

ECONOMIC FOCUS

Treasury Division



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20 April 2011

Hong Kong Tourism Industry

Tourism industry is important

- Tourism is the fastest growing of the Four Pillar Industries in Hong Kong.
- The industry is relatively labour intensive and thus is an important driver for generating jobs. Between 2000 and 2009, 28.4% of the new jobs created were in the tourism sector.
- Many jobs in the tourism industry require relatively less skills, as reflected in the hourly wages. This is particularly important when demand for lower skilled workers is limited at present amidst Hong Kong's transformation into a more knowledge-based economy.

The Mainland factor is of increasing importance

- Hong Kong's tourism sector has benefited from mainland travelers' increasing demand for overseas leisure travel underpinned by their rapidly expanding income.
- The relaxation of Mainland's policy has accelerated the development.
- Mainland visitors now form the largest contingent of visitors to Hong Kong and are also among the biggest spenders.

Promising prospects in the near-term

- The number of visitors could increase by about 10% to 40 million in 2011.
- Mainland visitors are likely to remain the growth driver, underpinned by the simplified visa arrangement under the "Individual Visit Scheme" and rising travel demand from Mainlanders amidst strong income growth.

Challenges for sustainable growth in the longer term

- The World Tourism Organisation believes the region will be of growing importance to the world's tourism market, in particular with the Mainland's rising popularity as a destination and increasing importance of Mainlanders as a source of international tourists.
- Yet, over reliance on Mainland market poses challenges for sustainable long term growth, as Hong Kong's competitive advantages are narrowing amidst increasing competitions from other Mainland cities and neighbouring economies. For instance, Hainan has launched a pilot tax refund program for visitors and Shanghai is building its Disney Park. Singapore and Macau are aggressively developing their resort and business travel industries.
- Hong Kong needs to capture the rising opportunities and emerging industry trends to be able to attract more visitors and reinforce its position as a top tourist destination in Asia.



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Why Tourism Industry is Important

Tourist arrivals registered a strong rebound in 2010, surging 21.8% to a record of 36 million. Mainland visitors soared 27% to 22 million and tourists from other parts of the world rose 17%. In the first two months of this year, the total number of visitors rose 11.9%, driven largely by a 15.2% growth of visitors from the Mainland.

Exhibit 1

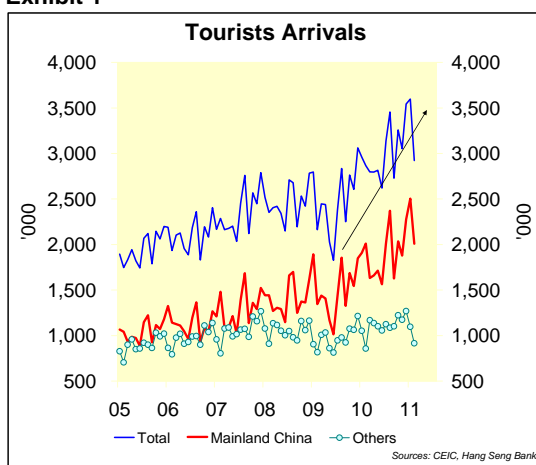
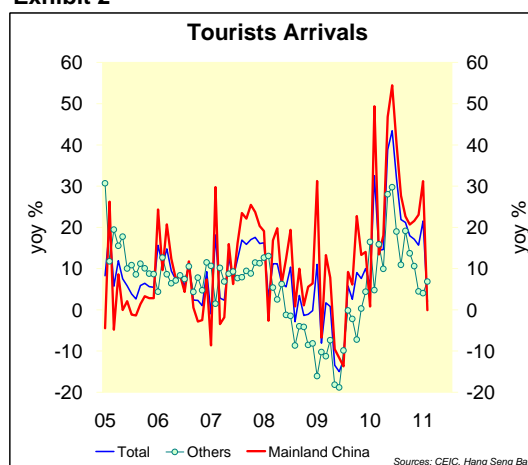


Exhibit 2



Tourism is one of the four pillar industries in Hong Kong along with financial services, trading and logistics, as well as professional services. The tourism sector's growth is the fastest of the four pillar industries. Between 2000 and 2009, tourism grew by an average annual rate of 5.7%, compared to a 2.2% growth of the overall economy.

Exhibit 3: Value Added of the Four Pillar industries

	2000		2009		00 to 09 growth yoy %
	(HKD bn)	% share	(HKD bn)	% share	
Financial services	150.8	11.9	235.6	15.2	5.1
Tourism	30.9	2.4	50.9	3.3	5.7
Trading & logistics	302.3	23.8	373.4	24.1	2.4
Professional services	137.0	10.8	202.8	13.1	4.5
Four Pillars	621.0	48.9	862.6	55.6	3.7
GDP at current factor cost	1,270.5	100.0	1,550.9	100.0	2.2

Sources: Census & Statistics Department, Hang Seng Bank

The valued added of the tourism industry amounted to HKD50.9 billion in 2009. While tourism accounts for only 3.3% of nominal GDP, it employs 5.5% of total workers in the territory. The higher percentage contribution to total employment relative to that of GDP indicates that the sector is relatively labour intensive. Between 2000 and 2009, 28.4% of all new jobs in Hong Kong created were in the tourism sector.



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Exhibit 4

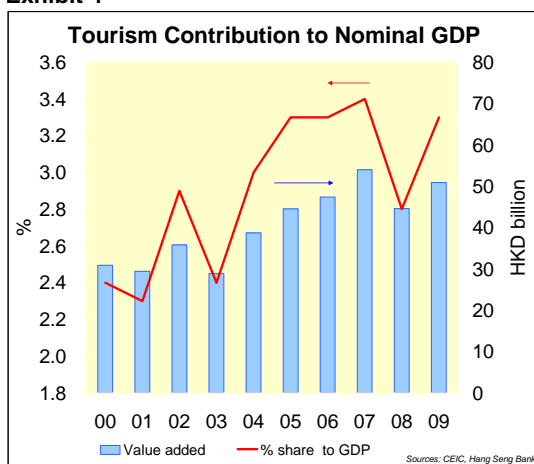


Exhibit 5

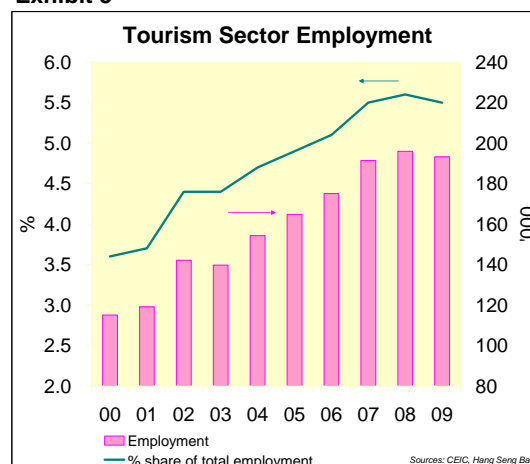


Exhibit 6: Employment of the Four Pillar industries

	2000		2009		Jobs Created
	Employment	% share	Employment	% share	
Financial services	168,400	5.2	212,000	6.1	43,600
Tourism	115,000	3.6	193,200	5.5	78,200
Trading & logistics	767,800	23.9	787,900	22.6	20,100
Professional services	358,300	11.2	457,800	13.1	99,500
Four Pillars	1,409,500	43.9	1,650,900	47.3	241,400
Total employment	3,211,600	100.0	3,486,900	100.0	275,300

Sources: Census & Statistics Department, Hang Seng Bank

Moreover, many jobs in the tourism industry require relatively less skills, as reflected in the hourly wages. This is particularly important when demand for lower-skilled jobs is limited at present amidst Hong Kong's transformation into a more knowledge-based economy.

Exhibit 7: Distribution of Hourly Wage Level By Industry (2Q, 2010)

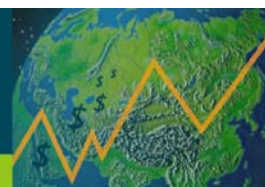
Industry	Median Hourly Wage (HKD)
Estate management, security & cleaning services	28.5
Restaurants	33.7
Miscellaneous activities	34.6
Retail trade	40.5
Travel agency, reservation & related activities	52.0
Wholesale	53.3
Manufacturing	53.6
Accommodation & other food services activities	54.1
Other activities not classified above	54.1
Land transport	60.8
All industry sections	59.5

Sources: Census & Statistics Department, Hang Seng Bank



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Why Mainland Visitors are Important

The Largest Sources of Tourists

Mainland travelers have become the most important group of visitors to Hong Kong. They form the largest contingent and are vital to the retail industry.

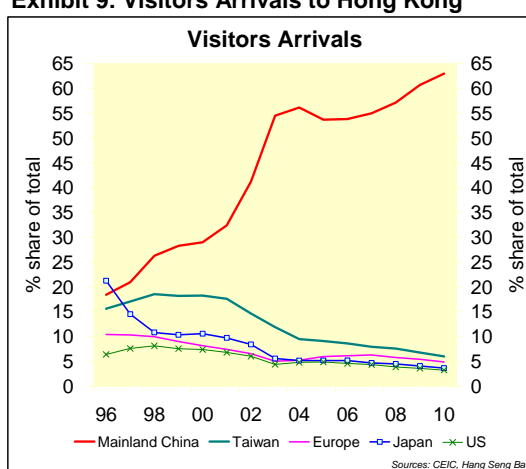
A total of 22.7 million Mainland visitors arrived in Hong Kong last year, accounting for 63.0% of Hong Kong's total tourist arrivals. Its relative share in 1996 was only 18.4%.

Exhibit 8: Visitors Arrivals to Hong Kong

	1996	2010
Mainland China	18.4%	63.0%
Taiwan	15.6%	6.1%
Europe	10.4%	4.9%
Japan	21.3%	3.7%
US	6.4%	3.3%
Others	27.9%	19.2%
Total	100.0%	100.0%

Sources: CEIC, Hang Seng Bank

Exhibit 9: Visitors Arrivals to Hong Kong



Hong Kong's tourism sector has benefited from mainland travelers' increasing demand for overseas leisure travel underpinned by their rapidly expanding income. The relaxation of Mainland's travel policy has accelerated the development -- the Individual Visit Scheme (IVS), allowing year-round multiple entry visa arrangement for Mainland visitors in selected cities, is a key.

The IVS scheme was first introduced in four Guangdong cities (Dongguan, Zhongshan, Jiangman and Foshan) on 28 July 2003 as a liberalization measure under the Closer Economic Partnership Agreement. The coverage of the scheme has been expanded to include 49 Mainland cities and about 270 million Mainland residents.

The number of Mainland visitors soared to 22.7million in 2010, from 8.5 million in 2003 after the introduction of IVS Scheme. In 2010, 62.8% of Mainland tourists, or 39.5% of total visitors, visited Hong Kong in their individual capacity.

The Big Spenders

Mainland visitors are also among the biggest spenders. In 2010, per capita spending of Mainland visitor amounted to HKD7,453, 10.8% higher than the average.



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Exhibit 10: Visitor Spending in Hong Kong

	Same day Visitors	Overnight Visitors		
	Per capita spending (HKD)	Per capita spending (HKD)	Per diem spending (HKD)	Length of stay (days)
The Americas	329	6,476	1,646	3.9
USA	---	6,274	1,671	3.8
Europe, Africa & Middle East	560	6,674	1,722	3.9
Europe	---	6,526	1,673	3.9
South Africa	---	7,559	2,316	3.3
Middle East	---	7,645	2,213	3.5
Australia, NZ & South Pacific	573	7,050	1,866	3.8
Australia	---	7,356	1,924	3.8
North Asia	377	4,976	2,225	2.2
Japan	---	5,213	2,381	2.2
South & South East Asia	543	5,251	1,616	3.2
Southeast Asia	---	5,305	1,667	3.2
Singapore	---	5,840	1,880	3.1
India	---	4,921	1,417	3.5
Taiwan	610	5,197	2,081	2.5
Macau	2,299	3,824	1,764	2.2
Mainland China	2,356	7,453	1,928	3.9
Total	1,846	6,728	1,869	3.6

Sources: Hong Kong Tourism Board, Hang Seng Bank

Tourist spending rose 36.7% to about HKD165 billion in 2010, driven largely by the HKD113 billion spending by Mainland visitors, which accounted for 69% of the total visitors spending in 2010.

Exhibit 11

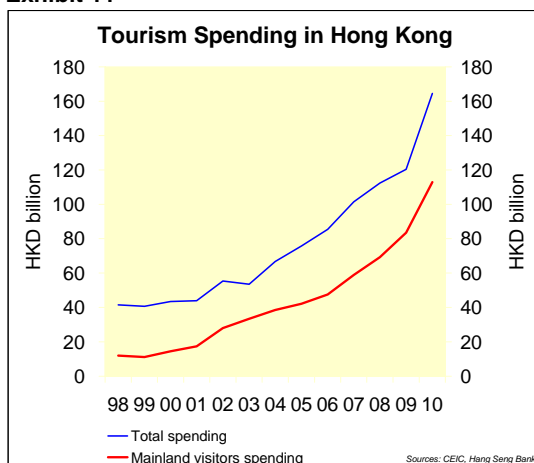
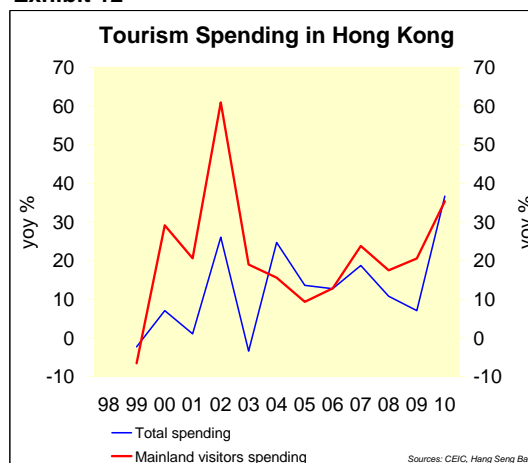


Exhibit 12



Overall tourist spending has skewed towards shopping, as Mainland visitors prefer to shop rather than to stay at luxury hotels.



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Exhibit 13: : Visitor Spending in Hong Kong

% share of total	1980	1990	2000	2010
Shopping	59.3	51.0	49.9	66.6
Hotel	23.2	30.2	26.7	15.3
Meals	9.9	10.8	13.9	9.8
Entertainment	3.2	2.2	9.6	2.3
Tours	2.8	2.1	2.2	0.3
Others	1.5	3.7	5.7	5.6
Total	100.0	100.0	100.0	100.0

Sources: Hong Kong Tourism Board, Hang Seng Bank

Strong Growth Sustainable in the Near-Term

The number of visitors could increase by about 10% to about 40 million in 2011. Mainland visitors are likely to remain the growth driver, underpinned by the simplified visa arrangement under the “Individual Visit Scheme” and rising travel demand from Mainlanders amidst strong income growth.

For instance, 5 million Shenzhen residents have visited Hong Kong since the launch of multi-entry visa arrangement in April 2010 and the scope was extended to cover non-residents who live in Shenzhen since December 2010.

In 2010, 57.39 million Mainland visitors made overseas trips, rising 20.4%, according to data from China National Tourism Administration

Opportunities and Challenges in the Longer-Term

Rising Opportunities from the Region

In 2010, the world's international tourist arrivals rose 6.7% to 935 million, tourists visiting Asia and Pacific took the lead to grow 13% to a record of 204 million, accounting for 21.8% of world's total.

The region's tourism is likely to be fast growing in the next few years with rising level of income. The World Tourism Organisation believes the region will be of growing importance to the world's tourism market with its share rising further to 25.4% by 2020.

Exhibit 14: International Tourist Arrivals

	1995		2010		2020F		1995-2020 growth (%)
	million	% share	million	% share	million	% share	
Africa	20	3.6	49	5.2	77	5.0	5.5
Americas	109	19.3	150	16.0	282	18.1	3.9
Asia/Pacific	81	14.4	204	21.8	397	25.4	6.5
Europe	338	59.6	473	50.6	717	45.9	3.0
Middle East	12	2.2	60	6.4	69	4.4	7.1
World	565	100.0	935	100.0	1,561	100.0	4.1
Intraregional	464	82.1	--	--	1,183	75.8	3.8
Long-haul	101	17.9	--	--	376	24.2	5.4

Sources: Hang Seng Bank, World Tourism Organisation



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Rising Popularity of the Mainland as a Destination

The Mainland is increasingly popular as a destination for travel. Hong Kong could work with cities in the Pearl River Delta to form part of multi-destination tours to attract long-haul visitors.

Exhibit 15: International Tourist Arrivals

	1990		2009		1990-2009 (growth %)
	Million	Rank	Million	Rank	
World	439	--	877	--	9.0
France	53	1	74	1	4.4
US	39	2	55	2	4.2
Spain	34	3	53	3	5.5
Mainland China	11	9	51	4	21.8
Italy	27	4	43	5	6.2
UK	18	5	28	6	5.7
Turkey	8	18	26	7	15.8
Germany	17	7	24	8	4.5
Malaysia	7	14	24	9	15.6
Mexico	17	6	22	10	2.8

Sources: Hang Seng Bank, World Tourism Organisation,

Increasing Travel Demand from Mainlanders

While the Mainland is a place of rising popularity, Mainland visitors are also becoming a growing important source of international tourists. While Mainland visitors formed the largest contingent of visitors to Hong Kong, China was also the number one source of international tourist arrivals in Australia in February 2011, the first time it has topped the monthly arrivals, according to Australia's Tourism and Transport Forum.

Mainland China is one of the world's fastest growing outbound market. In 1995, the World Tourism International Organisation predicted that Mainland would generate 100 million arrivals worldwide by 2020, making it the fourth largest market in world. The Mainland may reach that target well before 2020.

Exhibit 16: Visitor Spending in Hong Kong

2010	Value (HKD bn)	Shopping (%)	Hotel (%)	Meals (%)	Entertainment (%)	Tours (%)	Others (%)
Mainland China	87.0	73.6	10.6	9.2	2.0	0.3	4.3
Taiwan	3.8	54.0	22.0	13.3	3.0	0.1	7.6
Europe	8.6	28.8	42.1	16.7	4.6	0.4	7.5
Japan	4.3	42.0	31.4	16.7	.2	0.6	6.1
US	5.3	24.0	48.2	15.8	3.5	0.4	8.0
Others	55	---	---	---	---	---	---
Total	164	66.6	15.3	9.8	2.3	0.3	5.6

Sources: Hang Seng Bank, World Tourism Organisation



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Growing Competition

Hong Kong is likely to remain an attractive destination for Mainland visitors as the city's shops offer the latest and the newest varieties of products at attractive prices, due to Hong Kong's low tax policy. But Hong Kong's competitive edge is narrowing.

Exhibit 17

Shopping Paradise	<ul style="list-style-type: none"> • Hainan launched a pilot shopping tax refund program for 18 types of goods including clothes, jewelry and watches for tourist leaving Hainan Province, including mainland visitors effective on 20 April 2011. • Non-residents of Hainan Province can enjoy shopping tax refunds two times per year, each time capped at a shopping value of a maximum of RMB 5,000 and there are quota for each types of goods.
Entertainment	<ul style="list-style-type: none"> • Shanghai is building a Disney Park
Business travel/ others	<ul style="list-style-type: none"> • Singapore <ul style="list-style-type: none"> – In 2003, began to promote medical tourism – In 2005, deregulated casinos and set a goal of boosting the annual number of tourists to 17 million and tourism earnings to S\$30 billion by 2015 – In 2010, opening of two huge casino resorts – In 2010, tourism arrival was 11.6 million and tourism receipts was S\$18.8 million • Macau <ul style="list-style-type: none"> – In 2002, liberalized the gambling industry and successfully turned the sector into casino and entertainment resort business – It now has 31 casino complexes under six key operators – The government aims to promote more business tourism

Sources: Hang Seng Bank, Macau Government Tourist Office, Singapore Tourism Board

Longer-term Strategies

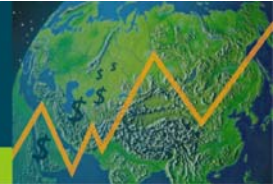
To foster growth in an increasingly competitive international marketplace, Hong Kong need to capture the rising opportunities and emerging industry trends, providing new and exciting accommodation, attractions and experiences, which will also help to cater for the increasingly sophisticated demand of international travelers.

The Hong Kong government has probably recognized such needs with the tourism policy seemingly moving toward this direction. For instance, over the past years, worldwide demand for cruise tourism has increased sharply, prompting more countries to include cruise as a key product for their tourism development.



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Cruise travel related policies include

- Kai Tak cruise terminal to handle worlds' largest cruise ships
 - First berth scheduled to be ready by 2013
 - Terminal facilities to be completed by 2015
- The Mainland would allow cruise tours from Mainland ports to stop in Hong Kong en route to Taiwan

Hong Kong also tries to ride on its excellent standard of its medical services to grow medical tourism and related policy supports:

- The government offered four sites for private hospital development, at Wong Chuk Hang, Tseung Kwan O, Tai Po and Lantau, allowing expanded capacity for developing medical tourism

Summary

Tourism is the fastest growing sector of Hong Kong's Four Pillars Industries and the Mainland factor is of increasing importance to drive growth.

Nevertheless, over reliance on Mainland visitors poses challenges for sustainable long term growth, as Hong Kong's competitive advantages are narrowing versus other Mainland cities and neighbouring economies.

Hong Kong needs to capture the rising opportunities and new industry trends to be able to stay afloat in an increasingly competitive international tourism marketplace.



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