



CB(1)1728/06-07(03)

Baci . Baci Pizza . Café des Artistes . California . C bar . Indochine 1929
Kyoto Joe . LUX . Thai Lemongrass . Tokio Joe . Twentyonetwentyone . The Whiskey Priest
Park 97, Shanghai . Silk, Phuket

22nd May, 2007

Dear Sirs,

In reply to your fax dated 15th May 2007 regarding the upcoming meeting concerning the response to the reduction in alcohol taxation, kindly see our answers to your queries below. We look forward to discussing each point in more detail on Friday.

- (a) apparently, the reduction in duty on alcoholic beverages has not been reflected in the retail prices of the alcoholic beverages concerned;

Within our group of bars and restaurants, we implemented a reduction in list prices of drinks which were affected by the tax reductions on Saturday 3rd March 2007 (the first Saturday after the announcement). This was in order to pass on some of the perceived benefits of the lowering of duties to our customers. However, for various reasons we have observed that this has not necessarily been the case across the board in other outlets in Hong Kong.

- (b) the reasons for the phenomenon at (a);

There are a variety of factors influencing the eventual price reduction or lack thereof. As mentioned in (a), our group is offering reduced prices regardless of external factors, oftentimes at the expense of our profit margin. Depending on operating and other expenses, the reduction on the base price of the alcohol products may only translate into a minor reduction in list price to the consumer. See (c) for more details.

- (c) the price adjustment mechanism for the alcoholic beverages concerned and the different practices, if any, adopted in making price adjustments for wine and beer following the reduction in duty;

Besides the duty levied on alcohol products, a large collection of operating and marketing costs also eventually determine the list price presented to the customer. Other external factors, such as a reduction in supply or increase in demand of rare products, currency fluctuations etc., can also influence the final price. For these reasons, the percentage reduction in the tax on the alcohol products does not translate into a predetermined reduction in the list price for the consumer. The reductions we implemented in our group cover quite a broad range, varying from product to product, but we have made every attempt to make the benefits as clear as possible to our consumers.

We are confident that the market will eventually reach a fair equilibrium price for each product affected by the reduction in import duty.

- (d) the anticipated benefits, if any, brought about by the proposed reduction to customers.

Consumers always appreciate lower prices, so by reducing our menu prices we have seen an increase in consumption and positive feedback, which in turn promotes brand loyalty.

In general, the reduction of import duties on alcoholic beverages is very important for Hong Kong. We must remain competitive with regards to our neighbours in the fields of business and tourism. Dining is a very important aspect of this and perceived value is an important factor in determining our competitiveness to both locals as well as visitors.