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PRESS RELEASE

China temporarily allows foreign travel operators to set up outbound travel agencies

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UK, France, Italy, Swiss, and Australia or also tourist destinations like Dubai, Nepal, Ireland, Czech Republic, become the most favorable countries for Chinese people who are fond of travel abroad in leisure time. The Annual Report of China Outbound Tourism Development 2009-2010 issued by the China Tourism Academy estimated that 54 million travelers would travel abroad this year, increasing from 47 million in 2009. Such soaring number attracts international travel companies to seek for more opportunities to expand their business in China.

In 2009, Chinese government removed its restrictions and also lowered the thresholds for foreign-invested travel agencies. According to the new Regulations for Travel Agencies issued in 2009 by the State Council, foreign travel companies can establish travel agencies in China independently (wholly foreign-owned enterprise) or in cooperation with a Chinese partner(s) (Sino-foreign equity joint venture or cooperative joint venture). The requirement for minimum registered capital is only 300,000 RMB, compared to 4 million RMB stipulated in the former rules. Similar to the conditions as stipulated in the commitment of China to WTO, foreign-invested travel agencies can only do inbound and domestic tourism business but are not allowed to engage in outbound tourism business for Chinese people, which is the sector that foreign travel companies would like to operate.

To overcome this restriction, some foreign tourism company has thought over different alternatives, such as indirect shareholding structure by controlling a Chinese tourism company, so as to enable them to start to develop outbound tourism business and expand market share. However, such arrangement is complicate and controversial.

Due to the market needs to further open up outbound tourism business, the PRC National Tourism Administration (“NTA”) issued the Tentative Measures for Supervising Pilot Operation of Outbound Tourism Business by Sino-foreign Equity Joint Venture Travel Agencies (“Tentative Measures”) on 29 August 2010. The said Measures are considered as a break through which lifts, to a certain extent, the barrier of outbound tourism.

According to the Tentative Measures, the tourism agencies which may apply with the NTA for the pilot operation of outbound tourism business shall meet the following conditions:

- the travel agencies must take the form of a Sino-foreign equity joint venture;
 - the travel agencies must have obtained the travel agency business licence for at least two years;
- and
- the travel agencies have not been subject to any administrative punishment more serious than fines due to the impairment of the legitimate rights and interests of tourists.

The NTA required that the application should be submitted before 30 September 2010, which means that this dramatic door will be soon closed as from 1 October 2010 and the date of re-opening is still a mystery.

Those foreign-invested travel agencies permitted to carry out the pilot operation should provide business report to the NTA every half a year, including:

- (1) the total number of tour groups and people organized for outbound tourism;
- (2) turnover for outbound tourism business; and
- (3) the experience and results of the operation of outbound tourism.

The total number of foreign-invested travel agency permitted to carry out the pilot operation is under strict control by the NTA and may be adjusted based on its assessment of the results of the pilot operation.

Although only limited number of foreign-invested travel agencies will be able to carry out outbound tourism business at this stage due to the extreme short period of time open for submission of documents for approval, this sector will for sure be further open up to foreign investors.

Given the importance of the Chinese market, it is worth keeping a good presence in China as soon as possible and getting well prepared for future development. It is interesting to take note of the following:

- (1) Considering the spirit of the Chinese Government's outbound tourism policies, the prior existence and operation on the Chinese market will be, without doubt, a prerequisite condition for those who wish to conduct outbound tourism business;
- (2) The investment structure shall be in a form of a foreign invested joint venture, which implies that:
 - those agencies which have already been established in 2009 in the form of a wholly invested company has to re-consider their strategy on the Chinese market, especially whether or not to

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immediately restructure themselves in order to convert them into a joint venture;

those agencies which have not yet invested in China may probably choose a joint venture structure, through greenfield investment or acquisition of a local Chinese tourism agency which only conducts inbound and domestic tourism business, and the acquisition may be a short-cut, since the target company must have already got two years experience, as required by the Tentative Measures.

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