

OFFICIAL RECORD OF PROCEEDINGS

Wednesday, 10 March 2004

The Council met at half-past Two o'clock

MEMBERS PRESENT:

THE PRESIDENT

THE HONOURABLE MRS RITA FAN HSU LAI-TAI, G.B.S., J.P.

THE HONOURABLE KENNETH TING WOO-SHOU, J.P.

THE HONOURABLE JAMES TIEN PEI-CHUN, G.B.S., J.P.

DR THE HONOURABLE DAVID CHU YU-LIN, J.P.

THE HONOURABLE CYD HO SAU-LAN

THE HONOURABLE ALBERT HO CHUN-YAN

IR DR THE HONOURABLE RAYMOND HO CHUNG-TAI, J.P.

THE HONOURABLE LEE CHEUK-YAN

DR THE HONOURABLE ERIC LI KA-CHEUNG, G.B.S., J.P.

DR THE HONOURABLE DAVID LI KWOK-PO, G.B.S., J.P.

THE HONOURABLE FRED LI WAH-MING, J.P.

DR THE HONOURABLE LUI MING-WAH, J.P.

THE HONOURABLE NG LEUNG-SING, J.P.

THE HONOURABLE MARGARET NG

THE HONOURABLE MRS SELINA CHOW LIANG SHUK-YEE, G.B.S., J.P.

THE HONOURABLE JAMES TO KUN-SUN

THE HONOURABLE CHEUNG MAN-KWONG

THE HONOURABLE HUI CHEUNG-CHING, J.P.

THE HONOURABLE CHAN KWOK-KEUNG, J.P.

THE HONOURABLE CHAN YUEN-HAN, J.P.

THE HONOURABLE CHAN KAM-LAM, J.P.

THE HONOURABLE MRS SOPHIE LEUNG LAU YAU-FUN, S.B.S., J.P.

THE HONOURABLE LEUNG YIU-CHUNG

THE HONOURABLE SIN CHUNG-KAI

THE HONOURABLE ANDREW WONG WANG-FAT, J.P.

DR THE HONOURABLE PHILIP WONG YU-HONG, G.B.S.

THE HONOURABLE WONG YUNG-KAN

THE HONOURABLE JASPER TSANG YOK-SING, G.B.S., J.P.

THE HONOURABLE HOWARD YOUNG, S.B.S., J.P.

DR THE HONOURABLE YEUNG SUM

THE HONOURABLE YEUNG YIU-CHUNG, B.B.S.

THE HONOURABLE LAU CHIN-SHEK, J.P.

THE HONOURABLE LAU KONG-WAH, J.P.

THE HONOURABLE LAU WONG-FAT, G.B.S., J.P.

THE HONOURABLE MIRIAM LAU KIN-YEE, J.P.

THE HONOURABLE AMBROSE LAU HON-CHUEN, G.B.S., J.P.

THE HONOURABLE EMILY LAU WAI-HING, J.P.

THE HONOURABLE CHOY SO-YUK

THE HONOURABLE ANDREW CHENG KAR-FOO

THE HONOURABLE SZETO WAH

THE HONOURABLE TIMOTHY FOK TSUN-TING, S.B.S., J.P.

DR THE HONOURABLE LAW CHI-KWONG, J.P.

THE HONOURABLE TAM YIU-CHUNG, G.B.S., J.P.

DR THE HONOURABLE TANG SIU-TONG, J.P.

THE HONOURABLE ABRAHAM SHEK LAI-HIM, J.P.

THE HONOURABLE LI FUNG-YING, J.P.

THE HONOURABLE HENRY WU KING-CHEONG, B.B.S., J.P.

THE HONOURABLE TOMMY CHEUNG YU-YAN, J.P.

THE HONOURABLE MICHAEL MAK KWOK-FUNG

THE HONOURABLE ALBERT CHAN WAI-YIP

THE HONOURABLE LEUNG FU-WAH, M.H., J.P.

DR THE HONOURABLE LO WING-LOK, J.P.

THE HONOURABLE WONG SING-CHI

THE HONOURABLE FREDERICK FUNG KIN-KEE

THE HONOURABLE IP KWOK-HIM, J.P.

THE HONOURABLE LAU PING-CHEUNG

THE HONOURABLE AUDREY EU YUET-MEE, S.C., J.P.

MEMBERS ABSENT:

THE HONOURABLE MARTIN LEE CHU-MING, S.C., J.P.

THE HONOURABLE BERNARD CHAN, J.P.

THE HONOURABLE MA FUNG-KWOK, J.P.

PUBLIC OFFICERS ATTENDING:

THE HONOURABLE DONALD TSANG YAM-KUEN, G.B.M., J.P.
THE CHIEF SECRETARY FOR ADMINISTRATION

THE HONOURABLE HENRY TANG YING-YEN, G.B.S., J.P.
THE FINANCIAL SECRETARY

THE HONOURABLE ELSIE LEUNG OI-SIE, G.B.M., J.P.
THE SECRETARY FOR JUSTICE

THE HONOURABLE MICHAEL SUEN MING-YEUNG, G.B.S., J.P.
SECRETARY FOR HOUSING, PLANNING AND LANDS

PROF THE HONOURABLE ARTHUR LI KWOK-CHEUNG, G.B.S., J.P.
SECRETARY FOR EDUCATION AND MANPOWER

DR THE HONOURABLE YEOH ENG-KIONG, J.P.
SECRETARY FOR HEALTH, WELFARE AND FOOD

THE HONOURABLE JOSEPH WONG WING-PING, G.B.S., J.P.
SECRETARY FOR THE CIVIL SERVICE

DR THE HONOURABLE PATRICK HO CHI-PING, J.P.
SECRETARY FOR HOME AFFAIRS

THE HONOURABLE STEPHEN IP SHU-KWAN, G.B.S., J.P.
SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR, AND
SECRETARY FOR COMMERCE, INDUSTRY AND TECHNOLOGY

DR THE HONOURABLE SARAH LIAO SAU-TUNG, J.P.
SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

THE HONOURABLE FREDERICK MA SI-HANG, J.P.
SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY

THE HONOURABLE STEPHEN LAM SUI-LUNG, J.P.
SECRETARY FOR CONSTITUTIONAL AFFAIRS

THE HONOURABLE AMBROSE LEE SIU-KWONG, IDSM, J.P.
SECRETARY FOR SECURITY

CLERK IN ATTENDANCE:

MR RICKY FUNG CHOI-CHEUNG, J.P., SECRETARY GENERAL

TABLING OF PAPERS

The following papers were laid on the table pursuant to Rule 21(2) of the Rules of Procedure:

Subsidiary Legislation/Instruments	<i>L.N. No.</i>
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Specification of Arrangements (Government of the Republic of Croatia Concerning Air Services) (Avoidance of Double Taxation) Order.....	32/2004
Telecommunications (Amendment) Regulation 2004.....	33/2004
Telecommunications (Carrier Licences) (Amendment) Regulation 2004	34/2004
Securities and Futures (Contracts Limits and Reportable Positions) (Amendment) Rules 2004	35/2004
Air Transport (Licensing of Air Services) (Amendment) Regulation 2004 (L.N. 4 of 2004) (Commencement) Notice 2004	36/2004

Other Papers

- | | | |
|--------|---|--|
| No. 68 | — | Hong Kong Council for Academic Accreditation Annual Report 2002-2003 |
| No. 69 | — | Estimates
for the year ending 31 March 2005
Volume IA - General Revenue Account
Volume IB - General Revenue Account |
| No. 70 | — | Estimates
for the year ending 31 March 2005
Volume II - Fund Accounts |

WRITTEN ANSWERS TO QUESTIONS**Obliging Drivers to Keep Lights on**

1. **DR YEUNG SUM** (in Chinese): *Madam President, the Road Traffic (Traffic Control) (Amendment) Regulation 2002 (the Regulation) stipulates that drivers of motor cycles and motor tricycles shall keep all obligatory front lamps, headlamps and rear lamps lighted at all times while driving, whereas drivers of motor vehicles other than these two classes of vehicles shall comply with the same stipulation while driving during the hours of darkness or in poor visibility conditions. In this connection, will the Government inform this Council of:*

- (a) (i) *the numbers of verbal warnings given and prosecutions instituted by the police in each quarter relating to drivers for violating the above stipulation, broken down by classes of motor vehicles, and*
- (ii) *the number of traffic accidents in each quarter in which the drivers concerned breached the above stipulation,*

since the commencement of the Regulation on 1 July 2002; and

- (b) *the measures to reduce breaches of the above stipulation by drivers?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

(in Chinese): Madam President, the numbers of prosecutions instituted by the police against drivers who breached the new headlamp stipulations since the commencement of the Road Traffic (Traffic Control) (Amendment) Regulations are at Annex A. The numbers of traffic accidents in which the drivers breached the headlamp stipulations are at Annex B. We do not have any record of the number of verbal warnings given.

We will continue to remind drivers of the headlamp requirements through television/radio announcements, posters displayed at public places, leaflets distributed at District Offices and Transport Department Licensing Offices as well as road safety seminars organized for the transport trade. In addition, the police will step up enforcement and prosecution actions against breaches of the headlamp requirements.

**Failing to Comply with the Obligatory Headlamp Requirements
Prosecution Cases Instituted by the Police since 1 July 2002**

	<i>Motor Cycle</i>	<i>Private Car</i>	<i>Taxi</i>	<i>Private Light Bus</i>	<i>Public Light Bus</i>	<i>Franchised Bus</i>	<i>Non- franchised Bus</i>	<i>Light Goods Vehicle</i>	<i>Medium Goods Vehicle</i>	<i>Heavy Goods Vehicle</i>	<i>Other Vehicles (Note)</i>	<i>Total</i>
July to September 2002	38	317	55	0	26	1	11	166	123	2	34	773
October to December 2002	48	486	119	3	56	2	35	282	224	9	31	1 295
January to March 2003	51	378	79	2	31	2	22	187	151	4	41	948
April to June 2003	69	414	66	1	27	0	9	193	178	1	29	987
July to September 2003	38	421	54	0	28	1	8	180	186	9	32	957
October to December 2003	25	406	65	0	24	1	16	219	194	6	25	981
Total	269	2 422	438	6	192	7	101	1 227	1 056	31	192	5 941

Note: "Other Vehicles" include special purpose vehicles, vehicles bearing trade licences/International Circulation Permits, de-registered vehicles and unidentified vehicles due to discrepancies of records.

Annex B

Number of Traffic Accidents in which
Drivers Concerned Breached the Headlamp Requirements

<i>Period</i>	<i>Number of Accidents</i>
July to September 2002	2
October to December 2002	0
January to March 2003	2
April to June 2003	4
July to September 2003	3
October to December 2003	2
Total	13

Managing Government Road Excavation Works

2. **MR IP KWOK-HIM** (in Chinese): *Madam President, regarding the management of government departments' road excavation works, will the Government inform this Council whether:*

- (a) *the contractors are required to set out clearly the manpower arrangements in each stage of the road excavation works in their tenders for such works; and*
- (b) *the works contracts contain stipulations that, once the road excavation works commence, the contractors must ensure a minimum number of hours per week or per day work is carried out at the work sites, except in circumstances beyond their control (such as inclement weather) and, in case of unsatisfactory progress of the works, that the contractors have to increase the manpower as demanded by the authorities; if so, of the details of such stipulations; if not, the reasons for that?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

(in Chinese): Madam President,

- (a) Under normal circumstances, works departments do not require their contractors to specify in their tenders the manpower needed to

complete the works, either in stages or as a whole. The contracts hold the contractors entirely responsible for the provision of all necessary resources to complete the works within the specified time limits. For complicated projects, works departments may require tenderers to employ staff with some specific expertise. However, the aim of such a requirement is to ensure the contractors would provide staff with the suitable qualifications and experience to complete the contract, rather than specifying the number of staff to be employed for each stage in a project.

- (b) It is impractical to specify in a contract the minimum workforce that the contractor has to employ for each stage in a project. In accordance with the General Conditions of Contract, the contractor has the discretion to allocate resources according to his own programme provided that the scheduled completion date specified in the contract will not be compromised. Government interference in these areas may result in higher tender prices and lead to claims by the contractor. In case of unsatisfactory progress of works, the department concerned may, in accordance with the contract conditions, request the contractor to step up the progress by deploying suitable staff and resources so as to ensure the timely completion of works. In addition, liquidated damages to be paid by the contractor as compensation to the Government for any works delayed are usually specified in works contracts.

Other than the regulating actions via the contract conditions as mentioned above, the Highways Department also stipulates in the excavation permits requiring the permit holders and their contractors to complete the works as soon as practicable and ensure that works sites are attended on every working day. However, if works are not carried out on site for some technical reasons, such as pipe testing in progress, concrete curing or inclement weather, and so on, the contractor should display a notice board on site stating the reasons for site idling. Unless there are special reasons or prior approval has been obtained, the contractor should cover the openings at an unattended works site with proper decking so that the road can be reopened to traffic in the interim.

Special Incentive Allowance Scheme for Local Domestic Helpers

3. **MS LI FUNG-YING** (in Chinese): *Madam President, last November, the Government relaxed the requirements of the \$60 million Special Incentive Allowance Scheme set up for local domestic helpers (LDHs). "Unsocial hours", previously defined as the period between 6 pm and 9 am, have been revised to cover the period from 5 pm to 9 am, and "cross-district" applications will be accepted in addition to "cross-harbour" applications so as to further extend the scope of the Scheme. In this connection, will the Government inform this Council:*

- (a) of the respective numbers of cases so far in which applicants have received incentive allowance for working "across district" or during the extended "unsocial hours";*
- (b) of the respective total amounts of allowance received in relation to cases of these two categories, and whether the authorities have assessed if the \$60 million commitment is adequate to cover the expenditure of the Scheme for two years; if they have, of the results; and*
- (c) since the extension of the scope of the Scheme, whether the authorities have assessed the effectiveness of the Scheme and drawn up other preferential schemes to actively assist LDHs in securing employment; if they have, of the assessment results and the details of such schemes?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Chinese): Madam President,

(a) and (b)

As at end-February this year, there were altogether 1 537 successful applications under the "Special Incentive Allowance Scheme for Local Domestic Helpers" (the Scheme), with 634 "cross districts" and 903 "unsocial hours" cases respectively. The total amount of allowance paid was \$3,204,300, with \$979,550 for "cross districts" and \$2,224,750 for "unsocial hours" cases respectively. Given

that an average of 300 applications are currently received each month and the maximum amount of allowance each qualified LDH may obtain is \$7,200, the \$60 million funding will be sufficient to cover the Scheme for two years.

- (c) There were 44% and 46% more vacancies filled for "cross districts" and "unsocial hours" cases respectively during November 2003 to January this year compared with the same period in 2002-03. This reflects the effectiveness of the Scheme in promoting the LDH services.

Our focus at this stage is on promoting the Scheme and we have no plans to introduce other schemes for the time being. We will nonetheless continue to step up publicity to promote the LDH services. The Employee's Retraining Board (ERB) is launching a promotional campaign at both district and community levels.

At the district level, the ERB, together with its Regional Service Centres for the Integrated Scheme for LDHs (Integrated Scheme), will organize various promotional events, including partnering with property management companies of large residential estates to promote the Integrated Scheme to individual households.

At the community level, the ERB will regularly feature special programmes and "announcement of public interests" on the Integrated Scheme through the media and publicize successful stories of the LDHs with a view to building up public confidence in and raising their understanding of the LDH services, thereby enhancing the employment opportunities of trained LDHs.

Cargo Clearance

4. **MR KENNETH TING** (in Chinese): *Madam President, will the Government inform this Council whether:*

- (a) *the Hong Kong Airport Authority (AA) and the Hong Kong Air Cargo Terminals Limited (HACTL) have co-operation plans to use a new mode of cargo clearance whereby goods from Southern China*

complete clearance formalities and vanning at the Mainland distribution centre, and are then transported directly by goods vehicles to the Hong Kong Airport for export to other places, rendering it unnecessary for the goods to undergo devanning at the Huanggang checkpoint for customs inspection; if there is such a co-operation plan, of its progress; and

- (b) *the authorities have plans to extend the scope of the above new mode of cargo clearance so that in future, consignors and logistics companies can consign their goods by means of this easier and more convenient method; if they have, of the details of the plan; if not, whether they will study the feasibility of such a plan expeditiously?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Chinese): Madam President, last year, the AA started discussion with the HACTL on co-operation to develop cargo services in the Pearl River Delta (PRD) through simplified customs clearance procedures, thereby facilitating more cargo traffic via the Hong Kong International Airport (HKIA). The co-operation proposes the development of an air cargo consolidation centre (ACCC) in the PRD Region, where cargo could be cleared by customs and packed within ACCC thereby obviating the need for cross-border cargo to undergo customs inspection at Huanggang. In this regard, the HACTL will capitalize on its experience in its cargo consolidation centre in the Futian Free Trade Zone (FTZ), where customs clearance is conducted within the FTZ and there is no need to clear customs again at Huanggang. The proposal being explored by the AA and the HACTL will help expedite the export of cargo via the HKIA, resulting in greater efficiency and savings in time and cost. The proposal will not only be conducive to the cargo development of the HKIA, but will also bring benefits to the logistics sector including shippers and logistics companies. We understand that good progress has been made in the discussion between the AA and the HACTL. We also understand that the AA and the HACTL will announce the details of the proposed co-operation when they reach agreement. They will promote the services to the logistics sector.

The abovementioned mode of cargo operation is in line with the Administration's concept of promoting "inland freight villages" and "cross-boundary logistics pipelines", which have been the subjects of the Mainland-Hong Kong Logistics Co-operation Study (the Study) jointly commissioned by

the Administration and the National Development and Reform Commission. Inland freight villages are bonded areas providing distribution and logistics services, which enable customs clearance of cargo away from the airport and port, and are usually located close to the boundary and at transport interchanges. Logistics pipelines are dedicated transportation systems linking two or more logistics nodes, which provide speedy, non-stop service without the need for customs clearance or transport interchange on the way.

The Study aims to explore room for cross-boundary co-operation in logistics development, and identify specific projects that could be pursued with collaborative efforts. The preparation of the Study report is in its final stage. The preliminary findings confirm the need for and strategic importance of cross-boundary co-operation in logistics development, and recommend that both sides continue to build on existing liaison channels and promote logistics co-operation through specific projects such as inland freight villages and cross-boundary logistics pipelines. We will consult the stakeholders of the logistics industry and the authorities in the PRD Region to identify initiatives for implementation. This will further enhance cross-boundary logistics co-operation between Hong Kong and the PRD.

Industrial Safety Shoes

5. **MR HENRY WU** (in Chinese): *Madam President, it is reported that the Labour Department (LD) launched the promotional programme on Wider Use of Safety Shoes (the Programme) in 1998. Starting from the same year, the former Works Bureau stipulated in tenders for works that contractors should provide workers with industrial safety shoes that met the requirements. Contractors in breach of the requirements would be penalized, including prohibition from bidding for government works projects. In this connection, will the Government inform this Council:*

- (a) *of the annual numbers of casualties in work injury accidents resulting from failure to put on industrial safety shoes since three years before the launch of the Programme;*
- (b) *of the measures the authorities and related organizations have taken to promote the Programme to contractors and workers since the launch of the Programme; and*

- (c) *whether the authorities have reviewed the effectiveness of the promotional work on the Programme; if they have, of the results; if not, the reasons for that?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Chinese): Madam President,

- (a) The Programme was launched between September 1998 and April 1999, the objective of which was to enhance safety awareness of construction workers about the use of safety shoes, thereby reducing foot injury cases due to lack of protective footwear. The LD did not have statistics on work-related foot injury cases before 1998. The relevant statistics from 1998 to 2003 (first three quarters) are as follows:

<i>Year</i>	<i>Number of foot injury cases</i>
1998	3 722
1999	2 253
2000	1 864
2001	1 346
2002	887
2003 (first three quarters)	495

- (b) Although the Programme was concluded in April 1999, the LD has continued to promote the importance of industrial safety to contractors and construction workers through a wide range of activities. Over the past five years, we have joined hands with the construction industry and labour organizations to implement a territory-wide "Construction Industry Safety Award Scheme". Through open competition, the Scheme seeks to identify and award contractors, sub-contractors, management staff and workers with outstanding safety and health performance.

In the course of site inspections, Occupational Safety Officers of the LD will also advise contractors to provide safety shoes and remind workers to wear them.

- (c) Upon completion of the Programme, the LD conducted a survey of the effectiveness of the Programme with participating organizations. The findings indicated that the number of workers wearing safety shoes had increased by about 50% when compared with the figure before the Programme.

The Programme has successfully reduced the number of foot injury cases in the construction industry. The number of foot injury cases involving construction workers came down by 76% from 3 722 cases in 1998 to 887 cases in 2002.

Regulating Hydrogen Peroxide Products

6. **DR TANG SIU-TONG** (in Chinese): *Madam President, will the Government inform this Council:*

- (a) *whether it knows the total number of attendances at public hospitals and clinics arising from the misuse of hydrogen peroxide over the past three years;*
- (b) *whether there is any legislation governing the publicity on and sale of hydrogen peroxide products; if so, of the provisions of the relevant legislation;*
- (c) *if there is such legislation, of the respective numbers of cases relating to hydrogen peroxide products in breach of the legislation handled by the authorities through their inspections and public reports in each of the past three years; and, among them, the respective numbers of prosecution and conviction cases, as well as the penalties imposed; and*
- (d) *whether the authorities have considered bringing hydrogen peroxide into the ambit of the Pharmacy and Poisons Regulations (Cap. 138, sub. leg. A) so as to strengthen the control over it; if so, of the outcome of their consideration?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Chinese):
Madam President,

- (a) Ingestion of diluted hydrogen peroxide will cause mild throat discomfort, stomach pain, nausea, vomiting and diarrhoea, whereas that of concentrated hydrogen peroxide can cause stomach distension and for some rare cases, bowel perforation and gas embolism. At present, disease data are processed according to the "International Classification of Diseases (ICD) Coding System", a tool used internationally for classification of disease diagnosis. Hydrogen peroxide poisoning, the clinical symptoms of which are usually not specific, is not a unique diagnosis entity under the ICD Coding System. As such, there is no readily available figure on clinic and hospital attendance related to improper use of hydrogen peroxide.
- (b) Hydrogen peroxide products, if used for medicinal purposes such as treatment or prevention of a specific disease or disease symptom, are classified as pharmaceutical products and governed by the Pharmacy and Poisons Ordinance (PPO) (Cap. 138) and its subsidiary legislation. It is a statutory requirement for these products to be registered with the Pharmacy and Poisons Board (PPB) before they can be sold or supplied in Hong Kong. For the protection of public health, registration as pharmaceutical products will only be granted if the criteria of efficacy, safety and quality of individual products are met. The maximum penalty for possession and sale of unregistered pharmaceutical product is a fine of \$100,000 and imprisonment for two years.

In addition, the Dangerous Goods Ordinance (DGO) (Cap. 295) provides for control over the manufacture and storage of hydrogen peroxide solution of a strength greater than 6% by weight. A licence issued by the Fire Services Department is required if the quantity of such hydrogen peroxide solution stored in any premises exceeds that specified in the Dangerous Goods (General) Regulations (Cap. 295, sub. leg. B).

As far as publicity is concerned, the Undesirable Medical Advertisements Ordinance (UMAOU) (Cap. 231) prohibits the

advertising of medicines, surgical appliances or treatments for prevention or treatment of certain specified diseases or conditions in human beings. Specifically, the UMAO states that no person shall publish any advertisement likely to lead to the use of any medicine or any treatment for the prevention or treatment of any disease or condition specified in Schedule 1 or Schedule 2 of the Ordinance. Such advertisements cover a wide range of forms including newspaper advertisements, circulars, notices and oral announcements, and so on. An offence under the UMAO is liable to a fine of \$10,000 upon first conviction, and upon subsequent conviction to a fine of \$25,000 and imprisonment of one year.

- (c) From 2001 to February 2004, the Department of Health conducted investigations on two cases relating to hydrogen peroxide products that were suspected to have contravened the relevant provisions of the UMAO and the PPO. The former case concerned a company advertising hydrogen peroxide for treatment purpose on a website, and a warning letter was issued to the company. As for the latter case, no prosecution was initiated as no illegal activities were detected during investigation.

Meanwhile, there were four conviction cases relating to contravention of the relevant provisions of the DGO during the aforementioned period. All of them concerned over-storage of hydrogen peroxide. The penalties imposed ranged from \$3,000 to \$20,000.

- (d) As stated above, hydrogen peroxide for use as pharmaceutical product is already subject to the control of the PPO and its subsidiary legislation.

Closure/Discontinuance of Teaching Departments/Programmes by Tertiary Institutions

7. **MR FREDERICK FUNG** (in Chinese): *Madam President, will the Government inform this Council whether it knows:*

- (a) *the teaching departments closed and programmes discontinued by each public-funded tertiary institution in each of the past five academic years, and the respective numbers of students and staff of the teaching department/programmes concerned in the academic year preceding the closure/discontinuance; and*
- (b) *how the tertiary institutions concerned dealt with the staff whose posts were deleted as a result of the closure/discontinuance?*

SECRETARY FOR EDUCATION AND MANPOWER (in Chinese): Madam President,

- (a) To keep up with the changing needs and circumstances of society, institutions have to constantly examine their programmes, review their relevance to current circumstances and market demand, and make adjustments as appropriate. For instance, the Hong Kong Institute of Education (HKIEd) has introduced a number of changes to their programmes and phased out their sub-degree programmes over the past years, in line with the Government's intention to upgrade the HKIEd into a degree-awarding institution to meet teacher training requirements. In some cases, an existing programme was discontinued, and made available in a different mode of study or on a self-financing basis.

According to the information provided by the University Grants Committee (UGC)-funded institutions, one teaching department was closed, and a number of academic programmes were discontinued, in the past five academic years (that is, 1999-2000 to 2003-04). These changes, and the respective numbers of students and staff of the teaching department/programmes concerned in the preceding academic year, are set out at Annex.

- (b) As teaching staff are usually engaged in more than one academic programmes, the discontinuation of a particular programme usually does not lead to the deletion of teaching posts. Teaching staff affected by the discontinuation of a programme/department are usually invited to teach other programmes. Only a few of them chose to retire early or leave the institutions.

Annex

Discontinued programmes and teaching departments at
UGC-funded institutions in the past five academic years

1999-2000 academic year

<i>Programmes discontinued in the 1999-2000 academic year</i>	<i>Student intakes (headcount) in the previous academic year (that is, 1998-99)</i>	<i>Number of teaching staff employed for the programme in the previous academic year (that is, 1998-99) [#]</i>
<i>CUHK</i>		
Bachelor of Education Programme in Primary Education	46	(i) 0 (ii) 24
<i>HKIEd</i>		
Basic Course in Instructional Techniques (Block Release)	18	(i) 0.17
<i>PolyU</i>		
Part-time Post-experience Diploma in Applied Statistics	19	(i) 0 (ii) 9
Part-time evening Higher Certificate in Mathematical Studies	60	(i) 0 (ii) 1
Part-time evening Post-experience Certificate in Clerks of Works Studies ^(a)	35	(i) 0 (ii) 3 (iii) 3 Visiting Lecturers were also employed to support this programme.
Part-time evening Higher Certificate in Valuation and Property Management	75	(i) 0 (ii) 7 (iii) 7 Visiting Lecturers were also employed to support this programme.
MA in Design ^(b)	8	(i) 2 (ii) 2 (iii) About 2 to 3 Visiting Fellows were employed to teach this programme each year.
<i>HKUST</i>		
BSc in Economics	NA ^(c)	NA ^(c)
BEng in Computer Science and Computer Engineering	14 ^(d)	NA ^(d)

Note:

- # (i) Teaching staff for this programme only
(ii) Teaching staff related to this and other programmes

CityU : City University of Hong Kong
HKBU : Hong Kong Baptist University
LU : Lingnan University
CUHK : The Chinese University of Hong Kong
HKIEd : The Hong Kong Institute of Education
PolyU : The Hong Kong Polytechnic University
HKUST : The Hong Kong University of Science and Technology
HKU : The University of Hong Kong

- (a) These programmes continued on a self-financing basis.
(b) These programmes continued in a different mode of study.
(c) The Year-1 intake figure for this programme is not available. All BBA and BSc students in the School of Business and Management follow a common curriculum in the first year and will enroll in their BBA/BSc major in their second year of study only.
The BSc in Economics and Finance (ECOF) was introduced in 1999-2000 to replace the BSc in Economics programme. 37 students were admitted to BSc in ECOF in 1999-2000.
(d) Starting from 1999-2000, HKUST provides for dual programme designation. Engineering students may elect computer science and computer engineering as double major.

2000-01 academic year

<i>Programmes discontinued in the 2000-01 academic year</i>	<i>Student intakes (headcount) in the previous academic year (that is, 1999-2000)</i>	<i>Number of teaching staff employed for the programme in the previous academic year (that is, 1999-2000) #</i>
<i>CityU</i>		
Part-time Higher Diploma Building Service Engineering ^(b)	31	(i) NA (ii) NA
<i>CUHK</i>		
Part-time Degree Programme in Physical Education and Sports Science	21	(i) 0 (ii) 8
Part-time Degree Programme in Post-registration Nursing	36	(i) 0 (ii) 14
<i>HKIEd</i>		
Certificate in Secondary Education (English) Programme	101	(i) 13.86
Part-time In-service Course of Training for Teachers in Secondary Schools	36	(i) 2.43
Certificate Course in Training and Development	5	(i) 0.09
In-service Course for Teaching and Instructional Staff of Skills Centres for Disabled (Block Release)	16	(i) 0.22

<i>Programmes discontinued in the 2000-01 academic year</i>	<i>Student intakes (headcount) in the previous academic year (that is, 1999-2000)</i>	<i>Number of teaching staff employed for the programme in the previous academic year (that is, 1999-2000) #</i>
<i>PolyU</i>		
Part-time BA(Hons) Art and Design in Education ^(a)	24	(i) 0 (ii) 3 (iii) About 7 part-time Visiting Lecturers were also employed to support this programme.
Higher Diploma in Mathematics, Statistics and Computing	56	(i) 0 (ii) 37
Part-time BSc(Hons) Biomedical Science	28	(i) 0 (ii) 9
Part-time BSc(Hons) Nursing	50	(i) 0 (ii) 15
Part-time Post-experience Diploma in Nursing Management	37	(i) 0 (ii) 15
Part-time Post-experience Diploma in Nursing	94	(i) 0 (ii) 14
Part-time Certificate in Land Surveying and Cartography	30	(i) 0 (ii) 1 (iii) Visiting Lecturers were also appointed to teach this programme.
<i>HKU</i>		
MSc(Eng) Computers in Manufacturing	14	(i) 0 (ii) 7

<i>Teaching department closed in the 2000-01 academic year</i>	<i>Student intakes (headcount) in the previous academic year (that is, 1999-2000)</i>	<i>Number of teaching staff employed for the department in the previous academic year (that is, 1999-2000) #</i>
<i>CUHK</i>		
Department of International Business	NA ^(e)	(i) 9 (ii) 0

Note:

(e) Students of CUHK's Integrated BBA Studies were admitted to the Business Faculty. The Department of International Business did not admit students by itself.

2001-02 academic year

<i>Programmes discontinued in the 2001-02 academic year</i>	<i>Student intakes (headcount) in the previous academic year (that is, 2000-01)</i>	<i>Number of teaching staff employed for the programme in the previous academic year (that is, 2000-01) [#]</i>
<i>CityU</i>		
BSc(Hons) Engineering Science and Technology Management ^(f)	34	(i) NA (ii) NA
Part-time BA(Hons) Public and Social Administration ^(b)	35	
Part-time ASc Architectural Studies ^(b)	27	
Part-time ASc Construction Engineering and Management ^(b)	36	
Part-time ASocSc Public Administration and Management ^(b)	34	
<i>HKIEd</i>		
Certificate in Secondary Education (Chinese) Programme	58	(i) 14
Qualified Kindergarten Teacher Education Course (English) (Day Release) ^(b)	22	(i) 1.14
Advanced Course in Instructional Techniques	19	(i) 0.16
Basic Course in Instructional Techniques (Part-time Evening)	39	(i) 0.38
Basic Course in Instructional Techniques (Part-time Day Release)	34	(i) 0.31
Further and Adult Education Teacher's Certificate Course (Stage I)	18	(i) 0.1
In-service Short Courses for Technical/Commercial Teachers in Secondary Schools	65	(i) 0.15
In-service Course for Teaching and Instructional Staff Working with People with a Disability (Part-time Day Release)	10	(i) 0.9
Part-time Higher Certificate in Language in Education (English) Programme	55	(i) 1.52

<i>Programmes discontinued in the 2001-02 academic year</i>	<i>Student intakes (headcount) in the previous academic year (that is, 2000-01)</i>	<i>Number of teaching staff employed for the programme in the previous academic year (that is, 2000-01) [#]</i>
Retraining Course for Special Education Teachers ^(a)	11	(i) 0.13
Refresher Training Course for Serving Secondary School Teachers (Non-graduate) ^(a)	16	(i) 0.2
Refresher Training Course for Serving Secondary School Teachers (Technical) ^(a)	6	(i) 0.14
Course for Teachers of School-based Remedial Support programme ^(a)	48	(i) 0.47
In-service Course for Panel Chairpersons of Chinese in Secondary Schools ^(a)	14	(i) 0.48
In-service Course for Panel Chairpersons of English in Secondary Schools ^(a)	23	(i) 0.53
In-service Course for Teachers Using Chinese as the Medium of Instruction in Secondary Schools ^(a)	55	(i) 0.95
Putonghua Language Course (Part I) ^(a)	495	(i) 4.55
Putonghua Language Course (Part II) ^(a)	458	(i) 4.21
Putonghua Methodology Course ^(a)	379	(i) 1.45
<i>PolyU</i>		
Higher Diploma in Mechanical Engineering	130	(i) 7 (ii) 7
<i>HKUST</i>		
Master of Business Administration ^(a)	Full-time : 24 Part-time : 119	(i) NA (ii) 62 ^(g)
<i>HKU</i>		
Master of Business Administration ^(a)	69	(i) 0 (ii) 19

Note:

(f) Students were transferred to other programmes (that is, Science, Computer, Engineering, and so on).

(g) No teaching staff was appointed exclusively to teach the MBA programme. Teaching staff were, in general, teaching a mix of both undergraduate and postgraduate courses, in addition to their research work, consultancy work and public service.

2002-03 academic year

<i>Programmes discontinued in the 2002-03 academic year</i>	<i>Student intakes (headcount) in the previous academic year (that is, 2001-02)</i>	<i>Number of teaching staff employed for the programme in the previous academic year (that is, 2001-02)[#]</i>
<i>CityU</i>		
Part-time Postgraduate Certificate in Hong Kong Law ^(b)	29	(i) NA (ii) NA
Part-time ASce Computer Studies ^(b)	34	
<i>CUHK</i>		
Part-time Degree Programme in Primary Education	43	(i) 0 (ii) 20
<i>HKIED</i>		
Certificate in Primary Education (Chinese) Programme	99	(i) 20.97
Part-time In-service Course of Training for Teachers in Primary Schools	55	(i) 4.47
Part-time In-service Course of Teacher Training (Technical)	9	(i) 0.58
Part-time In-service Course of Training for Teachers in Secondary Schools	4	(i) 0.66
Part-time Postgraduate Diploma in Education (Technology) Programme ^(h)	21	(i) 1.07
Certificate in Kindergarten Education Programme (Chinese) (Evening Mixed Mode) ^(b)	30	(i) 5.5
Qualified Kindergarten Teacher Education Course (Conversion) (Chinese) (Day Release Mixed Mode) ^(b)	35	(i) 1.81
Qualified Kindergarten Teacher Education Course (Chinese) (Day Release Mixed Mode) ^(b)	64	(i) 3.31
In-service Course for Teaching and Instructional Staff Working with People with a Disability (Part-time Evening)	20	(i) 1.28
<i>PolyU</i>		
Part-time Master of Business Administration ^(a)	30	(i) 0 (ii) 15
<i>HKU</i>		
Master of Economics ^(a)	22	(i) 0 (ii) 12

Note:

(h) This programme was subsumed in the PGDE (Secondary) programme from 2002-03.

2003-04 academic year

<i>Programmes discontinued in the 2003-04 academic year</i>	<i>Student intakes (headcount) in the previous academic year (that is, 2002-03)</i>	<i>Number of teaching staff employed for the programme in the previous academic year (that is, 2002-03) #</i>
<i>CityU</i>		
Part-time MA Professional Accounting and Information Systems ^(a)	20	(i) NA (ii) NA
Part-time Master of Business Administration ^(a)	8	
Part-time ABA Financial Services (Banking) ^(b)	14	
MEng Electronic Engineering/Business Management	10	(i) 0 (ii) 14
MEng Manufacturing Engineering/Business Management	11	(i) 0 (ii) 13
MEng Building Engineering	9	(i) 0 (ii) 12
<i>HKIEd</i>		
Certificate in Primary Education (Chinese) Programme	88	(i) 13.59
Certificate in Secondary Education (Chinese) Programme	99	(i) 16.97
Part-time In-service Course of Training for Teachers in Primary Schools	47	(i) 2.79
Technical Teacher's Certificate Course	11	(i) 0.76
<i>HKU</i>		
MA China Area Studies ^(a)	23	(i) 0 (ii) 7
Part-time MA Comparative Asian Studies ^(a)	19	(i) 0 (ii) 4
MA English Studies ^(a)	Full-time : 6 Part-time : 19	(i) 0 (ii) 6
MSc(Eng) Environmental Engineering ^(a)	12	(i) 1 (part-time) (ii) 5 (full-time) and 1 (part-time)
MSc(Eng) Geotechnical Engineering ^(a)	44	(i) 3 (part-time) (ii) 3 (full-time) and 10 (part-time)
MSc(Eng) Infrastructure Project Management ^(a)	27	(i) 7 (part-time) (ii) 6 (full-time) and 17 (part-time)
MSc(Eng) Structural Engineering ^(a)	30	(i) 1 (part-time) (ii) 5 (full-time)
MSc(Eng) Transportation Engineering ^(a)	13	(i) 1 (part-time) (ii) 6 (full-time) and 4 (part-time)
MSc(Eng) Electrical and Electronic Engineering ^(a)	36	(i) 0 (ii) 15

Ambulance Service for Sick and Wounded at Tung Chung

8. **MR MICHAEL MAK** (in Chinese): *Madam President, regarding ambulance service provided for the sick and wounded at Tung Chung, will the Government inform this Council of:*

- (a) *the average time required for an ambulance from Tung Chung Ambulance Depot to arrive at the place of call;*
- (b) *the average number of trips made by each ambulance at Tung Chung Ambulance Depot in each of the past five years, how this figure compares to the territory-wide figure; and*
- (c) *the number of occasions on which the Fire Services Department (FSD) deployed ambulances from other depots to Tung Chung to transport the sick and wounded in each of the past three years?*

SECRETARY FOR SECURITY (in Chinese): Madam President, my reply to the question is as follows:

- (a) Taking 2003 as an example, the number of emergency ambulance calls in Tung Chung totaled 3 075. For 97.1% of the calls, ambulances were able to arrive at the scene within the standard response time of 12 minutes, exceeding the FSD's pledged target of 92.5%. The average time taken by ambulances to reach the scene was six minutes.
- (b) The following shows the average number of trips made by each ambulance at Tung Chung Ambulance Depot, as compared against the territory-wide figure, for the past five years:

<i>Year</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
Number of trips made by each ambulance at Tung Chung Ambulance Depot	413	487	642	817	839
Number of trips made by each ambulance territory-wide	1 984	2 167	2 222	2 312	2 181

- (c) The following shows the number of occasions on which ambulances were deployed from other ambulance depots to convey patients from Tung Chung in the past three years:

<i>Year</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
Number of emergency calls in Tung Chung	2 180	2 903	3 075
Number of emergency calls in Tung Chung handled by ambulances deployed from other ambulance depots	116	187	356

Food Safety of Canned Luncheon Meat

9. **MR FRED LI** (in Chinese): *Madam President, it has been reported that a food factory in Sichuan Province has recently been found selling to the Jinzhou Cannery processed rotten pork as the raw material for canned food, and the Cannery has produced some batches of canned luncheon meat of a certain brand which is sold in Hong Kong. In this connection, will the Government inform this Council:*

- (a) *given that the relevant local authorities have set up a reciprocal notification mechanism on food safety matters with the relevant mainland authorities, whether the former have been notified by the latter of the above incident; if they have, of the details of the notification; if not, the reasons for that;*
- (b) *whether it has enquired with the relevant mainland departments and importers regarding the details of the incident and the source of the luncheon meat of that brand on sale in Hong Kong;*
- (c) *whether it has, in view of the above report, conducted more laboratory sample tests on the canned luncheon meat of various brands; if it has, of the test results; and*

- (d) *whether it conducts laboratory sample tests on the quality of canned food on a regular basis; if so, of the number of sample tests on each type of canned food every year?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Chinese):
Madam President,

- (a) Under the existing notification and liaison arrangement on food safety between Hong Kong and the Mainland, the State General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) will immediately notify the Food and Environmental Hygiene Department (FEHD) if there is any problem related to food products for export to Hong Kong. Both sides will also maintain close contact on any related matters. As there was no evidence indicating that the reported incident was related to food products for export to Hong Kong, the AQSIQ did not inform the FEHD immediately. Nevertheless, when the FEHD enquired with the mainland authorities on the issue, they had followed up the case and provided the relevant information immediately.
- (b) In response to the reports on the issue, the FEHD immediately contacted the Hong Kong importer and was given to understand that the Jinzhou Canned Food Factory (JZ) did not purchase any dead pigs or any processed rotten pork from the Sichuan workshop in question for processing, and had no business dealing with the workshop. To probe further into the matter, the FEHD contacted the AQSIQ, which replied that all raw materials used by the JZ came from registered and formal meat plants. The AQSIQ stressed that both the canned food and food products containing sausages exported to Hong Kong were manufactured and processed under the supervision of the respective local inspection and quarantine authorities to ensure safety and compliance with the relevant standards.

- (c) In response to the media reports, the FEHD immediately conducted sampling of different brands of canned luncheon meat available in the local market for testing. Test results showed that no pathogen was found.
- (d) The FEHD conducts regular sampling of canned processed food for testing under the regular food surveillance programme. In 2003, the FEHD had taken 118 samples for chemical analyses and microbiological examinations. All test results are satisfactory.

Use of Non-compliant Access Numbers for Offering Outgoing or Incoming Calls

10. **MR SIN CHUNG-KAI** (in Chinese): *Madam President, in his reply to my question at the Council Meeting on 7 May last year, the Secretary for Commerce, Industry and Technology advised that, if it was established that external telecommunications services (ETS) licensees used non-compliant access numbers for offering outgoing or incoming calls in contravention of the licence conditions of paying the required Local Access Charge (LAC) and Universal Service Contribution (USC), the licensees would be instructed by the Telecommunications Authority (TA) to stop using the non-compliant numbers for offering ETS. At the same time, a financial penalty under section 36C of the Telecommunications Ordinance (TO) would be imposed by the TA, and a direction to settle the unpaid LAC and USC with the local fixed telecommunications network services (FTNS) operators under section 36B of TO would also be issued. In this connection, will the Government inform this Council:*

- (a) *of the annual number of licensees instructed by the Office of the Telecommunications Authority (OFTA) to settle the unpaid LAC and USC since 2000; the respective amounts of LAC and USC to be settled; as well as their respective percentages in the total annual LAC and USC paid to all the local FTNS operators;*

- (b) *as the problem of using non-compliant access numbers for offering ETS has become increasingly serious, whether the authorities have reviewed the existing policies for dealing with and investigating this type of cases and considered tackling the problem with measures such as proactive surveillance by the OFTA, heavier financial penalties, longer maximum suspension periods for these licenses, and consulted the trade in this regard so as to further crack down on the above practices which are in contravention of licence conditions and maintain a level playing field for the ETS market; and*
- (c) *regarding the licensees' use of non-compliant access numbers for offering outgoing or incoming calls, in which one of the two types of calls is the non-compliance more serious; and whether the authorities have formulated corresponding measures to deal with the more serious non-compliance; if they have, of the details?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in the absence of Secretary for Commerce, Industry and Technology) (in Chinese):
Madam President,

- (a) The annual numbers of directions issued by the OFTA since 2000 to instruct the ETS operators to settle the unpaid LAC and USC with the local FTNS licensees are as follows:

2000	0
2001	0
2002	6
2003	9

The amounts to be settled are negotiated between the local FTNS operators and the ETS operators after verifying the relevant call volume. At present, the OFTA does not require the operators to submit such information to the OFTA. As such, the OFTA does not have information on the amounts to be settled each year or the percentage of the relevant amounts out of the total LAC and USC paid.

- (b) The OFTA has been reviewing the current measures on dealing with and investigating the use of non-compliant access numbers for offering ETS. In May 2003, the OFTA further launched a new initiative whereby it will arrange immediately for suspension of call services by local FTNS operators using the relevant non-compliant numbers upon finding of any non-compliance and notification by local FTNS operators. This measure has significantly improved the efficiency of processing cases of non-compliance and prevented the ETS operators from using non-compliant access numbers. The OFTA will continue to monitor and review the effectiveness of these measures, as well as the situation of the use of non-compliant access numbers by the ETS operators, so as to determine whether further measures are necessary. During the monitoring and review process, the OFTA will consult the industry from time to time and combat non-compliant practices vigorously with a view to maintaining a level playing field for the ETS market.
- (c) Upon implementation of the new initiative stated in part (b), the use of non-compliant access numbers by the ETS operators for offering external outgoing call services has decreased drastically. The OFTA has now applied this measure to those cases related to non-compliance in the provision of external incoming call services as well. It will adjust the strategy in combating non-compliant practices in response to changing market conditions with a view to reducing non-compliance in the provision of external incoming call services.

Waiting Time for Cremation Service

11. **MR ALBERT CHAN** (in Chinese): *Madam President, I have received complaints about the long waiting time for cremation service provided by the Food and Environmental Hygiene Department (FEHD), which could be as long as two weeks, rendering the complainants not being able to complete the funerals of their relatives expeditiously. In this connection, will the Government inform this Council:*

- (a) *of the average waiting time for cremation service provided by the FEHD in each of the past three years and how these figures compare with those of the Southeast Asian countries and the Mainland; and*

- (b) *whether it will adopt improvement measures to shorten the waiting time for cremation service; if it will, of the details; if not, the reasons for that?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Chinese):
Madam President,

- (a) In 2001, 2002 and 2003, the FEHD handled 26 937, 28 436 and 30 161 applications for cremation service respectively. Given the large number of applications and that the time taken for cremation service to be provided depends on both the availability of cremation sessions and preference of applicants for the date available, information on the average waiting time for cremation service is not readily available.

The FEHD does not have information on the waiting time for cremation service in Southeast Asian countries and the Mainland.

- (b) The time that it takes for cremation service to be provided to an applicant depends on both the availability of cremation sessions at the time of application and the preference of the applicant. For example, the period before and after Lunar New Year has traditionally been a peak season for cremation. During this period, the duration between the submission of application and the actual date of cremation may be longer. Moreover, some applicants may prefer a later cremation session to match the date they consider best for the cremation of the deceased, even though an earlier session is available.

To cope with the temporary increase in demand for cremation service during peak periods, the FEHD has been arranging additional cremation sessions during these periods through redeployment of staff. We are aware of a general increase in the public's demand for cremation service over the years. As a long-term measure, the FEHD has been gradually replacing old cremators with more efficient ones to make available more cremation sessions. The replacement of cremators at the Kwai

Chung Crematorium was completed in 2003. Relevant works at the Fu Shan Crematorium are expected to complete in 2004. Planning for upgrading of cremation facilities at other crematoria is also under way.

Prolonged Occupation of On-street Metered Parking Spaces

12. **DR RAYMOND HO** (in Chinese): *Madam President, it has been reported that there is prolonged occupation of some on-street metered parking spaces, and in some cases parking spaces are even occupied for loading and unloading goods, or for other uses without parking charges being paid. In this connection, will the Government inform this Council:*

- (a) *whether regular inspections of metered parking spaces were conducted throughout the territory in the past year to check if the parking spaces were illegally occupied; if such inspections found illegal occupation of such spaces, of the details of such occupation and how the authorities dealt with these cases;*
- (b) *whether it has assessed the amount of parking charges foregone in the past year due to non-payment of such charges by users of the above parking spaces; if so, of the assessment results; and*
- (c) *of the measures the authorities have to improve the above situation?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

(in Chinese): Madam President, the contractor engaged by the Transport Department (TD) to manage on-street metered parking spaces carries out regular inspections to check on possible illegal occupation of the parking spaces. If the contractor finds cases of illegal occupation of the parking spaces, he will refer them to the relevant government departments for enforcement actions. In 2003, 185 such cases were reported. Among them, 53% involved hawking activities and 45% involved non-payment of parking fees. These cases were referred to the Food and Environmental Hygiene Department and the police respectively. The remaining 2% involved other types of illegal occupation of the parking spaces, and were referred to the Lands Department for enforcement action.

As it is difficult to ascertain the exact period during which the spaces have been illegally occupied, we do not have an assessment on the amount of parking charges foregone.

The TD's contractor will continue to liaise closely with the relevant departments to combat illegal occupation of on-street metered parking spaces. More frequent inspection and enforcement action will be carried out at locations where such violations are frequently spotted. We will also continue to encourage the public to report these violations and will act on their reports promptly.

Malfunctioning of Signalling System of West Rail

13. **MR LAU KONG-WAH** (in Chinese): *Madam President, it has been reported that a number of incidents involving malfunctioning of the signalling system occurred in West Rail (WR) in the past two months, causing disruption to and even suspension of train service. In this connection, will the Government inform this Council if it knows:*

- (a) the total number of incidents involving malfunctioning of the signalling system which affected train operations since the opening of WR, together with a detailed chronology of these incidents;*
- (b) the reasons for the above incidents; and*
- (c) whether the Kowloon-Canton Railway Corporation (KCRC) has measures to reduce the occurrence of similar incidents?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS (in Chinese): Madam President, WR has been operating smoothly since its opening on 20 December 2003. The system now achieves a high reliability with average service delivery rate at 99.8% and a punctuality rate at 99.4%.

Like most new railways, WR has experienced some initial teething problems relating to the signalling system at certain sections of the railway. During these incidents, while train speed had to be reduced at certain sections, continuous train service was maintained to meet passenger demand. Moreover,

operation safety was not affected. A table showing the details including the cause and remedial measures of the signalling-related incidents occurred since WR opening is at Annex.

To continuously improve the reliability of the signalling system, the KCRC has conducted thorough investigations into the causes and taken remedial measures to minimize recurrence of similar incidents. Apart from replacing the faulty equipment, the KCRC has embarked on comprehensive checking on related equipment and facilities, and identifying ways to accelerate the recovery of services and minimize the impact on train services. The Hong Kong Railway Inspectorate and the Transport Department will continue to closely monitor the safety and service levels of WR respectively.

Annex

Details of the WR signalling-related incidents

<i>Date</i>	<i>Incident</i>	<i>Cause</i>	<i>Remedial actions</i>
29 December 2003	At 9.04 am, northbound service in the section between Tsuen Wan West and Kam Sheung Road was slightly affected. As a result, the journey time of some train trips was extended by five minutes.	Failure of a computer card in a trackside signalling equipment box.	The faulty computer card was replaced.
3 January 2004	At 5.45 am, service in the section between Tsuen Wan West and Kam Sheung Road was affected. As a result, the journey time of some train trips was extended by five minutes.	Malfunctioning of trackside signalling equipment.	The equipment was reset.
5 January 2004	At 8.38 am, southbound service in the section between Tsuen Wan West and Kam Sheung Road was affected. As a result, the journey time of some train trips was extended by two to three minutes.	Failure of a point machine near Kam Sheung Road Station.	The faulty point machine was replaced. Regular checks on all point machines are carried out according to a predetermined schedule.

<i>Date</i>	<i>Incident</i>	<i>Cause</i>	<i>Remedial actions</i>
2 February 2004	Northbound service in the section between Tsuen Wan West and Kam Sheung Road was affected intermittently in the morning and afternoon. As a result, the journey time of some train trips was extended by five to 10 minutes.	Wiring faults in a trackside signalling equipment box.	The faulty wiring was replaced and a system-wide check of all similar installations in the system is scheduled for completion by the end of March.
6 February 2004	Northbound service in the section between Tsuen Wan West and Kam Sheung Road was affected intermittently in the morning and afternoon. The journey time of some train trips was extended by five to 10 minutes.	Failure of a computer card in a trackside signalling equipment cabinet near the north portal of Tai Lam Tunnel.	The failed computer card was replaced. Checking of similar computer cards has been included in a system-wide check to be completed by the end of March.
9 February 2004	At 1.44 pm, northbound service in the section between Tsuen Wan West and Kam Sheung Road was affected intermittently. The journey time of some train trips was extended by about 10 minutes.	Loosening of wiring in a signalling equipment box located near the north portal of Tai Lam Tunnel.	The faulty wiring was replaced. Checking of wirings in signalling equipment boxes has been included in a system-wide check to be completed by the end of March.
27 February 2004	At 10.44 pm, northbound service in the section from Mei Foo to Tsuen Wan West was briefly affected. As a result, the journey time of some train trips was extended by four minutes.	Failure of a modem card in a trackside signalling equipment box.	The faulty card was replaced.
3 March 2004	At 5.45 am, first train from Tuen Mun was delayed by nine minutes. Train frequency was maintained at four to five minutes as compared to the scheduled frequency of three minutes during morning peak.	Failure of a point detector at Tuen Mun Station.	The faulty point detector was replaced.

Wages of Cleaning Workers

14. **MS EMILY LAU** (in Chinese): *Madam President, in his policy address delivered in January this year, the Chief Executive stated that the Administration "will pay attention to whether those working on government contracts are receiving a reasonable wage". However, according to the findings of a survey published by Oxfam Hong Kong in January this year, 65% of the cleaning workers employed by the cleansing contractors (the contractors) of the Housing Department (HD) receive wages lower than those pledged by the contractors in the service contracts, and some contractors try to evade monitoring by the authorities by various means. In this connection, will the executive authorities inform this Council:*

- (a) *given that "cleaning workers' wages" is incorporated into the item of "work plan" which may only score up to 20% of the total marks in the HD's evaluation of contractors' tendering documents, whether the authorities will consider designating "cleaning workers' wages" as a separate scoring item and increasing its weighting, so as to better protect the interests of workers; if it will, of the details of consideration; if not, the reasons for that;*
- (b) *whether, in assessing if the cleaning workers' wages pledged by the contractors in their tendering documents are reasonable, the HD has made reference to the quarterly average market wages of cleaning workers published by the Census and Statistics Department (C&SD); if so, whether the tenders will be excluded from consideration if the wages pledged therein are below the average market wages; if it has not, of the reasons for that;*
- (c) *whether it is stipulated in the service contracts that the contractors shall grant overtime allowance or leave to the cleaning workers in compensation for overtime work; if so, of the details of the stipulation; if not, the reasons for that;*
- (d) *whether they have reviewed the existing monitoring mechanism on contractors' fulfillment of their commitment on workers' wages; if they have, of the areas identified for improvement; and*
- (e) *whether they have considered imposing heavier penalties on those contractors who are found to have wrongfully deducted workers'*

wages and leave benefits; if they have, of the details of consideration; if they have not, the reasons for that?

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Chinese):

Madam President, my reply to the five-part question is as follows:

- (a) The HD endeavours to ensure reasonable wages for cleansing workers in public housing estates. Since May 2001, tenderers' committed wage levels for cleansing workers has been made one of the criteria for tender evaluation, accounting for 4% to 6% of the total scores. To better protect the interests of workers, the HD is undertaking a comprehensive review of the tendering system. Our preliminary thinking is to increase the weighting of "workers' wages" in the overall tender scores and to require tenderers to specify workers' expected working hours. We are consulting the trade and interested parties on the proposals. The detailed arrangements have not yet been finalized.
- (b) In assessing the tenders, while the HD also makes reference to the average wages of cleansing workers published in the Quarterly Report of Wage and Payroll Statistics compiled by the C&SD, the median of the committed wages of all tenderers is used as the scoring benchmark, with tenders offering wages below the median being allotted lower scores. This scoring method has the advantage of taking into account differences in wage levels for different housing estates in different districts. As mentioned above, we are conducting a comprehensive review of the tendering system for estate cleansing services, which will also look into the current arrangement of using the median wages as scoring benchmark and examine whether the alternative of using the average wages will be more effective in reflecting prevailing wage levels in the market.
- (c) The purpose of outsourcing estate management and cleansing services is to allow sufficient flexibility for private contractors to provide quality service cost-effectively. Therefore, contractors are not required to provide details of other employment terms apart from committed wages so that they have a free hand to work out

with individual cleansing workers suitable arrangements to meet operational needs. To further protect the interests of cleansing workers, the HD will require all cleansing contractors of outsourced estates to use standard form contracts formulated by the Labour Department when entering into written employment contracts with cleansing workers, specifying the committed wages, working hours, and overtime pay.

- (d) The HD monitors contractors' compliance with their committed wages through regular inspections, requiring contractors to post up notices on committed wages at staff common rooms and mandating property management companies to submit monthly payroll records certified by qualified accountants. In the light of complaints against non-compliant contractors received since last year, the HD has immediately implemented measures including stepping up inspection, setting up a complaint hotline and collecting the employment details of all cleansing workers. To further improve the existing system with a view to stamping out malpractices, we will require contractors to submit their monthly payroll records and spot check the information through random interviews with workers.
- (e) The HD takes enforcement actions under the contract against under-payment to and exploitation of workers. Such actions include warnings, deducting contract payments, reflecting any malpractices in periodic performance evaluation, contract termination, list enforcement, banning the contractors from tendering for other contracts or even initiating legal action. To strengthen the existing tendering and monitoring system and to enhance the deterrent effect against malpractices, we are now considering a number of new measures, such as tightening up the tender assessment criteria, rejecting contractors in constant breaches of contracts, requiring contractors to submit records of any past violation of labour legislation in the tender, adopting a "demerit point system" recording the malpractices of all government outsourcing contractors, and strengthening liaison with other government departments so as to facilitate the HD to assess the past performance of tenderers in honouring their commitments to workers.

Cases Reported by Industries

15. **MR HENRY WU** (in Chinese): *Madam President, regarding the cases reported under the Employees' Compensation Ordinance (Cap. 282) by the financing, insurance, real estate and business services sectors in the past three years, will the Government inform this Council of:*

- (a) *the respective numbers of cases reported and settled each year, with a breakdown by industries; and*
- (b) *the longest, shortest and average processing time taken in the above cases, with a breakdown by cases settled or otherwise; the highest, lowest, average and total compensation amount (for settled cases) and the claim amount (for unsettled cases) involved; and the reasons for the cases not having been settled?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Chinese): Madam President,

- (a) The number of employees' compensation cases in the financing, insurance, real estate and business services sectors reported to the Labour Department under the Employees' Compensation Ordinance in the past three years and the number of cases resolved as at end-2003 are as follows:

<i>Industries</i>	<i>Reporting year</i>	<i>No. of reported cases</i>	<i>No. of resolved cases as at 31 December 2003</i>
Financing	2001	155	150
	2002	157	145
	2003	199	130
Insurance	2001	28	28
	2002	30	27
	2003	29	20
Real Estate	2001	53	51
	2002	63	60
	2003	78	52
Business Services ¹	2001	4 335	4 231
	2002	4 120	3 902
	2003	4 155	3 029

¹ Business services include security, real estate maintenance management, accounting, information technology related services, legal, advertising and related services, and so on.

- (b) For resolved cases, the highest, lowest, average and total compensation payable are as follows:

<i>Industries</i>	<i>Reporting year</i>	<i>No. of resolved cases as at 31 December 2003</i>	<i>Total compensation payable# (S)</i>	<i>Average compensation payable (S)</i>	<i>Highest compensation payable (S)</i>	<i>Lowest compensation payable (S)</i>
Financing	2001	150	2,146,460	14,310	251,260	725
	2002	145	1,916,143	13,215	162,079	391
	2003	130	1,183,919	9,107	193,008	811
Insurance	2001	28	511,013	18,250	258,524	263
	2002	27	948,308	35,123	405,840	736
	2003	20	325,375	16,269	172,067	693
Real Estate	2001	51	1,357,343	26,615	291,228	880
	2002	60	2,892,469	48,208	2,009,243	347
	2003	52	589,423	11,335	179,619	84
Business Services	2001	4 231	66,296,170	15,670	3,000,000	130
	2002	3 902	59,381,609	15,218	1,620,549	162
	2003	3 029	24,391,501	8,053	1,799,000	100

The compensation amount includes statutory compensation items (payments for work injury sick leave, compensation for permanent incapacity, compensation for death) stated in the Certificates of Compensation Assessment issued by the Commissioner for Labour and court awards for statutory compensation and common law damages which are known to the Labour Department.

The processing time for employees' compensation cases is subject to the circumstances of each individual case, including the length of sick leave, whether there is any permanent incapacity and dispute involved.

The number of days taken to process cases which have been resolved through the issue of Certificates of Compensation Assessment by the Commissioner for Labour are as follows:

<i>Industries</i>	<i>No. of days taken in processing cases which were resolved as at 31 December 2003</i>								
	<i>Reporting year 2001</i>			<i>Reporting year 2002</i>			<i>Reporting year 2003</i>		
	<i>Highest No. of Days</i>	<i>Lowest No. of Days</i>	<i>Average No. of Days</i>	<i>Highest No. of Days</i>	<i>Lowest No. of Days</i>	<i>Average No. of Days</i>	<i>Highest No. of Days</i>	<i>Lowest No. of Days</i>	<i>Average No. of Days</i>
Financing	688	14	166	694	9	143	317	14	102
Insurance	328	15	122	311	10	95	232	21	91
Real Estate	461	9	134	467	7	129	229	15	90
Business Services	936	4	150	636	4	132	343	7	92

The outstanding cases include those with ongoing sick leave, cases awaiting incapacity assessment or dispute cases to be adjudicated by the Court. The Labour Department is therefore not in a position to provide information on the claim amount.

Teachers Attacked by Students

16. **MR FREDERICK FUNG** (in Chinese): *Madam President, will the Government inform this Council:*

- (a) *in respect of secondary and primary schools, of the respective numbers of assault cases reported to the relevant government departments in which teachers and staff were attacked by students in their schools, as well as the numbers of students who were involved and arrested by the police, in each of the past three years; and*
- (b) *of the specific measures to help secondary and primary school teachers and staff identify students who have propensity for violence?*

SECRETARY FOR EDUCATION AND MANPOWER (in Chinese): Madam President,

- (a) Every year, the Education and Manpower Bureau collects from discipline teachers of primary and secondary schools information about student problems which they have handled and required follow-up action or which they have handled together with students' parents or guardians. The numbers of such cases which involve "acts of physical violence to teachers" in the past three school years are listed below:

<i>School Year</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>
No. of Cases in Primary Schools	5	14	13
No. of Cases in Secondary Schools	27	41	46

According to the police, the number of assault cases reported in which teachers and staff were attacked by students in their schools and the number of students involved and arrested in the past three school years are as follows:

<i>School Year</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>
No. of Cases in Primary Schools (No. of Students Involved and Arrested)	-	2 (1)	1 (1)
No. of Cases in Secondary Schools (No. of Students Involved and Arrested)	-	1 (1)	3 (3)

- (b) The Student Health Scheme of the Department of Health has provided a mechanism for the early detection and intervention of violence among students. During the health screening process, students suspected of having psychological and health problem are further assessed at Special Assessment Centres of the Department of Health. Student Guidance Officers/Personnel/Teachers in primary schools and school social workers in secondary schools receive referrals from teachers and from the Special Assessment Centres so that timely support will be rendered to the students in need. For those suspected of more serious psychological and behavioural problems such as aggression and violent behaviours, they will be referred to educational psychologists, clinical psychologists and psychiatrists for further assessment and treatment.

Factory Canteens

17. **MR FRED LI** (in Chinese): *Madam President, in accordance with the Food Business Regulation, licensed "factory canteens" may sell or supply meals and drinks only to persons employed in any factory in the factory building where the canteen is located. In this connection, will the Government inform this Council:*

- (a) *of the number of inspections on factory canteens carried out by the staff of the Food and Environmental Hygiene Department (FEHD) in each of the past two years;*

- (b) *of the number of prosecutions, in each of the past two years, against the proprietors of factory canteens for selling or supplying meals to other persons and the penalty imposed on them by the Court; and*
- (c) *given that business has been difficult for many factory canteens in recent years, whether it will consider amending the legislation to relax the restriction on the customers that factory canteens may serve; if it will, of the relevant legislative timetable; if not, the reasons for that?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Chinese):
Madam President,

- (a) In 2002 and 2003, the FEHD carried out a total of 5 277 and 4 358 inspections at licensed factory canteens respectively.
- (b) As provided under the licensing condition issued by the FEHD, a factory canteen can only serve customers who are employees of the factories in the same building in which the factory canteen is located. Non-compliance with the said condition is not a breach of the provisions in the Food Business Regulation (Cap. 132 sub. leg.) which result in prosecution. The FEHD will, however, issue warnings to the licensees who breach the condition. Repeated warnings may result in cancellation of licence.

The FEHD's inspections in 2002 did not reveal any breach of the above licensing condition. In 2003, the FEHD issued five written warnings to licensees for non-compliance, but no licence was cancelled.

- (c) A licensed factory canteen within an industrial building is intended to serve the factory employees working in the same building. As such, it is subject to less stringent requirements than restaurants with respect to the size of food room and the provision of sanitary fitments. To relax the licensing condition on the customers that factory canteens may serve will necessitate consequential changes to the relevant licensing requirements as the number and type of customers is expected to increase and there will be no material

difference between a factory canteen so rendered and a general restaurant. In this connection, it is noted that there are land use restrictions that prohibit the operation of restaurants in factory buildings. We have therefore no plan to relax the current restriction on the customers that factory canteens may serve.

Tourists' Complaints Against Local Service Industry

18. **MR LAU KONG-WAH** (in Chinese): *Madam President, it has been reported that the Travel Industry Council of Hong Kong (TIC) has noted a substantial increase in the number of complaints from tourists in the past year concerning the 14 days 100% Refund Guarantee Scheme. In this connection, will the Government inform this Council:*

- (a) of the numbers of complaints received by the authorities from tourists against the local service industry in each of the past three years, broken down by the nature of complaints and sectors (such as hotels and retail shops, and so on);*
- (b) how the authorities follow up these complaints, and whether they will punish unscrupulous shops;*
- (c) whether the authorities have assessed how the substantial increase in the number of complaints mentioned above has affected the local tourist industry and dampened tourists' confidence in shopping at local shops; if so, of the assessment results; if not, the reasons for that; and*
- (d) whether the authorities have explored measures to deter these unscrupulous shops from continuing to rip off tourists; if not, the reasons for that?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Chinese): Madam President,

- (a) The "100 Percent Refund Guarantee Scheme" has been put in place by the TIC since February 2002. A breakdown of the nature of

complaints from inbound tourists received by the TIC in the past two years^{Note} is as follows:

<i>Nature</i>	<i>2002</i>	<i>2003</i>
Shopping	236	343
Tour guides and tipping	42	34
Itinerary, accommodation and transportation arrangements	43	19
Extra charge	11	9
Others	8	11
Total	340	416

Source: TIC

The TIC mainly handles complaints from group tourists. Other complaints are followed up by the Consumer Council. A breakdown of the number of complaints received by the Consumer Council in the past three years by nature and service sectors is as follows:

(i) *Breakdown by nature*

<i>Nature</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
Price Dispute	247	312	281
Sales Practice	326	534	519
Others	237	342	432
Total	810	1 188	1 232

(ii) *Breakdown by service sectors*

<i>Sector</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
Travel Agents/Hotel Services/Public Transport	39	57	70
Retailers	661	998	1 006
Food and catering	35	45	57
Others	75	88	99
Total	810	1 188	1 232

Source: Consumer Council

^{Note} TIC does not keep complaint figures prior to 2002.

- (b) It has been the TIC's requirement since 1 February 2002 that travel agents may only arrange shopping activities for visitors to shops registered with the TIC. The registered shops must undertake to provide 100% refund within 14 days to tourists who are not satisfied with their purchase. Upon receipt of any complaint, the TIC will contact the travel agent and mediate with the relevant parties. Over 90% of the cases handled by the TIC have been resolved. The few cases which could not be resolved are mainly due to insufficient information provided by complainants.

If travel agents are found to have breached the TIC's directive or Code of Conduct on shopping arrangements, the TIC may either warn or fine them. For repeated and serious cases, the TIC may suspend or revoke the travel agent's membership; which leads automatically to suspension or revocation of its licence by the Registrar of Travel Agents. The TIC will deregister the shops which are repeatedly subject to complaints.

For visitors' complaints received by the Consumer Council, cases will be investigated and mediation undertaken. If the complaints indicate possible elements of fraud or criminal activity, the Consumer Council will refer them to the police or Customs and Excise Department (C&ED) for follow-up investigation. The Consumer Council aims to resolve the complaints before the tourists' departure. Depending on the situation of individual cases, the tourist concerned may be advised by the Consumer Council to take his/her claim to the Small Claims Tribunal. There are special arrangements for the tribunal to hear visitors' cases within 48 hours.

- (c) Hong Kong received a total of 15.54 million visitors last year. The number of complaints received by the TIC and the Consumer Council are equivalent to 0.003% and 0.008% of visitor arrivals in that year. The problem of tourists' complaints is not serious. Based on the arrival figures, the tourists' complaints mentioned above have not dampened tourists' confidence to do shopping in Hong Kong. In fact, recent surveys have revealed that shopping is still one of the top attractions of Hong Kong to the majority of visitors and visitors still have confidence that they will get genuine products at a fair price.

The Government will continue to monitor the trend of complaints received from tourists and step up consumer protection. Prosecution action will also be taken by the police or the C&ED against shops found to be committing criminal offences.

- (d) The Government considered that promoting good business practice and enhancing awareness of consumer rights would provide the best safeguard for tourists and consumers.

In 2003, the TIC promulgated a "Code of Conduct" for tourist guides, that includes, among other things, guidelines governing shopping activities.

To enhance visitors' awareness of their consumer rights, we have stepped up promotional efforts and strengthened our co-operation with the mainland authorities. On the promotional front, the Hong Kong Tourism Board (HKTb) has published a number of information leaflets and guide books for distribution at the airport and land boundary crossing points. Such leaflets and guide books are updated regularly to ensure that the most up-to-date information is provided for visitors. The HKTb will continue to enhance the Quality Tourism Services Scheme (QTS Scheme) and reinforce its promotion and publicity both in Hong Kong and the Mainland. It will continue to handle complaints regarding purchases from shops and restaurants accredited by the QTS Scheme and display street banners at popular shopping areas to remind visitors of the HKTb visitor hotline and the Consumer Council enquiry hotline.

Low-Income Households

19. **MS EMILY LAU** (in Chinese): *Madam President, according to the Quarterly Report on General Household Survey published by the Census and Statistics Department, the number of households with monthly income less than \$4,000 (the low-income households) increased from 165 500 in the second quarter of 1999 to 209 400 in the third quarter of 2003. Regarding the number of low-income households and measures to relieve their financial hardship, will the executive authorities inform this Council whether:*

- (a) *they have studied the cause of the drastic increase in the number of low-income households in the past few years; if so, of the results of the study; if not, the reasons for that;*
- (b) *apart from the Comprehensive Social Security Assistance (CSSA) Scheme, there are other measures to relieve the financial hardship of low-income households, such as introducing a statutory minimum wage; if so, of the details of such measures; if not, the reasons for that; and*
- (c) *they plan to establish a poverty line for reference in implementing policies, with a view to reducing the number of low-income households; if so, of the details of the plan; if not, the reasons for that?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Chinese):
Madam President,

- (a) As indicated by the findings of the General Household Survey, the number of domestic households with monthly income below \$4,000 went up from 161 700 in the second quarter of 1999 to 203 600 in the third quarter of 2003, showing an increase of 41 900 households or 25.9%. The following may be the major factors contributing to such an increase in the above period:
 - (i) There was an increase of 33 900 one-person and two-person households in the group of households with monthly income below \$4,000 (80.9% of the 41 900 households). Since households with fewer members tend to have lower household income, the continuing trend of decreasing household sizes in recent years is one of the reasons for the increase in the number of households with lower income.
 - (ii) There was an increase of 23 400 households with at least one member aged 65 or above or one retired member aged 64 or below in the group of households with monthly income below \$4,000. We have no information on the assets of this group of economically inactive members, which could be a supplemental or main resource to support their living.

- (iii) The seasonally-adjusted unemployment rate increased substantially from 6.1% to 8.3% in the above period. The number of households with unemployed member(s) surged, and the households concerned thus faced a reduction in monthly income. There was an increase of 12 300 households with at least one unemployed person in the group of households with monthly income below \$4,000.
- (iv) The employment earnings of employed persons showed a decrease in the above period. The median monthly employment earnings of employed persons in all households decreased from \$10,000 to \$9,700, while those in households with monthly income below \$4,000 also decreased. Amidst further restructuring of the economy towards higher value-added and knowledge-based activities, and increased downsizing and layoffs in the corporate sector, these workers were generally harder hit by the problems of unemployment and wage cut.

We should note the fact that the above statistics are in absolute terms and have not yet taken into account the effects of deflation. Discounting the effects of deflation^{Note}, the number of households with monthly income below \$4,000 increased from 188 300 to 203 600 in the above period. The percentage of these households to the total number of households in Hong Kong stays at 9.3% both in 1999 and 2003.

- (b) The Government actively and effectively supports and assists low-income earners in many policy areas, including housing, education, health and welfare, and so on. It is Government policy that no one is deprived of basic and essential needs because of a lack of means.

Our public rental housing programme provides subsidized homes to low-income families who cannot afford private-sector accommodation. The heavily subsidized levels of rents go a long

^{Note} One of the methods is to adjust the absolute values of household income according to the changes in the Composite Consumer Price Index, that is, the purchasing power in real terms is kept constant at the third quarter of 2003.

way in helping improve the quality of life of low-income tenants in public housing. For tenants who encounter temporary economic hardship, the Housing Authority operates a Rent Assistance Scheme, under which tenants not receiving CSSA may apply for rent reduction. In recent years, we have also made tremendous efforts in reducing the waiting time to enable low-income families to get access to public housing expeditiously. At present, the average waiting time is slightly above two years. For households which are not selective in the location or types of flats, they can be allocated public rental flats within a year or so.

To ensure that no one will be denied access to adequate medical services due to a lack of means, there is in place a medical fee waiver mechanism to assist those who are in need. Non-CSSA recipients in financial need can apply for a full or partial fee waiver subject to a simple assessment of their family income and assets.

As regards education, on top of the free education to all from Primary One to Secondary Three and the heavily subsidized higher secondary and tertiary education, there are various forms of financial assistance to ensure access for students with the ability to the level of education they aspire to attain. These include tuition fee remission, student travel subsidies, school textbook assistance, student loans, and so on.

Our social security schemes provide a safety net for people in need due to low income or other reasons. The Social Welfare Department (SWD) has put in place a wide range of welfare services to help individuals and their families in need, such as counselling and guidance services, community care services, residential care placement, schooling and temporary shelter assistance, and so on. All those in need including low-income earners and CSSA recipients have access to these services by direct approach, on referral basis or outreaching network of the SWD.

In the long term, the Government adopts a multi-pronged approach of fostering economic growth, facilitating human investment and increasing social investment together, to lift the standard of living for all.

Regarding the suggestion to set a minimum wage, the wages of Hong Kong workers, like other terms of employment, are determined by demand and supply in the labour market and freely negotiated between employers and employees. This mechanism for determining wage levels ensures the most effective allocation of manpower resources in society. As an open economy, Hong Kong needs to maintain a market-driven mechanism for determining wage levels, to ensure the labour market's flexibility and adaptability to changes in the economy. Introducing a statutory minimum wage will impact on the ability of our labour market to adjust in changing economic circumstances, and may have adverse effects on economic development and job creation. Therefore, we do not agree that a statutory minimum wage should be set.

- (c) There are no universally agreed definitions or measurements of poverty, and any attempt to define poverty inevitably involves subjective value judgement. Some groups have defined poverty in relative terms and attempted to draw a poverty line by relative levels of wages or family income between different groups in the same economy. However, this approach ensures that even the most affluent societies will always have a group of people regarded as "poor", and we consider it unsound. Others have defined poverty in terms of income distribution. However, such analyses take no account of intangible income derived from government spending on housing, education, health and welfare, and so on, thus understating the economic effectiveness of social services in improving household income and its distribution.

We do not consider that setting a poverty line would improve the position of the disadvantaged. The common goal is to provide the best environment for people to enhance their capabilities and elevate themselves. This is pursued by adopting a multi-pronged approach of fostering economic growth, facilitating human investment and increasing social investment. We would also strive to maintain a highly flexible and efficient labour market, with equality of access to job opportunities where the qualifications and abilities fit. A social safety net is provided for those who are economically inactive because of age, illness or disability and for individuals who are in need of financial assistance because of unemployment or other reasons.

Mainlanders Holding Two-way Permits Begging in Hong Kong

20. **MISS CHOY SO-YUK** (in Chinese): *Madam President, will the Government inform this Council:*

- (a) *of the number of cases in the past three months involving Two-way Permit holders from the Mainland begging in Hong Kong;*
- (b) *as begging is an offence under the law, of the actions taken by the authorities against such persons; and*
- (c) *of the measures the authorities have to prevent these people from coming to Hong Kong for begging?*

SECRETARY FOR SECURITY (in Chinese): Madam President,

- (a) The Administration does not maintain comprehensive statistics on begging activities in Hong Kong. In the 12 weeks between 24 November 2003 and 15 February 2004, the police handled 98 mendicancy cases involving 99 Two-way Permit holders from the Mainland.
- (b) Under the Summary Offences Ordinance (the Ordinance), it is an offence for a person to beg for alms. If Two-way Permit holders are found begging on the street, the police will take appropriate action in accordance with the Ordinance. Generally, such action may take one of the following three forms:
 - (i) Mendicancy without premeditation: Where a visitor, whether from the Mainland or elsewhere, is found involved in mendicancy without premeditation and the subject is in *bona fide* need of assistance, arrangement will be made for the subject's repatriation following any necessary action including referral to the subject's consulate office. In the case of a Two-way Permit holder, this procedure will be followed and the subject will be referred to the Immigration Department (ImmD) for repatriation.

- (ii) Premeditated mendicancy: If the begging is found to be premeditated or the mendicant is not in *bona fide* need of assistance, prosecution will be initiated where appropriate under section 26A "Begging Alms" or section 26B "Asking Alms in Threatening Manner" of the Ordinance.
- (iii) Mendicancy for donation: If it is claimed that the begging activity is carried out for a donation purpose, the police will initiate prosecution action where appropriate under section 4(17) "Collecting Money in Public without Permit (from the Director of Social Welfare or Secretary for Home Affairs)" of the Ordinance.
- (c) The police will conduct investigation into any person who is suspected to be carrying out begging activities in Hong Kong, irrespective of whether that person is a visitor or not. In relation to mendicants who are Two-way Permit holders, the police will refer their particulars to the ImmD for consideration to prevent their further visits to Hong Kong.

ImmD officers at various control points will also conduct close examination on and, where appropriate, refuse the entry of mainland visitors with dubious intention. Since mid-2003, a notification system has been established under which the ImmD will furnish lists of mainlanders found begging in Hong Kong to mainland authorities. The permit-issuing authorities in the Mainland will subject their future applications to visit Hong Kong to rigorous scrutiny.

BILLS

First Reading of Bills

PRESIDENT (in Cantonese): Bill: First Reading.

APPROPRIATION BILL 2004

CLERK (in Cantonese): Appropriation Bill 2004.

Bill read the First time and ordered to be set down for Second Reading pursuant to Rule 53(3) of the Rules of Procedure.

Second Reading of Bills

PRESIDENT (in Cantonese): Bill: Second Reading.

APPROPRIATION BILL 2004

FINANCIAL SECRETARY (in Cantonese): Madam President, I move that the Appropriation Bill 2004 be read a Second time.

2. 2003 was a challenging year for Hong Kong. We came through a difficult period following the outbreak of SARS. Later, things took a turn for the better as our economy staged a rapid rebound. That we have been able to turn market sentiment around within the space of a few short months demonstrates the tenacity of Hong Kong people. In the face of adversity, we remain remarkably tough and resilient. When confronted with unexpected misfortune, we display determination and solidarity, and rise to the challenge through our quick wits, adaptability to change, and our ability to seize the moment.

3. The past year clearly demonstrated the great advantage we have in leveraging on our special relationship with the Mainland while engaging the world at large. Immediately after overcoming the outbreak of SARS, we signed the Mainland/Hong Kong Closer Economic Partnership Arrangement (CEPA), bringing unprecedented opportunities to all sectors of our economy. Our manufacturing and services industries have been given early access to the greatest potential market in the world, thus providing a further catalyst to our economic restructuring. The launch of the Individual Visit Scheme and the Renminbi (RMB) business initiative have further enhanced the free flow of people, goods and capital in both directions, speeding up our economic integration. This has fostered our economy's rapid recovery and laid a strong foundation for sustainable development.

4. Our motherland is currently the fastest-growing major economy in the world. Despite the effects of SARS, her economy registered strong growth of 9.1% last year; her Gross Domestic Product (GDP) exceeded US\$1,400 billion, breaking through the US\$1,000 mark on a per capita basis and hitting a historical high. As China transforms herself into a nation in which everyone may enjoy a reasonable standard of living, her economy should continue to grow steadily

apace, and, looking forward, her GDP is expected to reach US\$4,000 billion by 2020. Hong Kong can complement the strong economic growth of our Motherland, and in the process contribute to the further opening-up and reform of our nation.

5. We must, however, always bear it in mind that Hong Kong is a cosmopolitan international city. We have an abundant pool of talent, enterprise, experience and facilities that connect us to the rest of the world. We should be alive to opportunities on the Mainland, but at the same time, we should not lose sight of what the world at large has to offer. Only with such breadth of mind and vision can we maintain our position as the best business platform for China and the rest of the world.

6. These advantages flow from the principle of "one country, two systems". Some may say that CEPA is a big present from the Central People's Government to Hong Kong, but as Premier WEN Jiabao remarked on his visit to Hong Kong last year, the greatest gift is actually the Central People's Government's unwavering commitment to implement "one country, two systems". If we can fully capitalize on our unique advantage under "one country, two systems" and enhance our competitiveness in the globalized economy, this will hold the key to a brighter future for our people.

Directions for Development

Market Leads, Government Facilitates

7. A free market economy is the bedrock of Hong Kong's success. I firmly believe that our guiding principle in fostering economic development should be "market leads and government facilitates". Having come from the business sector, I am keenly aware that the essential ingredients for the success of an enterprise are flexibility, a quick response and the ability to see where the market is heading. The Government's principal role is to create the best possible environment for business and to facilitate the market's operation and promote its development. This role includes:

- Maintaining a robust institutional framework, underpinned by individual freedoms, the rule of law, a clean and highly efficient

government, a safe and stable society and a good working and living environment.

- Providing a business-friendly environment, by maintaining free trade and the free flow of information, promoting fair competition, enhancing the quality of the market and upgrading human resources.
- Maintaining a healthy fiscal and monetary regime, with prudent management of public finances, maintenance of a freely-convertible and stable currency and a sound regulatory system.
- Safeguarding and promoting Hong Kong's commercial and trade interests, namely, securing more favourable market access for our enterprises through bilateral and multilateral economic and trade negotiations.
- Providing the essential services and facilities that the market cannot provide, including major networks of infrastructure and provision of basic necessities for the disadvantaged to live with dignity.

8. We will continue to give free rein to market forces. We will ensure clarity, predictability and consistency in our policies to enable investors to make informed business decisions for the long term.

Revitalizing the Economy, Promoting Employment

9. I have stressed many times since taking this post that my foremost priority is to revitalize Hong Kong's economy. Thanks to the concerted efforts of the whole community, market sentiment has been improving significantly in the past few months. Although our economy is picking up, employment remains a serious challenge for us. As a long-term solution, we should promote Hong Kong's economic restructuring, become more competitive, and broaden and deepen our markets. With further improvement in our economy and increase in investment, more employment opportunities will follow.

10. Some labour organizations have told me they are worried that the local employment situation might not improve despite an economic recovery. Actually, this phenomenon is not unique to Hong Kong. As globalization intensifies competition, manufacturing industries and even some service

industries will move to other competitive locations that have lower costs, giving rise to job losses. In his policy address in January, the Chief Executive announced some targeted short-term measures to ease the problem of unemployment. I have obtained the approval of the Finance Committee to grant about \$1.2 billion to extend more than 11 000 temporary jobs, to provide young people with opportunities to gain work experience and enhance skills through training and to assist them to become self-employed. I have also earmarked \$50 million to establish a Youth Sustainable Development and Engagement Fund. Our determination to introduce these employment initiatives in the face of the fiscal deficit shows the importance that we attach to employment by targeting the necessary expenditure measures. In addition, the Government will improve its employment and training services and crack down on the employment of illegal workers so as to safeguard jobs for the local workforce.

11. Economic revitalization and promotion of employment are crucial for Hong Kong's development and are inextricably intertwined. The newly-established Economic and Employment Council has drawn its members from various sectors, providing a forum for representatives from the political sphere, trade and labour organizations and academia to discuss important economic and employment issues, to share collective wisdom and through co-ordination and prioritization build up a consensus in different policy areas. This new initiative will help the Government to work more closely with various sectors of the community to promote economic activities, encourage investment, facilitate business and create more employment opportunities.

Capitalizing on the Mainland/Hong Kong Closer Economic Partnership Arrangement (CEPA)

12. The signing of CEPA is the best embodiment of the "market leads and government facilitates" principle. It is also a prime example of how "one country, two systems" benefits Hong Kong. In the Mainland, the demand for quality goods and services from enterprises and individuals alike has surged following years of rapid economic growth. At this crucial juncture, CEPA has ushered in a new phase of comprehensive economic co-operation between Hong Kong and the Mainland. Apart from generating unlimited "win-win" opportunities, CEPA also gives overseas multinational enterprises the chance to use Hong Kong to access the mainland market. Our position as a two-way platform for business and trade will be greatly enhanced. This will inject new impetus into our economy and, at the same time, facilitate our economic restructuring and increase employment opportunities.

13. Currently, 374 Hong Kong-made products can be exported to the Mainland tariff-free. Other Hong Kong products will also enjoy zero-tariff treatment by 1 January 2006 at the latest. In the short span of two months since CEPA came into operation, over 300 CEPA certificates of origin have been issued, with the value of products enjoying preferential treatment at around \$150 million.

14. The zero-tariff treatment gives Hong Kong products the edge over overseas products in penetration of the mainland market. This will provide an added incentive for the manufacturers of brand name products and products with high added-value and significant intellectual property content to locate their production lines in Hong Kong. This will encourage the structural adjustment of our industries towards further diversification and high-value-added and high-tech production.

15. CEPA provides 18 major service sectors, including the professions, banking and finance, retail and distribution, communications and audio-visual and logistics, with market access that is far more favourable than under China's commitments to the WTO. This enables professionals and companies in Hong Kong to enjoy the advantage of preferential access to the vast mainland market. It also helps Hong Kong attract inward investment, thus further reinforcing the status of Hong Kong as a major business and service centre in the Asia-Pacific Region. In addition, Hong Kong permanent residents of Chinese nationality may operate individually-owned retail businesses in Guangdong.

16. The conference on professional services held in Beijing last month made good progress in many areas, including mutual recognition of professional qualifications and practising requirements. We will continue to hold discussions with the mainland authorities on the mutual recognition of professional qualifications and the entry threshold for different sectors in order to enable Hong Kong's service providers to play fully to their strengths in the mainland market.

17. The Government attaches much importance to the successful implementation of CEPA and will spare no effort to provide the necessary support for this. We may encounter some difficulties in the initial phase of implementation. We invite the business sector to report to us immediately any bottlenecks or administrative obstacles encountered in any particular area. The mainland and Hong Kong authorities will take swift action to tackle them.

We will continue to discuss with the sectors concerned how to formulate policies and measures to enable businesses in Hong Kong to reap the maximum benefit from CEPA.

18. CEPA is an ever-developing platform. We will continue our efforts to reinforce and expand it in order to provide more favourable market access conditions for our businesses. The CEPA platform has unlimited horizons. But blazing a successful trail will require the various sectors to take their opportunities and make the most of them.

19. We envisage that CEPA will speed up our economic co-operation with the Mainland, particularly with the Pearl River Delta (PRD). The 15 expert groups established under the Hong Kong/Guangdong Co-operation Joint Conference have started work in their different areas. In order to enhance the competitiveness of the Greater PRD, we will strive to improve the economic infrastructure of the region. The Shenzhen Western Corridor and the new cross-boundary vehicular bridge at the Lok Ma Chau/Huanggang Control Point, both of which are already under construction, will further facilitate the flow of people and goods between Hong Kong and Guangdong. The Hong Kong-Zhuhai-Macao Bridge, which is now under planning, will draw us closer to our hinterland. Better access to western Guangdong will also help us tap the new business opportunities over there. The economic co-operation between Hong Kong and Guangdong represents the alliance of a strong manufacturing base with a centre of international finance, trade, shipping, logistics and high value-added services. The strengths of the Greater PRD Region are all-embracing and unique. With its world-class potential, Hong Kong can play a key role as a business platform. Our primary task is to seize the opportunities for development that CEPA brings.

20. Such opportunities are not confined to Guangdong alone. We convened the first meeting of the Hong Kong/Shanghai Economic and Trade Co-operation Conference in October last year with a view to reinforcing our economic ties with Shanghai and creating business opportunities together within the framework of CEPA. There is already a strong friendship between the people of Hong Kong and Shanghai. I believe that, as we complement each other's strengths, the co-operation and understanding between our two cities will definitely be enhanced. We will also continue to increase our economic and trade co-operation with other provinces and cities for our mutual benefit.

Investing in Education and Training, Attracting Talent

21. The competitiveness of an economy depends largely on the quality and productivity of its human resources. For Hong Kong, these are our single most precious asset. To enable our economy to meet the challenges of the 21st century, we must effectively nurture and attract talent. As Hong Kong develops into a knowledge-based economy, we will need more talented individuals who are biliterate and trilingual, who possess a broad vision and have the ability to communicate effectively, think critically and be innovative and adaptable. Through training and retraining of our workforce, we will help them to help themselves by enhancing their knowledge and skills.

22. Despite our huge fiscal deficit, we will continue to devote enormous resources to education. Expenditure on education in 2004-05 will amount to \$59.5 billion and account for 23% of government expenditure. This represents a significant increase of 57% from \$37.9 billion in 1996-97. We will continue to invest in education and strive to enhance its quality.

23. All over the world there is competition for talent to meet the challenges of globalization. In the past, Hong Kong imposed many restrictions on admission of mainland professionals, and this has not helped our development. With the increasingly deep economic integration between Hong Kong and the Mainland, we need more talented people from there. Such people possess expertise and experience as well as better understanding of the mainland market and its culture. They will provide valuable assistance in opening up mainland opportunities. With further training and exposure to international practices, they will become valuable assets for our enterprises and the Hong Kong-based overseas companies eyeing the mainland market.

24. In mid-July last year, the Government introduced the Admission Scheme for Mainland Talents and Professionals, essentially aligning the criteria with those for admitting talented people from other places. This scheme provides Hong Kong enterprises with the opportunity to attract the mainland elite. By the end of February this year, the Immigration Department had received about 2 400 applications and had granted approval for 1 950 qualified people from the Mainland to work here. The task force that I head will ensure that the application assessment procedures are conducted expeditiously so as to enable Hong Kong to attract talented people more proactively. Upgrading our human

resources can help attract investment to Hong Kong and create further employment opportunities.

Promoting Financial Co-operation between Hong Kong and the Mainland, Reinforcing Our Status as an International Financial Centre

25. Hong Kong is an international financial centre and also a platform for the Mainland with the rest of the world. We are committed to reinforcing this status and further enhancing our role as the premier capital formation centre for China. The biggest advantage of our financial market lies in its quality. On listing in Hong Kong, enterprises from the Mainland and elsewhere not only secure the capital they need but also achieve recognition as being up to international listing standards. As at the end of February this year, there were more than 260 mainland enterprises listed in Hong Kong, with a total market capitalization of nearly \$1,900 billion. The total amount of capital raised by these enterprises in Hong Kong exceeds \$790 billion.

26. To keep pace with market development, we will continue to improve our regulatory framework. One of our major tasks is to enhance our corporate governance to keep it in line with international standards. We have, together with the Securities and Futures Commission (SFC) and Hong Kong Exchanges and Clearing Limited (HKEx), implemented a number of measures towards this end. We will continue to implement the other measures outlined in our Corporate Governance Action Plan together with proposals for strengthening the supervision of auditors and raising the quality of financial reporting.

27. The Government has completed its consultation on enhancing the regulation of listing. From this, there is general support for expanding the existing "dual filing" system and giving statutory backing to major requirements for listing. We are discussing the relevant details and implementation timetable with the SFC and the HKEx. We will announce by the end of this month the consultation conclusions and the road map for implementing the recommended improvements. We expect to introduce the relevant legislative amendments early next year.

28. The Central People's Government has agreed to banks in Hong Kong conducting RMB business. This represents not only a breakthrough in the development of our banking industry, but also an important milestone for financial co-operation between the Mainland and Hong Kong and our economic

development. At present, 35 banks in Hong Kong are providing RMB deposit-taking, exchange and remittance services. Total RMB deposits in Hong Kong exceed RMB 2 billion yuan. The value of transactions by mainland visitors using RMB cards averages \$2.6 million a day and is on the rise. We will continue discussions with the mainland authorities with a view to expanding the scope of RMB business once it has established a firm foundation here.

29. The Chief Executive announced in this year's policy address that the Government would strive to develop Hong Kong as a world-class asset management centre. We are exploring, through the Advisory Committee on Human Resources Development in the Financial Services Sector, ways of encouraging the sector to work with tertiary institutions to strengthen the training of local talent so as to enhance the competitiveness of Hong Kong as an international asset management centre. We will continue to improve our regulatory legislation and systems so as to provide a more favourable market environment for the launch of new investment products and the access of international funds to the local market. We are also in discussion with the industry on the detailed arrangements and the necessary legislative amendments to exempt offshore funds from profits tax.

30. Although our banking system and securities market are well established, we lack a mature bond market. Currently, the total outstanding amount of bonds in Hong Kong is equivalent to only about 45% of our GDP, whereas in developed countries such as the United States and Japan, the rate is as high as 150%. To reinforce Hong Kong's position as an international financial centre, we must redouble our efforts to develop the bond market, offering diversified investment products and avenues for financing to attract more overseas capital and enhance overall financial stability.

31. The Government has achieved much in this respect, including provision of the necessary financial infrastructure, a simplified issuance process and tax incentives. To promote the further development of our bond market, we need to expand its size, product range and liquidity. Apart from expanding the avenues for retail issues, the Government will continue to encourage public corporations to issue bonds and will itself issue different types of instruments such as securitization and government bonds. This will offer investors more choice and promote the development of the local bond market. Later, I will go into more detail concerning our plans to issue government bonds.

Stimulating Tourism, Promoting Hospitality

32. After a very difficult period in the middle of last year, the tourism sector recovered remarkably well. The number of visitors to Hong Kong reached 15.5 million for the year. This figure, although 6% lower than that for 2002, is still the second highest on record. Much of this recovery was attributable to the continued growth of the mainland market and the launch of the Individual Visit Scheme. This scheme now covers Beijing, Shanghai and most cities in Guangdong, and will be extended to cover the whole of Guangdong by May this year. This will result in some 100 million mainlanders becoming eligible to visit Hong Kong under the scheme. The Government will continue its discussions with the mainland authorities with the aim of expanding the scheme to cover more provinces and cities. The Hong Kong Tourism Board (HKTb) will step up its promotional efforts to boost Hong Kong's image as Asia's premier tourism destination.

33. A boom in the tourism industry will make the streets of our city more lively. This will improve overall market sentiment, stimulate local consumption, boost growth in related sectors and contribute to the creation of employment opportunities, particularly those for the lower-skilled workforce. I intend to provide additional funding of about \$95 million for various tourism promotion and training activities.

34. The development of the tourism industry depends on a concerted effort from the community. We must preserve the glamour of Hong Kong as a cosmopolitan city and its reputation as a shopping paradise by ensuring that our products are good value for money and can attract people from around the world to come and make their purchases here. We will continue to protect intellectual property rights by cracking down on counterfeit goods. We will also continue to promote a hospitable culture among those working in the tourism sector in particular, and all our citizens in general. Specific initiatives in this respect include a service quality audit in the hotel, travel and transport industries; the expansion of the HKTb's Quality Tourism Services Scheme; and seminars and campaigns to promote awareness of the importance of a hospitable culture.

35. The Tourism Orientation Programme launched by the HKTb has been very successful in introducing graduates to a career in the tourism industry. Over the past two years, this programme has groomed nearly 300 individuals for

a career in the industry. We will extend the programme for two more years in a bid to nurture more talent in future for tourism.

36. We will carry out a series of studies to formulate a strategy for future tourism development. The studies will cover the potential for developing projects such as spa resort facilities. We will also take forward the priority infrastructure projects on Tung Ping Chau and in Tolo Harbour.

37. In addition, we will continue to encourage the community to organize activities featuring individual district attractions. Such activities can promote the local community economy and also attract local and foreign visitors.

Fostering Creativity and Innovation, Moving Towards High Value-added Industries

38. As Hong Kong gradually transforms into a knowledge-based economy, our industries need to embrace new concepts, break with tradition and move towards higher value-added outputs. The Government will proactively encourage research and development, innovation and design to help our industries move up the value chain. We will focus on helping them switch the production mode from Original Equipment Manufacturing to Original Design Manufacturing and thence Original Brand Manufacturing. To enhance its competitiveness, we provide support to the industrial sector through, for example, the provision of competitively-priced land and comprehensive standards and accreditation services. In addition, we are actively promoting Hong Kong brand names to overseas and mainland businesses and providing loan and support schemes tailor-made for small and medium enterprises.

39. Whether it is in films, from "Buddha's Palm" to "A Better Tomorrow" to "Infernal Affairs"; in graphic fiction, from "Master Q" to "My Boy" to "McMug"; or in trend-setting jewelry, watches, fashion and other innovative product designs, the creative industries of Hong Kong have won worldwide recognition and achieved many outstanding successes. Our performing arts sector has gained a foothold in Hollywood. Moreover, CEPA has opened up the vast mainland market to our film industry. We will continue to promote creative industries and uphold our robust protection of intellectual property rights, providing an environment for creative, innovative and high value-added industries to flourish.

40. Design is the soul of a product. A good design can thoroughly remould our business, and significantly augment the competitiveness of our products and services. To encourage more product design activities in Hong Kong and further promote Hong Kong brand names, we need to strengthen our support for design and innovation. We plan to launch a "DesignSmart" initiative with the creation of a \$250 million fund. Apart from nurturing start-up design ventures and training manpower in design and branding, it will promote and honour design excellence. The initiative also includes setting up a Design and Innovation Centre in order to attract design talent from different places. Through these efforts, we seek to instil into our industries high value-added, high intellectual property and creativity content. We also wish to turn Hong Kong into a focal point of design excellence in the region.

41. We will seek funding support from the Finance Committee of this Council later. In addition, to facilitate this promotional initiative, we will extend the profits tax deduction for research and development expenses to cover expenses on design-related activities. The relevant legislation will be introduced into this Council as soon as practicable.

Co-ordinating Economic and Infrastructural Projects, Facilitating Logistics Development

42. The development of Lantau is vital for our future. In the next decade, we expect to focus on the development of economic and infrastructural projects there. The Chief Executive announced in his policy address in January that a Lantau Economic and Infrastructural Development Co-ordination Task Force would be established to draw up, from a "macro" perspective, a master blueprint for the future development of Lantau. The Task Force will co-ordinate the economic and infrastructural development of Lantau, following the principle of sustainable development and balancing environmental, social and economic considerations. This will ensure that the various projects can be expedited and completed on schedule. In mid-February, I convened the first meeting of the Task Force, at which several development projects were tentatively identified.

43. The logistics industry, one of the major industries of Hong Kong, provides many employment opportunities. We must reinforce our position as Asia's premier international logistics hub. The Task Force has decided to develop a Value-Added Logistics Park on Lantau as soon as practicable, to provide one-stop integrated logistics services and induce more high value-added cargo to pass

through Hong Kong. For the long-term development of the logistics industry, we will expand our cross-boundary transport network and other infrastructural facilities in order to maintain our competitive advantage amid rapid logistics and port development in neighbouring areas.

44. In terms of international air cargo throughput, Hong Kong leads the world. The Airport Authority is actively discussing specific co-operation proposals with individual airports in the PRD, including Shenzhen and Zhuhai. These proposals aim to attract more passengers and cargo from the PRD to use Hong Kong International Airport as a gateway, thereby strengthening our status as an international and regional aviation centre.

Economic Performance and Prospects

45. Our economic growth in the second quarter was abruptly derailed by the impact of SARS. Yet, in the third quarter, GDP staged a V-shaped rebound and recorded remarkable growth. For 2003 as a whole, GDP grew 3.3% in real terms, a visible improvement over the 2.3% for 2002. (Chart 1)

46. Our external trade in 2003 remained robust: total exports of goods and offshore trade surged by 14.2% and 16.5% respectively in real terms. The tourism industry recovered remarkably well after SARS. Local consumer spending revived progressively throughout the second half of 2003, while investment spending also reversed its downtrend towards the end of the year. Trading activity in the property market picked up steadily. The number of homeowners in negative equity has dropped from its peak of about 106 000 to around 60 000 at present.

47. The employment situation continued to improve. The unemployment rate fell successively from a peak of 8.7% in the middle of last year to 7.3% early this year, with the total number of unemployed persons decreasing by 64 200. While the unemployment situation is still fraught with challenges, there has been a distinct rise in employment and vacancies in many sectors. Deflation is also tapering off. The year-on-year decline in the Composite Consumer Price Index (CCPI) narrowed further from 1.9% in December last year to 1.5% in January this year, and for 2003 as a whole the CCPI fell by an average of 2.6%. (Charts 2 and 3)

48. Looking ahead, external trade should maintain solid growth in 2004. Recent indicators suggest that the external economic environment continues to be generally sanguine. The United States economy has remained strong in recent months, and its near-term outlook continues to be promising. The European Union economy should be able to maintain steady if not faster growth this year. The recent outbreak of avian influenza in a number of places in East Asia has undoubtedly cast a shadow over the regional economic situation. But with the support of a generally upbeat outlook for exports, avian influenza is not expected to pose a serious threat to the regional economy. Moreover, the general weakness of the US Dollar, coupled with the earlier substantial fall in Hong Kong's local costs and prices, has boosted our external competitiveness. This should bode well for our export performance. As to exports of services, inbound tourism looks set for another surge this year, with the further extension of the Individual Visit Scheme for mainland visitors and a progressive rebound in visitor arrivals from other places. Separately, offshore trade and professional services are expected to stay robust.

49. As regards domestic demand, there has been significant improvement in both consumer and investor sentiment in the recent period. A high level of bank liquidity, low interest rates, the improved employment situation and a rebound in asset prices all act to lift demand. Thus domestic demand this year can be expected to be higher than last year.

50. In overall terms, the revival of the Hong Kong economy in 2004 is expected to be more deeply seated and broadly based. GDP is forecast to grow by 6% in real terms. Deflation should ease further and, for the year as a whole, the fall in the CCPI is forecast to taper off distinctly to 1%. Along with the upturn in the overall economy, job opportunities should continue to increase.

51. So far, the impact of avian influenza on our economy is confined to the raising, importation and sale of poultry. Its impact on our overall economy is expected to be minimal. The Government has in place a comprehensive plan to deal with any contingencies arising from the disease.

52. We have laid down a solid foundation for further improvement of the economy. Growth momentum is good, and our medium-term economic prospects remain upbeat. Sustained rapid economic growth in the Mainland and the continued opening-up of its market will create abundant business opportunities for Hong Kong. The implementation of CEPA will help our

enterprises make further inroads into the mainland market. Economic links between Hong Kong and the rest of Asia are also expected to strengthen further. These positive factors, together with sustained growth in the global economy, are conducive to the development of the Hong Kong economy over the next few years.

53. With a rather bullish economic outlook for 2004 and with steady growth envisaged for the four years following, the trend GDP growth rate in real terms over the medium term is forecast at 3.8%. As deflation is expected to dissipate progressively, the trend rate of increase in the GDP deflator is forecast at 0.7%. Combining these two forecasts, the trend growth rate of nominal GDP over the period is forecast at 4.5%.

54. But we still have to be alert to certain caveats, including developments in the United States economy following this year's presidential election, movements in United States interest rates and the US Dollar exchange rate, the ongoing situation in the European Union economy, and geopolitical risks. Changes in these factors will have implications for the global economic climate, and in turn for the medium-term outlook of our economy.

Public Finances

Prudent Management of Public Finances, Achieving Fiscal Balance

55. Despite this cautiously optimistic economic outlook, we still need to address the problem of the fiscal deficit. The health of our public finances has a major bearing on the stability of our monetary and financial systems, investor confidence and overall economic development. I am committed to upholding the important principles stipulated in the Basic Law to manage public finances prudently: keep expenditure within the limits of revenues and strive to achieve a fiscal balance. I am also committed to keeping a simple and low tax regime and maintaining the stability and integrity of the monetary system.

56. After taking into account the impact of the SARS outbreak on the economy, I announced in this Council on 22 October last year our new target for achieving fiscal balance. The Government will control expenditure strictly and is determined to reduce its operating expenditure to \$200 billion by 2008-09. We will also strive to restore fiscal balance in the Operating and Consolidated

Accounts by 2008-09. Moreover, in line with the principle of "big market, small government", I have pledged to bring public expenditure down to 20% of GDP or below.

57. In preparing for my maiden Budget, I consulted members of the public, Members of this Council and representatives of various groups. A special Budget webpage was also set up to assist the public to express your views. Most of the feedback was pragmatic and constructive, and some also very innovative. I have listened carefully to all the views given. I understand that there is some public dissatisfaction with the Government and that some people are still experiencing the pain brought about by economic adjustment. In his policy address in January, the Chief Executive said that, while we would continue with economic restructuring and revival, we should allow the community to be given a respite. In this Budget, I am not going to make any major tax changes, so as to sustain the momentum of economic recovery. I will seek to strike a proper balance between reducing the fiscal deficit and safeguarding people's livelihood in a pragmatic and proactive manner.

58. For 2003-04, total government spending is estimated to be \$252.9 billion and revenue \$203.9 billion. The fiscal deficit will be \$49 billion (or 4% of GDP), lower than the \$78 billion that I envisaged in October 2003. This is mainly due to the higher-than-expected investment income from the fiscal reserves and revenue from profits tax and stamp duty, and to the lower-than-expected expenditure this year as a result of departments' continued efforts to streamline their structures and re-engineer procedures. By 31 March this year, our fiscal reserves will have dropped to \$266.4 billion, the equivalent of 13 months of government expenditure.

Estimates of Operating Expenditure

59. Government expenditure comprises operating expenditure and capital expenditure. Operating expenditure is incurred by the Government to meet its daily operational requirements and to provide services. As such, it has long-term implications for the fiscal outlook. We must therefore strictly contain our operating expenditure. While accumulated deflation in terms of the GDP deflator has reached 20% over the past five years, government operating expenditure has increased by 12%. Given the serious deficit problem, operating expenditure should not keep on increasing. Reversing this trend is my priority.

60. To contain government operating expenditure so as to achieve the target reductions to \$200 billion by 2008-09, I have laid down guidelines for 2004-05 and the ensuing years. The reductions will be gradual and I will adopt a pragmatic and measured approach to their implementation: they will not be uniform across all Policy Bureaux. The guidelines are as follows:

<i>Financial Year</i>	<i>Operating Expenditure (\$ billion)</i>
2004-05	212.2
2005-06	210.6
2006-07	207.1
2007-08	203.5
2008-09	200.0

61. In line with the target that I announced on 22 October last year, in order to reduce operating expenditure from \$218 billion in 2003-04 to \$200 billion in 2008-09, the total for 2004-05 should be \$214.4 billion. Despite additional financial commitments as a result of implementing measures to prevent epidemics and extend temporary jobs, however, and in order to demonstrate our commitment to streamline our establishment and reduce expenditure, I am still holding government operating expenditure for 2004-05 to the level of \$212.2 billion as pledged in last year's Budget, but which had not taken into account such expenditure items.

62. Many citizens have suggested to me that the Government should cut down on expenditure before raising revenue. I fully agree that the Government should first put its own house in order by containing expenditure stringently before considering tax increases.

63. In order to reduce expenditure, we have already begun streamlining departmental structures. The establishment of the Civil Service has been reduced from 198 000 in early 2000 to 172 000 at present, with a further reduction to about 166 500 by the end of March next year. We aim to cut the establishment to about 160 000 by 2006-07. As regards civil service pay, the first phase of the pay cut was implemented in January this year, and the second phase will come into effect 12 months later. A stable civil service is a key element of Hong Kong's long-term development. In implementing the foregoing measures, we will strive to maintain civil service morale.

64. In reducing expenditure, we will make every effort to do more with less while ensuring that essential services are not affected. Last year, the Chief Secretary for Administration designated the Director of Administration and the Head of the Efficiency Unit to co-ordinate an exercise to review how the Government should use resources more efficiently and avoid wastage. Directors of Bureaux have proposed a number of initiatives in such areas as reprioritization of service provision, structural reorganization and streamlining of procedures. These management initiatives will not only achieve savings for the Government, but also put public resources to more effective use. The Government will continue to implement various cost-saving measures.

65. I am very pleased that the community generally agrees that reducing expenditure is the right direction and has demonstrated support for resolving the problem of fiscal deficits. As Financial Secretary, I have the difficult task of allocating scarce resources within the community. An increase in resources for certain policy areas means a reduction for others. However, in order to eliminate the instability that persistently large budget deficits bring, each policy area needs to do its bit. I would like to take this opportunity to thank my colleagues for their understanding and assistance.

Community Contribution

66. I can appreciate the concerns of the community over expenditure on education and social welfare. The Government will not waver in its commitment to invest in education and provide for the disadvantaged. However, at the same time, we need to ensure that public resources are being used most efficiently and opportunities are created for the private sector to make its contribution.

67. In the case of education, we have seen a very positive response to the matching grant scheme introduced for the tertiary institutions. On the social welfare front, I have been impressed by the commendable efforts of the social services organizations to promote corporate social responsibility and encourage the business sector to participate in community affairs. Under the "Caring Company" campaign launched by the Hong Kong Council of Social Service, for example, business organizations have been demonstrating their concern for society in a number of ways, to the benefit of our community.

68. At last month's public consultation forum, I said that confidence in our future, care and fairness would be my guiding principles in preparing the Budget. At the same time as I strive to foster economic growth, I remain very concerned about our society's development. Despite the current tight fiscal position, the Government will earmark an additional \$200 million on a one-off basis to promote the development of a tripartite social partnership comprising the Government, the business community and the welfare sector, and to encourage corporations to take part in helping the disadvantaged. The Health, Welfare and Food Bureau will consult the social welfare sector on how best to use these funds, whether, for example, to use a matching grant or other modality to incentivise the sector to seek and secure corporate participation. I hope that this will prime the pump and encourage various sectors of the community to take up a share of social responsibility and work together to create a cohesive, harmonious and caring society.

Estimates of Capital Expenditure

69. Capital expenditure is incurred mainly to finance investments in infrastructure and the like. We will continue to provide quality infrastructure to enhance the attractiveness of Hong Kong as a centre for international trade, transportation and communications, and to meet our future development needs.

70. Capital expenditure for 2004-05 is estimated to be \$46.5 billion. Over the next five years, capital expenditure will amount to \$43 billion a year on average, of which around \$29 billion will be allocated to works projects.

71. Last year, we proposed a trial scheme for the private sector to finance, build and manage recreational and cultural facilities under Public Private Partnerships (PPP). The Home Affairs Bureau has identified two pilot projects for private sector participation. One comprises the construction of an ice sports centre, a tenpin bowling centre and a town park in Tseung Kwan O. The other project is for a leisure and cultural centre in Kwun Tong. We have drawn up development plans for these two projects, and will invite the private sector to finance, build and operate the facilities after consulting the District Councils concerned and obtaining the support of the Town Planning Board. Moreover, in response to suggestions from many Members, we have further expanded the scope of our pilot PPP projects. We have recently completed a preliminary feasibility study on the reprovisioning of the Sha Tin Water Treatment Works

through PPP at a cost of some \$6 billion, and the results are encouraging. We are now considering the way forward in the light of these.

72. We estimate that total government expenditure for 2004-05 will be \$258.7 billion. Expenditure on Education, Social Welfare, Health and Security will account for about 60% of the total, with 23% for Education, 26.4% for Social Welfare and Health, and 10.5% for Security. In the future allocation of expenditure, consideration will continue to be given to the community's priorities.

Revenue

Giving Our Community a Respite

73. Last year's Budget contained a number of specific proposals to raise revenue and relieve the pressure on our fiscal deficit. The understanding and support of the community together with Members of this Council have enabled the successful implementation of nearly all of these measures and I am most grateful for that. With the exception of the second phase of adjustments in salaries tax, property tax and profits tax for unincorporated businesses, which will apply from the 2004-05 year of assessment, these measures have already come into effect. Upon full implementation, they will generate nearly \$13 billion annually in additional revenue for the Government.

74. In this year's Budget, I propose no further increases in salaries tax, profits tax or any other taxes. This respite will allow the Hong Kong community and our enterprises to regather their energy. It will also create conditions favourable for a sustained economic recovery. I understand that some members of the community would like me to reduce taxes. However, owing to our tight fiscal position at present, there is really no room for major tax reductions.

75. As for rates, I have decided to maintain the charge at 5%. Since rateable values fell by an average of 8% last year, the amount of rates payable for the vast majority of premises in the coming year will be lower. Not counting the effect of the rates concessions for the third quarter of last year, we expect that over 90% of ratepayers will see an average reduction of 11% in their rates bill next year.

76. In the 1998-99 year of assessment, in order to provide relief to households heavily burdened with home mortgage payments, the Government introduced a salaries tax deduction, which may be claimed for a total of five tax years, in respect of their interest expenses.

77. In the course of preparing this Budget, I have received suggestions from many people that the five-year limit for this tax deduction should be extended. Mortgage rates have been at a low level in recent years and there has been a 40% fall in property prices since the deduction became available. These factors have helped substantially to reduce the burden of mortgage interest payments on home buyers. The average amount of deduction claimed has been decreasing and for 2002-03 stood at \$30,000. The burden of home mortgage repayments on taxpayers in general is lighter now than at the time when the tax deduction was introduced. Nevertheless, after taking into account the rather heavy financial load still borne by many families, I propose to extend the limit for the deduction by a further two years, that is, from five years to seven years, with the maximum deduction in any year maintained at \$100,000. This concession will take effect from the 2003-04 year of assessment, and will cost the Government \$4.6 billion in tax revenue forgone over five years. I envisage that several hundred thousand taxpayers will benefit from this measure.

78. The duty on ultra low sulphur diesel is a steady source of revenue. Several years ago, the Government introduced the concessionary rate of \$1.11 per litre for ultra low sulphur diesel to encourage the transport industry to switch to cleaner fuel. We have subsequently extended the concession on several occasions, having regard to the impact of a weakening economy on the industry. The concession is to expire at the end of this month and the duty rate is due to revert to \$2.89 per litre thereafter.

79. Although the economy has started to recover, the transport industry and other related sectors still face many difficulties. I have therefore decided to extend the concession for ultra low sulphur diesel to the end of this year. Until then, the duty rate will remain at \$1.11 per litre. This proposal will cost the Government nearly \$0.9 billion in 2004-05.

80. To raise revenue for the Government, I propose to introduce a Personalized Vehicle Registration Marks Scheme in addition to the existing arrangements for allocating and auctioning vehicle registration marks. The

proposed scheme will not affect people's livelihood or business activities but will offer more choice to vehicle owners. Under the scheme, a vehicle owner can choose his preferred vehicle registration mark and use it upon approval of his application by the Transport Department (TD) and following a bidding exercise. To allow for more choice and add to the attraction of the scheme, the TD will substantially relax the restrictions on vehicle registration marks for participating vehicle owners, to allow for any combination of up to eight letters and numerals.

81. The TD is actively making preparations for the scheme with a view to inviting applications by the end of this year. In a full year, the scheme is expected to generate additional revenue of about \$70 million for the Government. The Commissioner for Transport will shortly provide further details.

82. The Government will, as soon as possible, introduce legislation into this Council in respect of the home loan interest deduction, the duty concession for ultra low sulphur diesel and the Personalized Vehicle Registration Marks Scheme.

83. Government fees and charges are also a steady source of revenue. The underlying principle for fees and charges is "user pays".

84. The Government has frozen most fees and charges since 1998 as an exceptional measure to alleviate the financial burden on the public in times of economic difficulty. In 2000-01, when the economy was gradually picking up, the Government proposed to adjust some fees and charges which did not affect people's livelihood. However, only about 60% of the fee increase proposals were eventually approved by this Council.

85. While many people agree with the "user pays" principle, strong objections have arisen when the Government has put forward specific proposals for fee revisions based thereon. As a result, taxpayers have increasingly had to subsidize individual users. Taking as examples visa fees and collection and disposal charges for oily waste discharged by merchant ships, taxpayers are subsidizing 77% and 56% respectively of the cost. This is unfair to them. We should not condone the practice of saying one thing and doing another. We are duty-bound to reduce the amount of subsidies given for various fees and charges, especially those items not related to livelihood, in line with the "user pays" principle.

86. The Government will continue to exercise vigorous cost control to reduce the pressure for fee increases. We will seek Members' views on the revision of fees for government services. We will first deal with fees that do not directly affect people's livelihood or general business activities, such as the two examples mentioned above. As government departments endeavour to cut costs, there is room for downward adjustment of some government fees and charges as well, and we will propose to reduce them accordingly. I hope that Members will give our proposals for fee revisions a fair and objective hearing.

87. In the course of the Budget consultations, quite a number of people suggested to me that we should impose a "green" tax on some polluting industries or products to promote environmental protection and raise revenue. I agree that we should, through education, enhance public awareness of environmental protection. But I believe that the adoption of fiscal measures may also effectively change people's polluting behaviour, thereby achieving our objective of improving the environment.

88. As a matter of fact, for environmental reasons, the Government imposes differential rates on some fuels, with a view to encouraging vehicle owners to switch to environmentally cleaner fuels so as to improve air quality. For example, in order to encourage diesel taxis and light buses to switch from diesel to liquefied petroleum gas, we did not levy a duty on the latter. Recently, the Environment, Transport and Works Bureau has proposed to levy a charge for construction waste disposal. The purpose of this is to charge fees on the basis of the "polluter pays" principle to encourage the reduction of construction waste and waste sorting. The Bureau is actively exploring ways to reduce the number of used tyres dumped in landfills and to encourage tyre recycling. The Environmental Protection Department (EPD) has engaged the industry in examining various options. One of the options is to levy a tyre tax. The EPD will put forward specific proposals within this year for formal consultation.

89. I have also asked the Secretary for the Environment, Transport and Works to review those tax and fee concessions which run counter to the "polluter pays" principle, and consider if they should be adjusted.

90. Many people have suggested to me that estate duty be reviewed in order to attract foreign capital, thus developing Hong Kong into the premier asset management centre for Asia. Towards this end, we will study the effects on the economy and on government revenue of adjusting estate duty and how best

this should be effected to achieve the purpose of attracting foreign capital. I will present the findings of the study in next year's Budget.

91. Many people have also suggested that reducing the duty on alcoholic beverages can stimulate our tourism and retail businesses, give rise to employment opportunities and enhance Hong Kong's status as an international cosmopolitan city. In view of the current financial situation, I consider that there is no scope for adjusting the duty this year. However, we will continue to keep this under review.

92. The Government announced in last year's Budget that it would sell or securities \$112 billion in assets over the next five years. Initially, we planned to realize \$21 billion in 2003-04 from the sale of assets or through securitization of revenues. So far, we have sold a total of \$15.5 billion worth of housing loans to the Hong Kong Mortgage Corporation. This Council has recently approved the securitization of revenues from the government toll tunnels and bridges. We expect to realize up to \$6 billion from this transaction in the next few months.

93. The Government is now consulting concerned parties on the overall arrangements for the privatization of the Airport Authority. We hope that an initial consensus will be reached as soon as possible so that the legislative process can commence. We will shortly introduce into this Council an amendment bill to effect capital restructuring of the Airport Authority in the meantime. We have also set a tentative timetable for the rail merger. We plan to conclude discussions with the two railway corporations within six months. If the required legislative processes can be completed next year, we hope to implement the airport privatization and the rail merger in 2005-06.

94. In accordance with the principle of "big market, small government", we will continue to study the feasibility of other corporatization and privatization proposals.

Issuance of Government Bonds

95. In order to enhance Hong Kong's competitiveness, it is incumbent on the Government to continue investing in capital projects. To provide greater flexibility in the management of our liquidity, I propose issuing government

bonds to fund infrastructure or other investment projects which will bring long-term economic benefits to Hong Kong. Another advantage of raising funds through issuing bonds is the increased flexibility in the Government's asset sale and securitization programme, obviating the need to sell government assets at low prices under unfavourable market conditions.

96. The issuance of government bonds will also help promote the development of our bond market. At present, deposits in local banks exceed \$3,600 billion. The returns on these deposits are very low because of the current low bank interest rates. Quality bonds are an investment option that can provide a steady and higher return. The issuance of government bonds could offer retail and institutional investors such an option.

97. The present low interest-rate environment is favourable for the issuance of government bonds. I propose that the Government issue bonds not exceeding \$20 billion in 2004-05. We will shortly provide further details to this Council. We will decide whether to issue additional bonds in future in the light of market conditions, the amount of funds required for our investment projects and the implementation of our asset sale and securitization programme.

98. I must stress that the Government will not issue bonds for the purpose of meeting operating expenditure. On the contrary, our principle is that operating expenditure should be covered by operating revenue. We will definitely not live on credit. We will continue to maintain strict fiscal discipline and control of expenditure with a view to restoring fiscal balance.

99. If our estimated economic growth is achieved and the proposals are implemented in respect of expenditure and revenue and for issuing government bonds, the medium range forecast for 2004-05 to 2008-09 will be as follows (Table 1).

100. We forecast an operating deficit of \$46.6 billion for 2004-05. The operating deficit will gradually decline, falling to \$5.2 billion in 2008-09. (Charts 4 and 5)

101. In respect of the consolidated account, we estimate that a deficit of \$42.6 billion will occur in 2004-05, equivalent to 3.4% of GDP. The consolidated deficit will also gradually decline, and a surplus of \$6 billion will be recorded in 2008-09, equivalent to 0.4% of GDP. (Chart 6)

102. While there will be a mild consolidated surplus in 2008-09, the operating account for that year will still record a deficit. To achieve the target of restoring fiscal balance by 2008-09, I will review our economic and financial position annually and put forward the necessary operating revenue proposals at the appropriate time.

103. We expect that our fiscal reserves will be maintained over the next five years in a range between \$150 billion and \$220 billion, the equivalent of seven to 10 months of government expenditure.

104. During the Budget consultation, some people suggested that we should transfer part of the investment income of the Exchange Fund to the general revenue to ease the deficit problem. As Financial Secretary, I agree that the Government should leave wealth with the people. However, I must also take into account the need to maintain the stability of our currency. In view of the extremely volatile and unpredictable international monetary environment, we must maintain abundant foreign reserves to preserve local and overseas confidence in the Hong Kong Dollar. Moreover, the investment return of the Exchange Fund can fluctuate and is by no means a steady source of income. Last year was a good example of this. We did not anticipate that the Exchange Fund's return would be so high. In accordance with the principle of prudent financial management, the Government cannot rely excessively on such an unstable source of revenue. I will review the situation from time to time so as to strike a proper balance between leaving wealth with the people and maintaining a stable currency.

105. Total public expenditure for 2004-05 is estimated to be \$286 billion, or 22.5% of GDP. The estimated figure for 2008-09 will be \$259.3 billion, or 16.9% of the GDP forecast for that year, in line with the Government's target of containing public expenditure at 20% of GDP or below. (Chart 7)

Broadening the Tax Base

106. Hong Kong's tax base is narrow. In the long run, we need to broaden it to secure a steady source of revenue.

107. The following presents some data about Hong Kong's tax system in comparison with member states of the Organization for Economic Co-operation and Development (OECD):

- In Hong Kong, non-tax revenue accounts for about 40% of total revenue, whereas the figure for OECD economies is around 14%. This shows that Hong Kong has a far heavier reliance than those economies on non-tax revenue, such as land revenue and investment income.
- Our corporate profits tax accounts for 34% of total tax revenue, significantly higher than the 9% for OECD economies.
- We have no taxes on general consumption. In OECD economies, revenue from such taxes alone accounts, on average, for 18% of the local tax revenue. This excludes the revenue contributed by individual taxes on specific goods and services.

108. Hong Kong is more reliant than the OECD economies on profits tax and real property-related taxes or non-tax revenue. As revenue from these sources is sensitive to economic fluctuations and our types of taxes are limited, we are less able to tackle fiscal deficits during economic downturns than other economies with more broadly-based taxes. In most circumstances, we can only raise direct taxes, such as profits tax and salaries tax, to increase our revenue significantly. This may not be the best course of action in an economic downturn. Furthermore, other places, in seeking to attract investment from international enterprises in a globalized economy, are inclined to lower their direct taxes progressively and make up for the reduction in revenue by increasing consumption taxes. If we adopt the diametrically-opposed policy of financing our deficit by increasing direct taxes, our competitiveness will definitely be undermined.

109. In recent years, economies in all parts of the world have successively introduced a goods and services tax (GST), sometimes known as a value-added tax, to broaden their tax base and increase tax revenue. Up to now, more than 120 countries have introduced this type of tax. Hong Kong is the only developed economy that does not have one. GST is broad-based and equitable, and is capable of yielding a sizeable and steady revenue. According to a rough estimate, each single percentage point in the rate of GST will yield revenue of about \$6 billion a year, assuming that no exemption is granted. Depending on any exemptions, a GST of 5% would generate around \$20 billion to \$30 billion revenue for the Government in a full year. Besides, being less sensitive than direct taxes to the cyclical movement of the economy, GST can enhance the

Government's ability to withstand the pressure on public finances brought about by an economic downturn. During the Budget consultation, quite a number of professional bodies, business chambers and academics indicated that they would support the introduction of GST, set at a low level, in order to provide a steady source of income.

110. I appreciate the community's concerns that the introduction of GST might add to the burden of low-income families. In our study on whether to introduce GST, we will definitely take into full account the possible impact on low-income families. From the experience of other places in implementing GST, we have found that the actual impact of the tax on low-income families will lessen if subsidies are granted to them in parallel with the introduction of the tax. Furthermore, the sizeable and steady revenue generated by the tax would improve the Government's financial health. There might even be some scope for reducing other taxes, such as salaries tax and stamp duty.

111. Some people have indicated that the introduction of GST might affect the tourism industry. We may draw on the experience of other places, and consider introducing a tax refund scheme for visitors. Under such a scheme, visitors would be allowed to apply for a refund of GST paid for purchases in Hong Kong, thus minimizing the possible impact of GST on tourism.

112. As regards the impact of GST on the economy, experience shows that in places that have introduced this tax in recent years, its effects on prices are limited and short-term. Over the longer term, these effects will generally disappear. A substantial increase in profits tax and salaries tax simply for the sake of financing the deficit could lead to a drain on capital and talent instead, thereby undermining our competitiveness.

113. The Government has set up an internal committee to conduct a detailed and comprehensive study on the implementation of a GST in Hong Kong. It will draw on the practical experience of other places and come up with a proposed GST framework suitable for Hong Kong and an implementation timetable as a basis for discussion. The committee will submit a report to me at the end of this year upon completion of the study. After that, I will announce what will be done next. We are likely to need at least three years to implement GST. I hope that various sectors of the community will hold a rational debate on this important subject and seek to reach consensus.

114. Madam President, when I took up my post as Financial Secretary in August last year, I said, "I am determined and I have every confidence that I will be able to work closely with our community to overcome our economic difficulties and develop a prosperous, harmonious and caring society." Thanks to the concerted efforts of the whole community, we are now moving towards these goals.

115. In little more than half a year, Hong Kong has witnessed a dramatic change in the economic climate. Our economy has bottomed out with a V-shaped rebound, and businesses have revived. I am very optimistic about our economic prospects. My optimism is based not only on the opportunities brought about by the rapid growth of our nation, but also on Hong Kong's unique strengths as well as the tenacity, ingenuity and enterprising spirit of our people. Our younger generation is very good at picking up new ideas and knowledge, and is not afraid to experiment or innovate: this provides a fresh impetus to our economic restructuring. I have every confidence that by grasping our opportunities, constantly renewing our strengths and making full use of our advantages, we can work another economic miracle.

116. The Government is very clear about the path that our economy should take and the direction for development that we should follow. In economic policy-making, we will be proactive, committed and consistent. In line with the principle that "market leads and government facilitates", we will continue to create the optimal environment for all businesses to flourish.

117. This is my maiden Budget. My policy on public finances is based on the premise of "allowing the community to take a respite and build up its strength" as expounded by the Chief Executive. With the objectives of promoting people-based governance, prudent management of public finances and leaving wealth with the people, I will do my best to strike a balance between reducing the fiscal deficit and safeguarding people's livelihood, so as to give ourselves a breathing space to restore our vigour.

118. Madam President, it is now springtime when flowers are coming into bloom, and we can see the early dawn of our economic recovery. Let us work hand in hand, shoulder to shoulder, to realize a bright future for Hong Kong. Thank you, Madam President.

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the Appropriation Bill 2004 be read the Second time.

PRESIDENT (in Cantonese): In accordance with the Rules 67 and 71 of the Rules of Procedure, the debate on the Second Reading of the Appropriation Bill 2003 is now adjourned, and the Estimates are referred to the Finance Committee for examination before the Second Reading debate on the Bill resumes.

NEXT MEETING

PRESIDENT (in Cantonese): I now adjourn the Council until 2.30 pm on Wednesday, 17 March 2004.

Adjourned accordingly at five minutes to Four o'clock.

Table 1

<i>Year</i>	<i>2004-05 (\$ billion)</i>	<i>2005-06 (\$ billion)</i>	<i>2006-07 (\$ billion)</i>	<i>2007-08 (\$ billion)</i>	<i>2008-09 (\$ billion)</i>
Operating revenue	165.6	170.7	177.7	184.9	194.8
Operating expenditure	212.2	210.6	207.1	203.5	200.0
Operating surplus/(deficit)	(46.6)	(39.9)	(29.4)	(18.6)	(5.2)
Capital revenue	37.9	56.8	44.5	56.0	49.3
Capital spending (including payments from the Capital Investment Fund)	53.4	52.3	45.9	39.6	37.1
Capital financing surplus/(deficit)	(15.5)	4.5	(1.4)	16.4	12.2
Government bond issuance					
- Proceeds	20.0	-	-	-	-
- Interest expense	0.5	1.0	1.0	1.0	1.0
Capital financing surplus/(deficit) after bond issuance	4.0	3.5	(2.4)	15.4	11.2
Consolidated surplus/(deficit) before bond issuance	(62.1)	(35.4)	(30.8)	(2.2)	7.0
- as a percentage of GDP	4.9%	2.7%	2.2%	0.2%	0.5%
Consolidated surplus/(deficit) after bond issuance	(42.6)	(36.4)	(31.8)	(3.2)	6.0
- as a percentage of GDP	3.4%	2.7%	2.3%	0.2%	0.4%
Fiscal reserves after bond issuance	223.8	187.4	155.6	152.4	158.4
- as number of months of government expenditure	10	9	7	8	8
Public expenditure	286.0	277.7	270.2	264.3	259.3
- as a percentage of GDP	22.5%	20.8%	19.3%	18.0%	16.9%

Chart 1

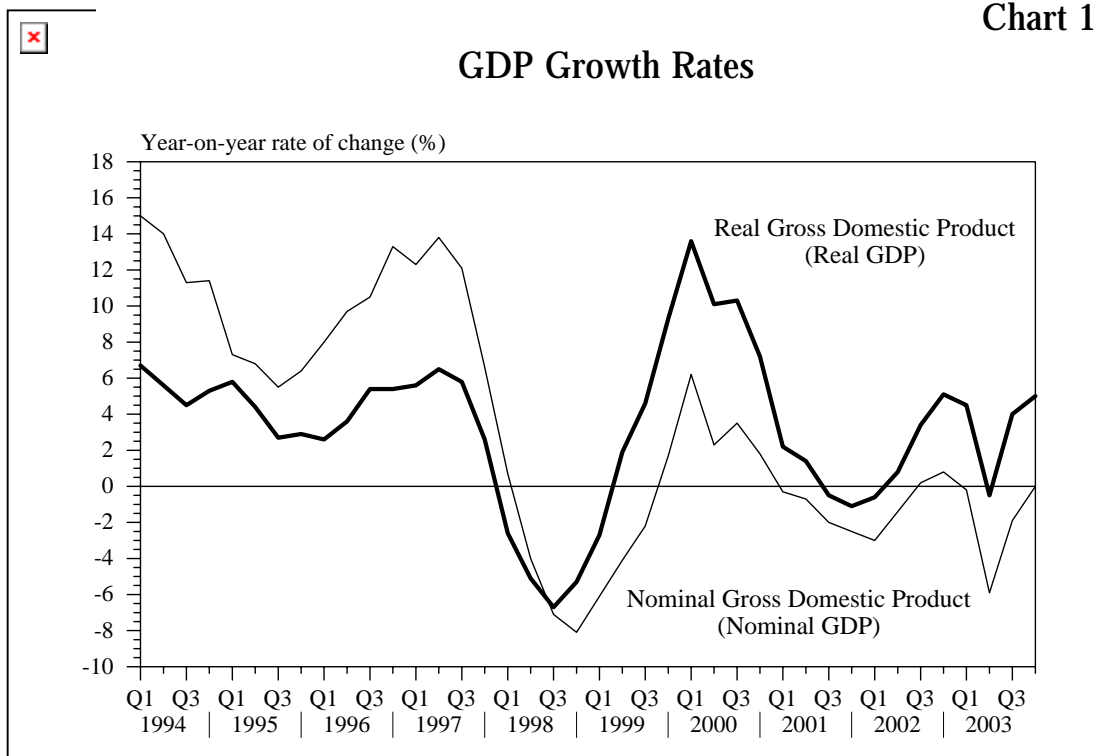


Chart 2

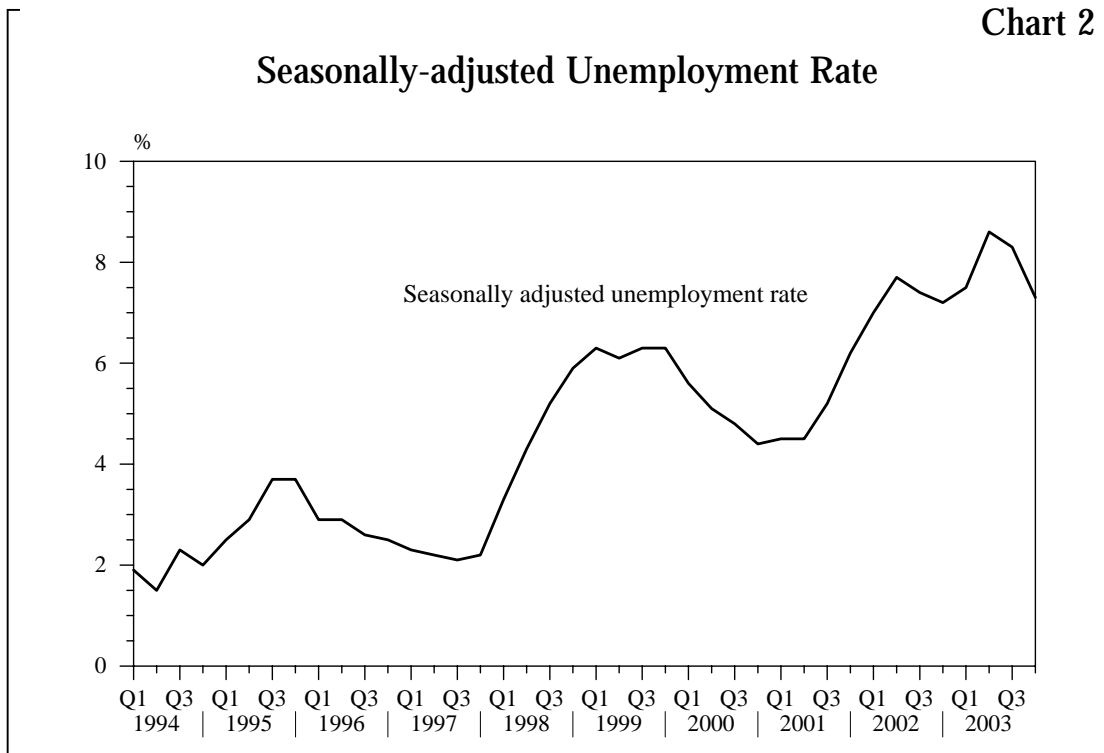


Chart 3

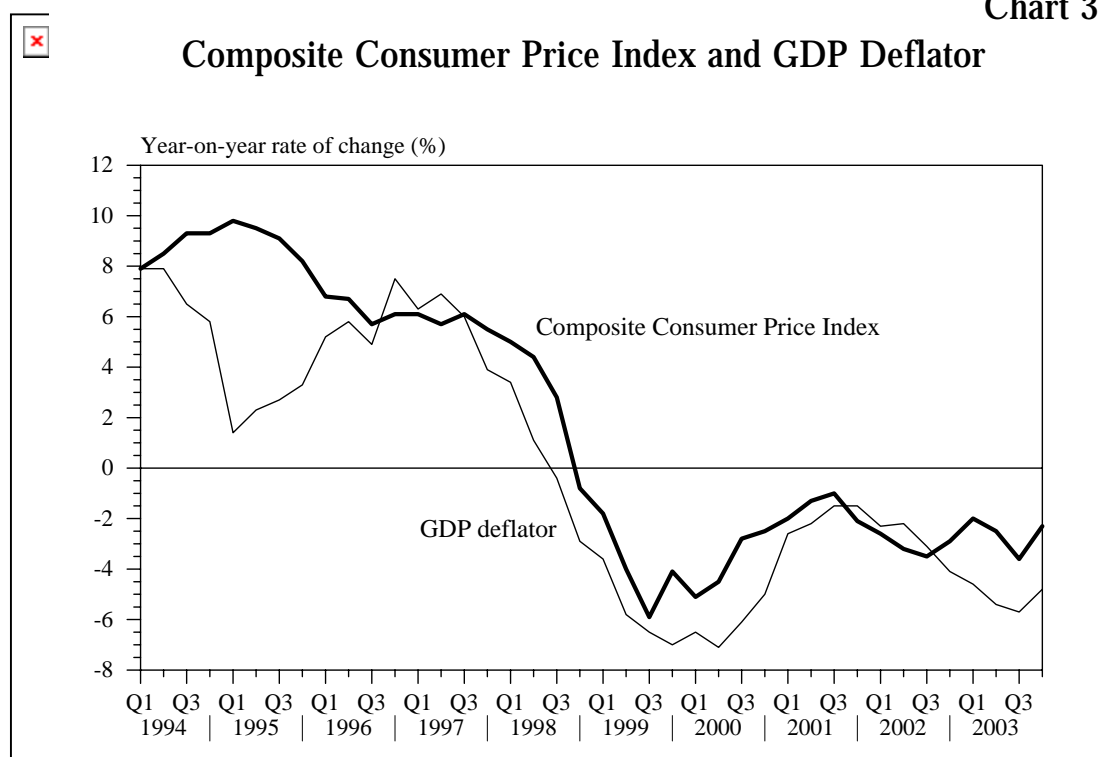


Chart 4

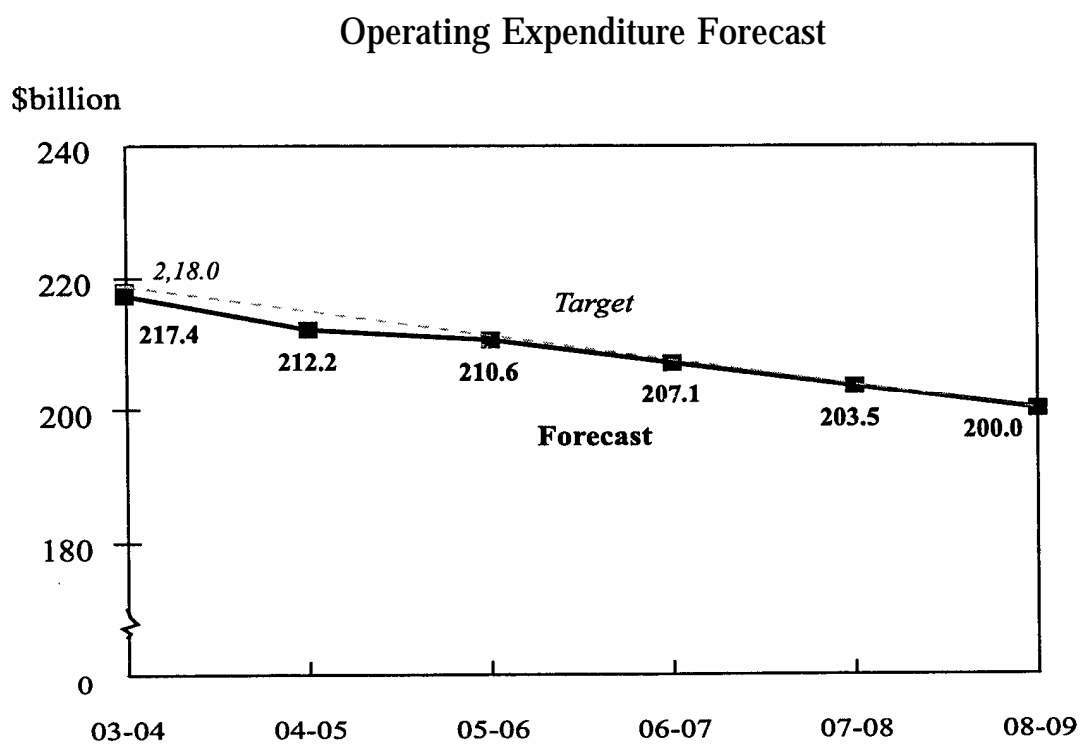


Chart 5

Operating Revenue Forecast

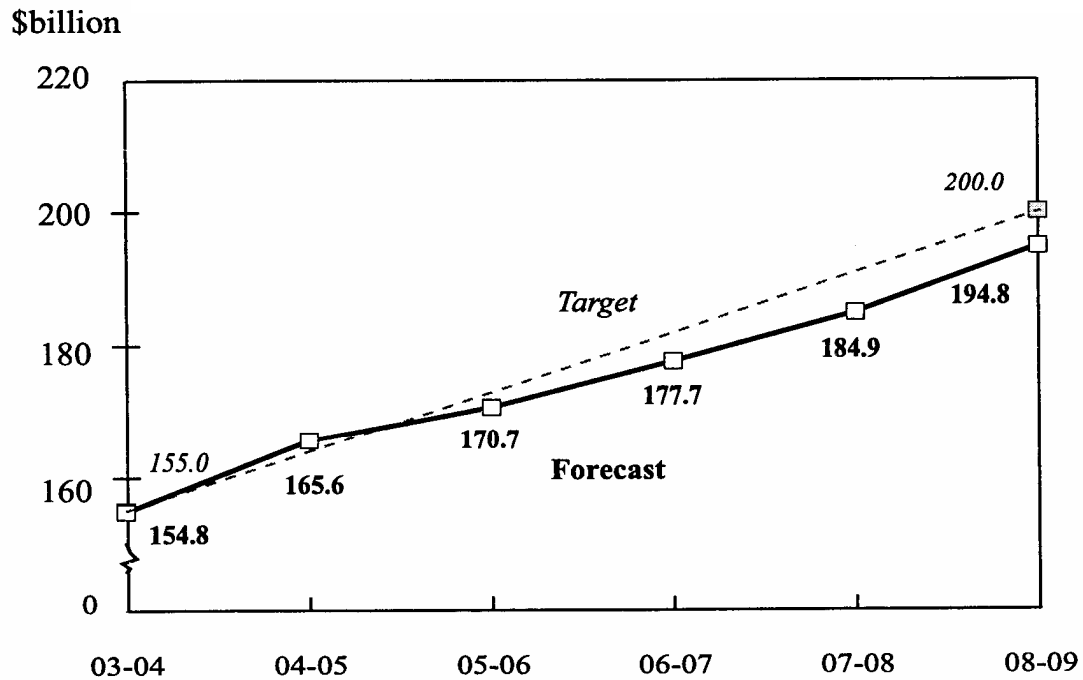


Chart 6

Surplus/Deficit Forecast

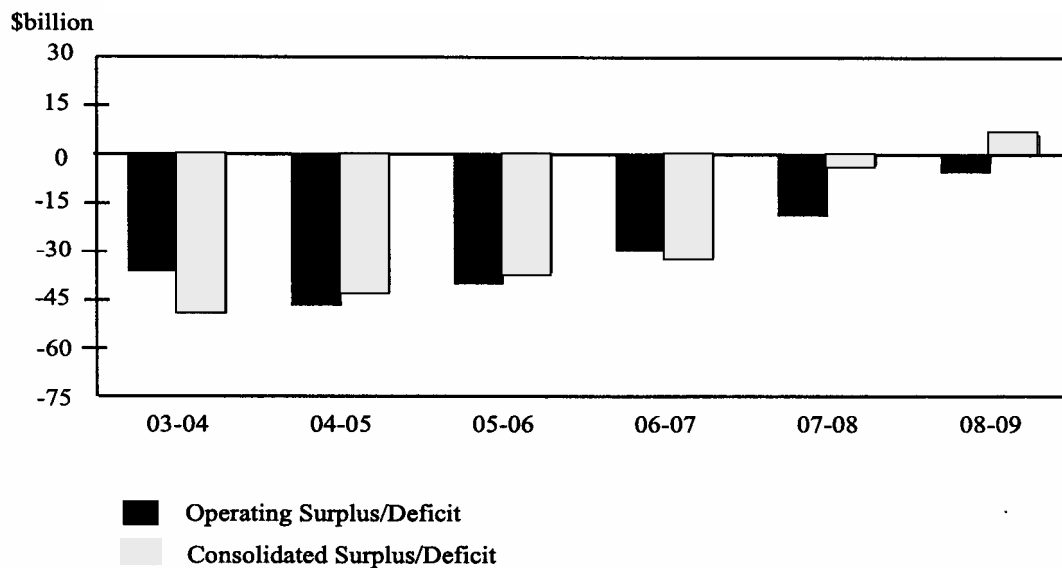
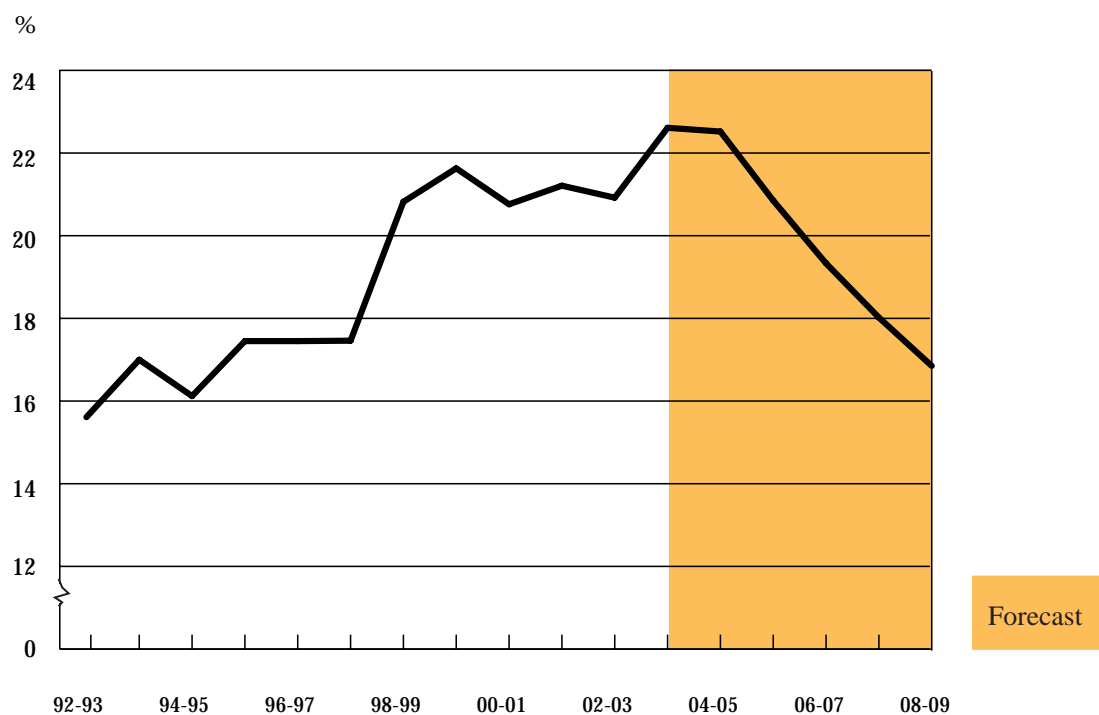


Chart 7

Public Expenditure as a Percentage of GDP



Supplement

**Proposed Extension of Entitlement Period of Home Loan Interest (HLI)
Deduction under Salaries Tax and Personal Assessment**

Information on HLI Deduction

Year of assessment	1998/99	1999/00	2000/01	2001/02	2002/03 ¹
Maximum deduction	\$100,000	\$100,000	\$100,000	\$150,000 ²	\$150,000 ²
Number of taxpayers with HLI deduction	250 000	300 000	350 000	350 000	340 000
Total deduction allowed	\$11.9 billion	\$13.7 billion	\$15.9 billion	\$13.8 billion	\$10.3 billion
Average deduction per taxpayer	\$48,000	\$46,000	\$46,000	\$40,000	\$30,000

Projected tax savings of taxpayers by income group after implementation of the proposed extension

(a) 2003/04 Year of Assessment

Annual Income	Number of taxpayers	Taxpayers with HLI deduction		
		Number	Average tax savings	Average tax savings as a percentage of tax payable
\$100,000 to \$200,000	510 000	54 000	\$1,100	(47%)
\$200,001 to \$300,000	346 000	92 000	\$3,200	(36%)
\$300,001 to \$400,000	198 000	79 000	\$4,700	(26%)
\$400,001 to \$600,000	155 000	81 000	\$7,000	(18%)
\$600,001 to \$900,000	73 000	39 000	\$8,800	(11%)
\$900,001 and above	68 000	35 000	\$9,900	(5%)
Total	1 350 000	380 000	\$5,200	(13%)

(b) 2004/05 Year of Assessment

Annual Income	Number of taxpayers	Taxpayers with HLI deduction		
		Number	Average tax savings	Average tax savings as a percentage of tax payable
\$100,000 to \$200,000	560 000	63 000	\$1,400	(45%)
\$200,001 to \$300,000	346 000	102 000	\$3,800	(35%)
\$300,001 to \$400,000	198 000	84 000	\$5,400	(25%)
\$400,001 to \$600,000	155 000	89 000	\$7,700	(18%)
\$600,001 to \$900,000	73 000	43 000	\$9,400	(11%)
\$900,001 and above	68 000	39 000	\$10,100	(5%)
Total	1 400 000	420 000	\$5,800	(14%)

¹ Figures updated up to February 2004.

² In his 2001 Policy Address, the Chief Executive announced the increase of the maximum amount of deduction for the 2001/02 and 2002/03 years of assessment from \$100,000 to \$150,000 to ease the burden of home owners.

Supplement

**EFFECT OF THE GENERAL REVALUATION OF RATES
ON MAIN PROPERTY CLASSES**

<i>Property Type</i>	<i>2004-05</i>		
	<i>Average Reduction in Rateable Value⁽⁶⁾</i>	<i>New Average Rates Payable</i>	<i>Savings</i>
	<i>%</i>	<i>\$ per month</i>	<i>\$ per month</i>
Small Domestic Premises ⁽¹⁾ (Private)	-11	206	26
Medium Domestic Premises ⁽¹⁾ (Private)	-13	475	70
Large Domestic Premises ⁽¹⁾ (Private)	-11	1,230	156
Public Domestic Premises ⁽²⁾	-11	117	15
All Domestic Premises⁽³⁾	-11	220	27
Shops and Commercial Premises	-2	1,357	32
Offices	-13	927	139
Industrial Premises ⁽⁴⁾	-10	503	53
All Non-domestic Premises⁽⁵⁾	-3	1,302	47
All Properties	-8	369	30

(1) Domestic units are classified by relation to saleable areas as below:

Small domestic	up to 69.9m ²	(up to 752 sq. ft.)
Medium domestic	70m ² to 99.9m ²	(753 sq. ft. - 1 075 sq. ft.)
Large domestic	100m ² and over	(1 076 sq. ft. and above)

(2) Including Housing Authority and Housing Society rental units

(3) Including car parking spaces

(4) Including factories and storage premises

(5) Including miscellaneous premises such as hotels, cinemas, petrol filling stations, schools and car parking spaces

(6) The rateable values for 2004-05 reflect the changes in open market rental values between 1 October 2002 and 1 October 2003

Supplement

EFFECT OF THE GENERAL REVALUATION OF GOVERNMENT RENT ON MAIN PROPERTY CLASSES

<i>Property Type</i>	<i>2004-05</i>		
	<i>Average Reduction in Rateable Value⁽⁶⁾</i>	<i>New Average Rent Payable</i>	<i>Savings</i>
	<i>%</i>	<i>\$ per month</i>	<i>\$ per month</i>
Small Domestic Premises ⁽¹⁾ (Private)	-11	117	14
Medium Domestic Premises ⁽¹⁾ (Private)	-12	261	35
Large Domestic Premises ⁽¹⁾ (Private)	-10	567	65
Public Domestic Premises ⁽²⁾	-11	70	8
All Domestic Premises⁽³⁾	-11	127	15
Shops and Commercial Premises	-2	767	16
Offices	-13	914	141
Industrial Premises ⁽⁴⁾	-9	310	32
All Non-domestic Premises⁽⁵⁾	-3	725	22
All Properties	-7	206	16

(1) Domestic units are classified by relation to saleable areas as below:

Small domestic	up to 69.9m ²	(up to 752 sq. ft.)
Medium domestic	70m ² to 99.9m ²	(753 sq. ft. - 1 075 sq. ft.)
Large domestic	100m ² and over	(1 076 sq. ft. and above)

(2) Including Housing Authority and Housing Society rental units

(3) Including car parking spaces

(4) Including factories and storage premises

(5) Including miscellaneous premises such as hotels, cinemas, petrol filling stations, schools and car parking spaces

(6) The rateable values for 2004-05 reflect the changes in open market rental values between 1 October 2002 and 1 October 2003

*Supplement***ECONOMIC PERFORMANCE IN 2003**

1. Estimated rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2003 :

	(%)
(i) Growth rates in real terms of :	
Private consumption expenditure	*
Government consumption expenditure	1.9
Gross domestic fixed capital formation	-0.1
<i>of which :</i>	
building and construction	-6.9
machinery, equipment and computer software	6.1
Total exports of goods [^]	14.2
re-exports	16.3
domestic exports	-7.3
Imports of goods	13.1
Exports of services	5.5
Imports of services	-4.4
Gross Domestic Product (GDP)	3.3
<i>Per capita GDP</i>	3.1
<i>Per capita GDP at current market prices</i>	HK\$181,500 (US\$23,300)
(ii) Rates of change in :	
Composite Consumer Price Index	-2.6
GDP Deflator	-5.1
Government Consumption Expenditure Deflator	-2.8
(iii) Growth rate of nominal GDP	-2.0

[^] Including non-monetary gold, which is not covered in the regularly published merchandise trade statistics.

* Change of less than 0.05%.

Supplement

2. Annual growth rates in real terms of re-exports and domestic exports :

	<i>Re-exports</i> (%)	<i>Domestic exports</i> (%)
2001	-2	-10
2002	11	-11
2003	16	-7
<i>Share in the value of total exports of goods in 2003</i>	93	7

3. Annual growth rates in real terms of retained imports :

	<i>Retained imports</i>			
	<i>Total</i> (%)	<i>Foodstuffs and consumer goods</i> (%)	<i>Raw materials and semi-manufactures</i> (%)	<i>Capital goods</i> (%)
2001	-1	7	-15	8
2002	2	5	10	-14
2003	6	1	8	6

4. Annual growth rates in real terms of exports and imports of services :

	<i>Exports of services</i> (%)	<i>Imports of services</i> (%)
2001	6	2
2002	12	*
2003	5	-4

* Change of less than 0.5%.

*Supplement*5. Hong Kong's visible and invisible trade balance in 2003^(Note 1) :

	(HK\$ billion)
Total exports of goods	1,749.1
Imports of goods	1,794.1
Visible trade balance	-45.0
Exports of services ^(Note 2)	350.3
Imports of services ^(Note 2)	189.2
Invisible trade balance^(Note 2)	161.1
Combined visible and invisible trade balance^(Note 2)	116.1

Note 1 Figures are reckoned on a GDP basis.

Note 2 Preliminary figures.

6. Annual averages of the unemployment and underemployment rates :

	<i>Unemployment rate</i> (%)	<i>Underemployment rate</i> (%)
2001	5.1	2.5
2002	7.3	3.0
2003	7.9	3.5

7. Annual rates of change in the Consumer Price Indices :

	<i>Composite CPI</i> (%)	<i>CPI(A)</i> (%)	<i>CPI(B)</i> (%)	<i>CPI(C)</i> (%)
2001	-1.6	-1.7	-1.6	-1.5
2002	-3.0	-3.2	-3.1	-2.8
2003	-2.6	-2.1	-2.7	-2.9

*Supplement***ECONOMIC PROSPECTS FOR 2004**

Forecast rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2004 :

	(%)	
(i) Growth rates in real terms of :		
Private consumption expenditure	6	
Government consumption expenditure	1.5	
Gross domestic fixed capital formation	7.1	
<i>of which :</i>		
building and construction	1.5	
machinery, equipment and computer software	11	
Total exports of goods [^]	7.7	
re-exports	8.5	
domestic exports	-2	
Imports of goods	9.1	
Exports of services	15	
Imports of services	9.5	
Gross Domestic Product (GDP)	6	
<i>Per capita GDP</i>	4.7	
<i>Per capita GDP at current market prices</i>	HK\$184,500 (US\$23,700)	
(ii) Rates of change in :		
Composite Consumer Price Index	-1	
GDP Deflator	-3	
Government Consumption Expenditure Deflator	-2.5	
(iii) Growth rate of nominal GDP	2.8	

[^] Including non-monetary gold, which is not covered in the regularly published merchandise trade statistics.

MEDIUM RANGE FORECAST 2003–04 TO 2008–09**INTRODUCTION**

The *Medium Range Forecast* (MRF) is a projection of expenditure and revenue for the forecast period based on the forecasting assumptions and budgetary criteria outlined in Section I of this Appendix.

2 The MRF is presented in three sections—

(I) Forecasting assumptions and budgetary criteria.

(II) The MRF for 2003–04 to 2008–09.

(III) Relationship between Government Expenditure, Public Expenditure and GDP in the MRF.

3 Government's contingent liabilities at 31 March 2003 and estimates of these at 31 March 2004 and 31 March 2005 are provided in Section IV of this Appendix as supplementary information to the MRF.

Appendix A—Contd.

SECTION I - FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA

4 A number of computer based models are used to derive the MRF. These models reflect a wide range of assumptions about the factors determining each of the components of Government's revenue and expenditure. Some are economic in nature (the general economic assumptions) while others deal with specific areas of Government's activity (the detailed assumptions). These are supported by studies of historical and anticipated trends.

General Economic Assumptions*Real Gross Domestic Product (real GDP)*

5 For planning purposes, the assumption on the trend growth rate in real terms of GDP for the medium-term period 2004 to 2008 is set at 3.8% per annum (comprising a 6% growth for 2004, and an average growth of 3.3% per annum for the ensuing period 2005 to 2008).

Price change

6 Over the period 2004 to 2008, the trend rate of increase in the GDP deflator, measuring overall price change in the economy, is assumed at 0.7% per annum (comprising a decrease of 3% for 2004, and an average increase of 1.6% per annum for the ensuing period 2005 to 2008). The trend rate of increase in the Composite Consumer Price Index, measuring price change in the consumer domain, is assumed at 1% per annum (comprising a decrease of 1% for 2004, and an average increase of 1.5% per annum for the ensuing period 2005 to 2008).

Nominal Gross Domestic Product (nominal GDP)

7 Taking the assumptions on the trend rates of change in the real GDP and the GDP deflator together, the trend growth rate of nominal GDP is thus assumed at 4.5% per annum for the period 2004 to 2008 (comprising a 2.8% growth for 2004, and an average growth of 4.9% per annum for the ensuing period 2005 to 2008).

Detailed Assumptions

8 The MRF incorporates a wide range of detailed assumptions on expenditure and revenue patterns over the forecast period, taking the following, amongst other factors, into account—

- estimated cash flow of capital projects,
- forecast completion dates of these capital projects and their related recurrent consequences in terms of staffing and running costs,
- estimated cash flow arising from new commitments resulting from policy initiatives,
- the expected pattern of demand for individual services,
- the trend in yield from individual revenue sources, and
- new revenue/expenditure measures in the 2004 Budget.

Budgetary Criteria

9 In addition to the above forecasting assumptions, there are a number of criteria against which the results of forecasts are tested for overall acceptability in terms of budgetary policy.

10 The following are the more important budgetary criteria—

—Budget surplus/deficit

The Government aims to achieve balance in consolidated and operating accounts by 2008–09. In the longer term, the Government needs to achieve an operating surplus to partially finance capital expenditure.

—Operating expenditure

The Government aims to bring operating expenditure down to \$200 billion by 2008–09.

—Capital expenditure

By its nature some fluctuations in the level of capital expenditure are to be expected. However, over a period the aim is to contain capital expenditure within overall expenditure guidelines.

—Total expenditure

The general principle is that, over time, expenditure growth should not exceed the growth of the economy, taking into account both real and nominal terms. The Government aims to keep public expenditure at or below 20% of GDP by 2008–09.

—Revenue policy

Account is taken of the need to maintain over time the real yield from revenue.

—Fiscal reserves

The Government in the long run aims to maintain the level of reserves at around 12 months of total government expenditure.

Appendix A—Contd.

SECTION II - THE MRF FOR 2003-04 TO 2008-09

11 The current MRF (Note a) is summarised in the following table which indicates the forecast operating position, capital financing position and consolidated reserves position—

Table 1

	Original Estimate	Original Estimate as updated*	Revised Estimate	Forecast				
(\$ million)	2003-04	2003-04	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Operating Account								
Operating revenue (Note b)	149,183	143,847	147,672	155,593	162,939	171,291	179,472	189,299
Operating expenditure (Note c)	213,595	217,442	206,734	212,200	210,620	207,080	203,540	200,000
Surplus/(deficit) before investment income	(64,412)	(73,595)	(59,062)	(56,607)	(47,681)	(35,789)	(24,068)	(10,701)
Investment income (Note b)	10,991	10,991	23,036	10,039	7,761	6,374	5,458	5,479
Operating surplus/(deficit) after investment income	(53,421)	(62,604)	(36,026)	(46,568)	(39,920)	(29,415)	(18,610)	(5,222)
Capital Financing Statement								
Capital revenue (Note d)	11,237	11,237	14,851	18,624	23,315	27,261	31,819	36,012
Asset sales/securitisation	21,000	21,000	15,467	17,000	31,000	15,000	22,000	11,000
	32,237	32,237	30,318	35,624	54,315	42,261	53,819	47,012
Capital Spending (Note e)	47,799	47,799	46,126	53,418	52,301	45,891	39,639	37,084
Surplus/(deficit) before investment income	(15,562)	(15,562)	(15,808)	(17,794)	2,014	(3,630)	14,180	9,928
Investment income (Note d)	1,116	1,116	2,811	2,215	2,519	2,201	2,241	2,290
Surplus/(deficit) after investment income	(14,446)	(14,446)	(12,997)	(15,579)	4,533	(1,429)	16,421	12,218
Government bond issuance (Note f)								
– Indicative borrowing	—	—	—	20,000	—	—	—	—
– Interest expenses	—	—	—	500	1,000	1,000	1,000	1,000
Capital financing surplus/(deficit) after government bond issuance	(14,446)	(14,446)	(12,997)	3,921	3,533	(2,429)	15,421	11,218
Consolidated Reserves								
Balance at 1 April (Note g)	307,014	307,014	315,471	266,448	223,801	187,414	155,570	152,381
Operating surplus/(deficit)	(53,421)	(62,604)	(36,026)	(46,568)	(39,920)	(29,415)	(18,610)	(5,222)
Capital financing surplus/(deficit) before Government bond issuance	(14,446)	(14,446)	(12,997)	(15,579)	4,533	(1,429)	16,421	12,218
Consolidated surplus/(deficit)	(67,867)	(77,050)	(49,023)	(62,147)	(35,387)	(30,844)	(2,189)	6,996
Government bond issuance (Note f)								
– Indicative borrowing	—	—	—	20,000	—	—	—	—
– Interest expenses	—	—	—	500	1,000	1,000	1,000	1,000
Consolidated surplus/(deficit) after government bond issuance	(67,867)	(77,050)	(49,023)	(42,647)	(36,387)	(31,844)	(3,189)	5,996
Balance at 31 March (Note g)	239,147	229,964	266,448	223,801	187,414	155,570	152,381	158,377
As number of months of government expenditure	11	11	13	10	9	7	8	8
Indicative outstanding debt								
– Government bonds (Note f)	—	—	—	20,000	20,000	20,000	20,000	20,000
– Securitisation notes (Note h)	—	—	—	6,000	5,250	4,500	3,750	3,000

* The 2003-04 Original Estimate has been updated to reflect the relief package covering expenditure measures of \$3.8 billion and revenue concessions of \$5.3 billion for dealing with the outbreak of the Severe and Acute Respiratory Syndrome (SARS).

Appendix A—Contd.

Notes—

(a) Accounting policies

- (i) The MRF is prepared on a cash basis and reflects forecast receipts and payments, whether or not they relate to operating or capital transactions.
- (ii) The MRF includes the General Revenue Account and the Funds (Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund, and Lotteries Fund).

(b) Operating revenue

- (i) The operating revenue has taken into account the revenue-concession and revenue-raising measures proposed in the 2004 Budget.
- (ii) For the purpose of the MRF, the investment earnings of the balance of the General Revenue Account which are credited to revenue head Properties and Investments and the investment earnings of the Land Fund are consolidated and shown under Investment Income of the Operating Account. The rate of return on investment earnings is assumed at 5% per annum in 2004–05 to 2008–09.

(c) Operating expenditure

- (i) The operating expenditure in 2003–04 and 2004–05 includes forecast expenditure of \$2.6 billion and \$4.2 billion respectively for the first and second Voluntary Retirement Schemes. The one-off expenditure under these schemes comprises commuted pensions and compensation for takers of the schemes.
- (ii) The level of operating expenditure in 2004–05 to 2008–09 has taken into account the 6% reduction in the salaries of the civil service and the salary-related portion of recurrent subventions which will take effect by two equal instalments, i.e. on 1 January 2004 and 1 January 2005.

(d) Capital revenue

- (i) The breakdown of capital revenue excluding proceeds from sale/securitisation of assets and investment income is—

(\$ million)	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09
General Revenue Account	3,866	2,112	1,683	1,763	1,848	1,937
Capital Works Reserve Fund	5,165	12,020	18,651	22,363	26,396	30,771
Capital Investment Fund	2,402	2,180	1,531	1,486	1,467	948
Civil Service Pension Reserve Fund	—	—	—	—	—	—
Innovation and Technology Fund	8	—	—	—	—	—
Loan Fund	2,544	1,417	477	642	1,064	1,274
Lotteries Fund	866	895	973	1,007	1,044	1,082
Total	14,851	18,624	23,315	27,261	31,819	36,012

- (ii) For the purpose of the MRF, the annual land premia included under the Capital Works Reserve Fund for 2005–06 to 2008–09 are respectively assumed at 1.4%, 1.6%, 1.8% and 2% of GDP.
- (iii) For the purpose of the MRF, the investment earnings of the various Funds other than that of Land Fund (i.e. Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Loan Fund and Lotteries Fund) are consolidated and shown under Investment Income of the Capital Financing Statement.

Appendix A—Contd.

Notes—

(e) *Capital Spending*

(i) The breakdown of capital spending excluding interest on government bonds is –

(\$million)	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09
General Revenue Account	1,984	1,805	3,860	3,970	3,970	3,970
Capital Works Reserve Fund	35,593	38,072	37,010	34,266	31,650	29,470
Capital Investment Fund	4,253	7,379	5,921	3,623	493	297
Disaster Relief Fund	11					
Innovation and Technology Fund	502	644	747	747	747	747
Loan Fund	2,710	4,353	3,186	2,570	2,177	1,938
Lotteries Fund	1,073	1,165	1,577	715	602	662
Total	46,126	53,418	52,301	45,891	39,639	37,084

- (ii) Capital expenditure under the General Revenue Account covers purchase of equipment, and works and capital subventions of a minor nature.
- (iii) Capital expenditure under the Capital Works Reserve Fund covers expenditure on the Public Works Programme, land acquisition, capital subventions, major systems and equipment, and computerisation. Interest on government bonds is charged to the Capital Works Reserve Fund but is shown separately under Table 1.
- (iv) Payments from the Capital Investment Fund include advances and equity investments mainly to Trading Funds and government-owned corporations.
- (v) Capital expenditure under the Disaster Relief Fund provides relief to disasters that occur outside Hong Kong. Because of the unpredictable nature of disasters, no estimate of future expenditure is made for the forecast period.
- (vi) Capital expenditure under the Innovation and Technology Fund is intended to finance projects to help promote innovation and technology upgrading in manufacturing and service industries.
- (vii) Capital expenditure under the Loan Fund includes loans to schools, teachers, students, housing loans, and loans under the special finance scheme for small and medium enterprises.
- (viii) Capital expenditure under the Lotteries Fund provides grants, loans and advances for social welfare services.

(f) *Government bond issuance*

- (i) The government bonds are included for indicative purpose. The exact timing for and amount of the bond issue will be subject to review and necessary approval.
- (ii) For the purpose of the MRF, interest on government bonds is assumed at 5% per annum. The exact interest will be subject to the actual interest rate at the time of the bond issuance. It will be charged as capital expenditure of the Capital Works Reserve Fund.

(g) *Fiscal reserves*

The fiscal reserves represent the accumulated balances of the General Revenue Account and the Funds, including the government bond issuance.

(h) *Securitisation notes*

The securitisation notes arise from the forecast securitisation in 2004–05 of tolls from government tunnels and bridges. For the purpose of the MRF, the outstanding amount of securitisation notes is assumed to be reducing at a rate of about \$750 million each year. Repayment of principal and interest of these notes will be funded by revenue of concerned tunnels and bridges. The revenue forgone has been taken into account when forecasting Government's annual operating revenue.

Appendix A—Contd.

SECTION III - RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE, PUBLIC EXPENDITURE AND GDP IN THE MRF

12 For monitoring purposes, the Government's own expenditure is consolidated with the expenditure of the Housing Authority and the Trading Funds (collectively referred to as "other public bodies") in order to compare total public expenditure with Gross Domestic Products.

Government Expenditure and Public Expenditure in the Context of the Economy*Table 2*

	Original Estimate	Original Estimate as updated*	Revised Estimate	Forecast				
(\$ million)	2003-04	2003-04	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Operating expenditure	213,595	217,442	206,734	212,200	210,620	207,080	203,540	200,000
Capital expenditure (<i>Note a</i>)	43,218	43,218	41,873	46,539	47,380	43,268	40,146	37,787
Total government expenditure	256,813	260,660	248,607	258,739	258,000	250,348	243,686	237,787
Other public bodies	29,702	29,702	30,576	27,235	19,734	19,808	20,606	21,464
Total public expenditure (<i>Note b</i>)	286,515	290,362	279,183	285,974	277,734	270,156	264,292	259,251
Gross Domestic Product (calendar year)	1,283,230	1,283,230	1,234,944	1,269,744	1,332,186	1,397,699	1,466,434	1,538,548
Growth in GDP (<i>Note c</i>)								
Money terms			-2.0%	+2.8%	+4.9%	+4.9%	+4.9%	+4.9%
Real terms			+3.3%	+6.0%	+3.3%	+3.3%	+3.3%	+3.3%
Growth in government expenditure (<i>Note d</i>)								
Money terms			+4.8%	+4.1%	-0.3%	-3.0%	-2.7%	-2.4%
Real terms			+7.2%	+6.5%	+0.2%	-3.4%	-3.1%	-2.8%
Growth in public expenditure (<i>Note d</i>)								
Money terms			+5.9%	+2.4%	-2.9%	-2.7%	-2.2%	-1.9%
Real terms			+8.4%	+4.8%	-2.5%	-3.2%	-2.6%	-2.3%
Public expenditure as a percentage of GDP	22.3%	22.6%	22.6%	22.5%	20.8%	19.3%	18.0%	16.9%

* The 2003-04 Original Estimate has been updated to reflect the relief package for dealing with the outbreak of SARS. See note below Table 1.

Notes—

- (a) Capital expenditure includes interest on government bonds charged to Capital Works Reserve Fund.
- (b) Public expenditure comprises government expenditure (i.e. all expenditure charged to the General Revenue Account and financed by the Government's statutory funds excluding Capital Investment Fund), and expenditure by the Trading Funds and the Housing Authority. But *not* included is expenditure by those organisations, including statutory organisations, in which the Government has only an equity position, such as the Airport Authority, the MTR Corporation Ltd and the Kowloon-Canton Railway Corporation. Similarly, advances and equity investments from the Capital Investment Fund are excluded as they do not reflect the actual consumption of resources by the Government.
- (c) Over the period 2004-2008, the forecast trend growth rate of GDP in real terms is 3.8% per annum and, with the forecast trend rate of increase in the GDP deflator at 0.7% per annum, the forecast trend growth rate in nominal GDP is 4.5%.
- (d) The growth rates refer to year-on-year change. For example, the rates for 2003-04 refer to the change between revised estimate for 2003-04 and actual expenditure in 2002-03. The rates for 2004-05 refer to the change between the 2004-05 forecast over 2003-04 revised estimate and so forth.

Appendix A—Contd.

13 Table 3 shows the relationship amongst the sum to be appropriated in the 2004 Budget, government expenditure and public expenditure. It also shows the effect of the Budget revenue measures on the overall surplus/deficit position for 2004–05.

**Relationship between Government Expenditure
and Public Expenditure in 2004–05**

Table 3

(\$ million)

Components of expenditure and revenue	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	203,469	203,469	—	203,469	203,469
Non-recurrent	8,731	8,731	—	8,731	8,731
Capital account					
Plant, equipment and works	917	—	917	917	917
Subventions	888	—	888	888	888
	214,005	212,200	1,805	214,005	214,005
Transfer to Funds	30,943	—	—	—	—
Capital Works Reserve Fund	—	—	38,072	38,072	38,072
Innovation and Technology Fund	—	—	644	644	644
Loan Fund	—	—	4,353	4,353	4,353
Lotteries Fund	—	—	1,165	1,165	1,165
Trading Funds	—	—	—	—	3,134
Housing Authority	—	—	—	—	24,101
	244,948	212,200	46,039	258,239	285,474
Revenue (before Budget revenue measures)					
General Revenue Account					
Taxation		132,278	1,510	133,788	
Other revenue		28,453	602	29,055	
		160,731	2,112	162,843	
Land Fund		7,061	—	7,061	
		167,792	2,112	169,904	
Capital Works Reserve Fund		—	13,041	13,041	
Capital Investment Fund		—	2,190	2,190	
Civil Service Pension Reserve Fund		—	744	744	
Disaster Relief Fund		—	2	2	
Innovation and Technology Fund		—	221	221	
Loan Fund		—	1,426	1,426	
Lotteries Fund		—	1,103	1,103	
Asset sales/securitisation		—	17,000	17,000	
		167,792	37,839	205,631	
Surplus/(deficit) before Budget revenue measures		(44,408)	(8,200)	(52,608)	
Less: Effect of Budget revenue measures		2,160	—	2,160	
Surplus/(deficit) after Budget revenue measures		(46,568)	(8,200)	(54,768)	
Less: Advances and equity investments from the Capital Investment Fund (Note a)		—	7,379	7,379	
Consolidated surplus/(deficit) before government bond issuance		(46,568)	(15,579)	(62,147)	
Government bond issuance					
Indicative borrowing		—	20,000	20,000	
Interest expenses (Note b)		—	500	500	
Consolidated surplus/(deficit) after government bond issuance		(46,568)	3,921	(42,647)	

Notes—

(a) Advances and equity investments from the Capital Investment Fund are excluded from government expenditure (see also Note b to Table 2).

(b) Interest on government bonds will be charged as capital expenditure of the Capital Works Reserve Fund.

Appendix A—Contd.

SECTION IV - ESTIMATES OF CONTINGENT LIABILITIES

14 The Government's contingent liabilities are \$17,743 million at 31 March 2003 and estimated to be \$19,141 million at 31 March 2004 and \$21,078 million at 31 March 2005, comprising—

(at 31 March)	2003	2004	2005
	\$m	\$m	\$m
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	9,628	9,416	9,642
Litigation	4,709	4,605	4,716
Possible capital subscriptions to the Asian Development Bank	1,920	1,920	1,920
Guarantees provided under the SME Business Installations and Equipment Loan Guarantee Scheme, the Special Finance Scheme for Small and Medium Enterprises, the Film Guarantee Fund and the Loan Guarantee Scheme for Severe Acute Respiratory Syndrome Impacted Industries	1,486	3,200	4,800
Total	17,743	19,141	21,078

Appendix B

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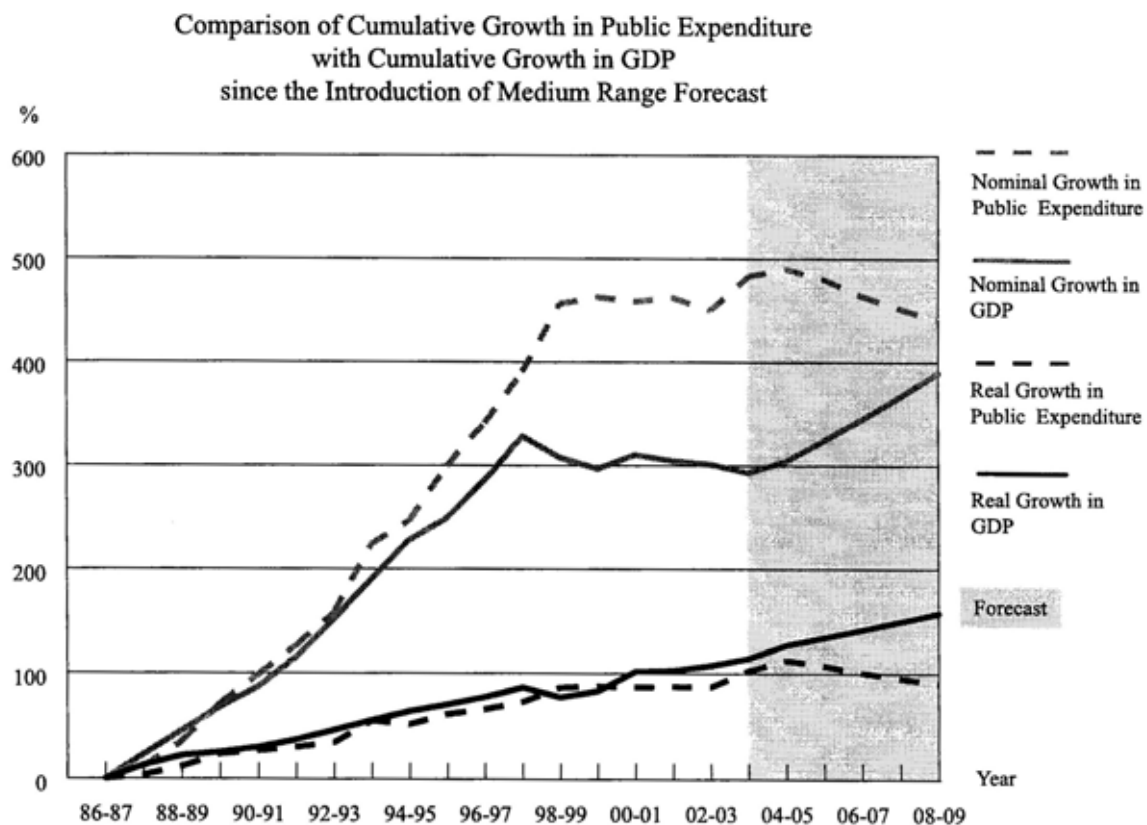
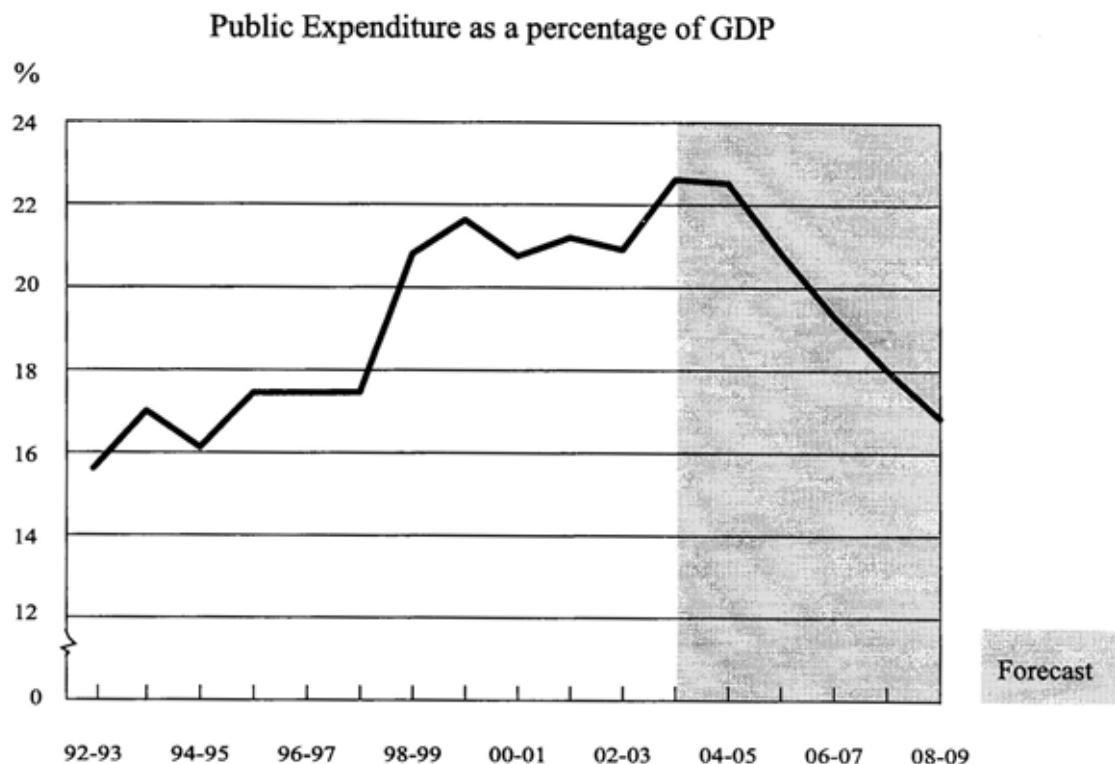
Appendix B—Contd.

SECTION I - THE ESTIMATES IN THE CONTEXT OF THE ECONOMY

Relationship between Government Expenditure, Public Expenditure in 2004–05 and GDP

	<i>(All figures in \$million)</i>
	Public Expenditure
General Revenue Account	
• Operating	212,200
• Capital	1,805
	<hr/> 214,005
Capital Works Reserve Fund	38,572
Loan Fund	4,353
Lotteries Fund	1,165
Innovation and Technology Fund	644
Government Expenditure	<hr/> 258,739
Trading Funds	3,134
Housing Authority	24,101
	<hr/> 285,974
GDP	1,269,744
Public Expenditure as a % of GDP	22.5%

Appendix B—Contd.



Appendix B—Contd.

SECTION II - ANALYSIS OF RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP**Recurrent Public Expenditure : Year-on-Year Change**

(All figures in \$million)

	2003–04 Original Estimate	2003–04 Revised Estimate	2004–05 Estimate	% Increase/Decrease over 2003–04 original estimate	
				in Nominal Terms	in Real Terms
					<i>(Note)</i>
Education	49,261	46,761	49,189	-0.1	+2.4
Social Welfare	32,765	32,512	33,715	+2.9	+6.3
Health	31,889	31,706	30,325	-4.9	-2.1
Security	25,015	24,483	23,949	-4.3	-1.6
Housing	13,029	11,849	12,806	-1.7	+0.2
Infrastructure	11,762	11,392	11,367	-3.4	-1.4
Economic	11,138	10,857	10,844	-2.6	-0.5
Environment and Food	8,759	8,315	8,198	-6.4	-4.4
Community and External Affairs	7,568	7,350	7,116	-6.0	-4.2
Support	31,314	29,235	31,296	-0.1	+0.9
	<u>222,500</u>	<u>214,460</u>	<u>218,805</u>	-1.7	+0.7

Note: As the above 2004–05 estimates has included assumptions on price changes for various expenditure components (e.g. operating expenses, plant and equipment, etc.) and the two-phased reduction in salaries for the civil service and the salary-related portion of recurrent subventions on 1 January 2004 and 1 January 2005, the percentage increase/decrease in real terms is calculated after adjustment to bring the expenditure figures for 2003–04 and 2004–05 to the same price level.

Appendix B—Contd.

SECTION II - ANALYSIS OF RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Recurrent Government Expenditure : Year-on-Year Change

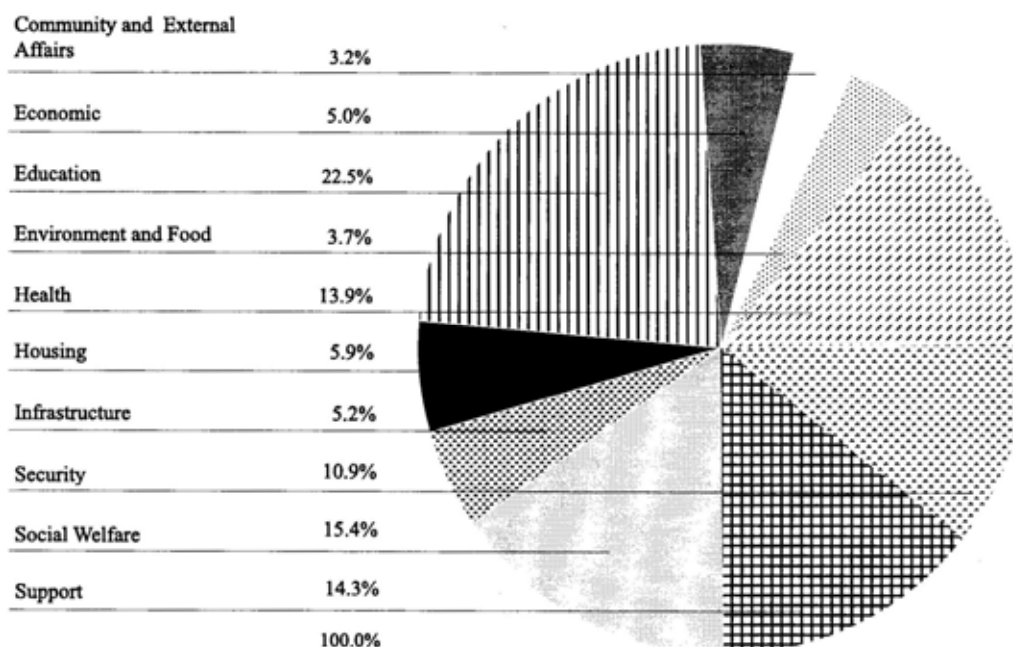
(All figures in \$million)

	2003–04 Original Estimate	2003–04 Revised Estimate	2004–05 Estimate	% Increase/Decrease over 2003–04 original estimate in Nominal Terms in Real Terms <i>(Note)</i>	
Education	49,261	46,761	49,189	-0.1	+2.4
Social Welfare	32,765	32,512	33,715	+2.9	+6.3
Health	31,889	31,706	30,325	-4.9	-2.1
Security	25,015	24,483	23,949	-4.3	-1.6
Infrastructure	11,614	11,260	11,248	-3.2	-1.2
Environment and Food	8,759	8,315	8,198	-6.4	-4.4
Economic	8,266	7,935	7,978	-3.5	-1.2
Community and External Affairs	7,568	7,350	7,116	-6.0	-4.2
Housing	531	471	455	-14.3	-13.0
Support	31,314	29,235	31,296	-0.1	+0.9
	<u>206,982</u>	<u>200,028</u>	<u>203,469</u>	-1.7	+0.7

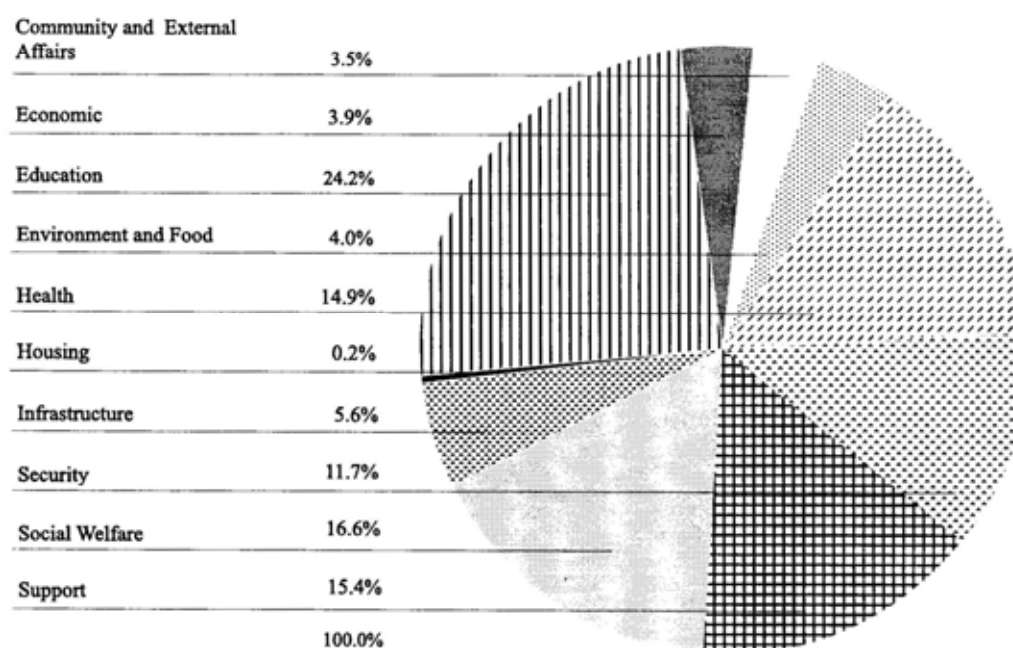
Note: As the above 2004–05 estimates has included assumptions on price changes for various expenditure components (e.g. operating expenses, plant and equipment, etc.) and the two-phased reduction in salaries for the civil service and the salary-related portion of recurrent subventions on 1 January 2004 and 1 January 2005, the percentage increase/decrease in real terms is calculated after adjustment to bring the expenditure figures for 2003–04 and 2004–05 to the same price level.

Appendix B—Contd.

Percentage Share of Expenditure by Policy Area Group - Recurrent Public Expenditure



Percentage Share of Expenditure by Policy Area Group - Recurrent Government Expenditure



Appendix B—Contd.

SECTION III - ANALYSIS OF TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Total Public Expenditure : Year-on-Year Change

	2003-04 Original Estimate	2003-04 Revised Estimate	2004-05 Estimate	% Increase/Decrease over 2003-04 original estimate	
				in Nominal Terms	in Real Terms
<i>(All figures in \$million)</i>					<i>(Note)</i>
Education	61,023	57,748	59,542	-2.4	-0.1
Social Welfare	33,974	33,997	35,404	+4.2	+7.6
Health	33,404	34,485	32,977	-1.3	+1.7
Infrastructure	27,092	26,363	30,173	+11.4	+14.0
Security	27,915	27,456	27,032	-3.2	-0.6
Housing	26,942	27,854	24,583	-8.8	-6.9
Economic	17,118	15,561	16,675	-2.6	-0.7
Environment and Food	11,348	11,213	12,604	+11.1	+13.3
Community and External Affairs	8,956	8,526	8,593	-4.1	-2.2
Support	38,743	35,980	38,391	-0.9	+0.1
	<u>286,515</u>	<u>279,183</u>	<u>285,974</u>	-0.2	+2.1

Note: As the above 2004-05 estimates has included assumptions on price changes for various expenditure components (e.g. operating expenses, plant and equipment, etc.) and the two-phased reduction in salaries for the civil service and the salary-related portion of recurrent subventions on 1 January 2004 and 1 January 2005, the percentage increase/decrease in real terms is calculated after adjustment to bring the expenditure figures for 2003-04 and 2004-05 to the same price level.

Appendix B—Contd.

SECTION III - ANALYSIS OF TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

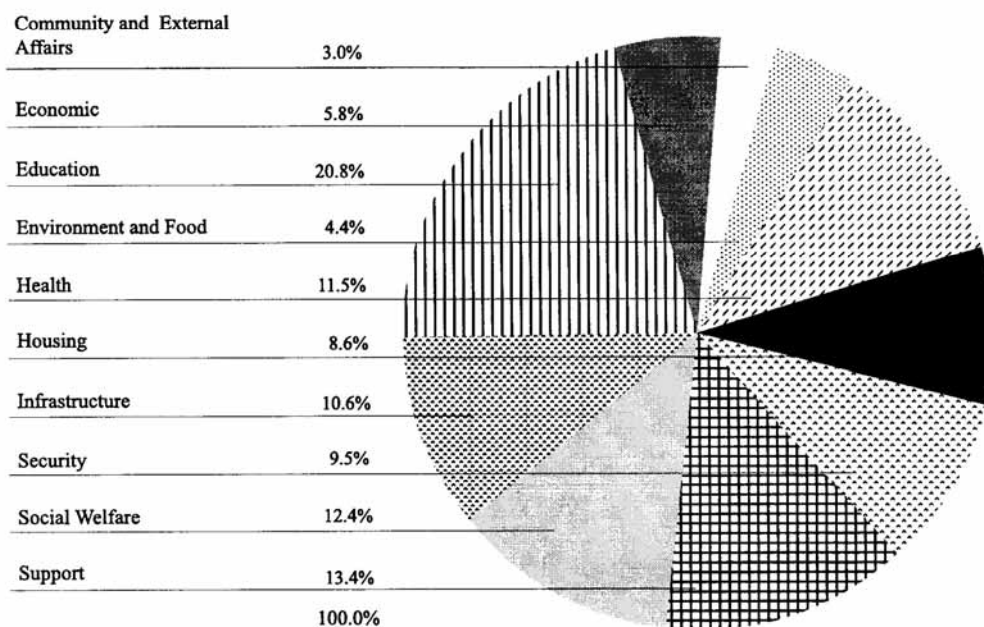
Total Government Expenditure : Year-on-Year Change

	2003–04 Original Estimate	2003–04 Revised Estimate	2004–05 Estimate	% Increase/Decrease over 2003–04 original estimate	
				in Nominal Terms	in Real Terms
<i>(All figures in \$million)</i>					
Education	61,023	57,748	59,542	-2.4	-0.1
Social Welfare	33,974	33,997	35,404	+4.2	+7.6
Health	33,404	34,485	32,977	-1.3	+1.7
Infrastructure	26,865	26,184	30,024	+11.8	+14.4
Security	27,915	27,456	27,032	-3.2	-0.6
Economic	13,987	12,493	13,690	-2.1	-0.2
Environment and Food	11,348	11,213	12,604	+11.1	+13.3
Community and External Affairs	8,956	8,526	8,593	-4.1	-2.2
Housing	598	525	482	-19.4	-18.2
Support	38,743	35,980	38,391	-0.9	+0.1
	256,813	248,607	258,739	+0.7	+3.1

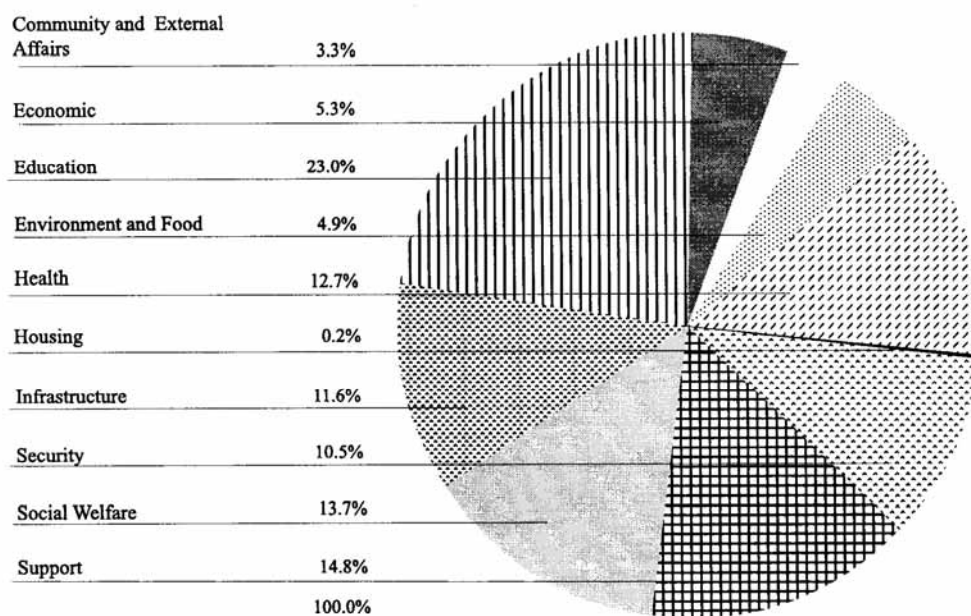
Note: As the above 2004–05 estimates has included assumptions on price changes for various expenditure components (e.g. operating expenses, plant and equipment, etc.) and the two-phased reduction in salaries for the civil service and the salary-related portion of recurrent subventions on 1 January 2004 and 1 January 2005, the percentage increase/decrease in real terms is calculated after adjustment to bring the expenditure figures for 2003–04 and 2004–05 to the same price level.

Appendix B—Contd.

Percentage Share of Expenditure by Policy Area Group - Total Public Expenditure



Percentage Share of Expenditure by Policy Area Group - Total Government Expenditure



Appendix B—Contd.

SECTION IV - MAJOR CAPITAL PROJECTS TO BEGIN IN 2004-05

Funds allocated for capital projects to start in 2004-05 include:

	<i>\$million</i>
Infrastructure	15,686
— Reconstruction and improvement of Tuen Mun Road	
— South East Kowloon development related works	
— Improvement to San Tin Interchange	
— In-situ reprovisioning of Sha Tin water treatment works	
— Retro-fitting of noise barriers at selected locations	
— Reconstruction of public piers	
Education	2,541
— Construction of additional primary and secondary schools	
— Multi-media Building, City University of Hong Kong	
— Teaching complex at western campus, Chinese University of Hong Kong	
Support	1,464
— Drainage improvement in East Kowloon, Tsuen Wan, Kwai Chung, Tsing Yi and Northern New Territories	
— Village flood protection in North West New Territories	
Economic	764
— Tsim Sha Tsui Promenade Beautification Project	
— Transport link in Tsim Sha Tsui East	
— Enhancement of public facilities at Ngong Ping, Lantau	
— Enhancement of tourism facilities	
Community and External Affairs	681
— Tseung Kwan O Sports Ground	
— Renovation of libraries	
Health	641
— Construction of a new infectious disease centre attached to Princess Margaret Hospital	
— Provision of additional lifts and associated works at Block S of United Christian Hospital	
Environment and Food	607
— Central, Western and Wan Chai West sewerage, stage 2 phase 2B works	
— General improvement works to markets and cooked food centres	
— Reprovisioning of Diamond Hill Crematorium	
Security	106
— Kowloon Tong fire station-cum-ambulance depot and Kowloon Fire Command Headquarters	

SECTION V - TRENDS IN PUBLIC EXPENDITURE : 1999–2000 TO 2004–05**Introduction**

This section presents trends in public expenditure over the period 1999–2000 to 2004–05. The analysis includes expenditure by the Government, the Trading Funds and the Housing Authority.

2 Details of the individual heads of expenditure contributing to a particular policy area are provided in an index in Volume I of the 2004–05 Estimates. This index further provides details by head of expenditure of individual programmes which contribute to a policy area.

3 Where appropriate, historical figures have been adjusted to comply with the current classification of expenditure.

Appendix B—Contd.

Recurrent Public Expenditure by Policy Area Group 1999–2000 to 2004–05

Policy Area Groups	Actual				Revised Estimate	Estimate
	1999–2000	2000–01	2001–02	2002–03	2003–04	2004–05
	%	%	%	%	%	%
Education	22.0	22.3	22.0	22.2	21.8	22.5
Social Welfare	13.7	13.8	13.8	14.8	15.2	15.4
Health	15.3	15.4	15.2	15.3	14.8	13.9
Security	12.3	12.0	11.7	11.5	11.4	10.9
Housing	6.0	5.8	5.8	5.4	5.5	5.9
Infrastructure	5.5	5.4	5.4	5.4	5.3	5.2
Economic	5.2	5.2	5.1	5.0	5.1	5.0
Environment and Food	4.2	4.0	3.9	4.0	3.9	3.7
Community and External Affairs	3.6	3.4	3.4	3.5	3.4	3.2
Support	12.2	12.7	13.7	12.9	13.6	14.3
	100.0	100.0	100.0	100.0	100.0	100.0

Total Recurrent Public Expenditure	\$m	\$m	\$m	\$m	\$m	\$m
	195,272	198,619	210,445	211,728	214,460	218,805

Appendix B—Contd.

Total Public Expenditure by Policy Area Group 1999–2000 to 2004–05

Policy Area Groups	Actual				Revised Estimate	Estimate
	1999–2000	2000–01	2001–02	2002–03	2003–04	2004–05
	%	%	%	%	%	%
Education	18.7	19.2	19.4	20.8	20.7	20.8
Social Welfare	10.2	10.5	11.2	12.3	12.2	12.4
Health	11.8	12.2	12.7	12.6	12.4	11.5
Infrastructure	8.5	8.6	9.3	9.3	9.4	10.6
Security	9.6	10.0	10.2	10.3	9.8	9.5
Housing	17.0	15.9	11.9	9.1	10.0	8.6
Economic	4.6	4.7	5.1	5.2	5.6	5.8
Environment and Food	4.6	4.2	4.1	4.3	4.0	4.4
Community and External Affairs	3.4	3.1	3.1	3.1	3.0	3.0
Support	11.6	11.6	13.0	13.0	12.9	13.4
	100.0	100.0	100.0	100.0	100.0	100.0

	\$m	\$m	\$m	\$m	\$m	\$m
Total Public Expenditure	269,484	267,507	269,359	263,520	279,183	285,974

Appendix B—Contd.

SECTION VI - KEY TO CLASSIFICATION OF EXPENDITURE

Index Of Policy Area Groups

Policy Area Group	Description by Policy Area	Reference (Note)
Community and External Affairs	District and Community Relations	19
	Recreation, Culture, Amenities and Entertainment Licensing	18
Economic	Air and Sea Communications and Logistics Development	3
	Commerce and Industry	6
	Employment and Labour	8
	Financial Services	1
	Information Technology and Broadcasting	17
	Manpower Development	34
	Posts, Power, Competition Policy and Consumer Protection	4
	Public Safety	7
Education	Travel and Tourism	5
	Education	16
Environment and Food	Environmental Hygiene	32
	Environmental Protection and Conservation	23
	Agriculture, Fisheries and Food Safety	2
Health	Health	15
Housing	Housing	31
Infrastructure	Buildings, Lands and Planning	22
	Transport	21
	Water Supply	24
Security	Immigration Control	10
	Internal Security	9
	Administration of Justice	12
	Anti-corruption	13
	Legal Administration	11
	Legal Aid	20
Social Welfare	Social Welfare	14
	Women's Interest	33
Support	Central Management of the Civil Service	26
	Complaints Against Maladministration	30
	Constitutional Affairs	28
	Intra-governmental Services	27
	Revenue Collection and Financial Control	25
	Support for Members of the Legislative Council	29

Note: The Policy Area Reference corresponds with that used in the Index of Policy Areas in the Estimates of Expenditure.

GLOSSARY OF TERMS

Note: Terms shown in *bold italic* are defined elsewhere in the glossary.

Capital expenditure. This comprises all expenditure charged to the Capital Works Reserve Fund (including interest on government bonds), Disaster Relief Fund, Loan Fund, Innovation and Technology Fund and Lotteries Fund plus Capital Account expenditure from the General Revenue Account. It excludes transfers between General Revenue Account and the Funds, and advances and equity investments made from the Capital Investment Fund.

Capital revenue. This comprises all revenue credited to the Funds (*funds revenue*) and the exceptions credited to the General Revenue Account as listed under *operating revenue*. It excludes Land Fund investment income and transfers from General Revenue Account.

Consolidated surplus/deficit. The difference between *Government revenue* and *Government spending*.

Fiscal reserves. The accumulated balances of the General Revenue Account and the Funds, including the government bonds issuance.

Funds revenue. All receipts, except transfers from General Revenue Account, which are credited directly to the Funds. These mainly comprise —

Capital Investment Fund

- repayments received
- dividends
- interest on loans
- interest on balances

Capital Works Reserve Fund

- donations for projects
- land premia
- investment income
- recovery from MTR Corporation Limited
- recoveries from Trading Funds
- net proceeds from offering of government bonds

Civil Service Pension Reserve Fund

- investment income

Disaster Relief Fund

- investment income

Innovation and Technology Fund

- loan repayments received
- investment income

Land Fund

- investment income

Loan Fund

- loan repayments received
- interest on loans
- interest on balances

Lotteries Fund

- loan repayments received
- share of proceeds from the Mark Six Lottery
- investment income

Appendix C—Contd.

Funds spending. Expenditure charged to Capital Works Reserve Fund including interest on Government bonds, Capital Investment Fund, Disaster Relief Fund, Loan Fund, Innovation and Technology Fund and Lotteries Fund, but excluding transfers from the Funds.

General Revenue Account expenditure. All expenditure charged to General Revenue Account in accordance with the Appropriation Ordinance whether operating or capital in nature, excluding transfers to the Funds.

General Revenue Account revenue. All receipts credited to any of the revenue heads, excluding transfers from the Funds.

Government expenditure. The aggregate of *operating expenditure* and *capital expenditure*. It is not the same as *public expenditure*.

Government revenue. The aggregate of *Funds revenue* and *General Revenue Account revenue*.

Government spending. The aggregate of *government expenditure* and advances and equity investments made from the Capital Investment Fund.

Operating expenditure. All expenditure from General Revenue Account charged to any of the subheads listed in the Estimates under the Operating Account.

Operating revenue. This comprises Land Fund investment income and all receipts to be credited to General Revenue Account under any of the following revenue heads, namely—

- Duties
- General Rates
- Internal Revenue
- Motor Vehicle Taxes
- Fines, Forfeitures and Penalties
- Royalties and Concessions
- Properties and Investments
- Loans, Reimbursements, Contributions and Other Receipts (excluding transfers from Funds)
- Utilities
- Fees and Charges

It does not include the following items which are treated as *capital revenue*—

- disposal proceeds of government quarters and other assets
- estate duty
- taxi concessions
- recovery from Housing Authority
- donations
- repayment of loans and advances

Operating surplus/deficit. The difference between *operating revenue* and *operating expenditure*.

Public expenditure. *Government expenditure* plus expenditure (operating and capital) by the Trading Funds and the Housing Authority.