

quarterly market report

CHINA

January - March 2008

Market Highlights

# of outbound visitors:	40.95 million in 2007
% change from previous quarter:	18.63% up from 2006
# of visitors to Canada:	155,753 in 2007
% change from previous quarter:	5.6% up from 2006

Comments / Other information:

Visitors to Canada from China in January 2008 showed an increase of 15% over the same period in 2007. China National Tourism Administration are forecasting that the number of outbound travelers from China is expected to increase 10 percent to 45 million in 2008.

Air Capacity

Overall seat capacity on China-Canada route forecast to reduce according to preliminary information for Summer 2008. Per feedbacks from Chinese travel agencies, no group seats and fare offered to trade in Summer period.

New direct flights increased between US and China, in 2008, new routes from San Francisco to Guangzhou on United Airlines, and Delta Airlines from Atlanta to Shanghai. In 2009, more direct flights between Chicago and Beijing (AA), Philadelphia and Beijing (US), Detroit and Shanghai (NW) and New York to Shanghai (CO)

Air China Limited and Shanghai Airlines formally joined Star Alliance in Dec 2007 and Terminal 3 of Beijing Airport opens in March 2008.

Qantas will commence two services per week between Melbourne and

Shanghai from March 2008, and three flights per week from 01 Apr 2008 between Melbourne and Hong Kong.

Lufthansa Airlines will have 5 flights per week between Frankfurt and Nanjing from 01 Apr 2008 at service of Airbus 340-300

Economic / Political Environment	
GDP growth:	<p>China's economy expanded at its fastest pace in 13 years in 2007 at 11.4%. The country's GDP totaled USD 3.42 trillion for the year, while total government revenue reached USD712 billion, a 171% rise in 5 years. China's foreign exchange reserves topped USD1.5 trillion, China is the 3rd largest trading nation in the world with \$2.17 trillion of imports and exports</p> <p>China's economy grew by 65.5% over the past five years. Currently 4th largest economy after USA, Japan and Germany - widely predicted to soon overtake Germany</p>
forecasted economic growth:	China's GDP is projected to grow by 10.2% to reach USD3.88 trillion in 2008
unemployment rate:	Annual urban unemployment rate 3.1%, down by 0.6%
inflation:	See CPI
consumer price index:	China 2007 CPI was 4.8%, the highest level in more than a decade and surged to 7.1% in Jan 2008. The Central bank's inflation target is 3% , Infaltion over previous years- 1.2% in 2003, 3.9% in 2004, 1.8% in 2005 and 1.5% in 2006
exchange rate:	<p>Strengthening Canadian dollar pushing exchange rates to new high</p> <p>2006 1CAD = RMB 7.16. Dec 2007 – 1CAD = 7.45</p>
net national disposable	For 2007 per-capita disposable income was RMB13,786 (CAD1914) in urban areas, up 17.2%, or 12.2% in real

income: terms. Per-capita income in rural areas was RMB 4140 (CAD575) up 15.4% or 9.5% in real terms. The growing gap between rich and poor is of continuing concern to the Chinese Government. Retail sales rose 16.8% in 2007 compare to previous year. It is interesting that retail sales in December accelerated to 20.2% over the same month in 2006.

Comments / Other information

Emerging Tourism Trends

Chinese tourists' outbound travel destinations have expanded from 20 in 2002 to the current 134 countries and regions. The United States is the latest to open its door to China in Dec 11 2007. The first group of Chinese tourists are expected to make trips there this June.

China is set to become the second biggest tourist market in the world. According to the World Travel and Tourism Council (WTTC), the value of China's tourism industry is set to grow at a rate of 9.6 per cent a year over the next decade. If this happened then China would become the world's second largest tourism destination by 2017, the WTTC said. Currently, the country lies in fourth place, behind the United States, Japan and Germany. In 2007 China's travel and tourism industry contributed 12.2 per cent of the country's GDP. A majority of China's outbound market (around 36.34 million) traveled to destinations within Asia, representing a 20.1 percent increase from 2006. Just over 1 million tourists traveled to the US, which was 9.74 percent higher than the previous year. Europe on the other hand, received 7.43 percent more tourists than 2006 at 2.04 million. Meanwhile, countries in Oceania received 0.50 million tourists, 11.46 percent higher than the previous year. Chinese tourists traveling to Africa tipped the 0.26 million mark, showing a whopping growth of 36.15 percent.

Market Development Activities

Without ADS, market development activities are restricted and are reported under CTC activities below

CTC Activities

Trade Development

Trade Fam tour activity in 1st quarter

Fun in the Snow to BC and Alberta - 7 travel agencies specialized on ski and winter tours joined the trip, new ski resorts and itineraries are focused

WTF March 27 - March 30

2 days trade show and 2 days consumer show in Shanghai. 4 key Provincial partners and their key DMOs and RTOs joined the show with CTC. Perfect Family Campaign focused on FIT products will be soft launched on 27 March, with the cooperation of www.sohu.com.

A professional ski group organized by UTS went to BC and Alberta in Feb 08. Travel Channel followed the group in Alberta for program shooting. CYTS, ANZ Holidays and Hangzhou OTC all had 2 to 3 winter groups during Spring Festival each to Western Canada focused on ski and sightseeing.

USA ADS is signed and tourist groups are visiting US in June 2008, CTC is working closely with key travel agencies for packages from US to Canada. We are encouraging tour operators to extend the group itineraries to Vancouver and Toronto- although the CNTA will not permit advertising and promotion of USA/Canada tours.

CTC has advertisements on CTC services to trade and consumer in key travel agencies' product brochures

CTC is selecting one key agency in both Beijing and Shanghai for themed Canada product shops. Travel agencies branch offices will be changed to CTC brand colors and images of Canada.

VIP agent dinner arranged on CTC in Shanghai during WTF period. 30 agents of GM level attended the dinner.

VIP agent dinner in cooperation with Canadian Embassy for James Moor's trip to China. 20 GM and Presidents of key agencies in Beijing and Tianjin joined the dinner in Beijing

Rose Wedding project - CYTS Shanghai will have newly married couples go to Ontario for a wedding ceremony accompanied by media. This is a project in cooperation with OTMPC and DMOs in Ontario.

Finalize programs for tourism week in BCCP in June and Showcase Canada in Macau. Invitations aimed at 85 sellers have been sent out; on line registration for Showcase Canada has been started.

Preparations for RVC 2008, 13 Chinese buyers have finished online registration and requested appointments.

Had separate talks with key MICE agencies for inviting their corporate clients to Canada for fam tours, to increase MICE traffic

Consumer Development

Without ADS, our ability to talk to consumers is restricted. Perfect Family launch will allow us to promote Canada in the most popular website in China. A page focused on Canada will be ready and online from March 27 on www.sohu.com. We keep exposure and awareness of Canada through press releases and media reports from fam tours.

Rose Wedding project in Shanghai allows a 4 month promotion and exposure about Canada on their website, radio, key newspapers and TV in Yangtze River Delta area.

Publication of PURE Canada in Chinese at 100,000 copies for BCCP.

MOOK May edition is to be on sale in 20 major cities in China through newsstands, book stores, chain coffee shops, convenience stores and supermarkets. MOOK is a leading tourism and lifestyle magazine in China and the entire issue will be devoted to Canada

Media

In 2007, media coverage is over 250 pages with an estimated ad value of USD2,100,000.

Media Fam tour activity in 1st quarter

Travel Channel Fun in the Snow in BC - 3 crew members visited BC
2010 Press Trip to BC - 4 media focused on sports and Winter Olympic Games visited BC
Olympic Fam to Calgary, Alberta - 2 journalists
Winter Outdoor fam to Alberta - 3 journalists focused on activities
Travel Channel crew to Northern Alberta for Aurora - 3 crew members
Quebec fam tour for Business Travel Magazine - 2 journalists visited Montreal and Quebec City
Perfect Family press conference on March 27, over 40 media will attend, and private interviews for CTC, one hour press tour for CTC booth in WTF.
Two type media gift boxes for male and female journalists are to be produced. 5 pure Canadian products each with stories of provinces and products are to be presented.
Public Relations
Public relations activity is coordinated for CTC, TBC, TAB, OTMPC through Ruder Finn with regular press releases, interviews, reports, and media relations.

Competitive Environment

UK cuts visa price for Chinese tourists. It has been reduced from GBP63 (US\$123.60) to GBP44 (RMB660 or US\$91.70) for a pilot period of three months from March 3, 2008.

First ADS groups to USA will be in June 2008.

Australia, Malaysia are focusing more on getting MICE groups from China

Future Outlook

Canadian Embassy had an informal unofficial meeting with CNTA in March after James Moore's visit in January 08, and this was the first meeting agreed to by CNTA. CNTA advises that they are not allowed to have talks about ADS with Canada and there would be no significant change in near future. Though tourist



groups to US may start in June, travel agencies will not be allowed to have advertisements for packages of US plus Canada. We are talking with CNTA to promote 2010 Winter Olympic Games without ADS regulations, and the proposal has not been confirmed by CNTA.

CTC is talking with one pharmaceutical company for a potential MICE group of 2,200 to go to BC in Jan 2009.