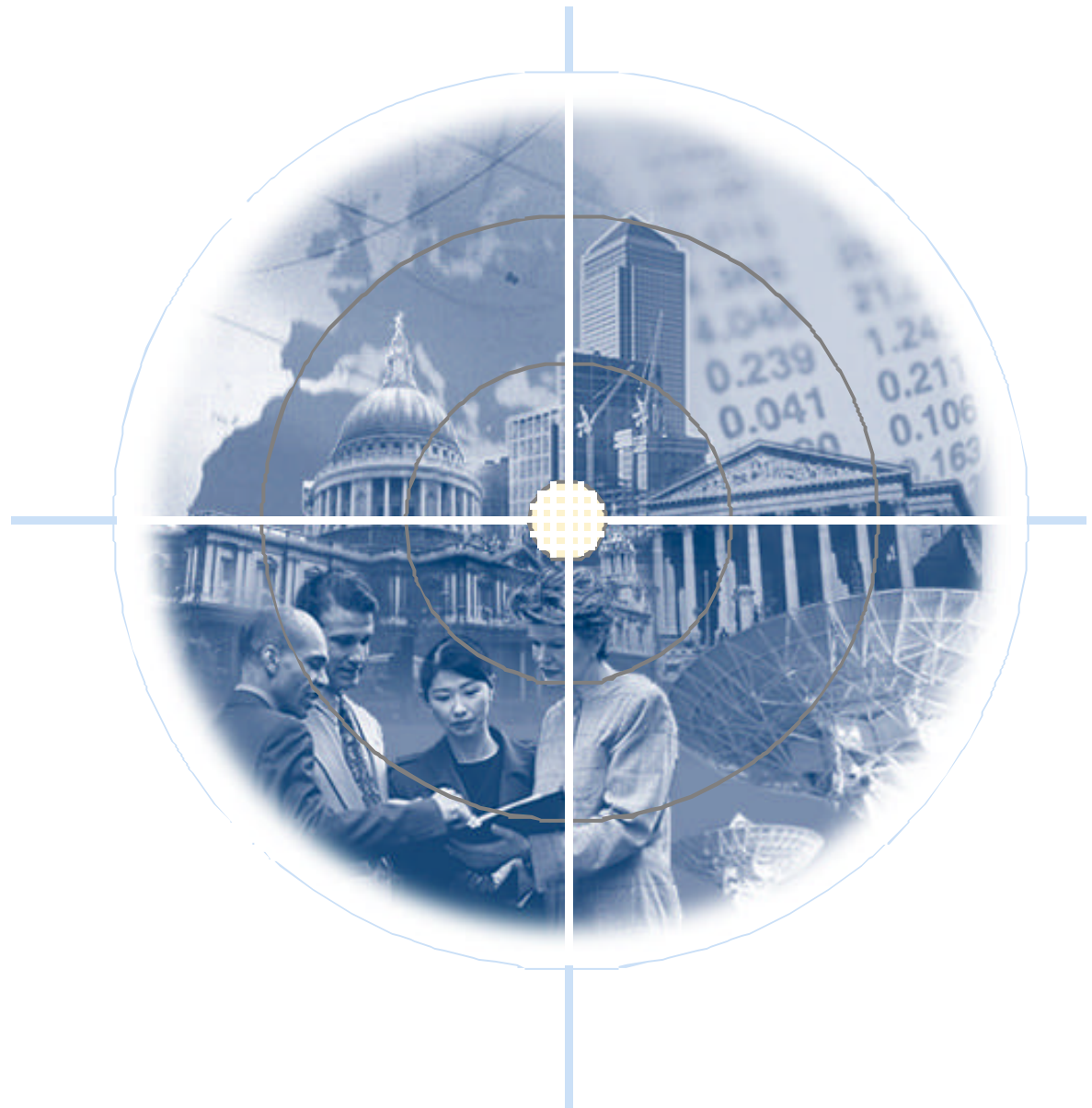


Proposed smoking ban: impacts on Hong Kong hospitality businesses

Hong Kong Catering Industry Association

September 2001

ABCD



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Executive summary

Study scope

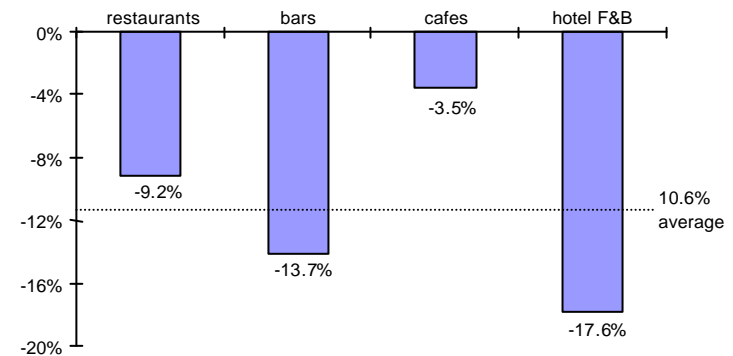
- The Hong Kong SAR Government has proposed expanding statutory non-smoking areas through a smoking ban covering all restaurants, bars and cafes in Hong Kong. This includes food and beverage (F&B) outlets in hotels
- The Hong Kong Catering Industry Association commissioned KPMG to research the impacts of such ban on the hospitality industry
- This study explores the financial impact of a smoking ban on restaurants, bars, cafes and hotel F&B outlets in Hong Kong. It is not an economic impact assessment, and as such does not consider the economic resource costs or benefits of introducing a smoking ban

Our approach

- KPMG surveyed 819 customers in 145 drinking and dining establishments in a variety of locations throughout Hong Kong. The random sample included smokers and non-smokers
- Customers were asked about their current patronage and spending patterns, and to identify how these would change following a smoking ban
- KPMG also undertook a review of trade impact assessments conducted before and after a smoking ban in selected comparator locations

Effects on business

- On the basis of our survey, we find that receipts would fall by around 10.6% in restaurants, bars, cafes and hotel F&B outlets, should smoking be banned
- The greatest falls in revenue would occur in F&B outlets of hotels (-17.6%), while bars would see a reduction of 13.7%. Expenditure in restaurants would fall by 9.2%, and cafes would see a less significant fall in revenue (-3.5%)
- The scale of these impacts is expected to vary, not only between different geographical locations in Hong Kong, but also between sub-categories within each type of establishment



Executive summary (Con't)

Expenditure and employment effects	<ul style="list-style-type: none">■ We calculate that a 10.6% reduction in restaurants, bars, cafes and hotel F&B outlet receipts is equal to a HK\$7.9 billion reduction in annual customer expenditure. This is equivalent to roughly 0.6% of Hong Kong's Gross Domestic Product (GDP)■ Should sector employment be reduced to a similar extent as receipts (i.e. -10.6%) this would lead to a loss of 21,500 jobs in the hospitality trade – equivalent to 2 jobs losses per restaurant, bar, cafe and hotel in Hong Kong
Other key findings	<ul style="list-style-type: none">■ We have noted a number of other key findings from our customer survey<ul style="list-style-type: none">- On average, customers reported spending roughly HK\$1,400 each per week on dining and drinking out- These customers will spend approximately HK\$150 less per week each, should smoking be banned- On average, around 30% of current customers smoke in restaurants, bars, cafes, and F&B outlets in hotels- Smokers tend to spend more than non-smoking customers when dining and drinking out
International experience	<ul style="list-style-type: none">■ We conducted an overview of trade impacts that have been reported in the United States, Canada, the UK and Australia, related to restrictions on smoking in restaurants, bars, cafes or hotels■ We found a variety of studies, reporting a broad spectrum of findings■ One of the key determinants influencing the scale of impact on the hospitality trade following a smoking ban appears to be the robustness of legislation. Differential treatment between different types of establishments results in more severe trade impacts being reported in establishments that are subject to smoking restrictions, compared to those that are not■ The results of other impact studies that we have reviewed are often unique to each location, and consequently it is problematic to draw direct lessons for Hong Kong

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The Government has proposed that smoking be banned in all restaurants, bars and cafes in Hong Kong

Current regulations

- The Smoking (Public Health) Ordinance requires that large restaurants (over 200 seats) set aside one third of their dining area as a non-smoking zone
- Currently, no restrictions are placed on smoking in restaurants with fewer than 200 seats, or on other types of establishments such as cafes or bars

Proposed ban

- In May 2001, the Government tabled proposals to strengthen tobacco control measures in Hong Kong by amending the Smoking (Public Health) Ordinance. The proposals include the expansion of statutory non-smoking areas. Key features of the proposal (as they relate to the hospitality trade) are:
 - A proposed ban on smoking in all restaurants, regardless of their size and seating capacity. This ban will also cover bars, cafes and karaokes
 - In the longer term, this ban would be extended to nightclubs
- The Government announced a three month public consultation period ending on 15 September 2001 to gather views on the proposed ban

Research techniques included a face-to-face survey of restaurant patrons and a review of international experience

Survey of restaurant patrons

- KPMG surveyed patrons of restaurants, bars, cafes and hotel food & beverage (F&B) outlets, to identify:
 - their current patronage and spending patterns
 - how these patterns might change if a complete smoking ban were imposed in Hong Kong restaurants
- A total of 819 restaurant patrons in 145 establishments were surveyed in July and August 2001
- The restaurants and interviews were randomly selected and reflected a representative sample of in terms of type of restaurant, location, time of day and day of the week
- Interviews were conducted with both smoking and non-smoking patrons and included smoke-free and smoking-permitted establishments
- All interviews were conducted by trained KPMG researchers using a standardised interview script and questionnaire

International review

- KPMG conducted a literature review of international studies on the trade impacts of smoking bans implemented overseas
- The review included several locations where bans had been recently implemented: California, New York, Vancouver, Australia, and the United Kingdom

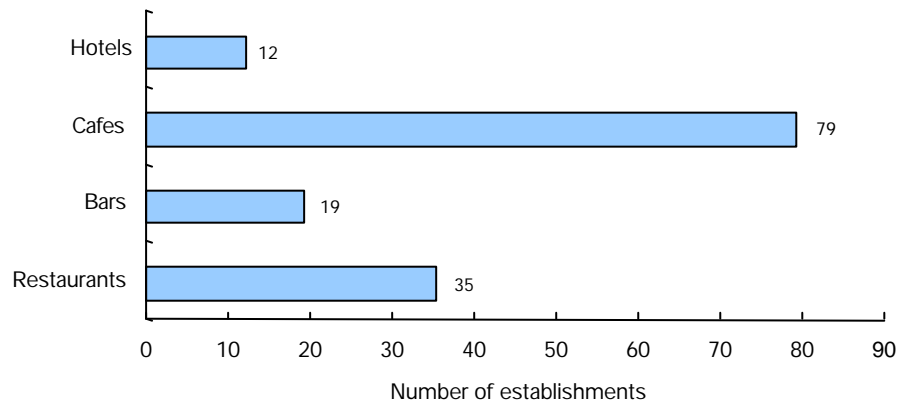
KPMG also consulted with operators and managers of restaurants to better understand the likely impacts of a smoking ban on individual businesses

We have used a number of definitions and terms to conduct the survey and in this report

TERM	DEFINITION	EXAMPLE
Restaurant	A formal place to eat a full meal, always offering table service	Western restaurants, formal Chinese restaurants
Bar	An establishment whose primary purpose is to provide alcohol and entertainment, but may also serve light refreshments	Pub, karaoke, nightclub
Café	A small, informal, often inexpensive place to eat, selling light meals and refreshments	Fast food chains, cafeterias, tea house, coffee shop
Visitor	A person who indicated that they are a visitor in Hong Kong temporarily	-
Hong Kong resident	A person who indicated that they are resident in Hong Kong	-
Smoker	A person who indicated that they usually smoke in a restaurant, bar, or café	-
Non-smoker	A person who indicated that they do not usually smoke in a restaurant, bar or café	-

The survey included patrons at 145 licensed establishments across Hong Kong, including restaurants, bars, cafes and hotels

Type of establishments where surveys were conducted



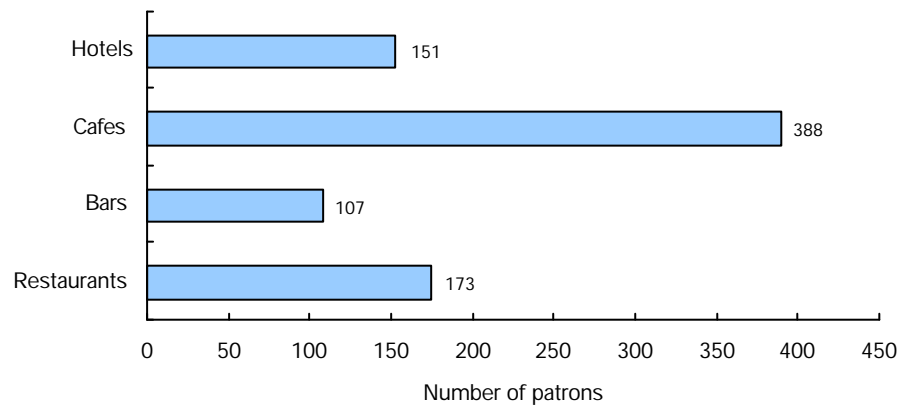
Source: KPMG

- From the master list of licensed restaurant premises ⁽¹⁾ 145 establishments were selected through random sampling techniques. 819 surveys were conducted with
 - 173 patrons in 35 restaurants,
 - 107 patrons in 19 bars
 - 388 patrons in 79 cafes
 - 151 patrons in 12 hotels
- Within hotels, one food and beverage (F&B) outlet was selected at random from the total number of F&B outlets within the hotel, and patrons within that establishment were surveyed
- The 145 establishments included both smoke free and smoking-permitted establishments

Source: (1) Food and Environmental Hygiene Department materials as of 21 May 2001

Around 820 interviews were conducted with patrons in the selected establishments to collect information on their dining and spending patterns

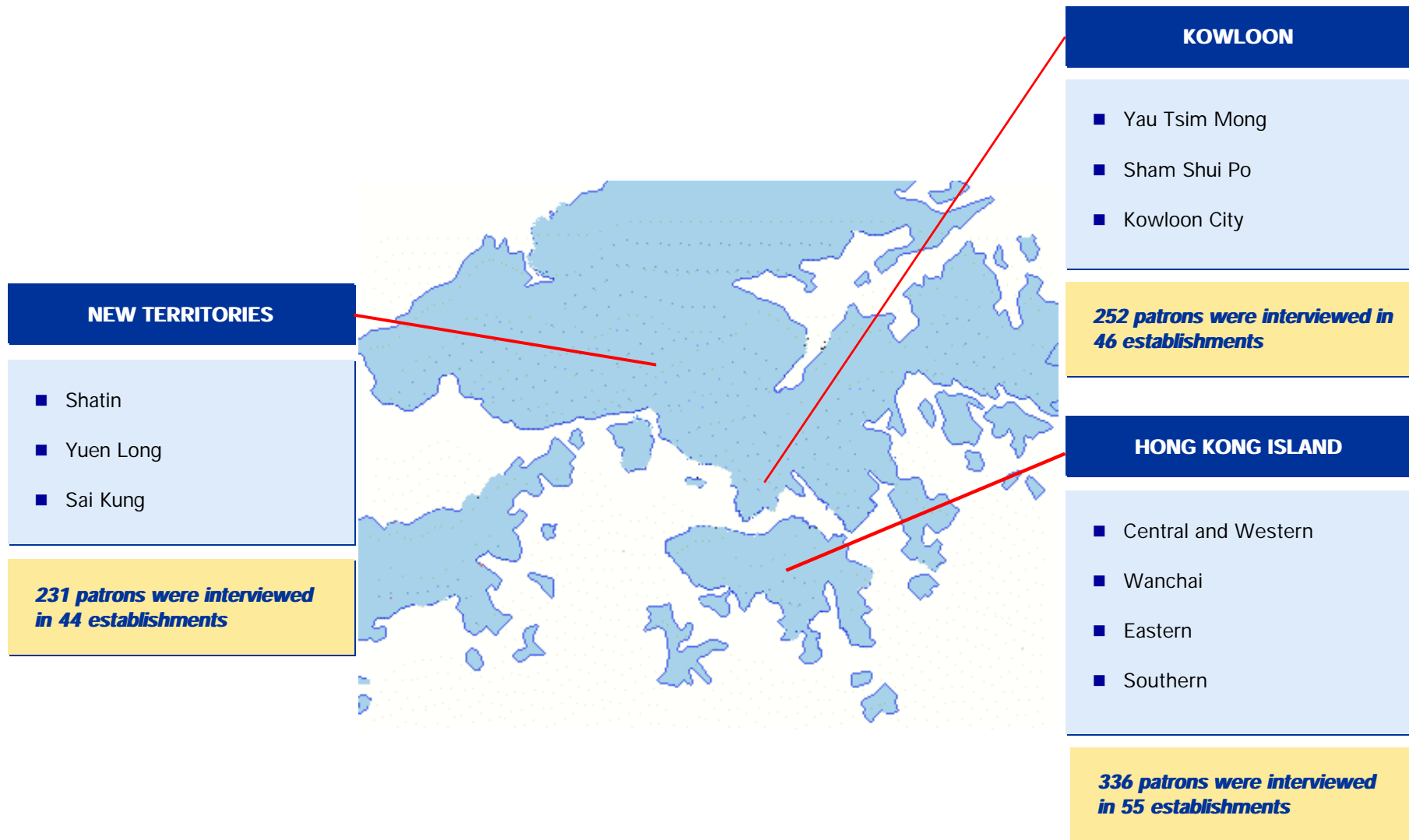
Profile of restaurant patrons surveyed



Source: KPMG

- Within each restaurant, patrons were randomly selected to participate in a standardised interview of 5 minutes in duration
- A total of 819 interviews were completed
- Due to its entirely random nature, the respondents represent a random cross-section of the dining public
- The survey group included smokers, non-smokers, visitors and residents:
 - 31% identified themselves as smokers
 - 69% identified themselves as non-smokers
 - 6% were visitors to Hong Kong
 - 94% were residents

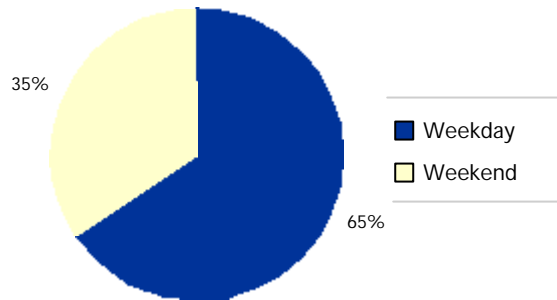
The surveys were conducted with restaurant patrons in 10 Districts across Hong Kong



Our study takes into account differences in dining patterns in different parts of the city

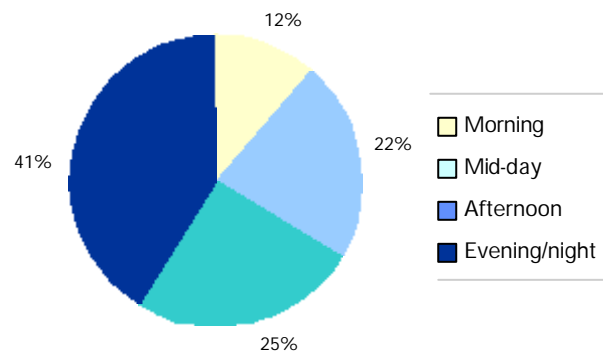
In conducting the surveys, we also sought to capture variations in patrons and dining patterns due to timing effects

Surveys conducted - weekday / weekend



Source: KPMG

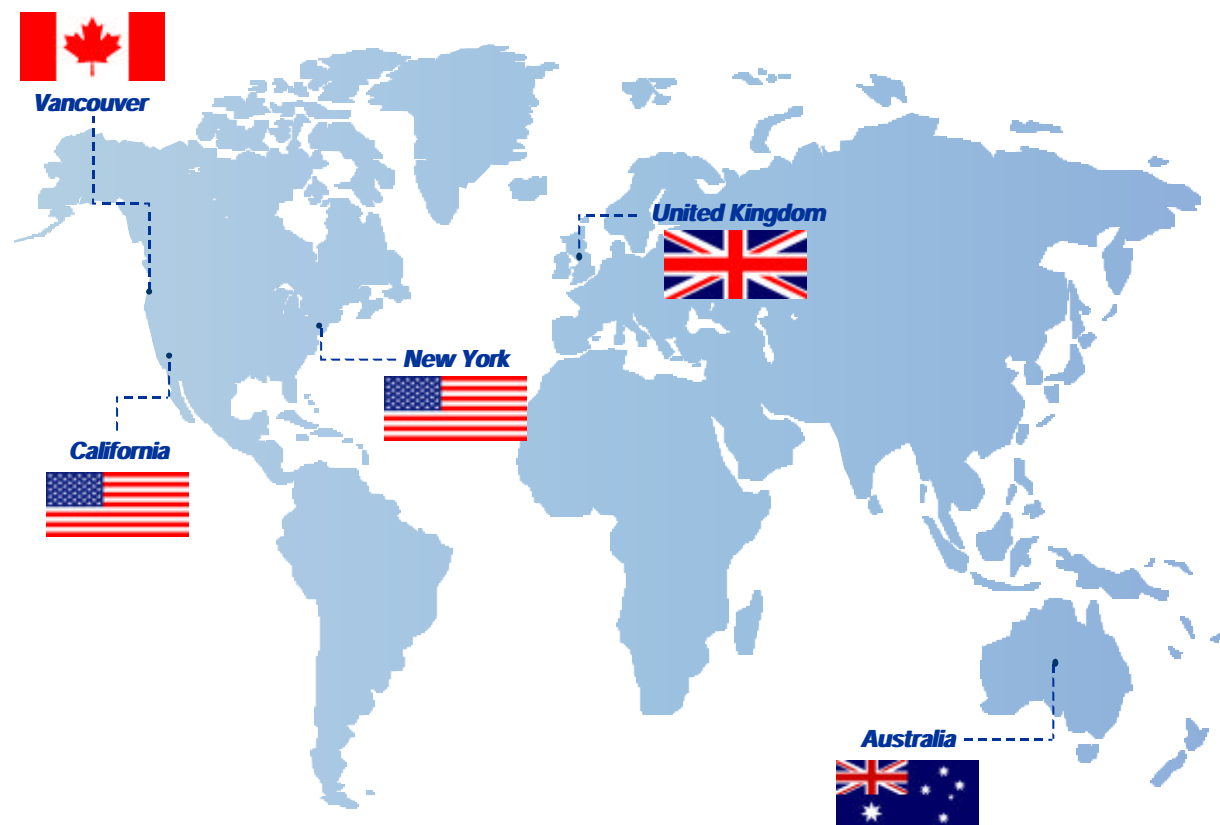
Surveys conducted – time of day



Source: KPMG

- Restaurant patrons and spending behaviour may be markedly different at different times of the day, and may also differ from weekdays to weekends
- We conducted interviews at different times during the day to ensure that a range of diners and dining patterns was reflected in the study findings
- We also ensured that interviews were conducted during both weekends and weekdays to capture the full range of dining and spending variations

We conducted a literature review of studies that examined the trade impacts of smoking bans in other locations



- Most of these locations have implemented comprehensive smoking bans or restrictions covering restaurants
- In terms of standard of living and image, these locations may be viewed as comparable to Hong Kong
- We examined available studies on the quantifiable effects that the relevant legislation has had on the restaurant and hotel trades

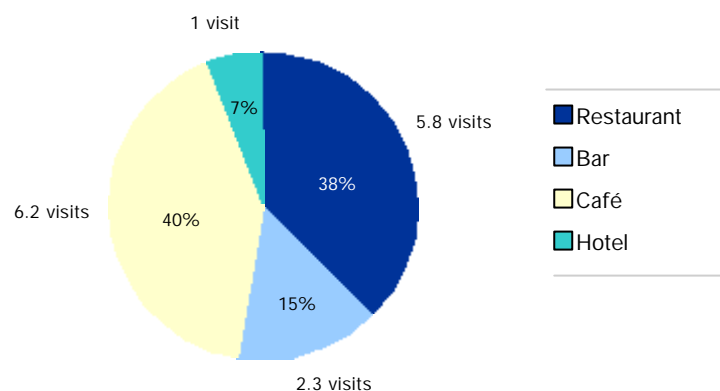
We note several important limitations to this study. They should be taken into account when considering the study findings

- The purpose of this study is to examine the financial impact of a smoking ban on the restaurant and hotel trade. It is not an “economic impact assessment” of the proposed legislation on the Hong Kong economy
- The approach of this study is to examine patrons’ predicted behaviour: if a ban is imposed, patrons’ actual behaviour may differ from their expected behaviour
- Our approach focused on possible changes in patronage and spending. It is not the purpose of this study to take into account the health/safety issues or intangible impacts of a ban on smoking
- As our study asked patrons to consider their reaction to a full ban on smoking, it is not possible to speculate on the effect of a partial ban (e.g. covering only some establishments or only certain times in the day or days of the week). International experience has shown that a partial ban would likely result in much greater effects on some establishments and much reduced effects on others
- The details of how a smoking ban would be enforced are not yet available, but could substantially alter the conclusions of this study if there are significant loopholes or if the ban is not strictly enforced
- Lessons from overseas should be viewed with a high degree of care:
 - overseas locations may have markedly different dining and spending patterns from Hong Kong, which has a unique food and entertainment culture
 - smoking restrictions overseas have taken a variety of different forms and have been implemented very differently from place to place: they may not be directly comparable to the ban envisaged in Hong Kong
 - it is not possible to validate the reliability or robustness of overseas studies and methodologies – we note that many have been conducted by organisations with links to pro-tobacco or anti-smoking stances

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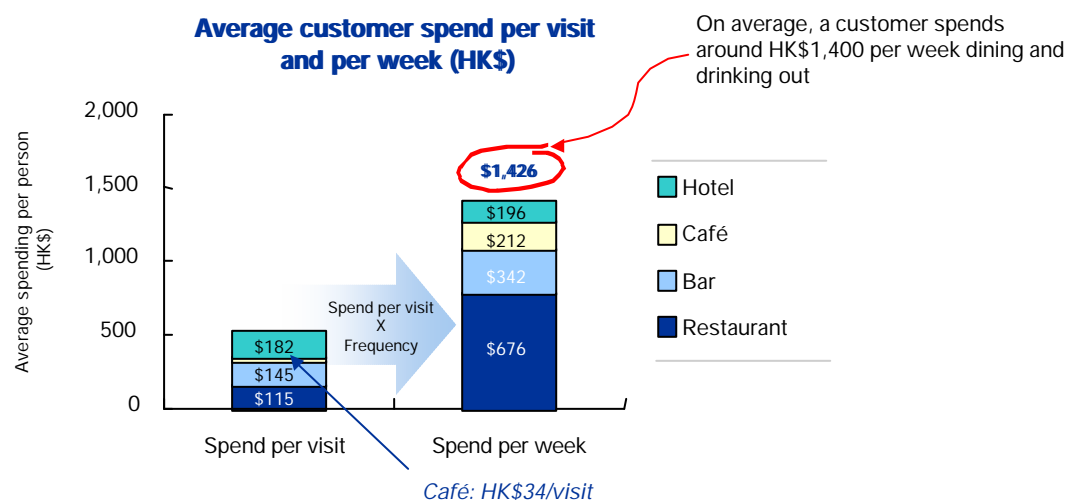
Customers visit restaurants and cafes most frequently on a weekly basis, but spend most in restaurants and bars

Average customer patronage frequency (No. visits per customer, per week)



Source: KPMG survey findings

Average customer spend per visit and per week (HK\$)



Source: KPMG survey findings

Frequency of visits

- Our survey found that on average, each customer makes:
 - Around 6 visits each week to a restaurant
 - Around 2 visits each week to bars
 - Around 6 visits each week to cafes
 - 1 visit each week to an F&B ⁽¹⁾ outlet of a hotel

Spending

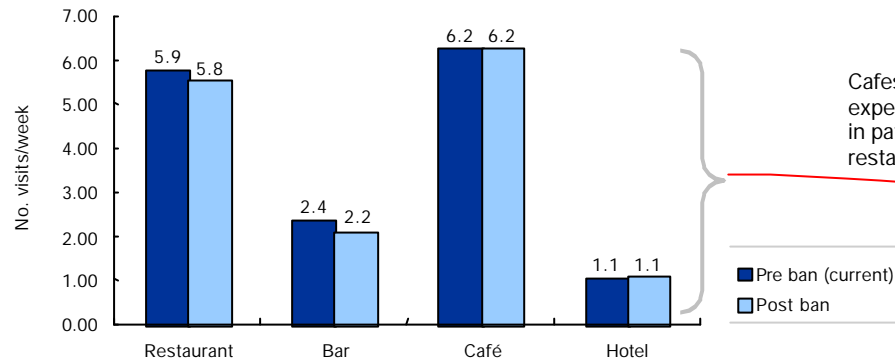
- Customers specified their usual spend per person on each visit that they made to a restaurant, bar, café or F&B outlet in a hotel
- This spend/visit was then applied to the frequency with which the customer visits a particular dining/drinking establishment (e.g. café) on a weekly basis
- On average, each customer is found to spend around HK\$1,400 per week on dining and drinking out
 - 47% of this expenditure is spent in restaurants (HK\$676)
 - 24% is spent in bars (HK\$342)
 - Smaller amounts are spent in cafes and F&B outlets of hotels. On average, roughly HK\$200/week is spent in cafes, and a similar amount in hotels

Note: (1) Food and Beverage outlet

ABCD On average, a customer spends around HK\$1,400 each week on dining and drinking out

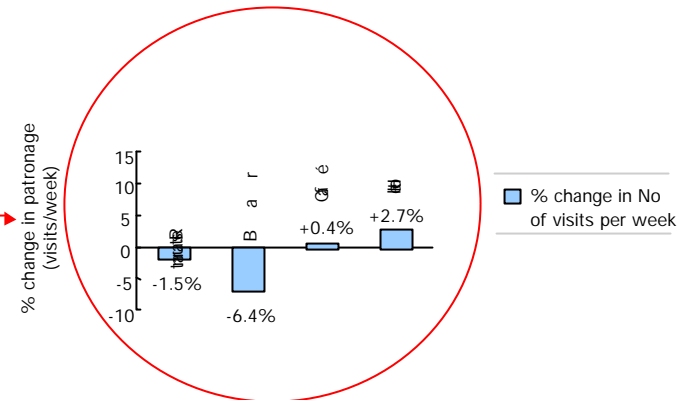
Following the introduction of a smoking ban, overall patronage would change very little

Average customer visits per week



Source: KPMG survey findings

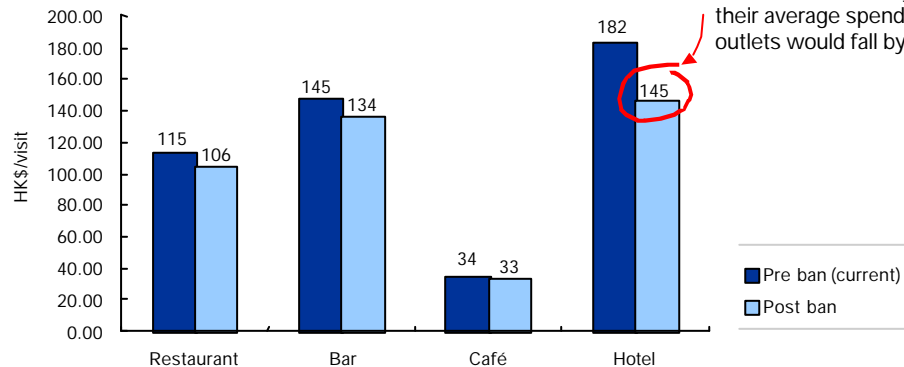
Post ban change in patronage frequencies (% change in No. visits per week)



Source: KPMG survey findings

Cafes and hotels will experience small increases in patronage. Bars and restaurants will see a fall

Average spend of customers, per visit (HK\$)



Source: KPMG survey findings

Hotel customers say that their average spend in F&B outlets would fall by 20%

Frequency of dining and drinking out

- Customers would go less frequently to restaurants and bars should a smoking ban be introduced
- Overall, customers would go more to cafes and hotels (in hotels, roughly 3% more visits to F&B outlets would be made)

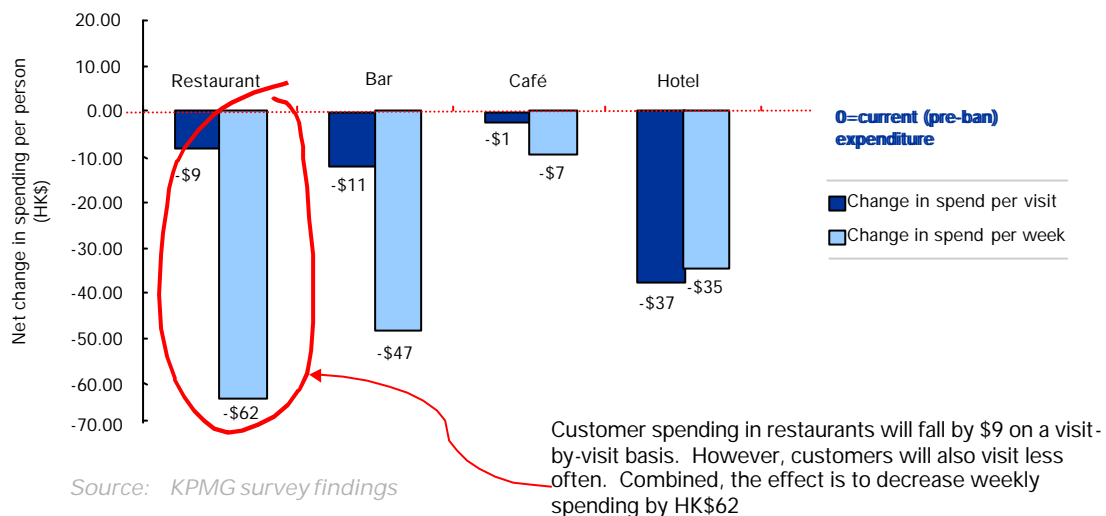
Changes in Spending

- Customers in restaurants, bars, cafes and hotels would spend less each visit should smoking be banned
- Customers in bars would spend 8% less per visit
- Hotel F&B customers would spend HK\$37 less per visit

ABCD **However, customer spending per visit would go down overall**

The overall impact would be that customers will spend less money drinking and dining out, should there be a total ban on smoking

Change in spending per visit and per week (HK\$ per customer, per week)



Source: KPMG survey findings

Change in customer behaviour (per person/week)

	Change in No of visits/week	Change in average spend/visit (HK\$)	Change in average spend/week (HK\$)
Restaurants	-0.1	-9	-62
Bars	-0.2	-11	-47
Cafes	0.02	-1	-7
Hotels	0.04	-37	-35
Total change	-0.2	-58	-151

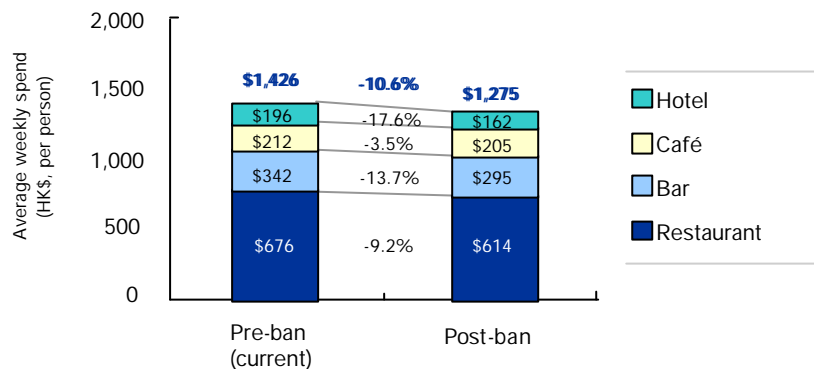
Source: KPMG survey findings

- The net expenditure effects of a smoking ban are driven by:
 - changing customer patronage levels
 - changing levels of expenditure per customer/visit
- The sum of these two effects represents the net change in each customer's expenditure in restaurants, bars, cafes and hotels on a weekly basis
- We find that on average, customers will spend less, following a smoking ban
- Restaurants, bars and hotels will experience the greatest decline in revenues
 - survey findings suggest that customers will spend HK\$62 less per person/week in restaurants
 - customers in F&B outlets in hotels are predicted to spend HK\$35 less per person/week
 - customers would spend HK\$47 less per person/week in bars
- On average, cafes are predicted to experience a small reduction in revenue: while there would be no reduction in the number of customers visiting cafes, spend per customer would fall by around \$7/week

The average customer will spend roughly HK\$150 less per week dining and drinking out

A HK\$150 reduction in customer spending represents a 10.6% decline in weekly expenditure on dining and drinking out

Weekly expenditure per customer, before and after a smoking ban (HK\$)



Source: KPMG survey findings

Percentage change in customer spending following a smoking ban

% change in weekly spend per customer	
Restaurants	-9.2%
Bars	-13.7%
Cafes	-3.5%
Hotels	-17.6%
Total change	-10.6%

On average, customers would reduce spending by around 11% from current levels

Source: KPMG survey findings

- Based on what customers said about their drinking and dining behaviour, our survey reveals that the average customer:
 - currently spends around HK\$1,425 per week on dining and drinking out
 - would reduce this spending by 10.6% to around HK\$1,275, should smoking be banned
- This reduction in spending arises from an overall fall in the frequency of customer visits/week, coupled with a decrease in the average spend of customers on each visit
- The most significant revenue impacts would be felt in F&B outlets of hotels (customers would reduce spending by 18% from current levels)
- Spending in restaurants would be reduced by over 9% from current levels, to around HK\$ 615 per person/week
- Spending in bars and cafes would also be reduced:
 - In bars, customers would reduce spending by around 14% to HK\$295 per customer/week
 - In cafes, spending would fall marginally
- Survey findings indicated that a ban in Hong Kong would not cause a significant number of customers to increase their visits to Shenzhen to dine / drink out

The greatest falls in customer spending would occur in restaurants, bars and F&B outlets of hotels. Spend would also fall in cafes, but to a lesser extent

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Tourists

**Smokers and
non-smokers**

Restaurants

Bars

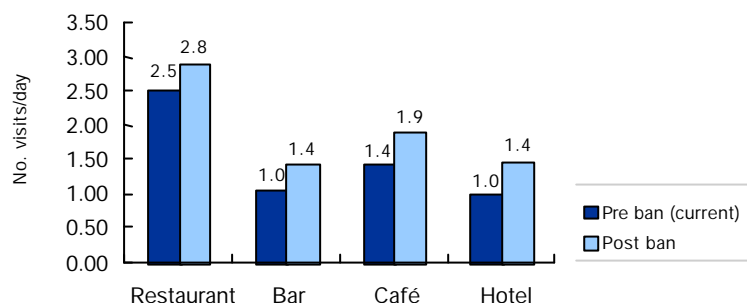
Cafes

Hotels

By isolating the responses of tourists in our survey, we find that visitors would behave differently from other customers (Hong Kong residents) in our survey sample

Tourists

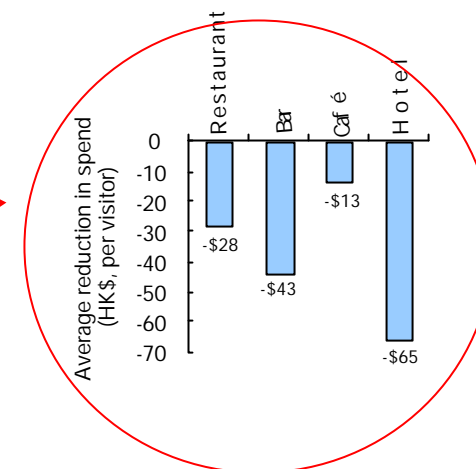
Average visitor patronage frequencies (No. visits per day)



Source: KPMG survey findings

Visitors reported that they would visit establishments more frequently if there were a smoking ban, although on average they would spend less on each visit

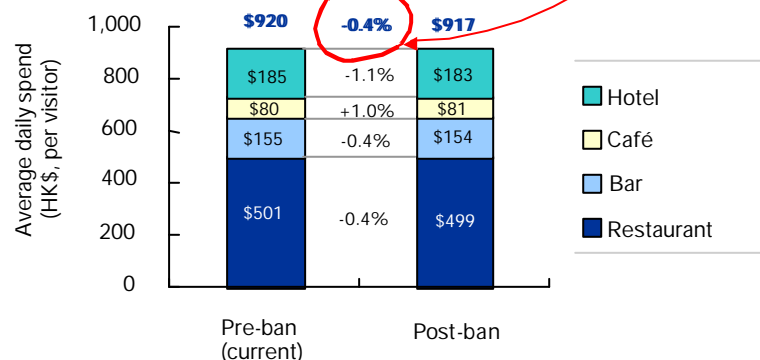
Post ban change in visitor spending (net change in spend per visit, HK\$)



Source: KPMG survey findings

The net effect of these changes in frequency and spend is fairly neutral. Overall therefore, our survey suggests that visitor spend in Hong Kong will not materially change

Daily expenditure per visitor, before and after a smoking ban (HK\$)



Source: KPMG survey findings

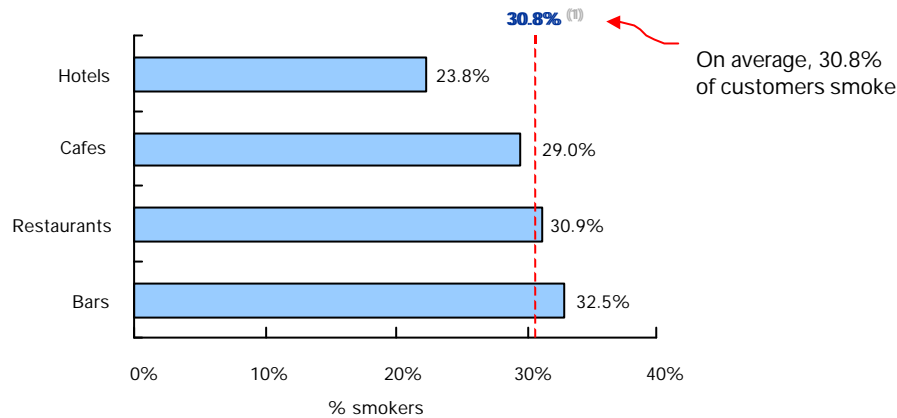
- Our random survey generated 52 responses from visitors to Hong Kong (6% of total responses). The remainder were Hong Kong residents
- This page strips out the responses of visitors from the total and provides observations on the behavior of visitors, before and after a smoking ban
- We find that tourists would visit restaurants, bars, cafes and hotel F&B outlets more, should smoking be banned
- On average however, spending per visitor would fall, as higher spending visitors chose to dine/drink out less frequently, to be replaced by lower spending visitors whom dine/drink out more frequently
- Visitors were also asked whether they "would come to Hong Kong more or less frequently should smoking be banned?", 9% replied 'more', 7% replied 'less', 84% replied 'no change'

ABCD

But overall tourist expenditure in restaurants, bars, cafes and hotels would remain virtually unchanged

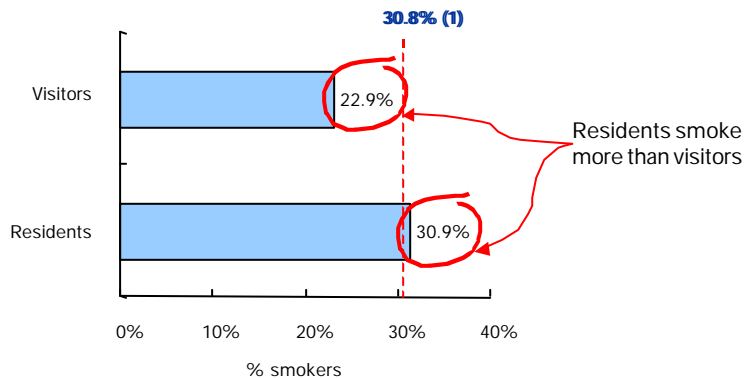
Around 30% of customers smoke when dining and drinking out

Proportion of customers that smoke in restaurants, bars, cafes and hotels (%)



Source: KPMG survey findings
 Note: (1) Average of all customer responses

Proportion of residents and visitors that smoke while dining or drinking out (%)



Source: KPMG survey findings
 Note: (1) Average of all customer responses

Over 30% of customers smoke

Customers were asked the following question:

“Do you usually smoke when in a restaurant, bar or café?”

From a sample of 819 customers, 30.8% responded “yes, I smoke”

There is little difference in the proportion of customers smoking in restaurants, bars, cafes or hotels

Smokers account for between 24%-33% of customers in each establishment

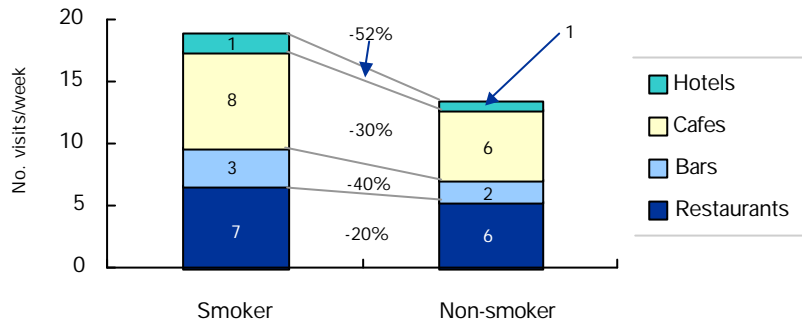
Source: KPMG survey findings

Residents and tourists

- While 30.8% of customers were found to smoke, the proportion of smokers/non smokers differed slightly between Hong Kong residents and visitors
 - roughly 30% of customers who described themselves as Hong Kong residents smoked
 - around 23% of visitors smoked

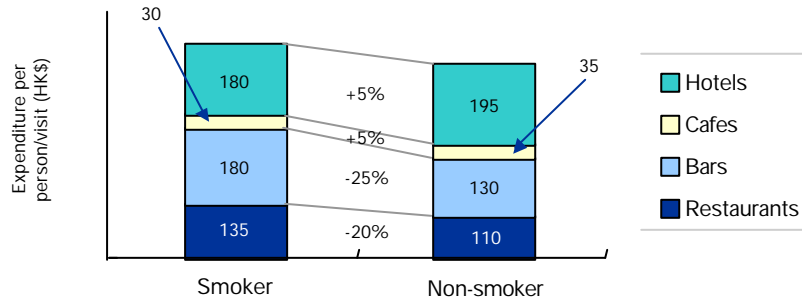
Smokers were found to spend more on dining and drinking out than non-smokers

Number of weekly visits to restaurants, bars, cafes and hotels, by smokers and non-smokers



Source: KPMG survey findings

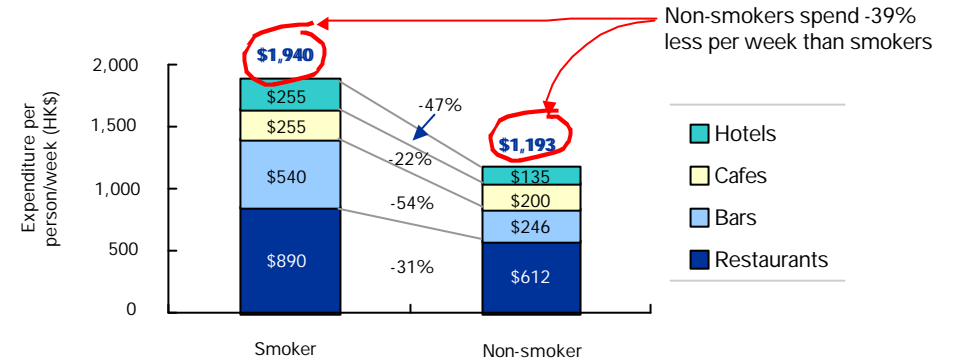
Average spend per visit of smoking and non-smoking customers (HK\$)



Source: KPMG survey findings

Frequency of visit x spend

Average weekly spend of smoking and non-smoking customers (HK\$)



Source: KPMG survey findings

On average, smokers were found to spend 39% more per week than non-smokers on eating and dining out

Following a smoking ban, the majority of both smokers and non-smokers would not change the frequency with which they drink and dine out

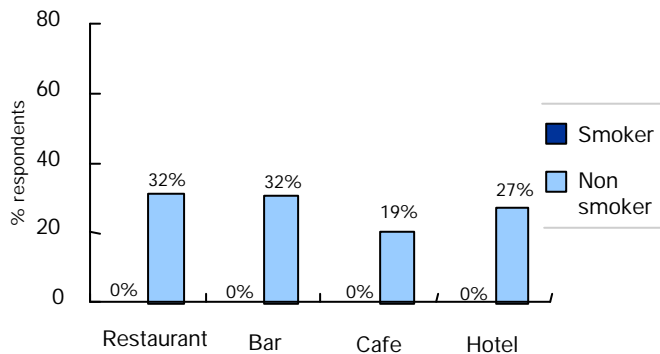
Smokers and non-smokers

14% of customers will visit more often

From a sample of 819 customers, 14% said they would dine and drink out more often following a smoking ban

Most were non-smokers

Will go out more often
(14% of customers)⁽¹⁾



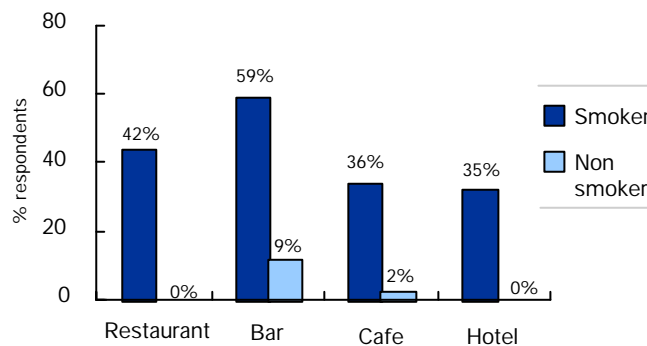
Source: KPMG survey findings
Note: (1) weighted average of responses across whole sample of 819 customers

14% of customers will visit less often

14% of customers said they would visit less often. The majority were smokers

59% of smokers in bars would visit less often

Will go out less often
(14% of customers)⁽¹⁾



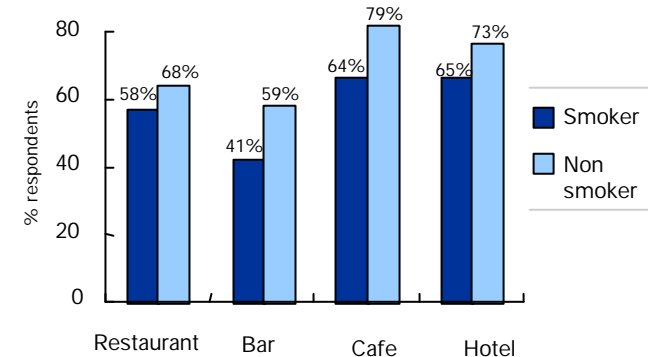
Source: KPMG survey findings
Note: (1) weighted average of responses across whole sample of 819 customers

72% of customers will behave the same should smoking be banned

72% said that a smoking ban would make no difference to the frequency with which they choose to drink and dine out

Most were non-smokers

Will go out the same
(72% of customers)⁽¹⁾

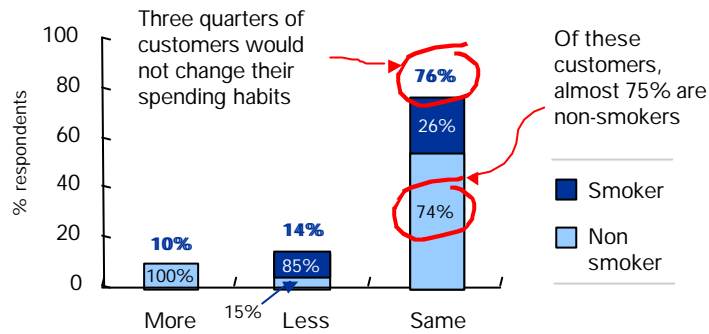


Source: KPMG survey findings
Note: (1) weighted average of responses across whole sample of 819 customers

Non-smoking customers are more indifferent than smokers to a smoking ban. A higher proportion of non-smokers will choose not to alter their dining/drinking behaviour

Most non-smoking customers would spend the same on each visit to a restaurant, bar, café or hotel following a smoking ban as they do currently

Customers spending more, less or the same per visit on dining and drinking out, after a smoking ban (%)



Source: KPMG survey findings

Customers choosing to spend the same per visit after a smoking ban (%)

	Smokers	Non-smokers
Restaurants	64%	79%
Bars	49%	62%
Cafes	69%	88%
Hotels	53%	93%

Source: KPMG survey findings

Only 53% of smokers in hotels would spend the same. The rest (47%) would spend less

This suggests that non-smoking customers are not currently deterred from dining/drinking out in hotels as a result of smokers

Three quarters of customers would spend the same on each occasion they dine or drink out

Customers were asked:

“how would you change your spending on each visit if there was a total ban on smoking?”

76% reported no change in their spending

14% said they would spend less on each occasion

10% said they would spend more

Source: KPMG survey findings

Changes in spending between smokers and non-smokers

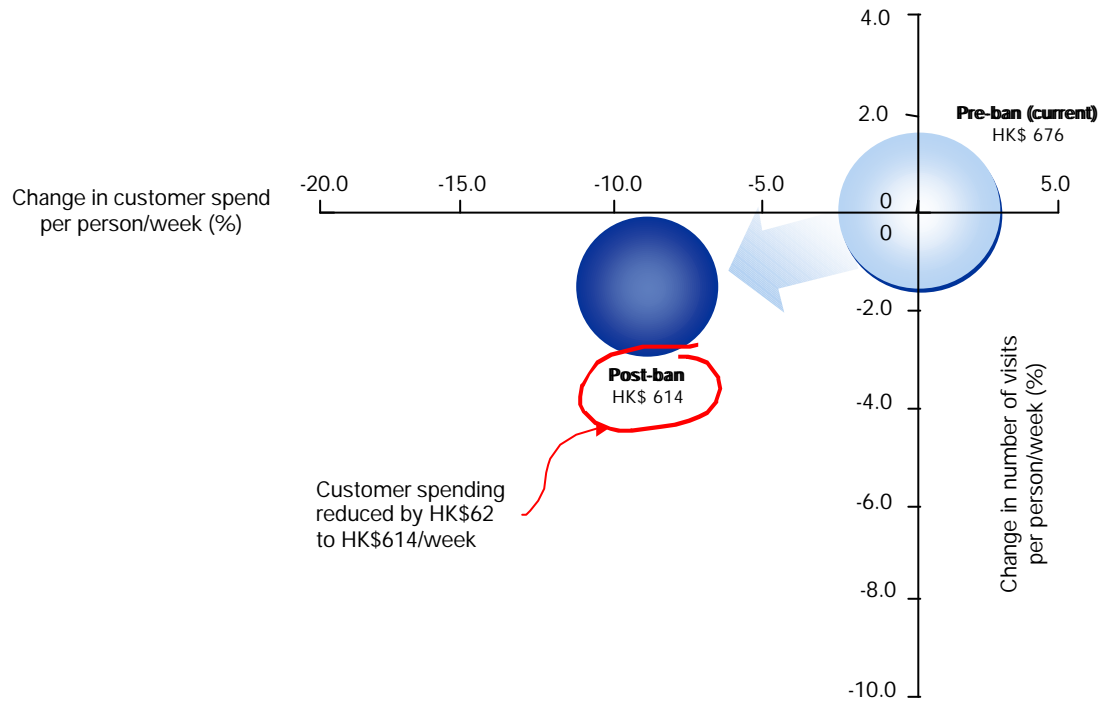
- All customers who indicated a rise in spending per visit following a smoking ban were non-smokers
- The majority of customers who would spend less following a ban were smokers
- Of those customers choosing to spend the same (76% of respondents), most were non-smokers
 - 79% of non-smokers would spend the same in restaurants
 - 62% of non-smokers would spend the same in bars
 - Almost all (93%) of non-smokers would spend the same in hotels

However, a large proportion of smoking customers would choose to spend less. Combined with a reduction in the frequency with which they dine/drink out, we have seen that this creates a fall in revenue for the hospitality trade

Following a smoking ban, restaurants could see a reduction in receipts of roughly 9% per week



Weekly expenditure per customer in restaurants before and after a smoking ban (HK\$)



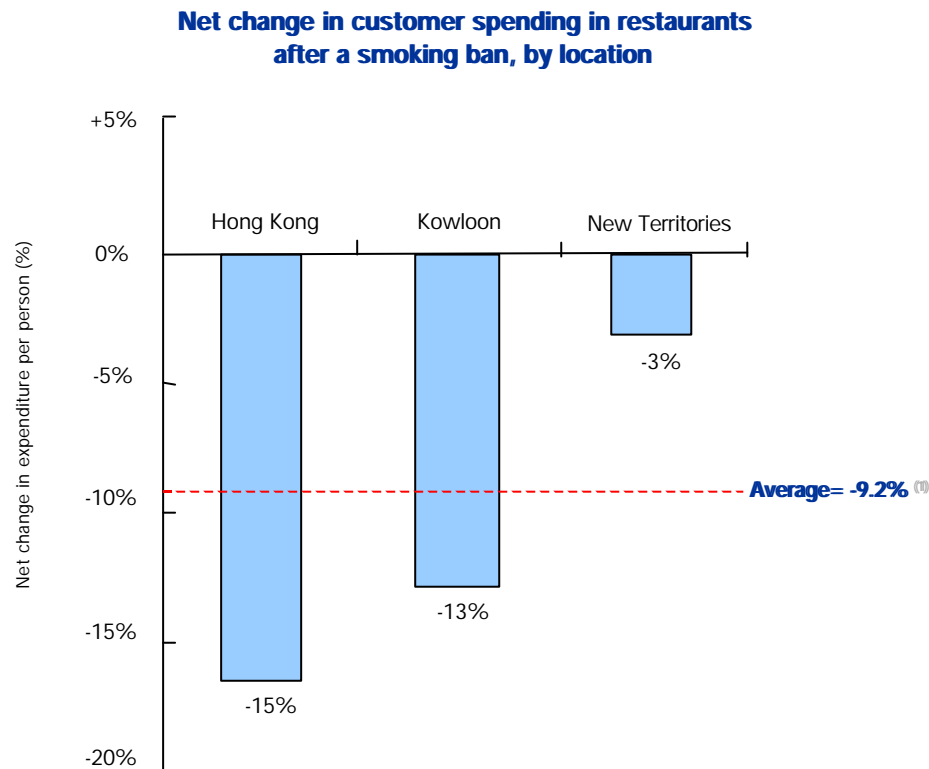
Source: KPMG survey findings

Change in customer spending following a smoking ban

	% change per week
Change in No. customer visits	-1.5%
Change in restaurant receipts	-9.2%

Source: KPMG survey findings

The impact on the restaurant trade will differ between locations



- Overall customer expenditure in restaurants is predicted to fall by roughly 9% following a smoking ban
- Reductions in expenditure can be expected to vary between locations
 - Restaurants in Hong Kong and Kowloon could experience the most significant falls in revenue (-15% and -13% respectively)
 - Survey results suggest that restaurants in the New Territories will be subject to less severe impacts

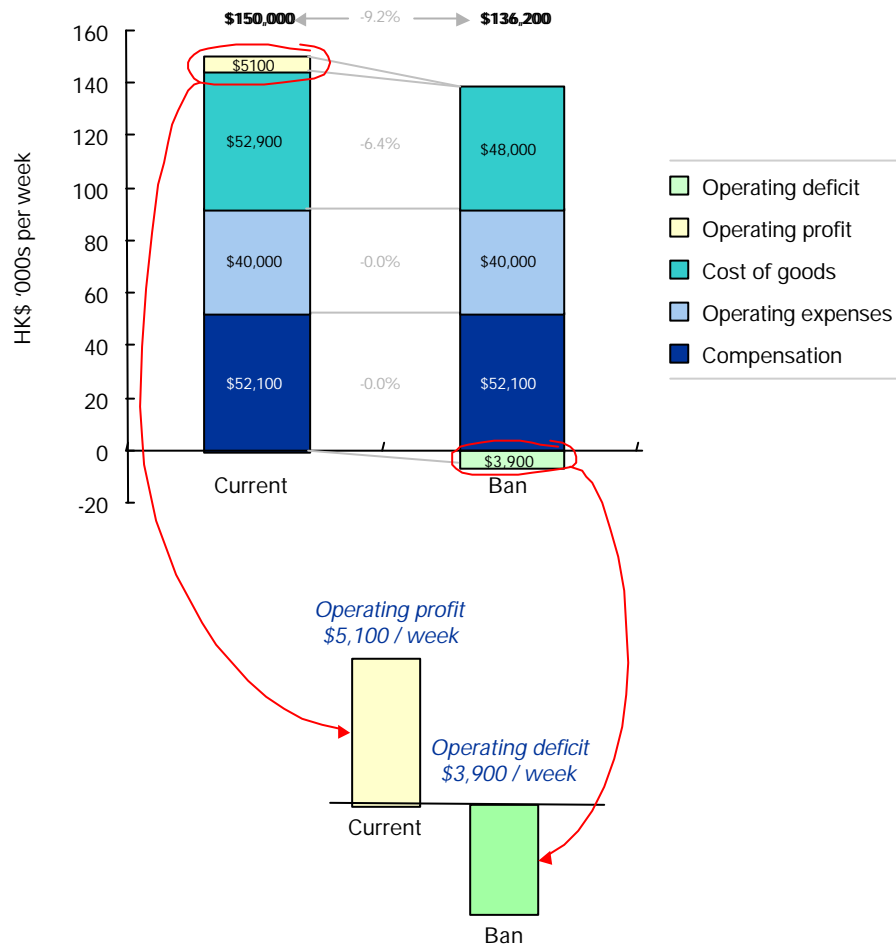
Source: KPMG survey findings

(1) Weighted average expenditure change, across all three geographical areas (Hong Kong, Kowloon and New Territories)

Customers indicated that restaurants in Hong Kong and Kowloon would be subject to more significant falls in expenditure

For an illustrative “Restaurant R” the impact of a smoking ban could be relatively significant

Impact of ban on cost structure



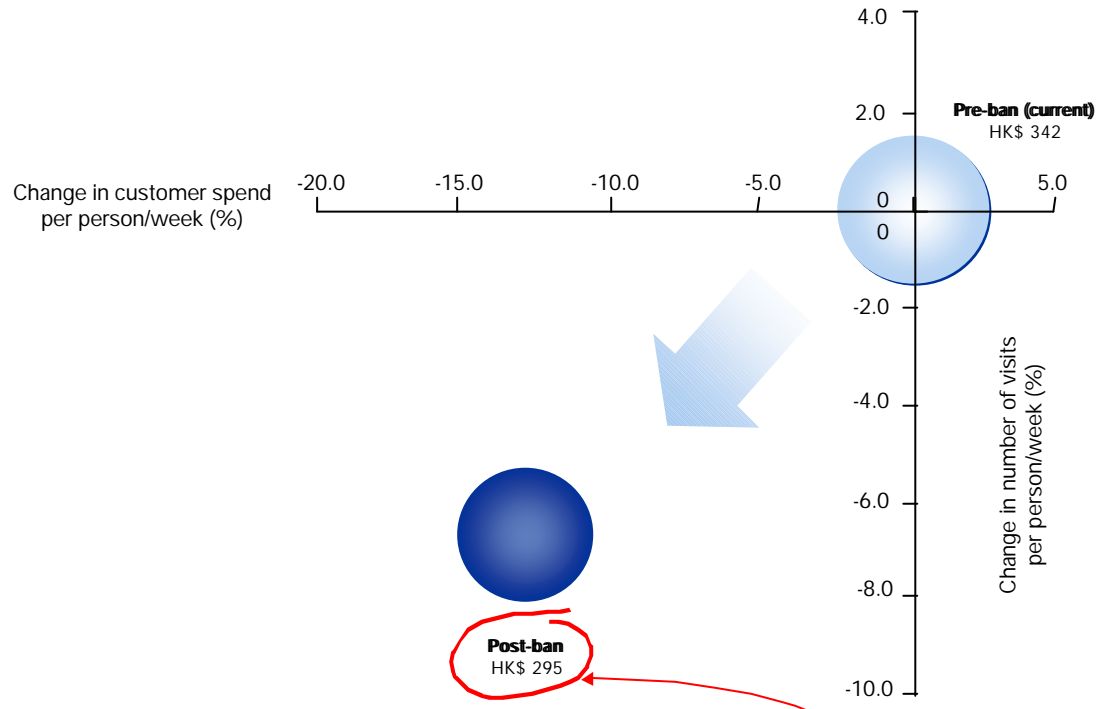
- We examined the impact of a ban on “Restaurant R”, a small-sized Chinese restaurant with annual turnover of \$7.8 million (\$150,000/week)
- “Restaurant R” has the following cost structure (as % of turnover):
 - Employee compensation: 35%
 - Operating expenses: 27%
 - Cost of goods: 35%
 - Operating profit: 3%
- Assuming that operating costs and employee compensation remain unchanged, a 9.2% drop in weekly revenue would have a significant effect on Restaurant R’s bottom line:
 - A reduction of \$13,800/week in revenue
 - A weekly operating deficit of \$3,900 instead of a surplus of \$5,100
- Clearly, for “Restaurant R” changes in cost structure would be necessary to adjust for the loss of revenue. These might include:
 - Reduction in payroll or operating costs
 - Increasing prices/margins for food and beverages sold
 - Measures to increase patronage and turnover
 - A combination of the above

Sources: (1) Census and Statistics Department, Report on 1999 Annual Survey of Wholesale, Retail and Import and Export Trades, Restaurants and Hotels
 (2) KPMG survey findings
 (3) Trade interviews

Following a smoking ban, bars could see a reduction in the value of receipts of roughly 14%



Weekly expenditure per customer in bars before and after a smoking ban (HK\$)



Change in customer spending following a smoking ban

	% change per week
Change in No. customer visits	-6.4%
Change in bar receipts	-13.7%

Source: KPMG survey findings

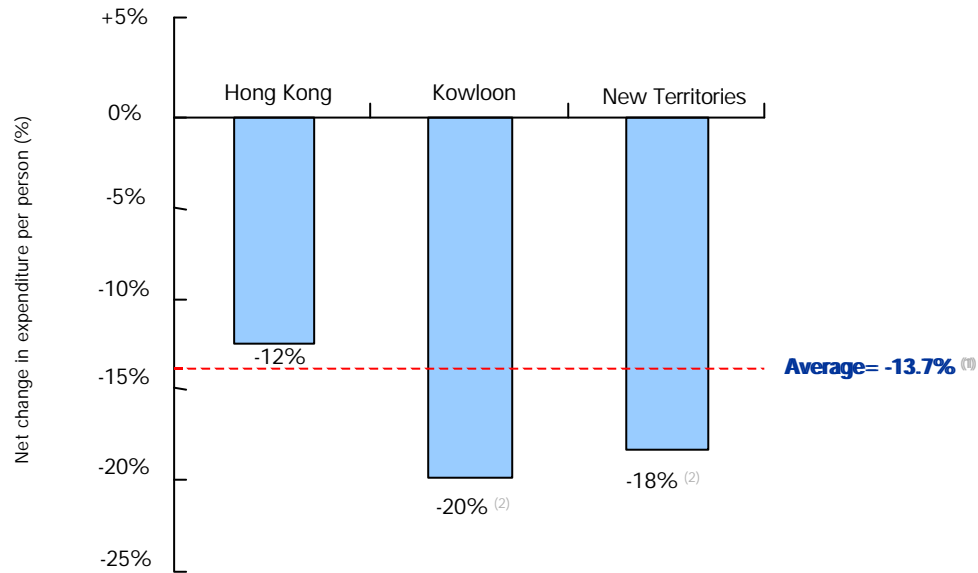
Source: KPMG survey findings

Customer spending reduced by HK\$47 to HK\$295/week (per person)

The effect of a smoking ban on bars appears to be fairly consistent across locations



Net change in customer spending in bars after a smoking ban, by location



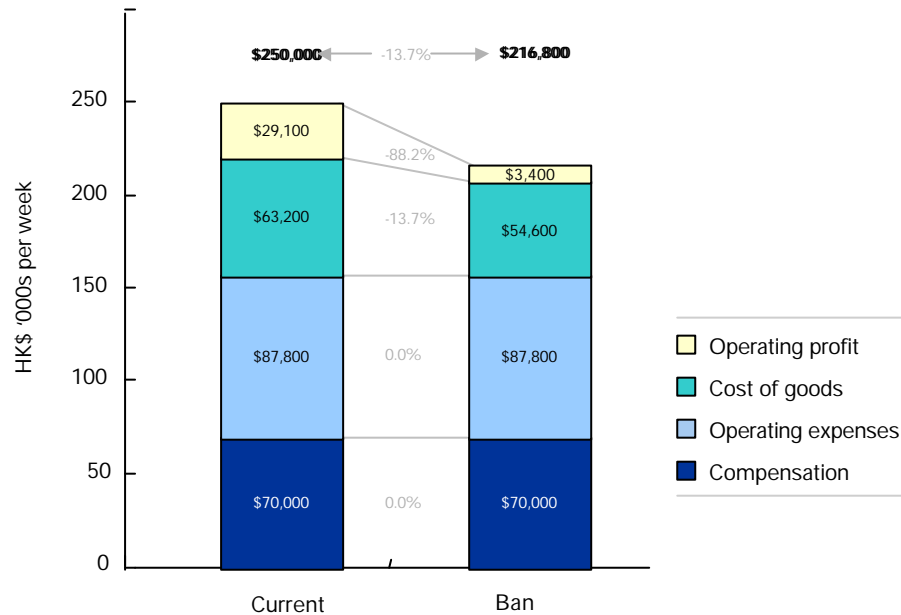
- Overall customer expenditure in bars is predicted to fall by approximately 14% following a smoking ban
- Throughout Hong Kong Island, customer spending in bars is expected to fall by 12%
- More severe impacts could arise for bars located in Kowloon and the New Territories (between -18% and -20%)

Source: KPMG survey findings

Note: (1) Weighted average expenditure change, across all three geographical areas (Hong Kong, Kowloon and New Territories)
(2) Caution should be applied when interpreting these figures, given the small sample size of customers in bars in Kowloon and the New Territories. The statistical significance of these figures cannot be confirmed

For a hypothetical “Bar B” the impact of a smoking ban would represent a significant financial impact

Bars

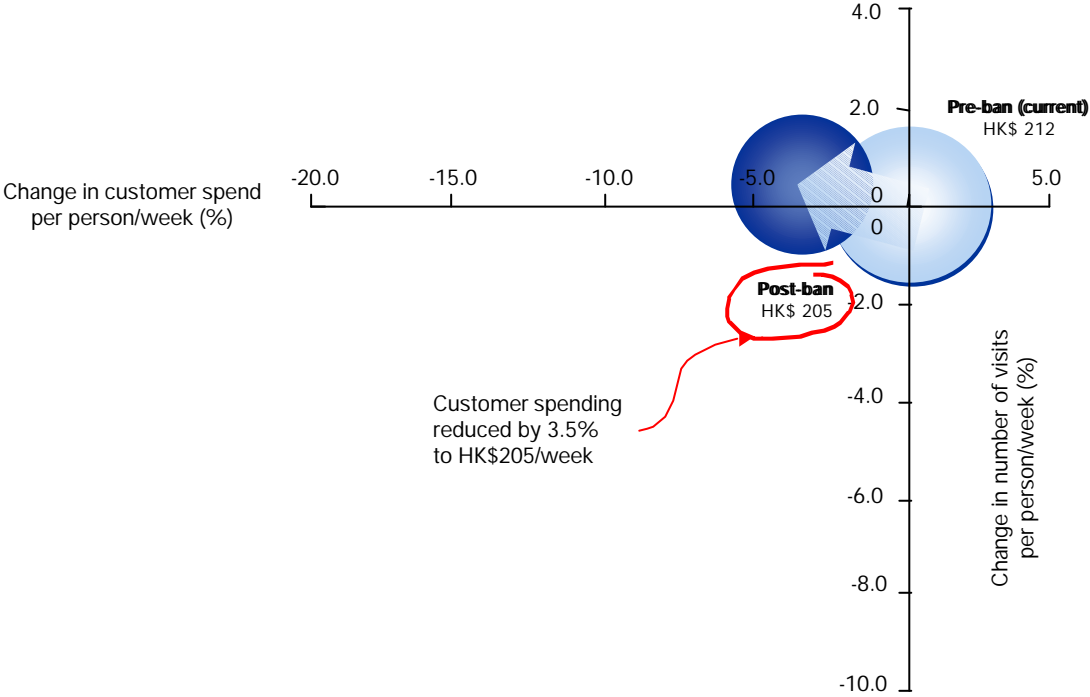


- We examined the potential impact of a ban on “Bar B”, a small licensed bar with annual turnover of \$13 million (\$250,000/week)
- “Bar B” has the following cost structure (as a % of turnover):
 - Employee compensation: 28%
 - Operating expenses: 35%
 - Cost of goods: 25%
 - Operating profit: 12%
- Assuming that operating costs and employee compensation remain unchanged, a 13.7% drop in weekly revenue would have a material effect on Bar B’s bottom line:
 - A reduction of \$34,300/week in revenue
 - A reduction in operating profit from \$29,100 to \$3,400
 - Operating profit would drop from 12% to 2% of turnover

Sources: (1) Census and Statistics Department, Report on 1999 Annual Survey of Wholesale, Retail and Import and Export Trades, Restaurants and Hotels
 (2) KPMG survey findings
 (3) Trade interviews

Survey findings suggest a relatively small fall in café receipts of approximately 3.5% should a smoking ban be introduced

Weekly expenditure per customer in cafes before and after a smoking ban (HK\$)



Source: KPMG survey findings

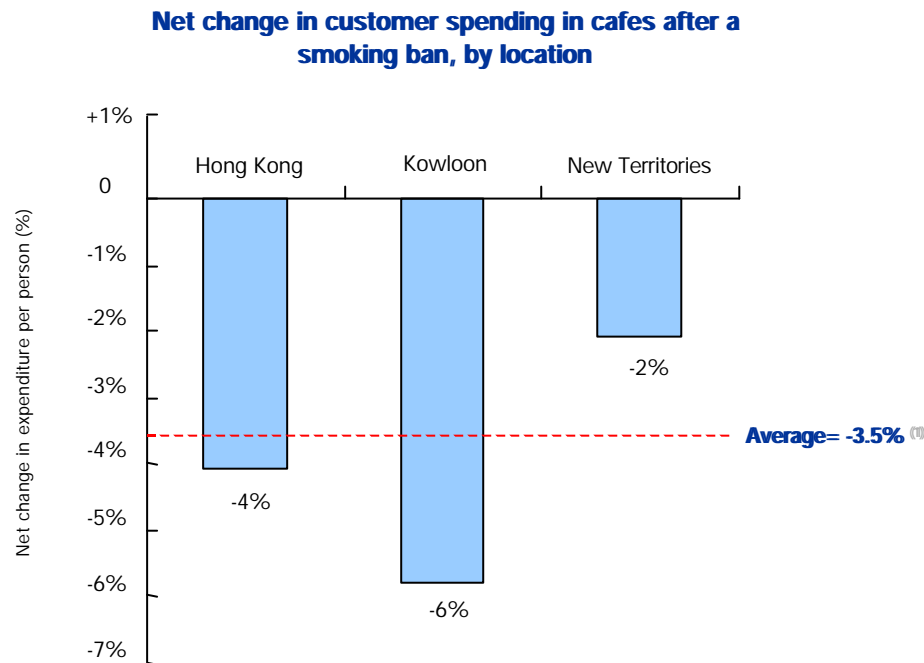
Change in customer spending following a smoking ban

	% change per week
Change in No. customer visits	+0.4%
Change in cafe receipts	-3.5%

Source: KPMG survey findings

While patronage in cafes may increase marginally following a smoking ban, this increase in customer numbers is not sufficient to outweigh a reduction in the typical spend of customers

Impacts on cafes are found to be more significant in Kowloon and Hong Kong Island



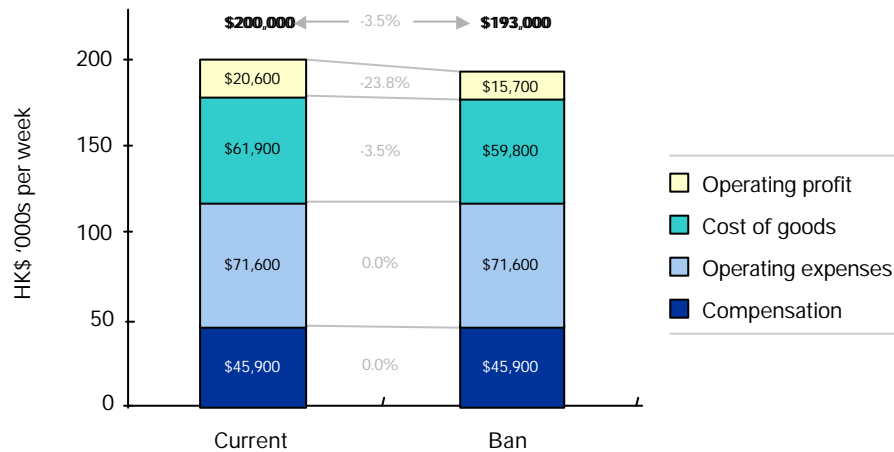
- Overall customer expenditure in cafes is predicted to fall by approximately 3.5% following a smoking ban
- This statistic masks some variations in trade impacts between regions
 - In Kowloon, survey findings indicate café receipts could fall by 6%
 - In the New Territories, falls in expenditure are less significant

Source: KPMG survey findings

(1) Weighted average expenditure change, across all three geographical areas (Hong Kong, Kowloon and New Territories)

At "Café C" the smoking ban would have a negative impact on revenues and profits

Impact of ban on cost structure



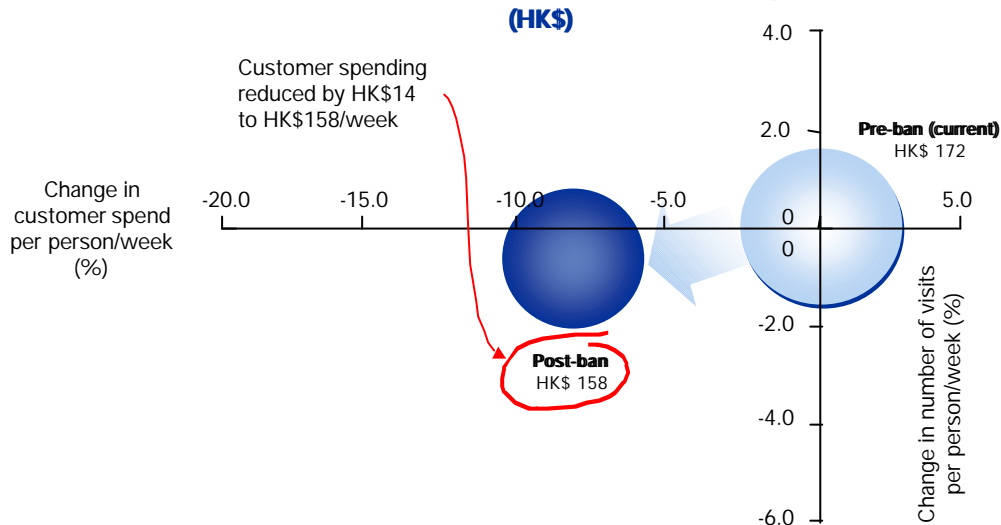
- We examined the impact of a ban on "Café C", a medium-sized fast-food restaurant with annual turnover of \$10.4 million (\$200,000/week)
- "Café C" has the following cost structure (as % of turnover):
 - Employee compensation: 23%
 - Operating expenses: 36%
 - Cost of goods: 31%
 - Operating profit: 10%
- Assuming that operating costs and employee compensation remain unchanged, a 3.5% drop in weekly revenue would have a negative effect on Café C's bottom line:
 - A reduction of \$7,000/week in revenue
 - A decrease in weekly operating profit of \$4,900, from \$20,600 to \$15,700
 - Operating profit would drop from 10% to 8% of turnover

Sources: (1) Census and Statistics Department, Report on 1999 Annual Survey of Wholesale, Retail and Import and Export Trades, Restaurants and Hotels
 (2) KPMG survey findings
 (3) Trade interviews

Impacts on cafes varies not only be geography, but also by the type of café. Cha tsan-ting () cafes are likely to be more affected by a smoking ban than other types of cafes



Weekly expenditure per customer in 'cha tsan-ting' () cafes before and after a smoking ban (HK\$)



Change in customer spending following a smoking ban

	% change per week
Change in No. customer visits	-0.3%
Change in cafe receipts	-8%

Source: KPMG survey findings

Note: (1) 100 surveys were completed in Central, Southern, Sheung Wan, Yau Ma Tei, Shamshuipo and Causeway Bay

Why explore trade impacts on cha tsan-ting ()?

- Overall, we have found that cafes could see a 3.5% fall in revenue after a smoking ban
- However, our definition of a 'café' is inevitably broad. It includes 'chain' cafes such as McDonalds, and also the more traditional Chinese 'cha tsan-ting' () cafes
- Because of the broadness of this definition, we sought to establish whether there were different impacts for different types of cafes

Additional surveys were undertaken

- We conducted 100 additional surveys in cha tsan-ting ()⁽¹⁾
- These 100 surveys were additional to the 819 surveys that have been reported elsewhere in this study
 - The findings of these extra 100 surveys are not included in the analysis presented elsewhere in this study
 - The findings on this slide simply represent an observation on the range of impacts that could arise amongst different types of cafes – such as cha tsan-ting

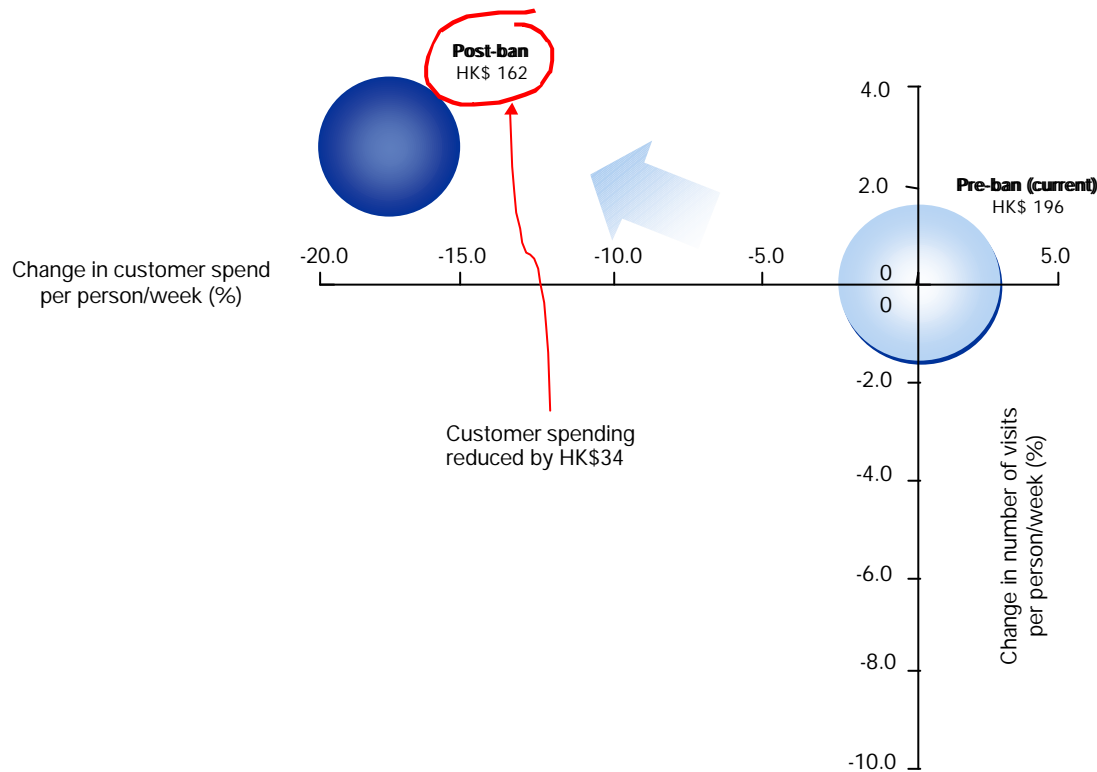
Cha tsan-ting () survey findings

- We find that falls in revenue after a smoking ban could be roughly twice as high in cha tsan-ting as for other types of café (-8% as opposed to - 3.5%)
- Conversely, other types of cafés could see impacts less than the average of - 3.5%

Smaller traditional Chinese cafes such as Cha tsan-ting () could experience an 8% reduction in receipts following a smoking ban

Following a smoking ban, F&B outlets in hotels could see a considerable drop in revenue

Weekly expenditure per customer in hotel F&B (1) outlets before and after a smoking ban (HK\$)



Source: KPMG survey findings
 Note: (1) Food and Beverage outlet

Change in customer spending following a smoking ban

% change per week	
Change in No. customer visits	+2.7%
Change in hotel F&B receipts	-17.6%

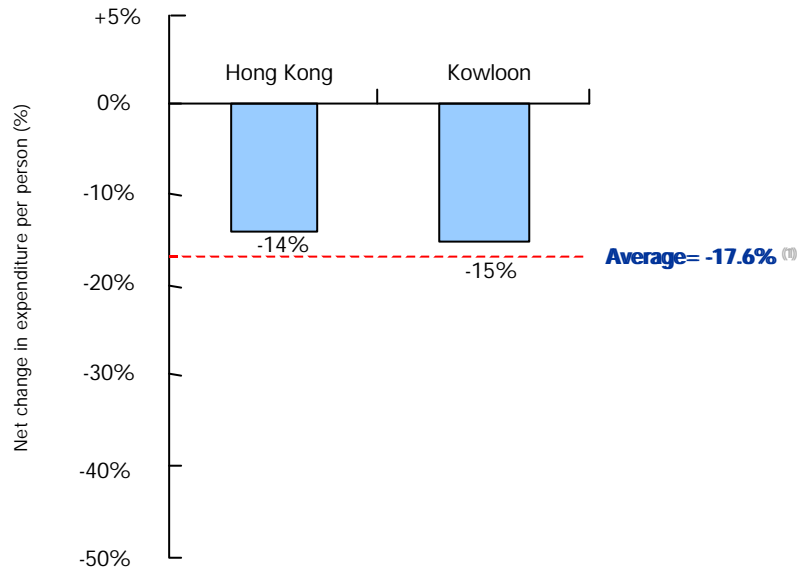
Source: KPMG survey findings

Receipts could fall by almost -18%

Receipts could fall by almost -18%, despite a predicted rise in customer numbers following a ban on smoking. This highlights the higher spending characteristics of customers that may be displaced by a smoking ban

Hotel F&B outlets could experience a considerable drop in revenue after a smoking ban

Net change in customer spending in hotels after a smoking ban, by location (%)



- Overall customer expenditure in F&B outlets of hotels is predicted to fall by roughly 18% following a smoking ban
- Reductions in expenditure of broadly the same magnitude can be expected to arise in F&B outlets located in Hong Kong and Kowloon (-14% and -15% respectively)
- We are unable to present results for hotels in the New Territories, given a small sample size of customers in this location

Source: KPMG survey findings
(1) Weighted average expenditure change, across all three geographical areas (Hong Kong, Kowloon and New Territories)

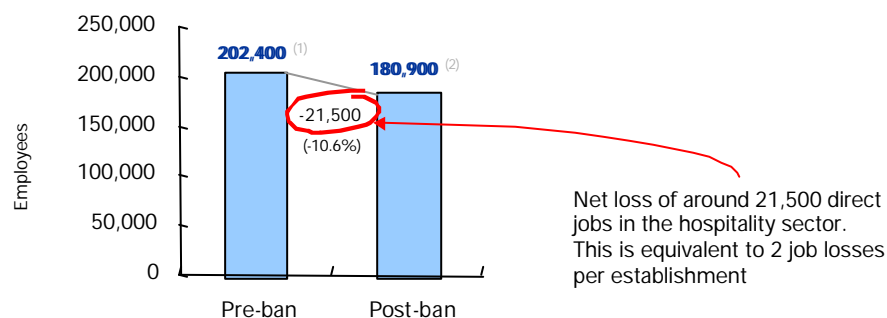
In total, our survey suggests that after a smoking ban, spending will fall by HK\$ 7.9 billion/year in restaurants, cafes, bars and F&B outlets of hotels

Total reduction in restaurant, bar, café and hotel receipts in Hong Kong after a smoking ban

Total receipts (1999) ^{(1), (2)}	HK\$ 74.2 bn
Reduction in receipts after smoking ban (%) ⁽³⁾	-10.6%
Predicted total receipts after a smoking ban ⁽⁴⁾	HK\$ 66.3 bn
Net change in sales receipts ⁽⁴⁾	-HK\$ 7.9 bn

Sources: (1) Census and Statistics Department, Report on 1999 Annual Survey of Wholesale, Retail and Import and Export Trades, Restaurants and Hotels
 (2) Latest available data
 (3) KPMG survey findings
 (4) HK\$74.2 bn x -10.6%

Employees in restaurants, bars, cafes and hotel F&B outlets, before and after a smoking ban



Source: (1) Census and Statistics Department, Report on 1999 Annual Survey of Wholesale, Retail and Import and Export Trades, Restaurants and Hotels
 (2) KPMG

Expenditure effects

- Our survey suggests that should smoking be banned, restaurants, bars, cafes and F&B outlets in hotels could see a 10.6% reduction in receipts
- Latest available data indicates that total restaurant receipts (including bars, cafes and hotel F&B outlets) amounted to HK\$74.2 billion. A 10.6% fall in sales therefore equates to a HK\$7.9 billion reduction in spend throughout Hong Kong
- Our survey therefore concludes that receipts would fall by HK\$7.9 billion/year throughout Hong Kong. Broadly, this is equivalent to 0.6% of Hong Kong's gross domestic product

Employment effects

- Latest available data indicates that 202,400 persons are employed in the restaurant sector (including bars, cafes and F&B outlets)
- Should expenditure fall by 10.6% as suggested by our survey, and sector employment falls proportionately, this equates to a direct loss of around 21,500 jobs in Hong Kong
- The scale of these job losses could potentially be increased by supply chain effects throughout the Hong Kong economy, although we do not expect these to be significant
- Individual businesses may respond to a ban-related loss of revenue through a variety of measures to increase turnover and reduce operating expenses. A drop in receipts may not necessarily lead to a proportionate change in sector employment

- Executive Summary
- Approach and Methodology
- Study Findings
- International Review

International review: overview of findings

Introduction	<ul style="list-style-type: none">■ An international review was conducted in 5 geographic locations: Australia, Vancouver, Canada, United Kingdom, California, US, and New York, US■ The review looked at what current legislation was in effect and what future legislation was to come into effect■ The review also looked at studies undertaken both prior and post smoking ban that were available in the public domain
Key points from the review	<ul style="list-style-type: none">■ A variety of studies had been undertaken which using many different approaches and providing of findings■ Studies undertaken before a ban were usually survey-based and questioned the likely change in habits of patrons and the anticipated changes in revenue from owners■ Studies undertaken after a ban were both survey-based (usually questioning owners on the revenue impacts of the ban) and revenue-income based, e.g. assessing changes in tax revenues of restaurants and bars after a ban■ Studies undertaken both pre and post ban had a mixture of results, with some stating a positive impact and some stating a negative impact to trade
Factors affecting the results	<ul style="list-style-type: none">■ The extent to which the legislation bans smoking within establishments and the types of establishments that are affected by a ban appears to have a strong relationship to the magnitude of trade impacts■ The geographic location of establishments affected by a ban, i.e. whether patrons could easily travel elsewhere to frequent an establishment not affected by a ban■ The spending characteristics of patrons, i.e. the majority of survey-based studies that questioned spending characteristics observed that smokers spend more, and therefore the greater the smoking propensity of patrons, the greater the impact is likely to be
Conclusion	<ul style="list-style-type: none">■ Factors affecting the results of studies are often unique to each location, which makes it more difficult to draw direct lessons for Hong Kong■ Within this limitation, however, the international review has been a useful exercise that illustrates the sensitivity of trade impacts to the way legislation is drafted and the local societal issues



Legislative overview

- **Australian Capital Territory** banned smoking in all restaurants in 2000
- **New South Wales** banned smoking in all restaurants in September 2000
- **Victoria** banned smoking in all restaurants in July 2001
- **Queensland** and **Tasmania** are expected to pass a Bill banning smoking by the end of 2001

Overview

Total population (Australia, 2000)	18.9mn ¹
Population over 15 years (Australia, 2000)	15.0mn ²
Smoking prevalence (aged 15+)	25.1% ³

Sources: (1) United Nations Population Division
(2) United Nations Population Division
(3) World Health Organisation

Reported Trade Impacts

- Australian Hotels Association (2000) reported the majority of survey respondents would not change the frequency of their visits to bars if a ban was put into place
- Victoria University (2000) from a post-ban survey of restaurant revenues, reported 76% of restaurants experienced no change, 8% an increase, 12% a decrease and 4% did not know. The overall net effect was a decrease of 0.5%
- The Journal of the American Medical Association (2000) reported that of the restaurants surveyed in South Australia, 78% of restaurants under a complete ban and 84% of restaurants under smoking restrictions experienced either an increase or no change in business
- An Auspoll survey for Philip Morris (2001) reported 50% of patrons surveyed would not change frequency of their visits to bars if a ban was put into place, 10% would frequent less and 40% would frequent more

Comments

- As the smoking bans are relatively new (the earliest was introduced mid-2000), data on their impact are not robust. However, studies to date generally suggest that the smoking ban is not being received negatively
- It is likely to take another year before revenues and tax receipts can be analysed from the restaurant trade to assess the trade impacts of the smoking bans



Legislative overview

- District councils in **Vancouver** have been banning smoking in restaurants and bars progressively between 1996 and 2000.
- The Workers Compensation Board (WCB) imposed a total ban on smoking in all enclosed public areas in January 2001, however, the ban was struck down in March 2001.
- The ban is due to come back into effect in 10 September 2001

Overview

Total population (Canada, 2000)	29.6mn ¹
Total population (Vancouver, 2000)	2.4mn ²
Population over 15 years (Canada, 2000)	23.6mn ³
Smoking prevalence (aged 15+)	24.9% ⁴

Sources: (1) United Nations Population Division
 (2) Statistics Canada
 (3) United Nations Population Division
 (4) World Health Organisation

Reported Trade Impacts

- CCG Consulting Group (1995) undertook a survey of patrons before a ban and reported that Vancouver would experience a net revenue decrease of US\$173mn (with the largest dollar decrease in bars), which translates into a revenue decrease of 7.9% and 5,131 jobs
- Hospitality Industry Standing Committee on Indoor Air Quality (1999) surveyed wholesalers selling beer kegs to bars and restaurants, and reported that establishments with a ban experienced decreased sales of 13.22% and establishments without a ban experienced decreased sales of 0.1%
- Workers Compensation Board (2000) reported that beer sales had increased by 4.5% over a year after the ban
- A group of restaurants is currently suing the Workers Compensation board for US\$40mn for revenues lost between the imposition ban in January 2001 and to its suspension in March 2001

Comments

- Studies on Vancouver's ban have reported some of the highest negative impacts to trade. This may largely be the result of the district councils introducing bans at separate times, leading to smoking patrons traveling between districts to an establishment not yet under a smoking ban
- After the WCB ban was struck down, the body produced a Regulatory Impact Statement which included a consultation process. As a result, it is likely that the reintroduction of the ban will remain in force



Legislative overview

There is currently no legislation in the UK that bans smoking in restaurants or bars. Restaurants and bars are individually responsible for their own smoking policies

Overview

Total population (UK, 2000)	58.8mn ¹
Population over 15 years (UK, 2000)	47.8mn ²
Smoking prevalence (aged 15+)	28.5% ³

Sources: (1) United Nations Population Division
(2) United Nations Population Division
(3) World Health Organisation

Reported Trade Impacts

- The Action on Smoking and Health and the South Staffordshire Smoke-Free Alliance (1999) undertook a test case study on 10 pubs which voluntarily introduced smoke free areas in the establishments. Revenue increased by 7%, and 74% of patrons approved of the no smoking areas

Comments

- The UK government's position on smoking, outlined in its 1988 document *Smoking Kills*, is that a universal ban on smoking in restaurants and bars is unjustified and a greater provision for non-smokers can be achieved through co-operation with industry
- The cited study was undertaken to present a case to the UK government for introducing smoke free areas in drinking establishments
- Few studies have been undertaken as a government-sponsored ban does not appear imminent



Legislative overview

California banned smoking in all restaurants in 1994 and in all bars in 1998. All attempts to repeal the ban have failed. California was the first US state to issue a state-wide ban on smoking

Country overview

Total Population (US, 2000)	224.4mn ¹
Total population (California, 2000)	33.9mn ²
Population over 15 years (US, 2000)	218.6mn ³
Smoking prevalence (aged 15+)	24.8% ⁴

Sources: (1) United Nations Population Division
 (2) US Census Bureau
 (3) United Nations Population Division
 (4) World Health Organisation

Reported Trade Impacts

- University of California San Francisco (1994) undertook a study of restaurants in 15 communities in California, reporting no adverse affect on revenues following as ban
- The Southern Californian Business Association (1995) surveyed a group of restaurants and reported that 48% experienced a decrease in revenue, 16% an increase and 36% no change
- The California Department of Health (1995) reported that restaurants revenues had increased by 4.3% within the first 6 months of the ban
- The California State Board of Equalization (1998) that tax receipts from bar revenues had increased year on year from 1997-1998 by 6.3%. In addition, tax receipts from the sale of wine had increased 6.1% and from other liquor by 5.1%
- The American Beverage Institute (1998) undertook a survey of restaurants and bars and reported that 59% of those surveyed reported an average decrease in revenue of 26%
- The Journal of the American Medical Association (1999) compared hotel revenues before and after regulations had been implemented against hotel revenues where no smoking policies had been in place for more than 4 years, reporting that there was no adverse affect to business
- FORCES (1999) reported that as a result of California ban, 1,039 restaurants have been forced out of business
- The Workers Compensation Board (2000) reported an increase of 6% growth in restaurant and bar revenues between 1998 and 1999 after the 1998 ban

Comments

- Studies undertaken on the trade impacts of the Californian ban report a mixture of results
- Due to its size and its early adoption of a smoking ban, California's experience has been widely studied



Legislative overview

New York City in 1995 banned smoking in restaurants of over 35 people and placed restrictions on bars within restaurants. A new bill is currently being proposed to ban all smoking in restaurants and bars within restaurants

Country overview

Total Population (US, 2000)	224.4mn ¹
Total population (NYC, 2000)	8.0mn ²
Population over 15 years (US, 2000)	218.6mn ³
Smoking prevalence (aged 15+)	24.8% ⁴

Sources: (1) United Nations Population Division
 (2) Department of Planning, NYC
 (3) United Nations Population Division
 (4) World Health Organisation

Reported Trade Impacts

- The Zagat Restaurant Guides annual survey (1995) of 16,000 restaurant patrons in New York City reported that respondents ate out more often in the 6 months since the ban
- Fabrizio, McLaughlin and Associates (1996) undertook a survey of establishments and reported that 67% of respondents reported a decrease in revenue, 4.7% an increase and 28.3% no change
- The Substance Abuse Policy Research Programme (1999) undertook a survey and reported a decrease in revenue of 4% in New York City
- Empire State Restaurant and Tavern Association (1999) reported an increase in jobs of 4% in New York City and a decrease in jobs of 5% in New York State
- The Journal of Public Health Management and Practice (1999) undertook a study of restaurant receipts and reported there was no negative impact to revenues
- The National Restaurant Association (1999) reported a relative decrease in restaurant receipts of US\$18.2bn after the ban, equivalent to 6.5% of food sales
- The Journal of the American Medical Association (2000) undertook a survey and reported an average 2% increase in revenues in restaurants falling under the smoking ban

Comments

- Studies undertaken on the trade impacts of the New York City ban report a mixture of results
- As a metropolitan area with a similar size population and a strong dining reputation, New York provides an interesting example for Hong Kong

International review: major studies in other North American locations



Location	Year of Ban	Author	Outcome Measure	Findings
Aspen, Colorado	1986	Aspen Resort Association (1990)	Taxable sales receipts retail	Increase in retail sales after ban
Boston	1998	Sollars and Ingram (1999)	Survey of patrons visiting and spending habits	Estimated \$40mn lost in restaurant sales and \$2mn in bar sales. A decrease in bar revenue of 14% and a decrease in restaurant revenue of 5%
Boulder, Colorado	1995	City of Boulder Colorado (1997)	Taxable sales receipts at restaurants	In 1995 there was an increase of 5.9%, smaller than 1994's increase of 8.5%, and above the average for retail sales receipts
Flagstaff, Arizona	1993	Sciacca & Ratliff (1998)	Taxable sales receipts ratio of restaurant sales to total retail sales	No significant affect on restaurant sales
Massachusetts	1998	Glantz (2000)	Taxable sales receipts from eating and drinking establishments	No significant change in taxable receipts
North Carolina	1993	Goldstein & Sobel (1998)	Taxable sales receipts as a fraction of restaurant sales/retail sales	Little fluctuation in fraction of restaurant sales to retail sales
Quebec	-	Cremieux & Oulette (2001)	Survey of proprietor's estimates on revenue expectations	None of the restaurants expected decreased revenues.
San Luis Obispo	1990	Taylor Consulting Group (1993)	Taxable sales receipts	No significant effects on profitability of restaurants and bars, and no impact on sales tax revenues
Toronto	1996	CCG Consulting Group (1996)	Patron surveys prior to a ban	The ban would result in a negative impact of 10.5% to restaurants and bar revenues, which translates into an estimated 7,550 jobs
West Lake Hills, Austin, Texas	1993	Huang et al (1995)	Taxable sales receipts	No decrease in taxable sales receipts
Winnipeg	1993	Stanwick et al (1998)	Survey of proprietor estimates in sales changes	2% stated the ban had a negative impact and 96% indicated there was no effect