

OFFICIAL RECORD OF PROCEEDINGS

Wednesday, 12 January 2005

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

THE HONOURABLE ALBERT HO CHUN-YAN

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

THE HONOURABLE LEE CHEUK-YAN

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

THE HONOURABLE BERNARD CHAN, 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, J.P.

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

THE HONOURABLE WONG YUNG-KAN, J.P.

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 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, 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 TIMOTHY FOK TSUN-TING, G.B.S., J.P.

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

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

THE HONOURABLE LI FUNG-YING, B.B.S., J.P.

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

THE HONOURABLE ALBERT CHAN WAI-YIP

THE HONOURABLE FREDERICK FUNG KIN-KEE, J.P.

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

THE HONOURABLE VINCENT FANG KANG, J.P.

THE HONOURABLE WONG KWOK-HING, M.H.

THE HONOURABLE LEE WING-TAT

THE HONOURABLE LI KWOK-YING, M.H.

DR THE HONOURABLE JOSEPH LEE KOK-LONG

THE HONOURABLE DANIEL LAM WAI-KEUNG, B.B.S., J.P.

THE HONOURABLE JEFFREY LAM KIN-FUNG, S.B.S., J.P.

THE HONOURABLE MA LIK, J.P.

THE HONOURABLE ANDREW LEUNG KWAN-YUEN, S.B.S., J.P.

THE HONOURABLE ALAN LEONG KAH-KIT, S.C.

THE HONOURABLE LEUNG KWOK-HUNG

DR THE HONOURABLE KWOK KA-KI

DR THE HONOURABLE FERNANDO CHEUNG CHIU-HUNG

THE HONOURABLE CHEUNG HOK-MING, S.B.S., J.P.

THE HONOURABLE WONG TING-KWONG, B.B.S.

THE HONOURABLE RONNY TONG KA-WAH, S.C.

THE HONOURABLE CHIM PUI-CHUNG

THE HONOURABLE PATRICK LAU SAU-SHING, S.B.S., J.P.

THE HONOURABLE ALBERT JINGHAN CHENG

THE HONOURABLE KWONG CHI-KIN

THE HONOURABLE TAM HEUNG-MAN

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

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

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, I.D.S.M., J.P.
SECRETARY FOR SECURITY

THE HONOURABLE JOHN TSANG CHUN-WAH, J.P.
SECRETARY FOR COMMERCE, INDUSTRY AND TECHNOLOGY

DR THE HONOURABLE YORK CHOW YAT-NGOK, S.B.S., J.P.
SECRETARY FOR HEALTH, WELFARE AND FOOD

PROF LAU SIU-KAI, J.P.
HEAD, CENTRAL POLICY UNIT

CLERK IN ATTENDANCE:

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

TABLING OF PAPERS

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

- No. 51 — Report on the Administration of the Fire Services Department Welfare Fund, together with the Director of Audit's Report and Audited Statement of Accounts, for the year ended 31 March 2004

THE CHIEF EXECUTIVE OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION PRESENTS THE POLICY ADDRESS TO THE COUNCIL

PRESIDENT (in Cantonese): Members will please remain standing for the Chief Executive.

(After the Chief Executive had entered the Chamber and was about to present the policy address, Mr LEUNG Kwok-hung suddenly rose to speak)

MR LEUNG KWOK-HUNG (in Cantonese): Madam President, now I will

PRESIDENT (in Cantonese): Mr LEUNG Kwok-hung.

(Mr LEUNG Kwok-hung ignored the President and continued to speak)

MR LEUNG KWOK-HUNG (in Cantonese): Now I will formally express my views to Mr TUNG.

PRESIDENT (in Cantonese): This is not an appropriate time for you to express your views.

(Mr LEUNG Kwok-hung ignored the President)

MR LEUNG KWOK-HUNG (in Cantonese): I am now making a protest to Mr TUNG. I feel that

PRESIDENT (in Cantonese): Honourable Members.

(The President rose and so did the others. Mr LEUNG Kwok-hung continued to speak loudly)

PRESIDENT (in Cantonese): I am now leaving the Chamber with Mr TUNG.

(The Chief Executive left the Chamber with the President)

2.31 pm

Meeting suspended.

(Mr LEUNG Kwok-hung continued to speak and the other Members and public officers either left the Chamber or took their seats)

2.39 pm

Council then resumed.

PRESIDENT (in Cantonese): Honourable Members, when the Chief Executive was about to present the policy address earlier on, Mr LEUNG Kwok-hung rose to speak which was inconsistent with the Rules of Procedure. Such behaviour was inappropriate and inconsistent with today's Agenda. There will be plenty of opportunities for Members to speak and they can do so in future debates. Under the circumstances and because of my wish to refrain from shouting in this Chamber to stop Mr LEUNG Kwok-hung from speaking, I suspended the meeting.

During the time when the meeting was suspended, I invited Mr LEUNG Kwok-hung to my office and explained the situation to him so that he could decide for himself what to do. Therefore, I will now ask Mr LEUNG Kwok-hung: Will you promise not to interrupt the Chief Executive from presenting the policy address?

MR LEUNG KWOK-HUNG (in Cantonese): I only want to say one thing and that is, absolute power leads to absolute corruption, and collusion between business and the Government is shameful. Since Mr TUNG was elected by 800 people, he is not qualified to make thoughtless remarks to Honourable Members who were elected by an electorate of over a million. I am not interested in hearing what he has to say and I will now leave the Chamber in protest. I will leave these items for the protest here and it is up to him to find someone to collect them. *(Turned to leave, and then remarked over his shoulder)*

MR LEUNG KWOK-HUNG (in Cantonese): Thank you, Madam President.

PRESIDENT (in Cantonese): Mr LEUNG Kwok-hung's departure in protest is actually proper according to the Rules of Procedure. In fact, there will be opportunities for Members to voice their opinions and it was unnecessary to disrupt the meeting.

Now, will Members please remain standing again for the Chief Executive.

PRESIDENT (in Cantonese): Sorry about that, Chief Executive. Please present the policy address.

CHIEF EXECUTIVE (in Cantonese): Madam President, the tsunami triggered by an earthquake on 26th of last month had caused great sufferings to 11 countries in the Indian Ocean region. We grieved deeply as there were Hong Kong tourists among those who lost their lives as well. Generous donations had been made from various sectors in Hong Kong which showed the charitable spirit we had as expected of a world city. I would like to take some time out from this policy speech to offer condolences once again on behalf of the Government of the Hong Kong Special Administrative Region (SAR) to those citizens who lost their

lives and express our sympathy to their families and our admiration for those who have participated in all sorts of ways to provide relief to the disaster-stricken people. Now I will deliver the policy address.

The year 2004 proved to be good for Hong Kong's economy, with performance surpassing each of the past seven years. We have undergone an unprecedented economic restructuring. Although the process has been painful, it has lowered costs and increased our competitiveness. Most importantly, we have established a clear direction and positioning for future development. Policies and measures adopted by the Government to cope with the rapidly changing situation have started to deliver results. The hard work of our people has paid off, heralding the first stage of economic recovery. My policy address today sets out the priorities for this year and the rest of my term, on the basis of experience gained and lessons learnt.

Throughout last year, the forces propelling Hong Kong's economic recovery strengthened considerably. Despite negative factors such as oil price hikes, we achieved a growth rate of 7.5%. We can say that our economy is now at its best since the Asian financial crisis.

It is noteworthy that the major driving force of our economic recovery has come from both strong external demand and strengthening local demand. As the Mainland and other major world economies have simultaneously achieved fast growth seldom seen in recent years, demand for our products and services has increased drastically. As a result, many of our economic indicators last year registered double-digit growth. Exports of goods grew 15% in real terms during the first 11 months; exports of services increased by nearly 17% in the first three quarters and visitor arrivals exceeded 21 million, a surge of nearly 40% compared to 2003. There was a 7.4% hike in private consumption expenditure during the first three quarters, the highest rise in the past decade. Investment in machinery and equipment rose by 18% in real terms in the first three quarters. The number of overseas and mainland enterprises setting up business in Hong Kong increased continuously, registering an increase of 12.5% over 2003. The total of 3 609 firms marked a historical high.

We can see that following the attack of SARS in 2003, the community has quickly regained its confidence. Local consumption and investment activities have been picking up, reversing the sluggish domestic demand that persisted over

the past few years. This has made the current economic recovery more broad-based and sustainable, its foundation more solid.

With such a broad-based economic upturn, some of the problems that have troubled Hong Kong for a long time have been reduced or eliminated. The specifics are:

- Employment, a major public concern, has improved. The unemployment rate has dropped steadily from a peak of 8.6% in 2003 to 6.7% at the end of 2004. Total employment has reached a historical high of 3.3 million.
- Property values have rebounded significantly. The number of property transactions was the highest since Hong Kong's return to China. Cases of negative equity, which put the middle class under intense pressure, have dropped drastically from a peak of over 100 000 to about 25 000 last September.
- The upturn in the property market has led to a rebound in rents and a gradually improving consumer market. As a result, deflation, which had persisted for 68 months, finally ended in July 2004. Public revenue has increased and government expenditure has been contained, greatly easing the fiscal deficit.

Our economic growth has been achieved through the clear positioning and direction we set for Hong Kong. As enterprises have improved cost-effectiveness and enhanced competitiveness, and our economic structure has increasingly developed high value-added services, there is little chance of a bubble economy reappearing. Following the alleviation of the problems of unemployment, deflation, negative equity and fiscal deficit, people's confidence in our economic prospects has been restored. All this points to the fact that after so many years of difficult adjustment, Hong Kong has finally shaken off the economic doldrums and is now on the road to healthy development.

The long-awaited economic recovery has not come easily. We need to take careful stock of experience gained to consolidate our achievements and further promote economic restructuring and development.

The principal reason for Hong Kong's emergence from the economic doldrums is that our unique advantages have produced results. Under "one country, two systems", Hong Kong continues to be a highly liberal and diverse society under the rule of law. We have a mature market economy and world-class infrastructure, a clean government and a highly professional and dedicated civil service, a simple tax system and low taxes, good social and public order, and proximity to a vast and rapidly expanding Mainland market. Hong Kong is the only city in Asia endowed with all these advantages, which over time have transformed into a competitive edge for our local industries. We have done a great deal to consolidate our core industries by actively promoting the development and expansion of the financial services, producer services, logistics and tourism sectors:

- On financial services, with the institutional reforms of recent years, we have maintained our lead in innovation and supervision and consolidated Hong Kong's position as an international financial centre. We have successfully issued government bonds. Local banks have been allowed to operate personal Renminbi business. More Mainland enterprises have come to list in Hong Kong. As a result, Hong Kong has become the world's third largest capital-raising market. Our position as the financing centre for the Mainland has strengthened. Compared with pre-1997 levels, our stock market capitalization has increased by over 50%, while trading volume has hit a record high.
- Producer services have become the mainstay of our economy. As a proportion of Gross Domestic Product (GDP), trade services have surged from about 20% in 1980 to nearly 40% last year and account for over 70% of total external earnings. In the past five years, Hong Kong's trade volume with the Mainland grew at an average annual rate of 7.9%, of which growth in non-processing trade was a striking 13%. Offshore trade has also continued to expand. It is clear that Hong Kong still plays a vital role as a two-way platform for international trade.
- Hong Kong's position as a regional logistics hub has been strengthened. We have further opened our aviation network to allow more flights between Hong Kong and major mainland and overseas cities. The catchment area of the Hong Kong

International Airport has been extended to cover the Pearl River Delta. We are now preparing for the construction of Container Terminal 10 and pushing ahead with pre-feasibility study work. As for soft infrastructure, the Digital Trade and Transportation Network will be launched this year to facilitate the exchange of information and data with related industries. To lower land transport costs, we are striving to reduce clearance times at boundary crossings. We are planning to introduce a bill this year to provide the statutory basis to "co-locate immigration and customs facilities".

- On tourism, we will further strengthen our tourism infrastructure. We will also ask the Mainland to further extend the Individual Visit Scheme to broaden the source of visitors. Last year, there was a total of 12 million visits by mainlanders to Hong Kong, four million of which were under the Scheme. Compared to 1998, last year's visitor arrivals had doubled. Hong Kong Disneyland is on schedule for completion in September this year, ushering in a new era for our tourism development.

The second reason for economic recovery is the Government's critical assessment of the situation to determine the direction for Hong Kong's future development. I suggested as early as 1996 that Hong Kong should develop into a truly cosmopolitan city, servicing the Mainland, Asia and the world. My previous policy addresses explored and analysed time and again the causes of our particularly protracted and painful economic restructuring, and the direction and strategies we should adopt to foster restructuring. With the community gradually reaching a consensus, we finally decided that Hong Kong must leverage on the staunch support of the Mainland, engage ourselves globally and develop into a world city providing quality services.

Once consensus is reached, the direction for economic restructuring can be set. The role of the Government in respect of economic services is well defined. Our main task is to provide the necessary hard and soft infrastructure. We also strengthen our co-operation with the Mainland to capitalize on our advantages. We promote and apply new knowledge and new technology to facilitate economic restructuring. We increase investment in education, attract more talent and upgrade the quality of our manpower. The number of local organizations and enterprises engaging in research and development (R&D) is on the increase, as is the number of technical workers employed in the field and

overall R&D spending. The application of new technology has enhanced the quality of our products and services.

Another factor in our economic recovery is the undaunted spirit of the Hong Kong community. This economic restructuring has been protracted and difficult to manage. Hong Kong people, particularly the middle and working classes, have endured immense hardship and suffered many shocks. But we have witnessed people once again displaying the spirit of Hong Kong — striving to improve their lives and displaying agility, flexibility and resilience. We have always been deeply moved and filled with admiration to hear the touching stories of our fellow citizens overcoming adversity. It is this commendable spirit that inspires us to overcome obstacles ahead and bring about new economic restructuring and development.

Another important factor is the staunch support of the Central Government. During Hong Kong's difficult times, the Central Government responded positively to the many suggestions put forward by the Special Administrative Region Government. These included signing the Closer Economic Partnership Arrangement (CEPA), allowing more mainlanders to visit Hong Kong under the Individual Visit Scheme, streamlining the procedures for mainland enterprises to set up business in Hong Kong, establishing a new co-operation mechanism under the Hong Kong - Guangdong Co-operation Joint Conference, giving approval for local banks to conduct personal Renminbi business, importing mainland talent and implementing 24-hour boundary-crossing clearance. The increasing pace of modernization in the Mainland, the size of its economy and increasing market opportunities provide strong impetus to Hong Kong's economic growth.

Hong Kong's economy will reach a stage of post-recovery consolidation and growth this year. The growth rate of the global economy will moderate slightly but remain impressive overall. Macro-economic management in the Mainland will relieve conflicts in the development process and help ensure sustainable, stable and rapid growth. Driven by these favourable external factors, our economy will maintain its growth and problems such as unemployment and negative equity will be further alleviated. All this points to a promising economic outlook.

We have travelled a rough and winding road and made substantial progress. We must, however, be aware of our inadequacies. The bubble economy and superficial prosperity before Hong Kong's return to China bred a false sense of

superiority. We were not alert enough to the looming challenges of globalization and the knowledge-based economy. We did not react in time to solve the structural problems of our economy or respond promptly to the Mainland's economic advances. As a result, we needed more efforts and extra time to eliminate these impacts. Although our economy has now recovered, many problems and hidden dangers still remain. We must stay alert to the challenges that lie ahead.

Internally, the structural adjustment of our economy is progressing slowly and the task is incomplete. A mismatch of human resources and an excessively high unemployment rate still remain a major problem troubling the community. Poverty is also a problem we have to deal with seriously. Our neighbouring cities are raising their competitiveness. We must continue to strengthen our capabilities.

Externally, we are still menaced by major fluctuations in oil prices and the US Dollar exchange rates, the upward cycle of interest rates and the lingering threat of epidemic outbreaks, terrorism, cross-strait tensions and international conflicts. In the age of globalization, any sudden and unexpected incident can lead to economic fluctuations and shocks for global markets, directly impacting on our economic development. We must stay alert. Our hard-won economic achievements of the past few years bear witness to Hong Kong's unique advantages and prove that our positioning and strategies are correct. I am confident that we will continue to sustain our development as long as we proceed with unwavering determination.

Now, I would like to talk with Members about an important subject, that is, improving governance. Seven and a half years ago, we reunited with our Motherland. A colonial administration gave way to a Special Administrative Region Government, which embodies the principle of "Hong Kong people ruling Hong Kong" and enjoys a high degree of autonomy. We, finally, became our own master. Accompanying the fundamental transformation in the nature of government were significant changes in social and political behaviour, the media environment, as well as demands on, and expectations of, the Government on the part of the public at large. As our economic performance worsened, public demands understandably grew. In addition, government policies and measures to deal with the bursting of the real estate bubble and the serious fiscal deficit no doubt caused the public pain and unease. In retrospect, our mindset was inadequately prepared for the dual impacts of political change and economic downturn, nor did we have the necessary experience to respond appropriately.

First, this was reflected in our failure to establish the vision of "people-based" governance. In formulating policies, we fell short of "thinking what people think" and "addressing people's pressing needs". Second, we were not sufficiently mindful of the impact of some policies on the community's capacity to bear and the potentially controversial nature of these policies. We introduced too many reform measures too hastily, putting heavy burdens on our people. We also lacked a sense of crisis, political sensitivity as well as the necessary experience and capability to cope with political and economic changes. We were indecisive when dealing with emergencies. These shortcomings and inadequacies have undermined the credibility of our policy-making capability and our ability to govern.

After much soul searching and a review of the successes and failures of our governance, my colleagues and I have taken stock of experience gained and lessons learnt. We have taken heed of public criticisms of our governance and responded positively to the aspirations of the people. Over the past year, we have focused our efforts on improving our governance and raising the quality of our administration. Looking ahead, we will continue to move forward in the following direction.

We will fully implement "one country, two systems" and adhere strictly to the Basic Law in our governance. We will uphold freedom, implement the rule of law and safeguard the independence of the judiciary. We will staunchly preserve the core values of our society, which include continuous self-improvement, honouring agreements and contracts, fair competition, respect for personal dignity, protection of private property, charity and benevolence, filial piety and social harmony. These core values are embodied in our governance.

We will continue with our efforts to uphold the vision of "people-based" governance. We will gauge the mood of the people more accurately and listen more closely to their opinions. We will also engage more representatives of various groups to join advisory bodies. This year, we will review the functions and other aspects of District Councils and enhance our support for them. We will attach importance to how the 18 District Officers may better play their role. We will help them resolve community problems in a practical manner, referring them if necessary to higher levels for expeditious resolution. I have asked the Principal Officials to fully support the District Officers to enable them to function more effectively. We will deliver on the "people-based" service culture, pay constant attention to public aspirations and respond actively.

We will further enhance the operation of the Accountability System and demonstrate team spirit. While the Principal Officials are responsible for different policy areas, they collectively discuss important policy decisions and co-ordinate with each other in implementing policies. We will continue to reinforce the policy research capability within the Government. We will allocate, for each of the next three years, an additional \$20 million to the University Grants Committee, which will in turn task its Research Grants Council with promoting public policy research in higher education institutions. We attach great importance to engaging people from different sectors, particularly the middle class and professionals, in the formulation of public policies. We will better co-ordinate the determination of priorities for new policies. We will strengthen our communication with the media, better gauge public reaction to policies and respond promptly. We will safeguard public interests, resolve conflicts and actively enlist the support of different sectors of the community.

Hong Kong people have always attached great importance to social harmony. The saying "A family that lives in harmony will prosper" epitomizes harmony as a core value in our tradition. A stable environment is the prerequisite for social progress, economic prosperity, constitutional development and better living. This explains the strong desire of the public for social stability and their increasing loathing of the conflicts and confrontations that have surfaced in recent years. The public is well aware that social harmony is the foundation of stability and prosperity.

The Government has been working hard to implement "one country, two systems" and to promote social harmony and stability. In the face of rapid social change, we have continuously explored and experimented as follows:

- First, we insist on the principle of fairness in governance. While ensuring the efficiency of our free market and its capacity to create wealth, we also seek to properly balance the interests of different social strata and sectors. We are resolutely against "collusion between business and the Government" and will strictly enforce our monitoring systems to eliminate any "transfer of benefits".
- Second, we will spare no effort to implement "people-based" governance and take practical measures to mitigate antagonism between different strata. We will seriously address the problem of

poverty to break the cycle of inter-generational poverty. We will take good care of the disadvantaged.

- Third, we will do our best to maintain the stability of the middle class. We will create a favourable environment for their personal advancement by providing more learning opportunities, enhancing the quality of education, increasing training and retraining opportunities, as well as actively promoting economic development. We will work hard to improve governance and provide more opportunities for their participation in public affairs.
- Fourth, we will work hard to enhance Hong Kong people's understanding of our country and strengthen their sense of national identity. We will seize the opportunities brought about by the development of our country to understand the spirit and principles of the Central Government's policies towards Hong Kong. We must endeavour to avoid giving our country worries and trouble. We will help those who still have doubts about or feel antagonistic towards the Central Government to change their minds.
- Fifth, we will promote inclusiveness, unity and respect for different viewpoints. On the basis of upholding the "one country, two systems" principle and Hong Kong's prosperity and stability, we advocate rational discussion on different views to seek common ground while accommodating disagreements. We should strive for consensus despite differences, and progress in a united manner.

The Government has an undeniable responsibility to promote social harmony and stability. Our most important task is to implement "people-based" governance. All our policies are based on the community's core values and contribute to the overall interest of Hong Kong. Apart from the Government's efforts, building a harmonious and stable Hong Kong requires the active support of different sectors of the community. In the overall interests of Hong Kong, I sincerely hope that all sectors can set aside their differences, be understanding, accommodating, caring and supportive to jointly build a harmonious, united and stable Hong Kong.

The Basic Law paves the way for the development of democracy in Hong Kong. The Government will take forward democratic development in a gradual

and orderly manner, in accordance with the provisions of the Basic Law. We are following the Basic Law and the interpretation and decision made by the Standing Committee of the National People's Congress in April 2004 to consult the public in a step by step manner on the methods for selecting the Chief Executive in 2007 and for forming the Legislative Council in 2008. The Constitutional Development Task Force headed by the Chief Secretary for Administration published its Fourth Report in mid-December last year and will listen to the views of different sectors. We firmly believe that as long as we can maintain prosperity, stability and social harmony, our democratic constitutional system can develop at a faster pace. The ultimate aim of universal suffrage as set out in the Basic Law can be achieved at an early date.

Honourable Members, when the current term of this Council began its work last October, I shared with Members the Government's determination to adopt a new approach to governance and to follow public opinion even more closely. While preparing for this address, I also heard many views from different sectors of the community. In summary, the public is most concerned about 11 issues. The following is the Government's response.

I am fully aware that employment continues to be the focus of public concern. As the economy picks up, we expect a further drop in the unemployment rate this year. However, as a result of globalization, structural unemployment has been caused by a serious mismatch of human resources. At present, the average unemployment rate for jobs requiring high academic qualifications and skill levels stands at 2.5% to 3%, basically representing full employment. Logistics management, purchasing, information technology and financial services sectors are experiencing an increasingly tight manpower situation and salaries are beginning to rise. On the other hand, low-skilled jobs are in short supply, with the related unemployment rate still standing at 7.5% on average. A manpower projection study conducted in 2003 estimated that by 2007 our workforce would face a shortage of over 100 000 well-educated persons but a possible excess of 230 000 workers with relatively low educational attainment. In anticipation of changes in the job market, we vigorously encourage both job seekers and employees to upgrade themselves by learning. Our educational institutions are offering additional associate degree programmes and diploma courses. The Vocational Training Council and the Employees Retraining Board will continue to improve and modify their courses to meet the demands of the employment market. Through the implementation of the Youth Pre-employment Training Programme, the Youth Work and Experience Training

Scheme and other initiatives, we will continue to provide training for young people to help them enter the job market and develop their potential.

At present, more than 200 000 people in our community are still unemployed. We must face up to this problem. The prime consideration of our governance is to promote employment. Our first task is to promote economic growth. Taking tourism as an example, the construction works for Hong Kong Disneyland are now in full swing, and provide some 11 000 jobs. Upon its opening in September, the theme park and the associated hotel, catering and retail businesses will employ 18 000 people. We understand that 36 new hotels will be completed between now and 2008. Their construction will employ more than 10 000 workers. Upon their opening, about 8 000 service-related jobs will be created. The development of tourism will also result in more jobs in the retail and catering sectors. The two airlines in Hong Kong will increase their fleets and employ an additional 3 000 people over the next two years.

We will carry on with our average annual allocation of \$29 billion for capital works, providing employment for about 4 200 professionals and technicians and some 41 000 construction workers per year. Meanwhile, the Government will implement projects for which employment is one of our considerations. These are municipal projects in various districts, promotion of urban renewal and redevelopment, greening initiatives, decking of nullahs and promotion of the environmental industry. I will provide further details. In addition, we will extend about 10 000 temporary contract jobs in the public sector to meet operational needs.

Members may recall the measure I announced on Labour Day in 2003: for government service contracts that rely heavily on low-skilled workers, tenderers must offer non-skilled workers wages that are not lower than average market rates. This requirement represents a step forward for protecting wages for workers at the basic operating level. The Government does not tolerate, and will crack down heavily on, those employers who use improper ways to undermine this protection.

The SAR Government attaches importance to protecting our citizens' right to employment. We will step up publicity and law enforcement to resolutely clamp down on illegal workers. The number of joint operations staged by law enforcement agencies in 2004 went up by 30% over 2003. More than 5 000

suspected illegal workers and over 1 300 employers suspected of employing illegal workers were arrested. More than 200 of these employers were sentenced to immediate imprisonment on conviction, more than double the number in 2003. We will continue strict law enforcement. We will also study ways to strengthen measures to eliminate illegal workers in the construction, renovation and associated trades.

Persistently high unemployment has led to intensified competition for jobs, driving down wages and lengthening working hours for some workers. Members have therefore debated the issues of "maximum working hours" and "minimum wage" on several occasions. Public views are also divided. We have to build a consensus through objective analysis and rational discussion. We also have to fully evaluate whether implementing various measures will bring real benefits to workers, and not the opposite effect. The Government will keep an open mind and listen to views from various sectors in the community. The Labour Advisory Board, as the recognized and proven tripartite consultative mechanism for labour matters, has already commenced discussion on the issues and will study them in detail.

Next, I would talk about the issue of helping the poor. Several Members as well as the community at large have expressed deep concern about the problem of poverty. As a result of globalization, some types of jobs have relocated elsewhere. Unemployment has persistently remained at a high level. For some low-income families, their circumstances have worsened over the past few years. They require the community's care and assistance.

Our policy vision is to first promote economic growth and create employment opportunities. Then, through education and training, we seek to provide individuals with the opportunity to give full play to their potential, enhance themselves and free themselves from poverty. The Government also allocates resources for public housing, health care, education and welfare (including the Comprehensive Social Security Assistance (CSSA) Scheme) to weave a reliable social safety net to provide basic protection for those in need. However, due to ongoing rapid economic restructuring and new circumstances, we will take steps to provide more direct assistance and support for those in need.

In the transition to a knowledge-based economy, an important policy objective of the Government is to endeavour to reduce inter-generational poverty.

We will focus on providing more assistance for the younger generation of needy families, to give these children and young people ample opportunities to receive education and comprehensive development as they grow up, so as to enable them to face the future with confidence.

For children under five in poor families, we will launch a Head Start Programme on Child Development in the four local communities of Tin Shui Wai, Tuen Mun, Sham Shui Po and Tseung Kwan O on a trial and phased basis. Five Maternal and Child Health Centres in the four communities will co-operate with nearby nurseries, kindergartens and other related institutions. Using additional resources allocated by the Government and through staff training, a new mode of operation will be established to provide needy parents with health and educational activities and counselling services.

Sorry, our teleprompter has run out of order. *(Laughter)*

PRESIDENT (in Cantonese): Honourable Members

CHIEF EXECUTIVE (in Cantonese): Please let me continue.

PRESIDENT (in Cantonese): Very well.

CHIEF EXECUTIVE (in Cantonese): That reminded me of the old days at home. I was watching television and the image was gone all of a sudden. *(Laughter)*

I will start again.

Using additional resources allocated by the Government and through staff training, a new mode of operation will be established to provide needy parents with health and educational activities and counselling services..... and now we have the image back. *(Laughter)*

PRESIDENT (in Cantonese): Chief Executive, please continue.

CHIEF EXECUTIVE (in Cantonese): Is there a shortage of funding for the Legislative Council? *(Laughter)*

PRESIDENT (in Cantonese): Chief Executive, we would be very grateful if you could give this issue some consideration. *(Laughter)*

CHIEF EXECUTIVE (in Cantonese): A new mode of operation will be established to provide needy parents with health and educational activities and counselling services. In the second year of this pilot programme, we will, on the basis of experience gained, extend it in phases to other communities in Hong Kong.

For children between six and 15, we will not only ensure that they all go to school but also allocate more resources in the coming financial year to schools and youth organizations. This will enable them to strengthen support services and co-operation at the local level to organize suitable after-school learning and interest activities in such areas as languages, computing, music and arts. This will provide the children with more learning opportunities to acquire knowledge of the community, improve interpersonal skills and develop a positive outlook on life.

For those from poor families aged between 15 and 24, apart from university education, the Vocational Training Council and associate degree programmes of various institutions will provide opportunities for learning and advancement. Project Yi Jin gives young people an additional avenue for continuing education. The Government will provide various forms of grants and assistance and consider other areas of improvement to ensure that no young person will be deprived of education for lack of financial means. At present, all secondary schools have school-based social workers who can assist the children of poor families. We will encourage non-government organizations in local communities to enlist more caring people from various sectors to serve as mentors to encourage young people to learn and advance. We will also draw on the successful experience of the Community Investment and Inclusion Fund to continue to promote community involvement in assisting young people from poor families.

Honourable Members, we are deeply concerned about incidents of domestic violence. I must stress that we absolutely do not tolerate such acts. The Government will provide additional resources to strengthen relevant services and staff training. We will also set up district liaison groups to enable full inter-departmental co-ordination and work with non-government organizations to tackle family crises and problems.

On services for the elderly, we will deploy \$180 million to gradually convert some residential care places into long-term care places to provide continuum of care up to nursing level for the frail elderly. The conversion programme is estimated to provide over 3 000 long-term care places eventually. At the same time, we will progressively provide infirmary care places in a non-hospital setting for frail elderly people in stable conditions. We understand the demand of elderly people for Chinese medicine services. The Hospital Authority will progressively increase the number of Chinese medicine clinics. The initial step will be to increase the present three to no fewer than six. We will continue to promote these services later.

To enable more elderly people with special needs to choose to retire in the Mainland, we have, after discussions with relevant mainland authorities, decided to relax the eligibility criteria for the Portable Comprehensive Social Security Assistance Scheme. The relaxation will allow those who have received CSSA for no less than one year to join the Scheme (the present requirement is no less than three years). It will also extend the Scheme's coverage to include Guangdong and Fujian Provinces. As for the permitted period of absence from Hong Kong under the Social Security Allowance Scheme (including Old Age Allowance and Disability Allowance), we have decided to extend it from the current 180 days to 240 days.

We always care about the situation of people with disabilities. The plight of TANG Siu-pun (Ah Pun) attracted considerable public attention last year. Ah Pun, encouraged by concerns expressed by all sectors of the community, has demonstrated a resolve that deserves our respect. I am heartened to learn that last Christmas was his happiest in the past 12 years and wish to extend to him again my warmest regards. We will provide severely disabled people with the necessary information technology equipment and support facilities. For those on CSSA, who are completely disabled, or requiring constant attendance and not living in institutions, we will provide, in addition to their existing cash allowance, another monthly supplement of \$100.

Dealing with poverty in a restructuring economy involves many policy areas. I have therefore decided to establish a commission to alleviate poverty, which will be chaired by the Financial Secretary and comprise government officials, Legislative Council Members, business people, non-government organizations, experts and academics. Its task will be to study, from a macro perspective, how to help the poor in terms of financial, employment, education and training needs. It will also explore practical ways to assist those who suffer from poverty due to old age, disability or single-parent family, particularly those in low-income employment.

We have set up a \$200 million Partnership Fund for the Disadvantaged to promote the development of a tripartite partnership among the Government, the business community and the welfare sector to help the disadvantaged. The Government will provide matching grants to donations made by business organizations to support non-government organizations promoting social welfare projects. I earnestly hope that through enhanced co-operation the three parties concerned will strengthen social cohesion.

Social workers have made many contributions to foster a harmonious community in Hong Kong. Faced with economic restructuring and drastic changes in the social environment, the social work sector has been doing a remarkable job under enormous pressure. The Government and the social work sector share the same goal to alleviate poverty and provide other welfare services. For the next financial year, the total resources allocated for social welfare, including non-CSSA related expenditure, will be increased. The Secretary for Health, Welfare and Food will strengthen communication with the social welfare sector to enhance mutual trust, and work out an appropriate arrangement to determine the size of the Government's welfare subsidy. We seek to consolidate our partnership with the sector to work towards social harmony and healthy development.

Thirdly, environmental protection. Hong Kong people are increasingly concerned about environmental protection. Building a quality living environment has become the key to attracting talent from all over the world and realizing sustainable development. Over the past few years, we have made good progress in reducing the pollution caused by motor vehicles and implementing effective measures to treat urban sewage. On the treatment of solid waste, the Government has legislated to require those disposing of construction waste to meet the cost of disposal, marking an important first step in

implementing the "polluter pays" principle. We will also strengthen various reuse and recycling measures to effectively contain the rate of increase in solid waste.

We will formulate a policy to provide concessions to assist the development of the environmental industry. At present, high-technology, capital-intensive and land-demanding recycling operations can already be conducted in our industrial estates. We plan to build a Recovery Park in Tuen Mun for exclusive use by recycling industries. The first phase of the Recovery Park will be commissioned in late 2006. Government departments will adopt a green procurement policy to help create a market for environmentally-friendly products. We will also make it a policy to implement mandatory product responsibility schemes to ensure the recovery and recycling of the products concerned. In the long term, we need to consider the enactment of legislation on recycling to build a circular economy.

To control air pollution, the Government will impose caps on the total emissions of the power companies. We will also make it a policy to require them to maximize the use of natural gas in power generation and develop renewable energy. At the regional level, we will further strengthen co-operation with Guangdong Province to implement various emission reduction schemes and pollution control measures. Our specific target is for both sides to reduce by 2010 the emissions of four major pollutants to prescribed standards. Hong Kong and Guangdong authorities have strengthened liaison and carried out emission reduction measures. We are confident of achieving the target on schedule.

Water is an important and irreplaceable resource. We will therefore implement a Total Water Management policy. The Government has started to conduct research using the latest technologies to desalinate sea water and reuse domestic effluent, with a view to increasing local water resources as a long-term goal. We will extensively promote water conservation within the community. Heavy users of water will continue to pay higher charges.

In respect of urban sewage treatment, we should adhere to the "user pays" principle. The Harbour Area Treatment Scheme Stage 1 has clearly proved effective. Stage 2 of the Scheme will proceed in phases shortly with a view to treating 2.8 million tonnes of sewage from both sides of the Victoria Harbour in

2013. With the implementation of Stage 2, our harbour ecology is expected to gradually improve, bringing back a good harbour environment.

To improve the urban environment, we have set up an inter-departmental Greening Master Plan Committee. It has taken up overall planning on the greening of commercial districts such as Central and Tsim Sha Tsui. The plans for these two districts will be implemented in phases from the middle of this year for completion next year. In parallel, we will also start planning for other districts.

Some nullahs in urban areas have long been a source of nuisance to nearby residents. After an initial study, the Government has identified 16 sections of nullahs that can be improved and formulated a long-term plan to deck over them in phases. Of the 16 projects, eight will be completed in three years, four in six years and the remaining four in 10 years.

The Dragon's Back Trail has recently been named "Asia's Best". We will continue to protect our 44 000 hectares of country and marine parks to maintain Hong Kong's natural habitats for the enjoyment of all. We will conserve valuable ecological resources on private land through the voluntary participation of land owners in management and partnership programmes to achieve a "win-win" situation for the community and the land owners.

Fourthly, education. In our transition to a knowledge-based economy, we will insist on substantial investment in education. After incessant efforts by the education sector, our reforms of primary and secondary education have started to produce results. Our education system has become more flexible and diversified. Students are learning more happily and effectively. Our teachers have enhanced their quality and professionalism. In international studies, our students have done exceptionally well and earned favourable comments, indicating that our reforms are achieving results. In the recently released Trends in Mathematics and Science Study 2003, Hong Kong students ranked high in both mathematics and science, with an increasing proportion of "elite" performers. In the Programme for International Student Assessment 2003, our students remained first in mathematics, came second in problem solving and were at the forefront in science and reading.

On tertiary education, with concerted efforts of all staff, our universities have sustained budget cuts and raised the quality of education in recent years.

Many of our universities enjoy a good reputation internationally. In view of the serious mismatch of human resources, I set in the 2000 policy address the target of providing, within 10 years, 60% of our senior secondary school leavers the opportunity to receive tertiary education. The overall participation rate of the relevant age group in tertiary education has increased from 30% in 2000 to 53% today, and we hope to achieve the target ahead of schedule. From 2005 to 2007, the Government will begin to increase second- and third-year places in local universities to provide further opportunities for learning for those who have completed their associate degree programmes. We will continue to promote lifelong learning to upgrade the competitiveness of our workforce. We will also encourage more students from overseas and the Mainland to come to Hong Kong to study, thereby adding a greater international dimension to our tertiary education.

Last year we consulted the public on the "3+ 3+ 4" academic structure reform proposal. The initial response has been positive. This is an important issue relating to the development of local talent. We will actively take it forward.

Hong Kong has a dedicated and zealous teaching force which has toiled without complaint for the benefit of students and contributed enormously to the promotion of education reforms. With effect from the next school year, we will allocate additional resources to enable our teachers to continue learning and to participate in professional development activities. We will let primary schools implement specialized teaching and enable secondary schools to prepare for the introduction of the new academic structure of senior secondary schools. In view of the practical needs for developing education, we believe there will not be a serious surplus of teachers from now on.

As for the issue of small-class teaching, the Education and Manpower Bureau last September embarked on a three-year study, involving the participation of 37 schools, to investigate the best teaching strategies and the necessary support measures for a small-class environment locally. We believe small-class teaching is a positive development, and we will promote it on the basis of results from the trial and research.

Fifthly, municipal projects. People are concerned about the planned capital works projects left by the two former Municipal Councils. Members of

District Councils and this Council have also raised this issue with me. The Government has reviewed these projects individually. Having considered the distribution of leisure and cultural facilities, as well as the needs of various districts due to increasing population, we have initially identified 25 projects for priority treatment. The cost will total \$4.4 billion and works will start gradually over the next few years. These projects, including a public library-cum-recreation centre in Tin Shui Wai and a swimming pool complex in the new town of Tung Chung, will create several thousand jobs.

Sixthly, business environment. The business community has raised with me the need for continuous improvements to our business environment, primarily through streamlining regulatory regimes and simplifying licensing procedures. The Subgroup on Business Facilitation, under the Economic and Employment Council, is now studying ways to remove outdated or unnecessary regulations. As the construction/real estate and retail sectors have a significant bearing on our job market, the Council has initially identified these two sectors for regulatory review. The review in relation to the construction/real estate sector will explore ways to simplify lease conditions for land grants, improve the lease modification mechanism, streamline town planning processes, rationalize the regulatory regime and shorten planning cycles for development projects. The review in relation to the retail industry will focus on catering, supermarkets, convenience stores, cosmetics and pharmaceutical trades. The Council will also conduct regulatory reviews on the Places of Public Entertainment Licences (including the licensing system for cinemas). Relevant government departments will support these reviews by studying improvement measures for implementation this year.

Seventhly, fair competition law. Some Members have proposed making a law on fair competition. Hong Kong has long been recognized as the freest and most open economic entity. We will endeavour to promote fair competition and adopt appropriate measures according to the circumstances. These range from the use of licensing conditions, contractual provisions, codes of practice and administrative measures to legislation for individual sectors. For example, we introduced competition for the telecommunications industry in 1998 and successfully promoted its development. Recently, we have been monitoring the situation in the local fuel supply market and will take suitable measures according to actual circumstances. If there are other similar problems, we will deal with them seriously on a case-by-case basis.

Eighthly, goods and services tax. Members are concerned about our fiscal deficit and have suggested various measures to cut expenditure and raise revenue. In fact, the Government has been reducing the deficit according to set targets and is determined to, and confident of, restoring fiscal balance by 2008-2009. Some Members have suggested the introduction of a goods and services tax as a feasible option to broaden the tax base. We are examining this proposal. In any event, our economy is still at the early stage of post-recovery consolidation. Overseas experience suggests that this is not the appropriate time to introduce a goods and services tax. Therefore, the Government will definitely not implement such a tax in the next two and a half years.

Ninthly, health care financing. Members and the health care sector are concerned about whether our public health care system is financially sustainable in the long term. We are now reforming the advisory framework for health care services to facilitate the tendering of advice on our long-term health care policies and financial viability. We also need to further explore ways to enhance our health care system and improve the interface between the public and private health care sectors. Maintaining quality public health care services involving the allocation of community resources and public well-being is a major issue. We will undertake studies within the next two and a half years to help lay the foundation for the formulation of long-term strategies.

At present, our health care policies aim to protect the public with equal emphasis on disease prevention and treatment. However, there is a genuine need to enhance community-based health services and health education, including the promotion of family medicine on a wider scale and the provision of appropriate support and assistance.

Tenthly, population policy. Hong Kong will face many problems with its population structure. The Task Force on Population Policy headed by the Chief Secretary for Administration has put forward more than 30 policy recommendations. Bureaux and departments are co-ordinating with each other to follow up the recommendations. They will continue to study the impact of demographic trends on our social policies and public services in the future and the necessary measures to be taken in response. With a low fertility rate, Hong Kong's population is ageing rapidly. We estimate that, by 2033, people aged 65 or above will account for more than a quarter of our population. Elderly people are rich in experience and wisdom. They can play their part and make indispensable contributions to the community. On the other hand, we need to

make early plans on the financing of elderly care. The Central Policy Unit will support the Task Force by conducting research so as to lay the groundwork for dealing with our ageing population.

Lastly, the West Kowloon Cultural District. In the 1999 policy address, I referred to a plan to develop West Kowloon Reclamation into a district of culture, entertainment and art. This is a major and forward-looking plan. We are now consulting the public on the proposal and many people have participated actively in this exercise. I wish to emphasize that the Government keeps an open mind when listening to views. We will definitely pay heed to public opinion and the overall and long-term interests of Hong Kong when taking a decision after the completion of the consultation exercise.

This is my account of the policy direction taken by the Government on the major issues of concern to everyone. We will continue to listen to public views in an open and sincere manner and respond according to our policy vision and determination of priorities.

As a sum-up, I wish to say that, following economic revival, our principal mission is to further consolidate our achievements and accelerate economic restructuring. In the next two and a half years, promoting development will continue to be the Government's focus. The problems we face, whether they be eliminating the fiscal deficit, increasing employment or improving people's livelihood, must be dealt with properly on the basis of economic and social development. Only then can we meet public expectations. Therefore, regardless of differences in society, we must not forget that our common mission is to promote economic development and to maintain prosperity and stability.

Thus, we must continue to work towards building Hong Kong as Asia's world city. While reinforcing our traditional strengths, we need to make full use of the scope for development under "one country, two systems" and identify new strengths. We will introduce measures to promote development and create new areas of growth to bring more benefits to the community. Specific measures are as follows.

First of all, we will continue to strengthen the four core industries. For the financial services sector, we will seize the opportunities brought by accelerated liberalization and development of the mainland economy to enhance Hong Kong's role as an international financial centre. In particular, we will tap

into the huge potential of Renminbi business, bond markets and asset management services. At the same time, we will continue to improve the quality and stability of our financial markets, enhance the regulation of listing and reinforce corporate governance. In terms of producer services, the Mainland's external trade exceeded US\$1,000 billion last year, the fourth highest total in the world. Leveraging on the Mainland market, our producer services sector will have greater opportunities for expansion. To promote the upgrading of our producer services, the Government encourages wider application of technology and innovation, and strengthening design, research and development and brand-building activities. On the logistics front, the Government will liaise closely with the trade to formulate measures to enhance the competitiveness of the aviation and container freight industries. With the continuous growth of tourism in the Mainland and worldwide, we expect the number of visitors to Hong Kong to reach 35 million by 2010. As Asia's prime tourist destination, we will take active measures to consolidate existing advantages and further develop our potential. This will in turn create more job opportunities for the middle and lower strata.

According to the latest visitor survey conducted by the Hong Kong Tourism Board, shopping is the main purpose of nearly 90% of our visitors. Hong Kong has always been a shopping paradise for visitors because we carry a wide range of genuine and trendy goods at fair prices and we provide quality service. The Luxury Conference held in Hong Kong at the end of last year further reinforced Hong Kong's status in the international fashion and luxury goods markets. A superior business reputation and rigorous quality management are competitive advantages we have worked long and hard to achieve. This year, we will adopt a multi-pronged approach to consolidate our advantages. We will do our best to protect intellectual property rights and to eliminate counterfeit goods. We will continue to promote "No Fakes" stickers to increase the confidence of those shopping in Hong Kong. At the same time, we will strive to expand consumer protection for visitors by rendering full support to the Travel Industry Council of Hong Kong to implement a penalty mechanism against non-compliance with the "100 per cent refund guarantee scheme". We will facilitate the extension of the Quality Tourism Services Scheme by the Hong Kong Tourism Board to cover more tourism-related trades. To improve the shopping environment, we plan to provide additional pedestrianised streets with upgraded support facilities in two major shopping and entertainment districts, Causeway Bay and Tsim Sha Tsui, with a view to making Hong Kong even more attractive as a shopping paradise.

Introduced only a year ago, CEPA has helped foster economic growth in Hong Kong. Over 660 Hong Kong-registered enterprises have been issued with Certificates of Hong Kong Service Supplier. Under CEPA, these enterprises are able to enter the Mainland market much earlier and enjoy preferential treatment. Some enterprises in sectors such as banking, distribution, transport and logistics have already set up business in the Mainland. And professional services are beginning to develop market opportunities. Implementation of the Individual Visit Scheme quickly boosted the retail sector and the overall consumer market. Since last August, the application procedures for state-owned and private enterprises in the Mainland to set up business in Hong Kong have been greatly streamlined. This has speeded up the pace of mainland enterprises investing in Hong Kong and fostered growth for both places. By the end of 2004, products with a total value of \$1.145 billion had been manufactured in Hong Kong and imported into the Mainland tariff free.

We understand that, with the implementation of CEPA in mainland provinces and cities, some areas require specific supporting measures. Some of our services sectors still face relatively high thresholds. We will continue to follow up these issues with the Central Authorities.

We have started to consult the industries concerned on the contents of CEPA III, to be implemented next year, and will begin discussions with the Central Authorities.

The implementation of CEPA has brought immediate benefits to our economy. This is plain for all to see. The experience of other regions in formulating free trade arrangements shows that it takes time for the newly generated economic activities to produce visible results. Therefore, we expect the economic benefits of CEPA to become even more evident over time.

In addition to implementing and furthering CEPA, the Government will continue to promote co-operation between Hong Kong and Guangdong. We will actively participate in the development of the Pan-Pearl River Delta (Pan-PRD) and foster bilateral co-operation with other Mainland provinces and cities.

Through concerted efforts, Hong Kong and Guangdong have entered a new stage of co-operation. The scope of co-operation has expanded beyond trade and boundary-crossing facilities to many areas, including logistics, tourism,

regional planning, technology, intellectual property rights, education, transportation, environmental protection, health, culture and sports. Of particular significance is the Hong Kong - Zhuhai - Macao Bridge, the biggest cross-boundary infrastructural project since the return of Hong Kong to China. It has undergone a feasibility study and we will soon proceed to the next stage of work after the official establishment of the project by the State Council. Construction of the Hong Kong section of the Hong Kong-Shenzhen Western Corridor will be completed by the end of 2005 as scheduled. We will continue to plan and build cross-boundary infrastructure. We will expand the scope of co-operation within the PRD for mutual prosperity. Both sides will actively work for the expansion of the co-operative hinterland from the PRD area to the north, east and west of Guangdong. On the solid foundation of co-operation between Guangdong and Hong Kong, we will work together to promote regional co-operation in the Pan-PRD.

The formal launching of Pan-PRD co-operation last June opened up long-term prospects for Hong Kong. This vast area with a population of 450 million will gradually develop into a market characterized by the free flow of economic fundamentals, similar to the booming Greater PRD, only much larger. As an integral part of the Pan-PRD, Hong Kong will be able to deploy its advantages as an international trading, financial, logistics and information centre. By expanding the scope and coverage of our services sector, we can lead this vast hinterland to the global market. It will in turn provide Hong Kong with an enormous internal market for our goods and services. Hong Kong, in co-operation with other provinces in the region, will work towards perfecting the transport links within the Pan-PRD and strive to create a fair and orderly market environment that offers abundant opportunities for our investors and services sector.

An indicator of the development of Hong Kong as Asia's world city is that, apart from multinational companies setting up regional headquarters here, mainland enterprises also use Hong Kong as their base and service centre. There are currently about 3 million state-owned and collectively owned enterprises in the Mainland. The number of private enterprises is roughly the same and increasing by over 20% annually. Many of these enterprises are now capable of investing outside the Mainland. The "going global" development strategy and measures formulated by the Central Authorities are being gradually put into effect. Recently, the Mainland has further relaxed restrictions to encourage and support mainland enterprises under all forms of ownership to set

up business in Hong Kong and Macao. Approval procedures have also been streamlined, part of the approving authority has been devolved and the processing of applications has been speeded up.

Hong Kong should seize the opportunities arising from the "going global" strategy for mainland enterprises. To attract more mainland enterprises to Hong Kong, we will help them raise capital, establish international trading networks and gain quick access to the international market. As at mid-2004, the number of mainland enterprises with regional headquarters in Hong Kong was 20% higher than in the previous year. Hong Kong has its unique advantages, but its operating costs are also higher. We will do our best to attract more mainland enterprises, large and small, to come to Hong Kong.

Hong Kong has for some time transformed itself from a manufacturing-based economy to a services-oriented one. In the long term, the trend towards globalization will grow. Advances in information technology will bring about profound changes in different facets of community life. Contracting out or relocation of low technology and low knowledge content production processes will become even more common. More economic resources will converge on high value-added areas. To maintain and enhance our living standards, Hong Kong must move towards higher value-added outputs. Only by increasing the knowledge content of our economy and continuing to innovate can we maintain our advantages and sustain development.

Cultural and creative industries will become a significant direction of development for us. Overseas experience shows that during economic restructuring, cultural and creative industries can propel the economy to a new level. In the United Kingdom, for example, this economic sector achieved average annual growth of 8% from 1997 to 2001, far exceeding the overall economic growth rate, after its government adopted a policy to promote creative industries. In the same period, the number of people employed by creative industries grew by an average annual rate of 3%, compared with the overall figure of 1%. While developing creative industries will require creative talent, it will also create employment opportunities for people with various technical skills, particularly as avenues for creative young people to prove their worth.

In the Asia-Pacific Region, with over 2 billion people, Hong Kong is well positioned to develop cultural and creative industries: we have a highly open and free society, where information, capital, talent and goods can move freely. We have the rule of law, providing effective protection for intellectual property.

We are a pluralistic and inclusive society, a confluence of Eastern and Western cultures, and a cultural cradle for overseas Chinese. We have a rich variety of cultural activities and lifestyles conducive to inspiring creativity. We stand to benefit from the many opportunities now arising in the Mainland following its own promotion of cultural industries in recent years. We have people who have always been good at learning, skilful at adaptation and strong on creating things. Yet, there are apparent limiting factors in some key areas, such as cultivating creative talent, fostering creativity, commercializing creative ideas and financing the establishment of creative industries, which have held back the full development of cultural and creative industries in Hong Kong. At present, cultural and creative industries account for only about 4% of our GDP, compared with 8% in the United Kingdom. Obviously, there is still scope for growth.

In my two previous policy addresses, I mentioned the need to promote the development of creative industries, that is, industries in which creativity is the principal means for adding value. Creative industries in Hong Kong encompass 11 categories: design, architecture, advertising, publishing, music, film, computer software, digital entertainment, performing arts, broadcasting, and antiques and art dealing. Some fall under our core industries, such as tourism. Creative industries can be extended to cover areas such as community building and the creation of an urban image. In this new competitive era of globalization, adding value to products and services through design, packaging, image building and advertising serves to consolidate and realize the intangible values of culture. For this reason, I consider that the term "cultural and creative industries" should replace "creative industries". This new term is a clearer expression of our direction.

To promote new development in this area, we have adopted some policy measures and gained some experience over the past two years. For example, we have set up a Digital Media Centre and the Cyberport iResource Centre and we will establish an incubator to facilitate creation of television games. We have not only set up a Design Centre, but also launched a \$250 million DesignSmart Initiative to develop a service centre that will provide a focal point for high value-added design activities. We have secured access to the mainland market for our film industry under CEPA and will strengthen the function and application of existing funds supporting the film industry. We have also helped organize a number of activities to promote local films. In March this year, we will premiere a world-class event, Entertainment Expo Hong Kong. This new

mega-event will combine the Hong Kong International Film Festival, the Hong Kong International Film and TV Market, the Hong Kong Film Awards Presentation Ceremony and the Digital Entertainment Leadership Forum.

Our aim is to consolidate our core industries, foster a favourable social environment to nurture and attract versatile people with multi-skills, promote the development of cultural and creative industries, facilitate the transition to a knowledge-based economy, sustain prosperity and enhance our quality of life.

Enhancing appreciation of culture is not only a target to be pursued by Hong Kong people, it is also a pre-condition for developing our cultural and creative industries. We endorse the Culture and Heritage Commission's earlier recommendation on the cultural positioning of Hong Kong and the principles and strategies for cultural development. These include people-oriented development, respect for freedom of expression, protection of intellectual property, a community-driven approach supported by government, and holistic development. We can make good use of our advantage as a confluence of Eastern and Western cultures and leverage on our connections with the Mainland to create an environment conducive to the vibrant development of culture and arts. Various measures recommended by the Commission are being implemented. We will explore new ways of putting facilities such as libraries and museums to even greater effect.

One of our important tasks is to step up the promotion of cultural and creative industries. We will establish, as soon as possible, a consultative framework for cultural and creative industries, so that relevant representatives from these industries including outstanding personalities from outside Hong Kong can participate. We will work together to study the vision for development, direction, and organizational structure to see how we may deploy our advantages, consolidate resources and pursue key areas. An example is our film industry. It possesses advantages and enjoys huge market potential. But it now faces some problems. We need to devise appropriate measures to promote its further development.

Another important aspect is urban renewal. Everyone has a stake in using cultural and creative industries to spearhead economic restructuring. Successful overseas experience underscores the importance of rejuvenating old districts in cities to create a cultural atmosphere, thereby attracting talent, fostering cultural and creative industries and developing local community

economy. The city itself becomes a brand. Renewing old districts and rehabilitating old buildings can be a major force for economic growth. It will also increase employment for the construction and related industries.

In view of Hong Kong's growing problem of urban decay and building dilapidation, urban renewal has become a matter of great urgency. The Urban Renewal Authority has played a vital role in Hong Kong's urban renewal process. It works through a holistic 4"R" Strategy comprising "redevelopment", "rehabilitation", "revitalization" and "preservation". The Authority is a public body charged with a mission to improve the living conditions of the residents and promote social and economic development. Fully endorsing the importance of the work of the Authority, bureaux and departments will continue to work hand in hand with the Authority, in order to speed up urban renewal and building maintenance. In carrying out its work, I believe the Authority will co-operate closely with various stakeholders, including the District Councils, professionals in urban design and town planning, district organizations and developers. I also believe that urban renewal will seek to strengthen the cultural characteristics of the districts, reinforce residents' sense of belonging and meet public expectations as far as possible.

We will also speed up the maintenance of old buildings. In this regard, we are pleased to have the support of the Hong Kong Housing Society in introducing a "one-stop" Assisted Building Management and Maintenance Scheme. The Housing Society will set aside \$3 billion for the implementation of the Scheme for the next 10 years. On the strength of its experience and expertise in proper upkeep of buildings, the Housing Society will provide technical advice, incentives and interest-free loans to help owners improve their living conditions through proper management and maintenance of their buildings. This Scheme will complement the Urban Renewal Authority's building rehabilitation efforts. About 800 buildings will benefit from this Scheme annually. We are working out the details with the Housing Society with a view to announcing the implementation arrangements shortly.

In view of the upgrading in building conditions and property value of old buildings which have been rehabilitated with the assistance of the Urban Renewal Authority, the Hong Kong Mortgage Corporation Limited announced earlier the extension of its Mortgage Insurance Programme to well-maintained old buildings so that potential buyers of these buildings can secure a higher loan-to-value ratio, a longer repayment period and more favourable mortgage terms. This market

force will be an incentive for owners to ensure proper maintenance of their buildings.

Enhancing the distinctive characteristics of our districts will be conducive to the development of local community economy. Our efforts over the past years to promote local community economy have achieved significant results. The Tsuen Wan Jewellery and Goldsmith Square, the computer shopping centres in Sham Shui Po and the positioning of Sai Kung as the "Leisure Garden of Hong Kong" are successful examples that have brought economic benefits and vitality to their communities. But there have been cases, such as the Sheung Wan Gala Point, where we have not achieved our objectives. We will draw on the experience gained when taking forward other projects to promote local community economy. For instance, we will adopt pragmatic measures to make the Wong Tai Sin Bazaar a success.

Social progress depends on the presence of talent. We have been investing heavily in education to nurture local talent and to give everyone the opportunity to pursue excellence. At the same time, like other world cities, Hong Kong must attract talent from around the world. In a knowledge-based economy, knowledge is more important than capital. Capital follows talent. The larger the pool of talent, the easier it is for a place to attract investment, thereby promoting economic development and increasing employment. Major cities in the Mainland and elsewhere are doing their utmost to attract talented people. We must do the same. We are therefore working on a strategy to attract talented people from the Mainland and overseas to develop their careers in Hong Kong. We will take forward this plan this year.

Promoting the development of cultural and creative industries, accelerating urban renewal and implementing a strategy to attract talent are three related tasks for our transition to a knowledge-based economy. The whole community has to explore and promote them together in order to reach the targets. It will no doubt take time to reach our targets, but we should start early and make steady progress.

Honourable Members, Hong Kong has undergone a painful process of adjustment, exploration and adaptation. Now that the broad direction for developing our economy, constitution and governance is clear, we need to unite to safeguard stability and harmony. Let us join hands to build a better future for Hong Kong and to contribute to the bright future of our country.

Hong Kong encountered difficulties after its return to China. Our country's prosperity has energized our future, reinforced our position as Asia's world city and provided us with the opportunity to rebuild a sense of pride. With a growing sense of national identity, Hong Kong people will be able to play a positive role in, and make new contributions to, the peaceful rise and revival of our great nation. The people of Asia's world city will be more affluent, united and eager to embrace an even better future. Thank you.

PRESIDENT (in Cantonese): The Chief Executive will now leave the Chamber. Will Members please stand.

NEXT MEETING

PRESIDENT (in Cantonese): I now adjourn the Council until 3.00 pm tomorrow.

Adjourned accordingly at nine minutes past Four o'clock.