

The 2011-12 Policy Address

**From Strength
to Strength**

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Mr President,

A. Introduction

1. In my 2007 manifesto, I envisioned generating economic development through infrastructural development. At the same time, we must balance development needs with environmental protection and conservation to create a better living environment. Hong Kong people supported my election platform. Soon after my re-election, I pushed ahead with 10 major infrastructure projects to usher in a new stage of economic development for Hong Kong.

2. To sustain economic growth, we must seize opportunities and rise to challenges. During my term, I have had to deal with two major issues. The first was to leverage the National 11th and 12th Five-Year Plans to develop Hong Kong into the global financial centre of our country and to facilitate entry to the Mainland market for our industrial, commercial and professional sectors.

3. The second was to respond to the global financial tsunami in 2008. I appealed to the people to stand united in meeting the challenges facing our economy. While stabilising the financial system, supporting enterprises and preserving employment, we also seized the opportunity to diversify our economy by promoting the development of six industries where Hong Kong enjoys clear advantages.

4. Our economy started to recover in the second quarter of 2009 and has since remained strong. We achieved growth of 7% last year and expect the economy to grow by 5-6% this year. Economic development is not an end but a means to enable our people to share the fruits of prosperity, improve living conditions and build a stable home.

5. The wealth gap, housing and the ageing population are the issues of greatest public concern. I have put in place a statutory minimum wage to offer income protection to grassroot

people. I have devoted great efforts to promote social enterprises. I have also implemented support measures for families and elderly people in need. In regard to housing, the financial tsunami has led to surging asset values and soaring property prices. People have become frustrated because it is more difficult for them to own a home. I am striving to tackle the problem by increasing land supply, combating property speculation and adjusting our subsidised housing policy. I will talk about the new features of our housing policy in a while.

6. On constitutional development, I pledged to set a timetable for attaining universal suffrage. In 2007, the Standing Committee of the National People's Congress (NPCSC), after deliberating on the report I submitted, decided that Hong Kong may implement universal suffrage to elect the Chief Executive in 2017 and, after universal suffrage for the Chief Executive election is implemented, all members of the Legislative Council in 2020. I subsequently put forward a constitutional reform package to enhance the democratic elements in the 2012 elections. The package was endorsed by this Council in June last year, signifying a critical step forward on our road to universal suffrage.

B. Improving People's Well-being

7. The ultimate goal of social development is to give people a better life. This is also my political vision. All government efforts should be geared towards the continuous improvement of people's livelihood.

Housing Policy

Present Situation

8. Housing is an issue of great public concern. The joint efforts of the Government and our people over the past decades have produced good results in this area. There are currently 2.6 million residential units in Hong Kong, accommodating 2.35 million households. Of those, 730 000 households live in public rental housing (PRH) and 380 000 in self-owned units acquired with government subsidies. In other words, almost half of the households in Hong Kong are benefiting from some form of housing subsidy by the Government. Of the 1.24 million households living in private properties, 870 000 are owner-occupants. Taken together, nearly 85% of households live in PRH units, subsidised home ownership scheme flats or their own private properties.

Public Housing

9. To have a comfortable home and a good job is not only the aspiration of our people. It is also the Government's vision. We have always been committed to meeting housing needs of the people. As early as 1954, we launched the first public housing construction programme for over 50 000 Shek Kip Mei residents rendered homeless in a fire.

10. Apart from PRH, the Government put in place the Home Ownership Scheme (HOS) and other subsidised home ownership initiatives. These schemes enabled PRH tenants to purchase their own homes so their units could be vacated for other people in need. Such schemes also helped other home seekers acquire their properties.

Private Market

11. The private market plays a major role in offering a wide range of options to meet the people's housing needs. In the late 1990s, our economy was hard hit by the Asian financial crisis and the collapse of the hi-tech bubble. Persistent deflation also exerted great pressure on the local property market. As a result, overall property prices dropped by more than 60%, and many properties slipped into negative equity. In 2002, after a housing policy review, the Government decided to withdraw from the property market progressively. The Housing Authority subsequently stopped the construction of HOS flats and other subsidised home ownership schemes.

Current Housing Policy

12. Let me highlight the basic principles of the Government's housing policy. First, our policy is to ensure that all Hong Kong people have a home. Second, it is the responsibility of the Government to supply sufficient land for the private sector to build a mix of residential units. Third, the Government will provide public housing for low-income people who cannot afford private rental accommodation. When private housing is in short supply and property prices rise to a level beyond people's purchasing power, the Government has to intervene and make adjustments through the provision of additional land and through subsidised housing policy. The HOS was previously the major subsidised housing scheme.

Challenges Ahead

13. After reviewing the market situation and listening to the views of different sectors, I have identified the following problems with our housing market.

Maintaining Public Rental Housing Production

14. We face two major challenges in maintaining an average production of 15 000 PRH units a year. The first is a shortage

of land. Both PRH and private housing require land. To achieve our PRH production target, we need to open up new sites and explore ways to appropriately increase the densities and plot ratios of PRH projects without compromising the living environment. The second challenge is the objection of some local communities to PRH development. In my view, these objections are prejudiced and not in the public interest.

Private Property Prices Exceeding People's Affordability

15. Over the past year or so, the property market has been exceptionally vibrant because of the relatively small supply of private residential flats, abundant liquidity and persistently ultra-low interest rates. This is the root of people's difficulty in purchasing a home. Property prices in August this year increased almost 18% over August 2010. The mortgage to income ratio was 47% in the second quarter of this year. Both figures indicate that people face greater pressure and higher risks in home purchase.

16. In addition, owing to strong demand from Mainland and overseas investors for high-priced residential properties, developers have in recent years shifted towards the provision of high-end units. Although second-hand transactions on average accounted for over 80% of total turnover in the past years, there has been a significant drop in the supply of small and medium-sized first-hand residential flats in the low to medium price range. This has caused anxiety and pressure for potential buyers and affected market sentiment. This is especially so for lower-income families preparing to buy their first flat but who find prices beyond their reach.

Inadequate Land Supply

17. The cessation of HOS production and the slackening of the private property market in late 1990s and early 2000s resulted in a significant decline in the demand for land. Consequently, the planning work and infrastructure projects related to developing new land were adversely affected. When the market began to recover, property prices trended upwards.

However, a drop in land sales over the past few years, combined with a decrease in private housing supply, sent property prices up further. To ensure the healthy and stable development of the property market, we will make available land for an average of 20 000 private residential flats each year in the next decade. I announced this target last year, aiming to build up a sufficiently large land reserve within a certain period to stabilise the supply of residential land.

Malpractices in Selling Properties

18. In recent years, many people have been dissatisfied with the selling practices of property developers. They have found that market transparency is low and that buyers can be easily misled. To further regulate the sale of first-hand residential properties, I announced last year that the Transport and Housing Bureau (THB) would set up a steering committee to discuss issues on regulating the sale of first-hand flats by legislation and to put forward practical recommendations within a year.

Ageing Buildings in Old Urban Areas

19. The building collapse in Ma Tau Wai Road last year heightened concern about the rising problem of ageing buildings in old urban areas. We responded quickly by proposing measures to improve building safety, including a multi-pronged approach to enhance building safety through legislation, enforcement, public education and support for building owners.

Problem of Sub-divided Units

20. The public is also concerned about building dilapidation, unauthorised building works (UBWs) and, in particular, “sub-divided units”. Undoubtedly, “sub-divided units” pose risks to building safety, but they do provide accommodation for low-income people not eligible for public housing. Banning “sub-divided units” across the board is therefore not a solution.

Repositioning

Long-Term Commitment to Provide Public Rental Housing

21. According to the Public Housing Construction Programme of the Housing Authority, about 75 000 PRH units will be completed in the next five years. That means an average of 15 000 units each year. This production level, together with units recovered each year, should enable us to meet the target of maintaining an average waiting time of three years for General Waiting List applicants. Our pledge to meet this target is an important government policy to ensure social stability and harmony. Under no circumstances will this policy be changed. To honour our pledge, we will adjust flat production when the demand and supply of PRH flats so warrant.

New Policy for Resumption of Home Ownership Scheme

Targets of Assistance

22. We share the public's concern about rising property prices and the difficulty in buying affordable small and medium flats. The pressure is most felt by families whose household income exceeds the limits for PRH application but who may not be able to afford owning a flat. With a monthly household income under \$30,000, these families are unable to bear large down payments and mortgage repayments. Their purchasing power is therefore rather limited in the current property market. Moreover, the supply of private flats that they can afford has been diminishing.

23. In response to the aspirations of low and middle-income families to buy their own homes, the Government now puts forward a new policy for the resumption of the HOS. The new scheme will be targeted at families with a monthly household income under \$30,000, mainly first-time home buyers. Flats with a saleable floor area of 400 to 500 square feet will be offered at affordable prices.

24. The Government will allocate sites for this scheme. With the sites identified at this stage, we plan to provide more than 17 000 flats over four years from 2016-17 onwards, with an annual production of between 2 500 and 6 500 flats. For the first year, 2 500 flats can be made available. As more sites become available, we will set our planning target at 5 000 flats a year on average. To be flexible, the actual number of flats to be built or put up for sale each year will depend on demand at the time.

25. I have asked the Housing Authority to be responsible for producing flats under the new HOS. The first batch is expected to be ready for pre-sale in 2014 or 2015. To meet this target, the Housing Department has already started preliminary planning and investigations for sites identified in Sha Tin, Tsuen Wan and Yuen Long, and will commence similar work for other sites shortly.

Pricing Policy

26. The pricing and resale policies of the new HOS have been revised in light of changing circumstances. The prices of flats will be set with reference to the mortgage repayment ability of eligible households. For example, the price of a new HOS flat with a saleable floor area of 400 to 500 square feet will roughly be set in the range of \$1.5 million to \$2 million to make it affordable to a family with a monthly income of \$20,000 to \$30,000.

Resale Restrictions

27. Flats sold under the new HOS will be subject to resale restrictions as in previous subsidised housing schemes. Our initial plan is that within the first five years from the date of purchase, owners may only sell their flats to green form applicants or the Housing Authority. After five years, owners may sell their flats on the open market after paying a premium to the Housing Authority. This will enable owners to trade up and shift to the private residential market. In light of the rather inactive HOS secondary market, I have asked the Housing Authority to seriously consider measures that can facilitate

upward mobility of those in the new scheme. When calculating the premium to be paid, the Housing Authority may take the subsidised portion of a unit's purchase price as a loan to the owner, the amount of which will not be adjusted even if the market value of the unit increases in future, and require the owner to repay this loan to the Housing Authority before selling the unit on the open market. When working out the details, however, we will ensure that the new arrangements are fair to existing HOS flat owners. As the arrangements will involve subsidising home ownership with public money, they should also be acceptable to the community as a whole.

28. I will ask the Housing Authority to work out implementation details of the new HOS, including the allocation ratio between green form and non-green form applicants, income and asset criteria for non-green form applicants, price benchmarks based on affordability and premium payment arrangements.

29. The new HOS will serve as a buffer when the private residential property market is in disequilibrium due to unbalanced demand and supply, as well as internal and external macroeconomic factors such as low interest rates and quantitative easing measures taken by other economies.

30. When the private residential property market cannot provide enough reasonably priced small and medium flats, the Housing Authority will make available a maximum of 5 000 new HOS flats on average each year for eligible buyers. When there are enough reasonably priced small and medium flats in the private market, we will adjust the number of subsidised flats to be built and sold for the year. We may even stop building and selling such flats.

Enhancing the My Home Purchase Plan

31. Some families, although earning up to \$40,000 a month, and who can afford a property in the long run, do not have enough savings for a down payment. The Government, in collaboration with the Hong Kong Housing Society (HKHS), will

continue to implement the My Home Purchase Plan (MHPP) to provide “no frills” small and medium rental flats so these families will have time to save up.

32. The MHPP is positioned above the new HOS. It offers another choice on the housing ladder.

33. The tenancy period of MHPP flats will be up to five years. To allow tenants to save according to their plans, the rent will not be adjusted during the tenancy period. The MHPP will also provide tenants with a subsidy, equivalent to half of the net rental paid during the tenancy period, to help them cover part of the down payment.

34. The public generally considers the MHPP sufficiently flexible. Given the volatility of the property market, if MHPP flats are to be sold at the prevailing market price, then tenants intending to buy such flats under the “rent-and-buy” arrangement may find their plans upset by soaring prices.

35. After considering public views, we will enhance the MHPP. First, apart from the proposed “rent-and-buy” mode, we will offer a “buy-or-rent” option which allows participants to buy their MHPP flats direct at market price without going through a rental period.

36. Under the MHPP, the initial market selling price will serve as the ceiling price of that flat. A participant choosing the “rent-and-buy” option will be guaranteed the “ceiling price” regardless of any rise in property prices within two years after termination of tenancy. This will protect participants from soaring property prices disrupting their plan for home ownership, and enable them to set more specific saving targets. Should prices fall, they can buy MHPP flats at the prevailing market price. The THB will discuss with the HKHS the implementation details.

37. The Government has already earmarked a number of sites for about 5 000 MHPP flats. The first development project at Tsing Yi will provide around 1 000 “no frills” small and

medium flats. These are expected to be completed in 2014 and pre-letting will begin next year.

38. The new HOS and the enhanced MHPP, together with the measures implemented over the past year or so, such as increasing land supply (including selling sites with flat size and flat number stipulations), combating speculative activities, ensuring the transparency of the property market, and preventing excessive expansion in mortgage lending, will contribute to the healthy and steady development of the property market.

Housing Land Supply and Sale of Sites with Flat Size Restrictions

39. To increase land supply of private residential housing, I proposed last year to create a land reserve, use the Application List system as the main axle, and supplement it with a government-initiated land sale arrangement to ensure there would not be any shortage in housing land supply. We also set a target of making land available for 20 000 private residential flats each year on average in the next decade. Housing sites available for private residential developments in 2011-12 may provide about 35 000 flats.

40. To increase the supply of small and medium flats, we put up the first site with flat number and flat size stipulations last year. To date, we have sold three sites with flat size restrictions, which will provide 3 000 small and medium flats. This policy will continue.

41. As regards West Rail property projects, tender will soon be invited for the project at Nam Cheong Station, while tender for three other projects is under preparation. These four projects together will provide about 7 500 flats, of which about 5 000 will be small and medium units. This is double the number originally proposed.

42. We are stepping up efforts to ensure that the private residential sites at the Kai Tak Development Area will be made

available progressively from before 2013. Other sources of land supply include sites at the new development areas in the northern New Territories, Anderson Road Quarry, the former Cha Kwo Ling Kaolin Mine, the former Lamma Quarry and the remaining development areas of Tung Chung New Town. Advance works on these sites are well underway.

Policy on Land Development and Accumulation

43. We have to innovate to expand our land resources. We have identified the following measures:

- (i) To release about 60 hectares of industrial land for non-industrial uses, half of which will be made available for housing;
- (ii) To explore the option of reclamation on an appropriate scale outside Victoria Harbour. Public consultation will begin shortly;
- (iii) To actively explore the use of rock caverns to reprovision existing public facilities and release such sites for housing and other uses. Tentative projects include the relocation of the Sha Tin Sewage Treatment Works and Mount Davis and Kennedy Town Fresh Water Service Reservoirs;
- (iv) To look into the use of green belt areas in the New Territories that are devegetated, deserted or formed, thus no longer performing their original functions, and convert them into housing sites. The first phase will cover an area of 50 hectares, mainly consisting of government land;
- (v) To examine “Government, Institution or Community” sites to avoid the under-utilisation of sites long reserved but without specific development plans; and study ways to reduce the restrictions posed by government utilities to the development of adjacent areas; and

- (vi) To explore the possibility of converting into housing land some 150 hectares of agricultural land in North District and Yuen Long currently used mainly for industrial purposes or temporary storage, or which is deserted.

Our aim is to ensure an annual supply of land for an average of about 40 000 residential units of various types. Even when demand for land declines, land development will continue. The newly developed land will be kept in the Government's land reserve and made available when appropriate. By doing so, we will be able to supply sufficient land for more than 40 000 units each year when demand rises.

Regulating the Sale of Residential Flats by Legislation

44. Last year, I proposed regulating the sale of residential flats by legislation. The steering committee set up by the THB has submitted its proposals. In addition to putting all uncompleted residential properties under the scope of regulation, the proposals also cover regulatory requirements on sales brochures, price lists, floor area information, show flats, transaction information and sales arrangements, as well as penalties and the enforcement mechanism. We will consult the public by issuing a white bill next month. The THB will seek to have the legislation enacted next year. Honourable Members, I look forward to your full co-operation and support for the introduction of a statutory regulatory mechanism.

Development in Old Districts

Building Safety

45. To enhance building safety, we will submit draft subsidiary legislation on mandatory building and window inspections to this Council for vetting as soon as possible. We will also table legislative proposals for more stringent control over building safety, which will include empowering the Buildings Department (BD) to apply to the court for a warrant

to enter a flat for inspection and extending the Minor Works Control System to cover building works commonly associated with “sub-divided units”.

46. The HKHS and the Urban Renewal Authority (URA) will offer financial and technical support for owners to more effectively fulfil their building maintenance responsibilities. Since its launch in 2009, Operation Building Bright has helped maintain about 2 500 buildings, many of which did not have owners’ corporations or the ability to organise maintenance works.

47. The BD will step up enforcement against UBWs. In parallel, we will strengthen enforcement against UBWs and illegal structures of New Territories Exempted Houses through categorisation and prioritisation of enforcement.

Urban Renewal

48. Under the new Urban Renewal Strategy in place since February, the URA has devised specific measures which include the “flat for flat” scheme, as well as the new “facilitator” scheme and “demand-led” scheme for urban renewal. The first Urban Renewal Forum in Kowloon City and the Urban Renewal Fund Limited have been set up. The Integrated Building Maintenance Assistance Scheme has also been launched to provide property owners with one-stop service. In addition, the URA’s first Urban Renewal Resources Centre in Tai Kok Tsui is expected to come into service early next year.

Kick-Starting the Development of East Kowloon

49. Hong Kong’s traditional core business districts can no longer satisfy the growing demand for office space. We must develop another core business district — East Kowloon. In the past decade, the total floor area of Grade A office space in Kwun Tong and Kowloon Bay has increased significantly by 2.5 times to 1.4 million square metres. With the development of the office belt and tourism and leisure facilities at Kai Tak, combined with revitalised industrial buildings, East Kowloon is poised to be

developed into a premier business district that provides an additional office floor area of 4 million square metres.

50. East Kowloon includes the new Kai Tak Development Area, Kwun Tong and Kowloon Bay. The Government is drawing up development strategies for the district, which include the following:

- (i) Enhancing connectivity within East Kowloon, such as improving pedestrian access networks; considering building an environmentally friendly linkage system through the entire district; and strengthening external connectivity through the MTR Kwun Tong Line and the future Sha Tin to Central Link;
- (ii) Attractive urban design concepts with greening features and pedestrian promenades to create a pleasant business district; and
- (iii) Advocating development that includes a wide range of cultural, leisure and water sports activities to energise the business district.

The Government will also relocate government offices to Kai Tak and release sites of government facilities for commercial development. The Development Bureau will deploy additional manpower to promote the development of the district. To achieve the transformation of this district, the Government will need to have vision and determination to put its plans into action.

Revitalising Industrial Buildings

51. In 2009, I announced initiatives to better utilise vacant or under-utilised industrial buildings through redevelopment or wholesale conversion. These measures have been in place since April 2010 and were due to last for three years. We have made encouraging progress. By the end of last month, the Lands Department had approved 35 applications, involving the demolition and redevelopment of 9 industrial buildings and the wholesale conversion of 26 others, providing a total gross floor

area of 380 000 square metres for non-industrial uses. Another 23 applications are being processed.

52. In light of the mid-term review completed last month, we will extend these measures for a further three years. To provide room for creativity in conversions, we will allow minor alterations to the frame of the buildings. We will also encourage owners to apply for green building certification of the converted buildings.

Ageing Population

Present Situation

Extent of Population Ageing

53. Our population is rapidly ageing. As post-war “baby-boomers” approach retirement age, our population aged 65 or above is expected to surge from about 900 000 at present to 2.1 million by 2030 to account for a quarter of our population. The rapidly ageing population will bring tremendous challenges to our elderly and public healthcare services. We must get prepared.

Low Fertility Rate

54. Hong Kong’s fertility rate has remained low in the past two decades. It dropped to an historic low of 0.9 in 2003. Despite a moderate rebound to 1.1 in 2010, it is still far below the replacement level of 2.1 children per woman.

Existing Policy and Challenges

55. Our population policy is to attract and nurture talent and improve the quality of our people to promote our development as a knowledge-based economy. It also seeks to achieve a balanced demographic structure to sustain Hong Kong’s development. Given our ageing population and persistently low fertility rate, we can foresee that our workforce will shrink in just 10 years’ time, which may threaten our sustainable development.

56. To encourage parenthood, this year's Budget increased the child allowance to alleviate the parents' burden in raising children.

57. To bring in talent, the Government has all along adopted an open immigration policy. In recent years, we put in place three talent admission schemes and streamlined the application procedures for employment visas. We also introduced relaxed measures to attract non-local students to work in Hong Kong after graduation. We will continue to enhance our talent admission arrangements.

58. Last year, I asked the Steering Committee on Population Policy to focus on two topics. First, ways to facilitate and support elderly people to settle in the Mainland after retirement if they so wished. Second, the ramifications of children born in Hong Kong to Mainland mothers returning to study and live in Hong Kong.

59. For our elderly people retiring in the Mainland, Members of the Steering Committee suggested the provision of better financial support and services in the Mainland.

60. In regard to Mainland women giving birth in Hong Kong, which has raised public concern, our basic principle is that Hong Kong residents receive priority for healthcare services. Therefore, the number of non-local women giving birth in Hong Kong must be capped to avoid overloading our healthcare services. Their Hong Kong-born children may choose to cross the boundary to attend school or to live in Hong Kong in future, which may strain our child care and education services. On the other hand, these children may replenish our ageing population. I must stress that the Government does not encourage Mainland women to give birth in Hong Kong. But as long as their children are Hong Kong permanent residents, we must consider these children as a valuable human resource for Hong Kong. In this regard, we must plan the relevant public services and make more realistic projections of the number of children who may come to settle or study in Hong Kong. The Committee will continue to co-ordinate these efforts.

61. For families with Hong Kong-born children living in the Mainland, we will step up the dissemination of information on the local education system to help them consider whether and how to arrange for their children to return to Hong Kong for schooling. For those students who cross the boundary to attend schools in the territory, we will put in place support measures at boundary control points to ensure their safe journey.

Specific Measures

Improving the Mode of Elderly Care

62. An ageing population leads to increasing demand for welfare and healthcare services. Apart from providing adequate resources for service expansion, we will improve the mode of elderly care to provide appropriate support.

Long-Term Care Services

63. An Elderly Commission study has found that resources allocated to community care services are far less than those allocated to residential care services. To rectify this situation, apart from increasing community care places, we should improve the content, form and funding mode of community care services to offer a desirable alternative to residential care.

64. Last year we announced a new initiative that enabled elderly people on the waiting list for nursing home places to try out tailor-made home care services. In this year's Budget, we extended the coverage of the Community Living Supplement under the Comprehensive Social Security Assistance (CSSA) Scheme to include recipients aged 60 or above who were ageing at home.

65. Next, we will consider community care vouchers to provide a direct subsidy for elderly people who need long-term care to acquire a wide range of services, and encourage diversity in service delivery agents. In parallel, we will provide more places for existing community care services.

66. Residential care services in Hong Kong are relatively developed, with 20% of our residential care places provided by subvented and contract homes and the remaining 80% by private and self-financing homes. In recent years, the vacancy rate of private homes has remained at about 30%. These private homes still have considerable capacity to cope with service demand.

67. The waiting time for subsidised places is long, not only because there is an actual shortage of nursing home places providing a higher level of care, but also because of the personal preferences of the applicants. Take the care and attention home places of a lower care level as an example. At present, 99% of elderly people on the waiting list have specified their district of choice. Since it takes time to satisfy their choices, the average waiting time is 22 months. If there is no location preference, an elderly person can get a place right away.

68. Currently, applicants for subsidised residential care places are not required to pass a means test. They only need to be assessed to confirm their needs for long-term care. In order to better allocate public resources to help those who most need residential care, we have to make best use of the care and attention home places provided by the private sector. At the same time, we need to focus our resources on the nursing home places that the private sector finds difficult to operate.

69. The Government has for years been buying residential care places from private homes under the Enhanced Bought Place Scheme. About a quarter of existing private homes have joined the Scheme. We will provide additional resources to encourage private homes to upgrade their services so that more elderly people on the waiting list will opt for them. We will also buy more places to help relieve the pressure on subvented and contract homes.

70. As for nursing home places, the Government has pooled resources to increase their supply in recent years. We have earmarked sufficient funds to increase the number of such places by more than 50% by 2015. Also, we will increase the supply

of long-term care places providing a continuum of care. I must stress that, while we encourage the elderly to age at home, under no circumstances will we neglect their needs for residential care services.

71. In addition, as many elderly people choose to live in non-subsidised homes, I propose to introduce a supplement for CSSA recipients aged 60 or above living in such homes to ease their financial burden. CSSA recipients with disabilities of any age living in such homes may also receive the supplement.

72. The Government now grants a supplement to subsidised residential care homes for the elderly so that additional healthcare professionals can be employed to provide targeted training and care for residents suffering from dementia. The measure was extended to cover day care centres for the elderly last year. I propose to increase the amount of the supplement to enable such institutions to enhance support for demented elderly people.

Supporting Measures

73. We understand that elderly care is not just about funding. We need to tackle the shortage of land and manpower. Apart from reserving space for welfare service units in new development and redevelopment projects, we will actively identify designated sites for residential care homes. We will also take into account the requirements of the social welfare sector in the overall manpower planning of medical and healthcare professionals.

Strengthening Healthcare Services

74. To cope with demographic changes and the needs of elderly people, the Government will allocate additional funds to enhance public healthcare services such as cataract removal, haemodialysis, joint replacement and mental health services. Strengthening primary care services aside, we will improve long-term care services for frail elderly people.

Concessions for the Elderly

Concessions for the Use of Recreational Facilities

75. Swimming is a popular sport among the elderly and other age groups. We will introduce a Public Swimming Pool Monthly Ticket Scheme to lighten the burden of frequent elderly swimmers and promote swimming among the public.

Public Transport Concessions for the Elderly and People with Disabilities

76. Various concessionary fare schemes are currently implemented by major public transport operators for the elderly and people with disabilities. Concessions offered by individual operators vary. I propose to enable elderly people aged 65 or above and eligible people with disabilities to travel on the general MTR lines, franchised buses and ferries anytime at a concessionary fare of \$2 a trip. For the revenue forgone, the Government will periodically reimburse the public transport operators on an accountable basis. We will request the operators to continue to absorb the cost of the existing concessions that they voluntarily offer to the elderly and people with disabilities.

Retirement Protection

Universal Retirement Protection

77. It is not easy for the community to reach a consensus on a universal retirement protection scheme. We have just implemented the minimum wage, and are studying the voluntary Health Protection Scheme and ways to enhance the Mandatory Provident Fund (MPF) schemes. Currently, low-income workers enjoy a certain degree of retirement and basic livelihood protection. It is impractical to introduce fundamental changes to the existing system and adopt a resource reallocation approach to deal with retirement protection because the middle class and professionals would generally not accept it now. It is more constructive to enhance the existing retirement protection system. The Government is studying this in depth.

MPF Review

78. Since the implementation of the MPF system, almost 85% of Hong Kong's workforce has been covered by some form of retirement protection. The MPF system has an average annual rate of return of 5.1% after fees and charges. As it is still at an initial stage, the MPF system requires continuous improvement.

79. The Government and the Mandatory Provident Fund Schemes Authority (MPFA) will strive to promote market competition. We will strengthen employees' right of choice to reduce the fees and charges of MPF schemes. The MPFA is studying supporting measures to facilitate the implementation of a full portability arrangement in the future. It will also look into whether the withdrawal of MPF accrued benefits in phases after retirement and early withdrawal under specific circumstances by employees should be allowed.

Guangdong Scheme

80. We will introduce a new "Guangdong Scheme" under the Social Security Allowance Scheme to provide an old age allowance for eligible Hong Kong elderly people who choose to reside in Guangdong. The rate will be the same as that for the local Old Age Allowance (OAA) in Hong Kong. Upon approval, recipients will be able to receive a full-year allowance in Guangdong without the need to come back to Hong Kong. The Labour and Welfare Bureau will shortly announce the key features. The Guangdong Scheme is based on four special considerations. First, currently Hong Kong elderly people settled in the Mainland mostly live in Guangdong. Second, there are especially close ties between Guangdong and Hong Kong in many aspects. Third, given the policies under the Hong Kong/Guangdong Co-operation Framework and with the completion of a number of major transport infrastructure projects, the two places will become more closely integrated and travel will be more convenient. Lastly, local elderly people who have moved to Guangdong can still maintain close contact with their relatives and friends here and obtain family support easily.

Medical Support in the Mainland

81. Apart from financial means and living environment, access to medical services is another consideration for senior citizens when deciding whether to settle in the Mainland. The liberalisation measures for the medical sector under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) allow Hong Kong medical practitioners to practise or set up clinics or hospitals in the Mainland. In this way, senior citizens residing there may also receive Hong Kong-style medical services. The first hospital jointly established by the University of Hong Kong and the Shenzhen authorities will come into operation early next year. We will continue to strengthen co-operation between hospitals in Hong Kong and the Mainland, and negotiate with the Mainland measures to streamline the formalities for setting up clinics and hospitals there. We will also explore with Guangdong the cross-boundary patient conveyance arrangements to make it more convenient for Hong Kong patients residing in the Mainland to return to Hong Kong for medical treatment.

Cost of Living

Present Situation

Wealth Gap

82. Despite sustained economic growth in recent years, the widening of the wealth gap is still a source of social discontent. Poverty in Hong Kong is related to economic restructuring. After restructuring, there has been a drop in labour market demand for low-educated, low-skilled workers, which has slowed their wage growth. The Government has been helping low-income families to improve their living standards through housing, education, healthcare and welfare policies and an array of subsidies. The statutory minimum wage and transport subsidy scheme implemented this year are both designed to raise their income. In a free, open and mature capitalist economy, the wealth gap can hardly be eradicated. Investing in education and

fostering social mobility are the best long-term solutions to reduce cross-generational poverty.

High Inflation

83. Our economy has recorded impressive growth since the beginning of this year, with the unemployment rate remaining low. While the income of the grassroots has increased, we are also facing enormous inflationary pressure. The average inflation rate for this year is expected to reach 5.4%, which is the highest annual rate since 1997. The Government will strive to ease domestic inflationary pressure by such measures as cooling the property market and preventing excessive credit growth.

Existing Policies

84. I am very concerned about the impact of high inflation on the livelihood of our people, especially the grassroots. To relieve the burden of inflation, a number of recurrent and one-off measures were introduced in last year's Policy Address and this year's Budget. Many of these measures have been implemented and proved effective. Examples include a rates waiver for one year since April; an electricity charges subsidy and extra payments of CSSA, OAA and Disability Allowance (DA) since July; and government payment of public housing rent for August and September. Other measures will take effect in due course.

Specific Measures

One-Off Relief Measures

85. We are not optimistic about global economic prospects next year. We may see inflation and recession come one after the other. In response to this, we will implement short-term measures to ease the burden on the grassroots. After consulting the Financial Secretary, I propose to implement the following measures next year:

- (i) Paying two months' rent for around 700 000 public housing tenants, with an expenditure of about \$1.9 billion; and
- (ii) Providing an extra allowance to CSSA recipients, equal to one month of the standard rate, and an extra one-month allowance to OAA and DA recipients, with an expenditure of more than \$1.9 billion.

When preparing the Budget for the next financial year, the Financial Secretary will assess the prevailing economic situation and our financial position to work out the implementation details. The purpose is to help the grassroots cope with the possible economic downturn in 2012. If necessary, we will consider further measures such as tax concessions.

Food Prices

86. One of the major causes of the recent rise in inflation is surging global food prices, which have pushed up local food prices. In the first eight months of 2011, global food prices registered a year-on-year increase of 34%, while retail food prices in Hong Kong also rose significantly by 9.1% year-on-year. In fact, food prices and expenditure on meals bought away from home have contributed to nearly 40% of the increase in Hong Kong's underlying consumer prices.

Food Supply

87. The Government endeavours to ensure an ample supply of food at stable prices by expanding the sources and types of food supply and reducing the risks brought about by unstable conditions in individual places. Also, we have the support of the Central Government in the form of safeguarded supplies to Hong Kong and strengthened food quality control. The Mainland will continue to ensure a stable supply of quality agricultural products such as grain, meat, fruits and vegetables to the Hong Kong market.

Food Banks

88. The Government's Short-term Food Assistance Service provides immediate and direct support for people in need. We will soon submit to this Council for approval to use the \$100 million already earmarked to continue and improve this service, including providing a larger variety of foods and fresh foods. The Social Welfare Department (SWD) will closely monitor the operation of this service. If necessary, the Government will allocate an additional \$100 million to the service.

Tackling Working Poverty

89. In the labour policy area, the most important breakthroughs of this Government have been the statutory minimum wage that came into force this year and the recently launched Work Incentive Transport Subsidy Scheme. Both measures play a pivotal role in protecting low-income workers, alleviating working poverty and promoting employment. The implementation of the statutory minimum wage marks a change in the traditional mindset of the Government. It shows that the Government is ready to intervene in the market as appropriate to improve the livelihood of hundreds of thousands of low-income people provided that the free economy of Hong Kong will not be prejudiced.

90. The Labour Department (LD) will proactively inspect the workplaces of low-income trades, offer all necessary assistance to employers and employees, and closely monitor the impact of the statutory minimum wage.

Enhancing Training and Employment Support

91. This year, the Employees Retraining Board (ERB) will increase the number of training places to 130 000 and provide nearly 900 courses covering about 30 industries. Some of these courses also provide job placement services. The LD will continue to offer comprehensive employment support to enhance the employability of young people, the middle-aged, people with

disabilities and other disadvantaged groups. It will also continue to provide financial incentives for employers to employ the disadvantaged.

92. Some people with disabilities have considerable difficulties securing employment. The Government will strengthen support for them. The SWD has launched the “Enhancing Employment of People with Disabilities through Small Enterprises” Project by granting funding for non-government organisations (NGOs) to set up small enterprises employing people with disabilities. The Government will inject \$100 million into the project to create more jobs for these people. Also, we plan to provide a subsidy from next year onwards for employers of people with disabilities to purchase technical aids and modify work areas to boost the efficiency of such employees.

93. Targeting non-engaged youths, the ERB launched the Youth Training Programme in 2008 to help them build confidence, stimulate their desire to learn, and facilitate their return to school or employment. The Vocational Training Council (VTC) will launch a pilot scheme to extend the structured apprenticeship arrangements to service industries, providing young people aged 15 or above with in-service training and relevant professional education. It is expected that 1 000 additional training places will be offered each year.

Labour Policy Review

Standard Working Hours

94. The Government is studying the issue of standard working hours. We are looking into the relevant systems and experiences in other places. The Census and Statistics Department will collect and analyse data on our local workforce and the current working hour arrangements in various sectors. We expect the study to be completed in mid-2012. The findings will lay a good foundation for public discussion.

Paternity Leave for Employees

95. Many developed countries provide paid paternity leave for employees to promote child-bearing and family-friendly practices. The Government will take the lead in promoting this good practice, beginning with a study into the provision of paid paternity leave for civil servants. In considering whether to make it a statutory requirement for all employers, we will have to carefully consider the actual circumstances in Hong Kong.

Supporting the Underprivileged

Rehabilitation Services

People with Disabilities

96. To meet the increasing demand of people with disabilities for rehabilitation services, the Government will continue to provide additional places for pre-school, day and residential rehabilitation services. In addition, we are preparing to launch a licensing scheme to regulate the operation of residential care homes for people with disabilities and raise service quality. To tie in with this scheme, the Government has launched a pilot bought place scheme to encourage private residential homes to improve their service quality, increase the supply of subsidised places and facilitate the development of different types of residential care homes in the market.

97. The Government pays great attention to the needs of people with severe disabilities for special care. A pilot scheme was launched this year to provide home care services for them. In 2008, the SWD conducted a trial scheme to provide tetraplegic patients with transitional residential and day training services. Given its success, we will make the scheme permanent.

98. To improve access for people with disabilities, the Government has commenced a major retrofitting programme to upgrade barrier-free features in about 3 700 existing government premises and facilities and 300 properties managed by the

Housing Authority. Improvement works at about 3 300 premises and facilities will be completed by June next year.

Mental Health Services

99. Last year, the SWD set up integrated community centres for mental wellness across Hong Kong to provide one-stop support services. These centres have met service expectations. We will enhance services of these centres to dovetail with the Case Management Programme implemented by the Hospital Authority. Up to now, there are still nine integrated community centres without permanent accommodation. We are actively identifying suitable premises. I earnestly call upon local communities to accept these centres in their neighbourhoods.

New Arrivals and Ethnic Minorities

100. We will step up the support services for ethnic minorities and new arrivals from the Mainland to facilitate their integration into the community, and to foster mutual understanding and respect within the community. On employment support, ethnic minorities and new arrivals may take courses specially designed for them by the ERB. They may also obtain employment services at special counters in the LD's job centres. In addition, the LD will organise more job fairs in different districts to help ethnic minorities and new arrivals find jobs. We will set up an additional support service centre and two sub-centres for ethnic minorities, extend integration programmes and provide more radio programmes in minority languages.

Families, Women and Children

101. We have been providing various types of free residential care services through NGOs to help children and youngsters who cannot be adequately cared for by their families temporarily. We will increase in phases the number of places for residential child care services, including foster care, small group homes and children's homes. We will also raise the foster care allowance, including the incentive payment for foster parents and maintenance grant for foster children.

102. The Government has been allocating funds for the Women's Commission to run the Capacity Building Mileage Programme to enhance support for women to pursue continuous learning. In view of its effectiveness, the Programme will become a recurrent project.

103. Integrated Family Service Centres (IFSCs) provide preventive, supportive and remedial family welfare services. The Government will allocate additional resources to set up four new IFSCs in districts with greater service demand, bringing the total number of IFSCs to 65, to provide services for families in need. Target groups include single parents, new arrivals, ethnic minorities and cross-boundary families.

Youth Support and Services

Youth Outreach Services

104. To better tackle the growing problem of juvenile gangs, we plan to set up additional youth outreach teams in Tseung Kwan O, Ma On Shan and Tung Chung. With the additional teams, we can reach out to more youths at risk, counsel them and refer them to other mainstream services.

Hostels for Single Youths

105. Some NGOs are concerned about the aspiration of working youths to have their own living space. Apart from providing youth services, they want to use part of the land granted to them by the Government for "Government, Institution or Community" use to build hostels for youths. The Government will actively support their plans.

Temporary Work Opportunities for Young People

106. In 2008, a total of 3 000 temporary work opportunities were provided through NGOs for young people aged between 15 and 29 as a special youth employment support measure during the economic downturn. Under the original plan, the scheme was due to end in March next year. We will extend these work opportunities for one more year to allow young people

more time to equip themselves and let service units make necessary adjustments.

Public Healthcare

Healthcare Policy

107. The public consultation on healthcare found that there was support for the introduction of a government-regulated voluntary Health Protection Scheme (HPS) to promote private healthcare reform. We are preparing to implement the HPS. First, we will work out the operational details, including the supervisory and institutional frameworks and financial incentives to be funded by the \$50 billion set aside for healthcare reform. Second, we will review healthcare manpower planning and professional development to ensure an adequate supply of healthcare personnel to meet future needs, and to raise professional standards. Third, we will enhance market transparency and develop supporting facilities. We expect to complete these three tasks in the first half of 2013 and then proceed with the necessary legislative process, so that the HPS can be rolled out as soon as possible.

Provision of Additional Resources

108. In the past few years, the Government has provided additional resources to improve healthcare services to meet public needs. The amount of recurrent funding allocated to the Hospital Authority has increased significantly by nearly 25%, from \$29 billion in 2007 to \$36 billion in 2011. An additional \$2.6 billion has been allocated to buy and upgrade equipment.

Upgrading Services

109. The Hospital Authority will increase the number of neonatal intensive care beds by 10% in five hospital clusters. It will also enhance haemodialysis services for end-stage renal disease patients, and magnetic resonance imaging and computerised tomography scanning services for the diagnosis of critical illnesses. It will extend its Case Management Programme

to four more districts to provide support for people with severe mental illness, and expand the coverage of the Drug Formulary to provide more drugs with higher efficacy.

110. In terms of facilities, while the Tin Shui Wai Hospital is under active planning, North Lantau Hospital and the expansion of Tseung Kwan O Hospital will be completed in late 2012 and in 2013 respectively. The paediatric medical centre at Kai Tak will be completed in 2016 and preparation for the expansion of the United Christian Hospital is underway.

Primary Care Services

111. In collaboration with healthcare professions, the Government has mapped out a long-term development strategy for primary care, which is being implemented step by step. We have allocated over \$5.3 billion since 2008 to enhance primary care services and take forward a number of pilot projects. In the coming year, we will implement measures such as extending the Elderly Health Care Voucher Pilot Scheme and doubling the voucher value, as well as opening a community health centre in Tin Shui Wai. We will also jointly implement pilot projects with voluntary agencies to provide health screening services for the elderly to enhance preventive care.

Manpower Training

112. There will be an upsurge in the demand for healthcare personnel. For the three years starting from 2012, we will allocate \$200 million to increase the number of first-year first-degree places in medicine by 100, nursing by 40 and allied health professions by 146. Extra places will be offered by self-financing post-secondary institutions to train more nurses.

Education Development

113. Education not only enhances the quality and competitiveness of our population, but also promotes social mobility. The Government has allocated substantial additional

resources to improve the quality and quantity of education. We have provided 12 years of free education, extended subsidies to pre-school education, progressively implemented small-class teaching, introduced a new academic structure for senior secondary and university, expanded tertiary education and encouraged tertiary institutions to raise teaching and research standards. We have also opened up multiple study pathways for young people.

Multiple Study Pathways

International Cuisine College

114. The Chinese Cuisine Training Institute under the VTC provides training for those who wish to pursue a career in the catering industry. The institute has made its name around the world in just a decade. I propose to set up an International Cuisine College under the VTC. The college will provide training for people aspiring to become professional chefs proficient in international cuisines. It will attract outstanding members of the culinary profession from around the world, and promote the development of related sectors, such as tourism, catering, retail and wine trading. We expect it to be established in 2014.

Youth College

115. The VTC also offers a range of career-oriented programmes to cater for young people's diverse education needs. It currently runs seven youth colleges offering employment-focused programmes to school leavers at Secondary 3 level or above. Students may choose vocational streams that best suit their abilities and interests. Upon completion of the programmes, they can either seek employment or pursue further studies. We propose to establish one more youth college to provide specialised support for non-Chinese speaking students and those with special educational needs, as well as alternative progression pathways for young people. The new college is expected to provide 420 additional places.

Training of Construction Workers

116. Public expenditure on infrastructure will remain high in the next few years. The construction output of the private sector will also go up as a result of increased land supply. This will open up opportunities for the construction industry but will also pose a challenge to its manpower. Last year, we earmarked \$100 million for the Construction Industry Council to take forward initiatives such as upgrading the skills of workers through training and trade tests, and attracting more people to join the industry through public education. These efforts have started to deliver results. If necessary, we will allocate more resources to strengthen such training.

Supporting Students with Special Educational Needs

117. The Education Bureau (EDB) will extend the School-based Educational Psychology Service, giving secondary and primary schools greater support to help students with dyslexia and other special educational needs. The service, now covering 55% of schools, will be extended progressively to cover all public sector secondary and primary schools by the 2016-17 school year.

Research Funding for the Higher Education Sector

118. In the face of intense global competition, increased investment in research and development is crucial to enhancing our competitiveness. The Government set up an \$18 billion Research Endowment Fund in 2009 as a long-term commitment to promoting academic research in tertiary institutions. With the support of this Fund, we have introduced the Theme-based Research Scheme to finance research projects of strategic importance to the long-term development of Hong Kong.

119. In recent years, Hong Kong's research activities in a number of fields have attained international recognition. Our universities are now among the top in the region and the world. I propose to inject \$5 billion into the Fund. Of that, \$3 billion will fund self-financing tertiary institutions on a competitive basis to enhance academic and research development. The

investment income of the remaining \$2 billion will replace the recurrent provision of \$100 million to the Research Grants Council to provide stable research funding for UGC-funded institutions.

Developing Electronic Textbooks

120. The use of e-learning resources has become a major trend in education. Apart from providing students with an interactive mode of learning, electronic textbooks and learning resources allow more flexibility in textbook compilation, lower production costs, reduce wastage and help achieve reasonable pricing. This is a desirable alternative to printed textbooks, which is currently the only option available on the market.

121. The Government is committed to developing e-learning resources. An EDB task force set up in mid-2011 will review teaching and learning materials and explore ways to better utilise the advantages of e-learning and improve the provision of textbooks.

Review of Student Financial Assistance

122. The community is concerned about the interest rate and repayment arrangements for loans to post-secondary students. The Government has commenced a review of non-means-tested loan schemes. The review covers the scope of eligible programmes, loan amounts, interest rates and repayment arrangements under the schemes, as well as measures to reduce the default rate. We will consult the public on the detailed recommendations by the end of this year.

C. Quality Life

Environmental Protection and Conservation

123. I have advocated the concept of "Progressive Development" which attaches importance to environmental protection and heritage conservation while pursuing economic development. This would provide our people with a quality city life.

Improving Air Quality

124. We have done a great deal over the past few years to tackle major sources of local air pollution, ranging from electricity generation and fuel combustion to emissions from vehicles and vessels. To further improve air quality, we will next focus on reducing roadside air pollution.

Environment-friendly Buses

125. To improve roadside air quality, we must reduce emissions from large buses. We are conducting trials of retrofitting Euro II and Euro III franchised buses with catalytic reduction devices to reduce their nitrogen oxide emissions. Subject to the test results, we will retrofit all these buses with such devices.

126. Last year, I proposed to impose additional requirements in the new franchises for bus companies to switch to zero-emission buses or the most environment-friendly buses when replacing diesel buses due for retirement. To prepare for the change, apart from encouraging the testing of hybrid buses, we will ask all franchised bus companies to test zero-emission electric buses as soon as possible. I propose to earmark \$180 million for franchised bus companies to purchase 36 electric buses for trial runs on a number of routes to assess their performance in different conditions. If the test results are satisfactory, the Government will encourage franchised bus companies in a suitable way to use electric buses on a much

larger scale, taking into account the affordability of the bus companies and passengers.

Enhancing Vehicle Maintenance

127. Petrol and liquefied petroleum gas vehicles without proper maintenance will emit excessive colourless exhaust gases that increase the roadside concentration of nitrogen oxides. We will introduce remote sensing equipment and advanced emission tests to control emissions from these vehicles. We have also set aside \$150 million to provide a one-off subsidy to owners of liquefied petroleum gas taxis and light buses for replacing catalytic converters in their vehicles, which will improve their green performance.

Clean Fuels for Vessels

128. We will explore with the governments of Guangdong, Shenzhen and Macao proposals for requiring ocean-going vessels to switch to low-sulphur diesel while berthing in Pearl River Delta (PRD) waters, and setting up an Emission Control Area in PRD waters. We will also study, in collaboration with the relevant trades, ways to improve the quality of vessel fuels sold locally to reduce vessel emissions.

Updating Hong Kong's Air Quality Objectives

129. We have consulted the public on updating our air quality objectives (AQOs) and the associated improvement measures. The AQOs are statutory standards. We will draw up the final recommendations for updating the AQOs and make a proposal to this Council.

Combating Global Warming

130. Last year, we devised Hong Kong's Climate Change Strategy and Action Agenda and proposed setting a target to reduce the carbon intensity level in Hong Kong by 50-60% by 2020 as compared with 2005. We also suggested a number of emission reduction measures and are now seeking input from

the community to improve energy efficiency and enhance the management of electricity demand.

131. On the wider use of clean energy, we are consolidating views collected during public consultation. In deciding the power generation fuel mix in the future, we will take into account the impact of the Fukushima incident earlier this year on nuclear energy development, and balance such factors as safety, reliability, environmental protection and affordability.

Nuclear Safety

132. The Fukushima nuclear incident attracted global concern. We should remain vigilant at all times. We are undertaking a comprehensive review of the Daya Bay Contingency Plan. A large-scale inter-departmental exercise with public participation will be conducted early next year to ensure the effectiveness of the Plan.

Management of Water Resources

Harbour Water Quality

133. Our efforts to improve harbour water quality over the years are producing results. We have allocated \$17 billion to collect and treat about 450 000 cubic metres of sewage currently discharged into the harbour each day. When works are finished in 2014, the harbour's water quality will improve even further.

134. We advanced the construction of some disinfection facilities at the Stonecutters Island Sewage Treatment Works. Following the commissioning of these facilities last year, the water quality in the western part of Victoria Harbour and Tsuen Wan beaches improved significantly. The long-closed beaches in Tsuen Wan now meet the water quality objectives and are suitable for swimming. Some have already been reopened.

Dongjiang Water Supply

135. We are negotiating a new agreement on the supply of Dongjiang water to Hong Kong with the Guangdong authorities. Our aim is to ensure a continuous, reliable and flexible supply of Dongjiang water to Hong Kong up to 2014.

Seawater Desalination

136. As a responsible member of the PRD Economic Zone, we strive to explore other sources of water supply to meet our own needs. We have kept abreast of the latest developments in desalination technology and prepared for the related planning and studies so that other water sources can be tapped in good time in case of water shortage. We are conducting a detailed study and field surveys to assess the feasibility and cost-effectiveness of building a medium-sized desalination plant. A site has been reserved in Tseung Kwan O.

Solid Waste Management

137. We have already raised the municipal solid waste recovery target to 55% by 2015. To this end, we will expedite legislation for the early extension of the Environmental Levy Scheme on Plastic Shopping Bags to all retail shops, and for the introduction of a new Producer Responsibility Scheme for waste electrical and electronic equipment to encourage waste reduction at source. We will also engage the public in discussions on possible options for municipal solid waste charging to provide a direct economic incentive to reduce waste. The Government will launch district-based promotional activities, such as waste reduction and recycling, through the District Councils.

138. We plan to adopt advanced technologies to treat non-recyclable waste. Planning is underway for the construction of Integrated Waste Management Facilities and organic waste treatment facilities, as well as the extension of the existing landfills. We intend to submit a funding proposal to this Council early next year.

Nature and Heritage Conservation

Geopark

139. In the past few years, the land area under statutory protection has increased despite growing urban development. At present, there are a total of 24 country parks and 22 special areas for nature conservation in Hong Kong, covering some 40% of our total land area. The Hong Kong Geopark was included in the Global Geoparks Network (GGN) last month, which is a recognition of our conservation efforts. The acceptance into the GGN makes the Hong Kong Geopark an international attraction for local and overseas visitors. It will establish a model for the co-existence of conservation and development.

Ban on Trawling

140. Legislation banning trawling in Hong Kong waters will commence operation next year. This marks a significant step in the conservation of our marine environment and the promotion of sustainable fisheries. We will put forward a bill in the current legislative session to set up a registration system for local fishing vessels and prohibit non-local fishing vessels from operating in Hong Kong waters to prevent over-exploitation. The bill will also provide for the designation of fisheries protection areas to protect important fish spawning and nursery grounds.

Conserving Central

141. Projects under the Conserving Central plan are making good progress. After taking into account public views, we have revised the plan for the redevelopment of West Wing of the Central Government Offices, expanding the public open space to be provided and significantly reducing the scale of the shopping arcade in the new development. Part of the new complex will be used to accommodate the Securities and Futures Commission and the Hong Kong Stock Exchange to enhance Central's image as a core financial district.

Food Safety

142. Local and overseas food incidents in recent years have aroused public concern. Since 2004, the Government has introduced or revised 12 food safety laws, including the new Food Safety Ordinance, which can help trace the source of problem food. In the coming year, we will improve our food safety system and standards by enacting legislation to regulate the import of high risk food and the amount of pesticide residues in food. We will continue to perform our gate-keeping role effectively.

Art and Culture

143. To tie in with the development of the West Kowloon Cultural District, the Government has made continuous efforts to develop programmes, build audience base, promote art education and nurture talent. To attract patronage, the Leisure and Cultural Services Department (LCSD) will use new technology and innovative presentation methods in the exhibitions on the Private Paradise of Emperor Qianlong and the treasures of the First Emperor of China to be held next year. Apart from the establishment of a Bruce Lee Gallery in the Hong Kong Heritage Museum, the LCSD plans to renew the permanent exhibitions of a number of museums to build a broader audience base.

Sports Development

144. Through the newly established \$7 billion Elite Athletes Development Fund, we will support elite athletes to better meet their needs during and after their active sporting career, including improving the career pathways for retired athletes. We are also studying the financing options and mode of operation of the proposed multi-purpose stadium complex at Kai Tak and will start the preliminary work as soon as possible. We will continue to plan and build more sports facilities in various districts.

District Minor Improvement Works

145. To enable the District Councils to improve district facilities continuously and manage and maintain the completed facilities, we will increase the annual provision under the District Minor Works Programme progressively to \$400 million within the next two District Council terms. The additional funding will cover project costs and the recurrent expenditure of the completed facilities.

Animal Welfare

146. There has been growing public concern about animal rights and welfare in recent years. We will examine with relevant groups ways to facilitate the adoption of stray cats and dogs by the public. Furthermore, we are helping relevant groups implement the Trap-Neuter-Return trial programme, and will consult the relevant District Councils on this matter.

D. Strengthening the Economy

147. After the financial tsunami in 2008, Europe and the US have lived under the menace of recession for the past two years. The pace of economic recovery in the US has slowed, and the sovereign debt crisis in Europe has deepened. The driving force for development has shifted to Asia and the BRICS (Brazil, Russia, India, China and South Africa). The global economic landscape is changing after the financial tsunami. During my overseas visits in recent years, I have observed that China's development has become the focus of world attention. To maintain Hong Kong's competitiveness, we must seize new development opportunities both in the Mainland and globally.

Complementing the 12th Five-Year Plan

148. In the National 12th Five-Year Plan, our country has expressed her support for Hong Kong to reinforce and enhance our status as an international centre for financial services, trade and shipping, and to develop industries where we enjoy competitive advantages. Apart from continuing to implement CEPA, our country supports the development of a financial co-operation zone led by Hong Kong's financial system, and an advanced global manufacturing and modern services base, under the Framework Agreement on Hong Kong/Guangdong Co-operation. It also supports the opening up of service industries in the Mainland to Hong Kong's service providers, starting with pilot programmes in Guangdong. We will take forward these policy measures actively, with emphasis on strengthening our co-operation with Guangdong.

Market Development

Emerging Markets

149. We will strengthen trade and investment co-operation with emerging markets and actively negotiate closer economic and trade arrangements with our trading partners, so as to

expand market and business opportunities for our enterprises engaged in the trading of goods and services. Apart from exploring the possibility of a free trade agreement with Chile, we will soon negotiate with Russia an agreement on investment promotion and protection. We are also actively exploring the possibility of joining the trade and economic co-operation arrangements among East Asian economies, and strengthening our links with stock markets in the BRICS.

Mainland Market

150. To help Hong Kong enterprises tap the Mainland market, we propose setting up a dedicated fund of \$1 billion to encourage them to move up the value chain and build brands by leveraging Hong Kong's strengths in design. We will seek to sign Supplement VIII to CEPA by the end of this year. The Central Government has clearly indicated that the markets for Hong Kong's trade in services will be further opened up and has set a target to basically achieve full liberalisation of trade in services for Hong Kong by the end of the 12th Five-Year Plan period. I have asked the Financial Secretary to follow up in earnest.

Regional Co-operation

Chengdu-Chongqing Economic Zone and Economic Zone on the West Coast of the Taiwan Strait

151. In the 12th Five-Year Plan, the development of western China, the Chengdu-Chongqing Economic Zone and the Economic Zone on the West Coast of the Taiwan Strait have been made key strategies of regional development. To capitalise on the opportunities in these areas, we plan to strengthen and deepen our multi-faceted co-operation with the Chengdu-Chongqing area and Fujian by setting up dedicated liaison units in Chongqing and Fujian.

Taiwan

152. We are actively preparing for the establishment of the Hong Kong Economic, Trade and Cultural Office in Taiwan, with a view to promoting multi-faceted, multi-level exchanges between the two places. Apart from enhancing economic and trade co-operation, the two places will also set up standing notification mechanisms on food safety and healthcare emergencies, strengthen legal co-operation in civil and commercial matters, and step up exchanges on education.

Development of the Six Industries

153. To diversify our economy, we will further develop the six industries where we enjoy clear advantages.

Medical Services

154. We have reserved four sites for private hospital development, and plan to put up two of them for tender in the first quarter of 2012. We will continue to identify sites for developing medical institutions of different scales. We will also attach conditions to the development of private hospitals to ensure that their services meet public needs. Such conditions will cover the scope of service, service level and price transparency.

Environmental Industries

155. We will adopt the following approaches to promote the development of environmental industries. First, a resource-driven approach. We have spent over \$30 billion on environmental projects, creating numerous opportunities for the environmental engineering sector. Second, a policy-driven approach. Owing to our measures to promote waste reduction and recycling, the recycling industry in Hong Kong has taken shape. The enactment of legislation on energy efficiency of buildings will also bring about new business opportunities for the green building sector. Third, we will capitalise on Hong Kong's advantages to open up business opportunities in the Mainland for our environmental industries. The Government

will support the industry's participation in such activities as environmental exhibitions and trade missions to help build local environmental brands.

Testing and Certification

156. The Government will implement the three-year development plan for the testing and certification industry to enhance its overall competitiveness. We will develop new services in four selected trades, namely, Chinese medicine, construction materials, food and jewellery. Also, we have secured the agreement of the Central Government to expand the scope of the pilot scheme for Hong Kong testing organisations to undertake product testing for the China Compulsory Certification System.

Education Services

157. To internationalise and diversify our higher education sector, we will attract more overseas students to Hong Kong, and extend student exchange programmes to cover the sub-degree level. We will also provide more hostel places through active collaboration with local institutions. We support the construction of college premises by post-secondary institutions through granting land and loans. The Queen's Hill site is expected to be put up for application next year. In addition, a \$2.5 billion Self-financing Post-secondary Education Fund will be launched to provide scholarships and enhance the quality of teaching and learning. We also propose to extend the ambit of the Start-up Loan Scheme to support the development of student hostels by self-financing degree awarding institutions. The total commitment of the Scheme will be increased by \$2 billion.

158. With four international schools coming on stream, we estimate that some 5 000 additional international school places will be provided in the next few years. We will continue to support the in-situ expansion of individual international schools or allocate suitable vacant school premises to them for short-term use.

Innovation and Technology

159. Since there is increasing global demand for data services, the Government has reserved about two hectares of land in Tseung Kwan O for data centre use. The first such site is expected to be put up for open auction in 2013 at the earliest. The Hong Kong Science and Technology Parks Corporation will review the use of industrial estates and promote their revitalisation to support data centre development. Furthermore, we will seriously consider the feasibility of developing data centres in revitalised industrial buildings. The Government will encourage the local industry to develop advanced cloud computing technologies and applications. In the next few years, we will develop a government cloud platform and procure public cloud services.

160. We will review the Research and Development Cash Rebate Scheme and the Small Entrepreneur Research Assistance Programme to better support the research and development efforts of small and medium enterprises (SMEs). During his visit to Hong Kong, Vice-Premier Li Keqiang announced the setting up of a Hong Kong branch of the Chinese National Engineering Research Centre and a High-tech Industrialisation Base in Hong Kong. We are following up on the matters. In addition, we have proposed to the Central Government the development of a National High-tech Industrialisation Base for green technology at the Hong Kong Science Park.

Cultural and Creative Industries

161. We launched the Arts Capacity Development Funding Scheme this year. The Scheme will provide annual funding of about \$30 million to subsidise promising art groups and art practitioners as well as large-scale, long-duration activities. The scheme also features a matching grant element to cultivate a supportive culture for the arts in the community and to foster a tripartite partnership among the Government, art groups and the private sector. In addition, we will allocate resources to the Hong Kong Arts Development Council for the provision of art

space at suitable industrial premises. Such space will be available for rent by artists at concessionary rates.

162. We will allocate more resources to enhance our support for the Hong Kong Design Centre. We plan to designate 2012 as “Hong Kong Design Year”, which will encompass a number of mega events on design to consolidate Hong Kong’s position as Asia’s creative hub.

Pillar Industries

Boosting the Competitiveness of the Financial Sector

163. Hong Kong is strategically positioned as China’s global financial centre. We will introduce measures to boost the competitiveness of our financial sector.

Offshore Renminbi Business

164. To reinforce our offshore Renminbi (RMB) business platforms, we will promote the use and circulation of RMB funds, and establish strong and extensive links with the Mainland’s onshore RMB market by three “bridges”, namely trade, direct investment and equity investment:

- (i) On trade, we will encourage our banks to develop worldwide RMB business networks to consolidate Hong Kong’s position as a global trade settlement platform;
- (ii) On direct investment, with the introduction of measures for the administration of foreign direct investment in RMB, enterprises will have greater demand for RMB funds. We will further develop our RMB fund raising services in the form of bank loans and the issue of bonds and shares; and
- (iii) On equity investment, the arrangements to facilitate investment in the Mainland’s interbank bond market and investment by Qualified Foreign

Institutional Investors will open up more investment channels for Hong Kong's RMB funds. We will strive to extend these arrangements further.

In addition, we will encourage the diversification of our financial markets and products, and actively promote Hong Kong's role as an offshore RMB business centre internationally.

Other Enhanced Measures

165. To diversify Hong Kong's listing platform, we will attract more enterprises from the European, US and emerging markets to list in Hong Kong by enhancing the regulatory regime, including enacting legislation within this legislative year to oblige listed corporations to disclose price sensitive information. We will also broaden and deepen our bond market, and seek to finish updating the Companies Ordinance in this legislative year. We will actively take forward the establishment of an independent Insurance Authority and enhance the regulatory regime for insurance intermediaries. We will also prepare proposals for the establishment of a policyholders' protection fund, which will form the basis of the relevant legislation.

166. We are actively following up on the measures related to financial services announced by Vice-Premier Li during his visit to Hong Kong.

Tourism Sector

167. Last year, I announced that the operation and regulatory framework of Hong Kong's tourism sector would be reviewed. We then issued a consultation paper and are now considering the views received. We will announce reform proposals by the end of this year. On tourism infrastructure, Ocean Park is now actively studying the feasibility of building an all-weather Water World and supporting facilities at Tai Shue Wan, while Disneyland is exploring further expansion. The new Kai Tak cruise terminal and its first berth will start operation in mid-2013.

Logistics

168. To help the logistics industry provide high value services, we progressively make available long-term sites for the construction of modern logistics facilities. The second logistics site at Tsing Yi is expected to be put up for open tender by the end of this year. To satisfy the development needs of the industry, we will continue our efforts to identify sites for backup facilities.

169. The Airport Authority has completed the public consultation on the airport's future development, including the construction of a third runway. It will submit recommendations on the way forward in late 2011.

Competition Bill

170. The Government has put forward the Competition Bill to protect consumer interests and maintain our competitive edge. The Government has been working closely with this Council to assist the Bills Committee in scrutinising the Bill since its introduction in July last year. I am aware that the business sector, in particular SMEs, have expressed concern about the Bill in its present form. The Commerce and Economic Development Bureau will soon propose amendments to the Bills Committee. I hope that the Bill will be enacted within the current legislative session.

Helping Small and Medium Enterprises

171. The recent sharp downturn in the external economy is more worrying than inflation. The sovereign debt crisis in Europe may have a sharp impact on the global financial system and trigger a recession. Our economy will face greater downside risks next year. We must brace ourselves for this and keep a close watch on changes in the external environment. We will pay particular attention to the difficulties of SMEs and introduce necessary measures to tide them over.

E. One Country, Two Systems

172. We are now in the 15th year of Hong Kong's reunification with the motherland. There have been ups and downs along the way. To move forward, we have to take stock of our experience in implementing "One Country, Two Systems", "Hong Kong people administering Hong Kong" with a high degree of autonomy and the Basic Law in an objective and pragmatic manner. I would like to share my observations about the implementation of several fundamental principles and policies since reunification.

One Country, Two Systems

173. "One Country, Two Systems" is an innovative concept. In the early stage of implementation, a considerable number of people doubted its feasibility and the Central Government's determination to stand by it.

174. Progress made since reunification has gradually dispelled such doubts and worries. Hong Kong has developed closer ties with our country, and our people have a much stronger sense of national identity. We have successfully ensured the effective operation of our system while upholding and reinforcing our core social values, including the rights and duties that Hong Kong people cherish, such as freedom, the rule of law and human rights. I believe that all these achievements prove that "One Country, Two Systems" is not only feasible but has also been successfully implemented in Hong Kong.

Support from the Central Government

175. After reunification, Hong Kong faced a number of severe challenges. Thanks to measures introduced by the Central Government, Hong Kong has been able to move on steadily and contribute to our country by leveraging our unique strengths. The Central Government has not only ensured a high degree of autonomy for Hong Kong as enshrined in the Basic Law, but also given us help and support in a timely and selfless manner. On

behalf of Hong Kong, I would like to extend my heartfelt gratitude once again to the Central Government.

High Degree of Autonomy

176. The Basic Law confers upon the HKSAR extensive executive, legislative and independent judicial power, including that of final adjudication. As “One Country, Two Systems” is, after all, a new concept, it is inevitable that some issues will arise that require clarification in the early years of our exercise of a high degree of autonomy.

177. An example is the recent interpretation of the Basic Law by the NPCSC in relation to the Congo case heard by the Court of Final Appeal. As a common law jurisdiction, Hong Kong has a different legal system from the Mainland. The NPCSC’s interpretation clarifies the application of the doctrine of state immunity in Hong Kong, stating that the determination as to rules or policies on state immunity is an act of state involving foreign affairs, and that the relevant laws previously in force in Hong Kong may continue to be applied only if they comply with the state rules. This clearly demonstrates that the gradual clarification and perfection of the boundary of autonomy in the course of implementation is a necessary and natural process.

F. Democratic Development

Constitutional Development

178. The current-term Government has made two significant breakthroughs in constitutional development. First, we achieved a timetable for universal suffrage. Second, we secured the passage of the 2012 constitutional reform package, which significantly enhances the democratic elements of the electoral arrangements.

179. These new developments prove that the “five-step mechanism” laid down by the NPCSC in 2004 is practicable. They also demonstrate the capability of the Government and this Council to reach a consensus on the constitutional development of Hong Kong. We can move forward through candid discussion and co-operation and by seeking common ground while accommodating differences. The door to universal suffrage is now open. The future Administration will need to continue to engage the public in discussions about the implementation of universal suffrage and devise options acceptable to all.

Political Groups and Talent

180. The hardware of a political system cannot function without the supporting software, of which political groups and political talent are both crucial elements.

181. Political groups play a pivotal role in society. They convey public opinions and their own stances on policies to the Government. They also monitor public governance through their members elected to the Legislative Council. With progress in our democratic development, political groups will play an even more important role.

182. The Government has and will continue to put in place a series of measures to nurture political talent in Hong Kong. These include:

- (i) Further developing the Political Appointment System to absorb into the Government talented people from different backgrounds, including those with political affiliations, broadening the avenues of political participation for people from different sectors;
- (ii) Increasing the number of elected seats in this Council and District Councils to open up more opportunities for people from different sectors to partake in politics; and
- (iii) Increasing the rate of financial assistance for candidates running in District Council and Legislative Council elections.

Political Ethics

183. All politicians, whether members of the executive authorities or the legislature, should act in the overall public interest, even if they do not share the same view. In fact, our experience over the past few years shows that to promote social development, an accommodating political culture is essential. If political groups refuse to make the slightest compromise or even resort to fierce confrontational tactics, social progress will be stifled.

Political Appointment System

184. The Government introduced the Political Appointment System to enhance the accountability of Principal Officials for their respective policy portfolios, maintain a permanent and politically neutral civil service, and bring in suitable people to take up Principal Official positions to serve the community. Political appointments are common in democracies. In Hong Kong, however, the system has been in place for just under a decade. This is a new system, which brings about new

challenges as well. Our Political Appointment System is evolving. We will continue to listen carefully to views both inside and outside the Government. We will also draw on our experience to fine-tune and perfect this system and ensure that it progresses with the times. This will help us prepare for universal suffrage.

The Civil Service

185. In response to rising community expectations, our civil servants will uphold their professionalism and deliver quality services in pursuit of excellence. I extend my heartfelt thanks to the civil service for their sustained efforts. Relocation of bureaux to the new Central Government Complex at Tamar is now underway. I believe our civil service will put into practice the new complex's design concepts of "connecting people" and "keeping the door open" and continue serving and contributing to the community in an accommodating manner by adhering to the principle of putting people first.

National Education

186. To strengthen students' sense of national identity and commitment to national development, we should help them gain a comprehensive understanding of our motherland from different perspectives through systematic study.

187. We consulted the public on the implementation of the Moral and National Education Curriculum this year. The education sector generally agrees with the philosophy and importance of introducing the curriculum, and has given valuable views on the mode and timetable of delivery, curriculum content and support measures. The Curriculum Development Council will submit revised proposals to the Government shortly for detailed consideration.

G. Challenges Ahead

188. Mr President, I joined the Government more than 40 years ago as an Executive Officer II, and worked my way up to become the Chief Executive. I have witnessed the ups and downs as well as changes in Hong Kong and I have also grown along the way. Now I have reached the last stage of my public service career, with only eight more months to go before the end of my term of office. As for my performance as Chief Executive, that will be for the public to judge. However, I feel obliged to share with the public my experience in administering Hong Kong over the past seven years.

189. I believe that there are major economic, livelihood and political challenges for Hong Kong, which cannot possibly be fully overcome by the current-term Government within a short time. Whether Hong Kong can overcome these challenges in future will have far-reaching implications.

Role of the Government

190. Over the years, we have been administering Hong Kong under the core principle of “Big Market, Small Government”, giving precedence to a free market with the Government assuming a subsidiary role. This has formed the basis of our financial management philosophy of maintaining a low tax regime, keeping expenditure within the limits of revenue, and strictly controlling recurrent government expenditure. The economic restructuring of Hong Kong in the past three decades was a response to the changing global economic trend, rather than centrally planned. It was driven by the market and entrepreneurs, and actively supported by the Government. However, this approach is being challenged.

191. First, the wealth gap has given rise to the demand for income redistribution. Economic globalisation and job polarisation have led to competition for local well-paid jobs among people from around the world, while the income of low-skilled workers remains stagnant. Furthermore, technological

development and the migration of local industrial operations to the Mainland have resulted in the gradual loss of certain blue-collar jobs and middle management jobs. People in such posts need to upgrade their skills to cope with the demands of a knowledge-based economy if they are to keep their jobs. The widening wealth gap resulting from all these changes has prompted the public to call for government intervention to redistribute income and narrow the gap between the rich and the poor through public policies and fiscal measures. People are having higher and higher expectations of the Government's role.

192. The wealth gap has become a structural cause of social tension. Those working in globalised and high-end economic sectors, such as the financial sector, have seen their pay rising continuously. On the contrary, those in low-end service sectors have had to live with a consistently low income. In addition, the disappearance of middle-level positions has removed a rung on the ladder for upward mobility. The wealth gap generated by globalisation is all the more acute in a city economy like Hong Kong. I believe that it is difficult to solve the problem completely. However, we will ease the resulting tensions through various policy measures.

193. I think Hong Kong should continue to follow the fundamental principle of maintaining a low and simple tax regime and a market-led economy. It is simply not feasible to support a significant increase in recurrent welfare expenditure by raising taxes or issuing bonds. In the wake of the financial tsunami, many European governments have been caught in public finance crises and forced to cut expenditure, which gives rise to social unrest in the end. We have to remind ourselves at all times not to follow in their footsteps. While increasing public welfare spending is always popular, we have to be aware of the consequences of over-expansion. Also, we have to bear in mind that raising taxes will make Hong Kong less attractive to enterprises, and running a fiscal deficit and issuing bonds regularly will adversely affect Hong Kong's credit ratings. As a highly open economy, Hong Kong must preserve the distinct economic features that have underpinned our success.

194. Market forces represent collective wisdom. The Government should not step in without good reason. But neither should it adopt a completely hands-off approach. When the market fails, the Government should intervene as appropriate. The introduction of subsidised housing and the statutory minimum wage, for example, highlights the importance of appropriate government intervention.

195. At present, under the principle of fiscal prudence, public expenditure is targeted at a level not exceeding 20% of our Gross Domestic Product. We should maintain this fiscal discipline, which practical experience shows will help us maintain our long-term competitiveness and respond to sudden changes in the global economy. Nevertheless, this does not mean that the Government pays no heed to the hardships of people in need. The Government should help low-income families in a strategic way. During my term of office, I put through legislation for a statutory minimum wage and introduced a direct transport subsidy for low-income workers. I introduced many direct relief measures when fiscal conditions allowed.

196. Another challenge to our philosophy of public administration comes from the expectation that the Government should do more in economic planning and the selection and nurturing of industries in order to sharpen our competitive edge.

197. We have to be pragmatic in this regard. Macro planning, market intervention and favourable industry-specific policies should strictly follow the principle of “capturing opportunities and capitalising on strengths” instead of being dictated by dogma or the wishes of senior officials. Hong Kong is a small and open economy. We cannot turn back the global tide of change, but we can ride on the wave of change. Very often, entrepreneurs are more sensitive to business opportunities than government officials. What the Government should do is support them by, for example, allocating land, providing financial assistance, facilitating business matching and concluding economic agreements. The aim is to do what we can do best, as well as maximise our existing strengths.

Ageing Population

198. Apart from the challenges concerning the Government's role, Hong Kong is beset with the problem of an ageing population. Advanced economies around the world face the same problem. With a lower birth rate and longer life expectancy, the number of dependent elderly people has been increasing, calling into question in many countries the sustainability of their public healthcare and welfare systems.

199. We should move fast to tackle this challenge. I have mentioned just now that we need new blood. We have to maintain an open immigration policy and attract more talent from outside Hong Kong. We should plan ahead and make preparations for the return of Hong Kong children living in the Mainland.

200. In regard to retirees, we will introduce policies to help the elderly to retire in the Mainland. Portability of their welfare benefits is the key factor in determining whether they choose to retire in the Mainland. We need to conduct a comprehensive study on the portability of various welfare benefits, including services provided by residential care homes for the elderly, hospitals and clinics. We will consider whether such services should be extended for our elderly people residing in the Mainland from the perspectives of law, policy and public finance.

Political Reform

201. Finally, on the political front, there has been intense debate in the community since reunification on the subject of universal suffrage. Now that the timetable is fixed, differences in public opinion are gradually narrowing. We should allow democracy to take root in Hong Kong, maintain high administrative efficiency and build consensus in the community. To this end, we need to focus our thinking and design a suitable political system accordingly. Matters to consider include the role of political groups, the relationship between the executive authorities and the legislature, the nurturing of political talent

and political ethics. We also have to safeguard our core values of solving problems rationally and respecting one another. At the same time, with a humble spirit, we should study and compare the experiences of other democratic countries in implementing their democratic systems.

202. As for administrative reform, the global political and economic landscape is undergoing revolutionary changes. People are expecting their governments to do more. Here in Hong Kong, we have introduced the political accountability system to respond more swiftly to public aspirations. We need to review our administrative system to ensure it is compatible with future democratic development. Aspects to be considered include the definition of the roles and responsibilities of political appointees and civil servants; establishment and mobility; allocation of financial, manpower and land resources within the Government and the relevant procedures; further devolution of powers to district administration; division of work among heads of bureaux and their subordinate departments; and arrangements for policy formulation, advocacy and consultation.

203. Like other governments around the world, we are facing another unprecedented political challenge, which is the changing political landscape arising from the popularisation of online social media. The traditional channel of political participation in Hong Kong has been through the system of representative government, under which representatives of public opinion returned by elections are empowered to participate in policy formulation. With the emergence of new online networks, the younger generation now expresses their political views and participates in politics through social action. These online networks and youth-driven social action are transforming the conventional, mainstream political ecology. It is imperative for the Government to address the diverse demands of young people and improve communication with them. We are still exploring the way forward.

H. Believing in Ourselves

204. Throughout my years in public service, I have always believed in our people, in their rational and accommodating attitude, and in their ability to set aside differences and strive for consensus in the face of challenges. Although we experienced some setbacks after reunification, we have managed to get back on our feet every time. The following figures illustrate our achievements in the past decade or so.

205. First, the size of our economy expanded by 55% in real terms between 1997 and 2010; the number of jobs increased by 500 000; our employed population reached a record high of 3.64 million; and the average income of full time employees grew by 31% in real terms. By virtue of our economic strengths, Hong Kong's credit rating was upgraded to "AAA", making Hong Kong one of the two Asian economies with such a rating. Hong Kong's stock market capitalisation increased almost sevenfold to \$21 trillion. In the past two years, funds raised through initial public offerings on the Stock Exchange of Hong Kong were the highest in the world. This year, Hong Kong topped the World Competitiveness Survey together with the US.

206. On people's livelihood, public expenditure registered an accumulated growth of 55%, which demonstrates our commitment to sharing the fruits of economic prosperity with our people and improving their living standards. As socio-economic conditions have improved, life expectancy is now three years longer than in 1997. The percentage of our young people in the relevant age cohort having access to post-secondary education has more than doubled. Free education has been extended from 9 years to 12 years, and pre-primary education is now also subsidised. For labour protection, a minimum wage has been enacted, and the Government now operates on a five-day week basis.

207. On the political front, we have set the timetable for universal suffrage and taken the two elections in 2012 closer to this ultimate goal by adopting methods that are more open and contain greater democratic elements. Compared with the pre-1997 era, political groups are now more active. The Government is more open and more transparent in policy making, and has gained successful experience in crisis management. We have upheld the rule of law, with our sophisticated common law system winning worldwide acclaim.

208. These are certainly Hong Kong's achievements, and the results of the hard work of every member of the community. Although we may not see eye to eye on our future development, we should not belittle ourselves and underestimate what we ourselves and Hong Kong have achieved and will go on to achieve.

209. Hong Kong is a city of migrants. Our forebears from diverse origins came to this tiny island simply to earn a living and build their homes. They worked hard through the years and, without realising it, created a unique city with its own character. We cherish freedom, respect the rule of law, and treasure equality, justice, integrity, pluralism and inclusiveness. These are the core values of Hong Kong.

210. There have been worries that our core values would be lost after reunification. In fact, these core values have remained intact. I love Hong Kong and our country as much as every one of you. By safeguarding our core values whole-heartedly, we will be able to continue making unique contributions to our country and ensure the lasting success of "One Country, Two Systems". Hong Kong will then go from strength to strength and build a brighter future.