

OFFICIAL RECORD OF PROCEEDINGS

Wednesday, 22 February 2006

The Council met at Eleven 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, S.B.S., 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, S.B.S., 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.M., 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, J.P.

THE HONOURABLE ANDREW CHENG KAR-FOO

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, G.B.S., 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 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

MEMBERS ABSENT:

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

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

PUBLIC OFFICERS ATTENDING:

THE HONOURABLE RAFAEL HUI SI-YAN, G.B.S., J.P.

THE CHIEF SECRETARY FOR ADMINISTRATION

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

THE FINANCIAL SECRETARY

THE HONOURABLE WONG YAN-LUNG, S.C., 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 COMMERCE, INDUSTRY AND TECHNOLOGY

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

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

THE HONOURABLE DENISE YUE CHUNG-YEE, G.B.S., J.P.
SECRETARY FOR THE CIVIL SERVICE

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

Subsidiary Legislation/Instruments	<i>L.N. No.</i>
Fugitive Offenders (Finland) Order	23/2006

Other Papers

- No. 67 — Li Po Chun Charitable Trust Fund
Annual Report for the period
from 1 September 2004 to 31 August 2005
- No. 68 — Audited Statement of Accounts together with the Director
of Audit's Report and Trustee's Report on the
Administration of the Education Scholarships Fund for the
year ending 31 August 2005
- No. 69 — Estimates
for the year ending 31 March 2007
Volume IA - General Revenue Account
Volume IB - General Revenue Account
- No. 70 — Estimates
for the year ending 31 March 2007
Volume II - Fund Accounts

WRITTEN ANSWERS TO QUESTIONS**Claims Handled by Labour Tribunal**

1. **MR LAU CHIN-SHEK** (in Chinese): *President, will the Government inform this Council of the following for the past three years:*

- (a) *the total amount of claims involved in the cases received each year by the Labour Tribunal, with a breakdown by claim item;*

- (b) *the total amount of claims awarded by the Labour Tribunal for the cases concluded each year and, in respect of these cases, the average time taken from the date of filing to conclusion, with a breakdown by the trade and occupation of the claimants; and*
- (c) *the number of fieldwork investigations into claims conducted by the Tribunal Officers of the Labour Tribunal, broken down by the reasons thereof?*

CHIEF SECRETARY FOR ADMINISTRATION (in Chinese): President, the question raised by the Honourable Member relates to the statistics of the cases handled by the Labour Tribunal. Having consulted the Judiciary, we now provide the following response:

- (a) The total amount of claims involved in cases filed to the Labour Tribunal in 2003, 2004 and 2005 are \$1,212 million, \$1,035 million and \$979 million respectively. The above figures do not include claims for which the amount of claim is to be assessed. The Judiciary does not have a breakdown of cases by claim items.
- (b) The total amount of claims awarded by the Labour Tribunal in 2003, 2004 and 2005 are \$706 million, \$488 million and \$335 million respectively. The average time taken from the date of filing of the case to conclusion for all claims concluded in these three years (including claims which have been settled, withdrawn and transferred) are 49, 45 and 41 days respectively. The Judiciary does not have a breakdown of cases by claimants' trade or occupation.
- (c) No claim-related on-site investigations were required to be carried out by Tribunal Officers in the past three years.

Journalist Detained on the Mainland

2. **DR YEUNG SUM** (in Chinese): *President, more than nine months have elapsed since a veteran journalist was subject to residence under surveillance in*

the Mainland last year, and the timing of concluding the court trial is not yet known. Hence the date of his return to Hong Kong is still doubtful. In this connection, will the Government inform this Council whether it knows:

- (a) the latest position of the above case, including the charge, the trial proceedings and availability of assistance of local lawyers to this person; and*
- (b) the health condition of this person?*

SECRETARY FOR SECURITY (in Chinese): President,

- (a) In order to protect individual privacy, the HKSAR Government will not disclose details of the case.

The HKSAR Government is very concerned about the case. We are in close contact with the family concerned and have conveyed to the Central Government their requests and appeals.

We will continue to keep in touch with the family concerned to render practicable assistance. We will also liaise with mainland authorities and keep the family concerned posted of the latest progress of the case.

- (b) In order to protect individual privacy, the HKSAR Government will not disclose details of the case.

Opening of Hong Kong-Shenzhen Western Corridor

3. **MS MIRIAM LAU** (in Chinese): *President, as the Hong Kong-Shenzhen Western Corridor will soon be completed, the flow of cross-boundary goods vehicles passing through areas around Yuen Long, Tin Shui Wai and Lau Fau Shan is expected to increase substantially following the opening of the corridor, hence leading to an increased demand for container back-up area in that district. In this connection, will the Government inform this Council:*

- (a) *of the existing number of land lots in Yuen Long, Tin Shui Wai and Lau Fau Shan which have been designated as container back-up area and open storage space for containers; and*
- (b) *whether it will designate more land to serve such purposes in areas near the Deep Bay Link, in order to cope with the future growth in the flow of goods vehicles; if so, of the details; if not, the reasons for that?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Chinese):
President, my reply to the two-part question is as follows:

- (a) According to the current outline zoning plans covering the areas around Yuen Long and Lau Fau Shan, a total of about 386 hectares of land zoned "Open Storage", "Other Specified Uses" annotated "Service Stations" and "Industrial (Group D)" may be used as container back-up area and open storage space for containers.
- (b) The Town Planning Board (the Board) notes the need of the industry to find land for container back-up use. In order to achieve a balance between the socio-economic needs of the community and the proper use of land, the Board drew up a set of planning guidelines for "Application for Open Storage and Port Back-Up Uses under the Town Planning Ordinance" (the Guidelines) in as early as 1994. The Guidelines aim to serve as a reference for members of the industry who make applications for the said use.

The Guidelines have been reviewed and revised a number of times in the light of planning consideration and the actual needs of the community. In November last year, the Board made further amendments to the Guidelines having regard to the requests of the industry as well as the views of the local residents and environmental groups. Under the revised set of Guidelines (see Annex), the land classified as Category 1 areas has increased from 617 hectares to 846 hectares, that is, a total increase of 229 hectares. Most of the additional Category 1 areas are located at Ha Tsuen, Tong Yan San Tsuen and San Tin, and so on, in Yuen Long. We

expect that this will help meet the growing demand for such land use upon the completion of the Hong Kong-Shenzhen Western Corridor.

As to whether more land in that district will be designated as container back-up area and open storage space for containers, depending on the demand for the concerned land use, the Planning Department will submit the relevant land use planning proposal for the Board's approval after taking into account factors such as environmental impact, transportation support and views of the residents nearby.

Annex

TPB PG-NO. 13D (Revised November 2005)

**TOWN PLANNING BOARD GUIDELINES FOR APPLICATION
FOR OPEN STORAGE AND PORT BACK-UP USES
UNDER SECTION 16 OF THE TOWN PLANNING ORDINANCE**

(Important Note:

The guidelines are intended for general reference only. The decision to approve or reject an application rests entirely with the Town Planning Board and will be based on individual merits and other specific considerations of each case.

Any enquiry on this pamphlet should be directed to the Planning Information and Technical Administration Unit of the Planning Department, 17th Floor, North Point Government Offices, 333 Java Road, Hong Kong — Tel. No. 2231 5000.

These guidelines are liable to revision without prior notice. The Town Planning Board will only make reference to the guidelines current at the date on which it considers an application.)

1. Scope and Application

- 1.1 The Town Planning Board (the Board) recognizes that the proliferation of open storage activities in the New Territories has led to considerable degradation of the rural environment and caused serious problems related to impacts of noise and air pollution, flooding and visual intrusion as well as road congestion and safety. In order to prevent further uncontrolled sprawl of activities and minimize adverse environmental impacts resulting from these land

uses, "Open Storage" (OS) and "Other Specified Uses" annotated "Port Back-up Uses" (OU(PBU)) zones are designated in appropriate areas on statutory town plans with a view to meeting the demand for open storage and port back-up sites and to regularizing the already haphazard proliferation of such uses within these zones. The intention is to provide for the rational development of open storage of materials which cannot be accommodated in conventional godown premises.

- 1.2 In "OS", "OU(PBU)" and "Industrial (Group D)" (I(D)) zones, specific open storage and port back-up uses such as container storage, storage of dangerous goods and container trailer/tractor park which may cause significant environmental nuisance, safety hazards or transport problems require planning permission from the Board. The purpose is to ensure that such open storage and port back-up uses would have no adverse environmental, drainage, traffic and other impacts on the surrounding area.
- 1.3 Temporary open storage and port back-up uses may also be permissible on application to the Board in areas covered by rural statutory town plans, except in environmentally/ecologically sensitive areas including the "Site of Special Scientific Interest" (SSSI), "Conservation Area" (CA), "Coastal Protection Area" (CPA), "Other Specified Uses (Comprehensive Development and Wetland Enhancement Area)" (OU(CDWEA)) and "Other Specified Uses (Comprehensive Development and Wetland Protection Area)" (OU(CDWPA)) zones where such uses are prohibited. In granting permission for temporary uses, the Board would, based on individual merits of each application, determine the exact time period of permission, and such period, in any event, would not exceed three years.

Open Storage Uses

- 1.4 "Open Storage" uses considered here related to activities carried out on a site for which the greater part of the site (that is, generally assumed to be more than 50%) is uncovered and used for storage, repair or breaking other than container-related uses. Storage

activities ancillary to industrial, workshop and warehousing on the same site are excluded from this definition. The definition however includes temporary structures such as those found on dumping and vehicle repair sites (for example galvanized sheeting used for carports), as these do not radically differ from the appearance, nature or impact of operations carried out in open accommodation. It also includes open storage use with on-site commercial activities, for example, display and sale of vehicles.

1.5 Examples of open storage activities conforming to the above definition include:

- Storage of rattan and bamboo
- Storage of logs and timber
- Storage of ceramic/pottery products
- Storage of processed agricultural products
- Storage of used electrical appliances/scrap metal
- Storage of cans/tanks
- Storage of paper and general rubbish
- Storage of cement/sand
- Storage of construction material
- Storage of construction equipment
- Storage of chemical products
- Storage of dangerous goods
- Storage of vehicles for stripping/breaking or repair

- Storage of vehicles and vehicle parts for sale or disposal
- Vehicle depot

Port Back-up Uses

1.6 Port back-up uses are those port-related activities which are situated off-port (that is, beyond the perimeter of the container terminals, river trade terminals and public and private cargo working areas). Such activities are essential to the operation of port activities but do not need to be located within the confines of the port. For the purpose of these guidelines, the following activities are defined as port back-up uses:

- container storage/repair yard
- container freight station
- container vehicle park/container vehicle repair yard
- freight forwarding center
- logistic centre

2. General Planning Criteria

2.1 The following are criteria to be used in the assessment of planning applications for open storage and port back-up uses.

Site Location

Category 1 areas

2.2 Category 1 areas are areas considered suitable for open storage and port back-up uses. In general, such uses should be sited in areas zoned "OS", "OU(PBU)", "Industrial" or "I(D)" where there are compatible uses such as industrial uses, public utility installations, quarrying and other port back-up and open storage activities. Apart from the above zones, other suitable sites in close proximity

to the existing and proposed cross boundary links in the North West New Territories are also included within this category. Generally, OS uses are permitted as of right under such zones. Proposed uses which may cause significant environmental and traffic concerns require planning permission from the Board in accordance with the notes of the plans. Favourable consideration will normally be given to applications within these areas, subject to no major adverse departmental comments and local objections, or the concerns of the departments and local residents can be addressed through the implementation of approval conditions. Technical assessments should be submitted if the proposed uses, such as container trailer/tractor part and open storage of chemical products/dangerous goods, and so on, may cause significant environmental and traffic concerns.

Category 2 areas

- 2.3 Category 2 areas are areas mostly without clear planning intention or fixed development programme, to be affected by major upcoming infrastructural projects, within or close to clusters of open storage or port back-up sites which are regarded as "existing uses" under the Town Planning Ordinance and/or subject of previous approvals, and areas not subject to high flooding risk. Technical assessments, where appropriate, should be submitted to demonstrate that the proposed uses would not have adverse drainage, traffic, visual, landscaping and environmental impacts on the surrounding areas. Subject to no adverse departmental comments and local objections, or the concerns of the departments and local residents can be addressed through the implementation of approval conditions, planning permission could be granted on a temporary basis up to a maximum period of three years.

Category 3 areas

- 2.4 Category 3 areas are those outside the Category 1, 2 and 4 areas. Within these areas, "existing" and approved open storage and port back-up uses are to be contained and further proliferation of such uses is not acceptable. Applications falling within Category 3 areas would normally not be favourably considered unless the

applications are on sites with previous planning approvals. In that connection, sympathetic consideration may be given if the applicants have demonstrated genuine efforts in compliance with approval conditions of the previous planning applications and included in the fresh applications relevant technical assessments/proposals, if required, to demonstrate that the proposed uses would not generate adverse drainage, traffic, visual, landscaping and environmental impacts on the surrounding areas. Subject to no adverse departmental comments and local objections, or the concerns of the departments and local residents can be addressed through the implementation of approval conditions, planning permission could be granted on a temporary basis up to a maximum period of three years.

Category 4 areas

- 2.5 Category 4 areas are areas with ponds or wetland or with extensive vegetation or close to environmentally or ecologically sensitive areas, areas which are mostly used for residential purpose or proposed for such purposes, areas near existing major village settlements or areas subject to extremely high flooding risk. Applications for open storage and port back-up uses in Category 4 areas would normally be rejected except under exceptional circumstances. For applications on sites with previous planning approvals, and subject to no adverse departmental comments and local objections, sympathetic consideration may be given if the applicants have demonstrated genuine efforts in compliance with approval conditions of the previous planning applications and included in the applications relevant technical assessments/proposals, if required, to demonstrate that the proposed uses would not generate adverse drainage, traffic, visual, landscaping and environmental impacts on the surrounding areas. The intention is however to encourage the phasing out of such non-conforming uses as early as possible. Since the planning intention of Category 4 areas is to phase out the open storage and port back-up uses, a maximum period of two years may be allowed upon renewal of planning permission for an applicant to identify suitable sites for relocation. No further renewal of approval will be given unless under very exceptional circumstances and each

application for renewal of approval will be assessed on its individual merit.

- 2.6 Taking into account the increasing demand for cross-boundary car parking facilities, applications for cross-boundary parking facilities at suitable sites in San Tin areas, particularly near the existing cross-boundary link in Lok Ma Chau may also be considered. Application of such nature will be assessed on its own merits, including its nature and scale of the proposed use and the local circumstances, and subject to satisfactory demonstration that the proposed use would not have adverse environmental, traffic and infrastructural impacts on the surrounding areas, and each case will be considered on its individual merits.

Other Site Location Considerations

- 2.7 Apart from the above broad location criteria, the following specific criteria are also applicable to applications for open storage and port back-up uses:
- (a) Port back-up sites and those types of open storage generating adverse noise, air pollution and visual intrusion (for example, dump sites, vehicle repair activities, scrap metal and car breaking, storage of wind blown materials such as sand and gravel) and frequent heavy vehicle traffic should not be located adjacent to sensitive receivers such as residential dwellings, hospitals, schools and other community facilities; and;
 - (b) Where the site has to be accessed by local roads adjoining sensitive receivers, traffic generating activities, such as container storage/repair yards, container tractor/trailer parks, and container freight stations, would not be permitted unless traffic generation to and from the site can be demonstrated to be minimal.
- 2.8 The broad coverage of Category 1, 2, 3 and 4 areas in the North West New Territories, North East New Territories, and Southern

part of North West New Territories is indicated on Plans 1, 2 and 3 respectively.

Site Planning

- 2.9 Adequate screening of sites through landscaping and/or fencing should be provided at the periphery of the site within the boundary, especially where sites are located adjacent to public roads or are visible from surrounding residential areas. In order to provide a satisfactory screening effect, all planting should be provided on the ground and removable pot plants are not acceptable. This reduces visual intrusion of unsightly storage uses such as dumping and car breaking and prevents overspill of activities beyond the curtilage of the site. Landscaping, in particular landscaped mounding, is preferred for sites which can allow setbacks to be introduced.
- 2.10 Applications should demonstrate that no adverse impacts on the amenity of surrounding sensitive receivers will result, and that adequate buffering is available between sensitive receivers and potential noise emitters such as container trailer/tractor parks and container storage/repair sites.
- 2.11 There will be a general presumption against development on sites of less than 2 000 sq m for port back-up uses, and below 1 000 sq m for open storage uses in rural areas, other than sites located in major road corridors, industrial/godown/workshop areas, quarrying activities or where it is demonstrated that optimum use is made of the site. This is to prevent the further proliferation of small sites in rural areas and concentrate activities within appropriate surroundings, thus minimizing sprawl over countryside areas and reducing travel trips.
- 2.12 For container storage/repair sites that would cause significant visual intrusion to surrounding or adjoining residential uses in rural areas, a maximum stacking height restriction of 3 units is recommended. For safety reason, the stacking height of the materials stored within 5 m of the periphery of the application site should not exceed the height of the boundary fence.

Transport

- 2.13 Port back-up uses are major generators of traffic, with container trailer/tractor parks generating the highest traffic per unit area. In general, therefore, port back-up sites should have good access to the strategic road network, or be accessed by means of purpose built roads.
- 2.14 Traffic Impact Assessment (TIA) should be carried out for those port back-up and open storage uses generating substantial volumes of traffic. TIA for sites served by local roads would need to demonstrate that traffic does not interfere with sensitive receivers, that traffic volumes do not exceed the capacity of the local road network, or that proposed mitigation measures such as junction improvements are practical and effective. Sites accessed by unpaved tracks should not be considered for port back-up uses.
- 2.15 Sites should have a clearly defined exit and entrance point, usually restricted to one unless demonstrated that separate exit/entrance points are required (usually for large port back-up uses) as detailed in a TIA. These should meet the Transport Department's requirements.
- 2.16 Adequate parking and queuing for operational functions and visitor parking should be provided within the curtilage of the site to avoid on-street parking and queuing. Adequate manoeuvring space should also be provided within the site for container-related and other vehicles. To facilitate the assessment of the application, information on the type and the number of vehicles visiting the site and length of stay of vehicles within the site needs to be provided.
- 2.17 Adequate setbacks should be provided from public roads to allow adequate sight lines to meet Transport Department's requirements.

Environmental Planning

- 2.18 Applicants should take note of the requirements under the Environmental Impact Assessment Ordinance (Cap. 499). In order to determine whether the proposed development is a Designated

Project as defined under the Ordinance, Schedules 2 and 3 of the Ordinance must be checked.

- 2.19 To minimize environmental nuisances generated by open storage and port back-up uses, such as air and noise pollution, the environmental measures recommended in the latest "Code of Practice on Handling Environmental Aspects of Temporary Uses & Open Storage Sites" issued by Environmental Protection Department should be adopted.
- 2.20 Container storage/repair sites, and container trailer/tractor parks are considered major noise emitters. Efforts should be made to ensure that the noise impact caused by these activities will be minimized through screening, mounding, protection by noise tolerant buildings or structures/empty container boxes and/or ensuring that sources of noise have no line of sight to noise sensitive uses. It may be necessary for a traffic noise impact assessment to be carried out in combination with a TIA. Where necessary, noise modelling may be required to demonstrate that noise impacts on sensitive receivers are within those recommended under the Noise Control Ordinance. Hours of operation may be specified where sites cause noise problems to sensitive receivers through traffic generation and on-site activities.
- 2.21 Noise Impact Assessments should be undertaken for noise generating activities such as those which involve the use of heavy machinery.
- 2.22 To avoid potential land and water contamination from discharge of untreated waste and leakage of oils, fuels and other discharges (relating mostly to container storage/repair yards, container trailer/tractor parks, and dumping/breaking of motor vehicles and used electrical appliances/scrap metals), proper treatment and disposal of wastes such as oils and fuels should be ensured. Paving of site would help avoiding potential land and water contamination and reducing dust emissions from vehicular traffic and container handling operations. Technical assessment to address this aspect is required.

- 2.23 There is a general presumption against conversion of agricultural land and fish ponds to other uses on an ad hoc basis in rural areas, particularly in flood prone areas (that is, in flood plains) or sites which would obstruct natural drainage channels and overland flow. Advice from the Drainage Services Department should be sought on this aspect if in doubt. Planning applications in such zones should include a drainage impact assessment (DIA) and include necessary flood mitigation measures where appropriate. Sites should have adequate drainage installations and proper discharge points of adequate capacity to allow adequate stormwater discharges to minimize flood risk.
- 2.24 Adequate on-site provision should be made for refuse collection and disposal.
- 2.25 Reference should be made to the Dangerous Goods Ordinance for guidelines on storage and handling and licensing procedures.
- 2.26 The application should demonstrate that all fire safety requirements have been met.

Other Considerations

- 2.27 Notwithstanding the above locational and site planning criteria, each application will be assessed on individual merits, taking due account of the nature and scale of the proposed use and local circumstances. For applications involving sites with previous planning approvals, should there be no evidence to demonstrate that the applicants have made any genuine effort to comply with the approval conditions of the previous planning applications, the Board may refuse to grant permission, or impose a shorter compliance period for the approval conditions, notwithstanding other criteria set out in this Guidelines are complied with.

3. Compliance of Approval Conditions

- 3.1 To mitigate any adverse impacts of open storage and port back-up uses on the surrounding areas, planning applications are usually approved with conditions, for example, the submission and

implementation of various technical proposals. Under normal circumstances, the time allowed for submission and implementation of such technical proposals is six and nine months respectively, from the date of approval of the planning application. For special cases that close monitoring is required, such as uses within Category 4 areas, a shorter compliance period may be imposed.

- 3.2 Application for extension of time for compliance with the time-limited approval conditions will be assessed on individual merits and will normally be granted only once. Such extension of time will not be granted if the applicants have shown no genuine effort in compliance with the approval conditions. In any event, for applications approved on a temporary basis for three years, the maximum period for compliance of approval conditions is 18 months. Beyond that, no further extension of time will be allowed and the planning approval will be revoked, unless under very exceptional circumstances.

4. Renewal of Temporary Planning Permission

For sites with temporary permissions for open storage and port back-up uses, if there is no major change in planning circumstances since the last approval of the application, the applicant will not be required to prepare new, but just the updates of, technical assessments to support the application for renewal of the planning permission, provided that the approval conditions of the previous permission have been complied with and there are no adverse departmental comments and local objections.

5. Guidance Notes

- 5.1 In conjunction with this set of Guidelines, a "Guidance Notes for Application for Permission for Temporary Open Storage and Port Back-up Uses under Section 16 of the Town Planning Ordinance (Cap. 131)" enclosing other guidelines from the Drainage Services Department, Environmental Protection Department and Lands Department has been prepared to illustrate how to comply with and to fulfil the technical requirements imposed by the relevant Government departments and to give a step-by-step guide to assist applicants in making submissions for planning applications,

submissions for compliance with approval conditions and making applications for extension of time for compliance with approval conditions. All applicants are encouraged to read the Guidance Notes in parallel with this Guidelines.

- 5.2 Apart from Plans 1, 2 and 3 which would be available on the Board's website (address: < <http://www.info.gov.hk/tpb/> >) and distributed at the enquiry counters of the Planning Department and the Secretariat of the Board, advice could be sought from the respective District Planning Office (DPO) on relevant information regarding the details of the Guidelines and the categorization of land in the North West New Territories (Tuen Mun and Yuen Long DPO — Tel: 2158 6301) and North East New Territories (Tai Po and North DPO — Tel: 2158 6274). Besides, large scale plans are also available at the enquiry counters and the Secretariat of the Board for Public reference.

TOWN PLANNING BOARD
NOVEMBER 2005

Auxiliary Medical Service Taking up Part of Urgent Ambulance Transfer Service

4. **MR LEE CHEUK-YAN** (in Chinese): *President, it has been reported that the Fire Services Department (FSD) is conducting a study on the possibility of Auxiliary Medical Service (AMS) taking over part of the urgent ambulance transfer service. In this connection, will the Government inform this Council:*

- (a) *of the details of the study, including the scope of services involved, the mode to be adopted for consultation with the staff concerned and the public, and the expected completion date of the study;*
- (b) *given that AMS comprises volunteers, how it will ensure a stable and sufficient supply of manpower within AMS to provide the above service, as well as adequate professional training for AMS officers*

to cope with situations in which the condition of the patients worsens during the transfers; and

- (c) *of the estimated annual savings to be achieved by the FSD and the projected additional annual expenditure to be incurred by AMS after the above transfer of service?*

SECRETARY FOR SECURITY (in Chinese): President, the demand for Emergency Ambulance Service (EAS) has been on the rise in recent years. As such, at its meeting on 7 June 2005, we informed the Panel on Security that we had been looking into three areas for possible ways to better meet the demand for EAS:

- (i) continue to consider allocating additional staffing resources for the ambulance stream.
- (ii) work on the demand side, for example, by encouraging appropriate use of EAS with a view to ensuring that EAS is more targeted at persons in genuine need of such service.
- (iii) review the modes of service delivery to ensure ambulance resources are put to better use.

Regarding (i), the FSD was given approval to recruit a total of 92 ambulance staff by open recruitment in 2004-05 and 2005-06. More recently, the FSD was given approval for open recruitment of 97 ambulance staff in 2006-07. Regarding (iii), we are studying the question, as asked by the Honourable Member, on whether the mode of service delivery of "Priority Two" calls could be adjusted. Our detailed reply to the question is as follows:

- (a) The FSD currently provides two types of ambulance service for the Hospital Authority (HA), namely "Priority One" calls and "Priority Two" calls. The former involves transfers of patients with extreme urgency from a hospital or medical institution to an acute hospital for emergency treatment or examination without delay. The FSD treats these "Priority One" calls as EAS calls. According to its performance pledge, such calls should be responded to within 12 minutes.

As regards "Priority Two" calls, they are termed as "Urgent Calls" by the FSD. According to the definition of the HA, these calls are less urgent as compared with "Priority One" calls. Ambulance staff are required to transfer patients from a hospital or medical institution to another for medical treatment or examination. There is no performance pledge, but the FSD's internal target is to respond to such calls within an hour. In 2005, the FSD handled a total of 34 175 "Priority Two" calls.

We understand that for some cases of "Priority Two" calls, the patients may not need to be handled by professionally trained personnel like the ambulance staff of the FSD. Therefore, the Security Bureau, FSD, HA and AMS are carrying out preliminary discussion about whether some of the "Priority Two" calls can be triaged and handled by other organizations based on the assessment of medical personnel. This could enable the FSD's ambulance staff to focus on EAS calls that need their expertise, and hence improve the service for those who are in genuine need of EAS.

The above proposal for adjusting the mode of service delivery of "Priority Two" calls is still at the initial stage of study. The primary focus of our study is to ensure that any adjustments to the mode of service delivery will not affect patients' access to appropriate medical service. We also need to examine whether it is feasible operationally. We are still discussing these questions with the departments concerned (including the HA) and will consult the FSD's ambulance staff before deciding on whether and when the existing mode of service delivery of "Priority Two" calls will be adjusted. If we eventually decide to adjust the existing mode of service delivery, we will consult the Legislative Council on a more concrete proposal.

- (b) AMS has also been involved in the discussion on the feasibility of adjusting the mode of service delivery of "Priority Two" calls because it is one of the Security Bureau's auxiliary services departments, and has been providing non-emergency ambulance

transfer services to the HA, the Department of Health and private hospitals. In 2005, AMS handled 16 443 such transfers.

AMS has some 400 members who are qualified as doctors or nurses, and more than 3 400 front-line members. All front-line members have completed AMS' "Disaster Medical Assistant Course", which covers basic ambulance-aid training. In addition, they have to keep themselves up to the required standard by passing an annual proficiency test. They are often deployed to provide first-aid services and man ambulances at venues of public activities, take part in inter-departmental disaster drills, and arranged to be attached to the FSD's ambulance depots and hospitals, to ensure that they have adequate training to handle unexpected events and emergencies. AMS also runs an advanced course on ambulance aid for its members. The course is designed and taught by doctors and professional nurses. It covers common illnesses such as cardio-pulmonary illnesses, senile diseases and mental illnesses, as well as how to handle intravenous infusion, catheters, nasogastric tubes, stomas, wound drainage, and so on.

- (c) The proposal for adjusting the mode of service delivery of "Priority Two" calls is still being studied. The preliminary idea is that medical personnel of the HA will make decision on every "Priority Two" calls based on clinical observation. In other words, if they consider that a case needs to be handled by the FSD's professional ambulance personnel, it will still be handled by the FSD's ambulancemen.

As the Security Bureau, FSD, HA and AMS still have to study the details of the triage arrangements, a concrete estimate on the resources involved is not available at this stage. But we need to emphasize that, even if we eventually implement the adjustment, we believe the FSD, based on the assessment of medical personnel, will still have to handle part of the "Priority Two" calls. And given the continued increase in EAS calls, we still have to continue to consider the staffing situation of EAS, and study the feasibility of other demand management measures and service delivery adjustments.

Temperature on MTR Station Platforms and in Train Compartments

5. **MR LAU KONG-WAH** (in Chinese): *President, many members of the public have complained to me that it is rather hot and even stifling on station platforms and in the train compartments of the Mass Transit Railway (MTR) in winter. In this connection, will the Government inform this Council:*

- (a) *whether it knows whether heating systems are activated in winter to raise the air temperature on station platforms and in train compartments of the two railway corporations, and how the temperature is adjusted to a suitable level in response to the passenger volume so as to avoid causing discomfort to the passengers;*
- (b) *whether it knows the respective average air temperatures on MTR station platforms in summer and winter; whether the Environmental Protection Department (EPD) monitors such temperatures; if not, of the reasons for that; and*
- (c) *as the authorities indicated in March 2003 that the two railway corporations were working with the EPD on formulating a Practice Note for managing air quality in air-conditioned public transport facilities, whether the Practice Note includes a suitable level of air temperature; if so, of the latest progress in this respect; if not, the reasons for that?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

(in Chinese): President,

- (a) In winter, the preset temperature for enclosed station platforms of all railway lines of the Kowloon-Canton Railway Corporation (KCRC) is 26 degrees Celsius, while that for train compartments is 22 to 23 degrees Celsius. For the MTR Corporation Limited (MTRCL), the preset temperature in winter for enclosed station platforms is 27 degrees Celsius, while that for train compartments is 26 degrees Celsius.

Automatic sensors are installed in the air-conditioning system of the two Corporations to monitor the temperature in station platforms and inside train compartments, such that the actual temperature will not deviate from the preset temperature. In case the temperature in station platforms/inside train compartments is too high and exceeds the preset temperature, the air-conditioning system will activate its cooling function. In addition, fresh air is drawn into the station platforms and train compartments through the ventilation system to ensure airflow.

(b) and (c)

According to the Operating Agreement signed between the Government and the MTRCL, the Corporation is required to monitor the environmental conditions (including temperature) throughout the enclosed areas of the railway and provide adequate ventilation facilities. In fact, to maintain the respective average temperature of station platforms and train compartments at 27 and 26 degrees Celsius or below is the MTRCL's preset temperature in both summer and winter. This is also one of the items stipulated in the MTRCL's pledge for service. According to the MTRCL's figures, the Corporation's performance in 2004 as regards average temperature maintained in station platforms and train compartments was 99.3% and 99.9% respectively.

The EPD commissioned The Hong Kong Polytechnic University in 2000 to study the air quality in air-conditioned public transport facilities. The study found that the air quality inside air-conditioned public transport facilities in Hong Kong does not pose any alarm of health risk to the users. Based on the findings of the study and after consultation with the two railway companies and professional bodies, the EPD issued in November 2003 a set of professional practice notes for managing air quality in air-conditioned railway facilities. The practice notes set out a carbon dioxide standard and provide guidelines on the design, operation and maintenance of the air-conditioned railway facilities, with an objective to encourage railway companies to achieve and maintain a comfortable air quality for passengers. It also recommends a comfortable temperature range for passengers so that

railway companies could adjust the temperature range according to the preference of their passengers. Since there is no alarm of health risk to users due to air quality inside air-conditioned public transport facilities in Hong Kong, the practice notes are not monitored by the EPD but implemented through the relevant professionals of the two railway Corporations on a self-regulatory basis.

Media Broadcasting Parent-child Relationship and Educational Programmes

6. **DR RAYMOND HO** (in Chinese): *President, will the Government inform this Council of the number of programmes currently broadcast by various electronic media every week concerning parent-child relationship and having educational value, for example, "Parents' Hearts" produced by the Public Affairs Television Division of Radio Television Hong Kong (RTHK); how the authorities categorize such programmes; and whether consideration will be given to providing funding support for the electronic media to produce more such programmes?*

SECRETARY FOR COMMERCE, INDUSTRY AND TECHNOLOGY (in Chinese): President, we have consulted broadcasting licensees and RTHK on programmes on parent-child relationship and having educational value currently provided by them. A list of such programmes based on information they provided is at Annex.

We have not categorized programmes by parent-child relationship and having educational value. Sound broadcasting service licensees and domestic free television programme service licensees are required by their respective licences to provide prescribed public service programmes at specified timeslots. Such programmes include those suitable for children, young persons and the elderly. The licences do not specify the themes for such programmes. Licensees may produce different thematic programmes, including programmes on parent-child relationship and having educational value, to meet the needs of audience.

In addition, the three domestic pay television programme service licensees provide over 200 television channels. Their services include programmes on

parent-child relationship and having educational value although their licences do not require the provision of various prescribed public service programmes.

The annual provision for RTHK exceeds \$400 million. RTHK provides high quality programmes to inform, educate and entertain the public. RTHK has long been aware of the importance of fostering parent-child relationship and produced a programme on parent-child relationship and having educational value called "愛子方程式" as early as in 1995. RTHK produced numerous programmes of this theme in the past. Examples are "爸爸媽媽上學去", "童話童真" and "兩代之間". RTHK will continue to allocate appropriate resources to produce programmes on this theme.

Annex

Programmes on parent-child relationship and having educational value currently provided by broadcasting licensees and RTHK

<i>Metro Broadcast Corporation Limited</i>			
Metroshowbiz			
-	Moms & Dads, Let's Talk	Sunday	11 am – 1 pm
Metroplus			
-	Focus On The Family	Monday to Friday	8.40 am (2 minutes) 9.40 am (2 minutes) 4.40 pm (2 minutes) 7.40 pm (2 minutes)
<i>Hong Kong Cable Television Limited</i>			
Children's Channel			
-	Parent TV	Monday to Friday	9 pm – 10 pm 10 pm – 11 pm (repeat)

*Galaxy Satellite Broadcasting Limited***TVBQ Channel**

- | | | | |
|---|--------------------------|-----------------|--|
| - | QQ Birthday Party | Saturday | 10.30 am – 11.30 am
2 pm – 3 pm (repeat)
7.30 pm – 8.30 pm (repeat)
11 pm – 12 midnight (repeat)
2.30 am – 3.30 am (repeat) |
| - | Superkids Contest | Sunday | 10.30 am – 11.30 am
2 pm – 3 pm (repeat)
7.30 pm – 8.30 pm (repeat)
11 pm – 12 midnight (repeat)
2.30 am – 3.30 am (repeat) |

*RTHK***RTHK1**

- | | | | |
|---|-------------------------------------|---------------|------------------------|
| - | 訴心事家庭
(no English title) | Sunday | 10 am – 12 noon |
|---|-------------------------------------|---------------|------------------------|

RTHK4

- | | | | |
|---|--------------------------|---------------|--------------------|
| - | Children's Corner | Sunday | 5 pm – 6 pm |
|---|--------------------------|---------------|--------------------|

RTHK5

- | | | | |
|---|---------------------------------------|-----------------|------------------------|
| - | 家家有教
(no English title) | Thursday | 9 pm – 10 pm |
| - | 好孩子，星期天
(no English title) | Friday | 10 am – 12 noon |

RTHK Putonghua Channel

- | | | | |
|---|---|----------------|-----------------------|
| - | 紫荊花常開親子劇場
(no English title) | Tuesday | 3 pm – 3.30 pm |
|---|---|----------------|-----------------------|

RTHK TV Programme

-	Parents' Hearts (10 episodes) (repeat)	Monday and Tuesday	Cable Finance Info Channel of Hong Kong Cable Television Limited (Monday 8.30 pm – 9 pm, 2 am – 2.30 am; Tuesday 5 pm – 5.30 pm) RTHK on the Internet Programme Archive
---	---	-----------------------	--

Aircraft Routes Between Hong Kong and the Mainland

7. **MR SIN CHUNG-KAI** (in Chinese): *President, will the Government inform this Council:*

- (a) *of the current number of aircraft routes between Hong Kong and the Mainland, as well as the cities involved;*
- (b) *of the respective numbers of passengers travelling by air from Hong Kong to the Mainland and vice versa in each of the past three years and, among them, the respective numbers of those who transited from Hong Kong to the Mainland and to overseas cities; and*
- (c) *whether it plans to discuss with the relevant departments of the mainland authorities the increase in the number of aircraft routes between Hong Kong and the Mainland; if so, of the details; if not, the reasons for that?*

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

- (a) The existing Mainland/Hong Kong Special Administrative Region (SAR) Air Services Arrangement provides for scheduled air services

between Hong Kong and 45 cities in the Mainland. Currently, airlines of both sides operate on 40 of such routes, namely:

Beijing, Chengdu, Chongqing, Dalian, Fuzhou, Guangzhou, Hangzhou, Huangshan, Kunming, Lanzhou, Ningbo, Qingdao, Shanghai, Shantou, Shenyang, Taiyuan, Tianjin, Xiamen, Xian, Changchun, Changsha, Guilin, Guiyang, Haikou, Harbin, Hefei, Jinan, Meixian, Nanchang, Nanjing, Nanning, Wenzhou, Wuhan, Yantai, Zhanjiang, Zhengzhou, Sanya, Shijiazhuang, Wuyishan and Urumqi.

The other five points not being served by scheduled services are Shenzhen, Lijiang, Beihai, Luoyang and Zhangjiajie.

- (b) Numbers of passengers travelling by air between Hong Kong and the Mainland in the last three years are as follows:

	<i>Number of passengers travelling from Hong Kong to the Mainland (thousands)</i>	<i>Among (a), number of transferred passengers from Hong Kong to the Mainland (thousands)</i>	<i>Number of passengers travelling from the Mainland to Hong Kong (thousands)</i>	<i>Among (c), number of transferred passengers from Hong Kong to Overseas (thousands)</i>
	<i>(a)</i>	<i>(b)</i>	<i>(c)</i>	<i>(d)</i>
2005 (up to October)	3 445	1 509	3 629	1 460
2004	3 613	1 518	3 895	1 546
2003	2 499	1 040	2 638	1 097

- (c) The SAR Government and the General Administration of Civil Aviation of China regularly review all aspects of the Mainland/SAR Air Services Arrangement, including the number of routes under the Arrangement. Our main objective is to seek to increase the number of routes and capacity for airlines of both sides to develop their businesses and to respond to market needs.

Monitoring of Advertisement Contents

8. **MR HOWARD YOUNG** (in Chinese): *President, on the 9th of last month, a company placed on a number of newspapers an anonymous advertisement which looked like a feature report, alleging that certain electrical products which compete with the company's business were potentially hazardous. In this connection, will the Government inform this Council:*

- (a) *whether it has examined the contents of the advertisement to see if they are founded; if it has, of the results of its examination;*
- (b) *of the number of complaints received over the past three years by the authorities concerned about advertisements with misrepresented information, the procedure adopted for handling such complaints and their outcomes; how the contents of advertisements are subject to regulation by existing legislation and the penalties the Court may impose on those who place advertisements with misrepresented information; and*
- (c) *how it monitors the contents the advertisements in newspapers and magazines and whether it will step up its monitoring efforts; if so, of the details, if not, the reasons for that?*

SECRETARY FOR HOME AFFAIRS (in Chinese): President,

- (a) The Consumer Council has studied the contents of the advertisement which the Honourable Howard YOUNG might be referring to, and found that the various hazards mentioned therein are not consistent with the results of a comprehensive test conducted by the Consumer Council in 2004 on a number of similar products (that is, single-hob portable induction cookers often used for hot-pots), in which all the tested samples scored satisfactorily in terms of safety, performance and ease of use. Given the public concern, the Consumer Council is considering conducting further tests on the relevant products. Meanwhile, the Electrical and Mechanical Services Department will continue to closely monitor household electrical appliances sold in

Hong Kong to ensure compliance with the Electrical Products (Safety) Regulation.

(b) and (c)

The requested information is set out in the Annex.

Annex

Consumer Council

- (b) The Consumer Council Ordinance (Cap. 216) does not empower the Consumer Council or the Court to impose any penalty or sanction on those who place advertisements with misleading information.

The Consumer Council received 69, 113 and 68 complaints respectively in 2003, 2004 and 2005 about advertisements with misleading or misrepresented information. The advertisements complained of were found in both the printed and electronic media as well as on the street or displayed/posted by the shops. Depending on the media involved, some complaints were referred to the relevant authorities for action or information as appropriate, some to the relevant companies for reply or clarification, and some filed for future reference as requested by the complainants.

- (c) The Consumer Council acts on misleading or misrepresented advertisements when complaints are lodged by members of the public. Apart from making referrals to the relevant authorities, the Consumer Council may also conduct surveys and tests, and publish the results to assist consumers in making informed choices. The Consumer Council will continue to render assistance to aggrieved consumers and help consumers make informed choices.

Non-local Courses Registry (NCR) of the Education and Manpower Bureau (the Bureau)

- (b) Section 34 of Non-local Higher and Professional Education (Regulation) Ordinance (Cap. 493) sets out the restriction on

advertisement relating to a regulated course. It aims at preventing any advertisement from inducing enrolment in any non-exempted or non-registered regulated course; from falsely describing any regulated course; or from misleading the public as to the nature, purpose, quality of the course, or the award to which the course is claimed to lead. Any person who contravenes section 34 commits an offence and is liable on conviction to a fine at level 4 (\$25,000) and to imprisonment for two years.

Section 40(1)(a) of the Ordinance further provides the Secretary for Education and Manpower to make rules providing for the regulation of advertisement relating to regulated courses. The Non-local Higher and Professional Education (Regulation) Rules impose restrictions in the areas of course status, course recognition and course information in the publication of advertisements. Any person who contravenes these restrictions commits an offence and is liable on conviction to a fine at level 3 (\$10,000) or level 4 (\$25,000) and to imprisonment for six months.

The NCR received six complaints on course advertisements in 2003, four in 2004 and seven in 2005.

If the NCR considers a complaint justified, that is, the advertisement appears to have contravened the legislative requirements, it will issue a letter to the course operator specifying the areas of probable contravention and seeking explanation/clarification. If the operator fails to provide an explanation/clarification, or make appropriate amendments, or ignores the legislative requirements with the intention to continue releasing the same "problematic" advertisement, the NCR will seek the Department of Justice's advice on the possibility of initiating prosecution. So far, the response to the NCR's monitoring actions has been positive and no prosecution has been instituted against the offenders.

- (c) The NCR checks course advertisements published in two popular local newspapers on a daily basis. It also acts on complaints.

The Bureau considers the existing monitoring efforts sufficient. The response the NCR has been receiving from its monitoring actions has so far been positive.

School Registration and Compliance Section (SRCS) of the Bureau

- (b) For schools that require registration under the Education Ordinance (Cap. 279), the power to control false advertisements is provided under section 86A and 86B of the Ordinance. Any person who contravenes section 86A or 86B is liable to a fine at level 6 (\$100,000).

The SRCS has not received any complaint on false advertisements over the past three years.

- (c) The Bureau will conduct investigation upon receipt of complaints or upon detection of malpractice of false advertising during school inspections. Should a case of false advertising be established, the Bureau will require rectification from the person(s) concerned and will initiate prosecution action if the malpractice continues.

In addition to taking enforcement actions against offenders, the Bureau has taken measures to monitor malpractice by stepping up consumer education and enhancing the transparency of schools. For instance, the following information has been uploaded onto the Bureau homepage for public reference:

- (i) a list of schools registered or provisionally registered under the Education Ordinance, including the basic registration particulars of schools such as the registered school premises and the permitted classroom accommodation; and
- (ii) the records of convictions of schools having contravened the Ordinance or its subsidiary legislation.

Securities and Futures Commission (SFC)

(b) and (c)

Under section 38B of the Companies Ordinance (Cap. 32), it is unlawful for a person to publish an advertisement in relation to a prospectus or proposed prospectus offering shares or debentures to the public unless its publication has been authorized by the SFC or exempted. The general principle is that no advertisement that is false, biased, misleading or deceptive can be made. The civil and criminal liability provisions relating to prospectus in section 40 and 40A of the Ordinance apply to advertisements in relation to untrue statements as if such publications were a prospectus.

Under section 103 in Part IV of the Securities and Futures Ordinance (Cap. 571), an advertisement, invitation or document containing an invitation to the public to enter into an agreement to acquire or dispose of securities or a regulated investment agreement, or to participate in a collective investment scheme, is prohibited unless its issue is authorized by the SFC under section 105 or exempted. Again, the general principle is that no advertisement that is false, biased, misleading or deceptive can be made. Where an advertisement contains a misrepresentation, civil and criminal liability may apply under section 108 and 107 of the Ordinance, depending on the nature of such misrepresentation.

The SFC received two complaints each on advertisements with misrepresented information in 2003, 2004 and 2005.

All complaints are carefully assessed to determine if the allegations are legitimate and whether further regulatory action is warranted. To ensure consistency in treatment, all complaints are first reviewed by the SFC's Complaints Control Committee which consists of senior executives from various SFC departments. Out of the six complaints received, one has resulted in successful prosecution, one is still under active review, and the other four were found to be unsubstantiated.

The SFC operates a complaint hotline and monitors press reports on a daily basis. The SFC considers the existing monitoring system adequate.

Transport Complaints Unit (TCU) of
the Environment, Transport and Works Bureau

- (b) There is no specific regulation governing transport-related advertisements with misrepresented information.

The TCU received one complaint in 2003, three in 2004 and none in 2005. The complaints were referred to the Transport Department (TD) or relevant transport operators for follow-up actions. Of these four cases, rectification had been made for one case by removing the advertisement away from its original position inside the bus compartment as requested by the complainant. For the remaining three, the TD or the operators concerned had taken note of the complainants' concern for future reference.

- (c) The TCU does not monitor advertisements, and will take follow-up actions with the relevant departments/public transport operators upon receipt of complaints.

Improving Facilities of Po Tin Estate

9. **MR CHEUNG HOK-MING** (in Chinese): *President, I have received complaints from the residents of Po Tin Estate in Tuen Mun and the local District Council members, claiming that as Po Tin Estate was originally intended for temporary accommodation, its facilities have all along been unsatisfactory. For example, the toilets in the housing units are so small that adults can only sidle their way in and it is difficult for them to turn around in the toilets. However, as the Hong Kong Housing Authority (HA) is gradually changing Po Tin Estate into a public rental housing (PRH) estate, the existing residents will have to live in the estate on a long-term basis. In this connection, will the Government inform this Council:*

- (a) *of the current overall letting rate of Po Tin Estate, as well as the respective numbers and occupancy rates of the PRH units and interim housing units in that estate;*
- (b) *whether the HA and the Housing Department (HD) will allocate funds to improve the facilities of Po Tin Estate including upgrading*

existing toilets to the standard specifications, as well as increasing children's facilities and recreational facilities in that estate; and

- (c) *if the HA and the HD will not allocate funds to improve the facilities of Po Tin Estate, whether they will consider offering rent concessions to the residents of that estate as compensation; if not, the reasons for that?*

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

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

- (a) As a result of the measures implemented over the past few years, including keeping the average waiting time for PRH at about three years and relaxation of the rehousing criteria for families affected by squatter clearance, the demand for interim housing has been decreasing. For better utilization of public housing resources, in June 2004 the HA decided to turn Po Tin Interim Housing, which was then only half-occupied, into a PRH estate (Po Tin Estate) after upgrading its security system. As at the end of January 2006, of the 8 736 flats in Po Tin Estate, there are 3 907 public housing tenants and 2 394 interim housing licensees. The overall occupancy rate is 72%. The vacant flats are being allocated as PRH.
- (b) Po Tin Estate is fully-fledged with standard fittings and facilities commonly found in public housing estates, such as pitches, children's playground, youth centre, fitness area, kindergarden, commercial centre and wet market. The children and recreational provisions now in place are already consistent with planning standard. Hence, the HA has no plan to increase this kind of facilities.

Public housing tenants of Po Tin Estate are entitled to a minimum of 7 sq m internal floor area (IFA) per person, which is the established space allocation standard for PRH. Constrained by its original design, the toilets of Po Tin Estate are comparatively small. Any enlargement and alteration works will necessitate substantial

changes to building structure, which are neither cost-effective nor practicable.

- (c) We accept that some tenants may find the small size of the toilet inconvenient. Hence, rejection of an allocation offer of a Po Tin Estate flat will not be considered as unreasonable refusal. Applicants who have rejected an offer of a Po Tin Estate flat will still be given up to three other allocation offers in line with usual practice.

Having regard to flat design, the rents of Po Tin Estate flats are maintained at the levels of the licence fees for interim housing. The monthly rents range from \$330 (for a one-person flat of 8.19 sq m IFA) to \$1,130 (for a two- to three-person flat of 28.28 sq m IFA), which are equivalent to 95% of the rents for new public rental flats in Tuen Mun and Yuen Long. As a further incentive, new tenants of Po Tin Estate are given a one-month rent-free period in addition to the usual 14-day rent-free fitting-out period.

Monitoring of Food Safety

10. **DR JOSEPH LEE** (in Chinese): *President, since 1 October last year, the mainland authorities have implemented the national Hygienic Standard for Cured Meat Products. It has been reported that Guangdong-style cured meat products generally fail to comply with the limits on the two indicators of "peroxide value" and "acid valence" prescribed in the Standard and these two indicators are not included in the chemical tests conducted under the Food Surveillance Programme of the Food and Environmental Hygiene Department (FEHD). In this connection, will the Government inform this Council:*

- (a) *whether there is any chance that the "peroxide value" and "acid valence" of Guangdong-style cured meat products which have passed the authorities' relevant chemical tests exceed the limits in the Mainland Standard; if so, whether the health of the public will be harmed by consumption of such food;*

- (b) *of the criteria adopted by the authorities for determining the type of food samples to be collected for chemical tests, the frequency and sample size of the tests, as well as the test items, for ensuring the effective monitoring of food safety; and*
- (c) *whether the Administration has made regular reference to the items tested and relevant standards adopted in the Mainland and overseas food safety codes with a view to updating the relevant legislation and Food Surveillance Programme of Hong Kong?*

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

- (a) The Public Health and Municipal Services Ordinance (Cap. 132) regulates food safety of food for sale in Hong Kong. As the "peroxide value" and "acid valence" are indicators for quality of grease in food (for example, the extent of unpleasant flavour in oils and fats) instead of food safety, the two indicators are not included in the law. That said, the FEHD has especially taken samples of cured meat products from the market for tests, including oxidation value, in response to public complaints. The results were within the limit set by the mainland authorities.
- (b) The FEHD takes food samples at import, wholesale and retail levels for chemical and biological tests to ensure that the food on sale in Hong Kong complies with the food safety related requirements and standards stipulated in the Public Health and Municipal Services Ordinance (Cap. 132) and its subsidiary legislation. The Department has adopted a risk-based approach in line with the risk analysis principles promoted by the World Health Organization in determining the types of samples to be collected, the frequency and sample size for these tests. In addition to food with specific standards stipulated by law, the FEHD also keeps a close eye on food which was involved in food poisoning cases and other food safety incidents in the past, as well as food produced or sold by food premises that have been previously convicted. Moreover, the staff of the FEHD also takes samples of food that has been the subject of public complaint or concern.

- (c) To ensure that all food on sale in Hong Kong are safe for consumption, the FEHD will review the existing legislation from time to time and formulate appropriate food safety legislation and regulatory measures with reference to international standards and taking into consideration the demands of food industry and the public as well as assessment results of food safety.

Privatization of Public Health Services

11. **DR KWOK KA-KI** (in Chinese): *President, regarding the privatization of public health care services, will the Government inform this Council:*

- (a) *of the details of the current provision of "private services" by public hospitals, broken down by individual hospitals, in relation to general and specialist out-patient (SOP) services, in-patient (IP) services and surgical services, including the specific operation of such services, standard fees and charges, as well as the establishment and strength of the medical practitioners involved;*
- (b) *of the number of private patients who used the above services over the past year and the number of hospital beds and surgeries involved; the utilization rate of such "private services", its estimated expenditure, the actual cost and its percentage in the resources for public health care services, as well as its income and expenditure; if surplus was recorded, of the income sharing arrangement and the amount allocated to public health care services;*
- (c) *of the details of the specific operation of the "private services" provided by the medical centre jointly established by Prince of Wales Hospital (PWH) and the Faculty of Medicine of The Chinese University of Hong Kong (CUHK), including whether such services operate independently and are not subordinate to the Hospital Authority (HA), as well as the establishment of the health care staff concerned; the impact of such services on the services provided by PWH; and whether other public hospitals plan to establish similar medical centres, or turn all their services into "private services";*

- (d) *of the details of the plan of the Faculty of Medicine of the University of Hong Kong (HKU) to establish a private hospital, and whether the Faculty will change its collaboration mode with Queen Mary Hospital (QMH); and*
- (e) *whether it has assessed if the development direction of the privatization of public health care services will change the focus of service and target customers of the HA, resulting in a situation in which first class medical services will only be available to those who can afford high charges, thereby affecting the public hospital patients' waiting time for service and relegating to second class the medical services for the elderly, the poor and the severely ill; if it has, of the assessment results?*

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

- (a) There are two main types of private services in public hospitals: private SOP services and private IP services. In respect of SOP services, the majority of the relevant activities are concentrated at the two teaching hospitals, namely QMH and PWH. One non-teaching hospital, Queen Elizabeth Hospital (QEH), also provides some private SOP services, but on a much smaller scale. The majority of private IP services are provided by the two teaching hospitals and QEH, although private beds are available in 14 other public hospitals. Public hospitals do not offer any private general out-patient services.

Private services in public hospitals are provided jointly by doctors of the two universities and specialists doctors of the HA. There is no specific establishment for the medical practitioners at the HA for private services.

The HA charges market rates for its private services, which are at least set at the cost recovery levels. Private patients are charged for each major medical service received. The full list of private charges are published in the Gazette.

- (b) In 2004-05, there was a total of 23 206 private SOP attendances at public hospitals, which accounted for 0.38% of total SOP attendances. Total private bed-days was 41 858, which accounted for 0.57% of the total bed-days utilized in public hospitals. The HA generated a total income of \$132 million from its private services in 2004-05. The full amount is retained by the HA for the provision of services in public hospitals.
- (c) PWH has been providing private SOP and IP services since its opening in 1984 in collaboration with the Faculty of Medicine of CUHK. There was then no designated location for the hospital's private SOP services. University professors and specialist doctors of the hospital had to attend to their private patients in their own offices, which were scattered in different buildings of the hospital.

The services offered by the CUHK-PWH Medical Centre, which was established in January this year, remain part of the HA's private services. As the main aims of the Medical Centre are to provide a central location for all of the hospital private SOP services and better information technology support for such services, its establishment has no impact on the hospital's public medical services.

There are currently no plans for other public hospitals to establish similar centres.

- (d) We are not aware of any concrete proposal by the Faculty of Medicine of the HKU to establish a private hospital.
- (e) It is a priority of all public hospitals to provide medical services to the low-income group and the underprivileged. The main rationale for the provision of private services at public hospitals is that there are levels of expertise and facilities within the public medical sector, especially at the two teaching hospitals, which are not generally available in the private sector. It is therefore considered appropriate to offer the public, some of whom might want to procure private services, a means for accessing these specialized services. Private services accounted for less than 1% of the total

service provision in public hospitals. Their effect on public services is minimal.

Operation of Green Minibuses

12. **MR LAU KONG-WAH** (in Chinese): *President, regarding the operation of green minibuses (GMBs), will the Government inform this Council whether:*

- (a) it has statistics about the respective numbers of GMBs running on Hong Kong island, in Kowloon and in the New Territories whose drivers are remunerated on a "revenue-sharing" basis, and the percentage of such GMBs in all GMBs in Hong Kong and the number of operators adopting this mode of operation;*
- (b) there are other wage systems for GMB drivers in addition to the "revenue-sharing" or salaried modes; and*
- (c) it will consider standardizing the wage systems for all GMB drivers in Hong Kong with the salaried mode across the board as soon as possible so as to prevent GMB drivers remunerated on a "revenue-sharing" basis from speeding and ignoring the safety of passengers and other road users in the hope of maximizing their passenger trips; if not, the reasons for that?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS
(in Chinese): President,

- (a) According to section 27 of the Road Traffic Ordinance (Cap. 374), all GMB service operators are required to obtain Passenger Service Licence (PSL) issued by the Transport Department (TD) for operating the respective GMB route packages. A condition of the PSL requires the operators to ensure effective monitoring of their services by employing drivers for driving public light buses (PLBs) to provide the GMB services.

At present, there are 120 GMB operators operating 147 route packages across the territory. Six (5%) of these operators remunerate their drivers on a solely "revenue-sharing" basis and have not employed the drivers for driving the PLB to provide the GMB services. These six operators are operating a total of six route packages, of which one is in Kowloon and five are in the New Territories. Operators of the above route packages remunerate their drivers on a solely "revenue-sharing" basis and have not complied with the requirement on employment of drivers. The reasons are that they are unable to complete corporatization procedures on time before launching the service or during business reorganization, or due to disagreement among shareholders.

The TD has been closely monitoring the above situation and urged all GMB operators to comply strictly with the PSL condition on employment of drivers. Operators in question have committed to complete the relevant procedures by mid-2006 with a view to complying with the PSL condition.

- (b) The TD understands that apart from remuneration on "revenue-sharing basis" or salaried modes, some GMB drivers join the GMB operation as a partner of the company concerned.
- (c) Safe driving is the proper attitude all drivers should have, particularly the professional drivers. Under all circumstances, professional drivers have the obligation to drive safely to protect the safety of the passengers and other road users. The remuneration system for GMB drivers should not be directly related to their driving behaviour. While operators are required to comply with the above PSL condition for PLBs on employing drivers for provision of GMB service, they should also enjoy the flexibility to make reasonable remuneration arrangements for their drivers and adopt appropriate and effective measures to monitor their conduct as well as service quality and safety. The Government, therefore, have no plans for standardizing the remuneration system for all GMB drivers in Hong Kong.

As for the safety awareness and professional conduct of PLB drivers, we will continue our efforts in various aspects including

legislation, enhanced enforcement, education and publicity in order to ensure the safety of PLB service.

Traffic Accidents Involving Pets

13. **MISS CHOY SO-YUK** (in Chinese): *President, section 56 of the Road Traffic Ordinance (Cap. 374) provides that the driver of a vehicle shall stop when a traffic accident causes damage to an animal which is not in or on that vehicle and, if required by a police officer, give particulars such as his/her name and address, or report the accident to the police as soon as possible. However, an animal referred to in that section does not include common pets such as cats and dogs, and thus pet owners will not be informed of traffic accidents which happen to their pets which have gone missing. In this connection, will the Government inform this Council:*

- (a) of the respective estimated numbers of traffic accidents involving pets which were not in or on any vehicle in each of the past three years, and the respective numbers of each kind of pets concerned;*
- (b) how the police handle traffic accidents involving pets which are not in or on any vehicle; and*
- (c) whether it will consider including common pets into the meaning of "animal" in the above section; if it will, of the details of its consideration and the legislative timetable; if not, the reasons for that?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS (in Chinese): President, we do not have the number of traffic accidents involving pets.

The police will take different actions according to the circumstances. For instance, they will notify the Society for the Prevention of Cruelty to Animals, or the Agriculture, Fisheries and Conservation Department to handle injured or abandoned animals; or notify the Food and Environmental Hygiene Department to handle dead animal bodies. If there are complaints related to traffic accidents involving pets, they will carry out investigations.

Although the existing legislation does not require drivers to stop their vehicles, or report to the police on traffic accidents involving pets, the police or related departments and organizations do receive such reports from drivers or other members of the public. Upon receipt of such reports, they will handle the cases according to the above procedures. We do not consider it necessary to amend the relevant legislation at the present moment.

Conducting Review and Consultation on Functions and Structure of District Councils

14. **MR FREDERICK FUNG** (in Chinese): *President, in his policy address delivered in October 2005, the Chief Executive said that a comprehensive review and consultation on the functions and structure of District Councils (DCs) would commence in the first quarter of this year, and the Government would continue to make available more channels for the public to participate in the management of district affairs. In this connection, will the Government inform this Council:*

- (a) of the definite time for commencing the review, as well as the specific arrangements and timetables for the entire review and the implementation of the review findings;*
- (b) of the details of the coverage of the comprehensive review, whether it will include abolishing appointed seats in DCs, strengthening the role of DCs in district affairs, transferring certain functions of the two former Municipal Councils to DCs and making DCs an effective channel for the cultivation of political talents; if not, the reasons for that; and*
- (c) of the form of conducting the public consultation, and whether public opinion polls will be conducted before or during the consultation; if so, of the details; if not, the reasons for that?*

SECRETARY FOR CONSTITUTIONAL AFFAIRS (in Chinese): President,

- (a) The working group set up jointly by the Home Affairs Bureau and the Constitutional Affairs Bureau is making preparations for the

review on the role, functions and composition of DCs. We expect that public consultation on the review will commence in the first half of this year. The consultation document will set out issues and proposals relating to the review for discussion by the public. We will take into full account the views collected during the consultation period before deciding on the way forward, including whether the relevant proposals require adjustment, the implementation details, timetable, and so on.

- (b) In his policy address of 2005-06, the Chief Executive announced that DCs would be allowed to participate in the management of district facilities, such as libraries, community halls, leisure grounds, sports venues and swimming pools, within the limits of the framework of the existing statutory provisions and resources allocations. The executive departments will discuss with DCs the management plans of district facilities, and will take into account the views of DC members in managing the facilities. The consultation document to be published later will provide further details of the proposal for discussion by the public. The Government will also set out some other issues relating to the role, functions and composition of DCs in the consultation document.

On the whole, our present thinking is to examine how the role and functions of DCs can be strengthened within the existing legal framework. Further, we also have to ensure that the composition of DCs will be able to continue to reflect the views of different sectors of the community.

- (c) We expect that a public consultation document will be issued in the first half of this year to seek the views of the public regarding the role, functions and composition of DCs. Upon the commencement of the public consultation, we will consult the Legislative Council, DCs and the public. Details of the arrangements will be announced when the consultation document is published.

We have no plan to conduct public opinion polls before the issue of the public consultation document. However, we have all along been listening to the views of the community on the DC review

through different channels. For example, the Home Affairs Department has maintained communication with DCs on this subject. We also had an opportunity to listen to the views of DC members and members of the community on the review at the special meeting of the Legislative Council Panel on Constitutional Affairs held on 18 February 2006. Further, we had discussion with Legislative Council Members on this subject at the meeting of the Legislative Council Panel on Constitutional Affairs held on 20 February 2006. We will consider carefully all the views we have received. Upon the commencement of formal public consultation, we will collect views through various channels. At the present stage, we will not rule out any appropriate means of collecting public views to facilitate further follow-up.

Building Safety

15. **MR ALBERT CHAN** (in Chinese): *President, the Government is conducting a public consultation on the proposal to compel private flat owners to carry out periodic inspection of their buildings. In relation to building safety, will the Government inform this Council:*

- (a) *of the numbers of dangerous or defective private buildings inspected by the Buildings Department (BD) in each of the past five years, the total numbers of flats involved and the relevant expenditure incurred; and*
- (b) *whether it will consider abandoning the proposed Mandatory Building Inspection Scheme and instead allocate a portion of the rates revenue for the BD to use to investigate all private buildings in the territory by stages, and to issue repair orders to the owners concerned in accordance with the findings of the investigation reports; if it will, of the details of its consideration; if not, the reasons for that?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Chinese): President, my reply to the two parts of the question is as follows:

- (a) To ensure building safety, the BD will conduct inspections in respect of buildings in dangerous and defective conditions identified by its consultants in the course of regular surveys on building external walls as well as those cases reported by the public. The BD will serve repair orders on building owners concerned if the condition is confirmed to be dangerous or defective. If the inspection results suggest that detailed investigation is needed to ascertain the building conditions, the BD will serve on the owners concerned building or drainage investigation orders, requiring the owners to carry out the necessary investigation. Over the past five years, the BD has handled about 50 000 cases relating to dangerous or defective buildings. Since the handling of these cases and the corresponding building inspection work forms part of the BD's routine law-enforcement work, the BD does not keep a detailed breakdown of the expenditure.

The BD has also launched a "Co-ordinated Maintenance of Buildings Scheme" (CMBS) since 2000, encouraging owners to take the initiative to inspect and repair their buildings regularly to improve building safety. The BD together with six other government departments have selected certain defective buildings for inspection, and provided the necessary assistance to owners concerned so as to encourage them to engage qualified contractors to carry out improvement works. From 2000 to 2005, the BD has selected a total of 700 target buildings covering some 49 000 flats. The BD has incurred an average annual expenditure of \$13 million on the CMBS over the five years. The CMBS has helped improve the conditions of some dilapidated buildings. Nonetheless, since owners are motivated to carry out building repair works under the CMBS mainly by way of encouragement, substantial manpower and time resources are required and yet the results may not be pronounced. As such, we consider that there is a need to introduce a mandatory building inspection scheme to address the aggravating building neglect problem in the long run.

- (b) The results of our first stage public consultation on Building Management and Maintenance in 2004 have pointed to a community

consensus on owners' responsibility to properly upkeep their buildings, including bearing the necessary costs. The community also generally favours mandatory building inspection. On the basis of the consensus, we are consulting the public on the implementation details of a mandatory building inspection scheme. The consultation period will end in mid-March this year.

As regards the proposal to allocate a portion of the revenue from rates for the BD to inspect all private buildings in the territory by stages, since the community generally agree that private building owners should be responsible for proper upkeep of their own buildings including the necessary costs, and that the building conditions vary, the Government considers the suggestion to use public money to inspect buildings across the board on behalf of private building owners inappropriate. Moreover, according to the Government's policy, the revenue from rates forms part of the Government's General Revenue and will not be allocated to any specific use. Hence, we do not support the above proposal.

Regarding those owners in need, such as the elderly owners without income, the BD, District Offices, the Hong Kong Housing Society (HS) and the Urban Renewal Authority (URA) have been providing them with financial and technical assistance in carrying out building management and maintenance. The Government will actively consider to provide further assistance to owners in need together with the HS and the URA when the mandatory building inspection scheme is implemented.

Integrity Checking of Candidates for Principal Official Posts

16. **MS EMILY LAU** (in Chinese): *President, when the authorities engaged a person who was not a civil servant to take up the post of Financial Secretary in 2001, the public queried whether the integrity checking of the recruitment procedure had been completed prior to the appointment by the Central People's Government. In this connection, will the executive authorities inform this Council whether:*

- (a) *the integrity checking of candidates for principal official posts is the same as that for senior civil service posts; if not, of the differences and the reasons for such differences; and*
- (b) *measures are in place to ensure that the integrity checking of principal officials is completed prior to the appointment by the Central People's Government?*

SECRETARY FOR CONSTITUTIONAL AFFAIRS (in Chinese): President, candidates for appointment to the posts of principal officials under the accountability system are subject to integrity checking on the same basis as those applicable to prospective senior civil servants. It is the established practice of the Government of the Hong Kong Special Administrative Region to complete the integrity checking of principal officials prior to the appointment by the Central People's Government.

Five-day Work Week for Civil Service

17. **MR LEUNG YIU-CHUNG** (in Chinese): *President, the Chief Executive informed this Council last month that the Administration was studying the introduction of five-day work week in the Government, with effect from July this year. Some staff of the Hongkong Post have told me that their department is considering the cessation of services on Saturday mornings. In this connection, will the Government inform this Council:*

- (a) *whether it will stipulate that the government departments shall not cut existing services and cause too much inconvenience to the public when they implement the five-day work week; if not, of the reasons for that; and*
- (b) *given that the offices of the government departments on the working days immediately before and after Saturdays may become busier upon the implementation of five-day work week, whether it will consider recruiting additional staff where necessary, so as to avoid*

increasing the workload of and pressure on the staff concerned; if not, of the reasons for that?

SECRETARY FOR THE CIVIL SERVICE (in Chinese): President,

- (a) In taking forward the five-day week initiative, our primary concern is to maintain the overall level and efficiency of public service. In formulating the implementation plans, we shall adhere to the following basic principles:
- no additional staffing resources;
 - no reduction in the conditioned hours of service of individual staff;
 - no reduction in emergency services; and
 - while in general all offices will cease operation on Saturdays, a limited number of essential counter services may continue to be provided on Saturdays.

In pursuing the five-day week initiative, we shall give due regard to the community's demand of public service and ensure that impact of the initiative on the general public is kept to the minimum. For non-emergency or non-essential services that will cease operation on Saturdays, the working hours on weekdays will be extended as appropriate. Steps will also be taken to improve the delivery of services to the public, including, for example, a wider use of Internet service, business process re-engineering and transferring enquiries and complaints services to the Integrated Call Centre which operates on a 24-hour basis. All these measures will ensure that the impact of the Government adopting a five-day week on the general public and the private sector will be minimal. We will keep under review the community's demand of public services, and make adjustments as necessary, following implementation of the five-day week.

- (b) Under the five-day week initiative, the number of conditioned hours of service of individual staff remains unchanged. The need for additional staffing resources should not arise. In formulating the implementation details, bureaux and departments would give careful consideration to the appropriate manpower arrangement, having regard to the mode of operation of individual services and staff's occupational safety and health. The Administration will suitably adjust the manpower deployment in order to cater for any possible changes in the service utilization patterns following introduction of the five-day week. In doing so, we shall take into account a number of relevant factors, such as the service utilization and delivery patterns, back-end business processes, the impact on performance pledges and service users, as well as the views of staff.

Service Contractors Breaking Law

18. **MR LAU CHIN-SHEK** (in Chinese): *President, will the Government inform this Council:*

- (a) *of the respective numbers of cases since March 2004 in which the service contractors engaged by the Food and Environmental Hygiene Department (FEHD), the Government Logistics Department (GLD), the Government Property Agency (GPA), the Housing Department (HD), the Leisure and Cultural Services Department (LCSD) and the Hospital Authority (HA):*
- (i) *were ruled by the Court to have contravened the Employment Ordinance (EO) (Cap. 57), the Employees' Compensation Ordinance (ECO) (Cap. 282), the Mandatory Provident Fund Schemes Ordinance (MPFSO) (Cap. 485) or the Immigration Ordinance (IO) (Cap. 115); and*
- (ii) *were penalized by the departments/organizations concerned for failure to honour their pledges in the tender documents concerning the employment terms of non-skilled workers; and*

- (b) *provide a list, by the names of the contractors involved in these cases, on the nature of the services they usually undertake, the number and total value of contracts for the public services they are undertaking, the number and details of cases in which they have been ruled, since March 2004, to have contravened the above Ordinances or reneged on their pledges in the tender documents, as well as the penalties consequently imposed on them?*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Chinese): President, our reply to the question raised by Mr LAU Chin-shek is as follows:

- (a) Since March 2004 to January 2006, the number of cases that the service contractors of the FEHD, GLD, GPA, HD, LCSD and the HA:
- (i) were ruled by the Court to have contravened the EO (Cap. 57), the ECO (Cap. 282), the MPFSO (Cap. 485) or the IO (Cap. 115) are as follows:

<i>Departments/ Organization</i>	<i>No. of contractors breaching the relevant Ordinances</i>	<i>No. of contracts involved</i>	<i>No. of cases</i>				
			<i>EO</i>	<i>ECO</i>	<i>MPFSO</i>	<i>IO</i>	<i>Total</i>
FEHD	5	6	20	1	0	0	21
GLD	0	0	0	0	0	0	0
GPA	0	0	0	0	0	0	0
HD	4	4	33	0	0	0	33
LCSD	2	2	17	0	12	0	29
HA	0	0	0	0	0	0	0
Total	11*	12*	70	1	12	0	83

- (ii) were penalized by the departments/organization concerned for failure to honour their pledges in the tender documents

concerning the employment terms of non-skilled workers are as follows:

<i>Departments/ Organization</i>	<i>No. of contractors breaching employment conditions</i>	<i>No. of contracts involved</i>	<i>No. of cases</i>
FEHD	14	20	33
GLD	0	0	0
GPA	0	0	0
HD	1	1	1
LCSD	3	3	13
HA	0	0	0
Total	18*	24*	47

* The actual number of contractors and the number of contracts involved in the Tables under (a)(i) and (a)(ii) above are 23 and 34 respectively, after deducting the duplication, as some contractors serve more than one department at the same time or have both conviction records and records of breach of employment conditions.

- (b) According to the provisions in the contract document, the contractors bidding for the service contracts have only given consent for the Government to use the obtained information in respect of conviction records and records of breaches of employment conditions for the purpose of tender evaluation and contract administration. The Government cannot disclose such information without the contractor's consent. Otherwise there may be legal consequences. For this reason, the Government cannot provide the names of the contractors with the records of convictions and breaches of employment conditions. The Government can only provide the following related information for Members' reference.

Of the five government departments and the HA, only the FEHD, LCSD and HD have their contractors being convicted under the relevant Ordinances or penalized by the concerned department for

breach of employment conditions from March 2004 to January 2006. The relevant information is as follows:

<i>Department</i>	<i>Nature of service provided by contractors breaching the relevant Ordinances/employment conditions</i>	<i>No. of contractors breaching the relevant Ordinances/employment conditions</i>	<i>Convictions under relevant Ordinances</i>		<i>Breaches of employment conditions</i>		<i>Service contracts currently undertaken by the concerned contractor</i>	
			<i>No. of cases</i>	<i>Fine (\$)</i>	<i>No. of cases</i>	<i>Amount of service fee deducted for the defaults (\$)</i>	<i>No. of cases</i>	<i>(\$ million)</i>
FEHD	Cleaning	12	20	257,500	30	65,806	79	1,293.23
	Security	2	0	0	2	1,796	4	10.6
	Pest control	1	0	0	1	2,458	0	0
	Grave digging	1	1	4,500	0	0	1	1.9
HD	Cleaning	4 [#]	33	115,000	0	0	0	0
	Property management	1	0	0	1	0	12	92
LCSD	Cleaning	2 [#]	27	20,000	12	30,394	2	18
	Security	2	2	2,400	1	2,325	1	6.2
Total		23 [#]	83	399,400	47	102,779	99	1,421.93

[#] One of the contractors is also a contractor under the FEHD. The total number of contractors is 23 after deducting the duplication.

The nature of offences, number and the amount of fine/service fees deducted for defaults in respect of the cases under the relevant Ordinances and breaches of employment conditions are at the Annex. Apart from the imposed fine or deduction of service fees for the defaults on the contractors concerned as shown in the Annex, one contract was terminated for reason of the convictions. The tender offer for government service contracts of six contractors having more than three convictions will not be considered under the mandatory requirement for tender assessment.

Annex

- (i) The nature of offences, number and the amount of fine of the cases under respective EO, ECO and MPFSO

<i>Ordinance</i>	<i>Nature of Offence</i>	<i>No. of cases</i>	<i>Fine (\$)</i>
EO	Not granting rest days	23	140,000
	Not granting statutory holidays	30	64,400
	Not granting annual leave	1	4,500
	Late payment of wages	12	20,500
	Illegal deduction of wages	1	4,500
	Unlawful termination of employment contract	3	150,000
ECO	Not making periodical payment	1	5,000
MPFSO	Not making MPF contributions	12	10,500
	Total	83	399,400

- (ii) The nature of breaches, number and the amount of service fees deducted for the default in respect of cases of breach of employment conditions

<i>Nature of breach</i>	<i>No. of cases</i>	<i>Amount of service fees deducted for the default (\$)</i>
Underpayment of wages	35	76,415
Requiring workers to work beyond the maximum allowable working hours	10	22,378
Not depositing copies of employment contracts with the department	1	1,528
Late payment of wages	1	2,458
Total	47	102,779

Student Number and Tuition Fees

19. **MR SIN CHUNG-KAI** (in Chinese): *President, will the Government inform this Council, by means of the table below, of the numbers of students enrolled in the following categories of schools and their tuition fees for the current and each of the past two school years?*

		<i>Primary schools</i>		<i>Secondary schools</i>	
		<i>Number of students</i>	<i>Median annual tuition fees</i>	<i>Number of students</i>	<i>Median annual tuition fees</i>
<i>Schools under Direct Subsidy Scheme</i>	<i>03-04 school year</i>				
	<i>04-05 school year</i>				
	<i>05-06 school year</i>				
<i>Private schools</i>	<i>03-04 school year</i>				
	<i>04-05 school year</i>				
	<i>05-06 school year</i>				
<i>Schools under Private Independent School Scheme</i>	<i>03-04 school year</i>				
	<i>04-05 school year</i>				
	<i>05-06 school year</i>				
<i>Caput schools</i>	<i>03-04 school year</i>				
	<i>04-05 school year</i>				
	<i>05-06 school year</i>				
<i>English Schools Foundation schools</i>	<i>03-04 school year</i>				
	<i>04-05 school year</i>				
	<i>05-06 school year</i>				

SECRETARY FOR EDUCATION AND MANPOWER (in Chinese):
 President, the number of students enrolled in the following categories of schools and their median annual tuition fees per student for the current and each of the past two school years (from the 2003-04 to 2005-06 school years) are listed below:

<i>School sector</i>	<i>School year</i>	<i>Primary Schools</i>		<i>Secondary Schools</i>	
		<i>Number of students</i>	<i>Median annual tuition fees per student (\$)</i>	<i>Number of students</i>	<i>Median annual tuition fees per student (\$)</i>
<i>Schools under Direct Subsidy Scheme</i>	<i>03-04</i>	<i>4 890</i>	<i>12,000</i>	<i>30 613</i>	<i>5,700</i>
	<i>04-05</i>	<i>5 848</i>	<i>15,000</i>	<i>34 862</i>	<i>6,600</i>
	<i>05-06</i>	<i>7 759</i>	<i>16,500</i>	<i>38 171</i>	<i>7,000</i>

<i>School sector</i>	<i>School year</i>	<i>Primary Schools</i>		<i>Secondary Schools</i>	
		<i>Number of students</i>	<i>Median annual tuition fees per student (\$)</i>	<i>Number of students</i>	<i>Median annual tuition fees per student (\$)</i>
Local private schools	03-04	29 009	20,500	5 678	20,600
	04-05	26 651	21,000	4 918	20,600
	05-06	25 270	21,500	5 298	21,000
Schools under Private Independent School Scheme	03-04	498	41,800	0	0
	04-05	1 093	41,800	75	47,300
	05-06	1 685	41,800	269	47,300
Caput schools	03-04	Not applicable	Not applicable	7 268	26,000
	04-05	Not applicable	Not applicable	7 034	27,000
	05-06	Not applicable	Not applicable	6 815	28,500
English Schools Foundation schools	03-04	5 865	47,300	5 807	78,600
	04-05	6 115	47,300	6 040	78,600
	05-06	6 397	47,300	6 300	78,600

- Notes: (1) Figures on number of students refer to the position in September of the respective school years.
- (2) Figures on number of students and tuition fees for the 2005-06 school year are provisional and are subject to revision.
- (3) English Schools Foundation primary and secondary schools charge uniform tuition fees.

Organ Donation

20. **DR KWOK KA-KI** (in Chinese): *President, will the Government inform this Council of:*

- (a) *the current professional codes or legislation regulating the donation of bodies of the dead, organs, bone marrows, blood, human genes and other cell tissues, as well as the organizations storing such*

donations; and of the procedures, manpower and other resources involved in the regulatory work;

- (b) the current number of patients in need of organ transplant; the type and number of organs required, and the current position regarding the donation of these organs; the patients' average waiting time for organ transplant; and the respective numbers of cases in which the patients gave up waiting, died while waiting and underwent organ transplant; and*
- (c) the measures to enhance civic education in order to encourage the public to donate their organs, and the measures to remind the persons and organizations involved in organ donation to pay attention to medical ethics and morality and make proper use of donated organs for medical, academic and scientific research purposes?*

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

- (a) The Hospital Authority (HA) is taking reference from established guidelines in handling deceased patients. Contents of the guideline was drawn up based on the following three Ordinances:
 - Medical (Therapy, Education and Research) Ordinance (Cap. 278)
 - Human Organ Transplant Ordinance (Cap. 465)
 - Coroners Ordinance (Cap. 504)

The above Ordinances have a very broad coverage, including the specific regulation that under what circumstances (including the consent of the registered next of kin of the deceased), the person who has lawful possession of the body of a deceased person who has died in a hospital, nursing home or other similar institutions, may remove any part from the body for use for therapeutic purposes or for purposes of medical education or research; and to prohibit

commercial dealings in human organs intended for transplanting, but allowing with the approval of the Human Organ Transplant Board under certain circumstances, transplant of organs between living persons.

In addition, the Coroners Ordinance has provisions for the appointment, duties and powers of coroners, for the reporting of certain deaths, for the duties of registered medical practitioners in connection with dead bodies, for matters preliminary to inquests, for matters relating to inquests, and for matters incidental thereto or connected therewith.

- (b) Details about the type and number of patients in need of organ transplant and the waiting time as well as the statistics on patients who gave up waiting or died while waiting and successful organ transplant cases are at Annexes A and B.
- (c) To enhance public awareness and support for organ donation, the Central Health Education Unit of the Department of Health (DH) has regularly disseminated the relevant messages through the following channels:
 - Audio and visual materials — videotapes and display boards are on loan for free from the DH to organizers for their promotional activities. The DH also arranges for the distribution of leaflets and organ donation cards. In 2005, more than 30 000 leaflets and 150 000 organ donation cards were distributed by the DH.
 - Electronic media — free access to information on organ donation is available for the public through the website of the Central Health Education Unit and the 24-hour Health Education Hotline (2833 0111).
 - Donormobile — the Donormobile keeps a stock of educational resources on organ donation for public access during its regular visits to public housing estates and schools. Visits to more than 50 locations were made in 2005.

Moreover, the HA has been working closely with other stakeholders to take forward the cause. A wide variety of publicity and educational activities have been held to foster a positive attitude among the public towards organ donation and encourage people to make the voluntary choice. Measures on this front include:

- The HA joins hands with the mass media to produce special programmes from time to time, and organizes seminars and distributes leaflets to promote the significance and importance of organ donation and to enhance public education;
- To maintain liaison with the Hong Kong Medical Association to publicize the computerized central organ donation register;
- To enlist the support of organ transplant patients and their families to promote the message of organ donation; and
- The HA organizes seminars regularly for its health care workers especially those in frequent contact with potential organ donors, such as staff working in the intensive care unit and neurosurgery unit, to familiarize them with the relevant knowledge on organ donation.

Annex A

Donation/Transplant of Organ, Tissue, Blood, Bone Marrow and
Umbilical Cord (2005)

<i>Organ/tissue</i>	<i>No. of Donation</i>	<i>No. of people on waiting list</i>
Kidney		
Cadaveric	50	1 316
Living	8	
Liver		
Cadaveric	24	141
Living	38	
Domino	1	
Combined transplant: kidney and liver ¹	1	0

<i>Organ/tissue</i>	<i>No. of Donation</i>	<i>No. of people on waiting list</i>
Heart ¹	8	20
Lung ¹	2	6
Heart-lung ¹	0	1
Cornea ¹ (pieces)	214	400
Sclera ¹ (pieces)	16	/
Skin ¹	13	/
Bone ¹	3	/
Blood donation	197 974 units	/
Transplant of Bone Marrow and Umbilical Cord Blood	125 ²	177 persons are under assessment by the transplant centres of public hospitals

¹ Cadaveric donation

² This is the sum of bone marrow and umbilical cord blood transplant cases in public hospitals. Out of these cases, 30 are unrelated bone marrow transplants and seven are unrelated umbilical cord blood transplants while the remaining cases are related transplants.

Annex B

Statistics of organ and tissue transplants

<i>Organ</i>	<i>Average waiting time</i>	<i>Longest waiting time</i>	<i>No. of deaths while waiting (%)</i>	<i>One-year survival rate after transplantation</i>	
				<i>Cadaveric</i>	<i>Living</i>
Kidney	64.7 months	288 months	10.6%	96.5%	98.5 %
Liver	14.8 months	79.7 months	19.30%	94.8%	
Heart	4.8 months	24 months	7%	82%	/
Lung	10 months	34 months	26%	100%	/
Cornea	/	/	/	Average success rate: 80%	

Notes:

1. The above statistics refer to the transplants conducted in public hospitals.
2. The one-year survival rate of bone marrow transplant is, on the whole, at around 80%, depending on the type of the disease involved and the condition of the patient.

BILLS

First Reading of Bills

PRESIDENT (in Cantonese): Bill: First Reading.

APPROPRIATION BILL 2006

CLERK (in Cantonese): Appropriation Bill 2005.

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 2006

FINANCIAL SECRETARY (in Cantonese): Madam President, I move that the Appropriation Bill 2006 be read a Second time.

This is my third Budget. I have developed my budgetary blueprints from the outset based on a pair of intertwined principles. These are "Market Leads, Government Facilitates" and "Prudent Management of Public Finances". With these two postulates in mind, I have listened extensively to the views of the community. My hope is that I can lay the foundations for our social and economic development through my annual Budgets in a manner that is responsive to the aspirations of our community.

The Chief Executive has pledged to pursue excellence in governance, foster harmony in the community and facilitate economic growth. The strong economic recovery in the past two years has indeed improved the overall mood in Hong Kong. It is the clear wish of the people that we should capitalize on the present opportunity and further develop our economy. What the community wants is unambiguous: less argument, more action.

My Budget this year consists of four themes: Recovery, Enhancement, Commitment and Sharing. I shall expound on these seriatim.

Recovery

In 2005, Hong Kong's economy continued to expand rapidly. Following an increase of 8.6% in 2004, our Gross Domestic Product (GDP) registered a

growth of 7.3% last year. Exports of goods and services enjoyed remarkable growth; fixed asset investment rose further and consumer spending continued to rise. Asset prices trended up gradually, and the financial situation of many families and individuals in Hong Kong improved.

240 000 new jobs have been created over the past couple of years as a result of our economy's recovery. Total employment reached a new high of 3.43 million. Recently, the unemployment rate fell from 8.6% in mid-2003 to a four-year low of 5.2%. The number of long-term unemployed also fell from its peak of 93 000 to 57 000. As at the end of last month, the number of unemployment Comprehensive Social Security Assistance (CSSA) cases was 10 300 less than the high of 51 400 in 2003. (Chart 1)

As the employment situation improved, wages and income also moved up gradually. The average wage of workers in the middle to lower segments of the market increased again in 2005 after falling for a number of years. With the additional job opportunities, the income of many grass-root families also rose noticeably.

Hong Kong's economy has been restructuring itself to move up the value chain and has created many high-salaried jobs. In recent years, our workforce has grown at an average annual rate of 1%, while the corresponding rate for the more highly-skilled, professional and managerial workforce is close to 4%. Today, one in three of our working population belongs to this category. Due to the strong economic recovery, the supply of certain professionals is actually falling short of demand. The number of full-time employees with a monthly income of \$15,000 or above has risen from 470 000 in 1995 to 790 000 in 2005. This represents an increase from 21% to nearly one third of the total number of full-time employees. In contrast, the number of people earning less than \$9,000 a month fell from 1.12 million to 930 000, which translates into a drop from almost 50% to 38%. The number of employees earning less than \$5,000 a month last year was below 6%. (Charts 2 and 3)

I understand, however, that certain industries, such as those related to construction, and their employees have yet to benefit from the current economic recovery. Some small and medium enterprises (SMEs) have also yet to feel its effects, or may have been adversely affected by rises in rents and other costs.

The strong economic rebound reflects the resilience of the market, and the tenacity and adaptability of our people. Self-reliance in adversity has always been our watchword. Our enterprises took the opportunity, when our economy was at its lowest ebb, to upgrade their efficiency and rationalize their businesses. That has greatly strengthened the resilience of our economy, and laid a solid foundation for the current upturn.

Last year, our nominal GDP surpassed its 1997 peak to reach a new high of \$1,382.2 billion. Hong Kong has now fully emerged from the Asian financial crisis and has regained its strength and vitality. Our domestic economy has been moving forward with increased momentum, and we are better placed to ward off external shocks. I am cautiously optimistic about this year's economic outlook.

The external environment should remain generally positive this year. Following the macroeconomic adjustment the Mainland economy underwent, it continues to grow strongly on a firmer footing. Despite the threat of protectionism from other countries and overinvestment in certain sectors, the Mainland economy nevertheless put in a strong performance, with consumption and investment booming. Production has been gradually upgraded, and people's income keeps rising. Mainland provinces and cities are constantly improving their infrastructure, and market reform is deepening.

The largest economy in the world, the United States, has in recent years demonstrated its internal resilience and shrugged off a number of unfavourable factors. It has maintained steady growth. The situation in the United States does, however, cast shadows over the state of the global economy. These include its huge current account deficit, whether there will be a larger-than-expected adjustment in United States property prices following their sharp increases in recent years, and whether consumption in the United States is sustainable in the long term by increasing debt. European economies have been clouded for several years by negative sentiment but have shown recent signs of improvement. The Japanese economy has gradually regained its vitality after emerging from a prolonged downturn. Most other Asian economies will benefit from the strong performance of economies such as those of the United States and Japan, and show steady growth.

However, the full impact on the global economic climate of increased oil prices and successive interest rate hikes has yet to be felt. Higher interest rates may also crimp the growth in local private consumption and investment

expenditure. In addition, heightened geo-political tensions in certain parts of the world may also lead to further volatility in oil prices and financial markets.

Taking all these factors into account, and subject to there being no serious incidents or major external shocks, Hong Kong's economy is expected to achieve solid growth in 2006, with GDP forecast to increase by 4% to 5%, slightly higher than the trend growth rate over the past 10 years. As our economy continues to grow, the employment situation should improve further. Inflation will remain moderate, with the Composite Consumer Price Index (CCPI) expected to rise by 2.3% for the year as a whole.

In the medium term from 2007-2010, I forecast a 4% trend GDP growth rate in real terms, and a 2% trend rate of increase in the GDP deflator. The forecast trend growth rate of nominal GDP over the period from 2007 to 2010 is therefore 6%.

2005-06 Outturn

I am confident that, with the Government's efforts to rein in our expenditure combined with strong economic growth, we shall be able to achieve, three years ahead of schedule, all three fiscal targets that I set in my first Budget in 2004:

- (1) operating expenditure reduced to less than \$200 billion in 2004-05 and 2005-06;
- (2) fiscal balance restored in the Operating and Consolidated Accounts starting from 2005-06: the first time since 1997-98 that both accounts have recorded a surplus; and
- (3) public expenditure as a proportion of GDP lowered to and remaining below 20% from 2004-05.

For 2005-06, I am forecasting a surplus in the Operating Account of \$5.8 billion. This is mainly due to higher revenue from salaries and profits taxes and lower expenditure. Operating expenditure for 2005-06 will be \$194.7 billion, down from \$196.9 billion in 2004-05. For the second successive year, following a half-century gap, we have achieved lower expenditure than in the preceding year. My sincere appreciation goes to the Civil Service for realizing the various savings initiatives. I wish also to thank the community for its strong

support for the Government's work. In the Consolidated Account, I estimate that a surplus of \$4.1 billion will be achieved in 2005-06.

Enhancement

Directions for Development: Enhancing Innovative and Value-adding Capabilities

With its rapid growth and development, the Mainland has become the economic engine of the Asia-Pacific region. Hong Kong is poised to leverage on the strengths of the "One Country, Two Systems" principle enshrined in the Basic Law. Our open markets, free flow of information and ideas, independent and sound Judiciary, clean and efficient government, simple and low taxes, world-class regulatory framework and corporate governance system, creative and vibrant population, rich pool of professionals, and law and order are all strengths which have made us what we are today. The advantages they bring to Hong Kong are unique in the region.

However, opportunities also bring challenges. We should therefore continue to promote our economic restructuring, move up the value chain and exercise creativity. The Mainland itself is growing at a fast pace, and will have different policy priorities for the various stages of its development, as in the case of its economic interactions with Hong Kong. We should identify those of our own strengths which can complement our Motherland's development. I believe that taking this direction will contribute to our country's economic reform, sustain our own economic growth, accelerate the current restructuring and create more employment opportunities, thus achieving a win-win outcome.

For several decades, Hong Kong's economy has been undergoing structural changes. In recent years, our financial markets have, for example, evolved into the predominant fund-raising platform for mainland enterprises. In the process, these enterprises have improved their corporate governance and promoted their brand names globally. Our professionals continue to provide more services to the Mainland and its overseas markets and, in so doing, make a positive contribution to our nation's development. Hong Kong's external trade has gradually shifted from re-exports to supply chain management and high value-added logistics services. This has contributed to the notable growth of our offshore trade.

The development of high value-added commercial, financial and professional services has stimulated growth in other sectors, such as convention and exhibition, electronic trading, transportation, hospitality and retail services, and has enhanced our status as a cosmopolitan city. Today, Hong Kong is an important hub promoting the flow of capital, people, goods and information worldwide. We cannot, however, afford to be complacent over our achievements. To progress further, we must continue to enhance our competitive advantages.

Economic Co-operation with the Mainland

The signing and implementation of the Closer Economic Partnership Arrangement (CEPA) with the Mainland has been the most significant development in furthering our economic co-operation. With the inception of its three phases, we have fully liberalized trade in goods between Hong Kong and the Mainland. As of the second week in February, Hong Kong and the Mainland had reached agreement on rules of origin for a total of 1 370 products. We have issued more than 10 800 certificates of origin covering exports valued at \$3.7 billion. Within the first two years of implementation, our businesses have already saved a total of \$240 million in tariffs. In respect of trade in services, the Mainland's markets have also been considerably liberalized under CEPA. Currently, 27 service sectors benefit, and more than 920 Hong Kong Service Supplier Certificates have been issued. We estimate that the implementation of CEPA in its first two years has brought about the creation of 29 000 new jobs.

The implementation of CEPA III from the beginning of this year will provide further business opportunities for our enterprises and professionals. Our focus for the year is to ensure the effective implementation of CEPA. If any Hong Kong business encounters implementation problems, these should be reported immediately to the Trade and Industry Department, which will actively follow up.

As a service-oriented economy, Hong Kong needs a vast hinterland market to promote its economic development. The implementation of the Pan-Pearl River Delta (Pan-PRD) Regional Co-operation Framework Agreement has greatly broadened the scope of our co-operation with the mainland provinces and regions concerned, and will facilitate the use of Hong Kong as a gateway to the international market by mainland enterprises in the Pan-PRD Region.

To build the best foundation for business, we must take steps to maintain an orderly market and ensure that it provides a level playing field for all enterprises. SMEs account for 98% of Hong Kong businesses. In order to promote their development, fair competition has become all the more important. As an advanced economy, Hong Kong must also move with the times in developing our competition policy. The Competition Policy Review Committee, which I appointed last year, is reviewing our existing policy and its effectiveness. We will consider the Committee's recommendations and how best to enhance fair competition once it has submitted its report in the middle of the year.

The Economic and Employment Council (EEC) and its Subgroup on Business Facilitation have, in the past two years or so, made a number of recommendations aimed at cutting red tape and streamlining procedures. The Government has adopted 38 of these recommendations, including simplifying land lease conditions and introducing a composite licence for ready-to-eat food and a provisional licensing system for cinemas. These measures should reduce the business sector's compliance costs and enhance efficiency.

Following the establishment of the Commission on Strategic Development, I disbanded the EEC at the end of last year and replaced it with the Business Facilitation Advisory Committee (BFAC) to focus on and advise the Government on business facilitation measures. This year, BFAC will conduct in-depth reviews of land lease and planning procedures affecting the construction industry, and licensing regimes for food premises such as factory canteens and alfresco dining facilities, theme parks and family amusement centres. The Committee will also look into the feasibility of implementing such measures as expanding the scope of application of temporary licences, composite licences and certification by professionals.

The Government should strive not only to look out for the interests of investors but also to protect labour rights. The Labour Advisory Board is now looking into the issues of minimum wage and standard working hours. We will give them objective and serious consideration.

Financial Services

Hong Kong is one of the most vibrant international financial centres in the world. We enjoy a number of advantages, including a sound regulatory regime

on a par with international standards, an efficient and transparent market, and many financial professionals from around the world experienced in providing services to mainland enterprises. Our capital market has attracted huge amounts of overseas funds and won recognition from international investors. We have overtaken Tokyo since 2004 as the leading equity fund-raising market in Asia. As Hong Kong investors are generally more familiar with the mainland market and enterprises than foreign investors, the turnover of shares of mainland enterprises in Hong Kong is far higher than in any other international financial centre. Hong Kong's competitive edge in financial services complements the Mainland's economic development and financial reform: we are best positioned to become the launchpad for mainland enterprises to develop a global presence. We are forging ahead to create a win-win situation for the Mainland and Hong Kong.

The financial services industry is a key pillar of Hong Kong's economy and also the main area for development. I believe that we must continue to look for improvement in the following directions:

- (1) expanding the scope of Renminbi (RMB) business;
- (2) facilitating market development;
- (3) upgrading the quality of our financial markets; and
- (4) promoting the strengths of Hong Kong as an international financial centre.

Expanding RMB business is one of my major development objectives. Hong Kong is the first place outside the Mainland that can offer RMB business services. As at the end of 2005, 38 banks in Hong Kong were providing RMB deposit-taking, exchange and remittance services. Total RMB deposits in Hong Kong had reached RMB22.6 billion, and the cumulative value of spending and cash withdrawals using RMB debit and credit cards in Hong Kong amounted to \$9.4 billion.

In my last Budget, I proposed three strategic directions for the further development of RMB business in Hong Kong. In 2005, we made progress in the diversification of RMB assets and liabilities. Hong Kong residents will soon be allowed to open RMB current accounts in a Hong Kong bank. RMB

deposit-taking services have been extended to non-individuals. Moreover, to facilitate the further development of our RMB business and ensure the safe and efficient settlement of transactions, the Clearing Bank for RMB business will shortly launch a new settlement system being developed by Hong Kong Interbank Clearing Limited.

Obviously, I hope that RMB business can develop more rapidly, and I fully appreciate the calls of the industry for further expansion. We need, however, to synchronize in tandem with the pace of financial reform on the Mainland and move forward gradually. As to the next stage of development, we are in discussion with the Central Government regarding the other two strategic directions, namely the proposals to allow cross-boundary trade to settle in RMB and to establish an RMB debt issuance mechanism in Hong Kong. These two types of business, if introduced, will greatly promote trade between the two places and the development of our bond market. They are vitally important in reinforcing our position as an international financial centre, and will at the same time provide a testing ground for the move towards full RMB convertibility.

Last December, the Securities and Futures Commission (SFC) suspended the investor compensation levy in order to reduce transaction costs. In addition, I propose to reduce the levy on trading in securities, futures and options contracts by 20% within this year. These two measures will save nearly \$300 million a year in market transaction costs.

Upgrading Market Quality

Our corporate governance system and capital markets are on a par with international standards. This is where the greatest attraction lies for mainland enterprises to use Hong Kong to tap the international market. We need therefore to keep upgrading the quality of our financial markets. We will introduce a Securities and Futures (Amendment) Bill into this Council later in the year. The Bill aims to strengthen the regulation of listed corporations and further increase local and overseas investors' confidence in our securities market. We also hope that this Council can complete its scrutiny of the Financial Reporting Council (FRC) Bill as soon as possible, so that we can establish the FRC to strengthen the supervision of auditors of listed corporations.

We will continue to promote Hong Kong's brand name in financial services. Because of our strengths in the stock and bond markets and asset management business, Hong Kong is an ideal platform for mainland enterprises and funds to reach out to the international market:

- we are the premier capital formation centre for the Mainland. From 1993, when the first Mainland enterprise listed in Hong Kong, up to the end of last year, 335 mainland enterprises had raised a total of nearly \$1,100 billion through listing here. Mainland enterprises account for some 30% of the total number of our listed companies, with a combined market capitalization accounting for nearly 40% of the total market. Last year, turnover of their shares represented 46% of the total. In terms of funds raised through initial public offerings in Hong Kong, the top 10 enterprises are all from the Mainland. Because Hong Kong's stock market is deep and liquid, the trading in shares of mainland enterprises listed in both Hong Kong and overseas markets, such as London and New York, often shifts from the latter to Hong Kong soon after the initial public offering. Around 80% of share trading in mainland enterprises listed in both Hong Kong and the United States, for example, is conducted in Hong Kong;
- Hong Kong is a major asset management centre in Asia. Our asset management business exceeds \$3,600 billion. To attract further inflow of new funds, we have abolished estate duty. We have also introduced into this Council a Bill to give effect to the proposed exemption of offshore funds from profits tax. The House Committee of this Council has agreed to resume the Second Reading of the Bill next week. These measures will further underpin our position as an asset management centre. With a high savings rate, the Mainland has a huge amount of funds that can be channelled into investment. We are, in addition, exploring with the Central Government the possibility of using Hong Kong to implement a Qualified Domestic Institutional Investors Scheme; and
- Hong Kong is well-positioned to become Asia's bond centre. The issuance of bonds in Hong Kong by mainland enterprises is on the rise. As at the beginning of this year, more than 20 mainland enterprises had issued and listed their bonds in Hong Kong, raising

in excess of \$65 billion in the process. Over 60% of these proceeds were raised in the last 18 months. We will further improve the basic infrastructure of our bond market. The SFC has now completed its consultation on possible reforms to the prospectus regime, and is studying the views of the public and the industry and the way forward to enhance the existing system.

Developing Tourism

Last year the tourism industry put in an impressive performance. Total visitor arrivals reached a new high of over 23 million, and tourism receipts exceeded \$100 billion. We have made very good progress in achieving a balanced market portfolio. Over the past two years, visitor arrivals from our traditional long-haul markets, such as North America, Europe, Australia and New Zealand, all recorded double-digit growth. The Mainland remains our biggest source market. The Individual Visit Scheme now covers 38 mainland cities, compared with 32 a year ago, and nearly 200 million people. We are making a bid to extend the scheme to six other provincial cities in the Pan-PRD Region. As our tourism industry expands, it will stimulate growth in related sectors, create a strong demand for manpower and provide many in our workforce with jobs which are much-needed due to economic restructuring.

Last year, we targeted two particular groups with tremendous potential: family and business travellers. The Hong Kong Tourism Board has designated 2006 as "Discover Hong Kong Year" in an effort to attract these two groups to stay longer and spend more in Hong Kong. Last September saw the opening of Hong Kong Disneyland, and we continue to implement our strategy by developing diversified tourist facilities. We are preparing for the opening of Ngong Ping 360 (comprising Ngong Ping Skyrail and Village) as well as the Hong Kong Wetland Park. We are giving full support to the redevelopment of Ocean Park, and will seek to ensure a start to the project can be made as scheduled this year. This \$5.5 billion project, while retaining the educational mission of the Park, will give this much-loved facility a completely new face. AsiaWorld-Expo, which opened for business last month, is our biggest exhibition centre and will attract more business travellers to Hong Kong. We also plan to carry out a number of improvement projects to ensure that selected places of interest remain attractive. The Dr Sun Yat-sen Museum, which will be completed in early 2007, will be a good place for visitors to appreciate our heritage.

At the end of last year, the Government invited expressions of interest for the construction of a new cruise terminal and has received six proposals. We shall come to a view on these very soon. Future plans include the Concept Plan for Lantau, which proposes to develop green and cultural tourism in South Lantau. This will be a further area of focus alongside conservation and economic infrastructure.

The Government will continue to invest in our tourism infrastructure and promote our hospitality culture. These will be instrumental in facilitating the growth of our tourism industry and creating more employment opportunities.

Developing Logistics

South China is a major global manufacturing centre. Hong Kong is an international logistics hub. Our airport has the world's largest international cargo throughput, and our container port is among the busiest in the world. In the face of competition from nearby regions, Hong Kong's logistics industry is making every effort to improve efficiency and provide speedy, reliable and full-scale value-added logistics services so that quality can compensate for cost differentials.

Where port services are concerned, we need to continue improving our competitiveness. The Government is assisting this process by working closely with the Mainland authorities in order to develop major cross-boundary linkages between our transport network and those of Guangdong and other Pan-PRD provinces, and to expand the source markets for goods. The Hong Kong section of the Hong Kong-Shenzhen Western Corridor was completed at the end of 2005. The basic works for the Shenzhen section and the boundary-crossing facilities at Shekou will be completed by the end of this year. The commissioning of the Corridor will greatly increase the handling capacity of our land boundary crossings. The recently-launched Digital Trade and Transportation Network System will help reduce the cost of information exchange and provide more opportunities for commercial symbiosis.

We are working closely with the industry to enhance cost effectiveness. We have proposed a series of measures to attract more vessels to use our port facilities. Such measures include simplifying vessel entry procedures, lowering port charges, and establishing more service anchorages to increase midstream cargo-handling capacity. To meet demand for support services, we will

conduct open tenders for suitable sites adjacent to the container terminals. We will continue to promote discussion within the industry with the aim of enhancing the transparency of terminal handling charges.

The Airport Authority and the industry concerned are examining the proposed establishment of a gold depository at Hong Kong International Airport. This will help to promote Hong Kong as a logistics hub and gold trading centre. To support this development, we will consider providing a concession in trade declaration charges for gold.

Pooling of Talent

In a globalized economy, those places which can pool the most talent are the most successful. We must nurture and attract the best talent to maintain our competitive edge.

In order to increase the competitiveness of local talent, we will improve the quality of our formal education and enhance training and retraining with more investment in these areas. Another of our objectives is to attract more undergraduates from outside Hong Kong to study in local tertiary institutions on exchange programmes. Such programmes will give exchange students a deeper understanding of Hong Kong and the Mainland; and, in return, our students on exchange will benefit from the experience of learning and living abroad. Student exchange programmes create a multicultural environment on campus. This will broaden our younger generation's outlook on life, and will help to develop Hong Kong over time as the regional centre for education. The Secretary for Education and Manpower will also consider how to attract more full-time tertiary students from abroad. To produce all-round tertiary students, hostel life is an important part of higher education. In this connection, I propose to provide 1 800 additional hostel places, at a total cost of roughly \$350 million. Such an enhancement will benefit both our local students and exchange students by meeting their accommodation needs, and increase our institutions' attractiveness as centres for exchange activities.

We must make a greater effort to recruit overseas and mainland talent who have made a mark in their chosen professions. I am pleased to announce that the Chief Executive in Council has endorsed the introduction in the first half of the year of the "Quality Migrant Scheme" (QMS) to attract such talent. Applicants will be required to meet certain eligibility criteria in respect of, *inter*

alia, academic attainment, professional qualifications and work experience, but without needing to have secured prior employment. The Government will assess applications in accordance with an objective marking scheme. The QMS will have a quota of 1 000 entrants a year. Successful applicants will be allowed to enter Hong Kong and stay for one year, accompanied by their spouses and children. The Secretary for Security will shortly announce further details.

Hong Kong's economic development needs to move forward in tandem on many fronts and the pooling of talent is an integral part of this process.

Commitment

Future Challenges

Although our economic performance at the moment is encouraging, many challenges lie ahead. While formulating our economic development and fiscal policies, we should be alert to all such challenges and address them with the best interests of our community at heart. This is society's commitment to the people of Hong Kong. In the near future, we face the potential risks of an avian influenza epidemic and volatility in the global financial markets. For the longer term, we have to deal with the following:

- to meet the challenges of a knowledge-based economy, the quality of our human resources needs to be constantly upgraded, and at a quicker pace. This improvement in quality should include education, training and the fostering of cultural awareness, which will require huge resources;
- the restructuring of the economy and mismatch of labour will continue to bring employment pressures to bear on low-skilled workers and widen the income gap;
- the ageing population will give rise to a series of problems, including greater demand for elderly care services. As the ratio of working to total population will gradually decrease, we need to be prepared and continually upgrade our productivity and competitiveness; and

- environmental problems will affect public health and the quality of life and impede the sustained development of Hong Kong as a cosmopolitan city.

These are only a few examples of the challenges that will put government finances under pressure.

On the macroeconomic front, I am concerned as to how much further the unemployment rate can drop from its present level of 5.2% and whether the ageing population will push up Hong Kong's natural unemployment rate. Our economic recovery has led to higher prices and a rebound in property rentals. The CCPI rose by 1.1% last year. Inflation has once again emerged as an issue to watch.

All these challenges will impact on our public finances. Over the past few years, we have implemented vigorous measures to contain expenditure. There is consequently limited scope for further cuts. Many of our revenue items are heavily dependent on the performance of our economy. In times of economic downturn, the risk of budget deficits will re-emerge. The Government's tax base is also too narrow: for example, only one third of the working population pays salaries tax. We also have to accept that land premiums and investment income, as volatile as they may be, are very important to our finances.

The more advanced and affluent a society becomes, the higher are the public's expectations of its government. We will inevitably need to increase government expenditure substantially, if we are to meet all of our community's demands. We will need revenues to finance such expenditure, although maintaining a low-tax regime is the wish of the majority. I am also of the firm belief that leaving wealth with the people is a key driving force for economic development. The biggest challenge in managing public finances is to keep taxes low while at the same time satisfying the needs of the community.

My fiscal targets are to keep our accounts in balance and the share of public expenditure in GDP at 20% or below over the next few years. For 2006-07, public expenditure is forecast at around 18% of GDP, lower than most other developed economies. Hong Kong is an externally-oriented economy and thus highly susceptible to outside shocks. As our economy is also subject to cyclical fluctuations, there is all the more reason for us to provide against a rainy

day when the economy is strong, or else we will have too little room to introduce relief measures for our community during a downturn. We need to maintain the share of public expenditure in GDP at a low level in order to secure the health of our public finances.

We would naturally have preferred to provide more welfare to our citizens. We would have liked to develop more parks, piazzas, open space and cultural and heritage sites. But where is the money for all these going to come from? In line with our belief in small government and given our limited resources, we must manage our finances prudently. On the welfare front, we provide the community with a basic safety net and aim to build a just and caring society. However, we cannot compare ourselves with welfare states as our community does not accept their high tax regimes. Maintaining the share of public expenditure in GDP at 20% or below, I believe, strikes a proper balance between keeping taxation low and enhancing government services. Following the principle of "Big Market, Small Government" helps to maintain our low-tax regime and requires us to spend within our means. This is the approach that best serves the long-term interests of Hong Kong.

We shall continue to maintain a strict fiscal discipline and ensure the effective use of resources. The Government will keep expenditure within the limits of revenues, strive to achieve a fiscal balance, avoid deficits, and keep the budget commensurate with the growth rate of GDP.

Estimates of Expenditure

The Government has given firm undertakings to the community to improve people's livelihood by investing in education, helping disadvantaged groups, safeguarding public health, protecting people's lives and property, and investing in infrastructure. We estimate that total government expenditure for 2006-07 will be \$245.6 billion. Expenditure on Education, Social Welfare, Health and Security will account for over 60% of this. In view of our improved fiscal position, I have maintained each Bureau's operating expenditure allocation generally no lower than for last year.

There is a widespread view in our community that education is an investment. I share this view. We will spend \$56.5 billion on Education in 2006-07. For every university graduate who has passed through our education system, the Government's total investment exceeds \$1 million. We are

injecting a further \$1.1 billion in total into the Language Fund this year and in the coming year, with a view to raising students' linguistic proficiency. Expenditure on Social Welfare will amount to \$36.2 billion, of which \$24.5 billion will be spent under the CSSA and Social Security Allowance Schemes. We will exempt non-government welfare organizations from the additional expenditure-reduction measures that we originally planned to help restore fiscal balance. Health expenditure will exceed \$32 billion. We will convert the Hospital Authority's one-off grant of \$650 million last year to recurrent funding from now on; we will also provide additional recurrent funds rising by some \$300 million per annum over the next three years so as to strengthen the Authority's financial position and allow it to cope better with service requirements.

We attach great importance to the prevention and control of infectious diseases. We have invested large amounts in, *inter alia*, enhancing the training of health care workers and stepping up the provision of infectious disease isolation facilities. We have in place the Preparedness Plan for Influenza Pandemic which has been developed in accordance with World Health Organization guidelines. In order to protect public health and in view of the recent threats of avian influenza, we have tightened surveillance and have enacted legislation banning backyard poultry keeping. We will continue our efforts to prevent the outbreak of avian influenza and have begun stockpiling antivirals. In the case of outbreaks, all necessary resources will be made available.

Over the next five years, the Government will earmark \$29 billion a year on average for infrastructure projects. We estimate that about 14 000 new construction jobs will be created in the coming year. We will speed up delivery of the outstanding projects of the former Municipal Councils and other minor works projects. We will, as soon as possible, commence the major projects under planning, such as the North Lantau Highway Connection to the Hong Kong-Zhuhai-Macao Bridge and the Central Government Complex and Legislative Council Building at Tamar. These will create more construction employment opportunities and ensure that public works expenditure remains stable over the next few years. Meanwhile, the community is engaged in discussing the plans for other large-scale projects, including Kai Tak Development and the Central-Wan Chai Bypass.

Madam President, increasing investment in infrastructure will not only promote economic development and bring more job opportunities, but also make our living environment more pleasant and enhance our competitiveness. We have a number of large infrastructure projects under planning, and we hope to start the works more quickly. Since our fiscal position has improved, we now have the opportunity and resources available to proceed. I hope that in a spirit of co-operation, and with the objective of building Hong Kong, we can reach an early consensus on these projects. In line with our principle of investing where required, I am in support of pushing ahead with infrastructure development and am prepared, if necessary, to increase the estimate of expenditure for this.

By March 2007, we will have been able to reduce the civil service establishment from some 198 000 at the beginning of 2000 to about 160 000, as scheduled. Subject to operational requirements, we will retain existing temporary jobs in the public sector for a further year.

Helping the Disadvantaged Groups

The Government is committed to helping the needy. We have made enormous investments in education, medical care, public housing and provision of a basic safety net. To put into practice the Chief Executive's policy objective that government should be for the people, I will increase the recurrent funding to help disadvantaged groups by about \$100 million, starting from 2006-07. New and improved services will be funded by:

- an additional \$27 million to strengthen convalescent and continuing rehabilitation day services for discharged disabled and psychiatric patients, and to enhance services for the disabled living in residential rehabilitation service centres;
- an additional \$30 million to strengthen family support, including enhanced out-reach services from Integrated Family Services Centres;
- an additional \$20 million to strengthen home care services for the elderly to realize our vision of "ageing in place"; and

- an additional \$20 million to improve the pilot Comprehensive Child Development Service and gradually extend its coverage for early identification of children and their families with special needs, such as single-parent and low-income families, and provision of appropriate services for them.

Jobs are the best way of helping the unemployed restore their confidence and achieve self-reliance. To assist those in need who are capable of working, our focus is not only on providing welfare, but also on enhancing their capability through education and training, and giving them proper employment assistance and support. Over the next five years, I will provide additional funding of about \$230 million to strengthen our efforts to help the needy. New and improved services will be funded by:

- an additional \$60 million over the next two years to continue the Intensive Employment Assistance Projects, to help unemployed CSSA recipients rejoin the workforce;
- an additional \$20 million next year to strengthen our employment assistance measures, which include:
 - introducing the pilot My STEP — Special Training and Enhancement Programme to motivate unemployed young CSSA recipients to rejoin the workforce;
 - strengthening employment assistance at the district level for long-term CSSA recipients by providing a one-off incentive of \$1,500 on a trial basis to help them settle into their new jobs;
 - providing short-term travel support on a trial basis for Tin Shui Wai, Tung Chung and North District residents who are financially needy and have completed full-time courses with the Employees Retraining Board. This will encourage unemployed people in districts further afield who are not receiving CSSA to take up employment; and
 - training the staff who run social enterprises; and

- an additional \$150 million over the next five years earmarked to strengthen district-based poverty alleviation work, including support for social enterprises.

The Government will assist further in the development of social enterprises. We propose to relax the existing requirement, under the Enhancing Employment of People with Disabilities through Small Enterprise Project, for an applicant's workforce to comprise more than 60% of disabled people before qualifying for a grant. This relaxation will enable social enterprises to expand their business activities and allow more unemployed and disabled persons to benefit. Social enterprises will also be able to enjoy the support services now generally available to SMEs. Subject to the principles of transparency, fairness and value for money in government procurement, we will facilitate participation by social enterprises in tenders for government contracts.

Last year, we established the Commission on Poverty (CoP) in order to review current policies with the ultimate aim of enhancing their effectiveness. In the coming year, the CoP will continue to study how to help the poor and disadvantaged and co-ordinate the implementation of the foregoing initiatives.

Healthcare Financing

Our health care services are heavily subsidized. The Government bears over 95% of their cost. Rapid advances in medical science and pharmaceutical technology mean more expensive treatments and drugs and lead to even higher expenditure. According to the Hong Kong Population Projections, the proportion of residents aged 65 and over will rise from 12% in 2003 to 27 per cent in 2033. All these factors will bring greater pressure to bear on government finances. The Health, Welfare and Food Bureau is consequently studying alternative arrangements for health care financing, and will conduct a public consultation later in the year. In finalizing an overall package, we will consider whether to provide a tax deduction for contributions to private medical insurance schemes, a suggestion put to me by many during my own consultations on the Budget.

Promoting Environmental Protection

As I have mentioned in my previous Budgets, we need to impose "green" taxes in accordance with the "polluter pays" principle. The Secretary for the

Environment, Transport and Works will introduce the Product Eco-responsibility Bill into this Council later in the year to provide a legal framework for producer responsibility schemes. The products to be regulated under the schemes will include tyres and plastic bags. The Environment, Transport and Works Bureau will levy a fee on tyres and require the industry to be responsible for their recovery and recycling. As for plastic bags, the Bureau intends in the longer term to introduce legislation prohibiting their free distribution and to levy a tax to deter their use. It will consult the industry and the public extensively on the relevant legislative proposals. In the interim, the Bureau will agree a plastic bag reduction target with major supermarket chains and implement a pilot scheme.

Hybrid vehicles produce fewer emissions than petrol-only vehicles. When further options are available in the market, the Government will consider using such vehicles itself more extensively and introducing measures to promote their use by the public. Separately, I propose to exempt electric vehicles from first registration tax for a further three years up to 31 March 2009.

Goods and Services Tax

Madam President, insofar as our existing public finances are concerned, expenditure is rigid and revenue, which is subject to economic fluctuations, is unstable. Land premiums and investment income are very important, yet volatile, revenue items. As a share of government revenue over the past 10 years, the former has fluctuated between 3% and 28%, and the latter between 0.5% and 18%. Our salaries tax and profits tax, which are the major streams of recurrent revenue, are paid by a minority of residents and enterprises, and such taxes are highly sensitive to economic fluctuations. The problems arising from our narrow tax base are abundantly clear. The existing structure of government revenue is less than healthy. We need revenue items which are less sensitive to the ups and downs of economic cycles to offset the volatility of the others. Widespread experience overseas has demonstrated that a Goods and Services Tax (GST) can achieve this purpose. I believe that it is the civic responsibility of Hong Kong people to contribute an affordable amount of tax.

During the past two years or so since I became Financial Secretary, members of the community have periodically engaged themselves in discussions on GST, and have expressed their views to me. I can appreciate the concerns

some may have. In working out the details of GST, I will follow the principle of maintaining our low and simple tax regime. The Government will consult the public on the detailed proposals. We intend, *inter alia*, to provide tax refunds to visitors and allow importers to defer payment so as to relieve pressures on their cash flow. To reduce the erosion of people's purchasing power, we will also propose relief and compensatory measures, including an increase in the level of CSSA payments and reduction of other taxes.

As regards timing, we will launch the public consultation in the middle of this year. It will last about nine months in order to allow sufficient time for the public to express their considered views. After the conclusion of the consultation period, we will prepare a report and submit our proposals for consideration by the Government of the next term. From making a decision to introducing GST to its actual implementation will take about three years. I hope the community can take the opportunity of the consultation period to have a rational discussion of the Government's proposals.

Sharing

Revenue: Sharing Wealth with the People

Over recent months, I have heard suggestions that, as our economy recovers and the Government's financial position improves, we should increase expenditure or substantially reduce taxes, for example, by restoring the salaries tax bands and rates to their 2002-03 levels. However, other views hold that there is no need for the moment to introduce major tax relief. The Government should instead take this opportunity to save up for a rainy day.

I have pointed out that Hong Kong will continue to be confronted with various challenges. In the face of these, as a government that manages public finances prudently and keeps expenditure within the limits of revenues, we should not rush into deciding on substantial tax reductions. For example, the proposal to restore salaries tax rates to their 2002-03 levels would reduce government revenue by \$7 billion a year, if implemented, and cause nearly 100 000 taxpayers to fall out of the tax net. I consider that such a proposal would affect the stability of our public finances, and would shrink our narrow tax

base still further. As I have mentioned earlier, I also believe that citizens should fulfil their civic responsibility by paying some tax.

Being a government of the people, we need to appreciate our community's needs and be responsive to their aspirations with due regard to our fiscal position. Where practicable, we will indeed share wealth with the people. As our economy continues to improve, therefore, I am proposing to implement some modest tax concessions in the coming year to reduce the burden on taxpayers, particularly middle-class families, in accordance with the principle of affordability, but without wishing to narrow our tax base. I have decided against a one-off tax rebate as this would only be of short-term benefit.

Salaries Tax

I propose to lower the marginal rates of the second, third and top tax bands by one percentage point from the existing levels of 8%, 14% and 20% to 7%, 13% and 19% respectively. This proposal will reduce the tax payable by nearly a million people, that is, three quarters of taxpayers, and cost the Government about \$1.5 billion a year.

Purchasing a property is an important lifetime decision. To many people, particularly the middle class, mortgage payments are major items of family expenditure. Currently, each taxpayer is eligible for a seven-year salaries tax deduction for home loan interest of up to \$100,000 a year. However, the recent increases in mortgage rates have added to their burden. Therefore, I propose to extend the limit for the deduction by a further three years to a total of 10 years, subject to the maximum annual deduction of \$100,000. This measure will cost the Government some \$1.2 billion in 2006-07. We will introduce legislation to give effect to the two foregoing proposals as soon as possible into this Council.

Profits Tax

A good number of local chambers of commerce and professional bodies have suggested revisions to the current profits tax arrangements for corporate losses. Of these proposals, the most significant ones are for the introduction of group loss relief and loss carry-back arrangements.

We have studied these two proposals in some detail. With the development of today's financial tools, group loss relief can easily be abused as a means to evade tax, and such activities would be very difficult to combat. I estimate that the suggested exemption, if implemented, would cost billions of dollars a year in lost tax. While taxpayers who suffer losses in their businesses may be helped to a certain extent to tide over difficult times by loss carry-back arrangements, this would place enormous pressure on tax revenue during periods of economic downturn. The Government would not only suffer a loss in tax revenue, but also have to refund tax collected in preceding years. Compared with other places, Hong Kong's tax rate is already very low. Businesses are already allowed to offset their losses indefinitely against the profits of future years. Our tax regime remains very attractive to investors. I do not therefore propose to introduce any group loss relief or loss carry-back arrangements.

Rates

Rateable values are derived from the amount of rent that a property can be expected to command in the open market. They are thus subject to fluctuation in line with market conditions. In the latest revaluation exercise, rateable values increased on average by about 9.2%. Although on the rise after falling for several years in the wake of the Asian financial crisis, rateable values are still nearly 30% below their peak. I will keep the rates charge in 2006-07 unchanged at 5%. So, while nearly 80% of ratepayers will see an increase in their rates bill, this will only be about \$37 a month on average.

Sale and Securitization of Government Assets

The Government will observe the principle of "Big Market, Small Government" in continuing to identify suitable assets for sale or securitization. This programme serves both to increase government revenue and to offer more investment options to the public, spurring on the development of our financial markets.

Medium Range Forecast

If our economy grows as forecast and we can implement our expenditure and revenue proposals, the medium range forecast for 2006-07 to 2010-11 will be as follows:

	<i>2006-07</i> <i>(\$ billion)</i>	<i>2007-08</i> <i>(\$ billion)</i>	<i>2008-09</i> <i>(\$ billion)</i>	<i>2009-10</i> <i>(\$ billion)</i>	<i>2010-11</i> <i>(\$ billion)</i>
Operating revenue	209.6	215.8	227.3	239.7	253.6
Operating expenditure	209.0	214.2	219.6	225.1	230.7
Operating surplus	0.6	1.6	7.7	14.6	22.9
Capital revenue	47.7	52.9	62.3	52.1	55.6
Capital spending (including payments from the Capital Investment Fund)	40.1	44.2	44.1	44.1	45.9
Repayment of government bonds and notes	2.6	-	2.7	3.5	-
Capital financing surplus	5.0	8.7	15.5	4.5	9.7
Consolidated surplus	5.6	10.3	23.2	19.1	32.6
- as a percentage of GDP	0.4%	0.7%	1.4%	1.1%	1.8%
Fiscal reserves	306.4	316.7	339.9	359.0	391.6
- as a number of months of government expenditure	15	15	15	16	17
Public expenditure	264.9	277.1	282.0	287.4	295.0
- as a percentage of GDP	18.2%	18.0%	17.3%	16.6%	16.1%

I forecast a surplus of \$0.6 billion in the Operating Account for 2006-07, and this will build up to \$22.9 billion in 2010-11. In respect of the Consolidated Account, I estimate that a surplus of \$5.6 billion will occur in 2006-07, and this will build up to \$32.6 billion in 2010-11. (Chart 4)

The projected surplus in both accounts over the next five years is to a great extent based on our forecast of economic growth. Taking such growth into account, we will increase operating expenditure moderately over the next few years to enhance the quality of government services and cater for inflation. However, Hong Kong faces many challenges. Having regard to prevailing circumstances in the next five years, we will review our expenditure guidelines annually to ensure that we continue to manage our public finances prudently and keep expenditure within revenue limits.

We expect that by 31 March this year, our fiscal reserves will stand at \$300.8 billion, equivalent to 16 months of government expenditure. For the next five years, the fiscal reserves will be maintained at a level between \$300

billion and \$390 billion, the equivalent of 15 to 17 months of government expenditure.

Our most valuable asset is the very special community we have in Hong Kong:

- we observe the rule of law and love freedom of speech;
- we are resilient and hard-working;
- we respect open markets and fair competition, and value economic development;
- we regard challenges and setbacks as the springboard for further success;
- we are versatile and enterprising, and seize opportunities well; and
- we probably have the fastest pace of living in the world, but we also pause to help the needy.

I recall saying in my Budget speech two years ago that our economy was in the early dawn of recovery. With Hong Kong people's special characteristics and Hong Kong's competitive advantage in having the Mainland as our hinterland and our international outlook, the economy has continued its steady recovery over the past two years. It is now springtime in Hong Kong and, like the early morning sun, our economy has risen above the horizon. However, prosperity does not come easily, and we must treasure what we have achieved and not rest on our laurels. We must continue to develop ourselves and play to our strengths.

Madam President, in the eight years following Hong Kong's reunification with our Motherland, we have faced and overcome many challenges because we were able to remain strong, to unite and work together. I firmly believe that our people support us in practising free market principles and prudently managing public finances. I firmly believe that our community is committed to

taking advantage of our hard-earned economic recovery and building on our strengths. I firmly believe that, for as long as we continue to be united and work together, we shall be able to make the most of the present opportunities and we shall be the brightest pearl of our nation.

Thank you, Madam President.

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the Appropriation Bill 2006 be read the Second time.

PRESIDENT (in Cantonese): In accordance with the Rules of Procedure, the debate on the Second Reading of the Appropriation Bill 2006 is now adjourned, and the Estimates are referred to the Finance Committee for examination before the debate on the Second Reading of the Bill resumes.

NEXT MEETING

PRESIDENT (in Cantonese): I now adjourn the Council until 11.00 am on Wednesday, 1 March 2006.

Adjourned accordingly at nine minutes past Twelve o'clock.

Chart 1

Unemployment rate and number of unemployment CSSA cases

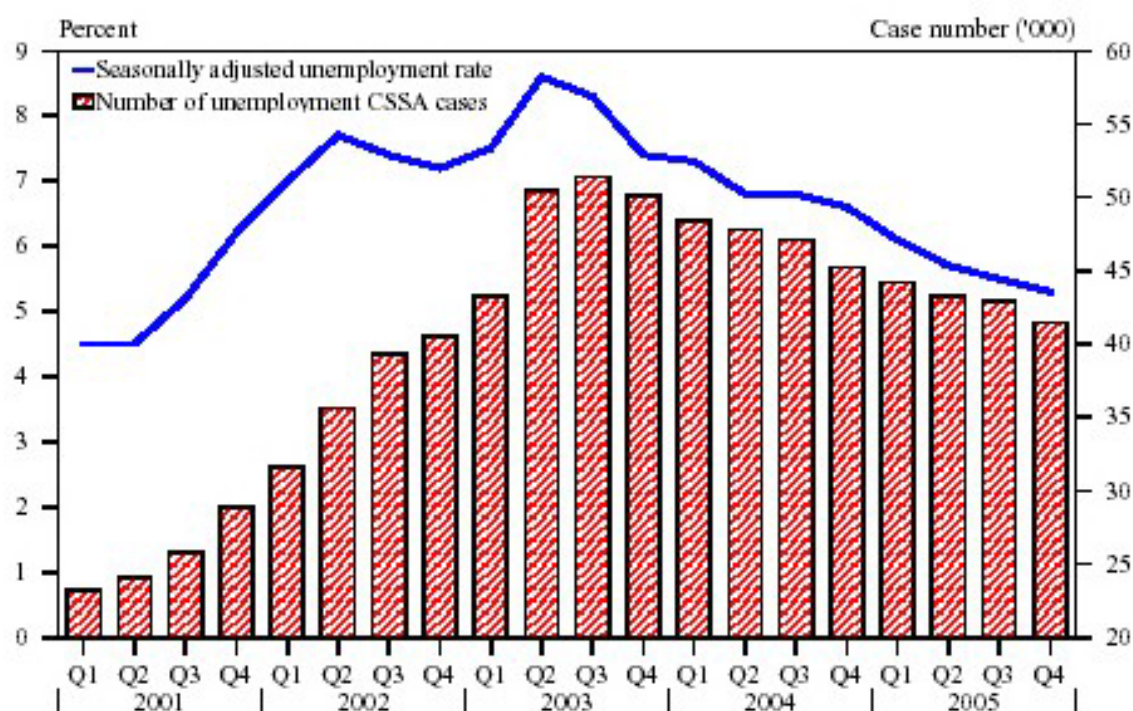
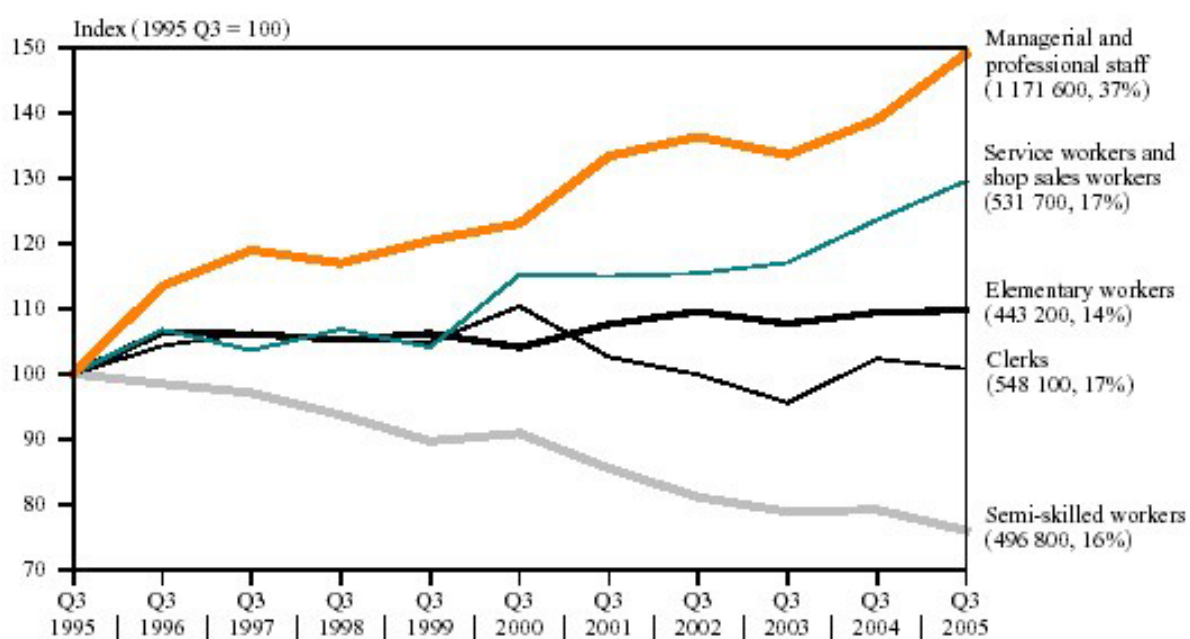


Chart 2

Employment by occupation category



Notes: Classification of occupations is based on that of the General Household Survey as conducted by the Census and Statistics Department.

Figures in brackets represent the number of employed persons in Q3 2005, and the percentage shares refer to the proportion of employed persons engaged in the respective occupations.

Chart 3

Share of full-time employees by monthly employment earnings

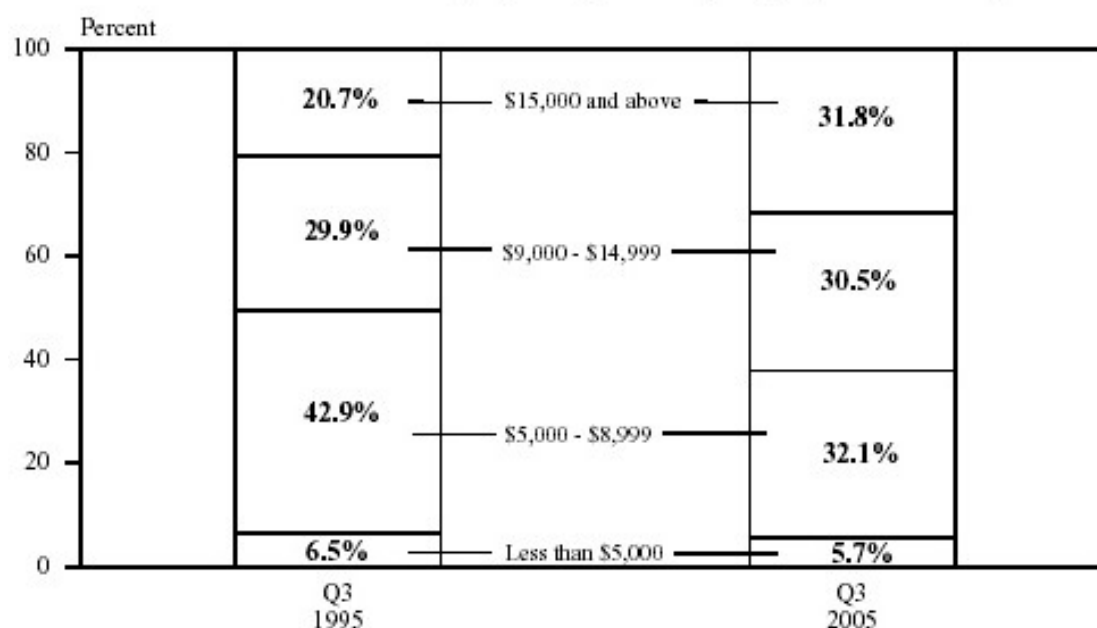
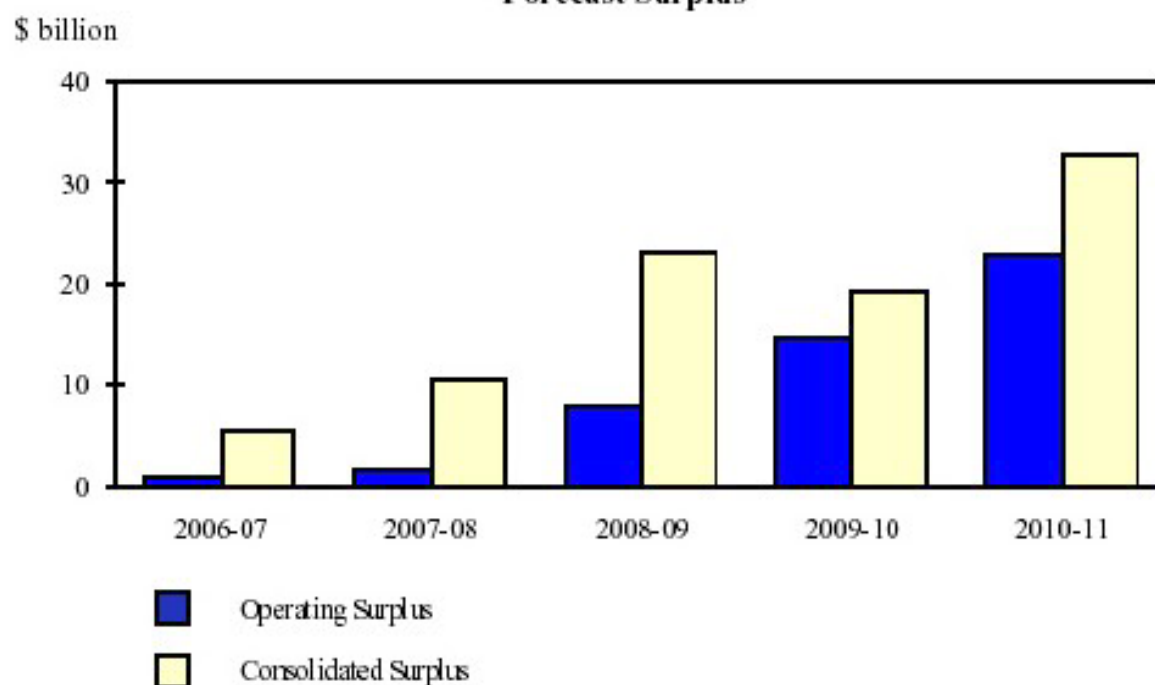


Chart 4

Forecast Surplus



SALARIES TAX***Reduction of marginal tax rates***

Marginal Tax Band	Marginal Tax Rate (%)	
	<i>Present</i>	<i>Proposed</i>
First \$30,000 chargeable income	2.0	2.0
Next \$30,000	8.0	7.0
Next \$30,000	14.0	13.0
Remainder	20.0	19.0

Standard Rate (%)	
16.0	16.0

Effect of reduction of marginal rates on different income groups[#]

Annual income	No. of taxpayers with reduced liabilities	Average tax liabilities		Average tax savings per affected taxpayer
		Present	Proposed	
\$100,001 to \$200,000	220 000	\$2,840	\$2,590	\$250 (8.8%)
\$200,001 to \$300,000	276 000	\$9,500	\$8,830	\$670 (7.1%)
\$300,001 to \$400,000	190 000	\$19,330	\$18,140	\$1,190 (6.2%)
\$400,001 to \$600,000	165 000	\$40,640	\$38,370	\$2,270 (5.6%)
\$600,001 to \$900,000	79 000	\$86,710	\$82,250	\$4,460 (5.1%)
\$900,001 and above	45 000	\$172,290	\$165,120	\$7,170 (4.2%)
Total	975 000	\$28,950	\$27,400	\$1,550 (5.4%)

[#] Effects of the proposed extension of the entitlement period of the home loan interest deduction not included.

*Supplement***SALARIES TAX**

Projected tax savings of taxpayers by income group after implementation of the proposed salaries tax measures (reduction in marginal rates and extension of home loan interest (HLI) deduction entitlement period)

Annual Income	Taxpayers with HLI deduction		
	Number	Average tax savings	Average tax savings as a percentage of tax payable
\$100,001 to \$200,000	65 000	\$1,900	54%
\$200,001 to \$300,000	105 000	\$4,900	37%
\$300,001 to \$400,000	89 000	\$7,000	28%
\$400,001 to \$600,000	90 000	\$10,600	21%
\$600,001 to \$900,000	43 000	\$14,700	14%
\$900,001 and above	38 000	\$17,700	6%
Total	430 000	\$8,200	15%

**Annual income levels at which salaries taxpayers
enter the standard rate zone[#]**

	<i>Present</i> (\$)	<i>Proposed</i> (\$)
No dependent parent/grandparent		
Single	770,000	983,334
Married	1,270,000	1,616,667
Married + 1 child	1,470,000	1,870,000
Married + 2 children	1,670,000	2,123,334
Married + 3 children	1,870,000	2,376,667
Including two dependent parents/grandparents aged 60 or above		
Single	1,070,000	1,363,334
Married	1,570,000	1,996,667
Married + 1 child	1,770,000	2,250,000
Married + 2 children	1,970,000	2,503,334
Married + 3 children	2,170,000	2,756,667
Including two dependent parents/grandparents both aged 60 or above and living with the taxpayer		
Single	1,370,000	1,743,334
Married	1,870,000	2,376,667
Married + 1 child	2,070,000	2,630,000
Married + 2 children	2,270,000	2,883,334
Married + 3 children	2,470,000	3,136,667
Including one dependent parent/grandparent aged 60 or above living with the taxpayer and one disabled dependent brother/sister		
Single	1,520,000	1,933,334
Married	2,020,000	2,566,667
Married + 1 child	2,220,000	2,820,000
Married + 2 children	2,420,000	3,073,334
Married + 3 children	2,620,000	3,326,667
Single parent with		
1 child	1,470,000	1,870,000
2 children	1,670,000	2,123,334
3 children	1,870,000	2,376,667

[#] Effects of the various deductions not included.

Supplement

Effect of proposed salaries tax measures (reduction in marginal rates and extension of home loan interest deduction entitlement period) on different households

	Effect of measures on households which do not claim home loan interest deduction		Effect of measures on households which have used up the 7-year entitlement of home loan interest deduction [#]	
	Tax payable Present	Tax payable Proposed	Tax savings Present	Tax savings Proposed
A. Annual income \$300,000				
1. Single person with 1 dependent parent aged 60 or above living together with the taxpayer	\$17,200	\$16,100	\$17,200	\$10,400 \$6,800(39.5%)
B. Annual income \$360,000				
2. Married couple with 1 child and 1 dependent parent aged 60 or above not living together with the taxpayer	\$7,200	\$6,600	\$7,200	\$2,350 \$4,850(67.4%)
3. Married couple with 1 child and 2 dependent parents aged 60 or above not living together with the taxpayer	\$3,000	\$2,700	\$3,000	\$500 \$2,500(83.3%)
C. Annual income \$480,000				
4. Married couple with 1 child and 1 dependent parent aged 60 or above not living together with the taxpayer	\$31,200	\$29,400	\$31,200	\$21,800 \$9,400(30.1%)
5. Married couple with 2 children and 2 dependent parents aged 60 or above not living together with the taxpayer	\$17,200	\$16,100	\$17,200	\$8,500 \$8,700(50.6%)

[#] For illustration, the amounts of home loan interest deduction for the households with annual incomes \$300,000, \$360,000, \$480,000 and \$720,000 are taken to be \$30,000, \$35,000, \$40,000 and \$50,000 respectively.

Supplement

EFFECT OF THE GENERAL REVALUATION OF RATES ON MAIN PROPERTY CLASSES

<i>Property Type</i>	<i>2006–07</i>		
	<i>Average Increase in Rateable Value⁽⁶⁾</i>	<i>New Average Rates Payable</i>	<i>Increase</i>
	<i>%</i>	<i>\$ per month</i>	<i>\$ per month</i>
Small Domestic Premises ⁽¹⁾ (Private)	7	234	15
Medium Domestic Premises ⁽¹⁾ (Private)	9	568	46
Large Domestic Premises ⁽¹⁾ (Private)	8	1,458	109
Public Domestic Premises ⁽²⁾	5	129	6
All Domestic Premises⁽³⁾	7	252	16
Shops and Commercial Premises	8	1,610	117
Offices	36	1,421	376
Industrial Premises ⁽⁴⁾	13	609	68
All Non-domestic Premises⁽⁵⁾	11	1,661	170
All Properties	9	444	37

(1) Domestic units are classified by relation to saleable areas, as follows –

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 2006–07 reflect the changes in open market rental values between 1 October 2004 and 1 October 2005.

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

<i>Property Type</i>	<i>2006–07</i>		
	<i>Average Increase in Rateable Value⁽⁶⁾</i>	<i>New Average Rent Payable</i>	<i>Increase</i>
	<i>%</i>	<i>\$ per month</i>	<i>\$ per month</i>
Small Domestic Premises ⁽¹⁾ (Private)	6	132	8
Medium Domestic Premises ⁽¹⁾ (Private)	9	318	26
Large Domestic Premises ⁽¹⁾ (Private)	8	694	53
Public Domestic Premises ⁽²⁾	5	74	3
All Domestic Premises⁽³⁾	7	145	9
Shops and Commercial Premises	6	895	54
Offices	41	1,539	446
Industrial Premises ⁽⁴⁾	12	377	42
All Non-domestic Premises⁽⁵⁾	9	915	78
All Properties	8	243	18

(1) Domestic units are classified by relation to saleable areas, as follows –

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 2006–07 reflect the changes in open market rental values between 1 October 2004 and 1 October 2005.

*Supplement***ECONOMIC PERFORMANCE IN 2005**

1. Estimated rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2005:

	(%)
(a) Growth rates in real terms of:	
Private consumption expenditure	3.7
Government consumption expenditure	-3.0
Gross domestic fixed capital formation	3.9
<i>of which:</i>	
Building and construction	-6.8
Machinery, equipment and computer software	10.7
Total exports of goods	11.2
Re-exports	11.4
Domestic exports	7.6
Imports of goods	8.6
Exports of services	8.4
Imports of services	2.8
Gross Domestic Product (GDP)	7.3
<i>Per capita GDP, in real terms</i>	6.5
<i>Per capita GDP at current market prices</i>	HK\$199,300 (US\$25,600)
(b) Rates of change in:	
Composite Consumer Price Index	1.1
GDP Deflator	-0.2
Government Consumption Expenditure Deflator	-1.7
(c) Growth rate of nominal GDP	7.0

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

	<i>Re-exports</i> (%)	<i>Domestic exports</i> (%)
2003	16	-7
2004	16	2
2005	11	8
<i>Share in the value of total exports of goods in 2005</i>	94	6

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

	<i>Retained imports</i>					
	<i>Total</i> (%)	<i>Consumer goods</i> (%)	<i>Foodstuffs</i> (%)	<i>Capital goods</i> (%)	<i>Raw materials and semi-manufactures</i> (%)	<i>Fuels</i> (%)
2003	6	1	2	6	8	-1
2004	9	3	6	13	8	8
2005	1	-5	2	16	-8	-6

4. Annual growth rates in real terms of retained imports of capital goods by type:

	<i>Retained imports of capital goods</i>				
	<i>Total</i> (%)	<i>Office equipment</i> (%)	<i>Industrial machinery</i> (%)	<i>Construction machinery</i> (%)	<i>Telecommunications equipment</i> (%)
2003	6	6	-7	-19	12
2004	13	2	20	-11	31
2005	16	9	-2	-34	35

Supplement

5. Annual growth rates in real terms of exports of services by type:

Exports of services

	<i>Total</i>	<i>Trade-related</i>	<i>Transportation</i>	<i>Travel</i>	<i>Finance, insurance, business and other services</i>
	(%)	services (%)	services (%)	services (%)	(%)
2003	8	18	1	-3	9
2004	18	14	19	19	22
2005	8	13	6	7	5

6. Hong Kong's visible and invisible trade balance in 2005 reckoned on GDP basis ^(Note 1) :

(HK\$ billion)

Total exports of goods	2,251.7
Imports of goods	2,311.1
<i>Visible trade balance</i>	-59.3
Exports of services	479.5
Imports of services	252.4
<i>Invisible trade balance</i>	227.1
<i>Combined visible and invisible trade balance</i>	167.8

Note 1 Preliminary figures.

7. Annual averages of the unemployment and underemployment rates and growth in labour force and total employment:

	<i>Unemployment rate (%)</i>	<i>Underemployment rate (%)</i>	<i>Growth in labour force (%)</i>	<i>Growth in total employment (%)</i>
2003	7.9	3.5	0.3	-0.4
2004	6.8	3.3	1.6	2.8
2005	5.6	2.8	1.0	2.3

8. 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>
2003	-2.6	-2.1	-2.7	-2.9
2004	-0.4	*	-0.5	-0.9
2005	1.1	1.2	1.1	1.0

* Change of less than 0.05%.

*Supplement***ECONOMIC PROSPECTS FOR 2006**

Forecast rates of change in the Gross Domestic Product and prices in 2006:

	(%)
Gross Domestic Product (GDP)	
<i>Real GDP</i>	4 to 5
<i>Nominal GDP</i>	4.5 to 5.5
<i>Per capita GDP, in real terms</i>	3.2 to 4.2
<i>Per capita GDP at current market prices</i>	HK\$206,800-208,700 (US\$26,500-26,800)
Composite Consumer Price Index	2.3
GDP Deflator	0.5
Government Consumption Expenditure Deflator	0

Appendix A

CONTENTS	Page
SECTION I - FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA	4932
SECTION II - THE MRF FOR 2005-06 TO 2010-11	4933
SECTION III - RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE/PUBLIC EXPENDITURE AND GDP IN THE MRF	4936
SECTION IV - ESTIMATES OF CONTINGENT LIABILITIES	4938

SECTION I – FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA

1 A number of computer-based models are used to derive the Medium Range Forecast (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 activities (the detailed assumptions). These are supported by studies of historical and anticipated trends.

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

2 GDP is forecast to increase by 4% to 5% in real terms in 2006. For planning purposes, over the ensuing four-year period 2007 to 2010, the trend growth rate of the economy in real terms is assumed at 4% per annum. We have made reference to the mid-point of the range forecast of GDP growth rate for 2006 in deriving the MRF.

Price change

3 The GDP deflator, measuring overall price change in the economy, is forecast to increase by 0.5% in 2006. For the four-year period 2007 to 2010, the GDP deflator is assumed to increase at a trend rate of 2% per annum. The Composite Consumer Price Index, measuring inflation in the consumer domain, is forecast to increase by 2.3% in 2006. The trend rate of increase for the ensuing period 2007 to 2010 is assumed to be 3.5% per annum.

Nominal Gross Domestic Product (nominal GDP)

4 Taking the assumptions on the rates of change in the real GDP and the GDP deflator together, the growth rate of GDP in nominal terms is forecast at 4.5% to 5.5% in 2006, and the trend growth rate in nominal terms for the period 2007 to 2010 is assumed at 6% per annum.

Detailed Assumptions

5 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 2006 Budget.

Budgetary Criteria

6 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.

7 The following covers the more important budgetary criteria –

—Budget surplus/deficit

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

—Expenditure policy

The general principle is that, over time, expenditure growth should not exceed the growth of the economy. The Government aims to keep public expenditure at or below 20% of GDP. Capital expenditure, by its nature, will fluctuate from year to year.

—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 2005–06 TO 2010–11

8 The current MRF (*Note a*) is summarised in the following table which indicates the forecast financial position of the Government –

Table 1

	Original Estimate	Revised Estimate	Forecast				
(\$ million)	2005–06	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11
Operating Account							
Operating revenue (<i>Note b</i>)	181,388	192,481	195,264	203,335	213,668	224,622	236,988
Operating expenditure (<i>Note c</i>)	208,000	194,749	209,000	214,200	219,600	225,100	230,700
Surplus/(deficit) before investment income	(26,612)	(2,268)	(13,736)	(10,865)	(5,932)	(478)	6,288
Investment income (<i>Note b</i>)	11,161	8,057	14,361	12,489	13,666	15,093	16,579
Operating surplus/(deficit) after investment income	(15,451)	5,789	625	1,624	7,734	14,615	22,867
Capital Financing Statement							
Capital revenue (<i>Note d</i>)	42,159	38,413	39,500	38,946	40,730	41,358	43,136
Asset sales (<i>Note d</i>)	5,401	436	4,348	10,837	18,848	8,351	10,351
	47,560	38,849	43,848	49,783	59,578	49,709	53,487
Capital spending (<i>Note e</i>)	44,741	42,008	39,369	43,404	43,387	43,430	45,346
Surplus/(deficit) before investment income/interest expenses	2,819	(3,159)	4,479	6,379	16,191	6,279	8,141
Investment income (<i>Note d</i>)	2,940	2,279	3,852	3,085	2,746	2,377	2,185
Interest expenses (<i>Note e & f</i>)	853	852	826	799	754	642	576
Surplus/(deficit) after investment income/interest expenses	4,906	(1,732)	7,505	8,665	18,183	8,014	9,750
Repayment of bonds and notes (<i>Note e & f</i>)	-	-	2,550	-	2,700	3,500	-
Capital financing surplus/(deficit) after bond repayment	4,906	(1,732)	4,955	8,665	15,483	4,514	9,750
Consolidated Account							
Fiscal reserves at 1 April	287,296	295,981	300,756	306,336	316,625	339,842	358,971
Operating surplus/(deficit)	(15,451)	5,789	625	1,624	7,734	14,615	22,867
Capital financing surplus/(deficit) before bond repayment	4,906	(1,732)	7,505	8,665	18,183	8,014	9,750
Consolidated surplus/(deficit)	(10,545)	4,057	8,130	10,289	25,917	22,629	32,617
Repayment of bonds and notes	-	-	2,550	-	2,700	3,500	-
Consolidated surplus/(deficit) after bond repayment	(10,545)	4,057	5,580	10,289	23,217	19,129	32,617
Write-back of provision for loss in investments with the Exchange Fund		718					
Fiscal reserves at 31 March	276,751	300,756	306,336	316,625	339,842	358,971	391,588
As number of months of government expenditure	13	16	15	15	15	16	17
Outstanding debts at 31 March							
– Toll Revenue Bond	4,877	4,638	4,098	2,678	2,138	790	790
– Other government bonds and notes	20,000	20,000	17,450	17,450	14,750	11,250	11,250

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 measures proposed in the 2006 Budget, and is made up of –

(\$ million)	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11
Operating revenue before investment income	192,481	195,264	203,335	213,668	224,622	236,988
Investment income	8,057	14,361	12,489	13,666	15,093	16,579
Total	200,538	209,625	215,824	227,334	239,715	253,567

- (ii) For the purpose of the MRF, investment income under the Operating Account includes the investment income of the General Revenue Account which are credited to revenue head Properties and Investments and the investment income of the Land Fund. The rate of investment return is assumed at 6% in 2006-07 and 5% per annum in 2007-08 to 2010-11.

(c) Operating expenditure

This represents the expenditure charged to the Operating Account of the General Revenue Account. The levels of operating expenditure in 2006-07 to 2010-11 represent the expenditure guidelines for these years.

(d) Capital revenue

- (i) The breakdown of capital revenue is –

(\$ million)	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11
General Revenue Account	4,233	4,010	2,227	2,347	1,162	754
Capital Works Reserve Fund	28,835	30,647	32,324	34,276	36,346	38,541
Capital Investment Fund	2,639	1,984	1,803	1,407	896	738
Innovation and Technology Fund	19	-	-	-	-	-
Loan Fund	1,614	1,761	1,455	1,524	1,736	1,842
Lotteries Fund	1,073	1,098	1,137	1,176	1,218	1,261
Capital revenue before asset sales and investment income	38,413	39,500	38,946	40,730	41,358	43,136
Asset sales	436	4,348	10,837	18,848	8,351	10,351
Investment income	2,279	3,852	3,085	2,746	2,377	2,185
Total	41,128	47,700	52,868	62,324	52,086	55,672

Appendix A—Contd.

- (ii) For the purpose of the MRF, the annual land premia included under the Capital Works Reserve Fund are assumed at 2.1% of GDP throughout the MRF period.
- (iii) For the purpose of the MRF, investment income under the Capital Financing Statement includes investment income of the Funds except 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).

(e) *Capital spending*

The breakdown of capital spending is –

(\$ million)	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11
General Revenue Account	1,552	1,829	3,970	3,970	3,970	3,970
Capital Works Reserve Fund	29,067	27,139	34,061	35,415	36,507	38,826
Capital Investment Fund	6,521	3,561	643	320	250	250
Disaster Relief Fund	15			-		
Innovation and Technology Fund	528	794	918	890	839	552
Loan Fund	3,298	4,886	2,672	1,989	1,432	1,423
Lotteries Fund	1,027	1,160	1,140	803	432	325
Capital spending before interest on and repayment of government bonds and notes	42,008	39,369	43,404	43,387	43,430	45,346
Interest expenses	852	826	799	754	642	576
Repayment of bonds and notes		2,550	-	2,700	3,500	-
Total	42,860	42,745	44,203	46,841	47,572	45,922

(f) *Government bonds and notes*

Interest expenses and repayment of bonds and notes are only in respect of the global bond issue and not the Toll Revenue Bond. The interest expenses and repayment of the Toll Revenue Bond are charged directly against the net toll revenue of concerned tunnels and bridges. The toll revenue thus foregone has been taken into account in forecasting Government's operating revenue.

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

9 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 GDP.

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

	Original Estimate	Revised Estimate	Forecast				
(\$ million)	2005-06	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Operating expenditure	208,000	194,749	209,000	214,200	219,600	225,100	230,700
Capital expenditure	39,792	36,339	36,634	43,560	43,821	43,822	45,672
Total government expenditure	247,792	231,088	245,634	257,760	263,421	268,922	276,372
Other public bodies	20,798	19,167	19,255	19,309	18,562	18,510	18,637
Total public expenditure (Note a)	268,590	250,255	264,889	277,069	281,983	287,432	295,009
Gross Domestic Product (calendar year)	1,332,877	1,382,203	1,451,624	1,539,281	1,632,232	1,730,795	1,835,310
Growth in GDP (Note b)							
Nominal terms		7.0%	5.0%	6.0%	6.0%	6.0%	6.0%
Real terms		7.3%	4.5%	4.0%	4.0%	4.0%	4.0%
Growth in government expenditure (Note c)							
Nominal terms		-2.2%	6.3%	4.9%	2.2%	2.1%	2.8%
Real terms		-1.4%	6.0%	3.4%	0.6%	0.5%	1.2%
Growth in public expenditure (Note c)							
Nominal terms		-2.7%	5.8%	4.6%	1.8%	1.9%	2.6%
Real terms		-2.0%	5.5%	3.1%	0.2%	0.4%	1.1%
Public expenditure as a percentage of GDP	20.2%	18.1%	18.2%	18.0%	17.3%	16.6%	16.1%

Notes—

- (a) 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 Limited and the Kowloon-Canton Railway Corporation. Similarly, advances and equity investments from the Capital Investment Fund as well as repayment of government bonds and notes are excluded as they do not reflect the actual consumption of resources by the Government.
- (b) For 2006-07, the GDP growth in nominal terms of 5% represents the mid-point of the range forecast of nominal GDP growth at 4.5% to 5.5% for the calendar year 2006. Similarly, the growth in real terms of 4.5% represents the mid-point of the range forecast of real GDP growth at 4% to 5% for 2006.
- (c) The growth rates refer to year-on-year change. For example, the rates for 2005-06 refer to the change between revised estimate for 2005-06 and actual expenditure in 2004-05. The rates for 2006-07 refer to the change between the 2006-07 forecast and the 2005-06 revised estimate, and so forth.

Appendix A—Contd.

10 Table 3 shows the relationship amongst the sum to be appropriated in the 2006 Budget, government expenditure and public expenditure. It also shows the effect of the Budget revenue measures on the overall surplus position for 2006–07.

**Relationship between Government Expenditure
and Public Expenditure in 2006–07**

(\$ million)

Table 3

Components of expenditure and revenue	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	199,931	199,931	-	199,931	199,931
Non-recurrent	9,069	9,069	-	9,069	9,069
Capital					
Plant, equipment and works	892	-	892	892	892
Subventions	937	-	937	937	937
	210,829	209,000	1,829	210,829	210,829
Transfer to Funds	3,516	-	-	-	-
Capital Works Reserve Fund	-	-	27,965	27,965	27,965
Innovation and Technology Fund	-	-	794	794	794
Loan Fund	-	-	4,886	4,886	4,886
Lotteries Fund	-	-	1,160	1,160	1,160
Trading Funds	-	-	-	-	3,595
Housing Authority	-	-	-	-	15,660
	214,345	209,000	36,634	245,634	264,889
Revenue (before Budget revenue measures)					
General Revenue Account					
Taxation		169,714	170	169,884	
Other revenue		34,239	3,840	38,079	
		203,953	4,010	207,963	
Land Fund		7,952	-	7,952	
		211,905	4,010	215,915	
Capital Works Reserve Fund		-	32,836	32,836	
Capital Investment Fund		-	2,055	2,055	
Civil Service Pension Reserve Fund		-	979	979	
Disaster Relief Fund		-	2	2	
Innovation and Technology Fund		-	239	239	
Loan Fund		-	1,844	1,844	
Lotteries Fund		-	1,387	1,387	
Asset sales		-	4,348	4,348	
		211,905	47,700	259,605	
Surplus before Budget revenue measures		2,905	11,066	13,971	
Less: Effect of Budget revenue measures		2,280	-	2,280	
Surplus after Budget revenue measures		625	11,066	11,691	
Less: Advances and equity investments from the Capital Investment Fund		-	3,561	3,561	
Repayment of bonds and notes		-	2,550	2,550	
Consolidated surplus		625	4,955	5,580	

Appendix A—*Contd.***SECTION IV - ESTIMATES OF CONTINGENT LIABILITIES**

11 The Government's contingent liabilities as at 31 March 2005, and estimates of these should they remain unsettled as at 31 March 2006 or 31 March 2007, are provided below as supplementary information to the MRF –

(at 31 March)	2005 \$m	2006 \$m	2007 \$m
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	10,207	10,921	11,467
Litigation	392	419	440
Possible capital subscriptions to the Asian Development Bank	2,112	2,112	2,112
Guarantees provided under loan guarantee schemes for small and medium enterprises, the Film Guarantee Fund and the Loan Guarantee Scheme for Severe Acute Respiratory Syndrome Impacted Industries	5,134	5,168	5,446
Total	17,845	18,620	19,465

Appendix B

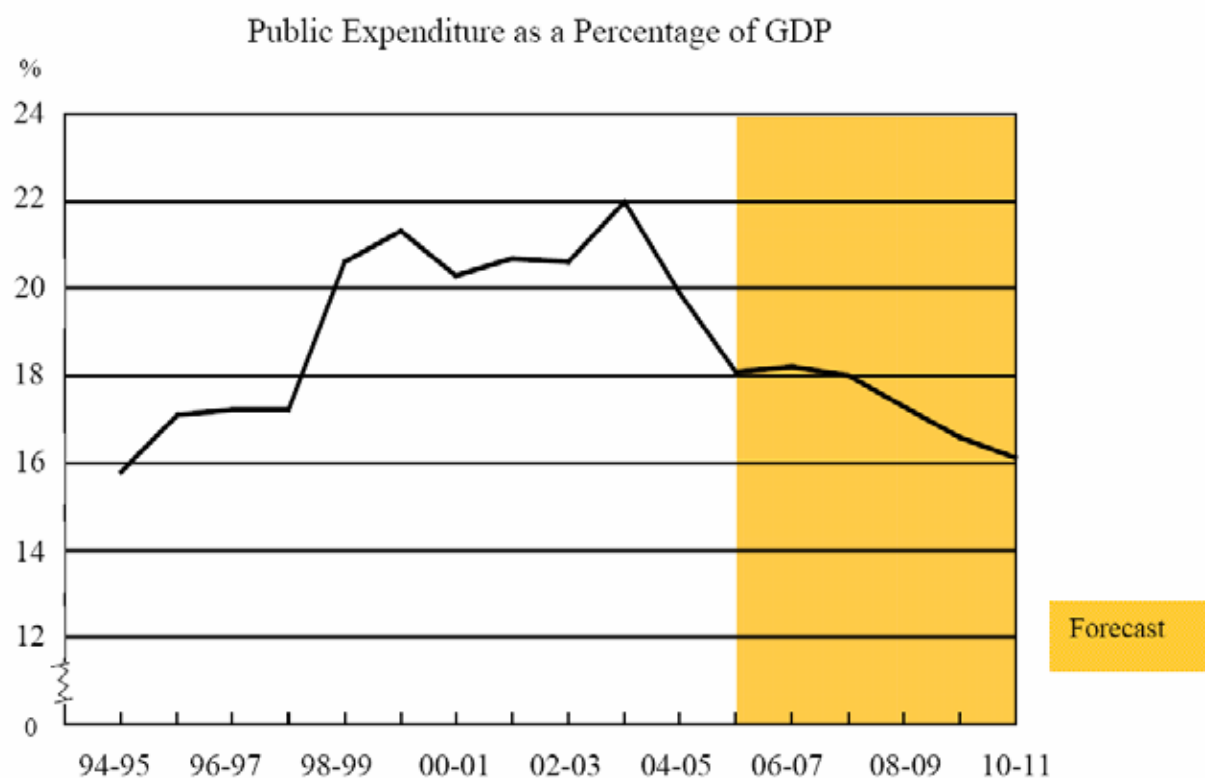
CONTENTS	Page
SECTION I - THE ESTIMATES IN THE CONTEXT OF THE ECONOMY	
Relationship between Government Expenditure and Public Expenditure in 2006-07 and GDP	4940
SECTION II - ANALYSIS OF RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP	
Recurrent Public Expenditure — Year-on-Year Change	4943
Recurrent Government Expenditure — Year-on-Year Change	4944
Percentage Share of Expenditure by Policy Area Group —	4945
Recurrent Public Expenditure	
Recurrent Government Expenditure	
SECTION III - ANALYSIS OF TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP	
Total Public Expenditure —Year-on-Year Change	4946
Total Government Expenditure —Year-on-Year Change	4947
Percentage Share of Expenditure by Policy Area Group —	4948
Total Public Expenditure	
Total Government Expenditure	
SECTION IV - MAJOR CAPITAL PROJECTS TO BEGIN IN 2006-07	4949
SECTION V - TRENDS IN PUBLIC EXPENDITURE : 2001-02 TO 2006-07	4950
SECTION VI - KEY TO CLASSIFICATION OF EXPENDITURE	4953

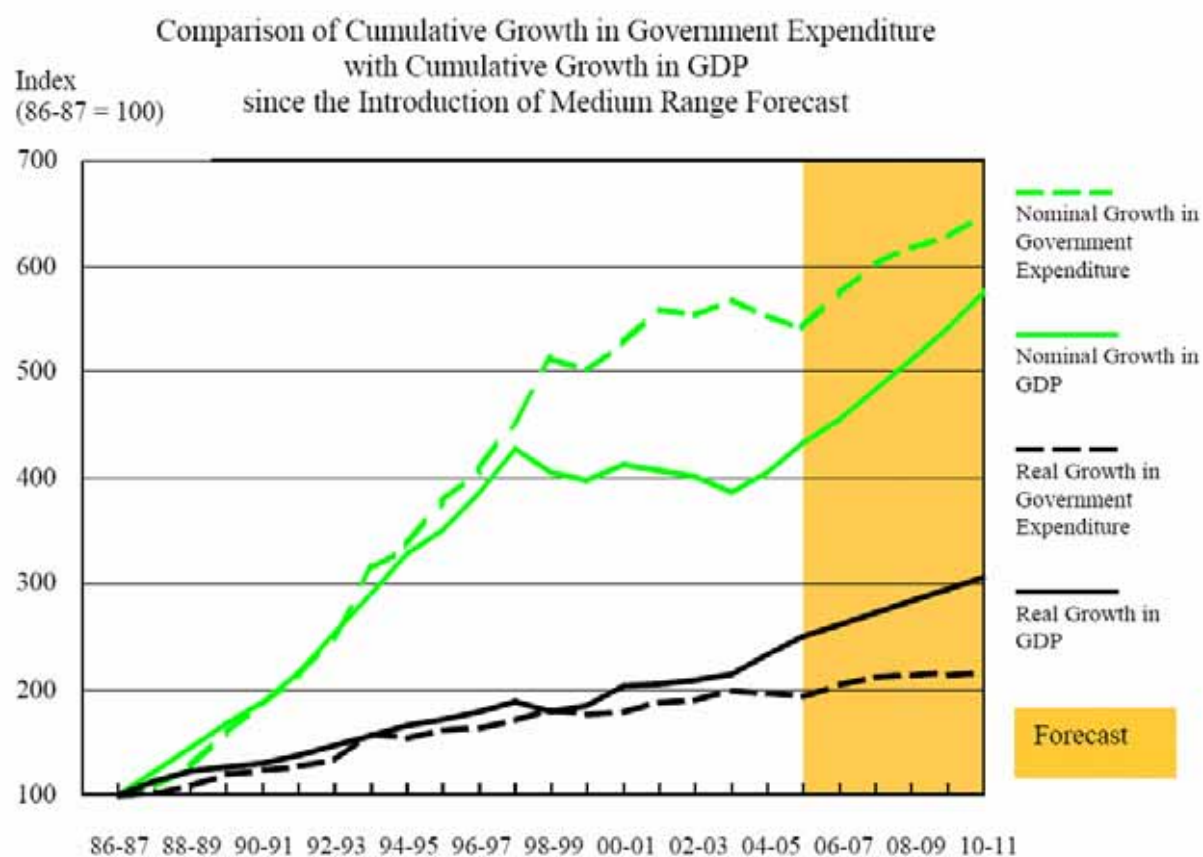
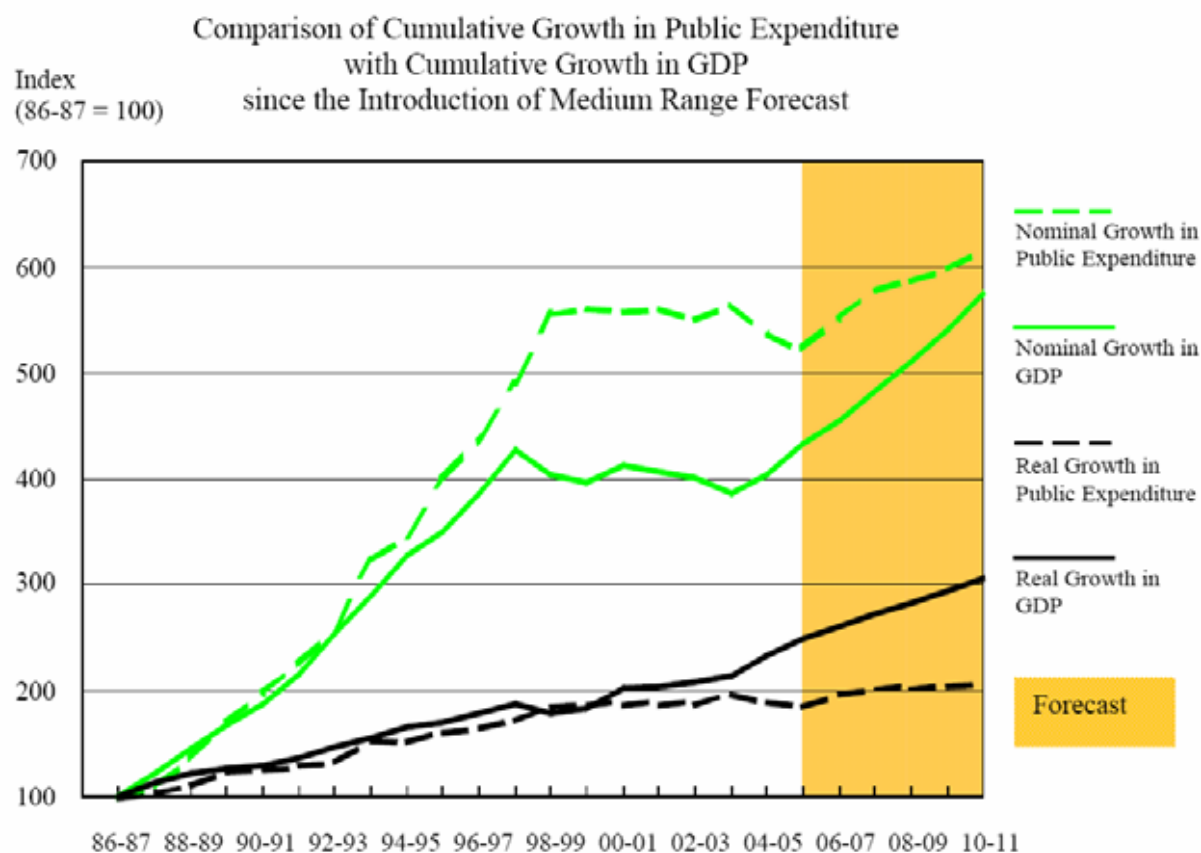
Note: Expenditure figures for 2005-06 and before as shown in Sections II, III and V have been adjusted to align with the cost-neutral transfers between policy area groups adopted in the 2006-07 estimate.

Appendix B—*Contd.***SECTION I - THE ESTIMATES IN THE CONTEXT OF THE ECONOMY****Relationship between Government Expenditure and Public Expenditure in 2006–07 and GDP**

	2006-07 Estimate Sm
General Revenue Account	
Operating	209,000
Capital	1,829
	<hr/> 210,829
Capital Works Reserve Fund	27,965
Loan Fund	4,886
Lotteries Fund	1,160
Innovation and Technology Fund	794
	<hr/> 245,634
Government Expenditure	
Trading Funds	3,595
Housing Authority	15,660
	<hr/> 264,889
Public Expenditure	
	<hr/>
GDP	1,451,624
Public Expenditure as a % of GDP	18.2%

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

	2005–06 Original Estimate \$m	2005–06 Revised Estimate \$m	2006–07 Estimate \$m	Increase/Decrease over 2005–06 Original Estimate in Nominal Terms %	in Real Terms %
Education	49,119	44,678	47,856	-2.6	-2.8
Social Welfare	33,879	32,288	34,584	2.1	1.9
Health	29,432	29,315	29,950	1.8	1.7
Security	23,156	22,720	23,496	1.5	1.3
Infrastructure	11,332	11,247	11,505	1.5	1.3
Economic	10,753	10,646	11,184	4.0	3.6
Housing	10,974	10,477	9,818	-10.5	-12.0
Environment and Food	7,864	7,425	8,565	8.9	8.5
Community and External Affairs	6,817	6,715	6,995	2.6	2.2
Support	29,524	27,135	29,012	-1.7	-2.4
	212,850	202,646	212,965	0.1	-0.3

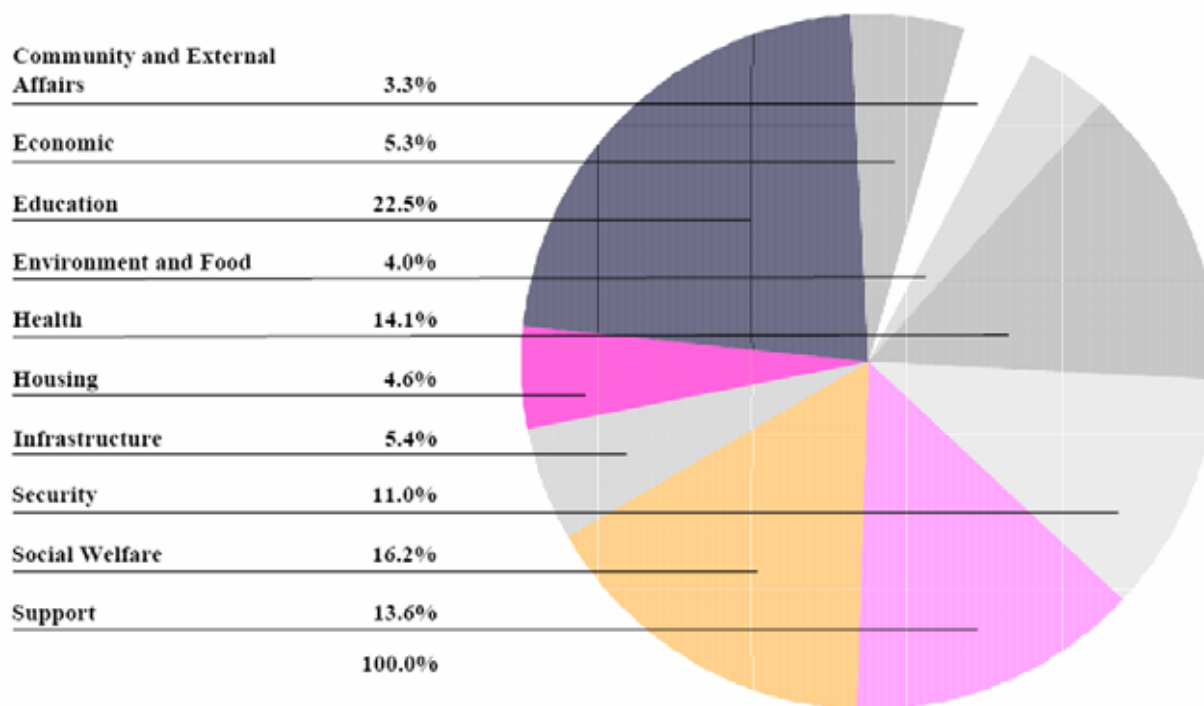
SECTION II - ANALYSIS OF RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Recurrent Government Expenditure : Year-on-Year Change

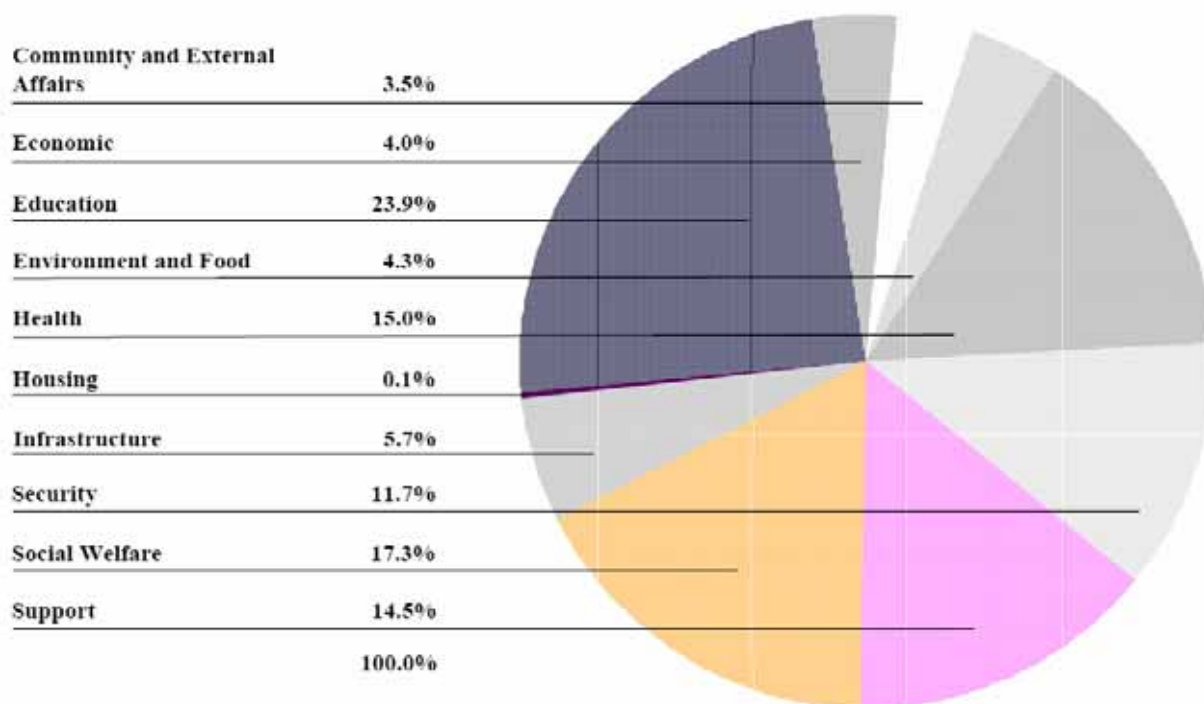
	2005–06 Original Estimate \$m	2005–06 Revised Estimate \$m	2006–07 Estimate \$m	Increase/Decrease over 2005–06 Original Estimate in Nominal Terms %	in Real Terms %
Education	49,119	44,678	47,856	-2.6	-2.8
Social Welfare	33,879	32,288	34,584	2.1	1.9
Health	29,432	29,315	29,950	1.8	1.7
Security	23,156	22,720	23,496	1.5	1.3
Infrastructure	11,192	11,092	11,336	1.3	1.0
Environment and Food	7,864	7,425	8,565	8.9	8.5
Economic	7,929	7,578	7,988	0.7	0.4
Community and External Affairs	6,817	6,715	6,995	2.6	2.2
Housing	205	165	149	-27.2	-27.2
Support	29,524	27,135	29,012	-1.7	-2.4
	<u>199,117</u>	<u>189,111</u>	<u>199,931</u>	<u>0.4</u>	<u>0.1</u>

Appendix B—Contd.

Percentage Share of Expenditure by Policy Area Group
Recurrent Public Expenditure : 2006-07 Estimate



Percentage Share of Expenditure by Policy Area Group
Recurrent Government Expenditure : 2006-07 Estimate



Appendix B—Contd.

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

Total Public Expenditure : Year-on-Year Change

	2005–06 Original Estimate \$m	2005–06 Revised Estimate \$m	2006–07 Estimate \$m	Increase/Decrease over 2005–06 Original Estimate in Nominal Terms %	in Real Terms %
Education	58,599	55,576	56,450	-3.7	-3.9
Social Welfare	35,863	33,826	36,231	1.0	0.8
Health	32,240	31,639	32,340	0.3	0.2
Security	26,192	25,111	27,050	3.3	3.1
Infrastructure	27,151	25,887	24,490	-9.8	-9.9
Housing	17,906	15,874	15,821	-11.6	-12.6
Economic	14,568	13,734	15,291	5.0	4.4
Environment and Food	10,818	9,692	11,631	7.5	7.2
Community and External Affairs	8,266	7,953	8,424	1.9	1.5
Support	36,987	30,963	37,161	0.5	-0.1
	<u>268,590</u>	<u>250,255</u>	<u>264,889</u>	-1.4	-1.7

Appendix B—Contd.

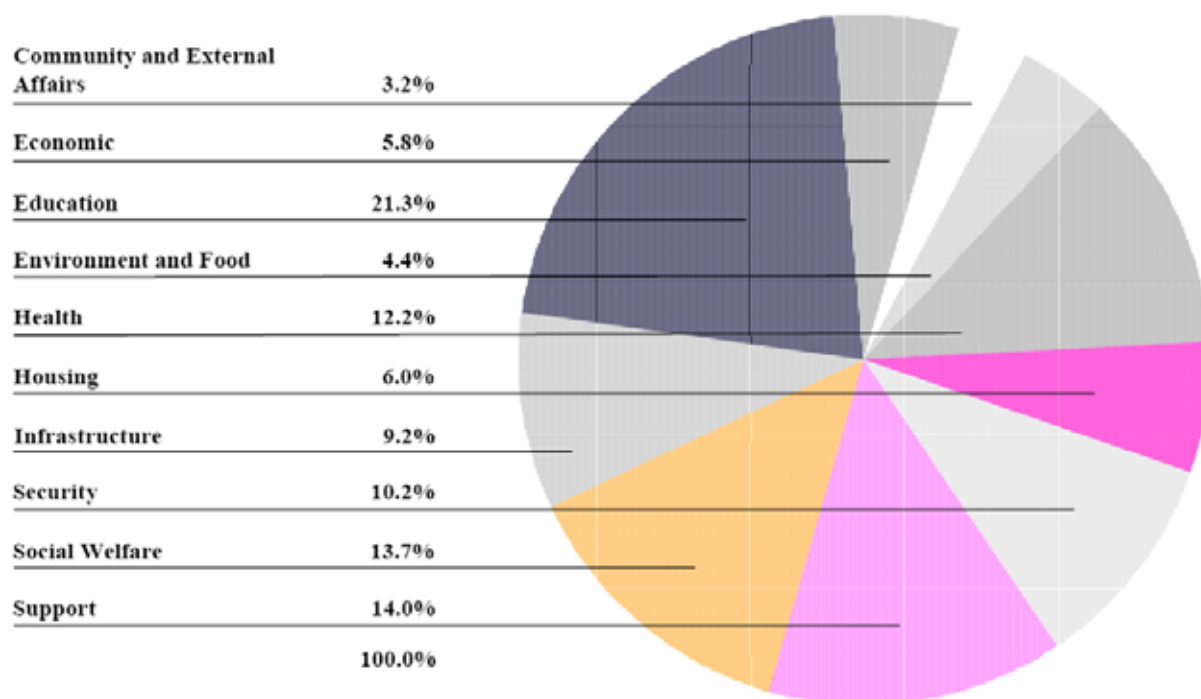
SECTION III - ANALYSIS OF TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Total Government Expenditure : Year-on-Year Change

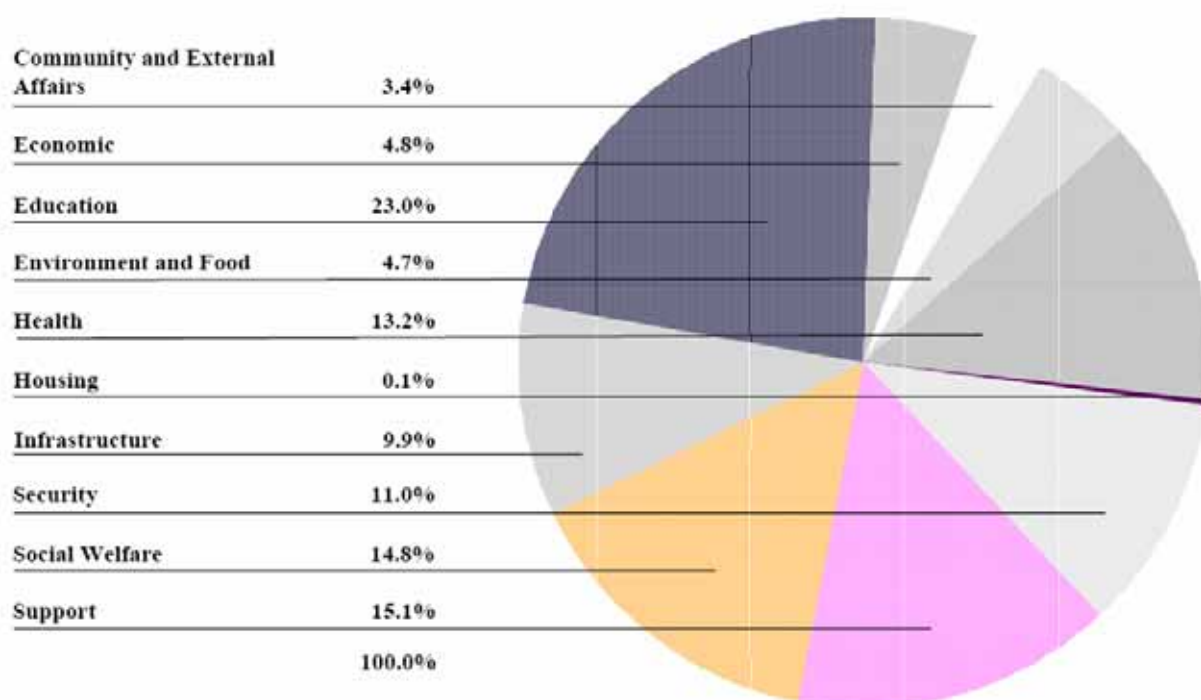
	2005-06 Original Estimate \$m	2005-06 Revised Estimate \$m	2006-07 Estimate \$m	Increase/Decrease over 2005-06 Original estimate in Nominal Terms %	in Real Terms %
Education	58,599	55,576	56,450	-3.7	-3.9
Social Welfare	35,863	33,826	36,231	1.0	0.8
Health	32,240	31,639	32,340	0.3	0.2
Security	26,192	25,111	27,050	3.3	3.1
Infrastructure	26,989	25,696	24,308	-9.9	-10.1
Economic	11,622	10,455	11,878	2.2	1.8
Environment and Food	10,818	9,692	11,631	7.5	7.2
Community and External Affairs	8,266	7,953	8,424	1.9	1.5
Housing	216	177	161	-25.6	-25.7
Support	36,987	30,963	37,161	0.5	-0.1
	<u>247,792</u>	<u>231,088</u>	<u>245,634</u>	-0.9	-1.1

Appendix B—Contd.

Percentage Share of Expenditure by Policy Area Group
Total Public Expenditure : 2006-07 Estimate



Percentage Share of Expenditure by Policy Area Group
Total Government Expenditure : 2006-07 Estimate



SECTION IV - MAJOR CAPITAL PROJECTS TO BEGIN IN 2006-07

Funds allocated for capital projects to start in 2006-07 include –

	\$ million
Infrastructure	7,773
— Formulation and implementation of Greening Master Plans for Kowloon West and Hong Kong Island	
— Road P1 advance works at Sunny Bay, Lantau	
— Improvement to pedestrian subway system at Kwai Fuk Road roundabout	
— Northern access to Area 86, Tseung Kwan O	
— Ping Ha Road improvement (northern part of Ha Tsuen section)	
— Replacement and rehabilitation of water mains	
— Remedial works for the rip-rap at the main dam of Plover Cove Reservoir	
Environment and Food	6,039
— Additional columbarium at Diamond Hill	
— Yuen Long, Kam Tin, Ting Kau, and Sai Kung sewerage	
— Chai Wan Public Filling Barging Point	
— New Territories West landfill extensions	
Support	2,138
— Drainage improvement in Northern New Territories, Northern Hong Kong Island, East Kowloon, Tai Po, Sai Kung and Kam Tin	
Education	1,227
— Construction, extension, redevelopment and reprovisioning of primary, secondary and special schools	
Health	1,164
— Redevelopment of Caritas Medical Centre, phase 2	
Community and External Affairs	620
— Indoor recreation centre-cum-library in Area 17, Tung Chung	
— Provision of open spaces in Sham Shui Po, Tuen Mun, Tseung Kwan O, Kwai Chung and Kwun Tong	
Security	423
— Relocation of Labour Tribunal to the South Kowloon Law Courts Building	
— Fire Services Department Diving Training Centre in the Government Dockyard at Stonecutters Island	
— Reprovisioning of Central District Headquarters and Divisional Police Station	
Economic	55
— Enhancement of public facilities at Ngong Ping, Lantau	

SECTION V - TRENDS IN PUBLIC EXPENDITURE : 2001–02 TO 2006–07**Introduction**

1 This section presents trends in public expenditure over the period 2001–02 to 2006–07. 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 2006–07 Estimates. This index further provides details by head of expenditure of individual programmes which contribute to a policy area.

Appendix B—*Contd.*

Recurrent Public Expenditure by Policy Area Group 2001–02 to 2006–07

Policy Area Groups	Actual				Revised Estimate	Estimate
	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
	%	%	%	%	%	%
Education	22.2	22.4	22.2	21.8	22.0	22.5
Social Welfare	13.6	14.6	15.1	15.5	15.9	16.2
Health	15.2	15.3	15.0	14.7	14.5	14.1
Security	11.7	11.5	11.3	11.2	11.2	11.0
Infrastructure	5.6	5.6	5.5	5.5	5.5	5.4
Economic	5.1	5.0	5.1	5.1	5.3	5.3
Housing	5.6	5.2	5.1	5.0	5.2	4.6
Environment and Food	3.9	4.0	3.9	3.7	3.7	4.0
Community and External Affairs	3.4	3.5	3.3	3.2	3.3	3.3
Support	13.7	12.9	13.5	14.3	13.4	13.6
	100.0	100.0	100.0	100.0	100.0	100.0
Total Recurrent Public Expenditure	\$m	\$m	\$m	\$m	\$m	\$m
	210,445	211,728	211,102	205,426	202,646	212,965

Appendix B—Contd.

Total Public Expenditure by Policy Area Group 2001–02 to 2006–07

Policy Area Groups	Actual				Revised Estimate	Estimate
	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
	%	%	%	%	%	%
Education	19.6	21.0	21.0	21.1	22.2	21.3
Social Welfare	11.0	12.1	12.3	12.9	13.5	13.7
Health	12.7	12.6	12.6	12.5	12.6	12.2
Security	10.2	10.3	9.9	9.9	10.0	10.2
Infrastructure	9.8	9.8	10.0	11.2	10.4	9.2
Housing	11.7	9.0	9.2	7.0	6.3	6.0
Economic	4.8	4.8	5.1	5.1	5.5	5.8
Environment and Food	4.1	4.3	4.0	3.9	3.9	4.4
Community and External Affairs	3.1	3.1	3.0	3.0	3.2	3.2
Support	13.0	13.0	12.9	13.4	12.4	14.0
	100.0	100.0	100.0	100.0	100.0	100.0

	\$m	\$m	\$m	\$m	\$m	\$m
Total Public Expenditure	269,359	263,520	271,098	257,137	250,255	264,889

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	Agriculture, Fisheries and Food Safety	2
	Environmental Hygiene	32
	Environmental Protection and Conservation	23
Health	Health	15
Housing	Housing	31
Infrastructure	Buildings, Lands and Planning	22
	Transport	21
	Water Supply	24
Security	Administration of Justice	12
	Anti-corruption	13
	Immigration Control	10
	Internal Security	9
	Legal Administration	11
	Legal Aid	20
Social Welfare	Social Welfare	14
	Women's Interests	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 Account of the General Revenue Account, the Capital Works Reserve Fund (including interest on government bonds and notes but excluding repayment of the bonds and notes), Disaster Relief Fund, Innovation and Technology Fund, Loan Fund and Lotteries Fund. Unlike ***capital spending***, it excludes advances and equity investments made from the Capital Investment Fund and repayment of government bonds and notes charged to the Capital Works Reserve Fund. Major items are highlighted below –

General Revenue Account

equipment, works and capital subventions of a minor nature

Capital Works Reserve Fund

acquisition of land
capital subventions
computerisation
interest and other expenses on government bonds and notes
major systems and equipment
Public Works Programme expenditure

Disaster Relief Fund

relief to disasters that occur outside Hong Kong

Innovation and Technology Fund

projects promoting innovation and technology upgrading in manufacturing and service industries

Loan Fund

loans made under various development schemes supported by the Government
loans to schools, teachers, students, and housing loans to civil servants, etc.

Lotteries Fund

grants, loans and advances for social welfare services

Capital financing surplus/deficit. The difference between ***capital revenue*** and ***capital spending***.

Capital revenue. This comprises certain revenue items in the General Revenue Account and all receipts credited to the Funds (except Land Fund), as highlighted below –

General Revenue Account

disposal proceeds of government quarters and other assets
estate duty
loan repayments received
recovery from Housing Authority
taxi concessions

Capital Investment Fund

dividends from investments
interest on deposits and bank balances
interest on loans
loan repayments received
proceeds from sale of investments

Appendix C—Contd.

Capital Works Reserve Fund

- investment income
- land premia
- net proceeds from issuance of government bonds and notes
- recovery from MTR Corporation Limited

Civil Service Pension Reserve Fund

- investment income

Disaster Relief Fund

- investment income

Innovation and Technology Fund

- investment income
- loan repayments received
- proceeds from sale of investments

Loan Fund

- interest on deposits and bank balances
- interest on loans
- loan repayments received
- proceeds from sale of loans

Lotteries Fund

- auctions of vehicle registration numbers
- investment income
- loan repayments received
- share of proceeds from the Mark Six Lottery

Capital spending. The aggregate of *capital expenditure*, advances and equity investments from the Capital Investment Fund, and repayment of government bonds and notes charged to the Capital Works Reserve Fund.

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 net proceeds from issuance of bonds and notes and after deducting their repayments charged to Government's accounts.

Government expenditure. The aggregate of *operating expenditure* and *capital expenditure*. Unlike *government spending*, it excludes advances and equity investments from the Capital Investment Fund, and repayment of government bonds and notes charged to Government's accounts. Also, unlike *public expenditure*, it excludes expenditure by the Housing Authority and the Trading Funds.

Government revenue. The aggregate of *operating revenue* and *capital revenue*.

Government spending. The aggregate of *government expenditure*, advances and equity investments from the Capital Investment Fund, and repayment of government bonds and notes charged to the Capital Works Reserve Fund.

Operating expenditure. All expenditure charged to the Operating Account of the General Revenue Account.

Appendix C—*Contd.*

Operating revenue. This comprises all revenue credited to the General Revenue Account (except those items which are treated as *capital revenue*) and the Land Fund, as highlighted below —

General Revenue Account

- duties
- finances, forfeitures and penalties
- investment income
- rents and rates
- royalties and concessions
- taxes
- utilities, fees and charges

Land Fund

- investment income

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

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

Transfer to Funds. It is not counted as expenditure or spending under the General Revenue Account. In fact, all transfers between the General Revenue Account and the Funds are merely internal transfers within the Government's accounts and do not form part of the revenue, expenditure or spending.