

立法會
Legislative Council

LC Paper No. CB(1)2273/05-06
(These minutes have been seen
by the Administration)

Ref : CB1/PL/FA/1

Panel on Financial Affairs

Minutes of meeting
held on Monday, 5 June 2006 at 10:45 am
in the Chamber of the Legislative Council Building

- Members present** : Hon Bernard CHAN, JP (Chairman)
Hon Ronny TONG Ka-wah, SC (Deputy Chairman)
Hon James TIEN Pei-chun, GBS, JP
Ir Dr Hon Raymond HO Chung-tai, S.B.St.J., JP
Hon LEE Cheuk-yan
Dr Hon David LI Kwok-po, GBS, JP
Hon James TO Kun-sun
Hon CHAN Kam-lam, SBS, JP
Hon SIN Chung-kai, JP
Hon Emily LAU Wai-hing, JP
Hon Abraham SHEK Lai-him, JP
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon WONG Ting-kwong, BBS
Hon CHIM Pui-chung
Hon Albert Jinghan CHENG
Hon TAM Heung-man
- Members attending** : Hon CHAN Yuen-han, JP
Hon LI Fung-ying, BBS, JP
Hon WONG Kwok-hing, MH
Hon KWONG Chi-kin
Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP

- Public officers attending** : Mr Henry TANG, GBS, JP
Financial Secretary
- Mr K C KWOK, BBS, JP
Government Economist
- Ms Vivian SUM
Administrative Assistant to Financial Secretary
- Clerk in attendance** : Miss Salumi CHAN
Chief Council Secretary (1)5
- Staff in attendance** : Ms Pauline NG
Assistant Secretary General 1
- Ms Rosalind MA
Senior Council Secretary (1)8
- Mr Justin TAM
Council Secretary (1)3
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Action

- I. Confirmation of minutes of meeting**
(LC Paper No. CB(1)1609/05-06 — Minutes of meeting on 3 April 2006)
- The minutes of the meeting held on 3 April 2006 were confirmed.
- II. Information papers issued since the last meeting**
2. Members noted the following information papers issued since the last regular meeting held on 4 May 2006:
- (a) Written submissions and the Administration's responses on enhancing the protection for insurance policyholders (LC Paper Nos. CB(1)1408/05-06(01) to (06)); and
 - (b) Mandatory Provident Fund Schemes Statistical Digest — March 2006 (LC Paper No. CB(1)1665/05-06).
- III. Date of next meeting and items for discussion**

(LC Paper No. CB(1)1610/05-06(01) — List of outstanding items for discussion

LC Paper No. CB(1)1610/05-06(02) — Letter dated 16 May 2006 from Hon CHAN Kam-lam

LC Paper No. CB(1)1610/05-06(03) — List of follow-up actions)

Discussion items for the meeting on 3 July 2006

3. The Chairman informed members that pursuant to the Panel's decision made at its meeting on 3 April 2006, arrangements had been made for the subject on "Impact of branch closure of banks on the public" to be discussed at the next meeting on Monday, 3 July 2006. Representatives of the Hong Kong Association of Banks, Hong Kong Monetary Authority (HKMA), Financial Services and the Treasury Bureau, and the Consumer Council had been invited to the meeting for the discussion of the subject.

4. The Chairman also drew members' attention to the letter dated 16 May 2006 from Mr CHAN Kam-lam (LC Paper No. CB(1)1610/05-06(02)). Mr CHAN Kam-lam suggested that the Panel should discuss measures to avoid Hong Kong's financial market from being marginalized. Members agreed that the subject be scheduled for discussion at the next meeting on 3 July 2006. Members also agreed that the meeting be held from 10:00 am to 12:45 pm.

(Post-meeting note: At the request of the Administration and with the concurrence of the Chairman, the subject on "Review of the Mandatory Provident Fund Schemes Compensation Fund" was added to the agenda for the meeting on 3 July 2006. The starting time of the meeting was advanced to 9:00 am. Members were informed of the addition of agenda item and extension of meeting time vide LC Paper No. CB(1)1767/05-06 on 19 June 2006.)

Other discussion items

Governance of HKMA

5. Ms Emily LAU recalled that the Panel had invited the Governance Subcommittee (GSC) of the Exchange Fund Advisory Committee to consider and provide written response to the research report prepared by the Research and Library Services Division of the Legislative Council (LegCo) Secretariat on "The Governance of the Hong Kong Monetary Authority and Comparable Authorities in Hong Kong and Overseas jurisdictions" in 2003 and to members' views expressed on the subject at the Panel meeting on 4 May 2006. Noting GSC Chairman's interim reply dated 15 May 2006 (LC Paper No. CB(1)1548/05-06(02)) that the GSC would need more time for preparation of its written response, Ms LAU suggested that the

GSC be invited to provide its written response as soon as possible so that the subject could be scheduled for discussion at the Panel meeting on 3 July 2006.

6. Given that the subject had just been discussed at the meeting on 4 May 2006, Mr SIN Chung-kai considered that it might not be fruitful for the Panel to discuss the subject again in two months' time. He suggested that the Panel might consider the timing for further discussion of the subject at a later stage. In Mr SIN's view, further discussion could be held in the fourth quarter of 2006.

7. As the GSC's written response was not yet available, Mr Andrew LEUNG considered it too early for the Panel to decide on the way forward. Mr LEUNG suggested and other members agreed that the Panel might consider the way forward after receipt of the written response.

(Post-meeting note: The GSC's written response dated 30 June 2006 was issued to members vide LC Paper No. CB(1)1938/05-06(01) on 5 July 2006.)

Conflict of interest issue and other financial issues involved in and after the listing of The Link Real Estate Investment Trust (Link REIT)

8. Referring to the two written replies dated 25 May 2006 from The Link Management Limited (The Link) (LC Paper Nos. CB(1)1627/05-06(04) and (05)) and the written reply dated 26 May 2006 from the Administration (LC Paper No. CB(1)1627/05-06(03)), Mr James TO considered that there were a number of questions that needed to be further examined so as to ascertain whether conflict of interests were involved in Mr Paul CHENG's two roles, i.e. the Chairman of the Board of Directors of The Link as well as a Senior Advisor to Deutsche Bank, during the period from 1 April 2005 to 31 March 2006. To facilitate the Panel's consideration of how the matter should be taken forward, Mr TO said that he would set out his views and concerns in writing before the next meeting on 3 July 2006.

(Post-meeting note: The two letters dated 29 June 2006 from Mr James TO were issued to members vide LC Paper Nos. CB(1)1900/05-06(03) and (04) on 30 June 2006. Pursuant to the Panel's decision made at its meeting on 3 July 2006, the Administration and Mr Paul CHENG were invited to a meeting to be held in September or October 2006 and to respond to the lists of further questions. The written responses from Mr Paul CHENG and the Administration were issued to members vide LC Paper Nos. CB(1)2182/05-06(02) and CB(1)2228/05-06(02) on 11 and 19 September 2006 respectively. Mr Paul CHENG indicated in his response that since he had already provided detailed answers, he did not feel that his attendance to be necessary.)

IV. Briefing by the Financial Secretary on Hong Kong's latest overall economic situation

(LC Paper No. CB(1)1575/05-06 — First Quarter Economic Report 2006 and the press release

LC Paper No. CB(1)1610/05-06(04) — Paper provided by the Administration

LC Paper No. CB(1)1667/05-06(01) — Powerpoint presentation material provided by the Administration)

Briefing by the Administration

9. At the invitation of the Chairman, the Government Economist (GE) gave a power-point presentation on the recent developments in the Hong Kong economy and the Government's latest economic forecasts for 2006 as a whole released at end-May. GE highlighted the following points:

- (a) The Hong Kong economy continued to register robust and broad-based growth in the first quarter of 2006. As the performance in both the external and domestic sectors were better than expected, the Gross Domestic Product (GDP) grew notably by 8.2% in real terms in the first quarter over a year earlier, and signified the tenth consecutive quarter of above-trend growth. On a seasonally adjusted quarter-to-quarter comparison, GDP also expanded markedly for the eleventh quarter in a row, by 2.4% in real terms in the first quarter of 2006.
- (b) External trade remained vibrant in the first quarter and remained a key growth driver. Total exports of goods leaped by 14.4% in real terms in the first quarter over a year earlier, and exports of services also expanded by 8.9%. The external sector had attained growth of 13.3% for the first quarter of 2006.
- (c) On the domestic front, local consumer spending attained solid growth in the first quarter and played an increasing role in the current economic upturn. With generally sanguine consumer sentiment, private consumption expenditure grew by 4.5% in real terms in the first quarter of 2006 over a year earlier.
- (d) Overall investment spending in terms of gross domestic fixed capital formation sustained a distinct growth. Expenditure on machinery, equipment and computer software remained the key driver of overall investment growth (up 23.3%) in the first quarter. Building and construction activity was however still sluggish, registering an 8.7% decline in the first quarter, dragged mainly by the 20% fall-off in public sector construction.

- (e) The labour market continued to show improvement. The seasonally adjusted unemployment rate fell to 5.1% in February - April 2006 and the underemployment rate for the same period was 2.4%. The number of long-term unemployed persons came down markedly further, from the peak of 93 000 in 2003 to about 46 000 in February - April 2006. With the improvement in employment opportunities, the economic upturn had been benefiting most people. The employment conditions of lower-skilled workers also improved, with their unemployment rate falling gradually from the peak of 9.9% in 2003 to 6.2% in 2006. Meanwhile, labour income also picked up further in tandem with the improvement in labour market conditions, with payroll per person engaged in the private sector establishments rising by 3.5% in money terms for 2005 as a whole. The number of employees with monthly employment earnings below \$5,000 dropped by 47 600 to 244 500 while the number with earnings equal to or above \$15,000 increased by 90 500 to 1 018 300.
- (f) Consumer price inflation climbed up slightly further in the first quarter of 2006, alongside brisk economic growth. The rise in rentals over the past two years had begun to creep into the consumer price index to a greater extent. Yet concurrently, the easing in imported inflation brought about by the fall in prices of foodstuffs imported from the Mainland and the earlier appreciation of the Hong Kong dollar along with the US dollar, as well as the sustained improvement in productivity, had helped consumer price inflation to remain at a moderate and healthy level. The Composite Consumer Price Index (CCPI) rose by 1.6% in the first quarter of 2006 over a year earlier.
- (g) Given the exceptionally strong GDP outturn in the first quarter of 2006, the Hong Kong economy should have little difficulty in attaining the forecast GDP growth of 4-5% as released in the Budget. Consumer price inflation was likely to be still moderate and healthy. The forecast rate of increase in CCPI for 2006 as a whole was revised slightly down to 2% (based on a new, update CCPI series) from the earlier forecast of 2.3%. The forecast rate of change in the GDP deflator was 0.5%.
- (h) On household income, according to the latest results of the General Household Survey, the overall average monthly household income rose from \$24,600 in the first quarter of 2004 to \$26,000 in the first quarter of 2006, representing an increase of 3.7% in real terms. Apart from lifting overall household income, the economic recovery had also led to a decline in the proportion of low-income households (households with monthly household income below \$4,000) from 9.1% in the first quarter of 2004 to 8% in the first quarter of 2006, while the share of households with income above \$16,000 increased. Analysis of the composition of low-income households in the first quarter of 2006 showed that elderly

and economically inactive households constituted a large share of low-income households. Among the 182 200 low-income households, 66% were elderly households (120 000 households) and 19% were economically inactive households (33 800 households). The remaining 28 400 households had at least one economically active household members, consisting of 32 700 economically active persons. The number of economically active persons in low-income households fell noticeably by 40% in the past two years from 54 200 to 32 700.

Discussion

Economic performance of Hong Kong

10. Mr CHAN Kam-lam pointed out that, apart from external factors, domestic factors such as consumer spending and the development of the property market were important for maintaining the sustainable growth of the Hong Kong economy. He enquired whether any measures were in place to facilitate the steady growth of consumer spending and the property market without any direct market intervention.

11. In reply, the Financial Secretary (FS) advised that local consumer spending attained solid growth in the past few quarters, indicating strong consumer confidence on the strength of economic performance. He pointed out that consumer confidence would hinge on consumers' ability to maintain and/or increase their level of earnings, through employment income or investments in the property and stock markets. The Administration would facilitate sustainable economic growth from the macro-economic perspective. FS assured members that the Administration would continue to facilitate creating jobs for lower-skilled workers through promoting tourism as well as facilitating the development of environmental industries.

12. Referring to the above-trend GDP growth of 8.2% in the first quarter of 2006, Mr Andrew LEUNG considered that the Administration should adjust upward its forecast of a 4-5% GDP growth for 2006. FS explained that while the Hong Kong economy should have little difficulty in attaining the forecast GDP growth of 4-5%, the Administration considered it prudent to maintain the forecast for 2006 at 4-5% in view of the uncertainties prevailing in the external environment.

13. Pointing out that units in some industrial buildings had been left vacant in recent years, Mr WONG Ting-kwong was concerned how the vacant units could be put into effective use. FS advised that the vacancy rate of private industrial buildings was not high. He undertook to provide information on the latest vacancy rate of private industrial buildings for the Panel's information. He also pointed out that the feasibility and propriety of using industrial buildings for other purposes would involve change in land use and require thorough consideration.

(Post-meeting note: The information provided by the Administration was issued to members vide LC Paper No. CB(1)1897/05-06(01) on 29 June 2006.)

Business opportunities and challenges

14. Noting the rapid economic growth in the Mainland, Mr WONG Ting-kwong was concerned that the development of the Hong Kong economy would lag behind and be marginalized by other Mainland cities. Referring to the modest growth of the port container throughput of Hong Kong, Mr WONG pointed out that the pace of growth could hardly be compared with those of major ports in the Mainland. He sought the view of FS on Hong Kong's business prospects and integration with the Pan-Pearl River Delta (PPRD) region.

15. FS responded that the Hong Kong economy was facing ample opportunities as well as challenges in its integration with the PPRD region. For instance, the integration with the PPRD region had facilitated the development of the logistics industry in Hong Kong, which constituted an increasing share of the GDP from 4.5% to 5.4% during the past few years. FS also pointed out that it might not be appropriate to compare the GDP growth of developing economies in Mainland cities with that of a developed economy like Hong Kong, as the latter had a much higher basis of per capita product for computation of the growth rate. Ensuring sustainable economic growth at a reasonable rate was important for developed economies like Hong Kong.

16. Noting that more and more Mainland corporations were listed in Hong Kong, Mr James TIEN enquired about the impact of such listing exercises on the economy of Hong Kong. Taking the Bank of China as an example, GE pointed out that various professional sectors, including the financial services sector, had participated in and benefited from the listing exercise.

17. To facilitate the accounting profession in capitalizing the benefits under the Closer Economic Partnership Arrangements with the Mainland (CEPA), Miss TAM Heung-man urged the Administration to exert more efforts in lowering the thresholds of setting up accountancy offices and/or associated companies in the Mainland. She pointed out that development of the accounting profession and other professions such as the legal profession would be conducive to strengthening the position of Hong Kong as an international financial centre. FS advised that CEPA had been implemented in phases through an open and on-going process. He appreciated the concern of the accounting profession and assured members that the Administration would continue its discussion with the Mainland authorities with a view to lowering the threshold for professional services providers to enter into the Mainland under CEPA.

18. Miss TAM Heung-man also pointed out that the Panel on Administration of Justice and Legal Services (AJLS Panel) had urged the Administration to consider implementing professional liability reform so as to bring Hong Kong's practices in line with those adopted by other major financial centres and to enhance Hong Kong's competitiveness as a global financial centre. In this connection, the AJLS Panel had written to FS in March 2006. However, according to the Administration's reply

provided in May 2006, the Government had concluded that it would not at this time consider upsetting the present balance in the liability regime and no further studies would be carried out into the proposals for limiting liability during the remainder of the Chief Executive's term of office. Miss TAM urged the Administration to reconsider the issue. FS advised that given the scope and complexity of the proposals, the Administration would not further consider the proposals during the remainder of the term of the current Government.

Employment conditions and labour income

19. Referring to Chart 11 of the power-point presentation material (LC Paper No. CB(1)1667/05-06(01)), Mr LEE Cheuk-yan disagreed with the Administration's description set out in the heading that economic upturn had benefited most people. He pointed out that despite a 8.2% GDP growth in real terms in the first quarter of 2006, the unemployment rate of lower-skilled workers still went up to 6.2%, which was much higher than the unemployment rate of 2.1% for professional and managerial staff. Mr LEE queried whether the economic upturn had benefited the lower-skilled workers.

20. In reply, GE explained that given the general improvement in employment conditions along with the more entrenched economic recovery, the overall unemployment rate as well as those for various sectors, age groups and education levels had fallen. The general observation that the economic upturn had benefited most people was therefore presented in Chart 11. GE also pointed out that as shown from statistics in the past decade, the unemployment rates of lower-skilled workers were more sensitive to economic downturns compared with those for the professional and managerial staff. Moreover, the seasonal effect during the first few months in a year had contributed to the increase in unemployment rate of lower-skilled workers in the first quarter. He believed that the labour market would continue to improve with the economic growth.

21. Mr Ronny TONG was also concerned that notwithstanding the economic recovery and 8.2% GDP growth in the first quarter of 2006, the workforce in general had not benefited from the economic growth, as the labour income had only increased by 1.4%, not able to catch up with the 1.6% increase in CCPI. Noting the forecast GDP growth at 4-5% for 2006, Mr TONG was concerned whether the general workforce would face more hardship in the coming months. GE recognized that the average increase in labour income might not be able to catch up with the inflation rate, particularly for workers at the lower segment of the occupational hierarchy. Nevertheless, with the sustained economic growth, workers of different segments would benefit. The unemployment rate was expected to reduce further and labour income might increase.

22. Noting from Chart 14 of the power-point presentation material that the number of employees with earnings below \$5,000 in the first quarter of 2006 was 244 500, Mr Ronny TONG doubted why this figure differed significantly from the figure

presented by the Hong Kong Council of Social Service. In reply, GE pointed out that for the purpose of analyzing the changes in employees earnings in relation to economic recovery, the number of employees with earnings below \$5,000 did not include some 200 000 foreign domestic helpers. GE further explained that different categorizations would be used for different analyses and this might have accounted for the difference in statistics presented in the Economic Report and those in reports prepared by other organizations. He further pointed out that among the 244 500 employees, 96 700 were working part-time (i.e. working less than 35 hours a week).

23. Referring to Chart 14 of the power-point presentation material and Chart 3 of the Annex to the paper provided by the Administration, Mr KWONG Chi-kin considered that by presenting in detail the number of economically active persons in the low-income households in Chart 3 and not referring to the much larger number of low-income employees in Chart 14, the Administration was misleading members to believe that the extent of the problem of low wages in Hong Kong was smaller than what it actually was. In response, GE clarified that the Administration had not misled members. As Chart 3 focused on low-income households and Chart 14 on employee earnings, different income levels and units (household versus individual employees) had been adopted for the two analyses.

24. Referring to the findings of a recent study on women in poverty that female workers were facing greater problem of unemployment and low income, Miss TAM Heung-man called on the Administration to explore suitable measures to address the problem. In reply, GE advised that according to the analyses conducted jointly with the Labour Advisory Board, while female workers constituted a higher percentage of the low-income employees, the unemployment rate of female workers was in general lower than that of male workers. This might be caused by the increasing dominance of service industries in Hong Kong which provided more employment opportunities for female workers and female workers were in general more flexible to take up jobs of different nature.

25. Ms LI Fung-ying and Miss CHAN Yuen-han urged the Administration to address the employment problems faced by lower-skilled workers. Miss CHAN further urged the Administration to formulate effective measures to tackle the structural unemployment problem in Hong Kong, which had affected in particular the lower-skilled workers and youth. She considered that in addition to training programmes and assistance measures worked out by the Commission on Poverty (CoP), the Administration should be more innovative in facilitating the development of new industries, for example, creative industries, to create jobs for tackling the problem of job mismatch. Ms Emily LAU also urged the Administration to put in place more effective measures to create jobs for lower-skilled workers through the development of new industries such as environmental industries.

26. FS appreciated members' concerns and assured members that the Administration was addressing the employment problems of lower-skilled workers and the youth through a package of measures to assist the lower-skilled and low

education segments of the workforce, including the measures explored by CoP to assist the working poor, and the training and re-training programmes and employment assistance provided by the Labour Department. FS stressed the need for the Administration to employ multi channels in resolving the unemployment problem. While the effect of some measures, such as education and training programmes, might not be obvious in the short-term, they were important in upgrading the general education level and skills of the workforce in the long-term. FS also pointed out that Hong Kong's economy had gradually recovered from the downturn in the past few years and about 240 000 jobs had been created since the trough in mid 2003. The efforts and achievements made by different sectors of the economy in the past few years should not be overlooked. He thanked members' suggestions on means to improve employment opportunities of the local workforce.

27. Responding to Mr Andrew LEUNG's enquiry on the effectiveness of the work of the Employees' Retraining Board (ERB), FS said that the Board had made invaluable contribution in facilitating employees to equip themselves with the necessary skills for employment.

Relief measures for the low-income households

28. Mr WONG Kwok-hing noted that the Administration had provided an analysis of households with average monthly household income below \$4,000 and that such households were referred to as "low-income households" (Annex to LC Paper No. CB(1)1610/05-06(04)). Responding to Mr WONG's enquiry on why the level was set at \$4,000, FS explained that the analysis was provided in response to Ms Emily LAU's request raised at a previous Panel meeting for information about the number of households with average monthly household income below \$4,000. Mr WONG requested the Administration to provide an analysis of the households with average monthly household income below \$5,000. GE undertook to provide written response after the meeting.

(Post-meeting note: The Administration's written response was issued to members vide LC Paper No. CB(1)1828/05-06(02) on 22 June 2006.)

29. Pointing out the financial hardship faced by low-income households with members of the households working hard to achieve self-reliance instead of seeking financial assistance under the Comprehensive Social Security Assistance (CSSA) Scheme, Mr WONG Kwok-hing urged FS and CoP to work out relief measures to alleviate the burden of these households, such as the provision of transport subsidy.

30. FS said that the Government encouraged self-reliance and respected those who worked hard to achieve self-reliance. It was the Government's established policy to provide a basic safety net which ensured that all those in need (including the less privileged and the working poor) could have access to services and support to meet their basic daily living requirements. The Government was aware of the concern about working poverty, and CoP had been exploring ways to provide

services and support to meet the needs of low-income earners. These included the provision of transport subsidy to low-income earners residing in remote areas in the New Territories for traveling to work in other districts, education and training programmes to enhance the employability and competitiveness of the working force, etc.

31. Mr WONG Kwok-hing called for the early implementation of transport subsidy to relieve the burden of low-income earners. On the eligibility requirements, Mr WONG pointed out that the proposal set out in the 2006-07 Budget for providing travel support to retrainees residing in remote areas of the New Territories who had completed ERB courses could not address the need of those working poor who had a job and were unable to attend ERB courses.

32. In response, FS advised that he had explained in his speech concluding the debate on the Appropriation Bill 2006 at the Council meeting on 29 March 2006 that the Administration's target was to work out details of the provision of transport subsidy to low-income earners residing in remote areas for implementation of a trial scheme within 2006-07. He explained that the target of the subsidy scheme was to enhance incentives for people living in remote areas to work and was not meant to become a scheme for providing financial support on a long-term basis.

33. Mr Ronny TONG appreciated the Administration's work in the provision of transport subsidy but pointed out that such measure might not be able to tackle the problem of working poverty at source.

34. Mr LEE Cheuk-yan was concerned that apart from providing transport subsidy, the Administration had no other concrete relief measures for the low-income workers. To enhance training and retraining, Mr LEE opined that the Administration should allocate more resources for the continued provision of financial assistance to adult learners attending evening junior secondary courses. He also suggested the Administration to consider implementation of statutory minimum wages in order to protect the interest of low-income workers.

35. Ms Emily LAU expressed concern about the significant increase in the number of low-income households over the past decade, i.e. from 89 100 in the third quarter of 1995 to 182 200 in the first quarter of 2006. She urged the Administration to combat poverty and address the problem of widened gap between the rich and the poor. To provide an objective assessment of the gap, Ms LAU suggested that the Administration should also provide information on high-income households.

(Post-meeting note: Ms Emily LAU's letter dated 6 June 2006 about high-income households and the Administration's written response dated 19 June 2006 were issued to members vide LC Paper Nos. CB(1)1874/05-06(01) and (02) on 22 June 2006.)

36. Referring to the statistics on household income in the paper provided by the Administration, Ms LI Fung-ying was concerned that the polarization of household income between the low-income and high-income groups had not improved but had widened along with the economic recovery. In view of the increasing cost of living with inflation, the livelihood of the 182 200 low-income households might even be more difficult. In this connection, Ms LI enquired whether the Administration would implement any measures to alleviate the problem of polarization of household income. In reply, FS said that the Administration had allocated significant resources in education and training in order to upgrade the skills and knowledge of the work force and better equip workers for the challenges under the transition to a knowledge-based economy.

Addressing the unemployment problem of the construction industry

37. Mr Abraham SHEK was concerned that despite reduction in the overall unemployment rate in the last few quarters, the unemployment rate of the construction industry stood high with double-digit figures. Whilst appreciating the Administration's efforts in expediting the implementation of public works projects, Mr SHEK considered that the Administration should also critically examine how the private property development process could be expedited so as to facilitate the implementation of construction and building projects in the private sector. In this connection, he pointed out that the bureaucratic approach adopted by the Lands Department in processing relevant applications from private property developers might discourage the developers from investing in Hong Kong and therefore have an adverse impact on the overall economy. Mr Andrew LEUNG also expressed concern about the unemployment problem of the construction industry.

38. In response, FS pointed out that as pledged by the Administration in the 2006-07 Budget, provision had been earmarked for an average annual allocation of about \$29 billion for infrastructure projects in the next five years. The Administration would consider increasing the level of allocation when there was a need to do so. As to measures to facilitate construction and building projects in the private sector, FS advised that the Administration was aware of the concerns of professionals and private property developers about the processing of relevant applications by the Lands Department, and would explore measures to expedite the implementation of construction and building projects in the private sector while observing the principle of fairness and openness. Ms Emily LAU expressed support for the Administration to maintain a fair and transparent system with a view to expediting the implementation of works projects and creating a good business environment to attract investment. She also requested the Administration to expedite the implementation of public works projects, including the construction of a new town hall cum civic centre in North District and a new skating rink cum bowling alley in Junk Bay.

39. Mr Jame TIEN pointed out that under the existing Application List system, a private developer interested in any site on the Application List might submit an

application to the Government offering a minimum price to purchase the site. If the price offered by the applicant was at least 80% of the Government's assessed open market value of the site concerned, the site would be put up for sale. In view of the industry's concern that the 80% triggering requirement was too high, Mr TIEN suggested that the Administration should review the existing system and consider lowering the triggering requirement, say, to 60%. In reply, FS explained that the Application List system had been operating effectively with the highest bids in auctions or tenders always meeting or exceeding the open market value reserve prices of the sites. The Administration would closely monitor the operation of the system and make adjustments where necessary.

Safeguarding the integrity of securities and futures markets of Hong Kong

40. Referring to the recently announced merger of the New York Stock Exchange Group and the Euronext N.V. (which represented a combination of the leading US and pan-European securities trading exchanges in a merger of equals), Mr SIN Chung-kai expressed concern about the possible actions of the new group to target the next merger exercise at exchanges in Asia, such as the Hong Kong Exchanges and Clearing Limited (HKEx), for development of a global securities trading platform. Mr SIN enquired whether adequate measures had been put in place under the existing regulatory framework to effectively prevent foreign securities trading exchanges from gaining control over HKEx.

41. In response, FS said that given the strategic importance of HKEx to the securities and futures markets of Hong Kong, a comprehensive framework had been put in place to ensure that HKEx could effectively discharge its responsibilities in safeguarding the integrity of these markets. Whilst HKEx would make business decisions including any possible cooperation with companies based on commercial operations considerations, FS pointed out that the existing corporate governance structure of HKEx and the statutory restrictions on control of the company were effective in managing the risks of strategic acquisition of shares by any persons or companies. HKEx's Board of Directors, which comprised thirteen members, including seven appointed by the Administration, would effectively examine any strategic acquisition proposals. However, no person, either alone or with any associate, might hold more than 5% of the HKEx shares except with the approval of the Securities and Futures Commission in consultation with FS.

42. Mr SIN Chung-kai was concerned that a group of eleven persons might be able to gain control of HKEx by acquiring 4.9% of its shares each, thus holding a total of 53.9% of its shares. FS pointed out that the current market value of HKEx amounted to some \$60 billion. It was doubtful as to whether any persons or companies would invest about \$30 billion for an attempt to acquire the majority shareholdings of HKEx.

V. Any other business

43. There being no other business, the meeting ended at 12:55 pm.

Council Business Division 1
Legislative Council Secretariat
27 September 2006