

Passing on tax savings to consumers:

Delivering on the pledge

Prepared by
Hong Kong Wine & Spirits Industry Coalition

25 May, 2007



Background

The 2006/2007 Budget

- > On Feb 28th, 2007, the government announced a reduction in the *ad valorem* duties on wine products from 80% to 40%
 - > The HKWSIC welcomes the Financial Secretary's decision
 - > We consider this an important first step for the tax regime
- > The HKWSIC believes the tax reduction is good for Hong Kong
 - > Consumers: Will not need to 'trade down' to the same degree
 - > Economy: Beneficial implications for the competitiveness of several sectors
 - > Government: Tax revenue could increase in the long-run
- > On 19th December, 2006, the coalition made the following pledge:

HKWSIC is committed to passing on tax savings to consumers

- > The coalition remains fully committed to this statement



Passing on tax savings

Actions taken by the coalition

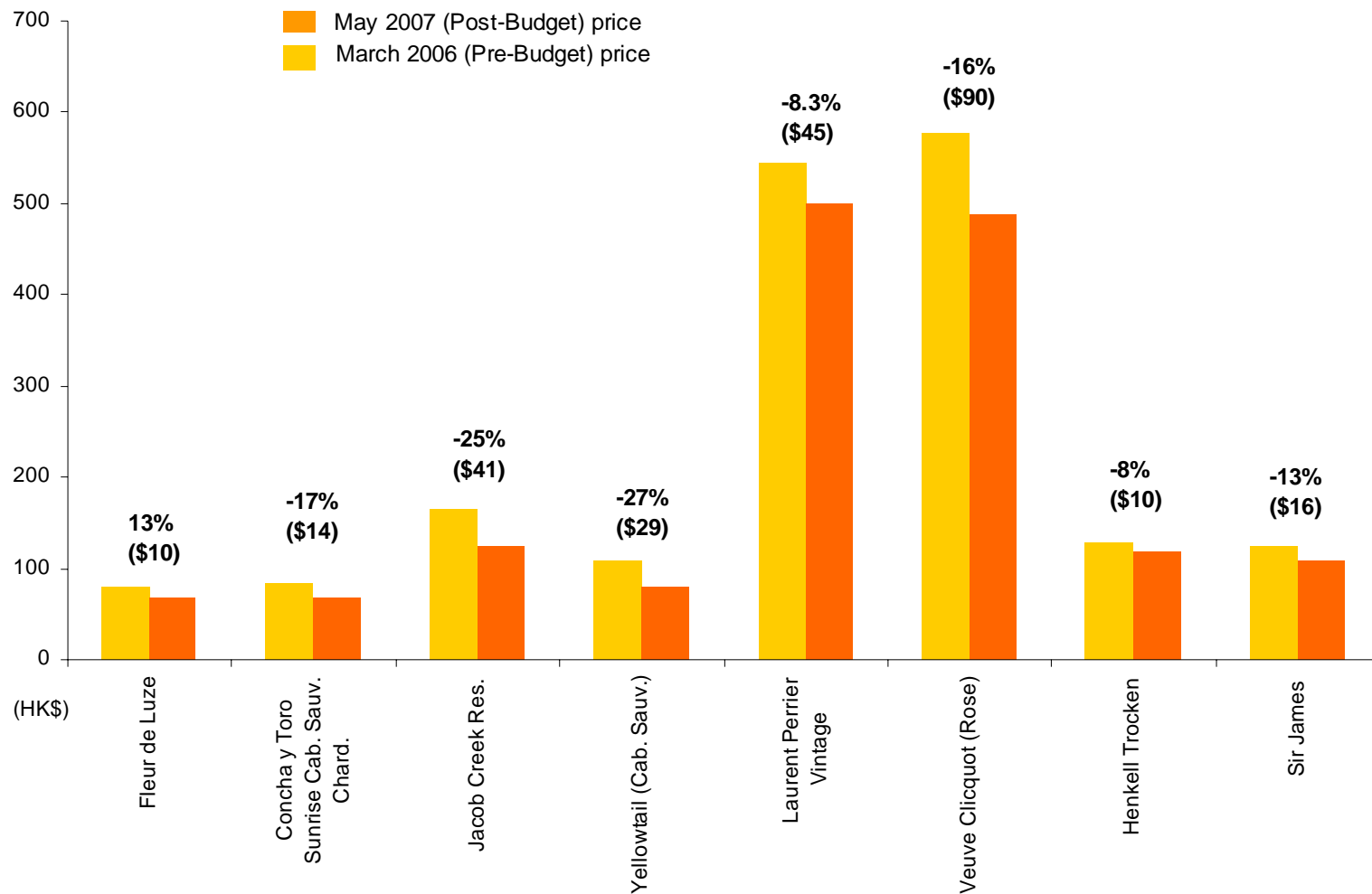
- > March, 2007: Letters to the trade
 - > Following the Budget announcement, the coalition distributed letters to the trade
 - > The letters highlighted the new prices lists, fully reflective of the wine tax reduction

- > April, 2007: Price lists effective
 - > In most cases, the new price lists of the HKWSIC and most suppliers became active as of 1st April, 2007
 - > Wine products began selling at the new post-Budget prices

- > Ongoing work
 - > Proactively working with the trade to have prices reduced
 - > Consistently monitoring and reviewing prices
 - > The HKWSIC remains open and is willing to engage stakeholders about the key issues

Passing on tax savings Evidence of price reductions

IWSR data on some 90 brands shows an (unweighted) average price reduction of 15%



Source: IWSR store checks, March 2006 and May 2007 (Random sample from full data set – see Appendix 2)

Passing on tax savings

Working example: Brand X

Brand x	Price/bottle ¹	
	March 2006 (80%)	May 2007 (40%)
- Ex-producer costs	HK\$21	HK\$21
- Duties	HK\$17	HK\$8
Landed cost in Hong Kong	HK\$38	HK\$29
Retail price	HK\$75	HK\$58
Percentage change	-	-23%

Source: IWSR store checks, March 2006 and May 2007

Note 1: Rounded to the nearest HK\$

- > While tax is a fixed cost, there are also many variable costs, eg. supply and demand, labour, and exchange rate fluctuations → This is responsible for variations in price reductions
- > The public often does not understand that a 50% tax reduction does not translate into a 50% price reduction

Passing on tax savings

Retail consumption

Retail consumption

- > Supermarket chains as well as small retailers are passing on savings
- > Approximately 70% of Hong Kong's wine market is sold at retail level



Source: The Sun, March 2007

Wine supply chain

- > The supply chain responded quickly to the new tax rates
 - > Generally there are 3-4 months of duty-paid stock in the wine supply chain
 - > This represents an estimated HK\$150 mn in duty revenue (at 80% tax)
 - > In turn, this created significant cost pressure on wine companies, especially to smaller importers, wholesalers, and restaurant and bar operators



Passing on tax savings

Out of home consumption

Out of home consumption

- > 'Out of home' consumption accounts for approximately 30% of the remaining Hong Kong market
- > The Lan Kwai Fong Group were amongst the first to pass on savings to consumers following the tax reduction
 - > LFK Group are one of Hong Kong's largest restaurant and bar chains
 - > New prices became effective around March 4th, 2007
- > Aqua Group, another large restaurant operator was fast to lower prices
 - > New prices became effective around April 1st, 2007
- > The HKWSIC will continue to outreach to other hotels, restaurants and bars to ensure that savings are passed on
 - > For restaurants, reprinting and re-pricing menus may take time

In the longer-term, market forces will inevitably drive down consumer prices



Passing on tax savings About the coalition

> About the Coalition

- The Hong Kong Wine and Spirits Industry Coalition (HKWSIC) represents wine and spirits manufacturers, distributors and retailers in Hong Kong.
- Our six affiliated members include Jepsen & Co. Ltd; Maxxium Hong Kong Ltd; Pernod Ricard HK Ltd; Ponti Trading Ltd; Moet Hennessy Diageo; Wellcome (wine section).
- Together, the HKWSIC represents over 80 leading brands of wine and spirits and is a member of the Food, Drink & Grocery Association.
- The HKWSIC remains committed to passing on tax savings to consumers, and working to ensure this is done in an appropriate manner.

Passing on tax savings Appendix (1)

> Sample 'letters to the trade', issued by HKWSIC members in March

MAXXIUM

O'Ref : RN2A/117/07

2nd March 2007

Dear Valued Customer,

RE: TRADE PRICE ADJUSTMENT

We are delighted with the announcement from the Hong Kong Government to reduce the duty on wines from 80% to 40% with immediate effect.

We are currently working on producing a new trade price list to reflect those reductions which will be launched on 1st April 2007. While this work is being completed we are pleased to offer 8% off all wines listed on our current trade price list until 31st March 2007.

Please note that this offer applies only to trade list prices and does not affect existing price agreements / supply contracts.

We look forward to working with you on extending these savings to end consumers.

MAXXIUM HONG KONG LIMITED



Robert R. Temple
Wine Director

Maxxium Hong Kong Limited
20/F., Two Chinachem Exchange Square
338 King's Road, North Point, HK
Tel: 2831 7206
Fax: 2576 3315
e.c.: WC/AN/JC/PW/SC/AL

MHD
M. HENNESSY DIAGEO

9 March 2007

Dear Sir/Madam

RE: NEW WINE & CHAMPAGNE PRICES

We were delighted to receive the news of the Hong Kong government's decision to reduce the tax rates on wine and alcoholic beverages with alcohol content below 30%, as announced in the 2007/2008 Budget.

We are very pleased to pass on the savings to you. The actual savings vary between the different products. Please find attached our new price list, effective from 1st April 2007.


These price reductions will be beneficial for your business and consumers in Hong Kong. We'd like to thank you for your continuous support. Please do not hesitate to contact us in case of any queries.

Yours faithfully



Boris de Vroomen
Managing Director
BdVini

End


Pernod Ricard Hong Kong

March 7, 2007

NEW TRADE PRICE AFTER ALCOHOLIC DUTY CHANGE

Pernod Ricard Hong Kong is delighted to advise that on February 28th 2007, the Government of the HKSAR announced the following reduction in the Ad-Valorem duty rates: -

Wines / Champagnes from 80% to 40%
Other types of Liquor under 30% of alcohol from 40% to 20%

As a consequence, Pernod Ricard Hong Kong, a member of the Hong Kong Wine & Spirits Industry Coalition, is committed to fully pass on these duty savings to our customers. **Therefore, our new trade price list, reflecting these savings, will be effective from 7th March 2007**, and your local sales representative will be in contact shortly to confirm the new prices with you directly.

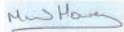
However, it is also critical that we have your full support to pass on these reductions to your consumers, as it presents a wonderful opportunity to invigorate consumption and provide a boost to all those involved directly and indirectly in the industry.

The expected retail price reductions and subsequent consumer benefits will also allow us, in the future, to lobby the Government for further duty reductions across all alcoholic categories.

If you have any questions, then please do not hesitate to contact our sales representatives.

We thank you in advance for your cooperation and look forward to a very promising year ahead.

Yours sincerely,



Martin HOWEY
Managing Director
Pernod Ricard Hong Kong



Passing on tax savings Appendix (2)

> **International Wine & Spirit Record (IWSR)**

- > Independent supplier of wine trade data
- > Available data for Hong Kong (2006-2007) covers some 90 brands

Key Facts:

- Founded in 1971 as the subsidiary of the market research company System Three Communications
- Encompasses research on 220 countries and territories
- Focused exclusively on the global alcoholic beverage market
- Over 12,000 brands in the database
- Based in the United Kingdom, Headquarters in London
- For more information, visit the IWSR website:
 - <http://www.iwsr.co.uk/>

Passing on tax savings

Appendix (2)

THE **IWSR**

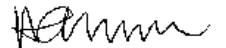
254-258 Goswell Road, London EC1V 7ED
T 44 20 7089 0841 F 44 20 7820 8027
E info@iwsr.co.uk W www.iwsr.co.uk

Monday, 21 May 2007

Boris de Vroomen,
Co-Chairman
Hong Kong Wine & Spirits Industry Coalition
9/F, Cambridge House
Taikoo Place
979 King's Road
Hong Kong

Further to your request we share the Hong Kong wine retail price survey which we have just completed. We send this ahead of the full annual 2006 Hong Kong market report which you will be available in due course.

Yours Sincerely,



Helena Quinn
(Office Manager)

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Passing on tax savings

IWSR data: Hong Kong

Brand	Bottle size	Price-HKD (2006)	Price-HKD (2007)	Variance (HKD)	Variance (%)
French					
Fleur de Luze	75cl	79.0	69.0	(10.0)	-12.7%
Fortant Varietals	75cl	75.0	72.0	(3.0)	-4.0%
French Cellars	75cl	69.0	65.0	(4.0)	-5.8%
Louis Bernard Rhone	75cl	129.0	109.0	(20.0)	-15.5%
Mouton Cadet Rouge	75cl	139.0	119.0	(20.0)	-14.4%
Pigalle	75cl	43.0	39.0	(4.0)	-9.3%
Own Lable V de T Blanc	75cl	50.0	45.0	(5.0)	-10.0%
Italian					
Frescobaldi Chianti	75cl	109.0	112.0	3.0	2.8%
Ruffino Chianti	75cl	158.0	129.0	(29.0)	-18.4%
Carrizal	75cl	99.0	69.0	(30.0)	-30.3%
Nueve dos	75cl	32.0	28.0	(4.0)	-12.5%
Torres Sangre de Toro	75cl	79.0	69.0	(10.0)	-12.7%
Portuguese					
Mateus Rose	75cl	83.0	65.0	(18.0)	-21.7%
Mateus Signature	75cl	102.0	85.0	(17.0)	-16.7%
United States (Cabernet Sauvignon)					
Canyon Road	75cl	79.0	72.0	(7.0)	-8.9%
E&J Gallo Sierra Valley	75cl	69.0	57.8	(11.2)	-16.2%
Glen Ellen	75cl	79.0	79.0	0.0	0.0%
Robert Mondavi Woodbridge	75cl	95.0	79.0	(16.0)	-16.8%

Source: IWSR store checks, March 2006 and May 2007

Passing on tax savings

IWSR data: Hong Kong

Brand	Bottle size	Price-HKD (2006)	Price-HKD (2007)	Variance (HKD)	Variance (%)
United States (Other)					
Carlo Rossi Californian Red	75cl	42.0	34.8	(7.2)	-17.1%
Carlo Rossi Californian White	1.5L	72.0	59.9	(12.1)	-16.8%
Franzia	75cl	35.0	32.0	(3.0)	-8.6%
Paul Masson Carafe	1L	79.0	39.5	(39.5)	-50.0%
Wild Vines	75cl	39.0	35.0	(4.0)	-10.3%
Chilean					
Augustinos	75cl	89.0	59.0	(30.0)	-33.7%
Caliterra Cab. Sauv. /Chardonnay	75cl	72.0	98.0	26.0	36.1%
Concha y Toro Casillero de Diablo	75cl	109.0	79.0	(30.0)	-27.5%
Concha y Toro Frontera Cab. Sauv.	75cl	72.0	49.0	(23.0)	-31.9%
Concha y Toro Sunrise Cab. Sauv. Chard.	75cl	83.0	69.0	(14.0)	-16.9%
Concha y Toro Trio	75cl	99.0	79.0	(20.0)	-20.2%
Ladera Verde	75cl	35.0	35.0	0.0	0.0%
Argentinian					
Etchart Arnaldo B	75cl	169.0	119.0	(50.0)	-29.6%
Etchart Chardonnay	75cl	115.0	89.0	(26.0)	-22.6%
Australian (Chardonnay)					
Brown Brothers	75cl	159.0	139.0	(20.0)	-12.6%
Eaglehawk	75cl	109.0	65.0	(44.0)	-40.4%
Hardy's Nottage Hill	75cl	75.0	57.9	(17.1)	-22.8%
Hardy's VR	75cl	69.0	49.5	(19.5)	-28.3%
Jacob Creek Res.	75cl	165.0	124.0	(41.0)	-24.8%
Jacob's Creek	75cl	95.0	82.0	(13.0)	-13.7%
Lindemans Bin Range	75cl	99.0	74.0	(25.0)	-25.3%
Lindemands Cawarra	75cl	85.0	50.0	(35.0)	-41.2%
Penfolds K. Hill	75cl	165.0	99.0	(66.0)	-40.0%
Penfolds Rawsons R.	75cl	79.0	75.0	(4.0)	-5.1%
Wolf Blass Yellow	75cl	99.0	85.0	(14.0)	-14.1%
Yellowtail	75cl	109.0	80.0	(29.0)	-26.6%

Source: IWSR store checks, March 2006 and May 2007

Passing on tax savings

IWSR data: Hong Kong

Brand	Bottle size	Price-HKD (2006)	Price-HKD (2007)	Variance (HKD)	Variance (%)
Australian (Cabernet Sauvignon)					
Flinders Choice	75cl	99.0	65.0	(34.0)	-34.3%
Hardy's Nottage Hill	75cl	75.0	65.0	(10.0)	-13.3%
Hardy's VR	75cl	55.0	49.0	(6.0)	-10.9%
Houghton	75cl	99.0	109.0	10.0	10.1%
Jacob's Creek	75cl	95.0	82.0	(13.0)	-13.7%
Lindemans Bin Range	75cl	85.0	74.0	(11.0)	-12.9%
Penfolds Rawsons Retreat	75cl	79.0	75.0	(4.0)	-5.1%
Rosemount	75cl	119.0	119.0	0.0	0.0%
Wolf Blass Red	75cl	99.0	79.0	(20.0)	-20.2%
Wyndham Est.	75cl	115.0	108.0	(7.0)	-6.1%
Yellowtail	75cl	109.0	80.0	(29.0)	-26.6%
Australian (Wine Casks)					
Frantzia	3L	89.0	89.0	0.0	0.0%
Stanley	4L	129.0	135.0	6.0	4.7%
Stanley	2L	99.0	89.0	(10.0)	-10.1%
New Zealand					
Nobilo Varietals	75cl	99.0	79.0	(20.0)	-20.2%
South African					
Cape Soleil Merlot	75cl	69.0	49.0	(20.0)	-29.0%
KWV Cape Vin Rouge	75cl	59.0	49.0	(10.0)	-16.9%
KWV Pinotage/Chardonnay	75cl	79.0	65.0	(14.0)	-17.7%
Chinese					
Dynasty	75cl	79.0	69.0	(10.0)	-12.7%
Great Wall Cabernet	75cl	115.0	79.0	(36.0)	-31.3%
Champagne (Super Premium)					
Belle Epoque	75cl	1999.0	1108.0	(891.0)	-44.6%
Dom Perignon Vintage	75cl	11500.0	9200.0	(2300.0)	-20.0%
Roederer Vintage	75cl	1018.0	1018.0	0.0	0.0%
Veuve Clicquot Grande Dame	75cl	1488.0	1288.0	(200.0)	-13.4%

Source: IWSR store checks, March 2006 and May 2007

Passing on tax savings

IWSR data: Hong Kong

Brand	Bottle size	Price-HKD (2006)	Price-HKD (2007)	Variance (HKD)	Variance (%)
Champagne (Premium)					
Billecart-Salmon	75cl	469.0	469.0	0.0	0.0%
Bollinger	75cl	569.0	525.0	(44.0)	-7.7%
Lanson	75cl	388.0	389.0	1.0	0.3%
Laurent Perrier	75cl	485.0	470.0	(15.0)	-3.1%
Laurent Perrier Vintage	75cl	545.0	500.0	(45.0)	-8.3%
Moet et Chandon	75cl	365.0	335.0	(30.0)	-8.2%
Mumm	75cl	438.0	378.0	(60.0)	-13.7%
Nicolas Feuillate	75cl	389.0	389.0	0.0	0.0%
Perrier Jouet	75cl	650.0	449.0	(201.0)	-30.9%
Piper Heidsieck	75cl	339.0	318.0	(21.0)	-6.2%
Veuve Clicquot	75cl	385.0	375.0	(10.0)	-2.6%
Champagne (Rose STD)					
Moet et Chandon	75cl	518.0	448.0	(70.0)	-13.5%
Piper Heidsieck	75cl	525.0	550.0	25.0	4.8%
Veuve Clicquot	75cl	578.0	488.0	(90.0)	-15.6%
Champagne (Rose Super Premium)					
Dom Perignon	75cl	2600.0	3252.0	652.0	25.1%
Other Sparkling Wines (French)					
French Cellars	75cl	99.0	69.0	(30.0)	-30.3%
Other Sparkling Wines (Spanish)					
Cristalino	75cl	75.0	59.0	(16.0)	-21.3%
Other Sparkling Wines (German)					
Henkell Trocken	75cl	129.0	119.0	(10.0)	-7.8%
Other Sparkling Wines (Australian)					
Green Point Brut	75cl	259.0	265.0	6.0	2.3%
Jacob's Creek	75cl	125.0	92.0	(33.0)	-26.4%
Sir James	75cl	125.0	109.0	(16.0)	-12.8%

Source: IWSR store checks, March 2006 and May 2007



Thank you