

OFFICIAL RECORD OF PROCEEDINGS

Wednesday, 27 February 2008

The Council met at Eleven o'clock

MEMBERS PRESENT:

THE PRESIDENT

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

THE HONOURABLE BERNARD CHAN, G.B.S., J.P.

THE HONOURABLE CHAN KAM-LAM, S.B.S., J.P.

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

THE HONOURABLE LEUNG YIU-CHUNG

THE HONOURABLE SIN CHUNG-KAI, S.B.S., J.P.

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

THE HONOURABLE WONG YUNG-KAN, S.B.S., 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, J.P.

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

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

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

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

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

THE HONOURABLE ALBERT CHAN WAI-YIP

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

DR THE HONOURABLE JOSEPH LEE KOK-LONG, J.P.

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

THE HONOURABLE JEFFREY LAM KIN-FUNG, S.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 WONG TING-KWONG, B.B.S.

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

THE HONOURABLE CHIM PUI-CHUNG

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

THE HONOURABLE ALBERT JINGHAN CHENG, J.P.

THE HONOURABLE KWONG CHI-KIN

THE HONOURABLE TAM HEUNG-MAN

THE HONOURABLE MRS ANSON CHAN, G.B.M., J.P.

PUBLIC OFFICERS ATTENDING:

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

THE CHIEF SECRETARY FOR ADMINISTRATION

THE HONOURABLE JOHN TSANG CHUN-WAH, 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 EDUCATION

THE HONOURABLE FREDERICK MA SI-HANG, J.P.

SECRETARY FOR COMMERCE AND ECONOMIC DEVELOPMENT

THE HONOURABLE STEPHEN LAM SUI-LUNG, J.P.

SECRETARY FOR CONSTITUTIONAL AND MAINLAND 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 FOOD AND HEALTH

THE HONOURABLE DENISE YUE CHUNG-YEE, G.B.S., J.P.

SECRETARY FOR THE CIVIL SERVICE

THE HONOURABLE TSANG TAK-SING, J.P.

SECRETARY FOR HOME AFFAIRS

THE HONOURABLE MATTHEW CHEUNG KIN-CHUNG, G.B.S., J.P.
SECRETARY FOR LABOUR AND WELFARE

PROF THE HONOURABLE K C CHAN, S.B.S., J.P.
SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY

THE HONOURABLE MRS CARRIE LAM CHENG YUET-NGOR, J.P.
SECRETARY FOR DEVELOPMENT

THE HONOURABLE EDWARD YAU TANG-WAH, J.P.
SECRETARY FOR THE ENVIRONMENT

THE HONOURABLE EVA CHENG, J.P.
SECRETARY FOR TRANSPORT AND HOUSING

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

CLERK IN ATTENDANCE:

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

PRESIDENT (in Cantonese): Mr LEUNG Kwok-hung, take your seat please. *(Laughter)*

MR LEUNG KWOK-HUNG (in Cantonese): President, I am actually very serious. I hope that the voices of the poor can be heard here. This is for Financial Secretary John TSANG and his boss

PRESIDENT (in Cantonese): Mr LEUNG, you must know that this is not the time for you to speak. What you are doing now is inconsistent with the Rules of Procedure. We have all seen it. Please sit down, and put down that article.

MR LEUNG KWOK-HUNG (in Cantonese): Will he take it?

PRESIDENT (in Cantonese): This is not the place for receipt of articles. Please put it away. Staff of the Secretariat can take it away from the Chamber, and later on you can give it to people outside of the Chamber.

MR LEUNG KWOK-HUNG (in Cantonese): I hope all the poor people in Hong Kong can see what a government this is.

PRESIDENT (in Cantonese): Security officers, please remove that article.

(Security staff took hold of the article)

PRESIDENT (in Cantonese): Mr LEUNG, please sit down.

(Mr LEUNG Kwok-hung took his seat)

TABLING OF PAPERS

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

Papers

- No. 73 — Education Scholarships Fund
Audited Statement of Accounts together with the Auditor's Report and Trustee's Report on Administration of the Fund for the year ending 31 August 2007
- No. 74 — Estimates
for the year ending 31 March 2009
Volume IA - General Revenue Account
Volume IB - General Revenue Account
- No. 75 — Estimates
for the year ending 31 March 2009
Volume II - Fund Accounts

WRITTEN ANSWERS TO QUESTIONS

Concessionary Interchange Scheme

1. **MR ANDREW CHENG** (in Chinese): *President, since 22 August 2004, the Kowloon-Canton Railway Corporation (KCRC) had, in collaboration with the New World First Bus Services Limited (NWFB), implemented a concessionary interchange scheme whereby West Rail passengers could enjoy free rides on Routes 701 and 702 of the NWFB at Nam Cheong Station. However, the above scheme was discontinued upon the rail merger on 2 December 2007. In this connection, will the Government inform this Council:*

- (a) *whether it knows the daily average number of trips made by passengers who benefited from the above concessionary interchange scheme during its implementation, broken down according to the following table:*

<i>Year</i>	<i>Daily average number of trips made by passengers who benefited from the interchange concessions</i>			
	<i>Route 701</i>		<i>Route 702</i>	
	<i>Mondays to Saturdays</i>	<i>General holidays (including Sundays)</i>	<i>Mondays to Saturdays</i>	<i>General holidays (including Sundays)</i>
<i>2004 (from 22 August onwards)</i>				
<i>2005</i>				
<i>2006</i>				
<i>2007 (up to 1 December)</i>				

- (b) *whether the Government was informed, when discussing the merger with the two railway corporations, that the MTR Corporation Limited (MTRCL) would not extend the above concessionary interchange scheme after the rail merger; if so, of the details; and*
- (c) *whether the Government will consider persuading the MTRCL to resume the above concessionary interchange scheme; if so, of the details?*

SECRETARY FOR TRANSPORT AND HOUSING (in Chinese): President,

- (a) According to the record of the MTRCL, during the period of 22 August 2004 to 30 November 2007 when the pre-merger KCRC and NWFB jointly provided the interchange concession between bus routes 701 and 702 and the West Rail, the respective daily average number of trips made by passengers who benefited under the scheme for the said bus routes is as follows:

<i>Year</i>	<i>Daily average number of trips made by passengers who benefited from the interchange concessions</i>	
	<i>Route 701</i>	<i>Route 702</i>
<i>2004 (since 22 August)</i>	<i>4 900</i>	<i>900</i>
<i>2005</i>	<i>6 800</i>	<i>1 900</i>
<i>2006</i>	<i>10 100</i>	<i>3 100</i>
<i>2007 (up to 30 November)</i>	<i>9 900</i>	<i>2 600</i>

The MTRCL does not have record on the breakdown of daily average number of trips made by passengers who benefited by "weekdays" and "weekend and public holidays".

- (b) The abovementioned interchange concessions between the West Rail and NWFB are promotional schemes jointly offered by the pre-merger KCRC and NWFB. The details and availability of the schemes were the commercial decisions of the companies concerned.

When the schemes were first introduced on 22 August 2004, the KCRC and NWFB stated that they were promotional schemes lasting for a period of six months and they were subsequently renewed several times. The KCRC and NWFB informed the Government in late October 2007 that the schemes would end on 1 December 2007. The two companies put up notices in November 2007 at stations/bus stops to inform passengers of the expiry date of the schemes. As a matter of fact, the rail merger negotiations were completed before mid-2007 and the Rail Merger Bill was passed by the Legislative Council in June 2007. The expiry of the schemes is not related to the rail merger discussions.

- (c) The Government has all along been encouraging public transport operators, including railway companies and bus companies, to provide fare concessions to passengers taking into account their own operating conditions. The Government also reflects passengers' requests for provision of fare concessions to the companies. However, whether to provide fare concessions are commercial decisions of the companies concerned.

Open Sewers

2. **MR LAU WONG-FAT** (in Chinese): *President, will the Government inform this Council:*

- (a) *of the current number of open sewers, as well as the location and length of each open sewer, broken down by 18 District Council (DC) districts; and*

- (b) *whether the Government has any plan for decking all the above sewers; if so, of the detailed timetable concerned, and what plans the Government has in place to make good use of the land obtained from decking such sewers?*

SECRETARY FOR DEVELOPMENT (in Chinese): President, Hong Kong collects and discharges its sewage through a system of underground pipes. On the other hand, all open nullahs are used for discharging storm water, not sewage. Probably due to discharge of pollutants into the open nullahs, some of them are smelly and become the subject of public complaints. Our replies to the two legs of the question are as follows:

- (a) The Drainage Services Department (DSD) has over the past few years received complaints about odours from open nullahs and was asked to improve the situation. The location and length of the open nullahs that have received public complaints are listed at Annex.
- (b) The Government has planned to deck open nullahs to improve the environment. As indicated at Annex, the decking works for eight sections of the nullahs in Kwai Tsing, Tsuen Wan, Sham Shui Po, Wan Chai and Yau Tsim Mong Districts have been completed. Decking works for five other sections of the nullahs are scheduled to start between 2008 and 2010. Separately, the DSD will consider improvement options for the remaining nullahs and study their technical feasibility. The relevant DCs will be consulted in the process.

The land created by decking open nullahs will generally be for public use, such as greening of the environment, provision of amenity facilities and footpath widening.

Annex

Information on Open Nullahs

<i>DC</i>	<i>Location of Open Nullah</i>	<i>Length (m)</i>
Wan Chai	* Queen's College Nullah	245
	# Fung Fai Terrace Nullah	35
Kowloon City	Kai Tak Nullah (former airport section)	1 300

<i>DC</i>	<i>Location of Open Nullah</i>	<i>Length (m)</i>
Yau Tsim Mong	* Flower Market Road Nullah, Mong Kok	210
	# Mong Kok Road Nullah	33
Sham Shui Po	* Tonkin Street Nullah, Cheung Sha Wan	230
	# Lung Chu Street Nullah	95
	Lai Po Road Nullah, Lai Chi Kok	30
Kwun Tong	Tsui Ping Nullah	1 000
	* Jordan Valley Nullah	90
Tuen Mun	Lung Kwu Tan Tsuen Nullah	730
	Nai Wai Channel	150
Yuen Long	Yuen Long Nullah	10 000
	Shui Tau Tsuen Nullah, Kam Tin	650
North District	Tim Sum Channel, Fan Ling	600
Sai Kung	* Fuk Man Road Nullah	180
	Tseng Lan Shue Nullah	90
Tsuen Wan	Chiu Tam Path Chung Hang	280
	# Summit Terrace Nullah	130
	# Joyful Building Nullah	30
Islands	Ma Wan Chung Nullah, Tung Chung	240
Kwai Tsing	# Yip Shing Street Nullah	75
	# Kwai Wing Road Nullah Ramp	40
	# San Kwai Street Nullah Ramp	40

Decked open nullahs

* Decking works scheduled to start from 2008 to 2010

Members of Public Being Interviewed Alone in Police Stations

3. **DR JOSEPH LEE** (in Chinese): *President, regarding the arrangement that members of the public are interviewed alone by police officers in individual interview rooms in police stations, will the Government inform this Council:*

- (a) *of the number of complaints received by the Government in the past three years from members of the public alleging that they had been threatened and assaulted by police officers in the above interview rooms, and among them, the number of substantiated cases;*
- (b) *how the police monitor the proceedings of the above individual interviews; whether the installation of closed-circuit television surveillance system in those interview rooms is required; if not, of*

the reasons for that; if so, whether the activation of such surveillance system during the interviews is required; if not, the reasons for that; and

- (c) *how the Government protects the human rights of members of the public being interviewed alone as aforementioned?*

SECRETARY FOR SECURITY (in Chinese): President,

- (a) The location at which police officers interview individuals assisting in investigations depends on the circumstances; such interviews are not necessarily carried out in the interview rooms in police stations. This notwithstanding, the Complaints Against Police Office (CAPO) does not keep statistics on complaints concerning allegations made by members of the public or any individuals assisting in police investigations that they had been threatened or assaulted by police officers in the interview rooms in police stations.

- (b) and (c)

All Divisional Commanders are under a duty to ensure the safety of all individuals assisting in police investigations in police stations. The Force has in place internal guidelines on how police officers should interview individuals assisting in police investigations, and provides training to police officers to enhance their understanding of how the rights of those who assist in investigations should be suitably protected. Posters and notices are displayed in all interview rooms in police stations, informing individuals assisting in police investigations of their rights, including the right to notify relatives and friends as well as the right to meet privately with a solicitor.

Currently, some interview rooms (72 in total) in police stations have installed video-recording and live-video link equipment for conducting video-recording of interviews in more serious cases. Examples include cases where trial is reasonably expected to take place at either a District Court or the Court of First Instance, the offence involves a penalty of imprisonment of five years or more, or the nature of the crime may involve significant public interest.

Police officers must strictly abide by the law (including laws concerning the protection of human rights) in the execution of their duties. Through training and effective staff supervision, the Force ensures that police officers conduct interviews with individuals assisting in police investigations in accordance with the relevant requirements. The Force also reminds its officers from time to time that improper exercise of their power may have disciplinary or even legal repercussions. If any individual feels aggrieved after being interviewed by the police, he could lodge a complaint with the CAPO. To ensure that the complaints are handled impartially, the CAPO's investigation reports are submitted to the Independent Police Complaints Council for examination.

Removal Arrangements for Elderly Tenants in Housing for Senior Citizens Units

4. **MR JAMES TIEN** (in Chinese): *President, in reply to a question raised by a Member at the Council meeting on 6 June 2007, the former Secretary for Housing, Planning and Lands said that the Hong Kong Housing Authority (HA) was converting Housing for Senior Citizens (HSC) units with consistently high vacancy rate (usually the old-style units with shared kitchen and toilet facilities) into normal public rental housing (PRH) flats or other uses by phases. The Secretary further said that apart from better utilizing the resources, the conversion scheme would fundamentally resolve the daily living problems that tenants might encounter in sharing the use of facilities. It has also been reported recently that in order to increase the supply of PRH flats to continue to meet the target of maintaining the average waiting time for PRH at three years, the Housing Department (HD) has decided to convert some HSC units into normal PRH flats, and has issued Notices-to-Quit to the elderly tenants living in such flats. In this connection, will the Government inform this Council:*

- (a) *apart from the above reasons mentioned by the Secretary, whether there are other reasons for implementing the above conversion scheme; if so, of the details; and the details of the scheme (including the PRH estates involved since last year, whether the scheme will be extended to other PRH estates, and so on);*
- (b) *focusing on the reasons referred to in (a) for implementing the above conversion scheme, whether it has explored if there are alternatives*

to that conversion scheme; if there are alternatives, of the details and the reasons for not adopting them; and

- (c) *whether it has examined the difficulties that the elderly tenants of the above flats will encounter when they move to other flats; if so, of the details and the measures to deal with such difficulties?*

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

- (a) The HSC is hostel-type public housing introduced in the late 1980s with 24-hour warden service. Tenants have to share kitchen and/or toilet facilities. As most PRH applicants prefer small self-contained PRH units, many of them refuse to move into HSC units. This has resulted in a relatively high vacancy rate for HSC. In May 2006, the average refusal rate for HSC stood as high as 84%, showing a gradual decrease in applicants' demand for hostel-type public housing.

To better utilize public housing resources, the HA introduced a trial scheme in 2002 to convert HSCs with relatively high vacancy rates into normal PRH flats. Under this scheme, some HSC units in Chung On Estate and Wah Lai Estate have been converted into normal PRH flats. Many tenants welcome the scheme as it has helped improve their living environment. In view of the satisfactory results of the trial scheme, the HA endorsed the scheme as a long-term measure in July 2006, aiming to convert 500 HSC units each year. That said, whether the existing tenants are to move out is entirely their voluntary decisions. If a tenant does not wish to move out, he may continue to stay in his unit which will not be converted. Prior to the conversion, the HD will consult the tenants concerned on their views on moving out and address their needs in relation to moving as far as possible.

Phase 1 of the conversion programme covers the HSCs in Tak Tin Estate, Tin Chak Estate, Tin King Estate and Ko Yee Estate, involving 430 units, with vacancy rates between 46% and 74%. The HD is conducting a questionnaire survey to gauge the intention of the tenants to move out. Once the findings are consolidated, the

HD will arrange flat transfer for those who choose to move out. The HD has not issued any Notice-to-Quit to any tenants.

If the programme is implemented smoothly, the HA will continue to implement the programme in another 14 HSCs with relatively high vacancy rates.

- (b) Other than converting HSC units into normal PRH flats, the HA would consider converting HSCs with relatively high vacancy rates to other uses such as residential care homes, social service centres and elderly community centres, having regard to the local demand for such services. For example, the HSC in Fu Tai Estate in Tuen Mun has been converted into a Residential Care Home for the Elderly cum Day Care Unit.

Apart from conversion, in order to reduce the vacancy rates of HSCs and to better utilize public housing resources, the HA has relaxed the age restriction for HSC tenants since November 2001, allowing non-elderly singletons to apply. In addition, HSC units have been included in the Express Flat Allocation Scheme since December 2001 for applicants to select, thus providing public housing to needy families in a shorter time.

- (c) The HA understands that some elderly tenants would like to live in neighbourhoods with which they are familiar. It has therefore decided that whether the sitting HSC tenants are to move out should entirely be their voluntary decisions. The implementation of the conversion programme is tenant-oriented. Those who choose to move out will be granted removal allowance. Subject to availability of resources, the HD will arrange flat transfer according to the housing preferences of the tenants, or arrange elderly tenants who know each other well to move into units in the same or neighbouring housing estates. Moreover, to reduce the difficulties that tenants may encounter in the course of moving and to ease their worries about the moving arrangements, the HD has engaged an elderly service organization with effect from November 2007 to assist the affected tenants with the moving arrangements and make referrals to the Social Welfare Department where necessary, in order to ensure that the elderly tenants are properly rehoused and will adapt to the new living environment as soon as possible.

Remission of Sentences for Sentenced Persons Transferred from Other Jurisdictions

5. **MS AUDREY EU** (in Chinese): *President, since the end of last year, I have received quite a number of requests for assistance from persons transferred from Thailand to serve their sentences in Hong Kong under the Transfer of Sentenced Persons Ordinance (Cap. 513) (the Ordinance). They said that as the Thai Government had announced the granting of pardons to prisoners in celebration of their King's 80th birthday last December, the remission of sentences for prisoners in Thailand should also apply to them. Some of them should even be immediately discharged under the pardons. Yet, some persons who have served their sentences when taking account of the remission had to stay in prison because of the delay of the relevant authorities in Hong Kong in obtaining the remission documents from the Thai Government, which is very unfair to them. In this connection, will the Government inform this Council:*

- (a) *in the past three years, of the number of persons transferred to Hong Kong to serve their sentences under the Ordinance and the jurisdictions which imposed sentences on them, as well as the respective ages of the youngest and the oldest persons among them; of the number of persons who had served additional time in Hong Kong due to the failure to obtain remission documents from the jurisdictions concerned, and list the duration of the additional time served by, and the jurisdiction which imposed sentence on each of them;*
- (b) *among the persons who are currently serving their sentences in Hong Kong under the Ordinance, how many of them should have been discharged due to the remission of sentences but are still in prison due to the failure to obtain remission documents from the relevant jurisdictions; of the duration of the additional time they have hitherto served and the jurisdictions which imposed sentences on them; and whether the authorities have taken any follow-up action other than contacting the Governments concerned through their consuls in Hong Kong, so as to avoid those persons being kept in prison; if they have, of the details, including the number of persons involved and the jurisdictions which imposed sentences on them; if not, the reasons for that; and*
- (c) *whether the relevant authorities will consider providing appropriate relief to the above persons who have served additional time; if they will, of the details; if not, the reasons for that?*

SECRETARY FOR SECURITY (in Chinese): President,

- (a) The Ordinance provides a legal framework for the transfer of sentenced persons (TSP) between Hong Kong and places outside the People's Republic of China and between Hong Kong and Macao. Since the commencement of the Ordinance in June 1997, the Government of the Hong Kong Special Administrative Region (SAR) has reached agreement on TSP with 10 overseas jurisdictions and Macao.

Over the past three years (that is, 2005 to 2007), a total of 44 sentenced persons have been transferred from overseas jurisdictions and Macao to Hong Kong to serve the remainder of their sentences. A breakdown of the figure by year and place of transfer is given in the table below:

	<i>The United States</i>	<i>Thailand</i>	<i>Macao</i>
2005	0	0	0
2006	0	15	6
2007	1	9	13

Among the sentenced persons mentioned above, the respective ages of the oldest and the youngest are 75 and 23.

Over the past three years, Hong Kong has only received one notification of a decision to modify sentences from the jurisdiction of a Transferring Party. In August 2006, the Thai authorities announced the granting of a Royal Pardon to prisoners in celebration of the 60th anniversary of the King of Thailand's accession to the throne. Depending on their categories or the offences committed, sentenced persons who met the conditions for the pardon would have their sentences reduced. However, the exact amounts of remission of sentence for individual sentenced persons had to be given legal effect by warrants issued by the Courts in Thailand. The SAR Government received the warrants issued by Thai Courts in separate batches between November 2006 and January 2007. A total of 35 sentenced persons, who had been transferred from Thailand to serve the remainder of their sentences in Hong Kong, were granted a remission of sentence. With the remission granted in Hong Kong under the Prison Rules (Cap. 234) taken into account, five of them were released immediately after the SAR Government received the warrants issued by Thai Courts.

- (b) The SAR Government is aware that the Thai authorities announced the granting of a Royal Pardon to prisoners in celebration of their King's 80th birthday last December. Depending on their categories or the offences committed, sentenced persons who meet the conditions for the pardon will have their sentences reduced. However, we have yet to receive the warrants issued by Thai Courts in respect of individual sentenced persons who have been transferred from Thailand to Hong Kong to serve the remainder of their sentences. As such, we are not able to ascertain whether any of them would be granted a remission or the amount of remission to be granted. According to information provided by the Correctional Services Department, 35 sentenced persons who have been transferred from Thailand are still serving their sentences in Hong Kong.

The SAR Government has proactively requested the Chinese Ambassador to Thailand to follow up the Royal Pardon announced in December 2007. We hope to be able to ascertain whether any of the sentenced persons transferred from Thailand to Hong Kong to serve the remainder of their sentences would be granted a remission and the amounts of remission to be granted as soon as possible. We have also sought assistance from the British Ambassador to Thailand in respect of the cases of sentenced persons holding British National (Overseas) Passports who have been transferred to Hong Kong to serve the remainder of their sentences.

According to the TSP Agreements signed by Hong Kong with overseas jurisdictions and Macao, if the Transferring Party decides to modify the sentence of a transferred sentenced person, the Receiving Party shall implement the decision in accordance with the Agreement upon receipt of formal notification of the decision by the Transferring Party. At present, there are no prisoners in Hong Kong, whose release dates have been delayed due to the failure of the SAR Government in implementing a decision by a Transferring Party to modify the prisoners' sentences upon receipt of notification of such a decision.

- (c) As stated in (b) above, we have yet to receive any warrants issued by Thai Courts relating to the Royal Pardon announced by Thai authorities in celebration of their King's 80th birthday. Therefore, we are not able to ascertain whether any of the sentenced persons

concerned would be granted a remission or the amount of remission to be granted. In fact, the SAR Government cannot unilaterally modify the sentences of sentenced persons transferred to Hong Kong to serve the remainder of their sentences under the TSP Agreements before receiving the notification of the Transferring Party of their decision to modify these sentences.

Electricity Tariffs

6. **MR DANIEL LAM** (in Chinese): *President, the Government already entered into the new Scheme of Control Agreements (SCAs) with the two local power companies respectively, with their permitted rate of return being adjusted downwards to 9.99%. However, while the authorities stated that electricity tariffs would hopefully be adjusted downwards by about 10% in future, the two power companies immediately responded that the rate of downward adjustment of electricity tariffs could only be determined having regard to the impact of various factors, and refused to undertake that the rate of electricity tariffs reduction would be equivalent to that estimated by the Government. The two power companies even took the lead at the end of last year to announce an upward adjustment of electricity tariffs for this year. Some members of the public have relayed to me that under the circumstances of high inflation at present, electricity tariffs going up instead of going down has seriously affected the livelihood of the disadvantaged. In this connection, will the Government inform this Council:*

- (a) *what counter measures the Government has in place to deal with the situation that the two power companies refuse to reduce electricity tariffs on various grounds, or nominally reduce electricity tariffs by a small amount only; and*
- (b) *whether the Government will reconsider studying the introduction of competition to the electricity market as soon as possible, so as to provide more room for the downward adjustment of electricity tariffs?*

SECRETARY FOR THE ENVIRONMENT (in Chinese): *President,*

- (a) Under the new SCAs, the permitted rate of return of the two power companies will be reduced from the existing 13.5% to 15% on the Average Net Fixed Assets (ANFA) down to 9.99%. Based on

2006 figures, the reduced rate of return will cut the annual earning of the two power companies by around \$5 billion. The extent of reduction in basic tariff (excluding fuel cost adjustments) should reach double-digit. The actual reduction in basic tariff however will depend on the ANFA of the two companies and their operating cost on the commencement of the new Agreements. The Government will ensure that the power companies stringently follow the terms of the new SCAs in proposing the new tariff level.

- (b) Opening up the electricity market involves a considerable amount of legal issues (including how to deal with the generating facilities and power grids which are assets of the two power companies), important and complex matters like regulatory arrangements, organizational structure, market demand and supply, and so on. The Government has already announced the plan to carry out all the necessary preparations during the next regulatory period with a view to introducing competition to the electricity market of Hong Kong. These include determining the open market model and options for regulatory and technical matters, such that competition can be introduced expeditiously when the requisite market conditions are present.

Exercise of Discretion by Student Financial Assistance Agency

7. **DR YEUNG SUM** (in Chinese): *President, under the existing Kindergarten and Child Care Centre Fee Remission Scheme, Senior Secondary Fee Remission Scheme, School Textbook Assistance Scheme and Student Travel Subsidy Scheme, Student Financial Assistance Agency (SFAA) may exercise its discretion to approve the relevant applications to ensure that applicants genuinely in need can obtain financial assistance. In this connection, will the Government inform this Council:*

- (a) *of the criteria for exercising the above discretion by the SFAA;*
- (b) *in the past five years, of the respective numbers of cases in which the SFAA exercised its discretion to grant half or full fee remission or half or full grant under each of the above schemes; and*
- (c) *of the channels through which applicants of the above schemes may seek the SFAA's discretionary approval for their applications?*

SECRETARY FOR EDUCATION (in Chinese): President,

- (a) In processing applications under the Kindergarten and Child Care Centre Fee Remission Scheme, Senior Secondary Fee Remission Scheme, School Textbook Assistance Scheme and Student Travel Subsidy Scheme, the SFAA adopts the "Adjusted Family Income" mechanism for conducting means test to assess the eligibility of a family for student financial assistance and the assistance level applicable to it. The family income refers to the applicant's family income in the previous financial year. If a particular family encounters immediate financial hardship, the SFAA would exercise discretion to approve the family's application or increase the family's assistance level to ensure that the family concerned would receive appropriate assistance. When exercising discretion, the SFAA's major considerations are whether the family concerned has exceptional and unforeseen financial hardship after submission of application due to, for instance, the breadwinner's death, serious illness, unemployment, significant drop in income or cessation of financial support to the family after deserting the family.
- (b) In the past five school years, the number of cases granted discretionary approval or increase in assistance level (including half or full grant) is as follows:

<i>Student Financial Assistance Scheme</i>	<i>2003-2004 (Note¹)</i>	<i>2004-2005 (Note¹)</i>	<i>2005-2006 (Note¹)</i>	<i>2006-2007</i>	<i>2007-2008 (Note²)</i>
Kindergarten and Child Care Centre Fee Remission Scheme	The SFAA has not maintained relevant statistics.			134	49
Senior Secondary Fee Remission Scheme	755	607	513	502	385
School Textbook Assistance Scheme	1 267	1 033	785	782	612
Student Travel Subsidy Scheme	811	634	511	574	467

¹ The statistics for the 2003-2004 to 2005-2006 school years include only cases recommended by principals of primary and secondary schools. The SFAA has not maintained the number of applications submitted to it directly for reassessment of assistance level.

² As at 15 February 2008.

- (c) Applicants of the above assistance schemes may reflect directly to the SFAA their exceptional and unforeseen financial hardship, and request the SFAA to reassess their application. The SFAA will reassess the applicants' assistance level in accordance with their latest family financial situation. The procedure for applying for

reassessment is set out in the Guidance Notes of the respective schemes.

In addition, applicants with children studying in primary or secondary schools may apply for discretionary awards of assistance through the school principal. Each year, the SFAA provides schools with guidelines on the discretionary arrangements, setting out the matters which principals should consider in making recommendations for such arrangements. Principals concerned may put up recommendations to the SFAA with regard to the students' particular circumstances. The SFAA will consider the cases concerned, and may exercise discretion to approve the applications or increase the assistance level to render appropriate support for students with financial hardship.

Taxi Hiring Scheme

8. **MR CHEUNG HOK-MING** (in Chinese): *President, in addition to procuring its own vehicles and hiring drivers to provide services for government officers, the Government also implements the Taxi Hiring Scheme, under which government officers are allowed to use hourly-hired taxis for official duty journeys. In this connection, will the Government inform this Council:*

- (a) of the number of hirings and expenditure incurred in using hourly-hired taxis by various government departments in the past three years;*
- (b) in comparison with maintaining a government fleet, of the amount of public money saved under the above Scheme in each of the past three years; and*
- (c) of the current procedures, mode of operation and details of the charges for using hourly-hired taxis, and whether standardized guidelines on the above Scheme have been drawn up for various government departments?*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Chinese): President, government departments are required to consider using the most appropriate mode of transport, including public transport, government

vehicles and hired vehicles for the purpose of discharging duties, taking into account operational needs and cost-effectiveness. Government officers should use the most economical means of public transport for duty journeys. However, they may choose to use other appropriate modes of transport having regard to factors such as location of outside duty, items that have to be brought along and urgency of the job. Government departments are required to strictly adhere to this principle when deciding the appropriate mode of transport and approving claims for reimbursement of relevant travelling expenses.

The Government has implemented the "Use of Hourly-hired Taxis for Duty Journeys Scheme" since February 2003. It aims mainly at providing an additional alternative mode of transport for duty journeys of government officers having regard to operational needs and cost-effectiveness.

My reply to the three-part question is as follows:

- (a) The number of hirings and expenditure incurred in using hourly-hired taxis by various government departments in the past three years from 2005 to 2007 are set out in Annex 1.
- (b) After launching the "Use of Hourly-hired Taxis for Duty Journeys Scheme" in 2003, the Government Logistics Department reduced its fleet by 10 medium saloon cars and deleted 10 relevant government driver posts. The relevant staff salaries and departmental operating costs saved estimated then were \$2.13 million per year.
- (c) The Government Logistics Department has issued a set of guidelines to bureaux and departments on the "Use of Hourly-hired Taxis for Duty Journeys Scheme". The guidelines require officers who intend to use hourly-hired taxis for duty journeys to first make applications and obtain approval in accordance with procedures set by their departments, and then select and contact taxi associations/taxi radio stations participating in the scheme on rotation to hire taxis on an hourly basis. The charge of hiring hourly-hired taxis is based on the duration of usage with a minimum period of two hours per hiring. Details of hiring rates are set out in Annex 2. Upon completion of journey, the government officer will pay the hire charge to the driver and subsequently seek reimbursement from his or her department based on the hiring record.

Record of hiring hourly-hired taxis by bureaux/departments during 2005-2007

No.	Bureau/ Department	2005		2006		2007	
		No. of hirings	Charges (\$)	No. of hirings	Charges (\$)	No. of hirings	Charges (\$)
1	Buildings Department	4	1,586	4	1,300	1	240
2	Census and Statistics Department	23	5,845	7	3,040	12	4,325
3	Civil Service Bureau	3	1,161	10	4,290	9	4,070
4	Development Bureau	0	0	0	0	6	1,560
5	Economic Development and Labour Bureau	9	4,185	9	2,985	2	780
6	Environmental Protection Department	0	0	34	14,100	25	12,263
7	Environment, Transport and Works Bureau	22	6,535	27	7,170	13	3,360
8	Food and Environmental Hygiene Department	0	0	363	116,620	293	103,880
9	Health, Welfare and Food Bureau	1	420	0	0	0	0
10	Home Affairs Department	0	0	8	2,680	18	29,420
11	Housing, Planning and Lands Bureau	0	0	2	600	0	0
12	Trade and Industry Department	1	300	0	0	1	360
13	Intellectual Property Department	0	0	1	240	0	0
14	Labour Department	0	0	2	1,260	20	12,870
15	Land Registry	0	0	1	450	0	0
16	Planning Department	74	35,978	85	34,638	90	35,590
17	Transport Department	296	70,386	268	76,830	182	55,585
	Total	433	126,396	821	266,203	672	264,303

Annex 2

Taxi Hourly Hiring Rates

Type of Taxi	Hourly Hiring Rate	
	Peak Hours 7.00 am to 9.59 am	Non-peak Hours 10.00 am to 6.59 am on the next day
Urban Taxi	\$150	\$120
New Territories Taxi	\$110	\$100
Lantau Taxi	\$150	\$150

Remarks:

1. The minimum period of hire is two hours.
2. The hourly hire charge for any one hour shall be calculated in accordance with the respective peak or non-peak hiring rate applicable at the start of that hour.
3. Extension of hiring for 30 minutes or less will be rounded up to half an hour and for more than 30 minutes will be rounded up to one hour.
4. Where it is necessary for the taxi to use tunnels or bridges during the hire period, the tunnel/bridge charge/toll will be additional charge.
5. No charge shall be made on baggage, animal or bird carried.

Children's Ability to Face up to Adversity

9. **MR ABRAHAM SHEK** (in Chinese): *President, last month, a nine-year-old girl who was well behaved and excelled academically committed suicide allegedly due to a slight decline in her recent academic performance. The incident has aroused public concern whether children have adequate ability to face up to adversity. In this connection, will the Government inform this Council:*

- (a) *of the respective numbers of children aged 12 or below who attempted to commit suicide and who died of suicide in each of the past three years, broken down by their grade in school;*
- (b) *whether the authorities have measures in place to enhance children's ability to face up to adversity; if so, of the details of such measures; if not, the reasons for that; and*
- (c) *whether it has put in place new measures and methods over the past three years to assist teachers and parents in early identification of suicide-prone children; if so, of the details and effectiveness of such measures and methods?*

SECRETARY FOR EDUCATION (in Chinese): President,

- (a) According to the information collected by the Education Bureau over the past three years (2004-2005 to 2006-2007 school year), among the students aged 12 or below, unfortunately three children attempted to commit suicide including a Primary Six student aged 11 in the 2004-2005 school year, a Primary Six student aged 11 in the 2005-2006 school year and a Secondary One student aged 12 in the 2006-2007 school year. Besides, one Primary Five student aged 10 died of suicide in the 2005-2006 school year.
- (b) All along, the Education Bureau attaches great importance to enhancing students' ability to cope with adversity and respect for life. The content of life education, such as "understand life", "cherish life", "respect life" and "explore life", has already been incorporated into different learning themes under the school curricula. For example, topics on "respect and value life" are included in General Studies at primary level and Integrated Humanities at secondary level. Under the new academic structure for Senior Secondary Education to be implemented in the 2009-2010 school year, the core subject of Liberal Studies will train students on acceptance and appreciation of personal strengths and weaknesses, stress and frustration management, and skills to hold out against pressure and challenges for a positive and meaningful life.

To assist the implementation of life education in schools, the Education Bureau has developed various online resources on facing up to adversity, to provide life events teaching exemplars based on students' daily life experiences, for use by schools to teach students how to face adversity and create a better life. For example, "Attending a Funeral" will help students think about the value of life; "Reading a Suicide Report in the Newspaper" will teach students how to cope with frustrations and difficulties, and so on. The Education Bureau also launches designated websites on current social issues from time to time, such as "Stephen W. HAWKING's Wisdom for Students", to underline the message of cherishing life and surviving adversity.

In parallel, providing students with ample opportunities to develop their competences can induce them to establish life goals and develop an optimistic and positive attitude. The Education Bureau

has been encouraging schools to provide students with life-wide and diversified learning opportunities to promote their whole-person development. To this end, the Understanding Adolescent Project has been rolled out in primary schools since the 2004-2005 school year. It aims to enhance students' resilience by instilling into them a sense of competence, belonging and optimism. Relevant activities have also been organized in collaboration with other government departments and non-governmental organizations from time to time, including the Enhanced Smart Teen Project collaborated with six disciplinary forces and the "P. A. T. H. S. to Adulthood: A Jockey Club Youth Enhancement Scheme" funded by the Hong Kong Jockey Club Charities Trust in collaboration with the Education Bureau and Social Welfare Department.

With the full implementation of the "One School Social Worker for each Secondary School" policy for secondary schools and the provision of full-time student guidance service in the majority of primary schools, schools can render timely counselling to needy students and implement a variety of preventive and developmental programmes to promote positive life values.

Looking ahead, we are actively considering a priority theme under the Quality Education Fund to encourage schools to seek funding support for school-based projects on youth development. Starting from the 2008-2009 financial year, the Government will provide about 1 000 programme workers for three years to assist social workers in secondary schools to implement activities that can help secondary students develop their potential and promote their wellness. In addition, the Education Bureau is actively seeking to enhance the school-based educational psychology service with a view to assisting schools in meeting the diverse needs of students through the school system, teacher support and student support levels.

- (c) The Education Bureau has been implementing a number of measures to facilitate teachers and parents in early identification of suicide-prone students, including the provision of guidelines, exemplars and resource package. In 2007, relevant information on early identification of students showing suicidal signs has been updated and uploaded to the Education Bureau's website for

reference of teachers, parents and the public so that timely counselling services can be provided. Besides, training programmes, seminars, workshops and experience-sharing sessions in various forms are organized for teachers from time to time to enhance their skills in handling student problems.

The Education Bureau all along advocates home-school co-operation. Teachers and parents are encouraged to join hands to help students develop a positive and optimistic attitude towards life. These efforts include organizing various forms of seminars, workshops and experience-sharing sessions for parents and making use of radio programmes and website information to reinforce the value of life and self-assurance. The objective is to enhance parents' awareness of the emotional changes of youngsters.

We treasure the life of each and every student and will continue to work in concerted efforts with schools, parents and different sectors of society on the prevention of student suicide.

Teacher-librarians in Primary and Secondary Schools

10. **MR CHEUNG MAN-KWONG** (in Chinese): *President, regarding teachers undertaking the duties of teacher-librarians, will the Government inform this Council:*

- (a) *concerning primary and secondary schools in Hong Kong respectively, whether it knows:*
 - (i) *the number and percentage of teacher-librarians with a bachelor's degree or higher qualification, and how the percentage compares to the corresponding percentage of all teachers;*
 - (ii) *the number and percentage of teacher-librarians at Graduate Master/Mistress (GM) ranks, and how the percentage compares to that of GMs among all teachers;*
 - (iii) *the number and percentage of teacher-librarians at Assistant Master/Mistress (AM) rank, and how the percentage compares to that of AMs among all teachers;*

- (iv) *the number of teachers who became teacher-librarians in the past five years and its percentage among all teacher-librarians;*
- (b) *whether it had conducted in the past five years any survey or study on teacher-librarians teaching subjects other than library lessons; if it did, of the results of the survey or study; if not, whether it will do so; and*
- (c) *whether it will review afresh the teaching duties of teacher-librarians in the hope that they can promote reading and support teaching and learning in schools in a more professional way?*

SECRETARY FOR EDUCATION (in Chinese): President,

- (a) According to the statistics of the Education Bureau, there are 20 356 teachers and 534 teacher-librarians in primary schools; and 24 386 teachers and 408 teacher-librarians in secondary schools. The information of (i), (ii) and (iii) are tabulated as follows:

			<i>Primary</i>	<i>Secondary</i>
(i)	With Bachelor degree or above qualifications	Teacher-librarians	401 (75%)	330 (81%)
		Teachers	16 212 (80%)	22 877 (94%)
(ii)	Employed at GM rank	Teacher-librarians	85 (16%)	79 (19%)
		Teachers	4 896 (24%)	16 625 (68%)
(iii)	Employed at AM rank	Teacher-librarians	34 (6%)	76 (19%)
		Teachers	1 926 (9%)	1 341 (5%)

- (iv) The Education Bureau does not have the exact figures. However, according to the Code of Aid, all newly appointed teacher-librarians are required to study and complete a part-time day release training course or other professional training courses organized by the Education Bureau. For reference, the statistics of the newly appointed teacher-librarians taking the Education Bureau induction course for the previous five years are shown as follows:

<i>School year</i>	<i>No. of new teacher-librarians</i>	<i>No. of teacher-librarians</i>	<i>Percentage</i>
2002-2003	87	1 010	9%
2003-2004	94	1 000	9%
2004-2005	85	1 039	8%
2005-2006	91	992	9%
2006-2007	64	942	7%

- (b) The Education Bureau conducts a survey on teacher-librarians annually. The figures of the 2006-2007 school year are shown as follows:

<i>No. of lessons (including both library and non-library lessons)</i>	<i>Primary</i>	<i>Secondary</i>	<i>Total</i>
0	4%	20%	11%
1-5	3%	15%	8%
6-10	10%	27%	17%
11-15	26%	19%	23%
16-20	20%	13%	17%
21-25	21%	5%	14%
26-30	11%	1%	7%
31 or above	5%	0%	3%
Total	100%	100%	100%

Remark: The survey result of the 2007-2008 school year will be announced later this year. Figures on library lessons and non-library lessons will be distinguished.

- (c) We have always paid attention to the professional work of teacher-librarians. We have, through curriculum visits, seed projects, professional training activities and focus-group interviews, and so on, promoted and evaluated the educational function of teacher-librarians and assisted them in promoting reading and supporting teaching and learning at schools in a more professional manner.

Management of Telephone Numbers

11. **MISS CHOY SO-YUK** (in Chinese): *President, according to the statistics of the Office of the Telecommunications Authority (OFTA), less than 60% of the*

telephone numbers currently allocated to fixed and mobile network operators have been assigned for use by the public and the remaining ones are lying idle; and with the existing allocation rate, the eight-digit telephone numbers may be exhausted in seven years. The OFTA has therefore proposed that the operators be charged an annual fee of \$3 per telephone number allocated to them, regardless of whether or not the numbers have been assigned to customers, to encourage efficient use of telephone numbers and return of unused numbers to the authorities, thereby deferring the migration of the existing eight-digit telephone numbers to longer-digit numbers. Regarding the management of telephone numbers, will the Government inform this Council whether:

- (a) it has assessed if the passing on the said annual fee by most operators to the consumers will render the proposed measure not achieving the expected result but adding to the burden of consumers instead; if the assessment result is in the affirmative, of the measures in place to deal with the situation;*
- (b) it has considered if it will be more effective, as compared to the proposed measure of charging annual fee on all telephone numbers, to impose punitive charges on operators only in respect of the numbers which have not been assigned to customers upon the expiry of a certain period of time; and*
- (c) it will, by making reference to the Personalized Vehicle Registration Marks Scheme, select the special telephone numbers which are more attractive to the public for sale by open auction and use the proceeds for alleviating poverty?*

SECRETARY FOR COMMERCE AND ECONOMIC DEVELOPMENT (in Chinese): President, to ensure that our regulatory framework for telecommunications services can pave the way for the development of fixed-mobile convergence (FMC), a consultation paper was published by the Government in December last year to consult the public on the proposal to create a single unified carrier licence (UCL) to regulate all types of fixed, mobile and converged telecommunications services, as well as on issues such as the general conditions, period of validity and licence fee for the UCL. The consultation period will end on 4 March 2008.

Regarding the licence fee for the UCL, we propose that a fee structure similar to the one applicable to the existing fixed and mobile carrier licences

should be adopted to harmonize the licence fees for fixed and mobile telecommunications services with appropriate adjustment on a cost recovery basis. Telecommunications numbers are limited resources. To encourage an efficient use of such numbers by UCL licensees, we propose that an annual fee of \$3 for each subscriber number should be charged, regardless of whether the number has been assigned to end customers or not. According to the proposal, the annual licence fee payable by a UCL licensee in respect of each subscriber is \$11 in total (\$8 charged per customer connection and \$3 charged per subscriber number), which is slightly higher than the existing fee of \$7 paid by fixed network operators, but \$7 less than the \$18 currently paid by mobile network operators.

We propose that the UCL should replace the existing fixed and mobile carrier licences only upon their expiry. Existing carrier licensees may apply to convert their licences to UCLs on a voluntary basis before the expiry date. In other words, unless they choose to convert their licences to UCL before expiry, existing fixed and mobile carrier licensees are not required to pay the proposed number fee. They would continue to pay the licence fee in accordance with the terms of their existing fixed or mobile carrier licences, until the licences become expired.

My reply to the question is as follows:

- (a) In coming up with the proposed level of licence fee for UCL, the OFTA has taken into account the implications of the licence fee, including the number fee, to operators and consumers, as well as the need to sustain a healthy financial position for the future operation of the OFTA Trading Fund.

We believe that under commercial principles, operators will seek to reduce unnecessary expenditures wherever possible. Hence, the number fee will provide an economic incentive to encourage efficient use of telephone numbers and return of unassigned numbers to the OFTA by the operators so that the annual amount of number fee payable could be reduced. In fact, the introduction of number fee may not necessarily increase operators' expenditure on licence fee. For example, according to the proposal put forward in the consultation paper and as mentioned above, the licence fee payable for provision of mobile services under the UCL will be lower than what it is now. Although the licence fee for fixed services will increase, the number fee will be only \$3 per annum, or

25 cents per month, for each subscriber number. This will only have an insignificant impact on the overall operating costs for the fixed network operators. Moreover, they may reduce the amount of licence fee payable by returning the unassigned telephone numbers. The fixed carrier licences issued to the existing four major fixed network operators will not expire until June 2010. Operators may choose to replace their existing licences with UCLs upon expiry and pay the new licence fee. As such, they will have sufficient time to make business arrangements as necessary, including the returning of the telephone numbers that are lying idle.

As to whether the introduction of number fee will actually result in an increase in fixed service rates or a decrease in mobile service rates, it should be determined by the market. At present, the telecommunications market of Hong Kong is fully liberalized. The competition between fixed and mobile services will intensify with the further development of FMC. We believe that operators will carefully assess possible market responses to their acts of passing on the rising costs to customers.

Consultation on the UCL and the relevant fee is still ongoing. The Administration will carefully consider all the submissions and comments received, and strike a balance between the interests of operators, the interests of users, and the efficient use of telephone numbers in finalizing the level of licence fee.

- (b) According to the proposal, the more telephone numbers an operator holds, the higher amount of number fee it will have to pay. If punitive charges are imposed on operators only in respect of the numbers which have not been used for a certain period of time, operators may unnecessarily assign additional telephone numbers to their subscribers (for example, assigning more telephone numbers than necessary to Private-Automatic-Branch-Exchange (PABX) users) in order to maintain a large pool of numbers and at the same time, avoid paying the number fee. Thus, our purpose of encouraging an efficient use of telephone numbers through charging number fee will be defeated. Moreover, as operators are responsible for assigning telephone numbers to end customers, both the OFTA and operators have to deploy huge resources in monitoring and verifying whether the tens of millions of telephone numbers in the territory are currently in use or have been lying idle

for longer than the specified period. Such a measure is not cost-effective.

- (c) We are open to the suggestion of assigning special telephone numbers by open auction. As the assignment of telephone numbers through auction involves legislation and a number of technical issues, a preliminary study is being conducted by the OFTA. Subject to the findings of the study and the views received during the UCL consultation period, the OFTA will consider further seeking public views on this suggestion.

Veterinary Surgeons and Their Services

12. **MR JAMES TO** (in Chinese): *President, regarding veterinary surgeons and their services, will the Government inform this Council:*

- (a) *whether it has assessed the reasons why only 30 to 50 complaints were received by the Veterinary Surgeons Board (VSB) in each of the past five years; if it has, whether such reasons include the public being generally unaware of the channels for lodging complaints about veterinary services; if so, whether the Government will consider stepping up the publicity for the VSB's function in dealing with complaints;*
- (b) *of the number of veterinary surgeons convicted in the past five years of contravening the Veterinary Surgeons Registration Ordinance (VSRO) (Cap. 529), with a breakdown by offences and penalties imposed on them;*
- (c) *of the authority currently responsible for dealing with complaints about unlicensed veterinary services; in the past five years, the number of such complaints received by the authority, the number of substantiated cases, and the penalties imposed on the persons concerned; and*
- (d) *whether it knows the number of cases heard by various levels of Courts in each of the past five years in which civil remedies against veterinary surgeons were sought, as well as the respective numbers of successful cases among them?*

SECRETARY FOR FOOD AND HEALTH (in Chinese): President, the VSB is a statutory body established under the VSRO (Cap. 529) for the regulation of the practice of veterinary surgeons in Hong Kong, including the registration of veterinary surgeons and the disciplinary control of the professional activities of registered veterinary surgeons. Our reply to the four parts of the question is as follows:

- (a) In the past five years, the VSB received a total of 237 complaints related to veterinary services, that is, an average of 48 complaints a year.

According to the information provided by the VSB, majority of the complaints received were submitted direct to the VSB by members of the public, with a few referred by the Society for the Prevention of Cruelty to Animals or the Consumer Council. It shows that members of the public have a good understanding about the VSB's role as an avenue of complaint about veterinary services. When compared to the relevant number of complaints received by the statutory bodies governing other medical professions, the number of complaints against veterinary surgeons is relatively lower. This is mainly because there are comparatively less registered veterinary surgeons than other medical professionals. At present, there are a total of 411 registered veterinary surgeons in Hong Kong.

To publicize the functions of the VSB, the VSB has put up a dedicated website where information about how to make a complaint about veterinary services is available. Enquiries about the work and related services of the VSB can also be made through the 1823 Citizen's Easy Link.

In addition, disciplinary inquiries against registered veterinary surgeons are held in public. If veterinary surgeons are found to have committed a disciplinary offence, outcome of the inquiries will be published in newspapers and the Gazette.

- (b) In the past five years, a total of 10 registered veterinary surgeons were found to have contravened the VSRO. Details of the contraventions and penalties are at Annex.

- (c) Section 16 of the VSRO prohibits any person to practise when not registered or not in possession of a valid practising certificate. Upon receipt of complaints on illegal veterinary practice, the VSB will refer them to the police. In the past five years, the VSB has referred a total of 14 complaints to the police.

Of these cases, two persons were prosecuted. One was sentenced to 160 hours of community service by the Court whereas the other was acquitted. As for the other 12 cases, investigation revealed that no illegal provision of veterinary services was involved.

- (d) The Judiciary does not maintain any statistics on the number of cases heard by various levels of Courts in which civil remedies against veterinary surgeons were sought, nor the respective numbers of cases held in favour of the complainant.

Annex

List of cases in which veterinary surgeons were found to have contravened the VSRO in the past five years

<i>Contraventions</i>	<i>No. of Veterinary Surgeons Involved</i>	<i>Outcome of Disciplinary Inquiries</i>
Improper advertisements/canvassing	2	The veterinary surgeons were served with a written warning and the warning was recorded on the register.
Conducting surgery on a sick animal without the consent of its owner	1	
Failure to properly diagnose illness	2	The name of one veterinary surgeon was removed from the register for 12 months. The penalty was suspended for 12 months on the condition that the veterinary surgeon had to complete specified training course(s) within that period. The other veterinary surgeon was reprimanded in writing and the reprimand was recorded on the register.

<i>Contraventions</i>	<i>No. of Veterinary Surgeons Involved</i>	<i>Outcome of Disciplinary Inquiries</i>
Inappropriate prescription of drug	1	The veterinary surgeon was reprimanded in writing and the reprimand was recorded on the register. In addition, the veterinary surgeon was required to complete specified training course(s) within a specified period of time.
Failure of treatment	1	The veterinary surgeon was served with a written warning. In addition, the veterinary surgeon was required to complete specified training course(s) within a specified period of time.
Failure of surgery	2	<p>A veterinary surgeon was reprimanded in writing and the reprimand was recorded on the register. In addition, the veterinary surgeon was required to complete specified training course(s) within a specified period of time.</p> <p>The other veterinary surgeon was also reprimanded in writing and the reprimand was recorded on the register. In addition, restriction was imposed on the veterinary surgeon's practice in the six months following the date of the inquiry.</p>
Convicted by the Court of contravening the Elections (Corrupt and Illegal Conduct) Ordinance (Cap. 554). According to section 17(1)(f) of the VSRO, a registered veterinary surgeon commits a disciplinary offence if he has been convicted in Hong Kong or elsewhere of an offence which may bring the profession into disrepute, and the hearing would be conducted by the VSB.	1	The veterinary surgeon was reprimanded in writing and the reprimand was recorded on the register.

Bedspace Apartments and Cubicle Apartments

13. **MR LEE WING-TAT** (in Chinese): *President, regarding the bedspace apartments (commonly known as "cage homes") and cubicle apartments, will the Government inform this Council:*

- (a) *of the respective estimated numbers of people living in cage homes and cubicle apartments at present, broken down by age groups (each covering five years);*
- (b) *apart from allocating public rental housing (PRH) units to people living in cage homes and cubicle apartments, what other measures are in place to help them improve their living environment;*
- (c) *of the number of people living in cage homes or cubicle apartments who were allocated PRH units in the past three years and, among them, the number of those who were allocated PRH units in the urban area;*
- (d) *in respect of the Waiting List of non-elderly one-person applicants for PRH as at the end of 2007,*
 - (i) *of the respective numbers and percentages of applicants in various age groups (below 30, 31 to 40, 41 to 50 and over 50); and*
 - (ii) *of the respective numbers and percentages of applicants living in cage homes or cubicle apartments, and when all of them are expected to be allocated PRH units;*
- (e) *of the rate of increase in the average per-square-metre rent of cage homes and cubicle apartments in the past three years; whether it has assessed the impact of removing rent control and security of tenure for private domestic accommodation on people living in cage homes and cubicle apartments; and*
- (f) *given that the United Nations Committee on Economic, Social and Cultural Rights has, since 1994, repeatedly urged the Government of the Hong Kong Special Administrative Region to eliminate inadequate housing in the form of cage homes, whether it has drawn up a timetable for the elimination of cage homes and cubicle apartments?*

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

- (a) According to the General Household Survey conducted by the Census and Statistics Department in 2007, the numbers of domestic household members living in rooms (including permanent rooms and cubicles), bedspaces or cocklofts of private flats are as follows:

<i>Age</i>	<i>Approximate Number of People</i>
0-14	6 100
15-24	3 400
25-39	13 500
40-49	10 000
50-59	8 600
60 or above	11 500
Total	53 200

We do not have other types of statistical breakdown.

- (b) Low-income families that cannot afford private rental housing, irrespective of the types of their existing accommodation, may apply to the Hong Kong Housing Authority (HA) for PRH. The HA arranges for allocation of PRH flats to these families in an orderly manner through the Waiting List. Individuals or families with genuine and pressing housing needs and unable to solve the problems themselves may apply to the Social Welfare Department (SWD)/Integrated Family Service Centres of non-governmental organizations (NGOs) for allocation of PRH flats under the Compassionate Rehousing scheme.

Moreover, any members of the public who cannot afford private rentals due to financial hardship, or have pressing housing needs due to various reasons, may approach the SWD/Integrated Family Service Centres of NGOs for assistance. Social workers would consider the resources available to the persons concerned, and provide appropriate assistance in light of the special circumstances of individual cases. The assistance includes short-term financial assistance to meet rental and removal expenses, referrals for applications for Comprehensive Social Security Assistance, arrangement for admission to urban hostels for single persons, and so on.

As far as bedspace apartments are concerned, the Government's existing policy is to ensure the safety of buildings with bedspace

apartments. To monitor and ensure the fire and building safety and hygiene of bedspace apartments, the Government enacted the Bedspace Apartments Ordinance in 1994.

As with other premises for self occupation or for lease, cubicles have to comply with the Fire Services Ordinance and the Fire Safety (Buildings) Ordinance. As regards electrical and gas safety, the Electricity Ordinance and the Gas Safety Ordinance have provisions governing the safety of communal installations in buildings or installations inside individual flats. Any building works involving building structure or affecting public means of escape require prior approval from the Building Authority. Government departments concerned will continue to take enforcement actions in accordance with the relevant legislation to ensure the safety of the premises concerned.

- (c) In the past three years, the HA allocated more than 60 000 PRH units, including more than 18 000 units in the urban area, to applicants on the Waiting List. We have not maintained the statistics on the types of accommodation of PRH applicants before they were allocated PRH units.
- (d) (i) In September 2005, the HA introduced the "Quota and Points System for Non-Elderly One-person Applicants" (QPS) in order to rationalize and re-prioritize the allocation of PRH to non-elderly one-person applicants. The aim is to accord priority for allocation of PRH flats to non-elderly one-person applicants with greater housing need. As at the end of 2007, the number of non-elderly one-person applicants under the QPS, broken down by age group, is as follow:

<i>Age Group</i>	<i>Number of non-elderly one-person applicants under the QPS* (% of total no. of applicants)</i>
Aged 30 or below	15 269 (40%)
Aged 31-40	9 865 (25%)
Aged 41-50	9 184 (24%)
Aged 50 or above	4 240 (11%)
Total	38 558 (100%)

* Figures including applications being processed and applications frozen due to various reasons such as the applicants failing to meet the seven-year residence requirement.

- (ii) The priority of non-elderly one-person applicants in PRH allocation is determined by the points they are allotted. Points are allotted in accordance with the applicant's age at the time of application, his accumulated waiting time and whether the applicant is already included in the tenancy of a PRH flat. As such, we cannot estimate the time when they will be allocated PRH units. However, eligible non-elderly one-person applicants who have pressing housing needs may seek earlier allocation of PRH flats under the Express Flat Allocation Scheme.
- (e) The Rating and Valuation Department compiles rental statistics of the private residential rental market by floor area. The latest statistics as at December 2007 show that rents for small units (that is, units with saleable area less than 430 sq ft/40 sq m) at the end of 2005, 2006 and 2007 have increased by about 11%, 10% and 13% respectively over the same period of the previous year.

The Legislative Council passed an Amendment Bill in June 2004 repealing various restrictions over the private residential rental market, with a view to restoring the free operation and healthy development of the market, in line with the policy objective of minimizing intervention in the private property market. Changes in private rentals are influenced by a number of factors, including the overall economic situation, property market sentiment, development of the districts concerned, and so on.

As mentioned above, low-income families who cannot afford private rental accommodation may apply to the HA for public housing. Any members of the public who cannot afford private rentals due to financial hardship, or have pressing housing needs due to various reasons, may approach the SWD/Integrated Family Service Centres of NGOs for assistance.

- (f) People choose to live in bedspace apartments and cubicles because these apartments, apart from commanding a low rental level, are mostly conveniently located in the urban areas. People living in these apartments can then travel to their workplaces on foot or by relatively low cost public transport. Hence, there is still a demand for this type of private accommodation in the market. The Government has no plan at present to displace such accommodation.

Use of Plastic Bags by Government Departments

14. **MR ALBERT CHAN** (in Chinese): *President, in reply to my question on 28 February last year, the Government indicated that measures had been taken to encourage government departments to reduce the use of plastic bags. However, I have learnt that government departments still use large quantities of black plastic bags for collecting garbage, broken branches and fallen leaves, and for carrying recovered waste. Some members of the public have reflected to me that the use of large quantities of black plastic bags by the Government has not only produced adverse visual impact, but has also increased plastic waste. In this connection, will the Government inform this Council:*

- (a) *of the quantity of plastic bags, and the quantity of it which is non-biodegradable, used by each government department last year; and*
- (b) *whether there are new measures in place to reduce the use of plastic bags by government departments; if so, of the details of such measures; if not, the reasons for that?*

SECRETARY FOR THE ENVIRONMENT (in Chinese): President,

- (a) We have given advice to government departments on reducing the use of plastic bags and on promoting the use of plastic bags made of more environmentally-friendly materials, and positive result was achieved in 2007. Being the Government's main agent for refuse collection, the Food and Environmental Hygiene Department (FEHD) has actively reduced the use of plastic bags. The number of plastic refuse bags used had been reduced from 5.3 million in 2006 to 4.5 million in 2007. Moreover, the FEHD has started the trial use of plastic bags made of more environmentally-friendly materials and is currently conducting trials on plastic refuse bags with recycled content. If the result is satisfactory and the cost-effectiveness is ascertained, the FEHD will consider the use of these bags on a full-scale basis. In addition, the FEHD plans to conduct trials on the use of degradable plastic refuse bags. Besides, the number of government departments using degradable plastic bags or plastic bags with recycled content for collecting refuse had increased from some 30 in 2006 to about 40 in 2007. These plastic bags were mainly used for collecting waste from the offices.

- (b) To reduce waste, it has always been the Government's policy to promote reduction, reuse and recycling. Government departments will continue to take various measures to reduce the use of plastic bags, which include requiring cleansing services companies to minimize their use, and to replace the bags only when they are fully filled, damaged or when necessary. Moreover, colleagues are regularly reminded of using less plastic bags and of other environmental issues through internal guidelines and by departmental green managers.

Dental Services

15. **DR KWOK KA-KI** (in Chinese): *President, regarding dental services, will the Government inform this Council:*

- (a) *as I have found in my investigation that over 60% of members of the public do not visit dentists regularly for dental examination and scaling, and nearly 70% of them consider that the dental services provided by the Government are inadequate, whether the Government has, apart from providing the existing services, formulated any new plan and allocated additional resources to improve dental services; if it has not, of the reasons for that;*
- (b) *as the Government had advised in its reply to my question in May last year that it planned to release later in 2007 a consultation document to consult the public on individual health care service reforms and health care financing arrangements (but the date for releasing the consultation paper has been repeatedly deferred), when the public will be consulted on dental services;*
- (c) *as the charges for dental examination and scaling often exceed \$200 per visit, and the charges for fixing dentures can be as high as \$10,000, whether it has assessed how the issuance of health care vouchers worth only \$250 in total to the elderly can actually help in promoting their oral health, and whether it will separately issue dental care vouchers to the elderly; if it will not, of the reasons for that; and*
- (d) *given that in reply to a question raised by a Member of this Council on 23 May last year, the Government said it would listen to the*

views of the dental profession on the implementation of a dental care scheme for secondary school students, of the views received and whether it will make reference to the views of the profession to extend the coverage of such scheme to children and the elderly; if it will not, of the reasons for that?

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

- (a) The most important way to improve oral health is by preventive work. As such, the Government's policy is to raise public awareness of oral health and help them to develop good oral health habits through publicity and education.

In addition, the School Dental Care Service (SDCS) of the Department of Health (DH) provides primary dental and oral care for all primary school children in Hong Kong to help them develop proper oral care habits since childhood. In the past three years, primary school children participating in the SDCS constituted more than 90% of the total number of primary school children.

As regards publicity and education, the DH's Oral Health Education Unit (OHEU) has been actively organizing territory-wide and age-specific activities to promote oral health. The DH also launches an annual "Love Teeth" campaign to promote a correct tooth cleaning concept and proper tooth cleaning techniques among the public. Oral health messages have also been conveyed to the public through promotional programmes produced in collaboration with the media including television, radio and the press, and through light box advertisements placed at public places. The DH updates the webpage of the OHEU from time to time and has put in place a 24-hour interactive Oral Health Education Hotline, through which the public can have ready access to oral health information. Under the "Patron Angel of Oral Health Programme" launched by the DH in collaboration with the private sector and non-government organizations, training has been provided to working adults and elderly volunteers for promoting oral health among their peers. We will, by way of education, continue to bring home to the public the importance of regular dental check and scaling, with a view to enhancing the oral health of the general public.

- (b) Health care service reform and financing arrangements are complex issues, and many organizations in the community have raised new ideas and proposals from time to time. It is prudent to carefully examine the views from all sectors, and explore how best to explain to the public cogently the health care reform and financing problem and consult their views as early as possible. As mentioned in our reply to Dr the Honourable KWOK Ka-ki's written question on 30 May 2007, at this juncture, we will first deal with primary health care issues, address the imbalance between the public and private sectors, and explore long-term health care financing arrangements. As for other services, such as public dental service, we will set our working priorities in the long run having regard to various factors including the resources and demand situation.
- (c) The health care vouchers scheme for the elderly is a pilot scheme which aims to implement the "money follows patient" concept on a trial basis by providing the elderly with a partial subsidy for choosing additional private health care services and to promote the concept of shared responsibility for health care. The scheme is not meant to provide full subsidies to the elderly for seeking health care services in the private sector. Under the pilot scheme, the elderly can, according to their needs, use the health care vouchers for services provided by Western medicine doctors, Chinese medicine practitioners, chiropractors, dentists, allied health professionals and for laboratory tests. We will review the pilot scheme, especially on whether it serves the intended purpose of enhancing the primary health care for the elderly, and on the utilization tendency and pattern of the health care vouchers by the elderly. At present, we have no plan to issue vouchers separately for specific health care services such as dental services.
- (d) The Government and the dental profession are still studying the proposal of setting up a dental care scheme for secondary school students. There is no plan to extend the coverage of dental care scheme to young children and the elderly for the time being.

As regards young children, the DH has carried out oral health education programmes targeting at young children. The "Brighter Smiles for the New Generation" programme launched by the DH

since 1993 aims to encourage children aged six or below to develop good oral care habits since early childhood. The DH also produced different types of specially-designed educational resources to disseminate the message of oral health to pre-school children and their parents through Maternal and Child Health Centres, kindergartens and nurseries. Besides, an annual "Love Teeth with Your Kids" programme has been launched by the DH with the objective of encouraging parents to motivate their children to clean their teeth on their own initiative. In the 2006-2007 school year, there were up to 100 000 school children participating in the "Love Teeth with Your Kids" programme.

As for the elderly, apart from visiting the 11 designated government dental clinics for free emergency dental treatment, they may also use the inexpensive dental services provided by non-government organizations. The elderly who are recipients of Comprehensive Social Security Assistance are entitled to a dental grant to cover the actual expenses of the dental treatment they have received. Upon the implementation of the elderly health care voucher scheme, the elderly may also have access to private dental services by using the elderly health care vouchers.

Governance of Equal Opportunities Commission

16. **MS EMILY LAU** (in Chinese): *President, it has been reported that without conducting any preliminary verification, the Equal Opportunities Commission (EOC) launched an investigation in July last year into a complaint which alleged that the headline of a report in a newspaper constituted disability vilification against the mentally ill, and requested the newspaper to send representatives to attend a conciliation meeting with the complainant. However, it was subsequently established that the allegation made in the complaint was not true. Moreover, due to misinterpretation of the legislation, the EOC last year rejected a complaint against an airline company about its refusal to allow a disabled person to board a plane. Furthermore, the EOC spent \$370,000 in January this year to organize a seminar which lasted for only one day, and hence was criticized by some EOC members and the public for being too extravagant and wasting public money. As the above incidents have aroused public concern, will the executive authorities inform this Council:*

- (a) *whether they have discussed with the EOC members to assess if there are problems with the governance of the EOC;*
- (b) *of the measures to improve and enhance the governance of the EOC;
and*
- (c) *whether they have considered requesting the EOC to replace those senior management staff who are found derelict in their duties?*

SECRETARY FOR CONSTITUTIONAL AND MAINLAND AFFAIRS (in Chinese): President, the EOC is an independent statutory body responsible for the implementation of the Sex Discrimination Ordinance, Disability Discrimination Ordinance and Family Status Discrimination Ordinance. According to the relevant legislation, the governing body of the EOC is formed by its members and has the authority, in the name of the Commission, to perform the functions and exercise of the powers of the Commission. The legislation also empowers the EOC to employ such persons as it thinks fit to carry out any matter relating to the performance of its functions or the exercise of its powers.

As regards the media reports mentioned in the preamble of the question, the EOC has already clarified the matters in public. We also understand from the EOC that the issues did not concern the governance of the EOC or raise the question of the need for replacement of EOC staff.

In the light of its experience in handling the relevant cases, the EOC has already implemented improvement measures in its procedures. These include adopting more stringent procedures in verifying the information provided by complainants and introducing a formal review mechanism for review of cases which are not proposed to be further investigated as they are considered outside the scope of existing legislation.

Protection of Intellectual Property Rights of Inventors

17. **MR SIN CHUNG-KAI** (in Chinese): *President, recently, some members of the public relayed to me that the provisions of the Patents Ordinance (PO) (Cap. 514) and the Registered Designs Ordinance (RDO) (Cap. 522) failed to*

effectively deter acts of infringing on the intellectual property rights of inventors. In this connection, will the Government inform this Council:

- (a) of the respective numbers of complaints about infringements of patents and registered designs received by the government departments concerned in each of the past five years; and*
- (b) whether it will reconsider criminalizing such acts of infringement; if it will, of the details and the timetable; if not, the reasons for that?*

SECRETARY FOR COMMERCE AND ECONOMIC DEVELOPMENT (in Chinese): President, patent and registered design infringement litigations are civil actions. The PO provides that the proprietor of a patent may bring civil proceedings in the Court to prevent any third party not having his consent from using¹ his invention directly and indirectly, and make relevant claims² in the proceedings. Similar provisions exist in the RDO to protect the right of the registered owner of registered design.

The regime in Hong Kong for the protection of intellectual property complies with the standards set out in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) of the World Trade Organization. In respect of patents and registered designs, the TRIPS Agreement does not require acts of infringement to be criminalized.

With regard to parts (a) and (b) of the question, our reply is as follows:

- (a) The Commerce and Economic Development Bureau (former Commerce, Industry and Technology Bureau) and the Intellectual Property Department received one complaint relating to suspected infringement of patents and five complaints relating to suspected infringement of registered designs in the past five years. A good number of complaints were also received from one citizen who

¹ In relation to a patented product, the acts of using in Hong Kong include making, putting on the market, using or importing the product.

² The claims may include seeking from the Court:

- (i) an injunction restraining the defendant from any act of infringement;
- (ii) an order requiring the defendant to deliver up or destroy any patented product in relation to which the patent is infringed or any article in which the product is inextricably comprised;
- (iii) damages in respect of the infringement;
- (iv) an account of the profits derived by the defendant from the infringement; or
- (v) a declaration that the patent is valid and has been infringed by the defendant.

complained about the lack of criminal sanctions in the PO and RDO for deterring acts of infringement.

- (b) In considering whether criminal sanctions should be introduced in relation to a particular type of intellectual property, we have to take full account of the possible implications as well as the practicability in enforcement.

In patent and registered design infringement litigations, we note that, more often than not, the party being alleged of infringement would choose to challenge the validity of the patent or design concerned and make counter-claims against the plaintiff. The proceedings usually involve disputes over many issues of a technical nature. It is not always easy to ascertain whether an invention or a product infringes another person's patent or registered design. Criminal law should be clear and unambiguous to ensure that members of the public would not contravene the law inadvertently. There are likely to be enforcement difficulties if patent and registered design infringements are criminalized.

We have also examined the relevant legislative provisions of other common law jurisdictions, in respect of patent and registered design. In general, they do not criminalize acts of patent or registered design infringement.

For the foregoing reasons, we have no plans to criminalize acts of patent or registered design infringement. We will review the relevant ordinances from time to time thereby ensuring that the provisions meet the prevailing needs.

Amusement Game Machines with Gambling Elements

18. **MR LAU KONG-WAH** (in Chinese): *President, it is learnt that in recent months some amusement game centres (AGCs) have introduced amusement game machines with gambling elements, which allow players to place their bets with tokens. In this connection, will the Government inform this Council:*

- (a) *whether staff of the Television and Entertainment Licensing Authority (TELA) had found such type of amusement game machines*

during their inspections of AGCs in the past two years; if so, of the number of such cases;

- (b) how the TELA determines if the games provided by amusement game machines are those subject to regulation by the Gambling Ordinance (Cap. 148); and*
- (c) whether it has examined if the introduction of such type of amusement game machines by AGCs will encourage gambling and turn the venues concerned into some sort of gambling establishment; if so, of the outcome?*

SECRETARY FOR HOME AFFAIRS (in Chinese): President, under the Amusement Game Centres Ordinance (Cap. 435), the TELA grants two types of AGC licences depending on the age of the customers:

- (A) AGCs for persons who are under the age of 16 years; and
- (B) AGCs for persons who have attained the age of 16 years.

For AGCs of type A, only games approved by the TELA are allowed. Based on the TELA's information, currently no machines with gambling elements are installed in AGCs of type A.

Under the current legislation, games for AGCs of type B are not required to be submitted to the TELA for prior approval. However, in case there is evidence that bet is wagered or paid at the premises or that prizes or cash refunds are given to any person in consequence of the result of any games, the persons-in-charge of the AGCs concerned will be in breach of the Gambling Ordinance and are liable to prosecution by the police. In addition, if illegal gambling is found in an AGC, the participating customers are also considered to have violated the law. According to the inspections by the TELA officers, some games in AGCs are operated by tokens. The TELA has reminded those AGCs concerned that no prizes, cash rewards or refunds shall be offered to any person for such operations to avoid breaching the Gambling Ordinance.

The TELA will continue to, in the course of ongoing inspections, remind the AGC operators not to violate the laws in their operations of the AGCs. Relevant departments including the police will continue to take enforcement actions upon receipt of complaints.

Avian Influenza

19. **MR FREDERICK FUNG** (in Chinese): *President, regarding cases of avian influenza infections, will the Government inform this Council:*

- (a) *of the following information about the cases of birds and human beings being infected with avian influenza viruses on the Mainland and in Hong Kong in the past six months;*

Month	Mainland	Hong Kong	Species of birds/ human being	Strains of viruses
	Provinces and cities (number of cases)	District Council (DC) districts (number of cases)		
September 2007				
October 2007				
November 2007				
December 2007				
January 2008				
February 2008 (up to 25 February)				
Total				

- (b) *given that avian influenza virus was found in a bird carcass recently collected at the Cheung Sha Wan Wholesale Food Market, and that area is infested with house crows all along, apart from the existing measures (including cleaning markets and alerting poultry farmers and poultry farm workers), how the authorities will further prevent infected birds from coming into contact with poultry and house crows, whether they will consider raising the level of the contingency measures, and what measures the authorities have in place to especially assist the residents of the affected areas; and*
- (c) *given that it has been reported that due to the surge in local prices of products, some members of the public will cross the boundary to buy poultry meats not thoroughly cooked on the Mainland and bring them back to Hong Kong, what follow-up measures the authorities have in place, and whether they will consider educating the public to make them aware that they may bring avian influenza virus to Hong Kong through those meats?*

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

- (a) Information about the cases of birds and human beings being infected with avian influenza viruses in the Mainland and in Hong Kong in the past six months is tabulated below:

Month	Mainland		Hong Kong		Strains of viruses
	Provinces and cities (number of cases) ^{Note}	Species of birds/human being	DC districts (number of cases)	Species of birds/human being	
September 2007	Panyu of Guangdong (1)	Duck	-	-	H5N1
October 2007	-	-	-	-	-
November 2007	-	-	Tuen Mun (1)	Little Egret	H5N1
December 2007	Turpan of Xinjiang (1)	Chicken	Tuen Mun (1)	Little Egret	H5N1
	Jiangsu (2)	Human	Yuen Long (1)	Grey Heron	
	-	-	Islands (1)	Common Buzzard	
January 2008	Gongga of Tibet (1)	Chicken/duck	South District (1)	Black-crowned night Heron	H5N1
February 2008 (up to 25 February)	Lhasa of Tibet (1)	Chicken	Yuen Long (2)	Great Egret	H5N1
	Hunan (1)	Human		Grey Heron	
	Guangxi (1)	Human	Sham Shui Po (1)	Oriental Magpie Robin	
Total	8	-	8	-	-

Note: More than one bird was infected in cases involving birds.

- (b) Regarding the incident in which the carcass of an Oriental Magpie Robin carrying avian influenza virus was collected in the vicinity of the Cheung Sha Wan Wholesale Food Market, the Agriculture, Fisheries and Conservation Department (AFCD) immediately took away the carcass the day it was found and submitted it for testing, so as to minimize the risk of other birds or members of the public coming into contact with the carcass. In light of the incident, the AFCD conducted a thorough cleansing cum disinfection operation in both the Wholesale Food Market and the Temporary Wholesale Poultry Market in Cheung Sha Wan. The AFCD also reminded poultry farmers, pet bird shop owners, licence holders of pet poultry and racing pigeons to take proper precautions. In addition, the

Food and Environmental Hygiene Department (FEHD) has stepped up its street cleansing operations in the Cheung Sha Wan area in order to maintain good environmental hygiene.

As the poultry for sale in Cheung Sha Wan Temporary Wholesale Poultry Market are all kept in poultry cages, the risk of direct contact between these poultry and outside birds is minimal. Moreover, since all the chickens in the market have been vaccinated against avian influenza, their risk of being infected with avian influenza virus through contact with infected birds is low. That said, the AFCD will remain highly vigilant. It will step up inspections and surveillance of the wholesale poultry market and remind wholesalers to maintain good hygiene and take proper precautions against avian influenza.

We are aware of the concern of the residents in Sham Shui Po over the roosting of house crows in the district. The AFCD has already held several discussions with the Sham Shui Po DC on the issue and implemented measures to reduce the number of house crows. These measures include the removal of eggs and chicks during the breeding seasons and baiting. Since 2004, a total of 552 house crow eggs/chicks have been removed from the Kowloon City and Sham Shui Po Districts. As at end 2007, a total of 281 house crows have been caught by the AFCD. The AFCD will maintain regular contact with the Sham Shui Po DC and assess the effectiveness of these measures and ways to enhance it.

For contingency measures, the Government issued in early 2005 a plan entitled "Emergency Preparedness Plan for Influenza Pandemic in Hong Kong" to enhance the Government and community preparedness to cope with avian/pandemic influenza emergencies. The plan includes a three-level response system, that is, Alert Response Level, Serious Response Level and Emergency Response Level. The Alert Response Level applies when there is confirmation of highly pathogenic avian influenza (HPAI) outbreaks in poultry populations outside Hong Kong, or when there is confirmation of HPAI in imported birds in quarantine, in wild birds, in recreational parks, in pet bird shops or in the natural environment in Hong Kong. In view of the recent confirmed cases of wild birds infected with avian influenza virus, the Government has activated the Alert Response Level according to the contingency plan.

- (c) According to the World Health Organization, all the available evidence suggests that the vast majority of H5N1 human cases were caused by infection through direct contact with infected live or dead poultry. At present, there is no evidence indicating that properly cooked poultry or eggs can be a source of infection. However, as the poultry or eggs may have been contaminated by bacteria or viruses, they may pose a certain degree of food safety risk when not properly cooked.

The import of frozen/chilled poultry meat is subject to control under the Imported Game, Meat and Poultry Regulation (Cap. 132AK). Import of all frozen/chilled poultry meat must be accompanied with an import permission and import licence as well as an official health certificate. This control measure is also applicable to undercooked poultry meat. Therefore, anyone who imports undercooked poultry meat, whether for his/her own consumption or sale, without an official health certificate or import licence commits an offence. The Government has put up posters and large warning notices at all major land boundary control points, seaports and the Hong Kong International Airport to remind the public not to import meat and poultry illegally.

Apart from carrying out inspection duties at boundary control points, the Centre for Food Safety also conducts joint operations with the Customs and Excise Department (C&ED) to crack down on illegal import of poultry. In 2007, a total of 76 visitors entering Hong Kong through land boundary control points or the Hong Kong International Airport were prosecuted for bringing in fresh/chilled poultry without an official health certificate.

Moreover, under the Quarantine Detector Dog Programme jointly introduced by the AFCD and the Centre for Food Safety, detector dogs have been deployed to various boundary control points since Chinese New Year to help detect the illegal import of animal and meat products into Hong Kong. The Centre for Food Safety will continue to monitor the situation and take appropriate enforcement actions when necessary.

In addition to the enforcement actions mentioned above, the Government has from time to time been educating the public on safety in food consumption and on the need to cook poultry meat

thoroughly before consumption through food safety talks, leaflets, mobile broadcasts, websites and television announcements of public interest, and so on. The public are also advised to note that when cooking, the centre of poultry meat should be heated up to above 70°C and be cooked continuously for at least two minutes at that temperature level. If there are pinkish juices running from the cooked poultry or the middle parts of the bones are still red in colour, they should cook the poultry again until fully done. As a precautionary measure against avian influenza infection, the public are also advised to observe good personal, food and environmental hygiene at all times to avoid cross-contamination.

Residential and Day Care Services for Mentally or Physically Handicapped People

20. **MR LAU WONG-FAT** (in Chinese): *President, according to the paper provided by the Labour and Welfare Bureau for the meeting of the Finance Committee of this Council on 1 February this year, while the Government has planned to use allocations from the Lotteries Fund to establish two Integrated Rehabilitation Services Centres to provide day and residential care services for mentally and physically handicapped people (MPHP), there is still a shortfall of about 2 600 places for day care services and about 3 500 places for residential care services. The services provided by the Government are therefore still far from adequate in meeting the demands of MPHP. In this connection, will the Government inform this Council whether:*

- (a) *it has estimated the respective demands of MPHP for residential and day care services in the next five years; if so, whether the Government will provide them with adequate services; if it will, of the details in respect of those two types of services; if it will not, the reasons for that; and*
- (b) *it has any plan to raise, through the 18 District Councils (DCs), public concern about the service needs of MPHP; if so, of the details?*

SECRETARY FOR LABOUR AND WELFARE (in Chinese): *President,*

- (a) The Social Welfare Department (SWD) is responsible for the co-ordination of residential care services for persons with

disabilities (PWDs) and the allocation of such services to PWDs on the central waiting list. The waiting time could reflect the demand of PWDs for residential care services. As at December 2007, there were 5 787 PWDs on the waiting list for various kinds of subsidized residential care services, and the average waiting time ranged from five months to seven years.

At present, the Government provides a total of 10 606 subsidized residential care places for PWDs in need. In 2007-2008, the expenditure incurred will be more than \$1.07 billion. From 2003 to 2007, a total of 1 387 additional residential care places were provided. In 2007-2008, the Government has earmarked \$52 million for providing 490 new places. We will continue to seek resources to ensure a steady annual increase in subsidized residential care places.

On the provision of new subsidized residential care places, we are unable to set a definite target and a timetable for the next few years due to a number of uncertainties, including the allocation of resources and availability of suitable sites.

It should be noted that the majority of PWDs on the waiting list for subsidized residential care places are receiving various day training, vocational rehabilitation and community support services provided by the SWD. These include services at day activity centres and sheltered workshops, services in supported employment, day care for severely disabled persons, home-based training and support, and so on. Through the provision of the required rehabilitation services in response to individual needs, PWDs are given the necessary support and assistance which enables them to continue to live in the community while the stress on their families or carers is relieved.

Over the past few years, the Government has made active efforts in developing day care and community support services with a view to providing the PWDs with the necessary training and support to facilitate their continuous living at home and full integration into the community.

At present, the Government provides a total of 15 963 day training and vocational rehabilitation places for PWDs in need. The

expenditure incurred will be over \$680 million in 2007-2008. In the past five years, a total of 2 446 additional day training/vocational rehabilitation places were provided. In 2007-2008, we have obtained funding for providing 424 additional day training and vocational rehabilitation places.

As at December 2007, there were 3 135 PWDs waiting for day services and the waiting time ranged from three months to two years. We will continue to seek resources to provide additional day service places to meet the demand.

Apart from providing additional service places, we have also introduced a new service mode to meet the needs of PWDs. In 2006-2007, the SWD set up two district-based community rehabilitation day centres to provide short-term transitional rehabilitation services for patients with mental, neurological or physical impairment upon their discharge from hospitals. These centres also provide supporting services, including training for carers of PWDs and their family members. Three new centres will commence service in 2007-2008.

We will take forward the further development of, and planning for, diversified community support services for PWDs, and review the integration and co-ordination between mainstream welfare services (for example, integrated home care services) and community support services for PWDs to ensure that the services meet the needs of PWDs. We will also mount publicity and public education initiatives to promote various community support services to members of the local communities, carers of PWDs, parents and professionals (such as social workers and teachers) so that they would make the best use of these services. In the long run, we aim to give holistic care to PWDs in order to cater to their needs in different development stages.

- (b) The Government fully recognizes the need to work with the 18 DCs to consolidate local efforts to promote comprehensive rehabilitation services and strengthen public education, so as to enhance public awareness and understanding of the rights and needs of PWDs and their contribution to the community. This is instrumental in facilitating PWDs to enjoy equal opportunities and participate in the community, thereby achieving the policy objective of full integration of PWDs into the community.

On the implementation of district-based public education activities on rehabilitation services, the Labour and Welfare Bureau makes an annual funding contribution of about \$600,000 to the 18 DCs for organizing activities in support of the International Day of Disabled Persons in order to drive home the message of "a society for all". The DCs have all along played an active role in encouraging local residents to accept PWDs and understand their service needs.

The District Welfare Co-ordination Mechanism (DWCM) and service co-ordination mechanism established under the 11 SWD District Social Welfare Offices also help enhance inter-departmental and cross-sectoral involvement in the assessment of district welfare needs and formulation of welfare plans in the district. The District Co-ordinating Committees on Rehabilitation seek to enhance collaboration between rehabilitation service units and other service sectors in promoting public awareness of and enlisting public support for rehabilitation services. Both the DWCMs and the service co-ordination mechanism involve participation of DC members.

In December 2006, the Government of the Hong Kong Special Administrative Region launched the International Festival of Inclusive Arts. Before the Festival, the Government visited the 18 DCs to promote the Festival and brief DC members on the Government's rehabilitation policy and the various service needs of PWDs. With the staunch support of the 18 DCs, the Festival was a great success.

The Government has recently completed the review of the Hong Kong Rehabilitation Programme Plan (HKRPP), which sets out the strategic directions for the future development of rehabilitation services. In the next few months, we, together with members of the Rehabilitation Advisory Committee, will visit the 18 DCs again to brief DC members on the HKRPP's recommendations in cross-sectoral collaboration, promotion of barrier-free environment, and diversified services for PWDs including pre-school services, employment services, community support, public education, and so on. We firmly believe that, through their participation and support, the 18 DCs will continue to make invaluable contribution to the promotion of full integration of PWDs into the community and the building of a harmonious society.

BILLS**First Reading of Bills**

PRESIDENT (in Cantonese): Bill: First Reading.

APPROPRIATION BILL 2008

CLERK (in Cantonese): Appropriation Bill 2008.

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 2008

FINANCIAL SECRETARY (in Cantonese): Madam President, I move that the Appropriation Bill 2008 be read a Second time.

This is my first Budget. I will set out this year's economic and financial position as well as my principles of public finance management. I will also put forward a number of proposals. I hope Members of this Council will support this Budget.

In 2007 the Hong Kong economy was vibrant. Although in the latter half of the year the external economic environment was beset with the United States sub-prime mortgage problem and credit crunch, our Gross Domestic Product (GDP) still grew by 6.3%, higher than the trend growth for the past 10 years.

The economic performance in 2007 shows that our economy continues to benefit from the dynamic development of our nation and the rapid growth of the global economy. It also demonstrates the ability of our economy to withstand external volatilities. In the past year, Hong Kong's exports grew notably by 7.9%. Domestic private consumption spending was buoyant, registering

growth of 7.8%, the highest since 1993. The strong economic recovery in the past few years has greatly boosted consumer confidence. (Chart 1)

In light of the broad-based economic expansion and strong business confidence, most businesses needed to recruit additional staff. In the past year, the labour market has improved further, and the number of employed persons has hit successive new highs. The latest unemployment rate fell to 3.4%, the lowest since the first quarter of 1998. (Chart 2)

The number of long-term unemployed has declined continuously from a peak of 93 000 in 2003 to 29 000 in the latest period, reflecting that people who had difficulty finding a job before have benefited from the booming economy. Since the recovery of our economy in mid-2003, more than 380 000 jobs have been created, providing many employment opportunities for lower-skilled workers. The latest figures show that the unemployment rate and underemployment rate for such workers have fallen to 3.5% and 3% respectively. (Chart 3)

The continued expansion of our economy, strong consumer spending and the surge in import prices of foodstuffs has exerted upward pressure on inflation. In addition, the Hong Kong dollar has followed the depreciation of the US dollar against other major currencies, affecting import prices. The average inflation rate as measured by the Composite Consumer Price Index for 2007 was 2%. Eliminating the effects of the rates concession and public housing rental waiver, the underlying inflation rate was 2.8%. The inflationary trend that Hong Kong has experienced recently is similar to that in many developed economies. (Chart 4)

Regarding the global and regional economic environment, the sub-prime mortgage problem and the credit crunch triggered by the United States housing market correction has resulted in a noticeable slowdown in the United States economy and created global financial turbulence. The impact of the sub-prime mortgage problem on financial institutions and investors, the losses resulting from it, and the negative effect it is having on the global economy all have yet to fully surface.

The present credit crisis impacts mainly on the United States and Europe. Its direct impact on Hong Kong and Asia has so far been limited. Overall though, the economic performance of Asia and other emerging markets remains strong. These economies have become major pillars of global economic growth. The robust economic growth in the Mainland and in India is especially noteworthy.

However, the risk of overheating has emerged in the Mainland economy. Our nation has to step up macroeconomic adjustment and adopt a tight monetary policy as well as other measures to curb inflation and raise economic efficiency. In the short term, such measures will have a bearing on Hong Kong's economy as well as a direct impact on many investors.

The global trend of rising inflation deserves our attention. Apart from surging food prices, energy and commodity prices remain persistently high. As food supply in the world market will take some time to increase, it is likely that there will still be upward pressure on the prices of foodstuffs in the short term.

Taking all these factors into consideration, Hong Kong is now faced with the risk of global economic slowdown coupled with rising inflation. There are also rising protectionist sentiments. We should be aware of the possibility that the situation might deteriorate in the near future and that the fallout may be prolonged.

I am cautiously optimistic about Hong Kong's economic prospects for 2008. While the slowdown in growth of advanced economies in Europe and the United States will have some impact on the economies of emerging markets and the Mainland, the sustained rapid economic growth of the Mainland and its increasingly intensified economic integration with Hong Kong will greatly promote our economic development and cushion the impact of the slowdown on Hong Kong. The economic fundamentals in Asia remain strong, which will help to improve our external trade performance and consolidate our position as Asia's world city. Local interest rate cuts, following those in the United States, will also stimulate economic growth.

Moreover, Hong Kong's economy has staged a strong recovery over the past few years, with a marked improvement in employment and a rise in asset prices. The financial position of most enterprises and individuals has improved, and consumer sentiment and investor confidence are strong. Domestic demand will very likely remain a major driving force of economic growth in 2008.

Taking all these factors into account, and in the absence of unexpected serious incidents or major external shocks, Hong Kong's economy will continue to record solid growth in 2008. I forecast GDP to increase by 4% to 5%, lower than that in the past four years but still higher than the average trend growth rate

for the past 10 years. I expect that the unemployment rate will remain at a relatively low level.

I am optimistic about our economic prospects over the medium term. Hong Kong will continue to move up the value chain in services provision and will intensify economic integration with the Mainland, consolidating its role as a financial, business, trading, services and tourism hub of the region. Furthermore, we will continue to tap new opportunities in emerging markets. I estimate that the annual average growth rate will be 4.5% in real terms for the period 2009 to 2012.

As regards inflation, given continued economic expansion and high global commodity prices, the underlying inflation rate in 2008 is estimated to rise to 4.5%, while the inflation rate forecast will average 4% over the following four years. I forecast that upon implementation of the various one-off measures proposed in this Budget, the inflation rate will fall to 3.4% in 2008.

I realize that inflation has increased the burden on citizens. Rising food prices, while affecting everyone, hit those with low incomes hardest. I hope that the measures proposed in this Budget will help to relieve the burden of citizens, especially the disadvantaged, so that all can share the fruits of our economic growth.

I would now like to discuss the opportunities and challenges ahead of us.

First of all, let us consider Hong Kong's comparative advantages. The rapid development of our nation is transforming the global economic landscape. After 30 years of reform and liberalization, the increasing integration of the Mainland with the global economy and the urbanization and industrialization in the Mainland have progressively changed the mode of economic development, boosting domestic consumption in terms of both quality and quantity, driving manufacturing industries up the value chain and speeding up the development of the service industries. These developments have helped our economy shift towards higher value-added services, thereby supporting our economic growth.

Hong Kong has the unique advantage of having the Mainland as our hinterland while maintaining an international outlook. We have been fostering co-operation and integration with the Mainland through the Closer Economic

Partnership Arrangement and the Pan-Pearl River Delta (Pan-PRD) Regional Co-operation Framework Agreement. With the gradual implementation of the Action Agenda put forward in the Economic Summit of "China's 11th Five-Year Plan and the Development of Hong Kong", we can enhance our role in the development of our nation. In addition, by expanding the scope for functional division and co-operation between Hong Kong and Mainland cities, mutual benefit can be achieved. With these advantages, we can also attract investors from both the Mainland and overseas to use Hong Kong as a platform for developing regional and international business.

Hong Kong has a sound legal system, a free flow of information, a well-established, strong and effective global network, and entrenched intellectual property rights protection. Hong Kong also boasts an open and highly cost-effective business environment, and has a huge Mainland market as our hinterland. These are the key elements for Hong Kong to attract local and overseas investors. We must co-operate with the Mainland, in particular the Pan-PRD Region, in promoting to these investors the overall package in order to enhance our attractiveness.

We must also further enhance our status as Asia's world city and as a place for regional operating headquarters, and increase our co-operation with other cities in the region, so we can play our hub role more effectively, promoting the development of our nation and the entire region.

The Government is making untiring efforts to help our enterprises develop economic relations with emerging markets. In the past few months, we have led delegations of different sectors to Russia, Vietnam, India and the Middle East. We will continue to extend and strengthen these international ties. Later this year I will visit some major cities in Eastern Europe and South America to help our enterprises tap further opportunities.

I would like to highlight some external and internal challenges.

On the external front, globalization and the emerging regional economies will bring increasing competition to Hong Kong. The global economic landscape has been changing rapidly in the past 20 to 30 years. The application of information technology, enhanced efficiency in transportation and logistics management, liberalization and integration of financial markets in various

economies and the rise of emerging markets all pose new challenges to Hong Kong. The Mainland economy is now at a crucial stage of change in its mode of development, with continuous restructuring and upgrading of Mainland industries. The rapid development and progress of Mainland cities will also bring more competition to Hong Kong.

In a report released at the end of last year, the International Monetary Fund pointed out that further financial liberalization in the Mainland is likely to consolidate Hong Kong's position as an international financial centre over the medium term. However, with the modernization of the Mainland's financial system and the development of other financial centres in the Mainland, Hong Kong's comparative advantage in China-related intermediation may diminish. To maintain its long-term standing as an international financial centre, Hong Kong must build a geographically diverse base for its financial services in the region.

Apart from looking at expansion in regional financial services, we must maintain and promote Hong Kong's role as an international cosmopolitan city. We will continue to expand our capacity to handle trading and financial issues and broaden our international horizon through access to more overseas markets and by establishing stronger international links. We will further ease business operations, improve the transparency of our regulatory regime, streamline procedures, encourage creative ideas and promote the use of technology. These will help economic restructuring, reduce business compliance costs and enhance our ability to meet the challenges brought by globalization and by rapid integration with the Mainland economy.

For a highly developed city, global competition is ultimately a competition for talent. To consolidate Hong Kong's position as Asia's world city, we must nurture a large number of talented local people as well as attract talent from the Mainland and around the world.

The Government will continue to invest heavily in education and retraining as well as create more favourable conditions to attract talent from around the world. The completion of major infrastructure projects and various environmental improvement measures mentioned in last year's policy address will also allow us to expand our business opportunities, raise economic efficiency and build a quality city with a quality living environment to enhance Hong Kong's attractiveness.

An ageing population is an internal challenge for Hong Kong that will have a profound impact on our community and economy. The number of people aged 65 or above is expected to rise sharply in the next 20 to 30 years. At present, one in eight persons in Hong Kong is in this group. By 2033, only 25 years away, that figure rises to one in four persons.

Meanwhile, the working age population will begin to fall gradually after 2014. The increasing elderly population will increase the burden on the working population. At present, every two elderly persons are supported by about 12 people of working age. By 2033, however, every two elderly persons will be supported by only about five people of working age. This means that the burden on each working person will more than double. Therefore, unless there is a substantial increase in labour productivity, an ageing population will lower our standard of living and undermine economic vitality and competitiveness. We must make preparations now for the future.

An ageing population will also put immense pressure on public finances. On the revenue side, the tax base from salaries tax will become narrow because of the decrease in working population. At the same time, expenditures closely related to the elderly, such as medical, long-term care expenses and social security payments, will increase substantially. Therefore, we must endeavour to enhance productivity, control expenditure and invest today in measures that will help to mitigate future pressures on public finance.

An ageing population will impose limitations on the production capacity of the economy. We must attract talented people from the Mainland and overseas to give fresh impetus to our economy and improve our population structure.

Since reunification, we have, through various schemes, attracted more than 200 000 talented people to Hong Kong. We have recently relaxed the age limit and the requirements on language proficiency and work experience for the Quality Migrant Admission Scheme and the arrangements for non-local students to work in Hong Kong after graduation, with a view to attracting more talented young people to our city. We will make better use of the Hong Kong Economic and Trade Offices around the world to step up the external promotion of the various talent admission schemes and the arrangements for non-local students to work in Hong Kong.

The Government has been investing heavily in education. This has generally raised the education level of the local workforce and prepared us for

further development as a knowledge-based economy. In the long run, enhancing the skills and competitiveness of people of all ages through continuous efforts to raise their education level and encourage lifelong learning will help to increase our per capita productivity, thereby alleviating the problems caused by our shrinking workforce. (Chart 5)

An ageing population will bring about a substantial increase in demand for health care services. Currently, nearly half of the total expenditure of the Hospital Authority is used to provide health care services for the elderly. The cost of providing such services to the elderly is on average six times that for other groups.

On the other hand, advances in medical technology, the use of new diagnostic techniques, new drugs and new treatment methods all combine to continually drive up medical costs. Because of these factors, it is expected that the increase in overall expenditure on health care services will, on average, be two percentage points higher than the actual economic growth rate in the next 20 to 30 years.

According to an external study, if the existing health care system were to remain unchanged, expenditure on public health care services would increase from \$38 billion in 2004 to over \$180 billion in 2033, an increase of almost 400% in real terms. The share of the cost of public health care services could increase substantially from the present 15% of government recurrent expenditure to over 27%. Although we will increase the share of public health care expenditure to 17% of government recurrent expenditure in the next few years, there is still a big gap between this figure and the forecast expenditure on public health care services for 2033. If we do not introduce new financing arrangements, the provision of quality public health care services cannot be sustained.

The ageing of Hong Kong's population in the past decade has not been significant, with the percentage of the elderly population rising by only three percentage points. However, government welfare expenditure on the elderly has increased steadily. The operating expenditure of the Social Welfare Department on services for the elderly rose from \$1.44 billion in 1996-1997 to \$3.08 billion in 2006-2007, an increase of over 100%. The number of elderly Comprehensive Social Security Assistance (CSSA) cases increased by more than 60% over the same period, and related expenditure surged from \$3.59 billion to \$8.28 billion, an increase of more than 130%.

If the existing social security system were to remain unchanged, it is expected that expenditure relating to the CSSA, the Old Age Allowance and the Disability Allowance for the elderly would increase from the present \$13.1 billion to \$31.8 billion in 2033, an increase of over 140% in real terms.

Ensuring that the Government is financially capable of meeting the health and welfare expenditure for the elderly in need is an issue that the Government and the community as a whole must understand and address. We must make good use of every dollar from taxpayers and prepare for the future.

As Financial Secretary, I will uphold our well-established principles of management of public finances. I will continue to manage public finances prudently by keeping expenditure within the limits of revenues, maintaining a low and simple tax regime, and following the direction of "Market Leads, Government Facilitates". These principles are all very familiar to you, and I think there is no need for me to explain them again.

In drawing up the first Budget of the Government of this term, I have strictly adhered to three basic principles. First, the Budget should demonstrate the Government's commitment to our society; second, financial policies should be sustainable; and third, we should be pragmatic in decision-making. By following these principles, we strive to ensure that the measures proposed in this Budget respond to the aspirations of the community and lay a solid foundation for our economy to meet future challenges.

My first principle is that fiscal policies should demonstrate the Government's commitment to society.

I am aware that recent inflation has brought pressure to bear on the public. We must understand that inflation is partly driven by our strong economic growth and that a vibrant economy is beneficial to our people. Our declining unemployment rate is one of the indicators reflecting this situation. Nonetheless, I am deeply concerned about the fact that some disadvantaged groups have not yet been able to enjoy the fruits of economic growth. I believe that, through proper revenue and expenditure proposals, this Budget can help improve their lives.

It is the duty of the Government to provide a final safety net for those who cannot help themselves. Concern over the livelihood of low-income families

has now become a consensus in our community. In line with this consensus, I will propose measures to help them.

The Chief Executive has clearly stated in his policy address that the Government should not attempt to narrow the wealth gap by redistributing wealth through high levels of tax and welfare. Such a measure would only inhibit people's incentive to work hard and, in turn, undermine the productivity and competitiveness of the community as a whole.

We will create favourable conditions, such as strengthening education and training, to help people enhance their skills. By helping people to help themselves, we will enable them to contribute to the economic development of Hong Kong. Education provides an opportunity for the next generation of low-income families to move up the social ladder, thereby reducing cross-generational poverty. The Government will continue to invest heavily in the community by making long-term commitments to education, retraining and health care.

My second principle in managing public finances is that our financial policies should be sustainable. If we increase recurrent public expenditure or reduce recurrent public revenue, we must be able to give reasonable assurances that the changes can sustain themselves.

Recently, there have been calls for the Government to make good use of the fiscal surplus and return wealth to the people. I share this view. This year, with our economy performing well, our tax revenue has increased. Revenues from stamp duty and land premium income, in particular, are far higher than expected. However, we must realize that a substantial surplus will not occur every year. Temporary improvements in our fiscal position, therefore, are not sufficient reasons for significant increases in recurrent expenditure or reductions in tax.

Thus, in studying the feasibility of increasing recurrent expenditure, we must examine carefully the sustainability of each proposed measure. We must avoid measures that impose burdens that the community will find hard to bear in the long run.

Article 107 of the Basic Law stipulates that the Hong Kong Special Administrative Region shall follow the principle of keeping expenditure within

the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance and avoid deficits. To ensure fiscal sustainability, I will strive to achieve fiscal balance over the next five years. I may introduce one-off measures which will increase government expenditure in the short term if there are needs in the community and our finances permit.

Past Budgets have been formulated to meet the prevailing needs of the community. For example, Hong Kong's economy declined substantially after the Asian financial crisis and the SARS outbreak. The Chief Executive and the Financial Secretary at the time, faced with swelling deficits, took unpopular measures to increase revenues and reduce expenditure. Such measures indeed laid the foundations for the subsequent return to sound Government finances a few years later.

My third fiscal principle is to be pragmatic.

Public resources are limited, but social aspirations are unlimited. As Financial Secretary, I must manage and use public money properly because this is the public's wealth. My objective is to allocate resources where they are required, to ensure that every dollar is well spent and that measures introduced are targeted to benefit those most in need.

I will continue to maintain fiscal discipline, strictly control recurrent expenditure and uphold the principle of "Big Market, Small Government", so that the share of public expenditure will be maintained at 20% or below of GDP.

A big market can increase the share of the private sector in the economy and allow market forces to allocate our limited resources in the most efficient way for the maximum benefit of the community as a whole. A small government can prevent the public sector from acquiring excessive resources and thus reducing efficiency in the allocation and use of resources. Moreover, a small government can minimize regulation, thereby facilitating business operations and attracting overseas investment. However, we will also keep government expenditure in line with economic growth to ensure that our services can meet the changing needs of the community.

We should adopt a pragmatic approach to the problem of the narrow tax base of Hong Kong. In July 2006, the Government launched a public consultation on reforming Hong Kong's tax system to broaden our tax base.

According to consultation findings, the community recognizes that there is a need for the Government to broaden the tax base. However, there is no clear consensus or inclination on how to achieve this objective.

We will continue to study options on broadening the tax base. I hope to provide opportunities for the community to discuss the tax reform options that are equitable and conform to the "ability-to-pay" principle, can generate stable revenue, offer certainty and are predictable.

I now give an account of the 2007-2008 outturn.

Thanks to the continued economic upturn in 2007, and our successful efforts to contain operating expenditure over the past few years, the Government's finances for 2007-2008 are in very good shape.

I estimate that operating expenditure for 2007-2008 will be \$206.4 billion, an increase of 6.4% over 2006-2007.

Against the background of a 6.3% GDP growth in 2007, my updated estimate for operating revenue for 2007-2008 is \$270.1 billion, an increase of \$48.7 billion over the original estimates. The main items that brought in higher-than-expected revenues were stamp duty on stock transfers which generated \$35 billion (\$22.1 billion higher than the original estimates), stamp duty on property transactions which generated \$14.6 billion (\$5.1 billion higher), profits tax which generated \$89 billion (\$11.5 billion higher) and salaries tax which generated \$37 billion (\$7 billion higher). (Charts 6 and 7)

For capital revenue, land premium for 2007-2008 is estimated at \$63.1 billion. We estimate that the revenues from land premium and stamp duties together will account for about one third of total government revenue for 2007-2008. This is the highest contribution that these relatively less stable revenue sources have made to total government income since 1997-1998. (Chart 8)

Since 1 April 2007, in order to reduce volatility in investment income, the investment return on the fiscal reserves has been calculated on the basis of the average rate of return of the Exchange Fund's investment portfolio over the previous six years. The investment income on the fiscal reserves for 2007-2008 is estimated at \$27.9 billion.

The revised overall expenditure on infrastructure for 2007-2008 is \$20.5 billion, which, as the Chief Executive has pointed out in his policy address, is the lowest in recent years. The main reason for the decrease in expenditure is that there are not enough infrastructure projects, especially major ones, ready for implementation. I believe that expenditure on infrastructure has bottomed out. It will rise to \$21.8 billion next year and increase further in the years ahead. This will help create more job opportunities.

Overall, I forecast a surplus of \$63.7 billion in the Operating Account for 2007-2008. For the Consolidated Account, I forecast a surplus of \$115.6 billion, which is an all-time high. This is four and a half times last year's forecast and is equivalent to 7.2% of our GDP. By 31 March this year, our fiscal reserves will have increased to \$484.9 billion.

This forecast outturn is somewhat higher than that predicted at the beginning of last year. *(Laughter)* I understand well what the former United States Federal Reserve Board chairman Alan Greenspan meant when he said last year that while he had been forecasting economic changes for 50 years he had not seen any improvement in his ability as a forecaster. I am not going to pledge to do better than him in forecasting. I have focused on how to use the happily favourable outturn this year to address present needs and to put us on a more secure footing to meet tomorrow's challenges.

Having regard to the large surplus in 2007-2008, we should make good use of it for the greatest well-being of the community. I propose to allocate additional resources in the following four main areas:

- (a) Promoting long-term economic and social development as an investment for the next generation;
- (b) Supporting disadvantaged groups so as to improve their livelihood;
- (c) Leaving wealth with the people to share the fruits of economic development; and
- (d) Providing for future challenges.

The major revenue and expenditure proposals of this Budget are set out below.

In the first area of promoting long-term economic and social development, I propose to implement measures for investing in infrastructure; more efficient use of land and resources; reinforcing pillar industries; tapping new markets; developing human capital; community building; and environmental improvement.

In his policy address, the Chief Executive said we will promote economic development through infrastructure projects, which will create more jobs and stimulate wage increases. Over the next few years, we will vigorously implement various infrastructure projects, including the 10 major projects announced by the Chief Executive. Since the planning of these projects takes time, expenditure on infrastructure is unlikely to increase substantially within a short time.

Over the past two years, there has been a significant increase in the number and value of approved infrastructure projects and public works contracts awarded. We believe that more employment opportunities will be created in the construction industry in the next few years as these projects reach their construction peaks. Discounting the upfront endowment of \$21.6 billion to the West Kowloon Cultural District Authority, as I said earlier, the estimated expenditure on infrastructure projects will be \$21.8 billion for 2008-2009. It is expected that about 27 000 new construction jobs will be created.

I have instructed Controlling Officers and heads of works departments to closely monitor the planning progress of these projects. The Development Bureau and the Transport and Housing Bureau will play a co-ordinating role to ensure that these projects will commence as soon as possible. The major transport infrastructure projects are progressing well. The MTR Corporation is working on the detailed design of the West Island Line, and has started the preliminary planning and design of the eastern section of the South Island Line. The review of the project proposals for the Sha Tin to Central Link and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link are near the final stage. It is expected that the study on a rail link between Hong Kong International Airport (HKIA) and Shenzhen Airport will be completed by the end of this year. The Governments of Guangzhou, Hong Kong and Macao are pushing ahead with preparations for the Hong Kong-Zhuhai-Macao Bridge. We believe that the financial arrangements could be finalized shortly.

The Hong Kong-Shenzhen Joint Task Force on Boundary District Development has been established. The Task Force will give priority to two

development projects at the new Liantang/Heung Yuen Wai control point and the Lok Ma Chau Loop. The Kai Tak Development, with its funding approval recently granted by this Council, has entered the construction stage. As for the projects on opening up new development areas in the Northwest New Territories, we will shortly submit a funding application to this Council to start a comprehensive assessment on the planning and construction of the projects as well as their impact on heritage sites.

With the continued upturn in our economy, demand for residential and commercial properties has increased, exerting upward pressure on both property prices and rent. The transaction prices of land at auction reflect market demand. In view of this, we will increase land supply.

Some property developers have recently urged the Government to change the Application List System and resume scheduled land auctions to increase land supply. I do not agree.

The Application List System enables real estate developers to apply for suitable sites on the Application List for public auction. The number of sites to be put up for sale and the time for land sale are decided by the market. This prevents the Government from interfering unnecessarily with the operation of the market. The system is working well. We have no intention of changing it.

The Development Bureau will announce the Application List for 2008-2009 shortly. The number of sites on the list will increase from last year's 47 to 62. These sites cover a total area of 60 hectares and allow for a variety of uses.

We will adopt a more proactive and flexible approach in the use of land resources. For example, to better address the problems faced by the Tin Shui Wai community, it is necessary for us to create more job opportunities in the district. The Development Bureau is working with the bureaux and departments concerned to study how best to make use of two sites adjacent to the Wetland Park in Tin Shui Wai North, with a total area of about 14 hectares, to give fresh economic impetus to the district and provide the necessary facilities there. In addition, to respond more positively to the aspirations of local communities, the Lands Department will liaise with District Councils and study ways of putting vacant land not needed in the short term to better use, for example, beautifying it or converting it to other temporary public use.

Some government office buildings are located in central business districts. From the perspectives of economic development and use of land resources, we consider that it is not necessary for all government office buildings to be located in these areas. The Hong Kong 2030 Study completed earlier forecasts that the current supply of sites for Grade A offices in central business districts will be able to meet the demand in the next few years. However, in order to keep our economy growing, the Government must identify more sites for such offices in central business districts.

In order to meet the demand in this respect, we will study the relocation of three government office buildings at the Wan Chai waterfront. Potential sites for relocation may be found in new districts such as the Kai Tak Development Area and Tseung Kwan O. This will free some land in the central business districts for developing Grade A offices and give fresh impetus to the new districts, increasing employment opportunities there.

The Development Bureau is reviewing the outline zoning plans of several districts to provide citizens with a better living environment. To ensure that the land supplied by the Government to the market will achieve the same result and that clear market information is provided, we will state the relevant development parameters, for example, building height, permitted floor area, ventilation requirements, for each site on the Application List. We think it is worthwhile to adopt this measure although it may lead to a reduction in government revenue.

Redevelopment of old urban areas can effectively improve the living conditions of local residents and release land for better use. However, with the public attaching greater importance in recent years to heritage conservation, community networks and building rehabilitation, the role of redevelopment in the renewal of old urban areas should be reviewed. In the next few months, the Development Bureau and the Urban Renewal Authority (URA) will conduct a review of the Urban Renewal Strategy. I hope that various sectors of the community and the general public will participate in the discussion to set a new direction for this important social issue. Pending revision of the strategy, the URA will push ahead with those redevelopment projects in progress and make effective use of part of the \$10 billion we originally injected into the URA to strengthen its work to revitalize old areas and conserve historic buildings.

We have been strengthening Hong Kong's position as Asia's world city. We are promoting our role as an international financial centre and as a hub of

business, logistics and tourism in the Asia-Pacific Region. As a result of globalization and the rapid economic growth in the Region, Hong Kong's economy has been restructuring and upgrading. Over the past 10 years, growth in our total labour productivity averaged 2.7% per year. The average growth rate in the past four years reached 4.8%, showing that we have achieved notable results in this respect.

Hong Kong has become a sourcing, supply chain management, logistics and distribution centre in the region. The direct contribution of the trading and logistics sector to our economy increased from 21.9% in 1997 to 27.4% in 2006.

Moreover, trade in services has become increasingly important to our economy. In 2007, Hong Kong's export of services grew by more than 140% in real terms compared with 10 years ago. The value of these exports now stands at \$645 billion. This demonstrates Hong Kong's strong competitive edge in the export of services including tourism, offshore trade, and financial, commercial and professional services. At the end of last year, overseas and Mainland companies had set up a total of 3 890 regional headquarters or offices in Hong Kong, an increase of 55% over 10 years ago.

Tourism is a pillar industry of our economy. In 2007, there were over 28 million visitors to Hong Kong, an increase of 11.6% over 2006. Visitor spending is estimated to have exceeded \$130 billion in 2007, an increase of 8.9% year-on-year.

The development of a new cruise terminal at Kai Tak will help Hong Kong to develop into a leading regional cruise hub. Tenders were invited last November. We expect that the contract will be awarded in the second quarter of 2008. The first berth will come into operation in February 2012.

To continue to promote development of the tourism, convention and exhibition industries, I propose three measures.

First, in support of the objective given in the policy address to enhance the appeal of Hong Kong as an international convention, exhibition and tourism capital, we will seek to host more mega international conventions and exhibitions. We will step up our efforts in overseas promotion. We aim to attract more high quality convention and exhibition projects that will bring high

value-added business travellers to Hong Kong. I have earmarked an additional \$150 million to carry out these activities in the next five years.

Second, I propose to waive the Hotel Accommodation Tax. This proposal will help to further promote tourism and enhance the competitiveness of our hotel industry. It will also reduce the administrative cost of hotels and guesthouses. This proposal, which will come into effect after the enactment of the relevant amendment bill, will cost the Government \$470 million a year.

Third, to consolidate Hong Kong's status as an international convention, exhibition and tourism capital, we must have adequate hotel facilities. In order to allow more hotels to be built, we will include sites "restricted to hotel use" in the 2008-2009 Application List, and provide 10 sites to build different types of hotels.

The financial sector has huge potential. It is the driving force for Hong Kong to move towards a knowledge-based and high value-added economy. The direct contribution of the financial sector to our economy in 2006 was more than 50% higher than in 1997. The development of this industry has stimulated growth in many other industries, particularly professional services.

Our objective is to develop Hong Kong's strength as an international financial centre. With the rapid development and reform of the Mainland's financial services industry, there is ample room for co-operation between the financial sectors of Hong Kong and the Mainland.

TIME Magazine recently coined the term "Nylonkong" to highlight the extent to which New York, London and Hong Kong have become models of globalization, while at the same time "lubricated the global economy". These three cities are situated in different time zones, but are closely linked by air flights and communication networks. This enables financial and business activities to be carried out on a 24-hour basis, forming a global commercial and financial network.

The Government will take measures to enhance the competitiveness of our commercial and financial sectors and to improve the regulatory regime. We will review the regulatory framework for the securities market to improve market quality and reduce compliance costs for the industry. For instance, we have launched a comprehensive rewrite of the Companies Ordinance with a view

to developing a set of modernized company legislation. We will review the Trustee Ordinance in order to increase the competitiveness of our trust services industry.

The successful implementation of Basel II in Hong Kong last year enabled our banks to stay ahead in the quality of risk management. To tie in with the implementation of Qualified Domestic Institutional Investor (QDII) arrangements by the Mainland, the Government and the regulatory bodies concerned will continue to liaise with the Mainland, improve market infrastructure, promote financial intermediary activities, encourage financial innovation and launch new financial products.

The Chief Executive has visited the Middle East recently and we are working hard to develop an Islamic financial platform in Hong Kong so as to tap a market with an estimated value of US\$1,000 billion. Furthermore, in the past few months, we have led financial sector delegations to visit Vietnam and India. Last year, the Securities and Futures Commission and the Hong Kong Exchanges and Clearing Ltd. jointly issued a policy statement on the listing of overseas companies in Hong Kong so as to attract more overseas enterprises to list here. The Government will continue to monitor and promote the development of the local financial markets in collaboration with the financial regulators.

As an international and regional aviation hub, Hong Kong has direct air links with more than 150 cities in the world, providing strong support for transnational businesses, the tourism industry, and the logistics industry. The HKIA is the world's fifth busiest airport in terms of international passenger throughput and the busiest in terms of international cargo throughput. Passenger and air cargo throughput reached new highs last year, with over 47 million travellers passing through the airport and 3.74 million tonnes of air cargo handled.

To enhance the competitiveness of the HKIA, the Airport Authority (AA) keeps upgrading the airport's infrastructure to increase its passenger and cargo handling capacities and strengthen transport links between the airport and the Pearl River Delta. These measures can help to further consolidate Hong Kong's position as an aviation hub.

As announced last May, the Government will increase the capacity of the two existing runways of the HKIA progressively from 54 movements per hour to

58 movements per hour in 2009. With the support of the AA and the industry, we are confident that capacity of the existing runways can be gradually increased to 68 aircraft movements per hour by 2015. In the long run, it is important that the HKIA can further increase runway capacity to handle forecast growth in air traffic. The AA is preparing to start, within this year, the engineering and environmental feasibility studies for a third runway.

Turning to the port, the latest forecast shows that container throughput will continue to increase in the future after reaching a handling capacity of 24 million twenty-foot equivalent units (TEUs) of containers last year. The Government has been identifying suitable locations for the development of Container Terminal 10 to meet this demand.

Two sites have been identified initially. Extensive reclamation is required for the site at Northwest Lantau, which may affect the ecological environment. Consequently, the Government will study the other site at Southwest Tsing Yi. Although this site will require the relocation of the existing oil depot, it can achieve synergy with the container terminals in Kwai Chung and Tsing Yi.

Apart from promoting pillar industries and developing traditional businesses, we must tap new opportunities and markets.

In last year's policy address, the Chief Executive indicated the new direction of accelerating the development of our creative economy. Hong Kong enjoys a leading edge in many areas of the creative economy in the region. There are now more than 170 000 people working in creative industries, with total value-added exceeding \$53 billion a year. The potential of the creative economy is immense. To accelerate and expand its growth, however, we must expand the market abroad. It is therefore of paramount importance for us to promote the achievements and brand names of our creative industries both in the Mainland and overseas.

Last November, to help our creative industries expand access in the Mainland market, the Secretary for Commerce and Economic Development led a delegation to Shanghai and to participate in an international exhibition on creative industries. We will continue to work with the industry to carry out promotions abroad and in the Mainland. Such promotion work includes co-ordination of the industry's participation in the China International Cultural

Industry Fair to be held in Shenzhen this May, and the organization of roving exhibitions for the "9707 Project", an impressive local design project that marked the 10th anniversary of reunification of Hong Kong with China. The exhibitions will be staged in four major cities in Europe and the United States to showcase the achievements and brand names of Hong Kong's design industry.

The World Exposition 2010 Shanghai China (Expo 2010) is an excellent opportunity to promote Hong Kong's quality city life and its position as a creative capital. In collaboration with the local creative industries we will participate in this event.

We are now holding a competition on the design concept of the Hong Kong Pavilion. We have invited local professionals in the architectural, planning and design sectors to enter the competition so as to attract the best design concepts. The winning entries will be adopted for detailed design of the Hong Kong Pavilion. We have earmarked \$69 million for designing and constructing the pavilion.

We are also applying to take part in the "Urban Best Practice Area" at Expo 2010. About 30 cities with best practice cases will be selected for this area. We will take this opportunity to showcase our achievements in urban living, which will also help to promote Hong Kong's brand names and tap new markets.

I now turn to wine trading and distribution businesses. According to industry estimates, total spending on table wine in the Asian economies excluding Japan is around \$55 billion, which accounts for about 7% of the global market. The industry forecasts that there will be a considerable growth in table wine spending in this region and that the economies with the largest growth will include the Mainland, Hong Kong, Singapore, South Korea and Taiwan.

Hong Kong's advantageous geographical location, advanced transport and logistics infrastructure and rich experience in international promotion are favourable to the development of trading, storage and distribution of quality table wine.

Currently, London is the trading and distribution centre of quality table wine for the world. The industry indicates that many of the businesses there are owned by Hong Kong companies. It is expected that by developing the various

businesses in Hong Kong relating to quality table wine, our total business volume in trading, storage and auction of table wine may increase by as much as \$4 billion. We believe that, in the long run, this will create more favourable conditions for the development of such economic activities as catering services, tourism, brand promotion and exhibitions, table wine appreciation and related educational activities that can achieve synergy with table wine trading and create new jobs.

After taking into account the development potential and the job opportunities that can be created, I believe that we should support the further development of these businesses in Hong Kong. The industry has indicated that the current duty on alcoholic beverages and the related administrative controls are the major obstacles to the development of the businesses. I propose to exempt the duties on wine, beer and all other alcoholic beverages except spirits with immediate effect, and remove the related administrative controls upon amendment of the relevant legislation, so as to facilitate the import, export and storage of these alcoholic beverages. The proposal will cost the Government about \$560 million a year.

The Government has been investing heavily to develop human capital, the most important resource in a knowledge-based economy. Expenditure on education exceeds \$50 billion a year, accounting for about one quarter of total government recurrent expenditure. Education is the policy area that takes up the largest share of government resources. As the resources we put into education are long-term investments that enhance the quality and productivity of our population, we will maintain our commitment in this area.

As announced in last year's policy address, we will offer free senior secondary education from the 2008-2009 school year. Under the new senior secondary education structure, free education will be extended from nine to 12 years, and the additional expenditure on education for each school year will amount to \$1.2 billion. The policy address has also announced that small-class teaching will be implemented in primary schools in phases from the 2009-2010 school year. We will provide adequate resources in future Budgets to support this policy.

Diversified research and development (R&D) activities are essential to sustain economic growth and enhance competitiveness. Research stimulates new ideas, and research-based innovation can promote high value-added

economic activities. The basic and applied research conducted by tertiary institutions helps other research institutes and the business community to master and apply new knowledge. This is crucial to the sustained growth of our knowledge-based economy.

Therefore, our investment in this area is of great importance to Hong Kong. In this connection, I propose two measures.

- (a) First, I propose to provide 800 additional publicly funded places for postgraduate research programmes in phases from the 2009-2010 school year. This will incur additional expenditure of nearly \$300 million a year;
- (b) Second, I intend to provide a one-off grant of \$18 billion to establish a Research Endowment Fund. The Fund and its investment earnings will replace the existing annual funding granted by the Government to the Research Grant Council of the University Grants Committee. Moreover, part of the funds will be used to finance appropriate research projects on specific themes. I believe that the Fund will not only affirm the Government's continued support to R&D activities, but also provide steady, additional resources through its investment earnings for the institutions to conduct such activities.

As a cosmopolitan city, apart from increasing investment in education, Hong Kong must strive to enhance the quality of culture, arts and sports in the community. The policy address has announced that the Yau Ma Tei Theatre will be converted into a Cantonese opera centre to promote and preserve this local art. We have earmarked about \$120 million for this project. The Home Affairs Bureau will also seek Legislative Council approval for a \$21.6 billion upfront endowment for the West Kowloon Cultural District development. We will take forward these major cultural and arts infrastructure projects.

The Beijing Olympic Games to be held this year will draw the world's attention to China. To highlight our commitment in supporting, promoting and participating in the Olympic Games, the Legislative Council has approved funding of \$150 million to organize Olympic-related cultural, sports, community, celebration and promotional activities. The policy address has also announced that the recreational facilities managed by the Leisure and Cultural

Services Department will be open for public use free of charge from July to September this year. We estimate that receipts from these facilities will decrease by about \$100 million.

As the constitutional document of the Hong Kong Special Administrative Region, the Basic Law has laid a solid foundation for our stability and prosperity. In order to raise public awareness of the Basic Law and the "One Country, Two Systems" concept, we will devote more resources to further promote the Basic Law throughout the community. We have earmarked more than \$20 million for this purpose.

With the District Councils playing a bigger role in district administration, we will increase funding for the 18 District Councils to \$600 million a year to carry out various community involvement activities and district minor works. We will also provide additional manpower resources for District Offices to support more effective community participation in district administration.

A good environment is vital for a quality life. This can protect the public's health and is conducive to attracting talents from around the world, thereby enhancing the overall competitiveness of Hong Kong. In recent years, the Government has implemented a number of environmental protection measures. Members of the public, by participation in these efforts, have been leading a greener lifestyle. The Government is ready to explore measures to improve our environment. I will provide the resources required for implementing effective measures.

From 1 December 2007, we have offered a concessionary duty rate of \$0.56 per litre for Euro V diesel for two years. The rate is 50% lower than that for ultra low sulphur diesel. This concession will cost the Government about \$1.56 billion a year if calculated according to the normal duty rate of diesel. I believe that this concession is well worthwhile to help improve Hong Kong's air quality.

Last April we offered a reduction in the First Registration Tax for environment-friendly private cars to encourage people to choose these type of cars. I propose to introduce a similar concession for environment-friendly commercial vehicles to further reduce air pollution. Depending on the types of vehicles, a reduction of 30%, 50% or 100% in the First Registration Tax will be offered to buyers of commercial vehicles meeting the Euro V emissions

standards. Details of the proposal will be announced by the Environmental Protection Department later. If 15% of the commercial vehicles applying for first registration are converted to Euro V vehicles, it is estimated that the proposal will cost the Government \$26 million a year.

I propose to provide a 100% profits tax deduction for capital expenditure on environment-friendly machinery and equipment in the first year of purchase to encourage the business community to use such equipment. For environment-friendly installations mainly ancillary to buildings, I propose that the depreciation period be shortened from the usual 25 years to five years. The Inland Revenue Department and the Environmental Protection Department will announce the list of environment-friendly facilities that would qualify for the deduction.

I now turn to my second area, that is, providing support for disadvantaged groups. The policy address states that the Government should strengthen the family by formulating social policy and providing welfare services. I will propose suitable measures in this Budget to help build a harmonious, family-based society.

We will support the further development of social enterprises through Budget initiatives and relevant financial policies, creating more job opportunities and promoting a caring culture in the community. For instance, we have launched a pilot scheme whereby qualified social enterprises are given priority to bid for 38 government cleansing contracts. The Home Affairs Department is now formulating a social enterprise partnership scheme to support operators of social enterprises, enhance the competitiveness of such enterprises, and promote the partnership between non-government organizations, the business community and government departments.

Charitable institutions give unstinting support to disadvantaged groups. To encourage more generous charitable donations from the business community and the public, I propose to raise the ceiling for tax deductible donations under profits tax, salaries tax and tax under personal assessment from the present 25% to 35% of assessable profits or income. This proposal will cost the Government about \$80 million a year.

Some parents are temporarily unable to take care of their children because they have to work away from home or for other reasons. I understand their

circumstances, and therefore propose to provide funding of \$45 million over the next three years to strengthen day foster care services and to promote various types of child care services that offer greater flexibility to meet the needs of these parents.

To strengthen direct support to victims of domestic violence and families in need, I propose providing additional annual funding of about \$40 million to increase the places of refuge centres for women, strengthen the Social Welfare Department's hotline services, sustain efforts in publicity campaigns and public education, and enhance the training of relevant front-line professionals.

Young people are the driving force for the future development of the community. I hope that unemployed youths can obtain work experience and enhance their job-related skills to provide a solid foundation for future development. The policy address announced that 3 000 three-year jobs will be provided for those aged between 15 and 29. I propose to make a provision of about \$1 billion over the next three years to create these jobs in collaboration with non-government organizations.

I am deeply concerned about the problem of psychotropic drug abuse by young people. The high level inter-departmental task force led by the Secretary of Justice has conducted in-depth studies of the problem over the past few months and devised a series of initial measures that can be implemented in the short to medium term. I will allocate additional resources of \$53 million in 2008-2009 to tackle this problem.

To enable young people from poor families and other needy members of the community to access and use information technology and online services, with a view to narrowing the digital divide and helping them integrate into the information society, the Office of the Government Chief Information Officer will launch a pilot scheme to establish cyber centres in selected districts. The business community will be invited to participate in the scheme by providing technical as well as software and hardware support. The Government will work in partnership with community organizations in managing the centres.

As regards support to persons with disabilities, I propose additional funding of about \$100 million a year to offer 300 more pre-school training places, 450 more day training places and 490 more subvented residential places. I also propose an additional provision of about \$35 million a year to establish,

following a district-based approach, 16 community support centres to strengthen one-stop services and support for persons with disabilities as well as their family members and caretakers.

To improve the Rehabus service, the Government will allocate about \$20 million to acquire eight new Rehabuses and replace 24 old ones.

To further encourage disabled people to participate in activities away from home, I propose providing an additional supplement of \$200 a month to Disability Allowance recipients aged between 12 and 64, and CSSA recipients in the same age group with 100% disability. It is estimated that this proposal, which involves expenditure of \$230 million a year, will benefit 96 000 persons with disabilities.

With the rapid advance in medical technology in recent years, the efficacy of treatment of serious illnesses such as cancer has notably improved. But the new medicines used are often very expensive. I propose to inject \$1 billion into the Samaritan Fund to enable more new medicines to be included on the subsidy list of the Fund according to the established mechanism so as to relieve the burden on patients with financial difficulties.

Though a predominantly Chinese society, Hong Kong has quite a number of ethnic minorities who are valued members of our community. Many have attained outstanding achievements in their professions and have made significant contributions to Hong Kong's economic growth and social development.

Some members of ethnic minorities, however, are disadvantaged because of their education level, language barriers, lack of social networks, and other causes. In view of this, I propose:

- (a) Granting a recurrent annual allowance of \$300,000, starting from the 2008-2009 school year, to 19 designated primary and secondary schools to help them implement the School-based Support Scheme for non-Chinese speaking students, and to suitably increase the allowance granted to such "designated schools" with a higher intake of non-Chinese speaking students. We will also seek to increase the number of these schools to 25 within two school years. It is estimated that full implementation of these proposals will entail an additional provision of \$13 million a year.

- (b) Setting up, on a trial basis, four support service centres in different districts to provide interpretation services for ethnic minorities using health care services, job centres and social welfare facilities. Chinese and English language courses and other activities will also be organized to help them integrate into the community. I will earmark \$16 million as the operating expenses of these centres for the coming year and allocate an additional \$8 million to subsidize their start-up cost.

To share the fruits of economic prosperity with social security recipients, I propose to provide one additional month of the standard rate CSSA payments for CSSA recipients and one additional month of allowance for recipients of Disability Allowance. This proposal, which involves an expenditure of about \$1.2 billion, will benefit 620 000 people.

I am very concerned about the impact of recent price rises on CSSA households. Apart from the additional one-month standard rate CSSA payments, we also propose to adjust the CSSA payment rates in accordance with the existing mechanism ahead of the normal schedule this year, so as to ease the impact of rising prices on these households. This measure will increase government expenditure on CSSA payments when inflation rises.

In order to ease the burden of low-income families, I propose that the Government will pay one month's rent for lower income families living in the rental units of the Hong Kong Housing Authority (HA) and the Hong Kong Housing Society (HS). However, this measure will not apply to HA tenants who are required to pay extra rent or tenants of HS Group B estates. I have earmarked about \$1 billion for this measure. We will discuss implementation details with the HA and HS.

The pilot Transport Support Scheme introduced last June aimed at encouraging the unemployed and low-income employees with financial difficulties living in Tuen Mun, Yuen Long, the North District and outlying islands to seek employment across districts. Under the Scheme, eligible applicants are allowed to claim a Job Search Allowance of \$600 and a Cross-district Transport Allowance of \$600 a month for up to six months.

After reviewing the Scheme, the Government considers that its objective should remain unchanged. However, the eligibility criteria of applicants and

the subsidy period can be suitably relaxed. The ceiling for monthly income should be raised from \$5,600 to \$6,500, while the subsidy period should be extended from six months to 12 months. Having regard to the large area covered by these four districts, we will also allow eligible people working and living in the same district to apply for the allowance.

However, I must emphasize that the objective of the Scheme is to provide a time-limited allowance as an incentive for people in districts further afield to seek jobs across districts. It is not a long-term measure to subsidize the transport costs of the low-income group with public money. I believe that a better way to help lower-skilled people to seek jobs with higher value and wages is to raise their education level and enhance their skills. Through this, the productivity of the community as a whole can also be enhanced.

To ease inflationary pressure, I propose to grant each residential electricity account a subsidy of \$1,800. At present, about 15% of households in Hong Kong pay an average of not more than \$150 a month for electricity charges. The subsidy will enable these households to cover their electricity charges for about one year. As for another 20% of households paying an average of \$150 to \$300 a month for electricity charges, the subsidy is enough to pay their electricity bills for about six months. I believe this measure will most benefit lower income households. The Government will inject the subsidy into the electricity bill accounts of eligible registered households in phases. We will discuss with the two electricity companies the implementation arrangements and announce the details later. This measure will cost about \$4.3 billion.

The Government has always cared greatly about the well-being of the elderly. The Government will continue to work closely with the Elderly Commission to help enhance the abilities of the elderly and to maintain their vitality so that they can continue to contribute to the community and the economy.

Following this direction, the Government and the Elderly Commission have established 32 school-based Elder Academies in all the 18 districts of Hong Kong. This scheme has started to deliver results, and it is expected that the Elder Academies can provide over 5 000 places for the elderly in 2008. We will continue to promote this scheme. Apart from sustaining this development at primary and secondary school levels, we will extend the scheme to tertiary institutions so that the elderly will have the opportunity to take suitable courses at universities to continue their learning.

In respect of elderly care services, I propose to increase funding by \$60 million a year to provide an additional 160 day care places, 278 more subsidized residential care places and 180 more infirmary places in residential care homes for the elderly. I also propose to provide additional funding of \$18 million a year for District Elderly Community Centres to recruit more staff to strengthen their counselling and referral services and their processing of applications for subsidized long-term care services for the elderly.

The policy address stated that the Government will help elderly people without family support to improve their homes in the next five years. I have earmarked \$200 million to implement this measure. The main targets of this measure are the elderly people, especially those living alone, who are living in dilapidated homes with poor fittings.

Following assessment, the elderly in need will be provided with minor home maintenance and improvement services as well as the necessary fittings according to their home environment. The amount of subsidy for each household will be subject to a ceiling of \$5,000. It is expected that about 40 000 elderly households will benefit from this measure.

We note that some needy elderly people have not properly maintained their self-occupied properties because of financial difficulties. The plight of some may even make it impossible for other owners and owners' corporations to comply with maintenance orders issued by the Buildings Department, thus endangering the safety of public areas and the external walls of the buildings.

In view of this, I propose to earmark \$1 billion as a subsidy for the elderly in need to carry out maintenance or safety improvement works for their self-occupied properties in the next five years, subject to a ceiling of \$40,000 per eligible elderly person. This proposal will benefit 30 000 elderly people.

For those elderly people who are unable to pay off property maintenance loans previously obtained through the Buildings Department, the URA or the HS, they can also apply for the subsidy to repay the debts. We will ask the HS to implement this scheme.

In the past few months, I have heard people discussing cases of the elderly relying on the Old Age Allowance (OAA) for their living and calls for the Government to increase the allowance. I am very concerned about such cases

because the existing safety net provided by CSSA should be able to give them adequate assistance. According to some media reports, the elderly people concerned are not eligible for CSSA because they own self-occupied properties. As a matter of fact, under the existing system, owning a self-occupied property does not affect the eligibility of elderly people for CSSA. The elderly in need can contact the Social Welfare Department early to have their eligibility assessed.

With an ageing population, the number of elderly people is expected to increase from the current 870 000 to about 2.17 million by 2033, or two and a half times the present population. The expenditure on the OAA will increase accordingly, in today's money, from \$3.9 billion in 2008 to \$9.7 billion in 2033, posing a considerable burden to public finances in the long run. If the OAA were increased to \$1,000 for each eligible person, by 2033 expenditure would surge to \$14 billion. In the long run, this measure would be unsustainable, and the expenditure involved would become a heavy burden on the community.

I agree that the Government should provide more assistance to the elderly in need. We must explore a feasible long-term option for the OAA. While the option should provide adequate assistance to the elderly in need to ensure the proper use of public money, it should also be a sustainable and affordable one for the community. We hope that such an option can gain the general support of the public.

The issue we need to resolve is how additional assistance could be provided to the elderly in need but without further increasing the burden of the OAA Scheme on public finances in the long run. Subject to this overriding principle, the Government is willing to consider any option, such as identifying the elderly in need through means tests and redeploying resources to render them more appropriate assistance.

The Labour and Welfare Bureau will conduct in-depth studies on how to improve the OAA Scheme and seek views from various sectors of the community. We hope that a decision can be made by the end of this year. I will make available resources as necessary.

To enable OAA recipients to share the fruits of our economic growth, I propose to provide each with a one-off grant of \$3,000. Expenditure for implementing this measure will be \$1.5 billion.

The challenges facing the Tin Shui Wai community have become a matter of public concern. With the concerted efforts of various government departments, we have already taken a number of actions. We will introduce further measures to help the residents in need, including:

- (a) Setting up an integrated community centre for mental wellness;
- (b) Providing land for long-term commercial or hotel development;
- (c) Launching a two-year pilot scheme whereby chronically ill persons can be provided with private clinic services for the same fee as that charged by clinics under the Hospital Authority; and
- (d) Constructing a general out-patient clinic in Tin Shui Wai North, and considering building a hospital in the district.

I will now move to my third area of action, leaving wealth with the people. If revenue exceeds the level needed to meet operating requirements, then, after investing for the long-term development of Hong Kong and supporting disadvantaged groups, the Government should consider reducing the tax burden on the public.

On salaries tax and tax under personal assessment, in his policy address the Chief Executive announced the lowering of the standard rate of salaries tax in 2008-2009 by one percentage point to 15%. This takes us back to the level in 2002-2003. This standard rate is also applicable to tax under personal assessment, profits tax of unincorporated businesses, and property tax. This proposal will cost the Government \$960 million a year.

I now propose a one-off tax reduction of 75% of salaries tax and tax under personal assessment for 2007-2008, subject to a ceiling of \$25,000. The reduction will be reflected in the taxpayer's final tax payable for 2007-2008. This proposal will cost the Government \$12.4 billion in 2008-2009 and benefit 1.4 million taxpayers. After the reduction, about a million taxpayers will pay no more than \$5,000 in tax.

In addition to the one-off tax reduction, I propose to raise the basic allowance and the single parent allowance from \$100,000 to \$108,000. I also propose to increase the married person's allowance from \$200,000 to \$216,000. These proposals will cost the Government \$1.31 billion annually.

Upon implementation of the proposals, all the major allowances and tax rates will have reverted to their 2002-2003 levels. The child allowance, allowance for dependent parent/grandparent aged 55 to 59 and the deduction ceilings for self-education expenses and charitable donations will all be higher than their 2002-2003 levels.

I also propose to widen tax bands from \$35,000 to \$40,000. Upon implementation of the proposal, tax bands will be wider than in 2002-2003. The proposal will cost the Government \$1 billion annually.

As regards profits tax, the Chief Executive announced in his policy address the lowering of the corporate profits tax rate to 16.5% in 2008-2009, a decrease of one percentage point. This proposal will cost the Government \$4.4 billion a year.

Additionally, in order to support small and medium enterprises, I propose a one-off tax reduction of 75% of profits tax for 2007-2008, subject to a ceiling of \$25,000. The reduction will be reflected in the taxpayer's final tax payable for 2007-2008. The proposal will benefit all 100 000 companies liable to profits tax and cost the Government \$1.73 billion.

I further propose to waive the business registration fee for 2008-2009 to benefit all companies. This proposal will cost the Government \$1.6 billion in the year.

I propose a one-off tax reduction of 75% of property tax for 2007-2008, subject to a ceiling of \$25,000. The reduction will be reflected in the taxpayer's final tax payable for 2007-2008. The proposal will benefit 100 000 taxpayers and cover 115 000 properties. It will cost the Government \$680 million.

As for rates, I propose to waive rates for 2008-2009, subject to a ceiling of \$5,000 per quarter for each rateable tenement. It is estimated that 99% of domestic properties and 85% of non-domestic properties will be subject to no rates in the year. This proposal will cost the Government \$11.2 billion.

The final area is to make preparations to meet future challenges to public finances. I mentioned earlier the pressure that economic fluctuations and an ageing population will bring to bear on public finances. Therefore, if our

financial position permits, we should take measures now that will ease the pressure on public finances in the long run.

The Government introduced the Mandatory Provident Fund (MPF) Scheme in December 2000, with the aim of assisting our working population to save part of their income for investment to help safeguard life in retirement. Upon implementation of the MPF Scheme, Hong Kong has in place the "Three Pillars" for retirement protection advocated by the World Bank, the others being the "social safety net" long established by the Government and personal savings and insurance.

However, I understand that some people faced with the need to make ends meet may not have any extra money to save up for their retirement life after making statutory MPF contributions. To demonstrate the Government's commitment to enhancing retirement protection and relieving the pressure on social welfare expenditure in the long run, for employees and self-employed persons who currently have MPF accounts and who each earns not more than \$10,000 a month, I propose to make a one-off injection of \$6,000 into their MPF accounts.

At present, members of some occupational retirement schemes do not have MPF accounts. If their occupational retirement scheme is a defined contribution scheme, their accounts under such a scheme will also be entitled to the proposed fund injection. The Financial Services and the Treasury Bureau will announce the details.

I have earmarked \$8.5 billion to implement this measure. It requires amendment to the existing Mandatory Provident Fund Schemes Ordinance. I expect that the funds will be injected into the MPF accounts in 2008-2009 upon completion of the relevant procedures.

Health care is the area that presents the greatest challenge to the stability of long-term public finances in this city because of an ageing population. The Secretary for Food and Health will conduct a public consultation on health care reform, in which various service reform proposals and different supplementary financing options will be put forward for public discussion. The Government is committed to increasing the share of health care expenditure to 17% of its recurrent expenditure by 2012. Since the Government cannot increase public health care expenditure indefinitely, we hope that supplementary financing

arrangements can be implemented that ensure the availability of adequate resources in our health care system to cope with the community's demands in the future, and enable us to uphold the established policy of public health care that no one with financial difficulties will be denied proper health care.

I hope the community will understand the urgency of health care reform and reach a consensus through pragmatic discussions. Inevitably, better-off people will have to pay more for their health and medical services. However, the Government promises to share the burden under the supplementary financing arrangements. Furthermore, we will provide support to the health care service and market reform to enable those people who shoulder more burden to enjoy more choices and better services.

After the implementation of supplementary financing arrangements after consultation, no matter what the final arrangements are, I pledge to draw \$50 billion from the fiscal reserves to assist the implementation of health care reform so as to help meet this major challenge to future public finances. For example, if the selected arrangement allows citizens to join a contribution scheme, I will inject this money as start-up capital for every citizen who joins the scheme. This will demonstrate the Government's determination to share the healthcare financing burden with citizens.

This concludes my major expenditure and revenue proposals.

I will now give an account of the 2008-2009 estimates and the medium range forecast.

Based on the revenue, expenditure and other proposals set out in the Budget, I forecast a deficit of \$6.3 billion in the Operating Account and a deficit of \$7.5 billion in the Consolidated Account for 2008-2009. Public expenditure as a proportion of GDP will increase from 15.9% in 2007-2008 to 19.2% in 2008-2009. By 31 March 2009, our fiscal reserves will fall slightly to \$477.4 billion.

The measures for promoting long-term development, supporting the disadvantaged, leaving wealth with the people and providing for the future proposed in this Budget will reduce government revenue by \$33.5 billion and increase operating expenditure by \$41.5 billion in 2008-2009. The latter figure does not cover the \$50 billion reserved for supporting health care financing arrangements.

As the measures proposed in this Budget are mostly one-off or time-limited, they will not have significant implications for future public finances. They will not lead to structural fiscal deficits and are therefore in line with the principle of sustainability.

The civil service establishment has been reduced from around 198 000 in early 2000 to around 160 000 in 2006-2007 through two rounds of Voluntary Retirement Schemes and deletion of posts. Since the lifting of the moratorium on civil service recruitment on 1 April 2007, the establishment has increased slightly to about 162 830 in 2007-2008. In order to implement various policy initiatives and provide better public services, we estimate that about 1 680 posts will be created in 2008-2009, bringing the civil service establishment to about 164 500 by the end of March 2009.

From a macro-economic perspective, it is expected that the surplus of \$63.7 billion recorded in government operating account for 2007-2008 will turn into a deficit of \$6.3 billion in 2008-2009, creating a fiscal stimulus of about \$70 billion. This will give some impetus to the overall economy although the effect will not be significant in 2008.

Of this \$70 billion, about 40% is the one-off provision for establishing a Research Endowment Fund and the one-off injection into MPF accounts. The impact of these measures will be felt in the medium-to-long term and will not have any short term economic impact.

The other measures will benefit our citizens at different times of the year. The effects of some may only appear at the beginning of 2009. Moreover, many people will put aside as savings part of the money they will now keep through the concessions. Therefore, these measures will not generate a lot of domestic demand in a short period of time. The stimulating effect on inflation should be limited.

The external economic and financial environment will be full of challenges in 2008. Hong Kong faces the risk of a slowdown in economic growth. The implementation of the measures proposed in this Budget should produce a moderately buoyant effect on our economy. Furthermore, some of the concessionary measures will benefit our citizens directly and ease the impact of inflation.

On the medium range forecast, after a deficit in the Operating Account for 2008-2009, we expect a return to a surplus from 2009-2010 onwards. The operating surplus will increase to \$67.3 billion in 2012-2013. For the Consolidated Account, we forecast a deficit in 2008-2009, followed by surpluses in the following years. The surplus will increase to \$75 billion in 2012-2013. We forecast that the fiscal reserves will range between \$480 billion and \$720 billion over the next five years. We also estimate that operating expenditure will increase moderately, at a rate commensurate with economic growth over the next few years.

	2008-2009 (\$ billion)	2009-2010 (\$ billion)	2010-2011 (\$ billion)	2011-2012 (\$ billion)	2012-2013 (\$ billion)
Operating revenue	249.4	293.0	309.2	329.0	353.8
Operating expenditure	255.7	237.3	251.5	267.8	286.5
Operating surplus/(deficit)	(6.3)	55.7	57.7	61.2	67.3
Capital revenue	58.5	60.4	59.9	63.4	67.5
Capital spending (including payments from the Capital Investment Fund)	57.0	63.4	62.7	57.8	59.8
Repayment of government bonds and notes	2.7	3.5	-	-	-
Capital financing surplus/(deficit)	(1.2)	(6.5)	(2.8)	5.6	7.7
Consolidated surplus/(deficit)	(7.5)	49.2	54.9	66.8	75.0
- as a percentage of GDP	0.4%	2.7%	2.8%	3.2%	3.3%
Fiscal reserves	477.4	526.6	581.5	648.3	723.3
- as a number of months of government expenditure	18	21	22	24	25
- as a percentage of GDP	27.7%	28.5%	29.4%	30.7%	32.0%
Public expenditure	332.1	320.7	335.3	347.5	369.0
- as a percentage of GDP	19.2%	17.4%	17.0%	16.4%	16.3%

In 2008-2009, we will take appropriate, targeted measures to help economic and social development. We will increase expenditure on social services and welfare and return part of our resources to the people on a one-off basis. We will also inject funds into the MPF accounts of low-income earners. These measures will lead to a decrease in revenue and an increase in expenditure in 2008-2009. I have also earmarked \$50 billion to prepare for the future health care financing arrangements. This reflects the Government's commitment to the people and our principle of investing in the community.

Madam President, Hong Kong has transformed from a small fishing port into a world-renowned international financial centre. The success of this transformation is the result of the perseverance of several generations of people who worked hard and strived for better lives. It is this eternal hope in their hearts that kept them going from generation to generation. Whether they are farmers from Guangdong, businessmen from Shanghai, returning overseas Chinese or expatriates settling in Hong Kong, they came here with a determination to build a better life and develop their careers. They all believed that Hong Kong was a place full of hope and opportunities. They all believed that Hong Kong was a place where they could unleash their potential and fulfil their aspirations.

Life could be tough for those who came to a new environment. But they all faced the challenges readily, worked hard, lived within their means and carried hope in their hearts. They were convinced that, by making the most of opportunities to learn and to work, they would eventually succeed in their chosen paths. The Government's policies reinforced their convictions that by working hard and investing heavily in the education of their children, they and their families could move up the social ladder and have a bright future. Such convictions gradually become a characteristic of Hong Kong people that can be represented in the slogan "Ready to Face, Dare to Hope".

Hong Kong is now much more prosperous than it was a few decades ago and compared to some neighbouring regions. However, I understand that some poor people in our society still face many pressures and need to work hard to make ends meet. I also understand that Hong Kong as a whole has to face many challenges brought about by rapid changes in the global environment. I am sure that our society can face those challenges with the same measure of resolve and determination as in the past. The Government will endeavour to help relieve the difficulties we may all encounter.

This Budget is prepared against this background. I hope that this Budget will lessen people's burden and help them handle their various challenges. I also hope that through investing heavily in areas such as education, public health care and infrastructure, and vigorously promoting economic development, this Budget will help promote upward social mobility so that people will continue to carry hope in their hearts for a better future.

I pledge that I will adhere to my three principles — commitment to society, sustainability and pragmatism — in management of public finances.

These will ensure a stable foundation of public service on which each citizen of Hong Kong can build. Each in our own way and each in our own field, but together with each other, we can build our bright future.

We must be ready to face the realities and challenges of today. We must dare to hope for desires and successes in our future. Hong Kong should have such courage and aspirations, and so should every Hong Kong citizen. Together with each other, let us be "Ready to Face" the present, and let us "Dare to Hope" for our future.

Thank you, Madam President.

(Members tapped on the bench to mark the occasion)

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the Appropriation Bill 2008 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 2008 is now adjourned, and the Estimates are referred to the Finance Committee for examination before the debate on the Bill resumes.

NEXT MEETING

PRESIDENT (in Cantonese): I now adjourn the Council until 11:00 am on Wednesday, 5 March 2008.

Adjourned accordingly at eighteen minutes to One o'clock.

Chart 1

Gross Domestic Product

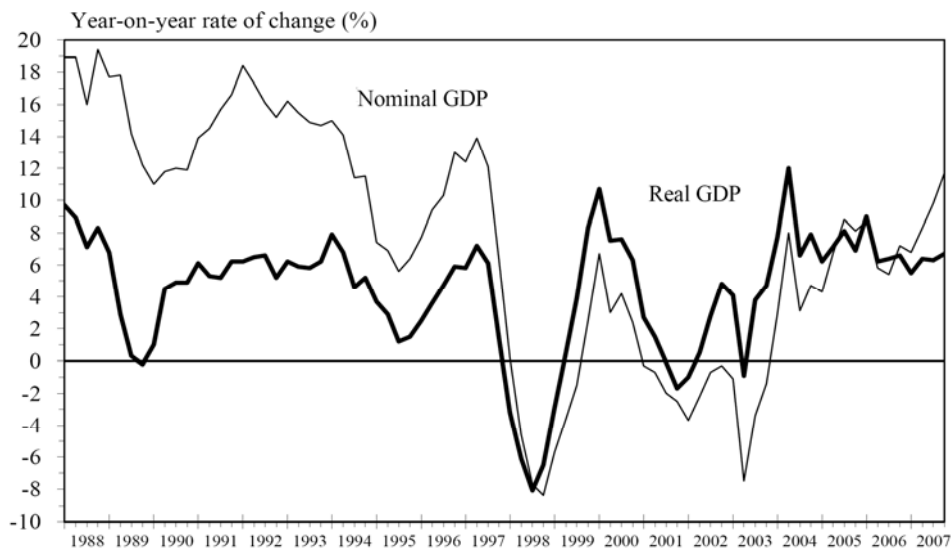


Chart 2

Unemployment Rate

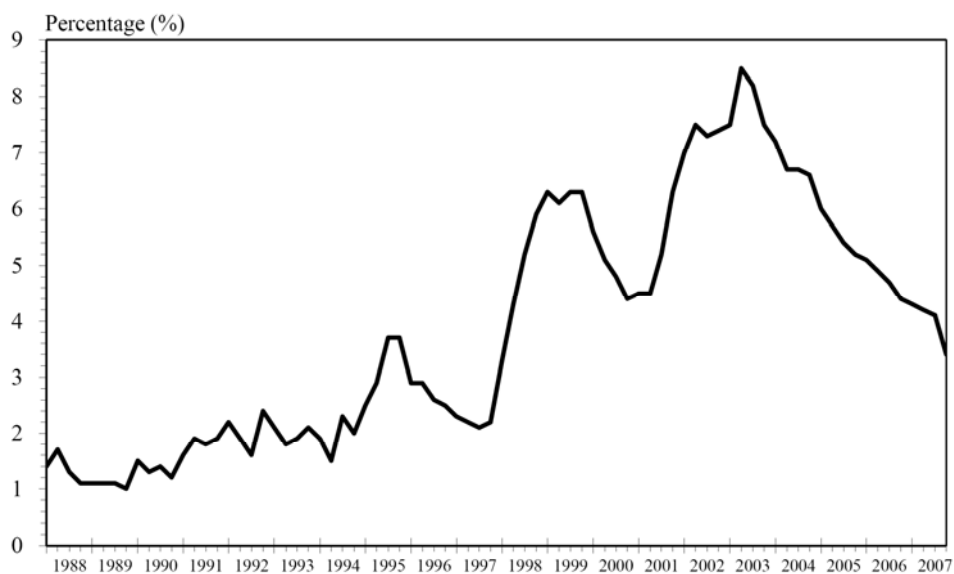
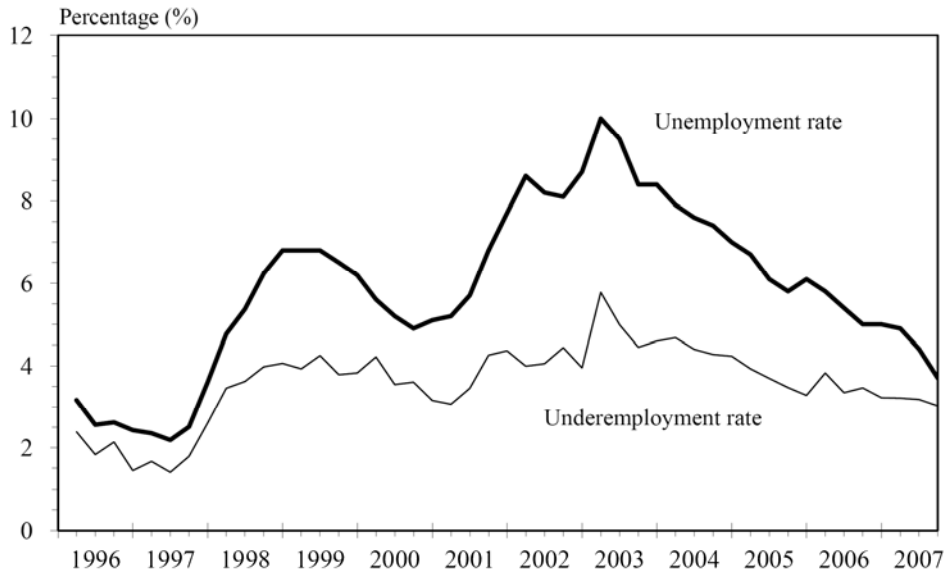


Chart 3

Unemployment rate and underemployment rate of lower-skilled workers



Notes: Classification of occupations is based on that of the General Household Survey as conducted by the Census and Statistics Department. Lower-skilled workers refer to those whose occupations do not belong to the managerial, administrative, professional and associate professional categories.

Chart 4

Composite Consumer Price Index

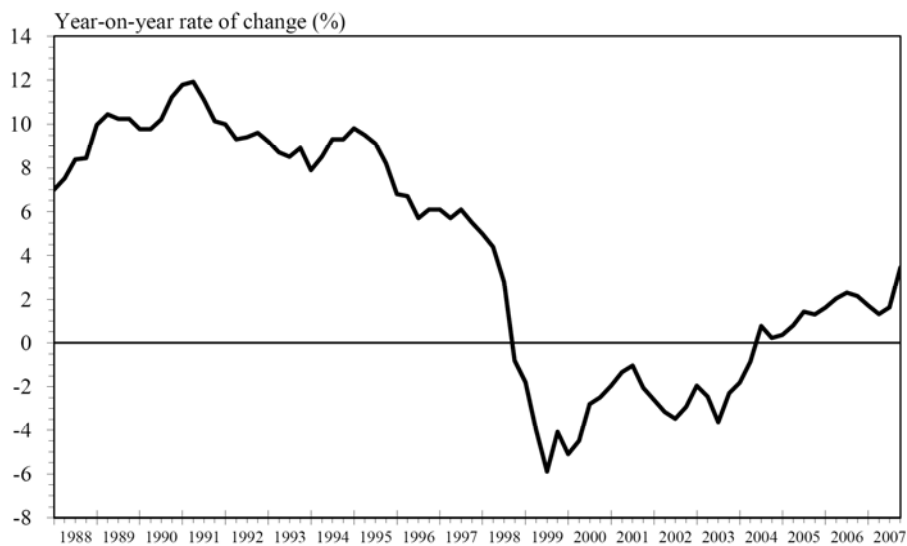


Chart 5

Population with Academic Qualifications at Bachelor's Degree or Above

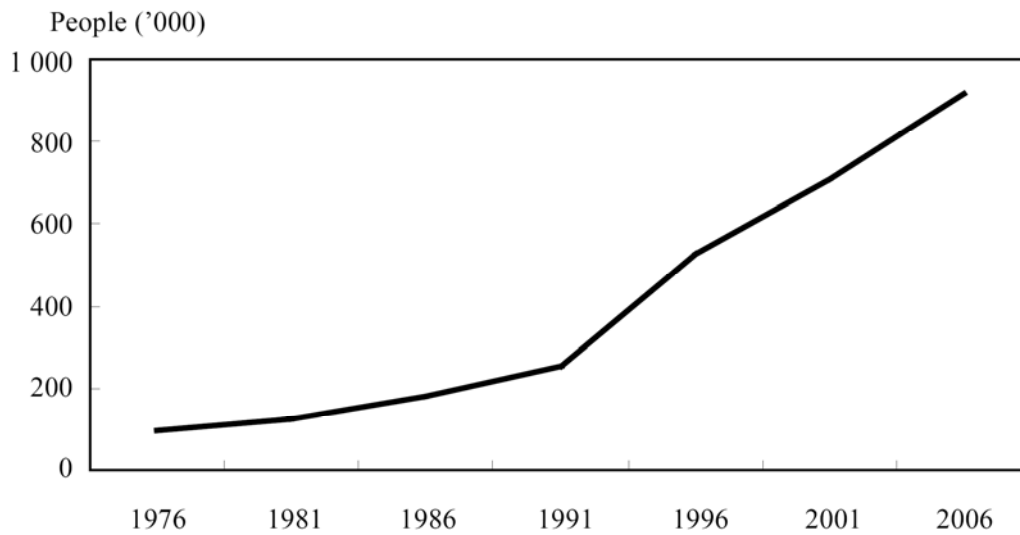


Chart 6

Revenue from Stamp Duties on Stock Transfers and Property Transactions

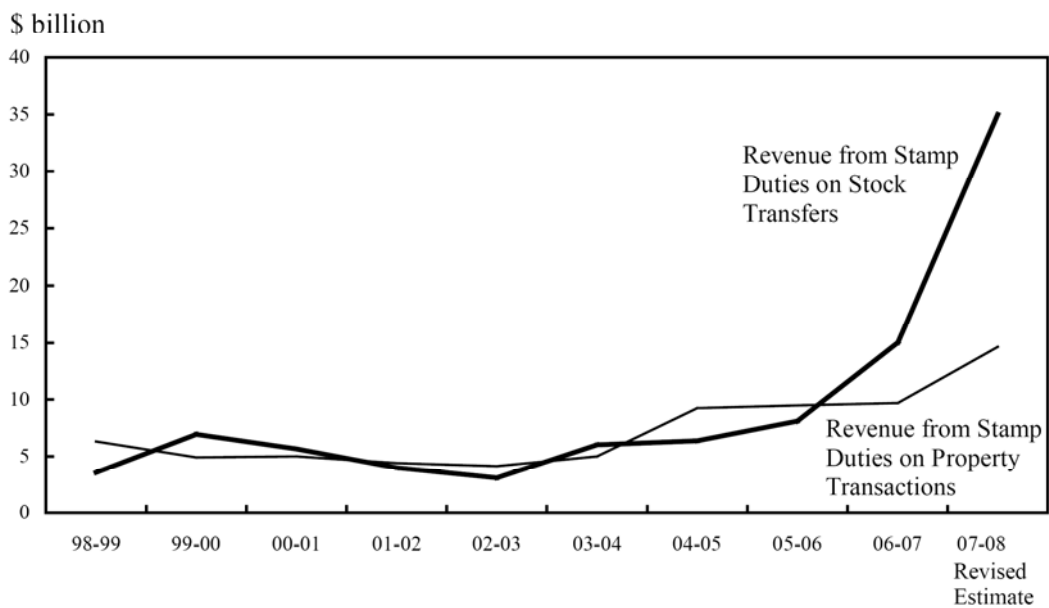


Chart 7

Revenue from Profits and Salaries Taxes

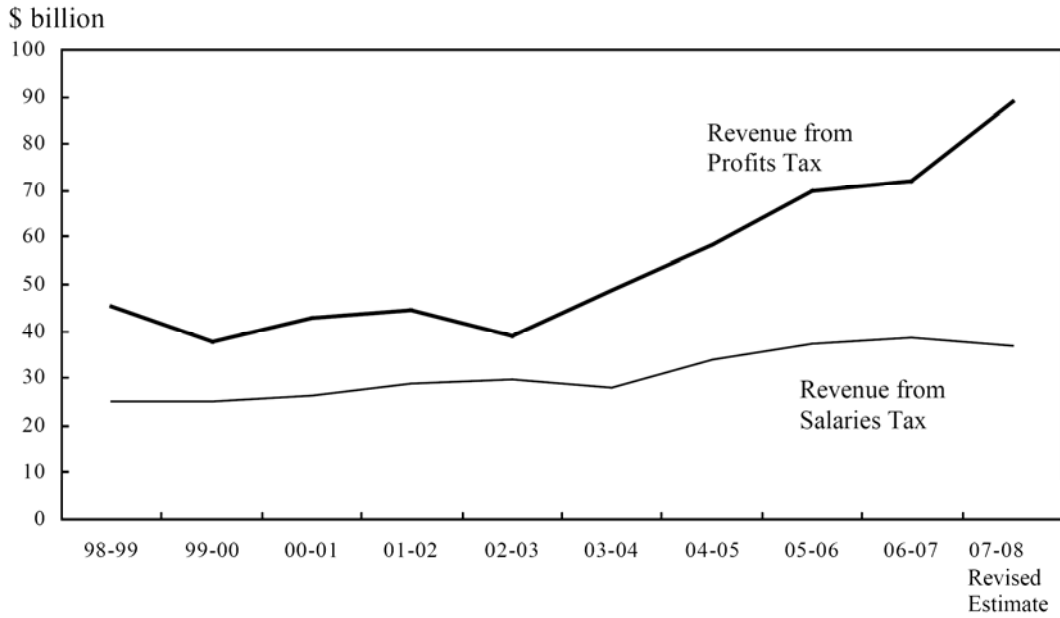
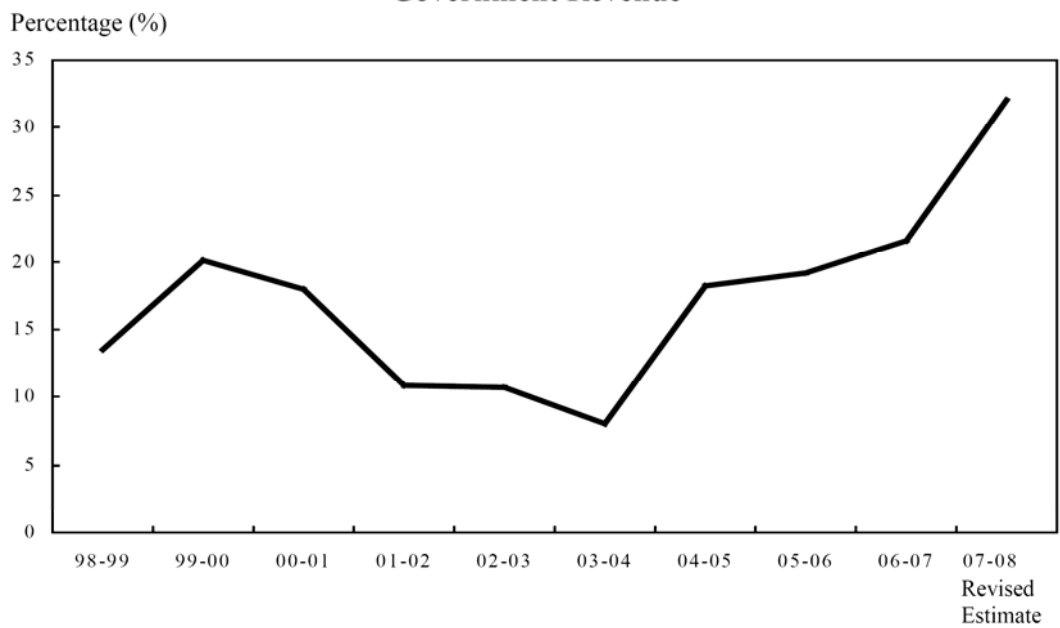


Chart 8

Total Revenue from Land Premium and Stamp Duties as a Percentage of Government Revenue



The 2008-09 Budget **Major Proposals**

Promoting Long-term Development

Investing in Infrastructure

- To vigorously implement various infrastructure projects over the next few years, including the ten major projects announced by the Chief Executive.
- Discounting the upfront endowment of \$21.6 billion to the West Kowloon Cultural District Authority, the estimated expenditure on infrastructure projects will be \$21.8 billion for 2008-09, and is expected to increase further in the coming years.

Efficient Use of Land Resources

- To increase the number of sites in the 2008-09 Application List to 62, covering a total area of 60 hectares.
- To adopt a more proactive and flexible approach in the use of land resources, and study ways to beautify vacant land or convert it to other temporary public use.
- To study the relocation of the three government office buildings at the Wan Chai waterfront.
- To state clearly the development parameters for each site on the Application List.
- To conduct a review of the Urban Renewal Strategy, and to make effective use of part of the fund the Government originally injected into the Urban Renewal Authority to strengthen its work to revitalise old areas and conserve historic buildings.

Strengthening Pillar Industries

- To earmark an additional \$150 million in the next five years to promote Hong Kong as an international convention, exhibition and tourism capital and attract more high quality conventions and exhibitions to Hong Kong.
- To waive the Hotel Accommodation Tax. This will cost \$470 million a year.
- To designate sites as “restricted to hotel use” and provide 10 sites in the 2008-09 Application List for hotel development.
- To enhance the competitiveness of our commercial and financial sectors, to improve the regulatory regime, and to promote Hong Kong’s financial services in the Mainland and overseas.
- To gradually increase the runway capacity of the Hong Kong International Airport to 68 aircraft movements per hour by 2015 and start feasibility studies for a third runway.
- To identify suitable locations for the development of Container Terminal 10.

*Supplement**Tapping New Markets*

- To coordinate the industry's participation in the China International Cultural Industry Fair to be held in Shenzhen and organise exhibitions in Europe and the US for local designs under the "9707 Project".
- To earmark \$69 million for designing and constructing the Hong Kong Pavilion at the World Exposition 2010 Shanghai China.
- To exempt the duties on wine, beer and all other alcoholic beverages except spirits. This will cost about \$560 million a year.

Developing Human Capital

- To offer free senior secondary education starting from the 2008-09 school year. The additional expenditure on education for each school year will amount to \$1.2 billion.
- To implement small-class teaching in primary schools in phases from the 2009-10 school year.
- To provide 800 additional publicly-funded places for postgraduate research programmes in phases from the 2009-10 school year. This will incur additional expenditure of nearly \$300 million a year.
- To set up an \$18 billion Research Endowment Fund to replace the existing annual funding arrangement for the Research Grant Council of the University Grants Committee and to finance research projects on specific themes.

Community Building

- To provide about \$120 million to convert the Yau Ma Tei Theatre into a Cantonese opera centre.
- To provide \$21.6 billion upfront endowment for the West Kowloon Cultural District development.
- To allow the public to use recreational facilities managed by the Leisure and Cultural Services Department free of charge from July to September 2008. Receipts from these facilities will be reduced by about \$100 million.
- To provide more than \$20 million to further promote the Basic Law throughout the community.
- To increase funding for 18 District Councils to \$600 million a year to carry out various community involvement activities and district minor works.
- To provide additional manpower for District Offices to support more effective community participation in district administration.

Environmental Improvement

- From December 2007, the Government has offered a concessionary duty rate of \$0.56 per litre for Euro V diesel for two years. This concession will cost about \$1.56 billion a year if calculated according to the normal duty rate of diesel.
- To offer First Registration Tax concession for commercial vehicles meeting the Euro V emissions standards. This will cost about \$26 million a year.
- To provide a 100 per cent profits tax deduction for capital expenditure on environment-friendly machinery and equipment in the first year of purchase and shorten the depreciation period for environment-friendly installations ancillary to buildings to five years.

Supporting Disadvantaged GroupsCeiling for Tax Deductible Donations

- To raise the ceiling for tax deductible donations under profits tax, salaries tax and personal assessment to 35 per cent of assessable profits or income. This will cost about \$80 million a year.

Family and Children

- To provide \$45 million over the next three years to strengthen day foster care services and child care services.
- To provide additional annual funding of about \$40 million to increase the places of refuge centres for women, strengthen the Social Welfare Department's hotline services, sustain efforts in publicity campaigns and public education, and enhance the training of front-line professionals.

Youth

- To provide about \$1 billion over the next three years to create 3 000 three-year jobs for those aged between 15 and 29.
- To provide \$53 million in 2008-09 to tackle the problem of psychotropic drug abuse by young people.
- To launch a pilot scheme to establish district cyber centres.

Persons with Disabilities

- To provide about \$100 million a year for an additional 300 pre-school training places, an additional 450 day training places and an additional 490 subvented residential places for persons with disabilities.
- To provide about \$35 million a year extra funding to establish 16 community support centres to strengthen one-stop services and support for persons with disabilities as well as their family members and caretakers.

Supplement

- To allocate \$20 million for eight new Rehabuses and to replace 24 old ones.
- To provide an additional supplement of \$200 a month to Disability Allowance recipients aged between 12 and 64, and Comprehensive Social Security Assistance (CSSA) recipients in the same age group with 100 per cent disability to further encourage them to participate in activities away from home. The proposal costs \$230 million a year.

Patients with Financial Difficulties

- To inject \$1 billion into the Samaritan Fund to allow new medicines to be included in the subsidy list of the Fund in accordance with the established mechanism.

Ethnic Minorities

- To grant a recurrent annual allowance of \$300,000 from the 2008-09 school year to 19 “designated schools” to help them implement the School-based Support Scheme for non-Chinese speaking students, and to increase the number of these schools to 25 within two school years. This will entail additional provision of \$13 million a year.
- To set up, on a trial basis, four support service centres to provide interpretation services as well as Chinese and English language courses, to provide \$16 million as operating expenses of these centres for the coming year and to provide an additional \$8 million to subsidise their start-up costs.

Social Security Recipients

- To provide one additional month of the standard rate CSSA payments for CSSA recipients and one additional month of allowance for recipients of Disability Allowance. The proposal costs about \$1.2 billion.
- To adjust the CSSA payment rates in accordance with the existing mechanism ahead of the normal schedule.

Public Housing Tenants

- To pay one month’s rent for lower income families living in the rental units of the Hong Kong Housing Authority (HA) and the Hong Kong Housing Society (HS). This measure will not apply to HA tenants who are required to pay extra rent or tenants of HS Group B estates. \$1 billion will be earmarked for this measure.

Low-income Group

- To raise the ceiling for monthly income for the pilot Transport Support Scheme to \$6,500, to extend the subsidy period to 12 months and to allow eligible persons working and living in the same district to apply for the allowance.
- To provide a subsidy of \$1,800 for each residential electricity account. This measure will cost about \$4.3 billion.

The Elderly

- To extend the scheme of “Elder Academies” to tertiary institutions.
- To increase funding by about \$60 million a year to provide an additional 160 day care places, an additional 278 subsidised residential care places and an additional 180 infirmary places in residential care homes for the elderly.
- To provide additional funding of about \$18 million a year for District Elderly Community Centres to recruit more staff.
- To provide \$200 million in the next five years to provide minor home maintenance and improvement services as well as the necessary fittings to those elderly people living in dilapidated homes with poor fittings, subject to a cap of \$5,000 per household.
- To provide \$1 billion in the next five years to subsidise the elderly in need to carry out maintenance or safety improvement works for their self-occupied properties, subject to a cap of \$40,000 per elderly.
- To study how to improve the Old Age Allowance Scheme and to aim for a decision by the end of 2008.
- To provide \$1.5 billion for a one-off grant of \$3,000 for every recipient of Old Age Allowance.

Tin Shui Wai Community

- To set up an integrated community centre for mental wellness.
- To provide land for long-term commercial or hotel development.
- To launch a two-year pilot scheme for chronically ill persons to obtain private clinic services for the same fee as that charged by clinics under the Hospital Authority.
- To construct a general out-patient clinic in Tin Shui Wai North and consider building a hospital in the district.

Leaving Wealth with the People*Salaries Tax and Tax under Personal Assessment*

- To lower the standard rate to 15 per cent. This proposal will cost about \$960 million a year.
- To waive 75 per cent of salaries tax and tax under personal assessment for 2007-08, subject to a ceiling of \$25,000. This proposal will cost \$12.4 billion.
- To raise the basic allowance and the single parent allowance to \$108,000, and to increase the married person’s allowance to \$216,000. These proposals will cost \$1.31 billion annually.
- To widen tax bands to \$40,000. The proposal will cost \$1 billion annually.

*Supplement*Profits Tax

- To lower the corporate profits tax rate to 16.5 per cent. This proposal will cost \$4.4 billion a year.
- To waive 75 per cent of profits tax for 2007-08, subject to a ceiling of \$25,000. The proposal will cost \$1.73 billion.

Business Registration Fee

- To waive the business registration fee for 2008-09. This proposal will cost \$1.6 billion.

Property Tax

- To waive 75 per cent of the property tax for 2007-08, subject to a ceiling of \$25,000. The proposal will cost \$680 million.

Rates

- To waive rates for 2008-09, subject to a ceiling of \$5,000 per quarter for each rateable tenement. This proposal will cost \$11.2 billion.

Providing for the FutureRetirement Protection

- To earmark \$8.5 billion to provide every employee and self-employed person who has a Mandatory Provident Fund (MPF) account and earns not more than \$10,000 a month with a one-off injection of \$6,000 into his MPF account. Members of occupational retirement schemes which are defined contribution schemes will also be eligible.

Health Care Financing

- To earmark \$50 billion to assist the implementation of healthcare reform. Upon the implementation of the supplementary financing arrangements, the Government will provide start-up capital for individuals participating in a contribution scheme. Detailed arrangements will depend on the exact supplementary financing arrangements to be implemented.

SALARIES TAX

Revision of tax bands and standard rate

<i>Present</i>		<i>Proposed</i>	
Tax Band	Marginal Tax Rate (%)	Tax Band	Marginal Tax Rate (%)
First \$35,000 chargeable income	2.0	First \$40,000 chargeable income	2.0
Next \$35,000	7.0	Next \$40,000	7.0
Next \$35,000	12.0	Next \$40,000	12.0
Remainder	17.0	Remainder	17.0
	Standard Rate (%)		Standard Rate (%)
	16.0		15.0

*Supplement***Revision of allowances and deductions**

	<i>Present</i> (\$)	<i>Proposed</i> (\$)
Personal Allowances:		
Basic	100,000	108,000
Married	200,000	216,000
Single Parent	100,000	108,000
Additional Allowances:		
Child:		
1st to 9th child		
Year of birth	100,000	100,000
Other years	50,000	50,000
Dependent Parent/Grandparent:		
Aged 60 or above		
Basic	30,000	30,000
Additional allowance (for dependant living with taxpayer)	30,000	30,000
Aged 55 to 59		
Basic	15,000	15,000
Additional allowance (for dependant living with taxpayer)	15,000	15,000
Dependent Brother/Sister	30,000	30,000
Disabled Dependant	60,000	60,000
Deduction Ceilings:		
Self-Education Expenses	60,000	60,000
Home Loan Interest	100,000	100,000
Approved Charitable Donations	25% of Income	35% of Income
Elderly Residential Care Expenses	60,000	60,000
Contributions to Recognised Retirement Schemes	12,000	12,000

Estimated tax savings of taxpayers by income group after implementation of the proposed salaries tax measures (i.e. increase in personal allowances, widening of tax bands, reduction of standard rate and increase in the deduction ceiling on approved charitable donations)

Annual income	No. of taxpayers with reduced liabilities	Average tax savings per taxpayer benefiting from the proposal	Tax savings as a percentage of tax payable
\$108,001 to \$200,000	394 000	\$490	34.0%
\$200,001 to \$300,000	323 000	\$1,510	24.3%
\$300,001 to \$400,000	204 000	\$2,340	16.5%
\$400,001 to \$600,000	197 000	\$3,010	9.7%
\$600,001 to \$900,000	94 000	\$3,340	4.8%
\$900,001 and above	91 000	\$10,520	3.8%
Total	1 303 000	—	—

Supplement

Effect of the proposed salaries tax measures (i.e. increase in personal allowances, widening of tax bands, reduction of standard rate and increase in the deduction ceiling on approved charitable donations) on different households

	Tax payable		Tax savings
	Present	After implementation of proposed measures	
<u>A. Annual income \$120,000</u>			
1. Single person	\$400	\$240	\$160 (40.0%)
<u>B. Annual income \$216,000*</u>			
2. Single person	\$9,220	\$6,960	\$2,260 (24.5%)
3. Married couple	\$320	—	\$320 (100.0%)
4. Single person with 1 dependent parent aged 60 or above living with the taxpayer	\$2,170	\$1,360	\$810 (37.3%)
<u>C. Annual income \$300,000</u>			
5. Single person	\$23,500	\$20,640	\$2,860 (12.2%)
6. Single person with 1 dependent parent aged 60 or above living with the taxpayer	\$13,300	\$10,440	\$2,860 (21.5%)
7. Married couple or single parent with 1 child	\$1,750	\$680	\$1,070 (61.1%)
<u>D. Annual income \$360,000</u>			
8. Single person	\$33,700	\$30,840	\$2,860 (8.5%)
9. Single person with 2 dependent parents, one of whom aged 60 or above and the other aged 55 to 59, living with the taxpayer	\$18,400	\$15,540	\$2,860 (15.5%)
10. Married couple or single parent with 1 child	\$8,200	\$5,280	\$2,920 (35.6%)

* Median household income.

	Tax payable		Tax savings
	Present	After implementation of proposed measures	
11. Married couple or single parent with 1 child and 2 dependent parents aged 60 or above not living with the taxpayer	\$1,750	\$680	\$1,070 (61.1%)
12. Married couple or single parent with 2 children, one of whom being a newborn child	\$200	—	\$200 (100.0%)
<u>E. Annual income \$480,000</u>			
13. Single person	\$54,100	\$51,240	\$2,860 (5.3%)
14. Married couple or single parent with 1 child	\$28,600	\$24,380	\$4,220 (14.8%)
15. Married couple or single parent with 1 child and 2 dependent parents aged 60 or above not living with the taxpayer	\$18,400	\$14,180	\$4,220 (22.9%)
16. Married couple or single parent with 2 children, one of whom being a newborn child	\$11,600	\$7,680	\$3,920 (33.8%)
17. Married couple or single parent with 3 children and 2 dependent parents aged 60 or above living with the taxpayer	\$200	—	\$200 (100.0%)
<u>F. Annual income \$720,000</u>			
18. Single person	\$94,900	\$92,040	\$2,860 (3.0%)
19. Married couple or single parent with 1 child	\$69,400	\$65,180	\$4,220 (6.1%)
20. Married couple or single parent with 1 child and 2 dependent parents aged 60 or above not living with the taxpayer	\$59,200	\$54,980	\$4,220 (7.1%)
21. Married couple or single parent with 2 children, one of whom being a newborn child	\$52,400	\$48,180	\$4,220 (8.1%)

Supplement

	Tax payable		Tax savings
	Present	After implementation of proposed measures	
22. Married couple or single parent with 3 children and 2 dependent parents aged 60 or above living with the taxpayer	\$32,000	\$27,780	\$4,220 (13.2%)
<u>G. Annual income \$1,200,000</u>			
23. Single person	\$176,500	\$173,640	\$2,860 (1.6%)
24. Married couple or single parent with 1 child	\$151,000	\$146,780	\$4,220 (2.8%)
25. Married couple or single parent with 1 child and 2 dependent parents aged 60 or above not living with the taxpayer	\$140,800	\$136,580	\$4,220 (3.0%)
26. Married couple or single parent with 2 children, one of whom being a newborn child	\$134,000	\$129,780	\$4,220 (3.1%)
27. Married couple or single parent with 3 children and 2 dependent parents aged 60 or above living with the taxpayer	\$113,600	\$109,380	\$4,220 (3.7%)
<u>H. Annual income \$1,800,000</u>			
28. Single person	\$278,500	\$270,000	\$8,500 (3.1%)
29. Married couple or single parent with 1 child	\$253,000	\$248,780	\$4,220 (1.7%)
30. Married couple or single parent with 1 child and 2 dependent parents aged 60 or above not living with the taxpayer	\$242,800	\$238,580	\$4,220 (1.7%)
31. Married couple or single parent with 2 children, one of whom being a newborn child	\$236,000	\$231,780	\$4,220 (1.8%)
32. Married couple or single parent with 3 children and 2 dependent parents aged 60 or above living with the taxpayer	\$215,600	\$211,380	\$4,220 (2.0%)

Comparison of allowances, deductions and tax bands and rates between 2002/03 and 2008/09

		2002/03	2008/09
Allowances			
Basic Allowance		\$108,000	\$108,000
Married Person's Allowance		\$216,000	\$216,000
Child Allowance	1st and 2nd child	\$30,000	\$50,000
	3rd to 9th child	\$15,000	\$50,000
	For each child born during the year, the Child Allowance will be increased by	0	\$50,000
Dependent Brother/Sister Allowance		\$30,000	\$30,000
Dependent Parent/Grandparent Allowance	Aged 60 or above		
	Basic	\$30,000	\$30,000
	Additional	\$30,000	\$30,000
	Aged 55 to 59		
	Basic	0	\$15,000
	Additional	0	\$15,000
Single Parent Allowance		\$108,000	\$108,000
Disabled Dependant Allowance		\$60,000	\$60,000

Deductions			
Self-Education Expenses		\$40,000	\$60,000
Elderly Residential Care Expenses		\$60,000	\$60,000
Home Loan Interest (Maximum years for deduction)		\$150,000 (5 years)	\$100,000 (10 years)
Mandatory Contributions to Recognised Retirement Schemes		\$12,000	\$12,000
Approved Charitable Donations		10%	35%

Tax Bands and Rates				
On the First	\$35,000	2%	\$40,000	2%
On the Next	\$35,000	7%	\$40,000	7%
On the Next	\$35,000	12%	\$40,000	12%
Remainder	17%		17%	
Standard Rate	15%		15%	

*Supplement***Amount of tax reduction enjoyed by taxpayers by income group after implementation of the proposed one-off reduction of salaries tax, personal assessment tax, profits tax and property tax**

Salaries tax and personal assessment tax:

Income in 2007–08	No. of taxpayers	Average amount of tax reduction (\$)
\$100,001 to \$200,000	465 000	920
\$200,001 to \$300,000	338 000	4,450
\$300,001 to \$400,000	213 000	10,110
\$400,001 to \$600,000	199 000	18,750
\$600,001 to \$900,000	94 000	24,600
\$900,001 and above	91 000	25,000
Total	1 400 000	—

Profits tax and property tax:

Profit or income in 2007–08	Profits tax		Property tax	
	No. of businesses	Average amount of tax reduction (\$)	No. of properties	Average amount of tax reduction (\$)
\$100,000 and below	33 000	4,240	88 000	2,590
\$100,001 to \$200,000	13 000	18,460	16 000	12,420
\$200,001 to \$300,000	8 000	25,000	5 000	20,550
\$300,001 to \$400,000	5 000	25,000	2 000	25,000
\$400,001 to \$600,000	7 000	25,000	2 000	25,000
\$600,001 to \$900,000	6 000	25,000	1 000	25,000
\$900,001 and above	28 000	25,000	1 000	25,000
Total	100 000	—	115 000	—

EFFECT OF THE GENERAL REVALUATION OF RATES ON MAIN PROPERTY CLASSES

<i>Property Type</i>	<i>2008–09</i>		
	<i>Average Increase in Rateable Value⁽⁶⁾</i>	<i>New Average Rates Payable⁽⁷⁾</i>	<i>Increase</i>
	<i>%</i>	<i>\$ per month</i>	<i>\$ per month</i>
Small Domestic Premises ⁽¹⁾ (Private)	7	265	18
Medium Domestic Premises ⁽¹⁾ (Private)	9	661	52
Large Domestic Premises ⁽¹⁾ (Private)	10	1,762	161
Public Domestic Premises ⁽²⁾	6	147	9
All Domestic Premises⁽³⁾	8	290	21
Shops and Commercial Premises	5	1,838	88
Offices	19	2,249	364
Industrial Premises ⁽⁴⁾	10	748	69
All Non-domestic Premises⁽⁵⁾	7	2,041	140
All Properties	8	523	37

(1) Domestic units are classified by 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 2008–09 reflect the changes in open market rental values between 1 October 2006 and 1 October 2007.

(7) The effect of the proposed rates concession has not been taken into account.

Supplement

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

<i>Property Type</i>	<i>2008–09</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)	7	150	10
Medium Domestic Premises ⁽¹⁾ (Private)	8	372	28
Large Domestic Premises ⁽¹⁾ (Private)	9	848	73
Public Domestic Premises ⁽²⁾	6	91	6
All Domestic Premises⁽³⁾	7	162	10
Shops and Commercial Premises	4	1,003	40
Offices	24	2,670	525
Industrial Premises ⁽⁴⁾	10	451	39
All Non-domestic Premises⁽⁵⁾	7	1,101	76
All Properties	7	275	19

(1) Domestic units are classified by 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 2008–09 reflect the changes in open market rental values between 1 October 2006 and 1 October 2007.

ECONOMIC PERFORMANCE IN 2007

1. Estimated rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2007:

	(%)
(a) Growth rates in real terms of:	
Private consumption expenditure	7.8
Government consumption expenditure	2.3
Gross domestic fixed capital formation	6.0
<i>of which:</i>	
Building and construction	0.2
Machinery, equipment and computer software	6.6
Total exports of goods	7.2
Imports of goods	9.0
Exports of services	11.2
Imports of services	8.1
Gross Domestic Product (GDP)	6.3
<i>Per capita GDP, in real terms</i>	5.2
<i>Per capita GDP at current market prices</i>	HK\$232,800 (US\$29,800)
(b) Rates of change in:	
Composite Consumer Price Index	2.0
GDP Deflator	2.8
Government Consumption Expenditure Deflator	3.3
(c) Growth rate of nominal GDP	9.3

Supplement

2. Annual growth rates in real terms of re-exports and domestic exports based on external trade quantum index numbers:

	<i>Re-exports</i> (%)	<i>Domestic exports</i> (%)
2005	12	8
2006	11	1
2007	10	-20
<i>Share in the value of total exports of goods in 2007</i>	96	4

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> (%)
2005	1	-5	2	16	-8	-6
2006	8	14	2	28	-17	5
2007	12	6	7	11	18	9

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> (%)
2005	16	9	-2	-34	35
2006	28	32	3	34	39
2007	11	-5	-5	6	26

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

Exports of services

	<i>Total</i> (%)	<i>Trade-related</i> <i>services</i> (%)	<i>Transportation</i> <i>services</i> (%)	<i>Travel</i> <i>services</i> (%)	<i>Finance,</i> <i>insurance,</i> <i>business and</i> <i>other services</i> (%)
2005	12	11	11	10	15
2006	10	9	8	6	19
2007	11	10	5	13	21

6. Hong Kong's visible and invisible trade balance in 2007 reckoned on GDP basis ^(Note 1):

(HK\$ billion)

Total exports of goods	2,698.9
Imports of goods	2,852.5
<i>Visible trade balance</i>	-153.7
Exports of services	645.3
Imports of services	320.1
<i>Invisible trade balance</i>	325.2
<i>Combined visible and invisible trade balance</i>	171.5

Note 1 Preliminary figures.

Supplement

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>
2005	5.6	2.7	0.6	2.0
2006	4.8	2.4	1.2	2.1
2007	4.0	2.2	1.7	2.5

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>
2005	1.0	1.1	1.0	0.8
2006	2.0	1.7	2.1	2.2
2007	2.0	1.3	2.2	2.7

ECONOMIC PROSPECTS FOR 2008

Forecast rates of change in the Gross Domestic Product and prices in 2008:

	(%)
Gross Domestic Product (GDP)	
<i>Real GDP</i>	4 to 5
<i>Nominal GDP</i>	6.5 to 7.5
<i>Per capita GDP, in real terms</i>	3.1 to 4.1
<i>Per capita GDP at current market prices</i>	HK\$245,900-248,200 (US\$31,500-31,800)
Composite Consumer Price Index	
<i>Headline Composite Consumer Price Index</i>	3.4
<i>Underlying Composite Consumer Price Index</i>	4.5
GDP Deflator	2.5
Government Consumption Expenditure Deflator	3

Appendix A

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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 2008. For planning purposes, over the ensuing four-year period 2009 to 2012, the trend growth rate of the economy in real terms is assumed at 4.5% per annum. We have made reference to the mid-point of the range forecast of GDP growth rate for 2008 in deriving the MRF.

Price change

3 The GDP deflator, measuring overall price change in the economy, is forecast to increase by 2.5% in 2008. For the four-year period 2009 to 2012, the GDP deflator is assumed to increase at a trend rate of 2.5% per annum.

4 The Composite Consumer Price Index (CCPI) measuring inflation in the consumer domain, is forecast to increase by 3.4% in 2008. Eliminating the effects of various one-off measures introduced in the 2008-09 Budget, the underlying CCPI is forecast to increase by 4.5% in 2008. For the ensuing period 2009 to 2012, the trend rate of increase for the underlying CCPI is assumed to be 4% per annum.

Nominal Gross Domestic Product (nominal GDP)

5 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 6.5% to 7.5% in 2008, and the trend growth rate in nominal terms for the period 2009 to 2012 is assumed at 7% per annum.

Detailed Assumptions

6 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 and 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 2008-09 Budget.

Budgetary Criteria

7 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.

8 The following covers the more important budgetary criteria –

— Budget surplus/deficit

The Government aims to sustain balance in the consolidated and operating accounts. The Government needs, over time, 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 aims to maintain adequate reserves in the long run.

Appendix A—Contd.

SECTION II – THE MRF FOR 2007–08 TO 2012–13

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

Table 1

(\$ million)	Original Estimate	Revised Estimate	Estimate	Forecast			
	2007–08	2007–08	2008–09	2009–10	2010–11	2011–12	2012–13
Operating Account							
Operating revenue (Note b & f)	201,524	248,296	212,269	254,140	272,196	289,200	306,575
Less: Operating expenditure (Note c)	214,200	206,423	255,700	237,300	251,500	267,800	286,500
Surplus/(deficit) before investment income	(12,676)	41,873	(43,431)	16,840	20,696	21,400	20,075
Investment income (Note b)	19,882	21,842	37,091	38,832	37,033	39,836	47,180
Operating surplus/(deficit) after investment income	7,206	63,715	(6,340)	55,672	57,729	61,236	67,255
Capital Financing Statement							
Capital revenue (Note d)	46,048	76,733	53,138	55,219	55,389	58,346	62,260
Asset sales (Note d)	299	63	87	902	926	1,312	1,217
	46,347	76,796	53,225	56,121	56,315	59,658	63,477
Less: Capital spending (Note e)	33,438	30,068	56,289	62,677	62,127	57,237	59,278
Surplus/(deficit) before investment income/interest expenses	12,909	46,728	(3,064)	(6,556)	(5,812)	2,421	4,199
Investment income (Note d)	6,092	6,033	5,315	4,233	3,581	3,675	4,085
Less: Interest expenses (Note e & f)	799	801	754	642	576	577	576
Surplus/(deficit) after investment income/interest expenses	18,202	51,960	1,497	(2,965)	(2,807)	5,519	7,708
Less: Repayment of bonds and notes (Note e & f)	-	-	2,700	3,500	-	-	-
Capital financing surplus/(deficit) after bond repayment	18,202	51,960	(1,203)	(6,465)	(2,807)	5,519	7,708
Consolidated Account							
Fiscal reserves at 1 April	365,747	369,264	484,939	477,396	526,603	581,525	648,280
Operating surplus/(deficit)	7,206	63,715	(6,340)	55,672	57,729	61,236	67,255
Capital financing surplus/(deficit) before bond repayment	18,202	51,960	1,497	(2,965)	(2,807)	5,519	7,708
Consolidated surplus/(deficit)	25,408	115,675	(4,843)	52,707	54,922	66,755	74,963
Less: Repayment of bonds and notes	-	-	2,700	3,500	-	-	-
Consolidated surplus/(deficit) after bond repayment	25,408	115,675	(7,543)	49,207	54,922	66,755	74,963
Fiscal reserves at 31 March	391,155	484,939	477,396	526,603	581,525	648,280	723,243
As a number of months of government expenditure	19	25	18	21	22	24	25
As a percentage of GDP	25.4%	30.1%	27.7%	28.5%	29.4%	30.7%	32.0%
Outstanding debts at 31 March							
Toll Revenue Bond	2,820	2,638	2,098	790	790	-	-
Other government bonds and notes	17,450	17,450	14,750	11,250	11,250	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 2008-09 Budget, and is made up of –

	2007–08 Revised Estimate	2008–09 Estimate	2009–10 Forecast	2010–11 Forecast	2011–12 Forecast	2012–13 Forecast
(\$ million)						
Operating revenue before investment income	248,296	212,269	254,140	272,196	289,200	306,575
Investment income	21,842	37,091	38,832	37,033	39,836	47,180
Total	270,138	249,360	292,972	309,229	329,036	353,755

- (ii) Investment income under the Operating Account includes investment income of the General Revenue Account which is credited to revenue head Properties and Investments and investment income of the Land Fund. The rate of investment return for 2008 is 9.4% and for 2009 to 2012 is assumed to be in the range of 7.5% to 9.3% a year.

(c) Operating expenditure

This represents expenditure charged to the Operating Account of the General Revenue Account. The levels of operating expenditure in 2008-09 to 2012-13 represent the expenditure guidelines for these years.

(d) Capital revenue

- (i) The breakdown of capital revenue is –

	2007–08 Revised Estimate	2008–09 Estimate	2009–10 Forecast	2010–11 Forecast	2011–12 Forecast	2012–13 Forecast
(\$ million)						
General Revenue Account	8,319	4,963	4,469	1,287	554	528
Capital Works Reserve Fund	63,145	43,240	46,154	49,385	52,841	56,540
Capital Investment Fund	2,184	1,782	1,105	1,021	998	1,002
Disaster Relief Fund	1	-	-	-	-	-
Innovation and Technology Fund	20	-	-	-	-	-
Loan Fund	1,972	2,004	2,281	2,421	2,610	2,775
Lotteries Fund	1,092	1,149	1,210	1,275	1,343	1,415
Capital revenue before asset sales and investment income	76,733	53,138	55,219	55,389	58,346	62,260
Asset sales	63	87	902	926	1,312	1,217
Investment income	6,033	5,315	4,233	3,581	3,675	4,085
Total	82,829	58,540	60,354	59,896	63,333	67,562

Appendix A—Contd.

- (ii) For the purpose of the MRF, the annual land premium included under the Capital Works Reserve Fund is assumed at 2.5% of GDP throughout the MRF period.
- (iii) 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 –

	2007–08 Revised Estimate	2008–09 Estimate	2009–10 Forecast	2010–11 Forecast	2011–12 Forecast	2012–13 Forecast
(\$ million)						
General Revenue Account	2,117	2,726	3,970	3,970	3,970	3,970
Capital Works Reserve Fund	22,640	48,250	53,831	53,424	48,605	50,038
Capital Investment Fund	123	349	450	353	250	250
Disaster Relief Fund	293	-	-	-	-	-
Innovation and Technology Fund	519	879	821	760	796	866
Loan Fund	3,505	2,994	2,913	3,214	3,197	3,807
Lotteries Fund	871	1,091	692	406	419	347
Capital spending before interest on and repayment of government bonds and notes	30,068	56,289	62,677	62,127	57,237	59,278
Interest expenses	801	754	642	576	577	576
Repayment of bonds and notes	-	2,700	3,500	-	-	-
Total	30,869	59,743	66,819	62,703	57,814	59,854

(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 the concerned tunnels and bridges. The toll revenue thus forgone has been taken into account in forecasting government operating revenue.

Appendix A—Contd.

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

10 For monitoring purposes, Government's own expenditure is consolidated with expenditure of the Trading Funds and the Housing Authority (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

(\$ million)	Original Estimate	Revised Estimate	Estimate	Forecast			
	2007–08	2007–08	2008–09	2009–10	2010–11	2011–12	2012–13
Operating expenditure	214,200	206,423	255,700	237,300	251,500	267,800	286,500
Capital expenditure	34,237	30,746	56,694	62,869	62,350	57,564	59,604
Total government expenditure	248,437	237,169	312,394	300,169	313,850	325,364	346,104
Other public bodies expenditure	19,408	18,689	19,688	20,532	21,424	22,166	22,859
Total public expenditure (Note a)	267,845	255,858	332,082	320,701	335,274	347,530	368,963
Gross Domestic Product (calendar year)	1,538,176	1,612,598	1,725,625	1,846,575	1,976,002	2,114,500	2,262,706
Growth in GDP (Note b)							
Nominal terms		9.3%	7.0%	7.0%	7.0%	7.0%	7.0%
Real terms		6.3%	4.5%	4.5%	4.5%	4.5%	4.5%
Growth in government expenditure (Note c)							
Nominal terms		6.0%	31.7%	-3.9%	4.6%	3.7%	6.4%
Real terms		2.8%	30.5%	-7.7%	1.4%	0.2%	3.2%
Growth in public expenditure (Note c)							
Nominal terms		5.8%	29.8%	-3.4%	4.5%	3.7%	6.2%
Real terms		2.7%	28.5%	-7.2%	1.4%	0.2%	3.0%
Public expenditure as a percentage of GDP	17.4%	15.9%	19.2%	17.4%	17.0%	16.4%	16.3%

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 and the MTR Corporation Limited. 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 2008-09, the GDP growth in nominal terms of 7% represents the mid-point of the range forecast of nominal GDP growth at 6.5% to 7.5% for the calendar year 2008. 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 2008.
- (c) The growth rates refer to year-on-year change. For example, the rates for 2007–08 refer to the change between revised estimate for 2007–08 and actual expenditure in 2006–07. The rates for 2008–09 refer to the change between the 2008–09 estimate and the 2007–08 revised estimate, and so forth.

Appendix A—Contd.

11 Table 3 shows the relationship amongst the sum to be appropriated in the 2008-09 Budget, government expenditure and public expenditure. It also shows the effect of the Budget revenue measures on the overall fiscal position for 2008-09.

**Relationship between Government Expenditure
and Public Expenditure in 2008-09**

(\$ million)

Table 3

Components of expenditure and revenue	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	214,647	214,647	-	214,647	214,647
Non-recurrent	41,053	41,053	-	41,053	41,053
Capital					
Plant, equipment and works	1,390	-	1,390	1,390	1,390
Subventions	1,336	-	1,336	1,336	1,336
	258,426	255,700	2,726	258,426	258,426
Transfer to Funds	740	-	-	-	-
Capital Works Reserve Fund	-	-	49,004	49,004	49,004
Innovation and Technology Fund	-	-	879	879	879
Loan Fund	-	-	2,994	2,994	2,994
Lotteries Fund	-	-	1,091	1,091	1,091
Trading Funds	-	-	-	-	3,920
Housing Authority	-	-	-	-	15,768
	259,166	255,700	56,694	312,394	332,082
Revenue (before Budget revenue measures)					
General Revenue Account					
Taxation		220,930	85	221,015	
Other revenue		47,756	4,878	52,634	
		268,686	4,963	273,649	
Land Fund		14,144	-	14,144	
		282,830	4,963	287,793	
Capital Works Reserve Fund		-	45,711	45,711	
Capital Investment Fund		-	1,797	1,797	
Civil Service Pension Reserve Fund		-	1,740	1,740	
Disaster Relief Fund		-	3	3	
Innovation and Technology Fund		-	378	378	
Loan Fund		-	2,230	2,230	
Lotteries Fund		-	1,718	1,718	
		282,830	58,540	341,370	
Surplus before Budget revenue measures		27,130	1,846	28,976	
Less: Effect of Budget revenue measures		33,470	-	33,470	
Surplus/(deficit) after Budget revenue measures		(6,340)	1,846	(4,494)	
Less: Advances and equity investments from the Capital Investment Fund		-	349	349	
Repayment of bonds and notes		-	2,700	2,700	
Consolidated deficit		(6,340)	(1,203)	(7,543)	

Appendix A—Contd.

SECTION IV – ESTIMATES OF CONTINGENT LIABILITIES

12 The Government's contingent liabilities as at 31 March 2007, and estimates of these should they remain unsettled as at 31 March 2008 or 31 March 2009, are provided below as supplementary information to the MRF –

(\$ million)	2007	At 31 March 2008	2009
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	12,304	13,448	14,389
Possible capital subscriptions to the Asian Development Bank	2,115	2,115	2,115
Guarantees provided under loan guarantee schemes for small and medium enterprises	5,075	4,334	3,827
Guarantee provided for commercial loan of the Ocean Park Corporation	-	-	1,089
Total	19,494	19,897	21,420

Appendix B

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Note: Expenditure figures for 2007-08 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 2008-09 estimate.

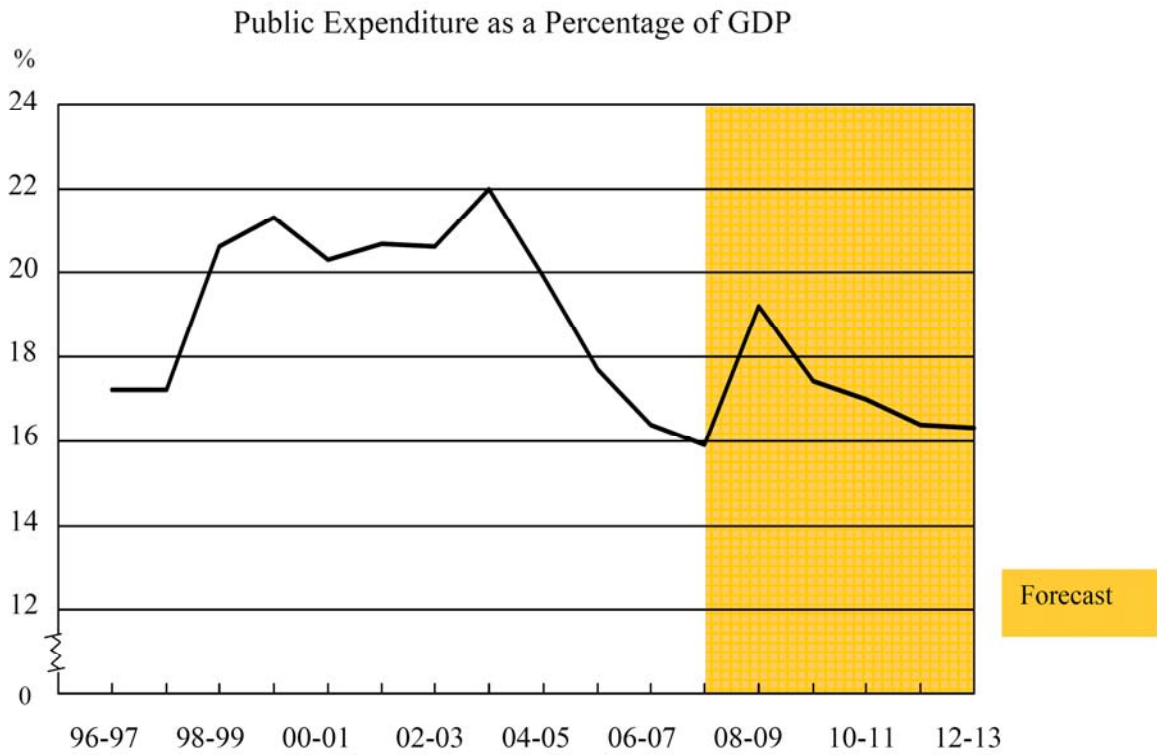
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SECTION I – THE ESTIMATES IN THE CONTEXT OF THE ECONOMY

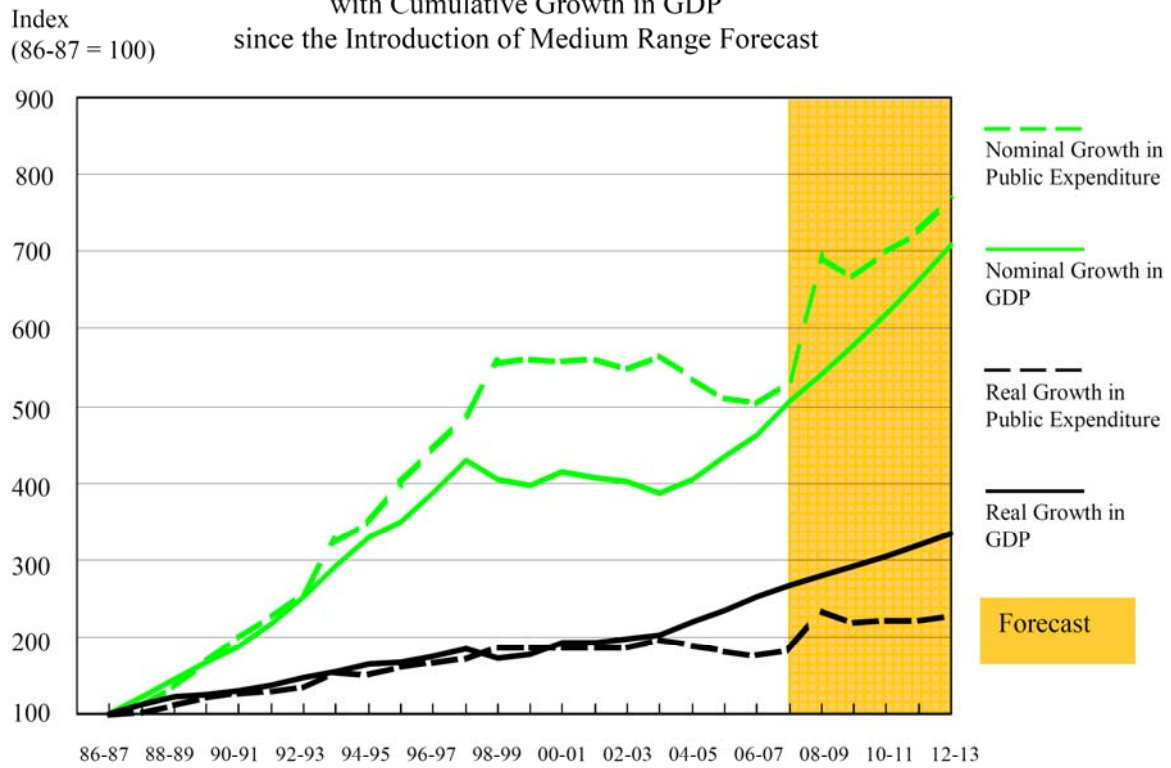
Relationship between Government Expenditure and Public Expenditure in 2008–09 and GDP

	2008–09 Estimate \$m
General Revenue Account	
Operating	255,700
Capital	2,726
	<hr/> 258,426
Capital Works Reserve Fund	49,004
Innovation and Technology Fund	879
Loan Fund	2,994
Lotteries Fund	1,091
Government Expenditure	<hr/> 312,394
Trading Funds	3,920
Housing Authority	15,768
Public Expenditure	<hr/> 332,082
	<hr/>
GDP	1,725,625
Public Expenditure as a % of GDP	19.2%

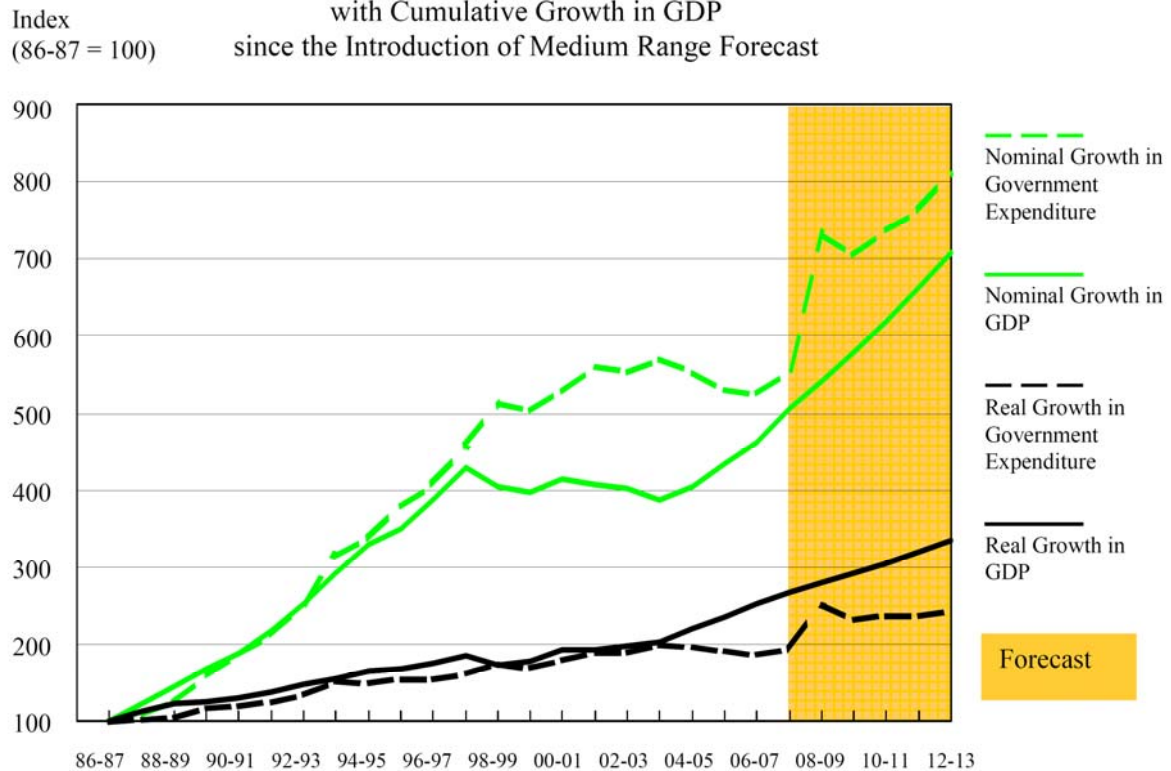
Appendix B—Contd.



Comparison of Cumulative Growth in Public Expenditure with Cumulative Growth in GDP since the Introduction of Medium Range Forecast



Comparison of Cumulative Growth in Government Expenditure with Cumulative Growth in GDP since the Introduction of Medium Range Forecast



Appendix B—Contd.

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

Recurrent Public Expenditure : Year-on-Year Change

	2007–08 Original Estimate \$m	2007–08 Revised Estimate \$m	2008–09 Estimate \$m	Increase/Decrease over 2007–08 Original Estimate	
				in Nominal Terms %	in Real Terms %
Education	50,417	47,592	51,106	1.4	-2.6
Social Welfare	35,988	33,946	37,758	4.9	1.5
Health	30,517	31,631	32,586	6.8	2.4
Security	24,058	24,173	25,375	5.5	1.1
Infrastructure	11,403	11,437	12,046	5.6	2.1
Economic	10,799	10,663	10,755	-0.4	-4.5
Housing	10,246	9,864	9,951	-2.9	-6.5
Environment and Food	8,843	8,609	9,265	4.8	1.2
Community and External Affairs	7,093	7,094	7,566	6.7	3.2
Support	29,765	29,114	31,597	6.2	4.2
	219,129	214,123	228,005	4.1	0.4

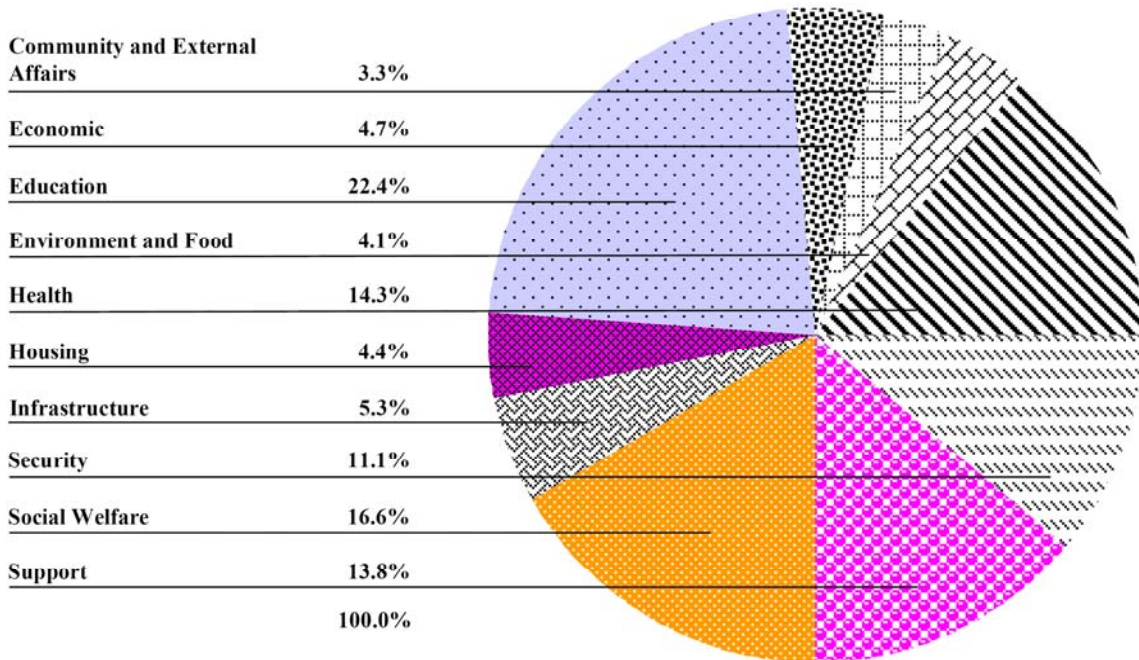
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SECTION II – ANALYSIS OF RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

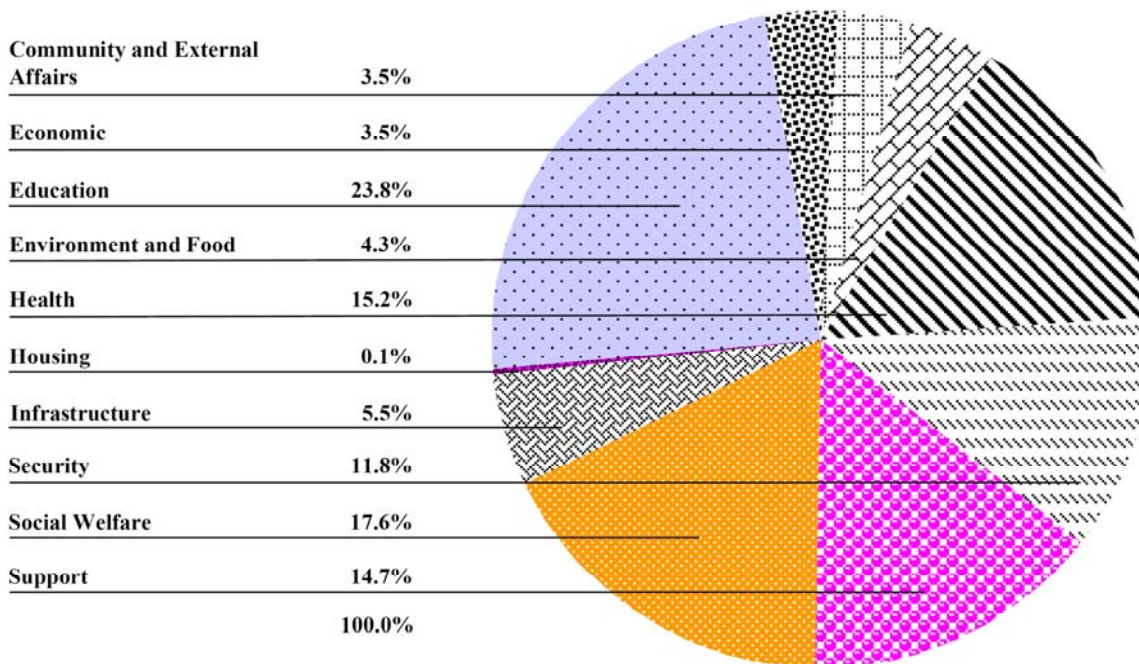
Recurrent Government Expenditure : Year-on-Year Change

	2007–08 Original Estimate \$m	2007–08 Revised Estimate \$m	2008–09 Estimate \$m	Increase/Decrease over 2007–08 Original Estimate	
				in Nominal Terms %	in Real Terms %
Education	50,417	47,592	51,106	1.4	-2.6
Social Welfare	35,988	33,946	37,758	4.9	1.5
Health	30,517	31,631	32,586	6.8	2.4
Security	24,058	24,173	25,375	5.5	1.1
Infrastructure	11,241	11,266	11,842	5.3	1.8
Environment and Food	8,843	8,609	9,265	4.8	1.2
Community and External Affairs	7,093	7,094	7,566	6.7	3.2
Economic	7,502	7,318	7,363	-1.9	-5.4
Housing	177	179	189	6.4	1.7
Support	29,765	29,114	31,597	6.2	4.2
	<u>205,601</u>	<u>200,922</u>	<u>214,647</u>	4.4	0.8

**Percentage Share of Expenditure by Policy Area Group
 Recurrent Public Expenditure : 2008-09 Estimate**



**Percentage Share of Expenditure by Policy Area Group
 Recurrent Government Expenditure : 2008-09 Estimate**



Appendix B—Contd.

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

Total Public Expenditure : Year-on-Year Change

	2007–08 Original Estimate \$m	2007–08 Revised Estimate \$m	2008–09 Estimate \$m	Increase/Decrease over 2007–08 Original Estimate	
				in Nominal Terms %	in Real Terms %
Education	57,555	55,066	77,275	34.3	30.5
Social Welfare	37,373	34,896	39,448	5.6	2.2
Health	32,732	33,533	35,828	9.5	5.3
Community and External Affairs	8,267	8,304	32,582	294.1	290.5
Security	28,937	28,120	28,368	-2.0	-5.7
Economic	15,008	14,020	26,552	76.9	73.6
Infrastructure	23,740	22,905	24,974	5.2	2.5
Housing	15,860	15,014	16,968	7.0	3.7
Environment and Food	12,022	12,115	12,440	3.5	0.3
Support	36,351	31,885	37,647	3.6	1.9
	<u>267,845</u>	<u>255,858</u>	<u>332,082</u>	<u>24.0</u>	<u>20.7</u>

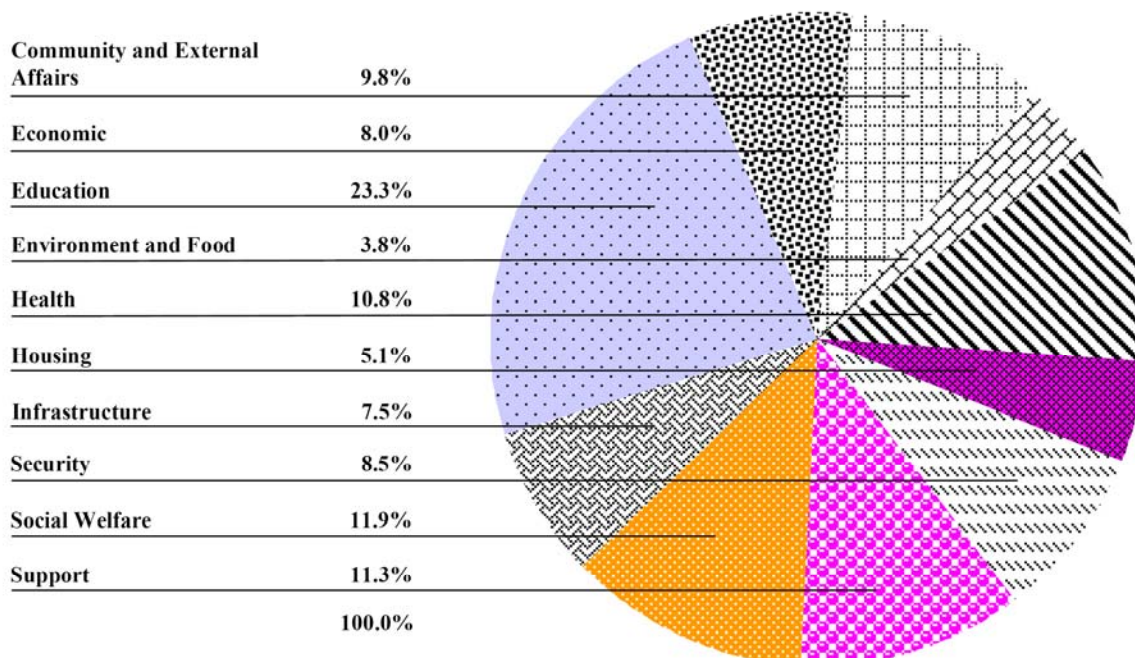
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SECTION III – ANALYSIS OF TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

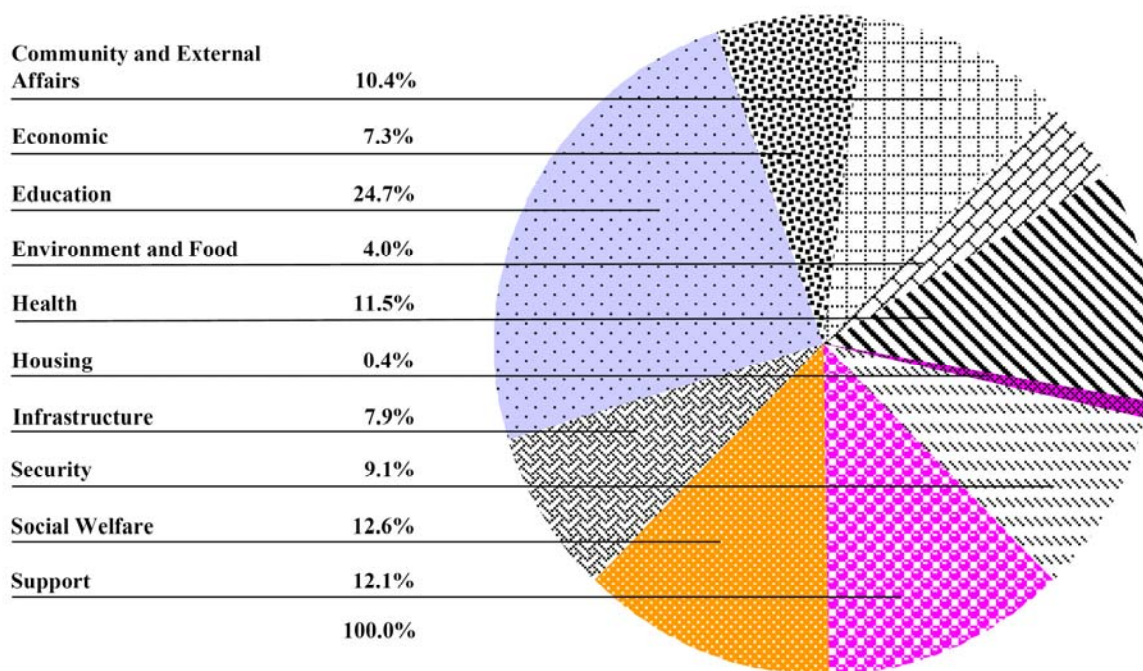
Total Government Expenditure : Year-on-Year Change

	2007-08 Original Estimate \$m	2007-08 Revised Estimate \$m	2008-09 Estimate \$m	Increase/Decrease over 2007-08 Original Estimate in Nominal Terms %	in Real Estimate in Real Terms %
Education	57,555	55,066	77,275	34.3	30.5
Social Welfare	37,373	34,896	39,448	5.6	2.2
Health	32,732	33,533	35,828	9.5	5.3
Community and External Affairs	8,267	8,304	32,582	294.1	290.5
Security	28,937	28,120	28,368	-2.0	-5.7
Infrastructure	23,544	22,714	24,734	5.1	2.4
Economic	11,473	10,353	22,872	99.4	96.6
Environment and Food	12,022	12,115	12,440	3.5	0.3
Housing	183	183	1,200	555.2	550.6
Support	36,351	31,885	37,647	3.6	1.9
	<u>248,437</u>	<u>237,169</u>	<u>312,394</u>	<u>25.7</u>	<u>22.5</u>

Percentage Share of Expenditure by Policy Area Group
Total Public Expenditure : 2008-09 Estimate



Percentage Share of Expenditure by Policy Area Group
Total Government Expenditure : 2008-09 Estimate



Appendix B—Contd.

SECTION IV – MAJOR CAPITAL PROJECTS TO BEGIN IN 2008–09

Funds allocated for capital projects to start in 2008–09 include –

	\$ million
Infrastructure	48,029
— Central – Wan Chai Bypass and Island Eastern Corridor Link	
— Design and investigations for Tseung Kwan O – Lam Tin Tunnel, Cross Bay Link in Tseung Kwan O, and Tuen Mun – Chek Lap Kok Link and Tuen Mun Western Bypass	
— Drainage improvement works in Hong Kong Island, West Kowloon and the New Territories	
— Engineering works for Wan Chai development phase 2, and remaining engineering works for West Kowloon Reclamation	
— Extension of footbridge network in Tsuen Wan – Footbridge A along Tai Ho Road	
— Extension of Road L3 for Kau Hui Development	
— Greening master plans for Hong Kong Island and Kowloon West	
— Integration of Lion Rock high level fresh water primary service reservoir and Tseung Kwan O primary fresh water service reservoir	
— Kai Tak development – advance infrastructure works for developments at the southern part of the former runway	
— Laying of western cross harbour main and associated land mains from West Kowloon to Sai Ying Pun	
— Ma On Shan Development – Whitehead and Lok Wo Sha phase 1	
— Mainlaying along Fanling Highway and near She Shan Tsuen	
— Reconstruction and improvement of Tuen Mun Road, and Sha Tin New Town, stage 2 – flyover at junction of Che Kung Miu Road and Hung Mui Kuk Road	
— Remaining works of Ping Ha Road improvement (Ha Tsuen section)	
— Replacement and rehabilitation of water mains, stages 3 and 4	
— Replacement of conventional traffic signals with light emitting diode traffic signals in Hong Kong	
— Review studies on Hung Shui Kiu and North East New Territories new development areas	
— Salt water supply to Pok Fu Lam area and Northwest New Territories	
— Tseung Kwan O further development – infrastructure works for Tseung Kwan O stage 1 landfill site and Pak Shing Kok	
— Widening of Tin Ha Road and Tan Kwai Tsuen Road for Hung Shui Kiu Development, Tolo Highway/Fanling Highway between Island House Interchange and Fanling, Tsuen Wan Road between Tsuen Tsing Interchange and Kwai Tsing Interchange, Tuen Mun Road at Tsing Tin Interchange, and Yeung Uk Road between Tai Ho Road and Ma Tau Pa Road	
Community and External Affairs	26,751
— A permanent planning and infrastructure exhibition gallery at City Hall Annex	
— Cycle track between Tsuen Wan and Tuen Mun	
— Provision of open space in Tung Chung and Choi Wan Road public housing development	
— Public library and indoor recreation centre in Area 3, Yuen Long	
— Redevelopment of the Hong Kong Sports Institute	
— Reprovisioning of sea water pumping facilities for The Hong Kong Academy for Performing Arts	
— Siu Sai Wan Complex	
— Sports centre in Area 28A, Fanling/Sheung Shui	
— Sun Yat Sen Memorial Park and Swimming Pool Complex	
— Tseung Kwan O Complex	
— Upfront endowment to the West Kowloon Cultural District Authority, and establishment and running of an interim M+	

Appendix B—Contd.

	\$ million
Education	2,686
— Construction, extension and redevelopment/reprovisioning of 12 primary, secondary and special schools	
— New Academic Building and extension to the existing Academic Building of The Hong Kong University of Science and Technology	
— Student Amenity Centre, 1 500-place student hostel and two integrated teaching buildings of The Chinese University of Hong Kong	
Economic	2,235
— Development of Government Helipad at the Hong Kong Convention and Exhibition Centre	
— Enhancement of footbridges in Tsim Sha Tsui East	
— Enhancement of public facilities at Ngong Ping, Lantau	
— HKSAR's participation in the World Exposition 2010 Shanghai China	
— New Civil Aviation Department headquarters	
Environment and Food	2,075
— Conversion of aqua privies into flushing toilets – phase 5	
— Harbour Area Treatment Scheme, stage 2A – construction of advance disinfection facilities at Stonecutters Island sewage treatment works	
— Integrated waste management facilities – planning and design	
— Sewerage in Central and East Kowloon, Tolo Harbour, Lam Tsuen Valley, North District and Port Shelter	
— Tai Po Tai Wo Road sewage pumping station and rising mains	

Appendix B—*Contd.*

SECTION V – TRENDS IN PUBLIC EXPENDITURE : 2003–04 TO 2008–09

Introduction

1 This section presents trends in public expenditure over the period 2003–04 to 2008–09. The analysis includes expenditure by the Government, the Trading Funds and the Housing Authority.

2 Details of individual heads of expenditure contributing to a particular policy area are provided in an index in Volume I of the 2008–09 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 2003–04 to 2008–09

Policy Area Groups	Actual				Revised Estimate	Estimate
	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09
	%	%	%	%	%	%
Education	22.4	22.0	22.2	22.0	22.2	22.4
Social Welfare	15.1	15.5	15.9	16.0	15.9	16.6
Health	15.0	14.7	14.6	14.7	14.8	14.3
Security	11.3	11.2	11.1	11.1	11.3	11.1
Infrastructure	5.5	5.5	5.6	5.4	5.3	5.3
Economic	4.9	4.9	5.1	5.0	5.0	4.7
Housing	5.1	5.0	5.3	5.1	4.6	4.4
Environment and Food	3.9	3.7	3.7	3.9	4.0	4.1
Community and External Affairs	3.3	3.2	3.3	3.3	3.3	3.3
Support	13.5	14.3	13.2	13.5	13.6	13.8
	100.0	100.0	100.0	100.0	100.0	100.0
	\$m	\$m	\$m	\$m	\$m	\$m
Total Recurrent Public Expenditure	211,102	205,426	200,710	203,162	214,123	228,005

Appendix B—Contd.

Total Public Expenditure by Policy Area Group 2003–04 to 2008–09

Policy Area Groups	Actual				Revised Estimate	Estimate
	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09
	%	%	%	%	%	%
Education	21.1	21.2	22.2	21.5	21.5	23.3
Social Welfare	12.3	12.9	13.6	13.9	13.6	11.9
Health	12.6	12.5	12.9	13.3	13.1	10.8
Community and External Affairs	3.0	3.1	3.2	3.3	3.2	9.8
Security	9.9	9.9	10.1	10.4	11.0	8.5
Economic	5.1	4.9	5.1	5.3	5.5	8.0
Infrastructure	10.9	12.0	11.0	9.7	9.0	7.5
Housing	9.2	7.0	6.3	6.1	5.9	5.1
Environment and Food	4.0	4.0	3.9	4.2	4.7	3.8
Support	11.9	12.5	11.7	12.3	12.5	11.3
	100.0	100.0	100.0	100.0	100.0	100.0
	\$m	\$m	\$m	\$m	\$m	\$m
Total Public Expenditure	271,098	257,137	244,982	241,744	255,858	332,082

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, Competition Policy and Consumer Protection	4
	Public Safety	7
	Travel and Tourism	5
Education	Education	16
Environment and Food	Agriculture, Fisheries and Food Safety	2
	Environmental Hygiene	32
	Environmental Protection and Conservation, Power and Sustainable Development	23
Health	Health	15
Housing	Housing	31
Infrastructure	Buildings, Lands, Planning and Heritage Conservation	22
	Land and Waterborne 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 and Mainland 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 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

Capital Investment Fund

dividends from investments
 interest on loans
 investment income
 loan repayments received
 proceeds from sale of investments

Capital Works Reserve Fund

investment income
land premia
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 loans
investment income
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 Trading Funds and the Housing Authority.

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 Trading Funds and the Housing Authority.

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 Government's accounts and do not form part of the revenue, expenditure or spending.