343.9	5,930.9	6,650.0	6,066.2	5,528.2	5,427.4
Package Holiday	54,023.5	62,889.8	66,673.1	68,006.5	66,673.1	76,207.3
Spa Packages	1,209.7	2,931.2	3,596.6	4,080.1	4,504.4	4,900.8
Travel Insurance	—	—	—	—	—	—
Traveller's Cheques	—	—	—	—	—	—
Other Leisure Transport	75.2	78.2	121.6	124.9	136.8	151.0
Other Leisure Travel Retail						
Products	5,371.6	5,423.8	6,107.4	6,437.6	6,734.2	7,411.2
Leisure Travel Retail						
Products	117,136.4	141,470.2	152,302.2	154,416.0	154,617.4	169,171.8

Source: Euromonitor

INDUSTRY OVERVIEW

Travel Retail Online Sales by Category: Internet Transaction Value 2005-2010

	2005	2006	2007	2008	2009	2010
	<i>RMB million</i>					
Accommodation Only	3,504.3	4,441.4	6,546.5	8,013.9	9,296.1	10,876.4
Car Rental Only	56.5	59.6	60.8	61.5	62.5	67.3
Dynamic Packaging	—	—	—	—	—	—
Flight Only	1,999.9	2,660.8	4,856.1	5,581.2	6,585.8	7,804.2
Traditional Package						
Holiday	183.5	245.9	262.9	368.1	526.3	763.2
Other Online Transport						
Only	41.2	47.1	50.9	53.3	55.3	59.1
Other Travel Retail Online						
Sales	303.4	406.6	471.4	527.7	537.5	561.2
Travel Retail Online Sales	6,088.8	7,861.4	12,248.6	14,605.7	17,063.5	20,131.4

Source: Euromonitor

Notes: Others includes tourist attraction entrance fees, car rental hire, travel insurance and foreign currency purchases sold via exchange services which may be located within travel agents

Sources:

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