

財經事務及庫務局

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FINANCIAL SERVICES AND THE
TREASURY BUREAU

24/F, Central Government Offices,
2 Tim Mei Avenue, Tamar
Hong Kong

14 January 2013

By Fax : 3529 2837

Clerk to the Panel on Financial Affairs
Legislative Council
Legislative Council Complex
Legislative Council Road
Central, Hong Kong
(Attn: Ms Angel Shek)

Dear Ms Shek,

**Panel on Financial Affairs
Follow-up to meeting on 3 December 2012**

Thank you for your letter of 3 December 2012. The information requested by the Hon Wong Ting-kwong is set out in the ensuing paragraphs.

In the 2005-06 Budget, the then Financial Secretary proposed to abolish estate duty, and in the 2008-09 Budget, the Financial Secretary proposed to exempt duties on wine and liquor with an alcoholic strength of not more than 30%. Since the items are no longer subject to tax, we do not have information on the tax revenue forgone after the abolition of the duties.

As regards the benefits arising from the abolition of estate duty, the financial industry generally agrees that the measure has generated positive impact and is conducive to the long-term development of the asset management business and the financial sector as a whole. Our asset management business and investment environment have become even more attractive and competitive following the abolition of the tax. Nevertheless, since investment decisions are often influenced by many factors, it is difficult to give an accurate assessment on the additional amount of investment induced solely by the abolition of estate duty.

On asset management business, there was a 36% growth in Hong Kong's combined fund management business, from \$4,526 billion in 2005 to \$6,154 billion in 2006, the year in which estate duty was abolished. While we saw continuous expansion in asset management business in subsequent years, both in size and growth rate, the financial challenges ahead and persistent concerns over the global

economic outlook had a knock-on effect on the asset management industry in 2011. Consolidated statistics are set out as follows –

As at year end of	Combined fund management business (HK\$ billion)¹	Growth rate
2004	3,618	+22.8%
2005	4,526	+25.1%
2006	6,154	+36.0%
2007	9,631	+56.5%
2008	5,850	-39.3%
2009	8,507	+45.4%
2010	10,091	+18.6%
2011	9,038	-10.4%

The number of staff involved in the fund management business jumped from about 16 100 in 2005 to about 31 000 in 2011.

Regarding wine business, riding on growing demand for wine across Asia, particularly the Mainland, the industry has responded positively since the wine duty exemption was effected in February 2008. There has been much business growth. Total wine imports into Hong Kong amounted to about \$3.2 billion in 2008-09 and it rose to \$9.4 billion in 2011-12, representing an increase of 194%. Moreover, up to end 2011, about 700 new wine-related companies have been set up ever since the wine duty exemption. Hong Kong has also become the largest wine auction centre in the world in 2011 and 2012, according to the industry.

The growth in wine business has brought direct economic benefits to wine trading, distribution, auctions as well as other related economic activities such as catering services, tourism, brand promotion and exhibitions, wine appreciation and related educational activities. Nevertheless, wine duty exemption is only one of the many contributory factors affecting the development of the wine-related economic activities. Companies' profitability is also affected by other factors, including their cost-effectiveness, management efficiency and market competitiveness as well as the general economic conditions. Likewise, cyclical changes in the domestic and global markets also affect the performance of Hong Kong's wine trade. It is thus difficult to isolate the direct impact of wine duty exemption on the Hong Kong economy from all these effects.

¹ "Combined fund management business" comprises fund management business and real estate investment trusts management business authorised by the Securities and Futures Commission.

To better gauge the benefits of the further development of wine-related business in Hong Kong, the Commerce and Economic Development Bureau carried out in mid-2010 a survey with the following findings -

- (a) companies received \$5.5 billion wine-related business receipts in 2009, representing an increase of over 30% as compared with \$4.1 billion in 2007; and
- (b) in 2008 and 2009, the number of persons engaged in wine-related business increased by more than 5 000, bringing the total to nearly 40 000 by end 2009. The number of job increase is equivalent to about 1 000 full-time jobs.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Shirley Kwan', written in a cursive style.

(Ms Shirley Kwan)
for Secretary for Financial Services and the Treasury