

THE EXPERIENCE GROUP

CB(1) 1739/02-03(01)

Hong Kong, May 19, 2003

Bills Committee
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Sirs,

During the Bills Committee on May 16 the Government stated that there are clear signs that market has accepted the tax increase - if my notes are correct, Mr Glass stated that the sales volume in April is back to 75% of last year and FRT revenue was HK\$177 million.

This was stated in an attempt to discredit the arguments from the industry representatives that the industry is in trouble, and that the Government will collect less than they have anticipated as a result of the tax increase.

Note that these numbers quoted are an aberration and that the increased revenue is not sustainable. In financial markets we call such temporary improvement a 'dead cat bounce'.

Car distributors have been liquidating their existing stock of cars in April at pre-FRT rates, while paying the government the new tax rates. Dealers have been reducing stock levels, bank debt and have moved out older models at old retail prices, prior to launching new models at the new retail prices. In fact, from MTA sales numbers it appears that consumers took this as their last opportunity to buy expensive cars - knowing they will not be able to afford one in the future.

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On behalf of
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