DEPARTMENT OF

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Hong Kong Food Market Trends

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Victoria
The Place To Be

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Produced by: Agribusiness Group
Department of Primary Industries
1 Spring Street
PO Box 4440
Melbourne
Victoria 3001

Author: Kit Chung
University of New England student working with the DPI Agribusiness Group

Editor: Kira Goodall
Market Information Officer, Strategic Market Analysis
Agribusiness Group

EXECUTIVE SUMMARY

This report provides a general overview of the Hong Kong food market. It aims to identify opportunities for Victorian agri-food producers and exporters by examining current food trends and barriers in Hong Kong.

Hong Kong is an affluent economy and a free market with almost zero import tariffs (with four category exceptions, including an 80% tariff on wine). It is a net food importer, and a market opportunity for high value food and beverages. Hong Kong is also a gateway for greater China's food market, and a good test market for other parts of Asia.

Australia, with $786 million of food exports, is the fourth largest food exporter to Hong Kong, after China, USA and Brazil, with Victoria exporting $216 million of food to Hong Kong in 2005-06 (Vic DPI, 2006). Opportunities for Australian and Victorian food exports include fruit and vegetables, seafood, wine, dairy products, meat and functional foods.

The key driving forces for Hong Kong food trends are food safety, increasing health consciousness, changing demographics and busy lifestyles. Some significant emerging food consumption trends include organic food; functional food; chilled and frozen meat; convenience food; snack food; and food for gifts. Opportunities for Victorian food exports are predicted to develop around safe, healthy, nutritional and convenient food.

Supermarket chains and department stores, 'speciality' stores, traditional markets and convenience stores are the major food retail channels in Hong Kong. Despite some challenges presented by the bargaining power of the major supermarket players, supermarket chains and 'speciality' stores present an effective distribution channel for imported food. There are limited opportunities for imported Victorian food in traditional markets and convenience stores, due to the challenges of competing on price and the characteristics of the market segments served by these channels.

The food service sector in Hong Kong includes hotels, restaurants and institutions (airlines and hospitals). Due to the growth of tourism, demand for quality food is expected to increase at five star hotels and high end restaurants. There is also a trend for non-Chinese restaurants emerging, including Japanese food, fast food, coffee and snacks, and casual dining restaurants. Further research is required to analyse the potential of the airline and hospital sectors in Hong Kong.

Hong Kong consumers are not generally brand loyal and are relatively price sensitive with consumer preferences for small and convenient packaging. Premium Western food products are popular among younger age groups within middle to high income segments. The perception of a 'clean and green' production environment, high food safety standards and non-GM food is a source of potential competitive advantage. Promotion opportunities for Australian and Victorian producers in the Hong Kong market include in-store promotion, international trade shows and menu promotions, with in-store promotion a particularly effective tool in this market.

Import regulations and standards, food labelling, organic certification and tariffs are relatively lenient in Hong Kong, particularly with the principle of a free economy and policy of zero tariffs on almost all food product imports.

Different taste preferences in Hong Kong mean that prior market testing is an important step in developing and promoting a new food product in the market. Local agents or importers are the major distribution channels for imported food, with suitable selection of an agent and long term relationship building important factors for success.

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1.1 Introduction

This report provides a general overview of the Hong Kong food market. It aims to identify opportunities for Victorian agri-food producers and exporters by examining current food trends and barriers in Hong Kong.

1.2 Hong Kong Special Administrative Region (SAR) Overview

Hong Kong is a densely populated region with 6.99 million residents. It covers Hong Kong Island, Kowloon Peninsula, the New Territories and 262 outlying islands, with a total area of only 1,104 square kilometres; all identified as one metropolitan area. Hong Kong is situated at the south-eastern tip of China (HKSAR, 2006a; USDA, 2006b).

Figure 1: Map of Hong Kong Special Administrative Region

Source: HKSAR, 2006

On 1 July 1997, Hong Kong reverted to Chinese sovereignty as a Special Administrative Region of the People's Republic of China. Hong Kong Special Administrative Region (HKSAR) governs itself autonomously except for foreign affairs and security. The Chief Executive is the head of Hong Kong (AUSTRADE, 2006 & HKSAR, 2006a).

Hong Kong is an affluent economy and a free market with almost no tariffs (except on four categories, including an 80% tariff on wine) and a Gross Domestic Product (GDP) of AU$228 billion in 2005. Mainland China is Hong Kong's largest trading partner and the second largest source of external investment. Hong Kong is the key offshore capital-raising centre for Chinese enterprise.

Due to geographical proximity, mature logistic infrastructure, reliable finance and banking systems, linguistic and cultural similarities and good political and trading relations, Hong Kong also acts as a gateway market to China. In the past Hong Kong was recognised as a 'grey channel' for re-exports to China (technically illegal trade). However, since China joined the WTO in 2001, the importance of the 'grey channel' has declined due increased trade liberalisation in China (HKSAR, 2006a & 2006b; USDA, 2006b; Vic DPI, 2006).

2. FOOD MARKET

Due to limited domestic agricultural production and rapid urbanization, Hong Kong relies on food imports for most of its requirements. In 2005, total expenditure on food and beverage products was nearly $14 billion by 6.99 million Hong Kong residents and 23 million tourists (USDA, 2006b).

In 2005, Hong Kong imported $5.3 billion worth of high value food and $1.9 billion worth of fish & seafood products (USDA, 2006c). This high level of food & beverage imports is a result of relatively high average incomes in the market. However, the market is sophisticated and can be fiercely competitive.

Opportunities for Victorian food exports include fruit and vegetables, seafood (mostly abalone, scallops and live lobsters), wine, dairy products, meat and functional foods (AUSTRADE, 2006).

2.1 Food Consumption Trends

Hong Kong food consumption trends are currently driven by several factors, including food safety, health consciousness, changing demographics and busy lifestyles.

Recent food safety crises in Hong Kong have lead to growing concerns of food safety and hygiene, particularly with imports from China. Significant recent events have included the incidents of avian flu (H5N1), contaminated fish and pork, vegetables with excessive or banned pesticides and counterfeit food (USDA, 2004a).

The trend for healthy eating in Hong Kong means customers are increasingly demanding healthier, fresher and higher nutritional food. Therefore, consumer preferences for fruits, vegetables, poultry and low fat and low sugar content products are increasing. Consumer awareness of product and ingredient origins has also increased, leading to stricter import quarantine regulations and standards (USDA, 2006)

Figure 2: Wellcome supermarket, Hong Kong

An increasing number of women in the work force (51.8%), and the growth in the number of single person households and the elderly have led to potential opportunities in convenience food (USDA, 2006). Busy lifestyles and shorter and easier meal preparation with convenience food underpin this growing trend. In particular the time pressures on many women who are both working and maintaining a traditional responsibility for household duties, provides opportunities for convenience food.

2.1.1 Organic and Natural Food

Sales of organic products have been increasing steadily in Hong Kong, with the choice of organic items also expanding to over 2000 items. The most popular organic products include vegetables, fruits, fruit juices, fresh meat, eggs and baby food (NPEA, 2006).

A key driving force for this emerging trend has been several recent food safety incidents in Hong Kong, with demand for food products without chemicals and pesticides increasing. A change in diet towards healthy eating is also an important factor contributing to this trend (USDA, 2004).

Some retail chains have already recognised the organic food trend. The two dominant supermarkets, Park N' Shop and Wellcome, together with department stores, such as CitySuper, Jusco and Sogo, have set up separate organic food sections or allocated retail space to organic products in most of their stores. It is worth noting that ThreeSixty (Dairy Farm), Asia's largest retailer for natural and certified organic food, opened in Hong Kong's CBD recently. Its organic retail set up provides a mix of a take-home food store (grocery and fresh products) and a food hall for tasting new products (NPEA, 2006).

Independent natural and organic retail outlets are also a significant distribution channel for this emerging trend. Major retailers include GreenDotDot, Green Concepts and Health Gate, with over 300 retail outlets. Outlets are positioned in strategic locations such as the MTR (subway), KCR (train) and shopping malls (NPEA, 2006; USDA, 2006b).

The Hong Kong government is playing a role in facilitating local organic farming, mainly through the Agriculture, Fisheries and Conservation Department (AFCD) and the Vegetable Marketing Organization (VMO), including the promotion of organic vegetables and the implementation of organic certification (AFCD, 2006). Meanwhile, the current price discrepancy between organic and conventional foods of around 10%, reducing over time.

Figure 3: Organic vegetable bucket in Hong Kong market

2.1.2 Functional Food

Driven by factors such as the ageing population, functional foods appear to have the potential to become a significant food trend in Hong Kong. Popular functional foods include whole/high fibre products and functional beverages include fruit juice with added supplements/vitamins, fermented drinks with good bacteria and soy milk (USDA, 2006b).

2.1.3 Chilled and Frozen Meat

Consumer preferences are moving from fresh meat towards frozen meat as chilled and frozen meat is perceived as being safer and more hygienic. In addition, the busy lifestyles of working women are a driving force for this trend with daily food shopping becoming less common.

In Hong Kong, the level of competition in poultry and meat supply between Chinese, Brazilian and US suppliers, means there may be more opportunities in niche market supply, for example premium organic beef. Furthermore, due to the decrease in consumer confidence in traditional meat products like poultry and beef, there is an opportunity for the promotion of new meat products, such as goat and emu.

2.1.4 Convenience Food

Dual income families, smaller households, an ageing population and busy lifestyles have brought about an increasing demand for convenience food. In response, the major supermarket chains in Hong Kong have increased the retail space for ready-made meals (usually using a microwave to reheat); and restaurants offer neatly packaged food-to-go. Significant convenience food products in Hong Kong are instant noodles, cup noodles, frozen and canned meals and instant soup. This packaged food trend is also linked to the trend for healthy food, such as low-fat and no added sugar. Good taste and product convenience are also critical factors (Euromonitor, 2006; USDA, 2006b).

2.1.5 Snack Food

Changing lifestyles and increasing average incomes are boosting the demand for snack food in Hong Kong. The main consumers of snack food are teenagers and young females in the work force. Opportunities in this sector include nuts, fruit snacks, functional biscuits and healthy snack bars, with many opportunities also related to health consciousness.

2.1.6 Food for Gifts

Hong Kong is an international city combining Western and Chinese culture and gift giving is a vital part of social life in Chinese culture, providing opportunities for premium and luxury products in this market. There are many opportunities for food for gifts during festivals, particularly Chinese New Year and Christmas. For example premium Christmas packages, including wine, tea, cheese, snack food etc, are popular in Hong Kong.

2.2 Food Retail

In 2005, net grocery retail sales in Hong Kong were valued at AU$13.34 billion (Vic DPI, 2006). The food retail segments in Hong Kong are supermarket chains, speciality stores, traditional markets (wet markets and family owned stores) and convenience stores. Supermarkets are strong in processed, chilled and frozen, high added value, and canned food products; traditional markets are strong in fresh food products. However there is a trend in Hong Kong to move away from traditional markets towards Western style supermarkets (USDA, 2000; USDA, 2006b).

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Figure 4: Park N' Shop Superstore in Hong Kong

2.2.1 Supermarket Chains and Department Stores

Hong Kong supermarket chains are dominated by two companies: the Wellcome Co. Ltd. (247 outlets with 20 superstores) and Park N' Shop (over 226 outlets with 46 superstores), which combined account for about 80 percent of supermarket turnover. Other players include: China Resources Supermarket (CRC), Dah Chong Hong, Jusco and City Super. Supermarket sales have exceeded traditional market sales since 1998 (USDA, 2006c).

Superstores combine the styles of a Western supermarket and a traditional wet market, aiming to capture market share from wet markets. One-stop-shop superstores are another business expansion strategy of the two dominant supermarket chains, selling over 20,000 product categories ranging from fresh food to electrical appliances. Locations of the two dominant supermarket chains' outlets are generally in strategic proximity to residential and business districts. Private label products have also developed with highly competitive pricing (USDA, 2006c).

The upper-end supermarket sector has expanded in Hong Kong recently. The two key players in this sector are Great Food Hall and Citysuper, both targeting high income consumer segments. Taste and Gourmet are other high-end supermarkets. These supermarkets stock international food products with high quality and premium prices, including a wide range of organic products. They offer opportunities as strategic distribution channels for premium imported products (AUSTRADE, 2006; USDA, 2006c).

Major supermarkets such as Park N' Shop, Wellcome and City Super also offer internet sales of food, however, this service is not yet popular in Hong Kong, mainly due to the convenience of physical shopping (USDA, 2005b).

It is important to note that the two dominant supermarket chains, Wellcome (Dairy Farm) and Park N' Shop (A.S. Watson), have strong bargaining power in the market, including the ability to charge a higher listing fee, demand tougher trading terms (e.g. promotional discounts) and gain special discounts from suppliers (USDA, 2006b).

2.2.2 'Specialty' Stores

Some 'specialty' food retail stores are emerging, like the natural and certificated organic food retail outlets ThreeSixty, GreenDotDot, Green Concepts and Health Gate (USDA, 2006c). These have been developed to capture emerging food trend opportunities such as organics.

2.2.3 Traditional Markets (Wet markets & Family owned Shops)

Wet markets and family owned stores are widespread throughout Hong Kong. In spite of the growing trend towards supermarkets, traditional markets remain key food retail outlets for fresh food. Characteristics of wet markets include their small size, limited range of food products, 'uncomfortable' shopping environment and personal ownership. Family owned stores sell mainly fresh and processed foods, with most of their products coming from China and South East Asia and a generally 'cheap' mass market position. The major player in family owned stores is Yu Kee with 67 stores (USDA, 2006b).

Figure 5: Vegetables at market, Hong Kong

2.2.4 Convenience Stores

There are around 950 convenience stores in Hong Kong, with the channel dominated by two major chains: 7-eleven (711 outlets) and Circle K (238 outlets). Characteristics of these stores are round-the clock operation and limited choice of packaged food products. The target market or these stores is generally the 15-35 age group and the consumers looking for 'convenience' of location and shopping times (USDA, 2006b).

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Figure 6: Hong Kong convenience store

2.3 HRI Food Service Sector (Hotels, Restaurants & Institutions)

In 2005, tourists to Hong Kong reached a record 23.4 million, 3.4 times the local population. Recent major tourist attractions, including Hong Kong Disneyland, Tsim Sha Tsui Promenade, the world class multi-media light and sound show along Victoria Harbour and a scenic car system to the Big Buddha on Lantau Island, contributed to this record number of visitors (USDA, 2006b).

The major source of Hong Kong's visitors is mainland China. The China and Macau Closer Economic Partnership Arrangement's (CEPA) Individual Visit Scheme (IVS), covers 44 provinces and cities across China, and has been significant in boosting tourism (see 'Opportunities in Macau' box below). Demand for hotels, restaurants and entertainment centres is expected to increase. However, current debate over a Goods and Services Tax (GST) may lead to some negative implications for Hong Kong's tourism (HKSAR, 2006a; HKTB 2006).

Eating out is part of the culture and lifestyle in Hong Kong with households on average spending about 62% of their food budget on eating out (USDA, 2005c).

Opportunities in Macau

Macau, near Hong Kong is seen as a booming market for premium food exports. Its rapidly growing gaming and tourism industry is seen to be driving this trend. However, Macau is a relatively small market for Australia in comparison to Hong Kong.

Macau, like Hong Kong has been a Special Administrative Region of the People's Republic of China since 1999, and has a population of only 477,500 (mid-2005) but around 17 million visitors per year (2004). The market of Macau is booming, mainly driven by the rapid growth in gaming and tourism. Per capita GDP in Macau in 2004 was US$22,671 and the real GDP growth during the first half of 2006 was 17.7%.

The tourism plan of the 'Asian Las Vegas' and the 'individual travel scheme' under the China and Macau Closer Economic Partnership Arrangement (CEPA) means the total number of visitors to Macau is set to continue to rise. Enhancement of economic integration between Macau, Hong Kong and the Pearl River Delta (PRD) is also a significant benefit of CEPA, with infrastructure development such as the construction of the Hong Kong-Macau-Zhuhai Bridge evidence of the commitment.

Demand for quality food products in Macau's food service sector (five-star hotel & high-end restaurant) is expected to increase. This provides an opportunity for Victorian premium food exports. However, as Macau's food requirements are not significant enough to import directly, Macau currently relies upon re-exports from Hong Kong (BUYSDA, 2006; HKSAR, 2006a & 2006b; Macau 2006).

2.3.3 Restaurants

Hong Kong is recognised as the 'Culinary Capital of Asia'. In 2005, Hong Kong's tourists spent US$1.25 billion in restaurants (excluding hotel restaurants), worth 17% of Hong Kong's HRI business. Hong Kong has approximately 10,340 restaurants, as well as over 1,000 bars and other eating and drinking places. Chinese restaurants dominate the Hong Kong restaurant sector, accounting for 45% of the industry (USDA, 2005c).

2.3.4 Hotels

In Hong Kong, there are 88 hotels and 542 boarding houses with an average occupancy rate of 88% in 2005. In 2004, food and beverage sales at hotels and boarding houses were estimated at US$656 million, accounting for 41.9% of hotel and boarding house total receipts (HKTB, 2006; USDA, 2005c). It is important to note that five-star hotels and high-end restaurants are a platform to promote premium food to tourists from mainland China.

2.3.5 Restaurant Chains

Non-Chinese restaurants including Japanese food, fast food, coffee and snacks, and casual dining are currently a growing sub sector in Hong Kong. Fast food is the fastest growing sector, including the popular chains of Maxims, Café de Coral, Fairwood, McDonalds, Kentucky and Pizza Hut. Another significant trend is the increasingly competitive coffee shop sector around the city, where the two largest coffee shop chains are Starbucks (64) and Pacific Coffee (47) (USDA, 2005c). It is also worth noting a growing trend for fresh fruit juice and dessert bars, with the Hui Lau Shan chains a good example.

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Figure 7: Starbucks in Hong Kong

2.3.6 Health Consciousness

As consumers become more health conscious, restaurant menus have changed to accommodate this trend. For example fast food chains have provided healthier food options on their menus such as salads and fruit juice (USDA, 2005b).

2.3.7 Institutions (Airlines & Hospitals)

Significant institution categories in Hong Kong include hospitals and airlines. There are three aircraft catering franchisees (15-year term) at the Hong Kong international Airport, supplying more that 58,000 in-flights meals per day. There are 43 public and 17 private hospitals in Hong Kong (28,410 beds), with a large price discrepancy between the two and differing target segments (USDA, 2005c).

2.4 Food Manufacturing and Ingredients

The food processing industry in Hong Kong is relatively small compared to the food retail and HRI sectors with a total output of US$1.8 billion in 2004 (HKTDC, 2006). Strong competition from local and Chinese food manufacturers limits the potential of this sector for exporters to Hong Kong.

2.5 Consumer Characteristics

Figure 8: Victoria Peak, Hong Kong

2.5.1 Consumer Behaviour

In Hong Kong, consumers are very price sensitive, and purchase decisions are often largely based on value for money. In general, consumers are not brand loyal when a discount is offered by another brand, making offering discounts and price cuts an effective marketing tactic.

As an international city, Hong Kong consumers are generally receptive to Western food, making it an effective test market for entry into other Asian markets like China (USDA, 2006b).

2.5.2 Target Markets

Due to Hong Kong's traditional culture, the majority of buyers of Western foods tend to be females, who do more food shopping than males, with younger age groups the largest consumers of Western foods. Demand for high-value food and beverage is mainly among the 2.3 million middle class consumers in Hong Kong (USDA, 2006b).

2.5.3 Packaging Size

Due to the limited living space in Hong Kong, conventional ovens and large refrigerators are not common. Cooking is mostly done over countertop burners and microwave ovens. Therefore, consumers prefer small and conveniently packaged food products to bulk packs and convenience is an important factor for shopping preferences (USDA, 2000).

3. MARKET ACCESS AND ENTRY

3.1 Market Regulations

3.1.1 Import Regulations & Standards

Imports of food products into Hong Kong must comply with various local food laws and regulations, including bacteriological or microbiological standards, preservatives, food colours, metal and mineral oil content, and contamination by harmful substances (AUSTRADE, 2006). Import regulations for biotech foods in Hong Kong are subject to the same regulations as conventional foods (USDA, 2006a).

Health certification is required for live animals, meat, fish and dairy products, with Australian Quarantine Inspection Service (AQIS) official health certificates the only certificates recognised by the Hong Kong authorities. Import licenses or registration with the local authorities is also necessary for imports of live animals, meat, poultry, ice cream, wine and rice (AUSTRADE, 2006).

3.1.2 Food Labelling

Prepacked food items need to comply with specific labelling regulations in Hong Kong (in either English or Chinese, or both languages, except the expiry dates) including the name and address of the manufacturer and product, list of ingredients and net weight (AUSTRADE, 2006).

Hong Kong does not currently have any nutrition labelling requirements; however, the government intends to implement a compulsory nutrition labelling system for all pre-packaged food products (USDA, 2006b).

Labelling of biotech food is subject to existing food legislation. However, some guidelines on 'voluntary' labelling of biotech food have been issued, and negative labelling, such as 'GMO free' is not encouraged (USDA, 2006a).

Figure 9: Domestic Hong Kong organic logo

3.1.3 Organic Certification

Organic imports are currently not subjected to any organic certification, but must comply with the same regulations as conventional food products. However, most importers request organic certification from the exporting country.

3.1.4 Tariffs

Due to the principle of a free economy, food products can be imported into Hong Kong with zero import tariffs, with the exception of cigarettes and alcoholic drinks (USDA, 2006b).

Based on CEPA zero tariff product lists, some food items can be exported from Hong Kong into China duty free. In addition, all food and beverages made in Hong Kong can be exported to China with zero tariffs. These exports are subject to the CEPA's rules of origin, and although Hong Kong has obtained advantages from CEPA, the benefit has reduced since China joined the WTO in 2001 (USDA, 2006b).

3.2. Market Entry

3.2.1 Market Research/Testing

Product-specific market research or testing of consumer attitudes, awareness, taste preference and buying patterns is an important factor for market entry into Hong Kong, given differences in consumer preferences between Australia and Hong Kong (USDA, 2000).

3.2.2 Distribution Channels

Local importers or agents in Hong Kong are the major distribution channels for imported food and beverages, supplying food retail and HRI sectors directly. Most local hotels, restaurants and fast food chains are not able to directly handle imports because of small volumes and therefore outsource the import burden; however supermarket chains import some food products directly from selected overseas suppliers. Consolidators are another distribution channel used by upper-end supermarket chains like Great Food Hall and Citysuper. The selection of a suitable local importer and agent and long term relationship building are key success factors for entry into the market (AUSTRADE, 2006, USDA, 2006b).

3.2.3 Major Competitors

Australia is the fourth largest food exporter to Hong Kong after China, USA and Brazil. In 2005, imports of consumer foods were valued at almost AU$7 billion, with China, the USA, Brazil and Australia the top four exporters to Hong Kong. Australia was the second largest fish and seafood exporter to Hong Kong after Japan in 2005 (USDA, 2006b).

3.2.4 Promotion Strategies

Hong Kong customers generally prefer to learn about new foods by first hand experience (tasting, touching and seeing), and in store promotion and sampling are an effective means of promoting new Western foods. The relatively high percentage of impulsive shoppers in Hong Kong, 67%, compared with 14% in Thailand and Singapore, increase the effectiveness of this strategy (USDA, 2000; USDA, 2006b).

Hong Kong also hosts a range of international trade shows; including Hotel and Food Exhibition (HOFEX) – May 13-16 2007, Natural Products Expo Asia and Restaurant & Bar (USDA, 2006b). These trade shows provide a platform for international food exporters to promote their products to worldwide food retailers, food importers and HRI sectors, particularly in Hong Kong, China and Macau.

Menu promotions with major restaurant chains are another promotion strategy. However, selection of the restaurant chains is key, as this has the potential to influence the position and image of the new product (USDA, 2005c).

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- Food and Environmental Hygiene Department HKSAR http://www.fehd.gov.hk
- Health, Welfare and Food Bureau http://www.hwfb.gov.hk
- Hong Kong Census & Statistics Department http://www.censtatd.gov.hk/
- Hong Kong Imports/ Exports procedures http://sme.tdctrade.com/sme_listing.aspx?src=List_iepract
- Hotel and Food Exhibition (HOFEX) www.hofex.com
- Macau Economic Development Bureau http://www.economia.gov.mo/page/english/redirect_e.jsp?CurrentPage=news
- Mainland and Hong Kong Closer Economic Partnership Agreement http://www.tid.gov.hk/english/cepa/
- Natural Products Expo Asia http://www.naturalproductsasia.com