

OFFICIAL RECORD OF PROCEEDINGS

Wednesday, 26 February 2014

The Council met at Eleven o'clock

MEMBERS PRESENT:

THE PRESIDENT

THE HONOURABLE JASPER TSANG YOK-SING, G.B.S., J.P.

THE HONOURABLE ALBERT HO CHUN-YAN

THE HONOURABLE LEE CHEUK-YAN

THE HONOURABLE JAMES TO KUN-SUN

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

THE HONOURABLE LEUNG YIU-CHUNG

DR THE HONOURABLE LAU WONG-FAT, G.B.M., G.B.S., J.P.

THE HONOURABLE EMILY LAU WAI-HING, J.P.

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

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

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

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

THE HONOURABLE VINCENT FANG KANG, S.B.S., J.P.

THE HONOURABLE WONG KWOK-HING, B.B.S., M.H.

PROF THE HONOURABLE JOSEPH LEE KOK-LONG, S.B.S., J.P., Ph.D.,
R.N.

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

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

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

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

THE HONOURABLE CYD HO SAU-LAN

THE HONOURABLE STARRY LEE WAI-KING, J.P.

DR THE HONOURABLE LAM TAI-FAI, S.B.S., J.P.

THE HONOURABLE CHAN HAK-KAN, J.P.

THE HONOURABLE CHAN KIN-POR, B.B.S., J.P.

DR THE HONOURABLE PRISCILLA LEUNG MEI-FUN, S.B.S., J.P.

DR THE HONOURABLE LEUNG KA-LAU

THE HONOURABLE CHEUNG KWOK-CHE

THE HONOURABLE WONG KWOK-KIN, B.B.S.

THE HONOURABLE IP KWOK-HIM, G.B.S., J.P.

THE HONOURABLE MRS REGINA IP LAU SUK-YEE, G.B.S., J.P.

THE HONOURABLE PAUL TSE WAI-CHUN, J.P.

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

THE HONOURABLE LEUNG KWOK-HUNG

THE HONOURABLE ALBERT CHAN WAI-YIP

THE HONOURABLE CLAUDIA MO

THE HONOURABLE MICHAEL TIEN PUK-SUN, B.B.S., J.P.

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

THE HONOURABLE NG LEUNG-SING, S.B.S., J.P.

THE HONOURABLE STEVEN HO CHUN-YIN

THE HONOURABLE FRANKIE YICK CHI-MING

THE HONOURABLE WU CHI-WAI, M.H.

THE HONOURABLE YIU SI-WING

THE HONOURABLE GARY FAN KWOK-WAI

THE HONOURABLE MA FUNG-KWOK, S.B.S., J.P.

THE HONOURABLE CHARLES PETER MOK

THE HONOURABLE CHAN CHI-CHUEN

THE HONOURABLE CHAN HAN-PAN

DR THE HONOURABLE KENNETH CHAN KA-LOK

THE HONOURABLE CHAN YUEN-HAN, S.B.S., J.P.

THE HONOURABLE LEUNG CHE-CHEUNG, B.B.S., M.H., J.P.

THE HONOURABLE ALICE MAK MEI-KUEN, J.P.

DR THE HONOURABLE KWOK KA-KI

THE HONOURABLE KWOK WAI-KEUNG

THE HONOURABLE DENNIS KWOK

THE HONOURABLE CHRISTOPHER CHEUNG WAH-FUNG, J.P.

DR THE HONOURABLE FERNANDO CHEUNG CHIU-HUNG

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

DR THE HONOURABLE HELENA WONG PIK-WAN

THE HONOURABLE IP KIN-YUEN

DR THE HONOURABLE ELIZABETH QUAT, J.P.

THE HONOURABLE MARTIN LIAO CHEUNG-KONG, J.P.

THE HONOURABLE POON SIU-PING, B.B.S., M.H.

THE HONOURABLE TANG KA-PIU

DR THE HONOURABLE CHIANG LAI-WAN, J.P.

IR DR THE HONOURABLE LO WAI-KWOK, B.B.S., M.H., J.P.

THE HONOURABLE CHUNG KWOK-PAN

THE HONOURABLE CHRISTOPHER CHUNG SHU-KUN, B.B.S., M.H., J.P.

THE HONOURABLE TONY TSE WAI-CHUEN

MEMBERS ABSENT:

THE HONOURABLE WONG YUK-MAN

THE HONOURABLE KENNETH LEUNG

PUBLIC OFFICERS ATTENDING:

THE HONOURABLE MRS CARRIE LAM CHENG YUET-NGOR, G.B.S., J.P.
THE CHIEF SECRETARY FOR ADMINISTRATION

THE HONOURABLE JOHN TSANG CHUN-WAH, G.B.M., J.P.
THE FINANCIAL SECRETARY

THE HONOURABLE RIMSKY YUEN KWOK-KEUNG, S.C., J.P.
THE SECRETARY FOR JUSTICE

PROF THE HONOURABLE ANTHONY CHEUNG BING-LEUNG, G.B.S.,
J.P.
SECRETARY FOR TRANSPORT AND HOUSING

THE HONOURABLE TSANG TAK-SING, G.B.S., J.P.
SECRETARY FOR HOME AFFAIRS

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

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

THE HONOURABLE GREGORY SO KAM-LEUNG, G.B.S., J.P.
SECRETARY FOR COMMERCE AND ECONOMIC DEVELOPMENT

THE HONOURABLE RAYMOND TAM CHI-YUEN, G.B.S., J.P.
SECRETARY FOR CONSTITUTIONAL AND MAINLAND AFFAIRS

THE HONOURABLE LAI TUNG-KWOK, S.B.S., I.D.S.M., J.P.
SECRETARY FOR SECURITY

THE HONOURABLE EDDIE NG HAK-KIM, S.B.S., J.P.
SECRETARY FOR EDUCATION

THE HONOURABLE PAUL TANG KWOK-WAI, J.P.
SECRETARY FOR THE CIVIL SERVICE

DR THE HONOURABLE KO WING-MAN, B.B.S., J.P.
SECRETARY FOR FOOD AND HEALTH

THE HONOURABLE WONG KAM-SING, J.P.
SECRETARY FOR THE ENVIRONMENT

THE HONOURABLE PAUL CHAN MO-PO, M.H., J.P.
SECRETARY FOR DEVELOPMENT

MR SHIU SIN-POR, S.B.S., J.P.
HEAD, CENTRAL POLICY UNIT

CLERK IN ATTENDANCE:

MR KENNETH CHEN WEI-ON, S.B.S., SECRETARY GENERAL

TABLING OF PAPERS

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

Subsidiary Legislation/Instruments	<i>L.N. No.</i>
Prevention and Control of Disease (Amendment) Regulation 2014	22/2014
Prevention and Control of Disease Ordinance (Amendment of Schedules 1 and 2) Notice 2014	23/2014
Po Leung Kuk Ordinance — Resolution of the Board of Directors of the Po Leung Kuk.....	24/2014

Other Papers

- No. 77 — Government Flying Service Welfare Fund
Report by the Controller, Government Flying Service on
the Administration of the Fund and Financial Statements
for the year ended 31 March 2013
- No. 78 — The Hong Kong Academy for Performing Arts
Annual Report 2012-13 and Financial Statements for the
year ended 30th June 2013
- No. 79 — Hong Kong Arts Development Council
Annual Report 12/13
- No. 80 — AIDS Trust Fund
Financial statements for the year ended 31 March 2013
- No. 81 — Hong Kong Examinations and Assessment Authority
Financial statements for the year ended 31 August 2013
and Report on Activities September 2012 — August 2013
- No. 82 — Li Po Chun Charitable Trust Fund
Report of the Trustee on the Administration of the Fund for
the year ended 31 August 2013
- No. 83 — Estimates
for the year ending 31 March 2015
Volume I — General Revenue Account (Page 1 to 534)
Volume I — General Revenue Account (Page 535 to 980)

No. 84 — Estimates
for the year ending 31 March 2015
Volume II — Fund Accounts

Report No. 12/13-14 of the House Committee on Consideration of
Subsidiary Legislation and Other Instruments

WRITTEN ANSWERS TO QUESTIONS

Impact of Development Projects on Anderson Road on Traffic in Kowloon East

1. **MISS CHAN YUEN-HAN** (in Chinese): *President, the Anderson Road Public Housing Development and the Development of Anderson Road Quarry site are in progress and will take in their first batch of residents in 2015-2016 and 2022-2023 respectively. Upon completion of these two projects, the population of Kwun Tong will increase by 73 000. Yet, some members in the community opine that the relevant transport planning fails to tie in with such developments, and are therefore concerned that the traffic congestion problem in Kwun Tong will worsen further. In this connection, will the Government inform this Council:*

- (1) *as some residents have pointed out that although the junction of New Clear Water Bay Road and Lee On Road has been open for public use upon the completion of the extension works there, the traffic congestion problem of the district has not improved, whether the authorities have assessed the relevant traffic flows and congestion situations at the relevant road sections before and after the completion of the said works; if they have, of the details such as the data about the traffic flows of the relevant roads during peak hours and non-peak hours;*
- (2) *given that the section of Clear Water Bay Road adjacent to Choi Hung Estate cannot be widened due to insufficient space, and Choi Hung Estate has been completed for some 52 years, whether the Government will conduct studies on the redevelopment of Choi Hung Estate to release some land for the purpose of widening the relevant road section, thereby alleviating the traffic congestion situation*

there; if it will, of the details; if not, any proposal the authorities have in place to extend the relevant road section;

- (3) of the impact of the two aforesaid development projects on the traffic flows of the major roads in Kowloon East from 2017 to 2022 (including the data about the traffic flows during peak hours and non-peak hours) as estimated by the authorities; and*
- (4) whether it will further raise the maximum plot ratio of the residential site in the Development of Anderson Road Quarry site; if it will, whether it has assessed the impact of the additional population on the traffic loads in Kwun Tong District; if it will not, of the reasons for that?*

SECRETARY FOR DEVELOPMENT (in Chinese): President, as one of the measures under the Government's multi-pronged strategy for increasing land supply, the development of Anderson Road Quarry (ARQ) site is expected to provide a total of about 9 410 private and public residential units accommodating a planned population of about 25 000. In connection with the proposed ARQ development, we have consulted the Kwun Tong and Sai Kung District Councils (DCs), the Legislative Council Panel on Development and the Public Works Sub-committee. In-principle support has been obtained from Members, and funding for commencing the detailed design and site investigation works was also approved by the Legislative Council Finance Committee on 21 February this year.

The Government is aware of the concerns expressed by some Members and locals about the potential traffic impacts to be brought about by the ARQ development on Kwun Tong. According to the traffic impact assessment (TIA) conducted in relation to the ARQ development, upon implementation of a series of road/junction improvement works, pedestrian linkage facilities as well as public transport connection services recommended under the proposed development, the ARQ development will only have limited impact on the traffic of Kwun Tong town centre. The TIA also pointed out that part of the traffic flow of the Clear Water Bay Road will be absorbed by Route 6 upon its completion, and the traffic capacity released will be adequate to accommodate the traffic flow generated by the ARQ development. Besides, the traffic situation of

Kwun Tong town centre is expected to improve after completion of the redevelopment project.

That said, the Government will closely monitor the traffic situation of Kwun Tong and continue to examine measures for improving the traffic within the relevant areas.

After consultation with the Transport and Housing Bureau, my consolidated reply to the four-part question is as follows:

- (1) According to the findings of the TIA conducted by the Civil Engineering and Development Department (CEDD) for the Anderson Road Public Housing Development, the capacity of the New Clear Water Bay Road/Lee On Road junction was close to saturation in 2007 during peak hours, and the traffic volume during the afternoon peak hours exceeded its capacity. The traffic situation has already improved after the junction widening works were completed in 2012. According to the latest TIA findings for the ARQ development, the remaining capacities of the junction during morning and afternoon peak hours in 2013, being 12% and 22% respectively, were within the acceptable levels.
- (2) To alleviate the traffic congestion at the Choi Hung Interchange (CHI) during peak hours, the Transport Department (TD) has proposed short-term traffic improvement measures which include extending the public light bus (PLB) loading/unloading bay at the westbound Clear Water Bay Road near CHI in order to smoothen the flow of PLB entering the stop bay, and changing the road markings to regulate the lane changing action of vehicles to ensure unimpeded traffic flow, so as to alleviate the traffic congestion situation. The TD has consulted the Kwun Tong and Wong Tai Sin DCs on these proposals, and is considering the views received for revising and refining the scheme. The TD will continue to liaise with the DCs for implementation of the improvement measures.

In the medium term, the traffic situation of the major roads parallel with Route 6, including Tseung Kwan O Road, Kwun Tong Road, Kwun Tong Bypass and CHI within the Kwun Tong district, will

improve significantly after Route 6, which is now under design, is commissioned.

In the long term, it is possible that large-scale road improvement measures (for example, construction of an underpass or flyovers, and so on) would be necessary for CHI due to the actual growth of traffic at the road network. The construction would involve land resumption of certain areas from the Choi Hung Estate. The TD will conduct a preliminary investigation on the measures to ascertain their effectiveness in traffic improvement, so as to come up with feasible proposals for implementation when the opportunity arises upon redevelopment of the Choi Hung Estate.

Regarding the redevelopment of Choi Hung Estate, the Housing Authority (HA) currently has no concrete plan or timetable. Nevertheless, the Government is aware of the old age of Choi Hung Estate and the demand of residents, and will continue to keep the redevelopment programme of public housing estates under review. In considering the redevelopment of individual public housing estates, the HA will need to take into account the structural safety and cost effectiveness in repair works, as well as build-back potential and availability of suitable rehousing resources. Moreover, the HA will conduct a series of detailed feasibility studies on redevelopment, having regard to the specific site characteristics and developable area in the vicinity of individual aged estates. The HA will also liaise with the relevant Bureaux and departments on various supporting facilities and infrastructure in the districts concerned. Upon completion of the relevant studies, the HA will be able to confirm the development potential and feasibility of redeveloping individual housing estates and draw up the implementation programme. Local consultation will then be carried out prior to further implementation.

- (3) In the TIA conducted under the engineering feasibility study for the ARQ development by the CEDD, the traffic assessment data used in the earlier planning study, including the projected increase in population under the ARQ development and the Anderson Road Public Housing Development, has been updated. The TIA findings indicate that, by 2026, with the completion of a series of road/junction improvement works and pedestrian linkage facilities

recommended under the proposed development and the entire Route 6 project, the traffic situation on the major roads of Kowloon East during peak hours will still be acceptable without exceeding the capacity.

Based on the road planning for the ARQ development, most of the traffic flow generated by the developments within the site will be directed to the existing trunk roads in order to bypass Kwun Tong town centre and the roads in its vicinity. According to the relevant TIA, it is expected that during morning peak hours, about 69% of the traffic flow generated by the ARQ development will make use of the southern access roads connecting to Po Lam Road, and about two thirds of this flow will route through Po Lam Road and Sau Mau Ping Road into the southbound lanes of Tseung Kwan O Road for access to various districts. Moreover, improvements are foreseen in the east-west traffic movements in the major road networks in urban Kowloon upon completion of Route 6. By then, there will be a significant reduction in the Kowloon-bound traffic of the Tseung Kwan O Tunnel, thus effectively releasing part of the capacity of the Tseung Kwan O Tunnel Road and Tseung Kwan O Road to cater for the traffic flow generated by the ARQ development.

As regards the remaining approximately 31% of the traffic flow arising from the ARQ development, vehicles are expected to make use of the northern roads linking with Clear Water Bay Road, and the great majority of them will route through the westbound lanes of the Clear Water Bay Road for access to various districts. As mentioned above, upon completion, Route 6 will absorb part of the traffic flow of Clear Water Bay Road, and the traffic capacity released will be adequate to accommodate the traffic flow generated by the ARQ development.

The data of the TIA on the vehicular flow of major roads in Kowloon East during peak hours are set out in the Annex. As the objective of the TIA is to assess the traffic impact arising from the ARQ development, the assessment has only taken into account the traffic condition in 2026 upon completion of the development and the residential intake. As with past practice, since the vehicular

flow of non-peak-hours is far less than that of peak hours, the TIA does not contain data of non-peak-hours.

- (4) The planned population of the ARQ development has been increased from the original 23 000 proposed in the Stage 2 Community Engagement of the planning study to the currently proposed 25 000. We consider that a planned population of 25 000 is appropriate at this stage, having regard to the following considerations:
- (i) the planning and design principles that were generally welcomed by the public in the previous two-stage community engagement exercise;
 - (ii) the need to reserve an additional school site due to the increase in planned population arising from a higher plot ratio for the proposed residential sites, thereby affecting the overall planning and resulting in a lower planned population; and
 - (iii) the need to conduct another round of technical assessments in the light of an increase in development intensity and planned population, and to further consult the local community and stakeholders concerned, which would in turn affect the implementation programme.

Annex

<i>Location</i>	<i>2013 Peak hours in the morning</i>	<i>2026 Assuming Route 6 and the ARQ development are not implemented</i>	<i>2026 Assuming Route 6 and the ARQ development are completed</i>
Clear Water Bay Road near Choi Hung Interchange (westbound)	V/C 0.74	V/C 1.0	V/C 0.99
Tseung Kwan O Road (southbound)	V/C 1.1	V/C 1.17	V/C 0.91
Kwun Tong Bypass (westbound)	V/C 0.9	V/C 0.97	V/C 0.98

<i>Location</i>	<i>2013 Peak hours in the morning</i>	<i>2026 Assuming Route 6 and the ARQ development are not implemented</i>	<i>2026 Assuming Route 6 and the ARQ development are completed</i>
The roundabout at Kwun Tong Road/Hip Wo Street	DFC 0.97	DFC 0.86	DFC 0.79
The junction of Clear Water Bay Road/Anderson Road	DFC 0.34	RC 64%	RC 21%

Notes:

V/C refers to vehicle/capacity ratio. A V/C ratio equals to or less than 1.0 is considered acceptable. A V/C ratio between 1.0 and 1.2 indicates a manageable degree of congestion. A V/C ratio above 1.2 indicates more serious congestion.

DFC refers to design flow to capacity ratio, which is an indicator of the operational performance at a roundabout/priority junction. A DFC ratio less than 1.0 indicates that the roundabout/priority junction is operating with sufficient capacity, while a ratio greater than 1.0 indicates that it is overloaded.

RC refers to the reserve capacity, which is an indicator of the operational performance at a traffic signalized junction. A RC greater than 0% indicates a junction is operating with sufficient capacity, while a number less than 0% indicates that it is overloaded.

Financial Products Offered by Mainland Financial Institutions

2. MR DENNIS KWOK: *President, it has been reported that partly due to the policy of the State Council on the reform of the financial system on the Mainland, financial disintermediation, interest rate deregulation and development of Internet finance have all gathered pace on the Mainland in recent years. These have resulted in an increase in the range of financial products offered by Mainland financial institutions, but the risks of such products are uncertain due to inadequate regulation of such products and related financial institutions and the volatile situation of the "shadow" banking industry on the Mainland. However, quite a number of Hong Kong people and financial institutions have been attracted by the high returns of such products and invested directly or indirectly in such products, sometimes through unofficial or even unlawful channels. In this connection, will the Government inform this Council*

if it knows whether the Hong Kong Monetary Authority (HKMA) as well as the Securities and Futures Commission (SFC):

- (1) have plans to introduce measures to protect the interests of Hong Kong investors who have invested or intend to invest in Mainland financial products (for example, launching education campaigns, enhancing co-operation with Mainland authorities); if so, of the details; if not, the reasons for that; and*
- (2) have assessed the short-term and long-term risks of Mainland financial products posed to the Hong Kong financial system, including assessing whether the financial institutions in Hong Kong are over-exposed to the risks of Mainland financial products; if so, of the details and whether they have formulated and implemented corresponding regulatory measures; if they have not assessed, the reasons for that?*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY:

President,

- (1) Under the Securities and Futures Ordinance (SFO), the offer of securities, collective investment schemes and structured products to the public of Hong Kong is subject to authorization requirements by the SFC unless otherwise exempted. Specifically, it is a criminal offence for any person, including any Mainland or overseas financial institution, to issue any offering document or marketing material for such investment products to the Hong Kong public, unless such issuance is authorized by the SFC or an exemption applies. Such exemptions include, among other things, offers made via private placement and offers to professional investors as defined under the SFO.

Intermediaries carrying on regulated activities must be licensed or registered under the SFO. If investment products are marketed to the public of Hong Kong, then the intermediaries may be regarded as conducting a regulated activity and may be required to be licensed by or registered with the SFC. The conduct of intermediaries is

governed by the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (Code of Conduct). In particular, the suitability requirement set out in the Code of Conduct would apply whenever an intermediary makes a recommendation or solicitation to a client in relation to an investment product. The SFC and the HKMA supervise the intermediaries by conducting ongoing off-site monitoring and on-site inspections regularly.

Where investment products are offered to the public of the Mainland or any jurisdictions other than Hong Kong, the activities associated with the issuance, offer and sale of such investment products are subject to the relevant legal and regulatory requirements in the relevant jurisdictions. In this connection, any disputes that may arise from investing in such products or investing in the Mainland and overseas will be handled in accordance with the laws and regulations of such jurisdictions.

Under the existing bilateral arrangements, the SFC will seek the assistance of the China Securities Regulatory Commission (CSRC), the securities regulator in the Mainland, in investigating Mainland entities and, in appropriate cases, refer cases involving suspected improper conduct of Mainland financial institutions to CSRC for further action.

Regulators and the Investor Education Centre (IEC) have been making effort in enhancing investor education and reinforcing the message that investors should understand the nature and risks of an investment product, as well as their rights in case of default, before making an investment decision. To this end, the SFC issued an investor education article in January 2012 highlighting the extra risks associated with overseas investment through a local intermediary. The IEC will from time to time alert investors about overseas investment.

- (2) The Securities and Futures (Financial Resources) Rules (FRR) require licensed corporations investing in financial products offered by Mainland financial institutions with their own money to make full

provision for the risks of the investment against its regulatory capital upfront, since onshore Renminbi is subject to remittance control. All licensed corporations are also required under the Code of Conduct to prudently manage the firm's financial risks by closely monitoring and managing their concentration exposures.

On the banking front, the HKMA has collected information from Hong Kong banks and communicated with the Mainland banking authority to ascertain the situation of the selling of financial products by the operations of Hong Kong banks on the Mainland, and assessed the associated risks posed to Hong Kong banks. So far, available information does not give rise to supervisory concerns or indicate material risks to Hong Kong banks.

Together with the SFC and the HKMA, we will continue to maintain close dialogue with the regulatory authorities in the Mainland and closely monitor the situation.

Co-location of Immigration and Customs Facilities at West Kowloon Terminus of Guangzhou-Shenzhen-Hong Kong Express Rail Link

3. **MR SIN CHUNG-KAI** (in Chinese): *President, the project to construct the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL) is targeted for completion in 2015, and the authorities expect XRL to be commissioned in 2016. In reply to a question raised by a Member of this Council in October last year regarding the implementation of the arrangements for co-location of immigration and customs facilities of the Mainland and the Hong Kong Special Administrative Region (co-location arrangements) at the West Kowloon Terminus of XRL (the XRL Terminus), the Government said that the detailed operation of the co-location arrangements involved complex legal and constitutional issues, and the Government had been negotiating with the Mainland authorities. In connection with the implementation of the co-location arrangements at the XRL Terminus, will the Government inform this Council:*

- (1) *whether the Department of Justice as well as the Transport and Housing Bureau have conducted detailed studies, either on their own or by commissioning consultants, on the feasible options and issues*

of implementing the co-location arrangements, including the legal and constitutional problems which may arise from allowing the enforcement of Mainland laws and permitting Mainland law-enforcement officers to take law-enforcement actions within the Hong Kong territory; if they have conducted such studies, of the details, including the commencement and expected completion dates of such studies, and (if consultants have been commissioned) the expenditure involved, and so on; if not, whether they will conduct such studies;

- (2) *as the design of the XRL Terminus has set aside space for the provision of future boundary control facilities for the Mainland and Hong Kong, of the details of the location and area of the space set aside;*
- (3) *whether it has discussed with the Mainland authorities the arrangements in the event that the co-location arrangements cannot be implemented at the XRL Terminus, for example, whether it is necessary to provide immigration facilities at various XRL stations on the Mainland; and*
- (4) *given that when this Council scrutinized the Shenzhen Bay Port Hong Kong Port Area Bill in 2007, some Members had criticized the Government for not giving this Council sufficient time to scrutinize the Bill, resulting in their not being able to study in detail the related legal and constitutional issues, whether the Government will make an undertaking to this Council that should enactment of legislation be required in the future for implementation of the co-location arrangements at the XRL Terminus, it will allow no less than one year for this Council to scrutinize the relevant bill?*

SECRETARY FOR TRANSPORT AND HOUSING (in Chinese): President, my consolidated reply to the four parts of Mr SIN Chung-kai's questions is as follows:

Upon completion, the Hong Kong section of the XRL will provide express rail service between Hong Kong and Guangzhou, and connect to the wider urban

metro, regional and national railway lines in the Mainland. Enhancing Hong Kong's connectivity with various parts of the Mainland, the XRL has significant strategic importance and transport functions.

On the national level, the Hong Kong section of the XRL will become part of the national high-speed rail network now being developed at full steam. The train journey time between Hong Kong and the Southern, Central and Northern parts of the Mainland will be greatly shortened, facilitating region-wide and nation-wide travel and promoting the exchange between Hong Kong and the Mainland.

Implementing the "co-location" arrangement at the XRL Terminus is very important to the realization of the aforementioned functions. We have reserved space in the West Kowloon Terminus for the installation of "co-location" facilities. However, as we explained in our reply to the Legislative Council question raised in October last year, the detailed operation of "co-location" involves complex legal and constitutional issues. The Department of Justice, the Transport and Housing Bureau as well as relevant Bureaux and departments are investigating such issues internally. The Government has also been discussing with the Mainland authorities, and the issues mentioned by Mr SIN Chung-kai also fall within the scope of our examination. The related work is still underway. Once specific agreement has been reached with the Mainland authorities on the customs, immigration and quarantine arrangements for the commissioning of the XRL, we will report to the Legislative Council in a timely manner.

Reciprocal Notification Mechanism Between Mainland Public Security Authorities and Hong Kong Police Force

4. **MR CHAN KIN-POR** (in Chinese): *President, information from the Hong Kong Police Force reveals that in 2012, 1 341 Mainland visitors were arrested for having allegedly committed offences in Hong Kong, representing an increase of 11.2% from 2011. According to the reciprocal notification mechanism between the Mainland and Hong Kong, Hong Kong Police regularly forward to the Mainland public security authorities for them to follow up the particulars of those Mainland visitors who have been subject to criminal prosecutions or imposed criminal compulsory measures for having allegedly committed offences*

in Hong Kong, and such persons will not be issued travel documents to come to Hong Kong within two to five years (hereinafter referred to as "period of non-issuance of permits"). In this connection, will the Government inform this Council:

- (1) of the specific operation of the aforesaid notification mechanism;*
- (2) of the number of Mainland visitors reported to the Mainland public security authorities by the authorities in each of the past 10 years, together with a breakdown by the type of offence allegedly committed by such visitors and the period of non-issuance of permits;*
- (3) whether it knows the criteria adopted by the Mainland authorities for deciding whether mainlanders whose period of non-issuance of permits has expired will be issued travel documents to come to Hong Kong; among those who were re-issued travel documents to come to Hong Kong in the past three years, whether any of them has committed offence(s) again in Hong Kong; if so, of the detailed figures; and*
- (4) whether it conducted, in the past three years, any detailed study on Mainland visitors committing crimes in Hong Kong, and whether it will review in collaboration with the Mainland authorities the operation of the existing notification mechanism (including conducting studies on the extension of the period of non-issuance of permits or not issuing travel documents to such persons for coming to Hong Kong forever, and so on); if it will, of the details; if not, the reasons for that?*

SECRETARY FOR SECURITY (in Chinese): President, according to the statistics of the Hong Kong Police Force, from 2011 to 2013, the number of Mainland visitors arrested by the police for having committed criminal offences in Hong Kong were 1 207, 1 341 and 1 342 respectively. Over the same period, the number of Mainland visitors visiting Hong Kong were 27.88 million, 34.66 million and 40.47 million respectively. The number of visitors

committing criminal offences out of every 100 000 Mainland visitor arrivals was 4.3 in 2011, down to 3.9 in 2012 and 3.3 in 2013, lower than that of other visitors or all visitors⁽¹⁾.

The reply to the four parts of the question is as follows:

- (1) Under the established notification mechanism between the Hong Kong Special Administrative Region (SAR) Government and the Mainland authorities, the Immigration Department (ImmD) regularly passes information on Mainland residents who have committed criminal offence with conviction in Hong Kong to the Bureau of Exit and Entry Administration of the Ministry of Public Security of the Mainland, to enable the relevant authorities to strengthen assessment of their future applications for entry to Hong Kong. The offences involved include illegal employment, breach of conditions of stay, possession or use of forged documents, submission of false statements, engaging in prostitution or other criminal offences punishable by at least two years' imprisonment. Generally, the Mainland authorities will not issue exit endorsements and travel documents to such persons for a period of two to five years, depending on the circumstances, to prevent them from revisiting Hong Kong for illegal activities.
- (2) Under the notification mechanism, the number of Mainland residents who have committed criminal offence with conviction in Hong Kong as reported to the Bureau of Exit and Entry Administration of the Ministry of Public Security of the Mainland by the ImmD are tabulated as follows:

<i>Year</i>	<i>Number of Mainland residents</i>
2006	10 959
2007	7 318
2008	6 681
2009	6 109
2010	5 060
2011	4 072

(1) The number of visitors who committed criminal offences out of every 100 000 arrivals for other visitors were 9.6 in 2011, 9.5 in 2012 and 10.6 in 2013 while that for all visitors were 6.1 in 2011, 5.5 in 2012 and 5.2 in 2013.

<i>Year</i>	<i>Number of Mainland residents</i>
2012	3 324
2013	3 497

The ImmD does not maintain statistics on the types of offence committed and the period of non-issuance of permits.

- (3) Pursuant to Article 22 of the Basic Law, for entry into the SAR, people from other parts of China must apply for approval. The provisions of this Article, in accordance with the Interpretation by the Standing Committee of the National People's Congress in 1999, mean that Mainland residents who wish to enter Hong Kong for whatever reason, must apply to the relevant authorities of their residential districts for approval in accordance with the relevant national laws and administrative regulations, and must hold valid documents issued by the relevant authorities. The Mainland authorities handle matters relating to the application, approval and issue of Exit Entry Permits and relevant exit endorsements in accordance with the laws, policies and administrative regulations of the Mainland.

The number of Mainland visitors arrested by the police with previous convictions in Hong Kong in or after 2005, who were arrested by the police and convicted again within the period of 2011 to 2013, whether they had left Hong Kong between the convictions, broken down by the types of offence of their last conviction, is as follows:

<i>Type of offence of last conviction</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
Theft	55	52	37
Serious immigration offences	7	5	4
Breach of conditions of stay	0	0	1
Other offences	61	50	37
Total	123	107	79

- (4) The SAR Government will exchange views with the Mainland authorities from time to time over the notification mechanism, and will review the mechanism at appropriate times and maintain liaison with the Mainland authorities to ensure its effectiveness.

Impact of Expansion of Individual Visit Scheme on Hong Kong

5. **DR LAM TAI-FAI** (in Chinese): *President, according to the Assessment Report on Hong Kong's Capacity to Receive Tourists completed by the Commerce and Economic Development Bureau in December last year, the projected annual visitor arrivals will increase from 54 million in 2013 to 100 million in 2023, whilst the percentage of arrivals of Mainland residents under the Individual Visit Scheme (IVS) in the total visitor arrivals will also rise year on year. The Secretary for Commerce and Economic Development said that aspects such as the handling capacity of boundary control points, the capacity of tourism facilities and the public transport network, Hong Kong would generally be able to cope with the demand of visitors up to 2017, but the supply of hotel rooms would continue to be tight. Yet, there are views that Hong Kong may not have adequate capacity to receive visitors, and the continuous growth in Mainland visitor arrivals will aggravate the problem of smuggling/parallel trading activities by Mainlanders. In this connection, will the Government inform this Council:*

- (1) *of the respective projected growths in Mainland visitor arrivals in each of the coming five years, with a tabulated breakdown by pilot city implementing IVS/the multiple-entry permit arrangement;*
- (2) *whether the Government has, prior to putting forth the proposals of not increasing the number of IVS pilot cities and not expanding the scope of the multiple-entry permit arrangement for the time being (not increasing the number of pilot cities), assessed the impacts of such proposals on the relationship between the Mainland and Hong Kong; if it has, of the details; if not, the reasons for that;*
- (3) *whether it has assessed the impacts on the economy of Hong Kong brought about by the decision not to increase the number of pilot cities; if it has, of the details; if not, the reasons for that;*
- (4) *whether it has assessed the impacts of the decision not to increase the number of pilot cities for the time being on tourism-related industries (including the hotel, catering, retail and transportation industries); if it has assessed, of the impacts on such industries in respect of their business turnovers, employment rates and the income levels of employees;*

- (5) *whether it has considered introducing measures to develop overseas source markets, so as to attract more visitors to Hong Kong; if it has, of the details; if not, the reasons for that;*
- (6) *of the respective numbers of visitor arrivals from the Mainland and their average lengths of stay in Hong Kong during the Lunar New Year, Labour Day, "National Day Golden Week" and Christmas holidays in each of the past five years; whether it has assessed if these visitors have brought heavier pressure year on year on the tourism facilities in Hong Kong during such periods;*
- (7) *whether it has assessed, by District Council (DC) district, the capacities of tourism and transport ancillary facilities in various major tourism districts (including Yau Tsim Mong, Central and Western District, Wan Chai and North District, and so on) for receiving visitors; if it has, of the details; if not, the reasons for that;*
- (8) *whether it has set maximum capacities of public transport services in Hong Kong, assessed if such services can cope with the growth in visitor arrivals in the coming five years, and assessed whether such growth will adversely affect the level of transport services provided to local residents; if it has, of the details; if not, the reasons for that;*
- (9) *given that the authorities plan to provide, in collaboration with the 18 DCs in the territory, more tourism attractions to spread out visitors so that all districts can have a share in the relevant economic benefits, of the specific measures to be implemented;*
- (10) *of the justifications for the Chief Executive's claim that the proposal of imposing an arrival tax on visitors entering the territory on land is infeasible, and the details of the studies previously conducted by the Government for the implementation of such similar measures;*
- (11) *of the number of Mainland visitors arrested by the authorities for breaching their conditions of stay due to involvement in parallel trading activities, and the number of Mainland visitors denied entry into Hong Kong due to their frequent entries/departures within one single day, in each of the past five years;*

- (12) *of the quantities of smuggled goods seized by the authorities of Hong Kong from Mainland visitors on their departure from Hong Kong in each of the past five years, with a breakdown by type of such goods;*
- (13) *of the number of Mainland visitors arrested in Hong Kong for suspected involvement in smuggling activities during the Lunar New Year, Labour Day, National Day Golden Week and Christmas holidays in each of the past five years; and since the implementation on 1 March 2013 of the new requirement on carrying powdered formula for infants and young children on departure from Hong Kong, of the quantities of powdered formula illegally carried by Mainland visitors on their departure from Hong Kong which was seized by the authorities;*
- (14) *given that some members of the public initiated a "protest against IVS Mainland visitors" and hurled abuses at the latter along Canton Road in Tsim Sha Tsui on the 16th of this month, which developed into a war of words and obstructing the shops nearby from carrying out their business, whilst a number of principal officials condemned such behaviour one after another on the following day, whether the Government has assessed the impact of the incident on the relationship between the Mainland and Hong Kong; if it has, of the details; if not, the reasons for that;*
- (15) *whether it has assessed if protests similar to that referred to in part (14) will dampen Mainland visitors' desire to visit Hong Kong, thus reducing the arrivals of such visitors; if it has, of the details; if not, the reasons for that;*
- (16) *whether it has assessed if the protest referred to in part (14) has adversely affected the tourism industry of Hong Kong and undermined its international image; and*
- (17) *given that some members of the public raised the flag of Hong Kong under British colonial rule during the protest referred to in part (14), whether it has assessed the impact of such an act on the successful implementation of the principle of "one country, two systems" in Hong Kong?*

SECRETARY FOR COMMERCE AND ECONOMIC DEVELOPMENT (in Chinese): President, in response to the public concern about the impact of the continuous growth in visitor arrivals on the livelihood of the community, the HKSAR Government has comprehensively assessed Hong Kong's capacity to receive tourists. The areas taken into account include the handling capacity of control points, capacity of tourism attractions, receiving capacity of hotels, carrying capacity of public transport network, impact on the livelihood of the community, and economic impact, and so on. The Assessment Report on Hong Kong's Capacity to Receive Tourists (Assessment Report) was completed at the end of last year.

Our replies to the questions raised by Dr LAM Tai-fai are as follows:

- (1) With reference to the existing growth trend of visitor arrivals and assuming a steady growth of Mainland and short-haul visitor arrivals, as well as a very mild growth from long-haul markets, the Assessment Report estimated that visitor arrivals in 2017 would exceed 70 million. The source markets were taken as the basis in the Assessment Report to estimate overall visitor arrivals. However, there was no breakdown by year or visitor segment.

(2) to (4)

The HKSAR Government has discussed the IVS and multiple-entry permit policy with the Central Government over the past year. We have also conveyed the different views of the Hong Kong people on the further expansion of the IVS. The Central Government agreed not to increase the number of IVS cities nor expand the scope of the multiple-entry permit at the current stage.

In fact, the number of IVS cities has remained at 49 since January 2007. Over the past seven years, the IVS has been running smoothly in general and continues to generate significant visitors' spending to different sectors including the tourism, retail, food and beverages sectors, and so on, thereby facilitating overall economic development.

The HKSAR Government will continue to communicate and co-ordinate with the relevant Mainland authorities with a view to

attracting Mainland visitors in an appropriate and orderly manner in the light of our economic and social conditions.

- (5) The Hong Kong Tourism Board (HKTB) has been actively maintaining a diverse visitor portfolio and endeavours to uphold Hong Kong's image as the Asia's World City and a world-class travel destination. In 2014-2015, the HKTB will continue to launch promotion in 20 key source markets (including five new markets) around the world. Seventy-five percent of the overall marketing resources will be allocated to the international markets with a view to targeting the high spending Mid-Career and Achiever segments. The HKTB will attract these high spending visitors to visit Hong Kong through packaging and promoting our tourist festive events, various large scale events (such as the annual Hong Kong Wine and Dine Festival) and international exhibitions.

To target the short-haul markets, the HKTB will leverage the stable economic development in the region and increase its marketing investment in short-haul markets in 2014-2015. The HKTB will also roll out image-boosting campaigns in various short-haul markets, such as Southeast Asia, South Korea and Taiwan, and promote Hong Kong as the most preferred travel destination in the region through channels such as advertisements, public relations and digital channels.

To target the long-haul markets, the HKTB will focus its promotion on the spring and autumn travel seasons, and promote Hong Kong's tourism offerings through channels such as TV programmes, magazines, digital channels and social media, so as to maintain Hong Kong's presence in the long-haul markets. Besides, given that visitors from long-haul markets relatively prefer to visit Hong Kong with a multi-destination itinerary, the HKTB will collaborate with major travel agencies, airlines and the tourism authorities from the Mainland and Macau to promote multi-destination tourism products featuring Hong Kong to visitors from long-haul markets.

On the other hand, the HKTB will continue to allocate resources to a number of new markets, in particular Russia and India, in

2014-2015. It will also increase its marketing investment in Vietnam to raise local visitors' awareness of Hong Kong's tourism offerings.

- (6) According to the Immigration Department's (ImmD) statistics, Mainland visitor arrivals during major holidays from 2009 to 2013 are set out in the table below:

<i>Holiday</i> \ <i>Year</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
Chinese New Year Golden Week	497 332	573 014	662 928	706 748	884 933
Labour Day	177 970	249 742	303 637	342 665	394 476
National Day Golden Week	590 882	662 248	775 385	968 846	1 023 222
Christmas Day	59 748	102 254	74 868	69 301	87 012

Notes:

- (1) Chinese New Year Golden Week, Labour Day and National Day Golden Week are statutory holidays in the Mainland, lasting for seven, three and seven days respectively. Given the National Day Golden Week and the Mid-Autumn Festival were consecutive holidays in 2009 and 2012, the holidays lasted for eight days in these two years.
- (2) Christmas Day is not a statutory holiday in the Mainland; therefore the above table only shows the Mainland visitor arrivals on 25 December.

The ImmD does not maintain statistics on the average length of stay of Mainland visitors during major holidays.

The Chinese New Year Golden Week and National Day Golden Week have always been the peak seasons for Mainland visitors to visit Hong Kong. The relevant Government departments and travel trade will formulate a number of measures to cater for the significant increase in visitor arrivals during the period. The major tourist attractions (including the Ocean Park, Hong Kong Disneyland, Ngong Ping 360, and so on) will also extend their opening hours as appropriate and draw up measures and contingency arrangement for crowd control, as well as deploy additional manpower and resources, to cater for the demand during peak seasons.

(7) to (8)

In the course of our assessment, we have conducted analyses in different areas, including the handling capacity of control points, capacity of tourism attractions, receiving capacity of hotels, carrying capacity of public transport network, impact on the livelihood of the community, and economic impact, and so on. In fact, the HKSAR Government is aware of the situation in individual popular tourist areas and has collectively reflected it in the Assessment Report. The Tourism Commission (TC) has been maintaining close liaison with the tourism sector, including the Travel Industry Council of Hong Kong and operators of tourist attractions, as well as listening to their views and reviewing timely the general ancillary facilities in major tourist districts. We endeavour to help ensure that the tourist facilities and services provided in these major tourist districts could meet the visitors' needs and expectations.

In addition, the TC will co-ordinate the relevant departments to keep in view and examine whether the existing supporting facilities are effective and adequate, and will, in conjunction with the relevant departments, make appropriate adjustment and improvement as necessary.

The occupancy rate of and waiting time for the public transport services in Hong Kong vary on different days (holidays versus working days), during different periods (peak versus non-peak hours) and in different districts (commercial versus residential areas). The capacity of Hong Kong's public transport network to receive a large number of visitors will thus vary accordingly. This shows that while the receiving capacity of public transport modes has certain flexibility, some will be more crowded or will have a longer waiting time at certain hours and in certain areas. For instance, the railway network is quite crowded and the waiting time for taxis in commercial areas will be longer during peak hours.

When planning and co-ordinating the development of public transport services, the Transport and Housing Bureau will respond to and assess the overall passenger demand (including that of local residents and tourists). As regards the railway network, although

the loading of certain railway lines is relatively higher during peak hours, there is still room to accommodate more passengers on the whole (such as during non-peak hours). To alleviate crowdedness and shorten the waiting time during peak hours, the MTR Corporation Limited (MTRCL) has strengthened the train service of different railway lines⁽¹⁾ in the past two years. Platform assistants have also been deployed to encourage passengers to move inside trains and to maintain the order of boarding/alighting passengers. The MTRCL will closely monitor the service level of every railway line and arrange for service adjustments as required to meet the overall passenger demand. In the long run, the Government will continue to examine whether new railway projects have to be implemented to cater for the demand.

As for road-based public transport modes, the average occupancy rate of franchised buses during peak hours in the morning and afternoon is 70% in general. During non-peak hours, there will be more room to meet the transport demand of visitors. As for taxis, survey results reveal that the waiting time at the busiest taxi stands⁽²⁾ may be up to about 15 to 20 minutes but the wait is usually just a few minutes at other taxi stands. Given that other modes of public transport (such as trams, ferries and minibuses) are less commonly used by visitors, the increase in visitor arrivals should not exert too much pressure on them.

In the planning of future public transport services, the Transport Department (TD) will, having regard to the overall passenger demand, continue to work with the operators to introduce new services or adjust existing road-based public transport services where necessary and feasible. As for the railway, the five railway projects under construction, namely the West Island Line, South Island Line (East), Kwun Tong Line Extension, Hong Kong Section of Guangzhou-Shenzhen-Hong Kong Express Rail Link and Shatin to Central Link (SCL), are expected to come into operation in phases between end 2014 and 2020, thereby increasing the capacity of the railway network and that of the overall public transport network.

(1) They include the Tsuen Wan Line, Island Line, Kwun Tong Line, Tseung Kwan O Line, Tung Chung Line, East Rail Line and West Rail Line.

(2) For example, taxi stands outside the MTR Admiralty, Kowloon Tong and Hung Hom Stations.

This will also help re-distribute visitor flow. It is noteworthy that when SCL is fully commissioned in 2020, it is estimated that approximately 23% (about 74 000 passenger trips daily) of the southbound passengers of the New Territories (including that of the East Rail Line and Ma On Shan Line) will switch to use SCL travelling to East Kowloon and Hong Kong Island. It helps relieve the loading of the East Rail Line during peak hours.

Regarding transport ancillary facilities, there are currently about 750 taxi pick-up/drop-off points and taxi stands in Hong Kong. As for coaches, the Government will provide on-street parking spaces or pick-up/drop-off facilities for coaches in individual districts where the supply of such spaces and facilities is relatively tight, as long as road safety and other road users are not affected. The TD and the TC will explore possible ways to improve the current arrangement for on-street parking and pick-up/drop-off of coaches. The long-term aim is to provide adequate parking spaces for coaches and related facilities at new tourism developments.

For those recreational facilities and tourist attractions popular among local residents and visitors, we will ensure the provision of adequate public transport services for use by both local residents and visitors. For instance, other than the peak tramway, passengers may take public transport such as franchised buses, green minibuses and taxis to travel to and from the Peak. Members of the public and visitors heading for the Hong Kong Disneyland may take the MTR Disneyland Resort Line, franchised buses and taxis while those for the Ocean Park may take franchised buses, green minibuses and taxis. In 2015, the Ocean Park can be directly accessed via the railway upon opening of the South Island Line (East).

- (9) Apart from promoting major tourist attractions to visitors, the HKTB also actively encourages visitors to explore, visit and spend in different districts, so as to broaden the overall economic benefits brought about by the tourism industry to Hong Kong. In recent years, the HKTB has made use of different channels, including the Internet, social media, smartphone applications with augmented reality technology, pamphlets, and so on, to promote a number of themed routes bundling various attractions in the districts.

Examples include "Travel Through Time" of Central and Sheung Wan, "Evolvement of a Fishing Village" of Shau Kei Wan, "A Popular Temple and a City Transformed" of Wong Tai Sin and Kowloon City, Yuen Long Ping Shan Heritage Trail, Fanling Lung Yeuk Tau Heritage Trail, and so on.

To better utilize the tourism resources of each district and to encourage visitors to gain an in-depth and comprehensive understanding of the specialties and local living culture of various districts, the HKTB will strengthen the promotion of tourist attractions in different districts in 2014-2015, including setting up a dedicated webpage in a progressive manner to showcase various tourism offerings in the 18 districts. The webpage will feature unique historical attractions and buildings, living culture, dining delights, themed shopping streets and specialty markets, and so on, so as to offer more choices to visitors.

The HKTB will also continue to encourage the travel trade to develop new and attractive themed tours taking visitors to explore and spend at different districts through the New Tour Product Development Scheme (the Scheme). As at the end of 2013, the Scheme has subsidized 12 themed tours, including the "Sham Shui Po Foodie Tour" which takes visitors on a local culinary journey, and the "Six Senses Heritage Experience" which features a cycling tour in Yuen Long and a "big bowl feast" in the walled village. The Scheme has received positive feedback from the travel trade since its introduction. The HKTB will continue to run the Scheme and encourage the travel trade to unleash their creativity to utilize the tourism resources of different districts.

- (10) The proposal to introduce an arrival tax on visitor is infeasible. The travel trade also largely opposes to the proposal and considers that it will adversely affect the tourism, retail and food and beverages sectors, and so on. In fact, Mainland and overseas visitors help boost our economic development, and also provide job opportunities for many grass-roots workers. The HKSAR Government will endeavour to balance the impact of the tourism sector on the Hong Kong economy and the livelihood of our people, with a view to facilitating the stable and orderly development of the tourism sector,

while at the same time minimizing the impact of visitors on our livelihood.

- (11) The ImmD and the police have mounted a number of large scale operations in different districts including Sheung Shui, Fan Ling and Fo Tan since September 2012. According to the ImmD and the police's statistics, as at January 2014, a total of 1 337 Mainlanders who were suspected of involving in parallel trading activities were arrested.

Also, according to the statistics provided by the ImmD, 13 716 suspected parallel traders were denied entry from September 2012 to January 2014. The relevant annual statistics are set out in the table below:

<i>Year</i>	<i>Number of visitors denied entry</i>
2012 (September to December)	1 028
2013	11 816
2014 (January)	872

The ImmD does not maintain statistics on the number of entries made by Mainland visitors who were denied entry on that day.

- (12) According to the Customs and Excise Department's (C&ED) statistics, the type and quantity of smuggled goods seized from Mainland visitors at outbound passenger channels of the boundary control points from 2009 to 2013 are set out in the table below:

<i>Types of goods seized</i>	<i>Quantity of goods seized</i>
Mobile phones	298 units
Pangolin scales	23 pieces
Air gun	1 unit
Air gun metal bullets	200 rounds
Powdered formula for infants and children	15 388 kilograms
Pharmaceutical products	3 523 grams
Rice	20 kilograms

- (13) According to the C&ED's statistics, the number of Mainland visitors arrested by the C&ED at outbound passenger channels of the boundary control points for suspected involvement in smuggling activities in Hong Kong during the Chinese New Year Golden Week, Labour Day, National Day Golden Week and Christmas day from 2009 to 2013 are set out in the table below:

<i>Year</i>	<i>Number of Mainland visitors arrested in Hong Kong</i>
2009	11
2010	15
2011	19
2012	32
2013	120

On the other hand, since the new regulation on export control of powdered formula came into effect on 1 March 2013 and up to 11 February 2014, the C&ED has, through its enforcement actions, seized a total of 18 718 kilograms of powdered formula carried by Mainland visitors on their departure from Hong Kong.

- (14) to (17)

The HKSAR Government strongly condemned the harassment of tourists on Canton Road on 16 February and expressed regret over the incident. The incident has seriously damaged the reputation of Hong Kong's tourism sector and affected the operation of some shops in the area. It has also disrupted Hong Kong's public order and directly impacted upon the relationship between Hong Kong and the Mainland.

As Asia's world city, Hong Kong welcomes visitors from around the world for business and tourism. We believe Hong Kong people are rational and will continue to extend our warm welcome to tourists from different places, and to ensure a pleasant experience for the tourists. On the other hand, the HKSAR Government will make greater effort to enhance our capacity to receive tourists on various fronts, and endeavour to balance the impact of the tourism sector on economic development and the livelihood of our community.

Liquefied Petroleum Gas Filling Stations

6. **MR TANG KA-PIU** (in Chinese): *President, when the Government launched the Liquefied Petroleum Gas (LPG) Taxi Scheme in 1999, it provided sites for dedicated LPG filling stations at nil land premium in order to support the Scheme. All dedicated LPG filling stations are operated under the Design, Build and Operate (DBO) contracts signed with the Government for a period of 21 years. LPG pump prices at dedicated LPG filling stations are capped by a Pricing Formula while non-dedicated LPG filling stations are free to adjust their pump prices. Given that the DBO contracts for the first batch of dedicated LPG filling stations will expire in 2020, and that the pump prices at dedicated LPG filling stations are lower than those at non-dedicated LPG filling stations, some members of the taxi trade have expressed great concern about the arrangements after the expiry of those DBO contracts. In this connection, will the Government inform this Council:*

- (1) *of the number of dedicated LPG filling stations whose DBO contracts will expire in the next 10 years, and set out in a table the addresses, names of contractors and dates of expiry of such DBO contracts; whether the DBO contracts contain any renewal clause; if so, of the details; if not, the reasons for that and how the authorities will handle the renewal of DBO contracts with the operators;*
- (2) *given that currently there are only two non-dedicated LPG filling stations on Lantau Island for use by taxis while the dedicated LPG filling stations in other districts are far away, thus leaving Lantau taxis with no alternative but to have their taxis filled with LPG at the two non-dedicated LPG filling stations, where the pump prices are higher, whether the authorities have assessed if such a situation constitutes regional price discrimination; if they have assessed, of the outcome;*
- (3) *whether it knows the respective total numbers of vehicles and, among such vehicles, the respective numbers of taxis having LPG filled at dedicated and non-dedicated LPG filling stations, as well as the sales volume of LPG at these two types of filling stations in each month of the period from January 2000 to January 2014 (set out in tables of the same format as Table 1);*

Table 1 Year: _____

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<i>Dedicated LPG filling stations</i>	<i>Total number of vehicles having LPG filled</i>													
	<i>Number of taxis having LPG filled</i>													
	<i>Sales volume of LPG</i>													
<i>Non- dedicated LPG filling stations</i>	<i>Total number of vehicles having LPG filled</i>													
	<i>Number of taxis having LPG filled</i>													
	<i>Sales volume of LPG</i>													

- (4) whether it knows the current number of LPG filling nozzles at each dedicated and non-dedicated LPG filling station (set out in Table 2);

Table 2

<i>Location of LPG filling station</i>	<i>Number of LPG filling nozzles</i>
<i>Dedicated LPG filling station</i>	
<i>Non-dedicated LPG filling station</i>	

- (5) *as the Government introduced a new pricing adjustment mechanism in 2006, under which LPG prices can be adjusted once every month instead of once every six months, and stated that the mechanism would help strike a better balance between the supply of and demand for LPG at dedicated and non-dedicated LPG filling stations, whether the authorities have assessed if the supply of and demand for LPG at these two types of LPG filling stations have reached a balance at present; if the assessment outcome is in the affirmative, of the justifications; if the assessment outcome is in the negative, whether any review will be conducted;*
- (6) *whether the authorities received in the past five years any complaint that dedicated LPG filling stations had not utilized all their LPG filling nozzles; if they did, of the number of such complaints, and whether the authorities conducted any surprise check on the LPG filling stations under complaint; and*
- (7) *given the comments of some members of the taxi trade that LPG prices at both dedicated and non-dedicated LPG filling stations have been rising recently, and that LPG prices are "quick to rise and slow to drop", whether the Government will conduct a study on allowing taxi drivers to levy passengers a fuel surcharge; if it will, of the timetable; if not, the reasons for that?*

SECRETARY FOR THE ENVIRONMENT (in Chinese): President,

- (1) There are 12 dedicated LPG filling stations in Hong Kong and their operation contracts will expire between 2021 and 2022. The locations, names of operators and contract expiry dates of these filling stations are set out in Annex 1.

The operation contracts of the dedicated LPG filling stations last for 21 years and there is no renewal clause in the contracts. When considering the arrangements after the expiry of the contracts of the dedicated LPG filling stations, we will take into account the need to maintain the smooth operation of the LPG filling network, the

overall market situations, the needs of LPG vehicles, and so on, in order to make the appropriate arrangements.

- (2) The dedicated LPG filling stations were first set up to form a LPG filling network as soon as possible so that the taxi trade could replace their diesel taxis earlier with LPG ones, thus improving roadside air quality. Therefore, the Government offered land without premium to set up 12 dedicated LPG filling stations at strategic locations in the urban areas (that is, close to the operating areas of the majority of taxis). Moreover, it is stipulated in the operation contracts between the Government and dedicated station operators that their LPG ceiling prices are adjusted in accordance with the pricing formula. Subsequently, through the open market mechanism, the Government established a LPG filling network with wide coverage and operated by oil companies on commercial principles. To further expand the LPG filling network, the Government has since year 2000 required that all suitable new petrol filling stations on the land sales program must provide LPG filling facilities. Under this policy, the number of LPG filling stations for taxis and light buses has increased to 62, including 12 dedicated LPG filling stations and 50 non-dedicated stations. There are now four non-dedicated LPG filling stations for taxis and light buses on the Lantau Island, of which three are in Tung Chung, and one at Chek Lap Kok. They are run by three different operators and provide 20 LPG filling nozzles and are sufficient to meet the demand of refilling services of LPG vehicles operating in that area. According to the LPG filling station operators, as Lantau Island are farther away from LPG depots, the transportation costs are higher. There are also fewer LPG vehicles (mainly 50 Lantau taxis) refilling in the area. Hence the operating costs are different from LPG filling stations in other areas and their LPG prices are difficult to compare directly.
- (3) The monthly LPG sales volume of dedicated LPG filling stations are commercial data that belongs to the operators. We can provide the range of vehicle-refuellings per month of the 12 dedicated LPG filling stations in the last four financial years as follows:

<i>Year</i>	<i>2010-2011</i>	<i>2011-2012</i>	<i>2012-2013</i>	<i>2013-2014 (up to January 2014)</i>
Range of vehicle-refuellings per month of the 12 dedicated LPG filling stations (vehicle-refuellings /month)	33 500 to 94 300	39 600 to 124 700	36 500 to 127 800	30 720 to 123 030

We do not have information on the monthly number of vehicles refilled at non-dedicated LPG filling stations.

- (4) The current number of LPG filling nozzles at dedicated and non-dedicated LPG filling stations is set out in Annex 2.
- (5) According to the original arrangement of the design-build-operate contracts of dedicated LPG filling stations, the LPG ceiling prices were adjusted once every six months according to the average international LPG prices over the last six months. For the first five years after the commencement of the operation of dedicated LPG filling stations, the international LPG price was relatively stable and the six-month price adjustment mechanism worked effectively. The LPG price gaps between dedicated and non-dedicated LPG filling stations were generally maintained at a level acceptable to the market. About 60% of LPG vehicles used the dedicated stations for refilling and the rest used the non-dedicated stations. This ratio entailed a reasonable distribution of demand of services between the dedicated and the non-dedicated LPG filling stations. There were not long queues for refilling at the dedicated LPG filling stations.

However, the international LPG price fluctuated sharply starting from September 2005. The non-dedicated LPG filling stations could follow the rise of international LPG price and adjusted their LPG retail prices accordingly. On the contrary, dedicated stations could only adjust their LPG prices once every six months, causing the LPG prices of dedicated stations lagging greatly behind the international LPG prices and resulting in a surge in demand for services at the dedicated stations that exceeds their supply capacity.

It also caused very long queuing time for refilling at the dedicated LPG filling stations.

To resolve the operational problems caused by the lagging of LPG ceiling prices of dedicated LPG filling stations behind the international LPG prices, the LPG ceiling price adjustment period was modified in March 2006 from once every six months to once every month, where the LPG ceiling price will be adjusted in accordance with the pricing formula and the international LPG price of last month. After the introduction of the modified mechanism, the retail prices of LPG dedicated filling stations can follow more closely the international LPG prices, which help alleviate the long queuing time for refilling caused by the price lagging of dedicated stations. Since the introduction of monthly price adjustment mechanism in March 2006, around 60% to 70% of the LPG vehicles are refilled at the dedicated stations.

The dedicated LPG filling stations are now operating more smoothly under the current monthly price adjustment mechanism than the previous six-month price adjustment mechanism. However, when there is a substantial rise in the international LPG prices within a short period of time, the retail prices of dedicated LPG filling stations will still lag behind the international LPG price by one month because they can only be adjusted next month under the current mechanism. This will result in a surge in demand for filling services and longer queuing time for refilling at the dedicated stations within that month. We will monitor the situation and when necessary, study how to further optimize the existing price adjustment mechanism for dedicated LPG filling stations.

- (6) The Electrical and Mechanical Services Department (EMSD) received 51 complaints concerning failures to operate all filling nozzles at the dedicated LPG filling stations in 2009-2013. The number of complaints received each year is set out below:

<i>Year</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
Number of complaints received	3	15	14	15	4

Upon receiving a complaint, the EMSD will conduct an investigation to find out from the dedicated LPG filling station operator the cause of the complaint and request it to follow up and take remedial actions. Subsequently, the EMSD will conduct surprise inspections to ensure the situation is improved.

- (7) LPG prices of dedicated stations are set in accordance with the pricing formula in the contracts and are closely monitored by the EMSD. They must follow the changes in the international LPG price and adjusted accordingly. Moreover, the detailed information on the international LPG price and LPG prices of dedicated stations are announced through press release each month, as well as posted on the EMSD's website to keep the public and the trade informed.

In December 2013 the international LPG price increased, leading to an increase in the local auto-LPG price. However, the international LPG price has come down recently. The ceiling price of dedicated LPG filling stations in February 2014 has reduced by \$0.7 per litre and will further reduce by \$0.2 per litre in March.

In considering taxi fare increase applications, the Government takes into full account changes in various cost and revenue items, including fuel costs. This arrangement has met and balanced the needs of different stakeholders and the actual operating conditions. Taxi fare level is subject to scrutiny by the Legislative Council. Introducing a fuel surcharge on taxis outside the normal fare adjustment mechanism not only implies creating another fare increase channel apart from raising the flagfall and incremental charges, but also transfers fuel cost fluctuations directly to taxi passengers. As the introduction of a fuel surcharge involves complicated policy and operational issues, careful consideration is required. The Government will continue to listen to the views of the taxi trade and the public. Meanwhile, the Transport Department has commenced a study on the overseas and local experiences of implementing and not implementing a taxi fuel surcharge and the possible impacts of imposing such surcharge, with a view to mapping out the way forward in the light its outcome. We expect that the preliminary outcomes of the study will be ready by the end of this year.

The locations, names of operators and
contract expiry dates of dedicated LPG filling stations

<i>Contract Number</i>	<i>Dedicated LPG filling station</i>	<i>Contract Expiry Date</i>	<i>Name of Operator</i>
1108/EM/99	Fung Yip Street, Chai Wan Ngo Cheung Street, West Kowloon	17 February 2021	ECO
1018/EM/2000	Sham Mong Road, Mei Foo Yip Wong Road, Tuen Mun	18 March 2022	
1005/EM/2001	Marsh Street, Wan Chai	18 December 2022	
1109/EM/99	Fung Mat Road, Sheung Wan Wai Lok Street, Kwun Tong Yuen Chau Tsai, Tai Po	17 February 2021	Sinopec
1019/EM/2000	Cheung Yip Street, Kowloon Bay Kwai On Road, Kwai Chung	18 March 2022	
1006/EM/2001	Hang Yiu Street, Ma On Shan Tak Yip Street, Yuen Long	18 December 2022	

Annex 2

Numbers of LPG filling nozzles at
dedicated and non-dedicated LPG filling stations

		<i>Number of LPG filling stations (bracketed numbers are number of filling nozzles)</i>		
		<i>Non-dedicated LPG filling station</i>	<i>Dedicated LPG filling station</i>	<i>Total</i>
Hong Kong Island	Central and Western District	1 (4)	1 (12)	2 (16)
	Wan Chai		1 (10)	1 (10)
	Eastern	4 (32)	1 (24)	5 (56)
	Southern	3 (8)		3 (8)
	Sub-total	8 (44)	3 (46)	11 (90)
Kowloon and New Territories	Kowloon City	2 (8)		2 (8)
	Kwun Tong	5 (20)	2 (34)	7 (54)
	Sham Shui Po	1 (4)	1 (14)	2 (18)
	Wong Tai Sin	1 (8)		1 (8)
	Yau Tsim Mong		1 (24)	1 (24)
	Tai Po	1 (8)	1 (24)	2 (32)
	Tuen Mun	2 (10)	1 (10)	3 (20)
	Yuen Long	8 (42)	1 (12)	9 (54)
	North	2 (12)		2 (12)
	Sai Kung	4 (18)		4 (18)
	Sha Tin	3 (18)	1 (12)	4 (30)
	Tsuen Wan	2 (8)		2 (8)
	Kwai Tsing	7 (32)	1 (14)	8 (46)
	Islands (Lantau Island)	4 (20)		4 (20)
	Sub-total	42 (208)	9 (144)	51 (352)
Total		50 (252)	12 (190)	62 (442)

Kwai Chung Park Development Project

7. **DR KWOK KA-KI** (in Chinese): *President, in 2000, the Leisure and Cultural Services Department (LCSD) took over the Kwai Chung Park development project to develop the restored landfill site of 27 hectares in the Park. However, except for the international BMX park developed on a platform of about four hectares in the Park by the Hong Kong Cycling Association which was opened in 2009, the remaining 23 hectares of land have so far been left idle without any facility open for use by the public. It has been reported that the LCSD had completed the preliminary studies on the use of the Park at the end of last year, which proposed to build sports facilities such as cricket ground, football pitch and golf driving range, and so on, in the Park. In this connection, will the Government inform this Council:*

- (1) *of the specific expenditure incurred in the past five years in handling landfill gas and in maintaining and managing the facilities in Kwai Chung Park;*
- (2) *of the specific reasons for the absence of recreational, sports or sitting-out facilities in most part of Kwai Chung Park over the years; whether the authorities have, since 2000, considered changing the land use of the Park and taken any measure to expedite the construction of such facilities in the Park; if they have, of the details;*
- (3) *when the LCSD commenced the aforesaid studies, and whether it has consulted the residents in the district concerned on the land use of Kwai Chung Park; if it has, of the details; and*
- (4) *of the estimated expenditure on the aforesaid sports facilities intended to be built in Kwai Chung Park, and the respective dates of commencement and completion of the works concerned?*

SECRETARY FOR HOME AFFAIRS (in Chinese): President,

- (1) The former Kwai Chung Park (the Park) was located at the Gin Drinkers Bay Landfill (the Landfill). In March 1999, the Landfill (including the Park which had not been opened to the public) was handed over to the Environmental Protection Department (EPD) for

landfill restoration work, which included installing landfill gas and leachate collection and treatment systems, capping layers, stormwater drainage system, slope stabilization and beautification works.

Since the completion and start of operation of the restoration facilities in September 2000, the EPD has carried out landfill aftercare work and monitored landfill gas and leachate levels to ensure proper operation of the restoration facilities. The restoration and aftercare work for the Landfill and three other landfills located in the North West New Territories (at Siu Lang Shui, Ma Tso Lung and Ngau Tam Mei) are covered by the same contract. The aftercare work under the contract has cost on average around \$16.3 million annually in operational costs⁽¹⁾ over the past five years.

(2) and (3)

Upon completion of the EPD's restoration of the Landfill in September 2000, the LCSD took over the development of the site, and considered various development options, such as the construction of recreational facilities and the development of facilities by "national sports associations" (NSAs). However, none of these options were taken forward due to site constraints and the financial position of the NSAs.

Excluding the site of the Hong Kong Jockey Club International BMX Park developed by the Hong Kong Cycling Association in October 2009 at the lower platform (about 4 hectares) of the Landfill, about 20 hectares of land are available for development. Technical issues related the development works require special attention. For example, no large structures can be built on the site to avoid excessive loading on the capping system and any adverse effect on the restoration facilities of the Landfill. In addition, any recreational and sports facilities to be provided should not inhibit the routine aftercare work carried out by the contractor. Protective measures against landfill gas hazard should also be adopted.

(1) The contract does not provide cost breakdowns for the maintenance and management of the landfill gas and related facilities at the Landfill

On 26 February 2013, the LCSD further consulted the District Facilities Management Committee (DFMC) of the Kwai Tsing District Council (DC) on the development of the site. Members suggested that the LCSD should explore the feasibility of developing a cycling park, a cricket ground, a venue for dragon and lion dances, a dog garden, an environmental education centre and a youth hostel. At subsequent meetings of the Recreation and Culture Committee of the Kwai Tsing DC on 6 June 2013 and the DFMC on 18 June 2013, the LCSD consulted Members again on the above proposal. Preliminary consent was given by Members for the development of a cricket ground, a football pitch and a golf driving range on the site. Following up on Members' comments, the LCSD consulted the DFMC again on 17 December 2013 on the specific use of the site. The DFMC gave consent to the development of a natural turf cricket and football pitch, a golf driving range, a landscaped garden, a jogging trail, a fitness corner, a children's playground, a community garden and a dog garden on the site. On this basis, the LCSD will start planning work, and will in this year engage the Architectural Services Department to conduct a study to ascertain the technical feasibility of building the proposed facilities on the restored landfill site. The LCSD will further consult the Kwai Tsing DC and local residents when a more concrete development plan is available.

- (4) Since the technical feasibility study on the development of the proposed recreational facilities on the site of the Park has yet to be conducted, no firm work plan is available at this stage.

Review of Mechanism for Appointment of ICAC Commissioner and Anti-corruption Legislation

8. **MR PAUL TSE** (in Chinese): *President, at present, the Commissioner of the Independent Commission Against Corruption (ICAC) (the Commissioner) is appointed by the Central People's Government on nomination and report by the Chief Executive and the Deputy Commissioner of ICAC (the Deputy Commissioner) is appointed by Chief Executive. It has been reported that a former Deputy Commissioner has pointed out that since the Chief Executive is involved in the appointment of the Commissioner and the Deputy Commissioner, in the event that the ICAC launches an investigation against the Chief Executive,*

the scenario akin to "a subordinate investigating his/her superior" may arise and give rise to a conflict of roles. He has therefore suggested that the appointment of these two posts should be entrusted to an independent authority. Besides, he has pointed out that, due to difficulties in gathering evidence, it is difficult for the existing anti-corruption legislation to effectively combat corruption acts in the grey area, such as the adoption of "policies benefiting friends" by public servants so as to accept or solicit intangible, deferred, inter-generational (for example, the children of public servants) advantages. In this connection, will the Government inform this Council:

- (1) whether it will make reference to the aforesaid views of a person well-versed in the ICAC's operation and entrust the appointment of the Commissioner and the Deputy Commissioner to an independent authority; if it will, of the relevant arrangements and the implementation timetable;*
- (2) whether it has studied and made reference to the anti-corruption legislation in overseas countries for the purpose of amending the Prevention of Bribery Ordinance (POBO) (Cap. 201) to prevent public servants from capitalizing on their powers and functions to benefit their family members; and*
- (3) of the reasons why the recommendations on amending the Prevention of Bribery Ordinance made by the "Independent Review Committee for the Prevention and Handling of Potential Conflicts of Interests" chaired by the former Chief Justice of the Court of Final Appeal have so far not been implemented; whether an implementation deadline can be set; if so, of the details; if not, the reasons for that?*

CHIEF SECRETARY FOR ADMINISTRATION (in Chinese): President, by virtue of section 12(b)(ii) of the Independent Commission Against Corruption Ordinance (ICACO) (Cap. 204), it shall be the duty of the Commissioner to investigate any suspected offence under the POBO (Cap. 201) as committed by any person (including the Chief Executive).

The ICAC has established procedures for handling corruption complaints. Upon receiving a corruption complaint, regardless of the target of the complaint,

as long as there is sufficient information for follow-up, the Commissioner is required to investigate the complaint independently and impartially, in strict accordance with the ICACO and established procedures. Legal advice will also be sought from the Department of Justice during the process when necessary. The progress and outcome of all investigations conducted by the ICAC will be reported to the independent Operations Review Committee and subject to its scrutiny. Under the existing checks and balances which have proven to be effective, no person, including the Commissioner, will take the liberty of terminating an investigation.

Section 30(1) of the POBO prohibits any person who knowing or suspecting that an investigation in relation to a person, without lawful authority or reasonable excuse, discloses to that person under investigation that he is the subject of a corruption complaint/investigation or details about a corruption complaint/investigation against him. Therefore, if the Commissioner disclosed to Chief Executive that the Chief Executive was subject to an investigation being conducted by the ICAC or any details about the investigation without lawful authority or reasonable excuse, the Commissioner might commit an offence under this section.

My reply to the three parts of Mr Paul TSE's question is as follows:

- (1) Pursuant to Article 57 of the Basic Law, a Commission Against Corruption shall be established in the Hong Kong Special Administrative Region (HKSAR). It shall function independently and be accountable to the Chief Executive.

Pursuant to Article 48 of the Basic Law, the Chief Executive nominates and reports to the Central People's Government for appointment of all principal officials, including the Commissioner. It is stipulated in Article 61 of the Basic Law that the principal officials of HKSAR shall be Chinese citizens who are permanent residents of HKSAR with no right of abode in any foreign country and have ordinarily resided in Hong Kong for a continuous period of not less than 15 years.

Under section 6 of the ICACO, the Chief Executive may appoint a Deputy Commissioner on such terms and conditions as he may think fit.

The Chief Executive handles the appointments of the Commissioner and Deputy Commissioner by strictly adhering to the Basic Law and the ICACO, and on the basis of credentials, experiences, abilities and personal integrity so that ICAC can exercise its statutory functions effectively and uphold Hong Kong's core value of probity and fairness. Given that such appointments are made in accordance with the laws and that the existing appointment mechanism has proven to be effective, there is no plan for changes.

- (2) Under section 4(2) of the POBO, any public servant who, whether in Hong Kong or elsewhere, without lawful authority or reasonable excuse, solicits or accepts advantage as an inducement to or reward for or otherwise on account of his performing or abstaining from performing, or having performed or abstained from performing, any act in his capacity as a public servant, may commit an offence of "soliciting or accepting advantage by a public servant".

It is stipulated in the Interpretation under section 2 of the POBO that a person solicits an advantage if he, or any other person acting on his behalf, directly or indirectly demands, invites, asks for or indicates willingness to receive, any advantage, whether for himself or for any other person. In addition, a person accepts an advantage if he, or any other person acting on his behalf, directly or indirectly takes, receives or obtains, or agrees to take, receive or obtain any advantage, whether for himself or for any other person.

Moreover, according to the common law, a public officer may commit the offence "misconduct in public office" if, in the course of or in relation to his public office, he wilfully misconducts himself by act or omission, without reasonable excuse or justification, and where such misconduct is serious, not trivial, having regard to the responsibilities of the office and the office-holder, the importance of the public objects which he serves and the nature and extent of the departure from those responsibilities.

As such, there are laws in Hong Kong to prevent public officers from using their official positions to pursue interests for themselves or others.

- (3) The Government attaches great importance to and has implemented most of the recommendations put forward by the Independent Review Committee for the Prevention and Handling of Potential Conflicts of Interests, including revising the Code for Officials under the Political Appointment System and setting guidelines for handling conflict of interests concerning Politically Appointed Officials. As for the recommendations to amend the POBO, we must exercise care and examine them in detail and in a holistic manner, taking into full consideration how they can be implemented as far as operation is concerned and what impacts they may have on the existing POBO. After the study has been completed, we will consult the Legislative Council on the findings at the appropriate time.

Hongkong Post e-Cert and Smart Identity Cards

9. **MR CHARLES PETER MOK** (in Chinese): *President, the Government started promoting Electronic Service Delivery many years ago, introduced the Hongkong Post e-Cert (e-Cert) in 2000 and started issuing smart identity (ID) cards to members of the public in June 2003. In this connection, will the Government inform this Council:*

- (1) *of the number of e-Certs expected to be issued in each of the years from 2000 to 2014 when the authorities launched the e-Cert in 2000, and the actual numbers of e-Certs issued and renewed respectively in each year of the same period, with a breakdown by type of e-Cert;*
- (2) *whether it knows the annual revenue, expenditure and profit/loss situation of the e-Cert business since 2007; if it cannot provide the relevant figures, of the reasons for that;*
- (3) *of the government services which currently accept e-Certs or other recognized digital certificates for verification of the identity of service users; the government departments providing those services, the details of such services and the person-times using e-Cert each year; whether the authorities will take measures to boost the person-times using e-Certs or other recognized digital certificates; if they will, of the details of the measures and the expected effectiveness;*

- (4) *of the government departments which currently make use of the data storage and processing functions of the chips embedded in smart ID cards to provide public services, as well as the details of those services; whether the Government has plans to introduce new technology in the second-generation smart ID cards; if so, of the details; whether there is any government department which has planned to make use of new technology to provide public services; if so, of the details and implementation timetable; and*
- (5) *of the designed service life of the current smart ID cards; the up-to-date number and percentage of smart ID cards replaced due to damage of the chips; as the authorities stated last year that they were planning to conduct a study on the smart ID card system, of the progress and outcome of the study; whether it has plans to replace the ID cards of members of the public with the second-generation smart ID cards; if it has, of the details and timetable?*

SECRETARY FOR COMMERCE AND ECONOMIC DEVELOPMENT (in Chinese): President, my reply to the five-part question is as follows:

- (1) Under the Electronic Transactions Ordinance (Cap. 553), Postmaster General is a public certification authority⁽¹⁾ who can issue digital certificates (known as "e-Certs" for those issued by the Hongkong Post Certification Authority) to individuals and organizations for the conduct of legally binding electronic transactions that require identity authentication. The number of digital certificates estimated to be issued every year from 2000 to 2014, as well as the actual numbers of digital certificates issued and renewed are detailed at Annex A.
- (2) Since April 2007, the Hongkong Post Certification Authority has outsourced the operation of its e-Cert services to a contractor who shoulders the full cost of the operation and can directly collect e-Cert fees. Information on its operation is commercially sensitive and cannot be provided.

(1) Apart from the Postmaster General, Digi-Sign Certification Services Limited is also a recognized certification authority that can issue digital certificates.

- (3) At present, 41 types of e-government services require the use of digital certificates for digital signature or identity authentication. Over the past three years, the cumulative number of transactions using e-services with digital certificates exceeds 150 million (details at Annex B).

Digital certificates ensure the confidentiality of electronic transactions, and enable users to digitally sign in an electronic transaction, thus ensuring its non-repudiation as well as the authenticity and integrity of the information transmitted in the transaction. Although digital certificates are not widely adopted internationally yet, the underlying technology base is still considered as an effective measure to augment high security electronic transactions. In view of this, the Office of the Government Chief Information Officer actively promotes the use of digital certificates in e-services that require authentication. In recent years, a number of government departments have launched new systems and services that make use of digital certificates. Examples include the "Smart Warrant Card System" of the Hong Kong Police Force, as well as the upcoming new services of Immigration Department's address record update and Student Financial Assistance Agency's e-submission service.

In the new 2014 Digital 21 Strategy, we propose to provide free digital certificates to all Hong Kong residents, with a view to driving the wider use of digital certificates in online services requiring authentication, thus allowing the public to use e-services in a secure manner.

- (4) The chip embedded in the Smart ID Card supports multiple applications. The ID card data contained in the chip, including names in Chinese and English, ID card number, date of birth and date of issue, can be used by authorized government departments. Government departments that make use of ID card data to provide services include the Immigration Department (ImmD), Leisure and Cultural Services Department, Department of Health and the Hospital Authority (details at Annex C).

- (5) Hong Kong Smart ID Cards are made of durable materials, and are designed to last no less than 10 years. From June 2003 to late December 2013, the ImmD had issued more than 11 million Smart ID Cards. There are 55 000 cases involving card replacement due to damage, representing 0.49% of total number of cards issued.

As for future development, the ImmD is conducting a consultancy study on the Next Generation Smart Identity Card System, which is expected to be completed in the middle of this year. No concrete timetable for replacement has been drawn up.

Annex A

Number of Digital Certificates (Known as e-Certs) Issued by
Hong Kong Post Certification Authority (HKPCA)

Year	Estimated Number of e-Certs to be Issued		Actual Number of e-Certs Issued			Actual Number of e-Certs Renewed		
	Personal	Organizational and others ⁽¹⁾	Personal	Organizational	Others	Personal	Organizational	Others
2000-2001	15 000	400 100	8 400	2 550	450	0	0	0
2001-2002 ⁽²⁾	200 000	993 500	25 800	12 580	8 320	3 100	3 340	460
2002-2003 ⁽²⁾	220 000	1 512 000	34 900	16 360	3 740	6 000	8 820	280
2003-2004 ⁽²⁾	240 000	2 064 500	322 600	18 130	4 470	12 800	13 690	410
2004-2005 ⁽²⁾	250 000	2 922 000	601 200	19 610	4 390	4 700	7 185	115
2005-2006 ⁽²⁾	413 200	22 200	413 200	20 120	2 080	12	7 020	280
2006-2007	13 200	18 800	13 200	16 670	2 130	1 100	10 590	310
2007-2008	14 190	20 210	(3)					
2008-2009	15 254	21 726						
2009-2010	16 398	23 355						
2010-2011	17 628	25 107						
2011-2012	18 950	26 990						
2012-2013	20 372	29 014						
2013-2014	21 899	31 190						

Notes:

- (1) Apart from "Personal" and "Organizational" e-Certs, HKPCA also issues other types of e-Certs for government and private organizations, including banks.
- (2) The surge in the numbers of "Personal" e-Certs estimated to be issued from 2001-2002 to 2005-2006 was due to the opt-in scheme for free "Personal" e-Certs rolled out in tandem with the Smart ID Card replacement exercise.
- (3) Since April 2007, HKPCA has outsourced the operation of e-Cert services. As HKPCA is not the only provider of digital certificates, the operational information cannot be disclosed owing to their commercially sensitive nature.

e-Government Services That Have Made Use of Digital Certificates

<i>Government Department</i>	<i>e-Government Service</i>	<i>Usage</i>		
		<i>2011</i>	<i>2012</i>	<i>2013</i>
Inland Revenue Department	1. To file tax return and related documents	2 900	2 700	2 700
Office of the Government Chief Information Officer	2. "Change of Address Service"	217	155	192
	3. To login "MyGovHK"	140 (from February) ⁽¹⁾	125	83
	4. To submit quotations	3	0	1
Transport Department	5. Online Application for Renewal of Full Driving Licence	36	37	34
	6. Online Application for Renewal of Vehicle Licence	562	509	750
	7. Online Application for a Certificate of Particulars of Motor Vehicle	15 226	14 293	16 019
	8. Online Application for Personalized Vehicle Registration Marks	65	102	115
	9. Online Booking for Driving Tests	39	48	102
Registration and Electoral Office	10. Voter Registration	164	173	104
Government Logistics Department	11. To submit tender proposals	66	101	102
Customs and Excise Department	12. To lodge the import returns and published retail price applications for Motor Vehicles First Registration Tax (the service was launched in end 2011)	No data available ⁽²⁾	52 000	60 000

<i>Government Department</i>	<i>e-Government Service</i>	<i>Usage</i>		
		<i>2011</i>	<i>2012</i>	<i>2013</i>
	13. To lodge Road Cargo Information	7 794 000	36 413 000	40 491 000
	14. To lodge the Import/Export Declarations	18 362 000	18 729 000	19 180 000
	15. To submit import/export cargo manifests through Electronic Cargo Manifests System	569 000	567 000	601 000
	16. To apply for Electronic Dutiable Commodities Permit	99 000	104 000	119 000
Land Registry	17. To browse land registers and order land document copies	5 603	4 957	4 969
Water Supplies Department	18. To access the Electronic Services	0	1	0
Companies Registry	19. To submit applications for company incorporations	The relevant data is not recorded in the system		
Trade and Industry Department	20. To apply for Import and Export Licence for Strategic Commodities	276 075	360 287	400 241
	21. To apply for International Import Certificate	7	12	19
	22. To submit Strategic Commodities (Product Pre-classification) Application	6 741	8 361	9 182
	23. To apply for Textiles Notifications	1 945 498	1 651 669	1 570 156
	24. To apply for Lodging Production Notification of Cut-and-Sewn Garments	2 519	2 061	1 986
	25. To apply for Certificate of Origin and Certificate of Origin-Processing	76 202	64 003	56 147

<i>Government Department</i>	<i>e-Government Service</i>	<i>Usage</i>		
		<i>2011</i>	<i>2012</i>	<i>2013</i>
	26. To submit application for the SME Development Fund/the Dedicated Fund on Branding, Upgrading and Domestic Sales (Organization Support Programme)	0	0	0
	27. To submit Report on "Activities under the Chemical Weapons (Convention) Ordinance"	0	0	0
	28. To apply for Delivery Verification Certificate	0	0	0
Drainage Services Department	29. To facilitate the speedy transfer of underground utility information for roadwork excavation	No data available ⁽³⁾	19 650	24 992
Department of Health	30. To submit application for Registration as an Importer/Exporter of Pharmaceutical Products	0	0	0
	31. To apply for Registration of Premises of an Authorized Seller of Poisons	0	0	0
	32. To apply for Antibiotics Permit	0	0	1
	33. To apply for Wholesale Poisons Licence	0	0	1
	34. To apply for Licence for Listed Seller of Poisons	0	0	0
	35. To apply for Wholesale Dealer's Licence to supply Dangerous Drugs	0	0	0
	36. To apply for Import Licences of pharmaceutical products	8 432	8 901	8 597
	37. To apply for Export Licences of pharmaceutical products	3 335	2 850	3 709

<i>Government Department</i>	<i>e-Government Service</i>	<i>Usage</i>		
		<i>2011</i>	<i>2012</i>	<i>2013</i>
Rating and Valuation Department	38. To change Rates and/or Government Rent Payer's Particulars	4	3	0
Food and Environmental Hygiene Department	39. To apply for Registration as Food Importer/Distributor	3	19	5
	40. To apply for Liquor/Club Liquor Licence	0	4	0
Government bureaux and departments	41. To submit e-Form	87 363	133 047	190 666
Total:		29 255 200	58 139 068	62 741 873

Notes:

- (1) The service was launched in February 2011.
- (2) The service was launched in end 2011.
- (3) A new system for the service was launched in 2013. As only the data of 2012 had been migrated, prior data is not currently available.

Annex C

Public Services Making Use of ID Card Data Stored in the Smart ID Card Chip

<i>Government Department</i>	<i>Public Services</i>
Immigration Department	1. e-Channel (Automated Passenger Clearance System)
	2. Vehicular e-Channel (Automated Vehicle Clearance System)
	3. To submit passport application at the Self-service Kiosk
Leisure and Cultural Services Department	4. To borrow library books
	5. To book facilities or enrol in programmes through "Leisure Link Self-service Kiosk"
Department of Health	6. To confirm the personal data for persons enrolled in "Elderly Health Care Voucher Scheme" and vaccination subsidy schemes
Hospital Authority	7. To enrol in "Public Private Interface — Electronic Patient Record Sharing Pilot Project"

Support for Athletes Participating in Major International Sport Games

10. **MR FREDERICK FUNG** (in Chinese): *President, an athlete representing Hong Kong participated in the Olympic Winter Games (OWG) held this month in Sochi, Russia. The athlete alleged that he had repeatedly requested, before his departure for the Games, the Sports Federation and Olympic Committee of Hong Kong, China (SF&OC) to arrange for a team doctor to accompany him, but the request was turned down by the SF&OC on the ground that all the places of the Hong Kong Delegation had been taken up. Moreover, senior officials of the SF&OC on the Delegation rarely showed concern for his training when they were in Sochi. There are comments that Hong Kong athletes participating in previous OWG had received scant support from the Government and the SF&OC apart from the funding provided by the Government for their participation in such sport games. In this connection, will the Government inform this Council:*

- (1) *whether it knows the criteria adopted by the SF&OC for determining the composition of the Hong Kong Delegation to Sochi OWG (including the numbers of different types of members and the relevant candidates); whether there is any difference between such criteria and those adopted for previous participation in Olympic Games or other major international sport games; how the composition compares with that of the delegations from countries or regions which sent one to three athletes to participate in the Games, and whether team doctors were included in their delegations;*
- (2) *whether it knows the duties and itineraries of various members of the Hong Kong Delegation to Sochi OWG when they were there (including the name and contents of each function they participated, and the percentages of the time involved in such functions in the entire trip, as well as their free time);*
- (3) *whether it has assessed if the medical services provided by the hosts of sport games can cover all the services of a team doctor, as well as the impact of the absence of the support of a team doctor on the performances of Hong Kong athletes; and*
- (4) *whether it will require the SF&OC to make comprehensive care for the needs of athletes participating in competitions as its fundamental*

principle when determining the composition of Hong Kong delegations to major international sport games in future and such delegations must include team doctors; if it will not, of the reasons for that?

SECRETARY FOR HOME AFFAIRS (in Chinese): President, the Summer Olympic Games and the OWG are international multi-sport events organized by the International Olympic Committee (IOC) in accordance with the provisions laid down in the Olympic Charter (the Charter). All participants in Olympic events are required to obtain recognition from the IOC and comply with the Charter. One of the fundamental principles of the Charter is that the organization, administration and operation of sport should be governed by an independent sports organization, which has the responsibility to protect its autonomy from any effects which may render its strict compliance with the Charter provisions impossible.

In Hong Kong, the SF&OC, a sports organization recognized by the IOC has the authority to handle matters relating to the participation of the Hong Kong Delegation in specified international games.

The Government supports local competitions, training programmes, athletes' participation in international sports events and staff training for different sports by providing funds to "national sports associations" (NSAs), the SF&OC and the Hong Kong Sports Institute (HKSU). As regards participation in international sports events, the Home Affairs Bureau examines and approves funding applications from NSAs and the SF&OC for preparation for and participation in such events, and monitors their use of public funds.

Taking the participation of the Hong Kong Skating Union (HKSU), in this year's OWG as an example, we allocated recurrent funding of about \$1.37 million to the HKSU under the Sports Subvention Scheme in 2013-2014 for athlete training, sports promotion and administration. We allocated a further \$300,000 to the HKSU in February 2013 to cover expenditure on items such as extra training, coaching and training equipment for two athletes recommended by the NSA to prepare for the OWG in Sochi. To support the participation of the Hong Kong Delegation (which included another three athletes who were then still at the

qualifying stage and the representatives of the related sports) in the OWG, we provided additional funding of \$650,000 in response to an application by the SF&OC to cover expenditure on items such as: economy class air tickets, accommodation, meals, local transportation, uniforms and medical assessments.

Mr Barton LUI Pan-to, the athlete who took part in this year's OWG, has received a Sports Aid Grant from the HKSI since April 2013 and has been an HKSI scholarship athlete since December 2013. Three other HKSU athletes are also HKSI scholarship athletes. When skating (including figure skating and short track speed skating) became an elite sport in April 2013, the HKSU began receiving direct financial assistance from the HKSI.

My reply to the respective parts of the question is as follows:

- (1) The SF&OC has full discretion in determining a Hong Kong Delegation list in accordance with the provisions of the Charter and the regulations of the games concerned. The Government has no right to be involved in this process. According to our understanding, the detailed arrangements (including the composition of delegations from participating regions) for events in the Olympic Games and other major international games (such as the Asian Games) are different. In general, the composition of a delegation for major international games includes the athletes, representatives of the sport concerned (such as the coach and the team manager), technical officials, National Olympic Committee representatives and other members (including the Chef de Mission, medical supporting staff and other staff members). The quota for certain types of member is allocated by the organizer according to the number of participating athletes. We note that in this year's OWG, some participating countries or regions did not include a team doctor in their delegations.
- (2) We examine comprehensively all funding applications that the SF&OC submits for participation in sports events, including the proposed delegation list, a brief description of duties and responsibilities of each delegation member and other related documents.

(3) and (4)

The Government recognizes the SF&OC's authority in determining the Hong Kong Delegation list. It also recognizes that the SF&OC is best placed to assess the necessary level of medical support for a sports event. We agree that Hong Kong athlete participants should be provided with adequate support. We will reflect Members' views to the SF&OC.

Internal Control of Procurement Activities by Policy Bureaux and Government Departments

11. **MR KENNETH LEUNG** (in Chinese): *President, in recent years, the media have successively uncovered that a former Chief Executive and some former public officers had used public money while in office to pay for extravagant expenses on entertainment and overseas duty visits, as well as to procure expensive gifts and supplies, giving rise to public queries and criticism about the Government's lack of proper internal control of entertainment and procurement. In this connection, will the Government inform this Council:*

- (1) *of the upper limits of the current monthly allowances for entertainment and overseas duty visits payable to politically appointed officials, directorate Administrative Officers and personnel of statutory bodies with remuneration packages equivalent to those of directorate civil servants (directorate officers);*
- (2) *as Chapter 8 of the Director of Audit's Report No. 59 points out that the Government introduced the purchasing card programme in 2000 to require Policy Bureaux/government departments (B/Ds) to use purchasing cards as the normal means to purchase low value stores and services not exceeding \$50,000, whether the authorities have provided purchasing cards to politically appointed officials and directorate officers; if they have not, whether the Government has provided them with corporate credit cards to facilitate their payment for official expenses; if it has not, whether they need to make advance payments for the expenses concerned; if such officers need to do so, of the means by which such expenses are paid, the*

procedures for applying for reimbursement of advance payments, and the relevant internal control procedures;

- (3) among the purchases made by B/Ds in 2012 and 2013, of the respective numbers of purchases (i) made by purchasing cards, (ii) made with exemption from using purchasing cards and (iii) made not by purchasing cards without approval, as percentages of the total numbers of purchases, and the respective amounts of money involved; and*
- (4) of the respective numbers of civil servants admonished, punished or prosecuted for violating the procurement requirements each year from 2009 to 2013; whether the authorities have assessed if the purchasing card programme has enhanced the internal control of procurement by B/Ds; if they have, of the details; whether the authorities have plans to expand the scope of application of the purchasing card programme; if they have, of the details?*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Chinese): President,

- (1) The Government does not set a monthly provision for expenditure on entertainment and subsistence allowance for duty visits outside Hong Kong for civil servants.

Expenditure incurred by civil servants on entertainment is subject to the Civil Service Regulations (CSR) and relevant guidelines. The CSR state that expenditure on entertainment may only be charged to public funds when it is: (1) directly related to the discharge of an officer's duties or a necessary part of making or maintaining contacts in his official capacity; and (2) in the public interest. According to the internal guidelines of the Government, expenditure on entertaining guests should generally be limited to \$450 per person for lunch or \$600 per person for dinner.

A civil servant who has been granted approval for a duty visit outside Hong Kong may receive a subsistence allowance. Rates of the allowance are set out on a per night basis in respect of different

places for duty visits in the CSR and vary depending on the place and duration of the visit. All civil servants will however be granted allowances following the same criteria irrespective of rank and post.

At present, the Chief Secretary for Administration, the Financial Secretary and the Secretary for Justice are provided with non-accountable entertainment allowances of \$400,000, \$306,600 and \$199,900 per year respectively for expenditure on entertainment activities held at their official residences. The entertainment expenses of other politically appointed officials are all accountable subject to the same rules and regulations as well as the expenditure ceilings applicable to civil servants.

Politically appointed officials on duty visits outside Hong Kong are entitled to a subsistence allowance under the same rules and regulations applicable to civil servants.

According to the information provided by various bureaux, no monthly allowances for entertainment and duty visits outside Hong Kong are provided for the personnel of statutory bodies under their purview with remuneration packages equivalent to those of directorate civil servants. Statutory bodies have in place their own internal guidelines governing the expenditure on entertainment and duty visits outside Hong Kong by their staff. Generally speaking, the relevant guidelines and/or regulations are similar to those applicable to civil servants.

- (2) The Government launched the purchasing card programme in March 2000 to facilitate bureaux and departments (departments) to use purchasing cards for low value purchases not exceeding HK\$50,000. Normally, departments will issue purchasing cards only to officers who are responsible for making low value purchases. Politically appointed officials and directorate officers are not required to use purchasing cards. Their expenses in relation to duty visits outside Hong Kong, such as those on air tickets and hotel bookings, are normally arranged by the departments concerned. Subject to approval being given for the relevant expenses in accordance with the relevant regulations (such as CSR and the Stores and Procurement Regulations (SPR)), the departments concerned will

arrange payment direct. If payment is settled by the officer concerned first for expenses related to official entertainment and duty visits outside Hong Kong, the officer has to submit an application for reimbursement to the departments concerned with the relevant receipts and supporting documents. The Government has not issued corporate credit cards to its officials.

In cases where purchasing cards cannot be used (for example, the suppliers do not accept the use of purchasing cards), departments can settle payment by cash (for purchases with a value not exceeding \$5,000) or by other methods (for example, cheques). Irrespective of the methods of payment, the relevant documentation, including purchase orders, invoices, application forms for reimbursement, and so on, has to be vetted by the approving officers. Departments are required to keep the relevant procurement records for auditing purposes.

- (3) Currently, most departments have adopted the use of purchasing cards for low value purchases not exceeding HK\$50,000. In 2012 and 2013, there were respectively only three and two departments which were not yet ready to use purchasing cards for procurement. This was mainly due to the need for computer system upgrades geared to the use of purchasing cards or other work priorities resulting in the postponement of the implementation date. Although these departments did not use purchasing cards, their procurement work must still comply with the procurement procedures stipulated in the SPR. Information on low value purchases made by departments in 2012 and 2013 is set out below:

	2012		2013	
	<i>Percentages of the total numbers of purchases</i>	<i>Total Amount (\$ million)</i>	<i>Percentages of the total numbers of purchases</i>	<i>Total Amount (\$ million)</i>
Purchases made by purchasing cards	67%	1,524	67%	1,562

	2012		2013	
	<i>Percentages of the total numbers of purchases</i>	<i>Total Amount (\$ million)</i>	<i>Percentages of the total numbers of purchases</i>	<i>Total Amount (\$ million)</i>
Purchases made with exemption from using purchasing cards (for example, suppliers do not accept the use of purchasing cards)	25%	752	23%	778
Purchases made without using purchasing cards	8%	186	10%	205

- (4) The Civil Service Bureau does not maintain statistics on categories related to civil servants admonished, punished or prosecuted for violating the procurement requirements. Such information is therefore not available.

In using the purchasing cards for arranging purchases, departments should follow the procurement procedures stipulated in the SPR. The purchasing card programme has in place a monitoring mechanism to ensure proper usage by cardholders, which includes prohibiting the purchase of certain commodities (for example, jewellery), restricting the purchase amount per transaction and the credit limit per billing cycle for each cardholder, and so on. Furthermore, under the purchasing card programme, each transaction has a reference number and the consolidated statement shows all the transactions of the card for verification by departments. The purchasing cards are now being widely used by departments for low value purchases and the whole programme has been operating smoothly. The two departments not yet using purchasing cards are now actively making preparation for joining the purchasing card programme as soon as possible.

Publication of Public Policy Research Reports

12. **MR WU CHI-WAI** (in Chinese): *President, the work of the Central Policy Unit (CPU) includes conducting policy researches in the social, political and economic spheres and commissioning experts to conduct thematic consultancy studies by way of contracts where necessary. In addition, the Government launched the Public Policy Research Funding Scheme (the Scheme) in 2005 to promote public policy researches. Since 2013-2014, the CPU has taken over the administration of the Scheme from the Research Grants Council (RGC) under the University Grants Committee (UGC) and relaxed the eligibility criteria for the Scheme. Some members of the public have pointed out that for some of the research projects made public on the CPU website, only executive summaries, which are very brief, of their reports are available, rendering it impossible for members of the public to know the results of the research projects funded by the CPU. Such practice has not only deprived the public of their right to know, but also affected the desire of scholars and researchers of community think tanks to participate in the relevant work. In this connection, will the Government inform this Council:*

- (1) *in respect of each of the research projects made public by the CPU on its website since 2004, (i) whether the projects were publicly-funded; if so, of the amounts of funding, and (ii) the reasons for not making public the full texts of some of the research reports (set out such information by the name of project and year in Table 1);*

Table 1

<i>Name of project (year)</i>	<i>(i)</i>	<i>(ii) (if applicable)</i>
<i>Hong Kong's Economic Integration with the Pearl River Delta: Quantifying the Benefits and Costs (2004)</i>		
<i>...</i>		

- (2) *of the criteria and mechanism adopted by the CPU for determining whether the reports of research projects should be published in full or in part; whether it will make public reports of the research projects the full texts of which are not yet available; if so, of the details; if not, the reasons for that;*

- (3) *whether the reports mentioned in part (1) cover all research projects which the CPU commissioned other organizations to conduct since 2004; if they do not, of the details of the research projects which have not been made public, including (i) whether the projects were publicly-funded; if so, of the amounts of funding, (ii) the reasons for not making public any part of the research reports, and (iii) whether the data, contents, analyses or policy proposals set out in the research reports have been adopted by the Government; if so, of the details of the policies or legislation so formulated or amended by the Government, and set out such information by the name of project and year in Table 2;*

Table 2

<i>Name of project (year)</i>	<i>(i)</i>	<i>(ii)</i>	<i>(iii)</i>

- (4) *of the details of the research projects the reports of which have never been published by the CPU or the RGC since the launch of the Scheme (except the research projects mentioned in part (3)), including (i) the reasons for not publishing the research reports and (ii) whether the data, contents, analyses or policy proposals set out in the research reports have been adopted by the Government; if so, of the details of the policies or legislation so formulated or amended, and set out such information by the name of project in Table 3;*

Table 3

<i>Name of project</i>	<i>(i)</i>	<i>(ii)</i>

- (5) *regarding the research projects mentioned in part (4) and those to be funded by the Scheme in future, whether the Government will make an undertaking and draw up a code for the release of the contents of the reports of the research projects for public access within a certain time after they have been submitted to the Government; if so, of the details; if not, the reasons for that;*

- (6) *whether the Government will make an undertaking to release for public access the research results of public policy research projects to be funded by public money in future, irrespective of whether the projects are conducted or commissioned by the CPU, unless the disclosure of such information, including information on the administration of justice, defence or foreign affairs, will undermine public interest or if such information contains commercially sensitive materials; and*
- (7) *as there are views that the information obtained from the research projects conducted by the CPU is very important to the promotion of public policy research, whether the Government will, in its guidelines to the CPU, ensure that the CPU will not refuse to release research reports for public access on the ground that the reports might involve "information relating to incomplete analysis, research or statistics which could be misleading"?*

CHIEF SECRETARY FOR ADMINISTRATION (in Chinese): President, on the basis of the information provided by the CPU, my reply to Mr WU Chi-wai's question is as follows:

Parts (1), (2), (3), (6) and (7): The major function of the CPU is to provide advice to the Chief Executive, the Chief Secretary for Administration and the Financial Secretary. Policy research undertaken by the CPU includes specific topics assigned by the Chief Executive, Chief Secretary for Administration and Financial Secretary, covering social, political and economic spheres, often involving cross-bureaux policy issues. The CPU's research aims to offer forward-looking thinking and ideas from various perspectives for the Government's internal reference and discussion. Upon receipt of a study report submitted by a commissioned body, the CPU's Full-time Member or researcher in charge of the project will make public the contents of the report as far as possible, provided that such disclosure will neither affect the proper and effective conduct of the research work of the CPU, nor inhibit the frankness and candour of discussion within the Government.

For titles of commissioned projects, contract value and whether only executive summaries of the reports are made available online by the CPU since 2004, please refer to the Annex.

There are 10 commissioned projects which have been completed and are under review by the CPU to see whether the executive summaries or contents of the reports can be made public. The CPU does not have statistics on whether the data, contents, analyses or proposals of individual research reports have been adopted.

Parts (4) and (5): In the 2005 Policy Address, the Government announced the introduction of the Scheme, which aims to promote public policy research and nurture the talents required. The Scheme also encourages academics to share their research results to facilitate rational and objective discussions.

The RGC under the UGC was responsible for running the Scheme and the Strategic Public Policy Research Funding Scheme in the 2012-2013 financial year and before. A list of funded projects has been uploaded onto the RGC's website <<http://www.ugc.edu.hk/eng/rgc/result/other/ppr10.htm>>. Under the arrangement of the RGC, the intellectual property rights of research results belong to the person-in-charge of the research projects. Therefore, the contents and data of the projects would not be made public. However, both the CPU and the RGC have encouraged academics to make available research results to the academic community and the general public. Many academics also release their research results through press briefings, academic papers and seminars. In the same vein, upon receipt of research reports, the CPU will forward them to relevant Policy Bureaux for reference.

Starting from the 2013-2014 financial year, the CPU is responsible for the administration of the Scheme. The Scheme continues to be open to institutions funded by the UGC. In addition, other local degree-awarding tertiary institutions and non-profit-making public policy research think tanks may also apply. As the CPU stated at the special meeting of the Legislative Council Panel on Education on 21 February 2013, to enhance transparency, it will upload all research reports of projects funded by the Scheme onto the CPU's website for public reference and will invite academics, think tanks, government officials, and people from non-governmental organizations and business sectors to exchange views through channels such as seminars.

The Scheme aims to promote public policy research and provide the Administration, academics or relevant stakeholders with research findings for reference. The Administration does not have statistics on whether the research

reports have been adopted. Instead, it attaches importance to the exchange between researchers and stakeholders as a means to promote public policy research and discussion.

Annex

CPU-commissioned research projects made available online between
2004 and 2014[#]

<i>Title of Project</i>		<i>Contract Value (HK\$)</i>
2014		
(1)*	A Study on Cross-Boundary Marriages in Hong Kong: Causes and Consequences	994,500
2013		
(2)	A Study on New Arrivals from Mainland China	1,370,000
(3)	A Study on Supporting Hong Kong Businesses to Tap into Domestic Consumption Market in the Pearl River Delta Region	150,000
(4)*	A Study on Promoting Hong Kong's Modern Service Industry in the Economic Cooperation between Fujian and Hong Kong	280,000
(5)*	A Study on Multi-stakeholder Engagement: The Case of the Guangzhou- Shenzhen- Hong Kong Express Rail Link Project	184,000
(6)*	A Study on "The Youth Problem"	66,000
(7)*	A Study on "Epidemiology of Child Abuse and Its Geographic Distribution in Hong Kong: An Important Social Indicator of Different Districts and Communities"	346,500
(8)*	A Study on "Family Impact Analysis and Case Studies: Public Rental Housing and Comprehensive Social Security Assistance"	231,000
(9)	A Study on Living Across the Border: Migration Pattern, Social Integration and the Wellbeing of Hong Kong Families in Shenzhen	597,200

<i>Title of Project</i>		<i>Contract Value (HK\$)</i>
2012		
(10)*	Study on Supporting HK Manufacturing Enterprises in Guangdong to Develop the Domestic Consumption Market	200,000
(11)	A Study on China's Urban Future and Hong Kong's Business Opportunities	55,294
(12)*	Study on Hong Kong's Role in Supporting Chinese Enterprises Going Global	800,000
(13)*	Study on Policy Recommendations for Further Liberalization and Deepening of CEPA during the 12.5 Period	50,000
(14)	2nd Round of Thematic Household Survey (Topic on Characteristics of Hong Kong Residents Having Resided/Having Stayed Substantially in the Mainland) in 2007	850,000
(15)*	3rd Round of Thematic Household Survey (Topic on Hong Kong Families) in 2008	861,000
(16)*	A Study on Drug Abuse Among Youths and Family Relationship	590,588
(17)*	A Study on Family-Centered Prevention of Adolescent Girls' and Boys' Prostitution	499,982
(18)*	Exploratory Study of Neglect Among Elderly in Hong Kong: A Family Perspective	480,000
(19)*	Parental Perspectives on Child Neglect in Hong Kong	455,000
(20)*	A Study on the Hong Kong Container Terminal Trade	836,506
(21)	1st Round of Thematic Household Survey (Use of New Media) in 2011	1,220,000
(22)*	An Investigation of the Perception of Social Justice across Social Groups	449,600
(23)*	The Pattern of Urban Life in Hong Kong: A District Level Community Study of Sham Shui Po	1,170,062
(24)*	Understanding Non-engaged Youths in Hong Kong: A Mixed Method Approach	580,570
(25)*	National Consciousness in Post-1997 Hong Kong: Adolescents' Construction of Patriotism and Identity	397,310

<i>Title of Project</i>		<i>Contract Value (HK\$)</i>
(26)*	Ruling Wisely: A Study on the Wisdom-Pooling Decision-Making Model of the Central People's Government based on Case Studies of China's Five Year Plans	622,541
(27)*	Hong Kong Elderly People Retiring in the Mainland	260,000
(28)*	Mobility and Welfare: The Family Strategy of Mainland Women Coming to and Giving Birth to Children in Hong Kong	260,000
(29)*	A Study on Encouraging Guangdong Enterprises to Go Global through Hong Kong	360,000
(30)*	Study on the Manpower Situation and Needs of the Arts and Cultural Sector in Hong Kong	1,100,000
(31)*	A Pilot Study on Cross-Boundary Families in Hong Kong	100,000
2011		
(32)	A Study on Understanding our Young Generation	570,588
(33)	Study of Hong Kong's Aviation Industry: Current Challenges and Future Strategies	850,000
(34)	Consultancy Study on Socio-Economic-Political Trends in Guangdong Province (1st quarterly report)	370,000
(35)	Consultancy Study on Socio-Economic-Political Trends in Guangdong Province (2nd quarterly report)	Covered by the Consultancy Agreement of item (34)
(36)	Study on Implementation of the Pilot Renminbi Trade Settlement Scheme in Guangdong Province: Evaluation and Policy Recommendations	Covered by the Consultancy Agreement of item (34)
(37)*	A Study on Brand Building for Higher Education in Hong Kong: Prospects and Strategies	132,250
(38)	Consultancy Study on Socio-Economic-Political Trends in Guangdong Province (3rd quarterly report)	Covered by the Consultancy Agreement of item (34)
(39)	A Review Study on Cultural Audit: the Landscape of Hong Kong's Cultural Infrastructure	299,000

	<i>Title of Project</i>	<i>Contract Value (HK\$)</i>
(40)*	A Study on Arts Administrators in Hong Kong	293,400
(41)	Consultancy Study on Socio-Economic-Political Trends in Guangdong Province (4th quarterly report)	Covered by the Consultancy Agreement of item (34)
(42)	Case Study of Hong Kong-Guangdong Cooperation in Education and Science and Technology in Nansha	Covered by the Consultancy Agreement of item (34)
(43)	Study on Hong Kong-Guangdong Cooperation in Vocational Education: Current Status and Policy Suggestions	Covered by the Consultancy Agreement of item (34)
(44)	Case Study of Hong Kong-Guangdong Cooperation in Resource Recovery and Recycling	Covered by the Consultancy Agreement of item (34)
(45)	Feasibility Study of Fishing Tourism in Hong Kong	150,000
2010		
(46)*	A Consultancy Study on China's Foreign Policy and Hong Kong's Position in Regional Developments	1,200,000
(47)*	A Research Study on Mainland Chinese Immigrant Artists in Hong Kong	227,800
(48)*	A Study on the Process of Public Policy Decision Making at the Central People's Government: A Case Study on Health Care Reform Policies	300,000
(49)	A Study on the Meaning and Practice of Filial Piety in Hong Kong and A Review of the Research Literature on Filial Piety	178,250
(50)	A Study on Hong Kong's Post 80s Generation: Profiles and Predicaments	81,000
(51)	A Focus Group Study on Subsidizing Home Ownership	850,000
(52)	A Study on Social Attitudes of the Youth Population in Hong Kong	305,600
(53)*	A Study on the Postmodern Challenges of the Information Society to the Governance of HKSAR	100,000
2009		
(54)	Study on A Cross-National Comparison of Family Policy	258,185
(55)	Study on Social Enterprises in Hong Kong	270,000

	<i>Title of Project</i>	<i>Contract Value (HK\$)</i>
(56)	Study on Hong Kong's Professional Immigrants from Mainland China and their Strategies of Adaptation	160,000
(57)	Study on the Trends in Family Attitudes and Values in Hong Kong	255,346
(58)	Study on Low-Wage Workers in Hong Kong	327,500
(59)*	2008 Consultancy Study on Social, Economic and Political Developments in the Mainland, with Particular Emphasis on Regional Developments and the Guangdong Province, that Have Implications for Hong Kong (Executive Summaries of the 1st, 2nd, 3rd, 4th, 5th and 6th bimonthly reports)	874,600
(60)	Study on Cooperation of Producer Services Industries between Hunan and Hong Kong	66,500
(61)	Study on Hong Kong's Economy: Transformation, Competitiveness and Sustainability	990,000
(62)	A Further Study on the Future Development of the Hong Kong Economy, Consolidation and Enhancement of Existing Core Industries and Development of Economic Areas with High Potential in Hong Kong	90,000
(63)	A Study on Mapping the Associational Life in Tin Shui Wai	243,360
(64)	A Study on Singapore's Experience in Regional Cooperation	522,151
(65)*	A Pilot Study on the Practice of Theatre in Hong Kong	397,500
(66)*	A Study on Policies and Strategies of Israel and Singapore Governments to Attract, Develop and Retain Returnee Talents	253,000
(67)*	A Study on the Social Networks of Residents in Tin Shui Wai	189,000
(68)	A Study on Hong Kong in the Region: Role, Issues and Strategies	200,000
(69)*	A Comparative Community Study of Tin Shui Wai and Sham Shui Po	296,500
(70)	Study on Yunnan's Co-operation with ASEAN and the Greater Mekong Subregion: Recent Developments and Implications for Yunnan-Hong Kong Co-operation	330,000
(71)*	A Qualitative Study on "Hidden Elderly" in Hong Kong	220,200
(72)*	A Pilot Study for Public Health Policy Model and Development Indicator for Child Health in Hong Kong	273,700
(73)*	A Consultancy Study on the Needs and Integration into Local Communities of Hong Kong People Living in Shenzhen, Dongguan and Guangzhou	491,400

<i>Title of Project</i>		<i>Contract Value (HK\$)</i>
(74)	A Literature Review of Family Policy in Four East Asian Societies	197,123
2008		
(75)	2006/07 Consultancy Study on Social, Economic and Political Developments in Pan-Pearl River Delta Region, Covering Fujian, Jiangxi, Hunan and Hainan (4th, 5th and 6th monthly reports)	875,000
(76)	2006/07 Consultancy Study on Social, Economic and Political Developments in Pan-Pearl River Delta Region, Covering Guangxi, Yunnan, Guizhou, Sichuan (7th monthly report)	986,000
(77)	2006/07 Consultancy Study on Social, Economic and Political Developments in Pan-Pearl River Delta Region, Covering Guangxi, Yunnan, Guizhou, Sichuan (8th and 9th monthly reports)	Covered by the Consultancy Agreement of item (76)
(78)	2006/07 Consultancy Study on Social, Economic and Political Developments in Pan-Pearl River Delta Region, Covering Guangxi, Yunnan, Guizhou, Sichuan (10th monthly report)	Covered by the Consultancy Agreement of item (76)
(79)	2006/07 Consultancy Study on Social, Economic and Political Developments in Pan-Pearl River Delta Region, Covering Guangxi, Yunnan, Guizhou, Sichuan (11th and 12th monthly reports)	Covered by the Consultancy Agreement of item (76)
(80)	2006/07 Consultancy Study on Social, Economic and Political Developments in Pan-Pearl River Delta Region, Covering Guangxi, Yunnan, Guizhou, Sichuan (1st and 2nd special reports)	Covered by the Consultancy Agreement of item (76)
(81)*	2006/07 Consultancy Study on Social, Economic and Political Developments in Pan-Pearl River Delta Region, Covering Fujian, Jiangxi, Hunan and Hainan (Executive Summaries of the 7th, 8th, 9th, 10th, 11th and 12th monthly reports)	Covered by the Consultancy Agreement of item (75)
(82)*	2006/07 Consultancy Study on Social, Economic and Political Developments in Pan-Pearl River Delta Region, Covering Fujian, Jiangxi, Hunan and Hainan (Executive Summaries of the 1st and 2nd special reports)	Covered by the Consultancy Agreement of item (75)
(83)*	2008 Consultancy Study on Social, Economic and Political Developments in Pan-Pearl River Delta Region (Except the Guangdong Province) and their Implications for Hong Kong (Executive Summaries of the 1st, 2nd, 3rd, 4th and 5th bimonthly reports)	920,400

	<i>Title of Project</i>	<i>Contract Value (HK\$)</i>
(84)	Consultancy Study on International Experience of Selected Countries in Supporting the Low-income Family in Helping its Members and their Applicability to Hong Kong	400,000
2007		
(85)	Action Agenda on "China's 11th Five-Year Plan and the Development of Hong Kong"	Non-consultancy project item
(86)	2006/07 Consultancy Study on Social, Economic and Political Developments in Pan-Pearl River Delta Region, Covering Guangxi, Yunnan, Guizhou, Sichuan (2nd and 3rd monthly reports)	Covered by the Consultancy Agreement of item (76)
(87)	2006/07 Consultancy Study on Social, Economic and Political Developments in Pan-Pearl River Delta Region, Covering Fujian, Jiangxi, Hunan and Hainan (1st monthly report)	Covered by the Consultancy Agreement of item (75)
(88)	2006/07 Consultancy Study on Social, Economic and Political Developments in Pan-Pearl River Delta Region, Covering Fujian, Jiangxi, Hunan and Hainan (2nd monthly report)	Covered by the Consultancy Agreement of item (75)
(89)	2006/07 Consultancy Study on Social, Economic and Political Developments in Pan-Pearl River Delta Region, Covering Guangxi, Yunnan, Guizhou, Sichuan (4th monthly report)	Covered by the Consultancy Agreement of item (76)
(90)	2006/07 Consultancy Study on Social, Economic and Political Developments in Pan-Pearl River Delta Region, Covering Fujian, Jiangxi, Hunan and Hainan (3rd monthly report)	Covered by the Consultancy Agreement of item (75)
(91)	2006/07 Consultancy Study on Social, Economic and Political Developments in Pan-Pearl River Delta Region, Covering Guangxi, Yunnan, Guizhou, Sichuan (5th and 6th monthly reports)	Covered by the Consultancy Agreement of item (76)
2006		
(92)	Consultancy Study on Socio-Economic-Political Trends in Pan-Pearl River Delta Region (1st special report)	2,000,000
(93)	Major Areas of Co-operation Between Yunnan and Hong Kong for Entering the Southeast Asia and South Asia markets	66,500
(94)	The Development of Economic Corridor—ASEAN—Guangxi—Hong Kong	66,500

<i>Title of Project</i>		<i>Contract Value (HK\$)</i>
(95)	Study on the Relationship between Hong Kong's Cultural & Creative Industries and the Pearl River Delta	1,299,000
(96)	2006/07 Consultancy Study on Social, Economic and Political Developments in Pan-Pearl River Delta Region, Covering Guangxi, Yunnan, Guizhou, Sichuan (1st monthly report)	Covered by the Consultancy Agreement of item (76)
2005		
(97)	Consultancy Study on Socio-Economic-Political Trends in Pan-Pearl River Delta Region (2nd monthly report)	Covered by the Consultancy Agreement of item (92)
(98)	Consultancy Study on Socio-Economic-Political Trends in Pan-Pearl River Delta Region (3rd monthly report)	Covered by the Consultancy Agreement of item (92)
(99)	Consultancy Study on Socio-Economic-Political Trends in Pan-Pearl River Delta Region (4th monthly report)	Covered by the Consultancy Agreement of item (92)
(100)	Consultancy Study on Socio-Economic-Political Trends in Pan-Pearl River Delta Region (5th monthly report)	Covered by the Consultancy Agreement of item (92)
(101)	Consultancy Study on Socio-Economic-Political Trends in Pan-Pearl River Delta Region (6th monthly report)	Covered by the Consultancy Agreement of item (92)
(102)	Consultancy Study on Socio-Economic-Political Trends in Pan-Pearl River Delta Region (7th monthly report)	Covered by the Consultancy Agreement of item (92)
(103)	Consultancy Study on Socio-Economic-Political Trends in Pan-Pearl River Delta Region (8th monthly report)	Covered by the Consultancy Agreement of item (92)
(104)	Consultancy Study on Socio-Economic-Political Trends in Pan-Pearl River Delta Region (9th monthly report)	Covered by the Consultancy Agreement of item (92)

	<i>Title of Project</i>	<i>Contract Value (HK\$)</i>
(105)	Report on Encouraging Guangdong Private Enterprises to Set Up Business in Hong Kong	156,000
(106)	Consultancy Study on Socio-Economic-Political Trends in Pan-Pearl River Delta Region (10th monthly report)	Covered by the Consultancy Agreement of item (92)
(107)	Thematic Household Survey in the Fourth Quarter of 2004	717,000
(108)	Study on Tripartite Partnership	759,930
(109)	Consultancy Study on Socio-Economic-Political Trends in Pan-Pearl River Delta Region (11th monthly report)	Covered by the Consultancy Agreement of item (92)
(110)	Consultancy Study on Socio-Economic-Political Trends in Pan-Pearl River Delta Region (12th monthly report)	Covered by the Consultancy Agreement of item (92)
2004		
(111)	Hong Kong's Economic Integration with the Pearl River Delta: Quantifying the Benefits and Costs	134,000
(112)	Hong Kong and The Western Pearl River Delta: Co-operative Development from a Cross-Boundary Perspective	270,000
(113)	Background Report: Hong Kong and Pan-Pearl River Delta Regional Co-operation	1,292,000
(114)	Study on the Third Sector Landscape in Hong Kong	1,320,000
(115)	Study of Mainland Policies and Practices to Facilitate Private Enterprises in Setting Up Business in Hong Kong	130,000
(116)	Consultancy Study on Socio-Economic-Political Trends in Pan-Pearl River Delta Region (1st monthly)	Covered by the Consultancy Agreement of item (92)

Notes:

Reports on research projects under the Scheme are not included.

* Executive summary of the report is available online.

Follow-up Actions Taken on Lehman Brothers-related Minibonds Incident

13. **MR LEUNG KWOK-HUNG** (in Chinese): *President, will the Government inform this Council, since the outbreak of the Lehman Brothers-related Minibonds incident:*

- (1) *of the number of additional staff members employed by the Hong Kong Monetary Authority (HKMA) to handle the work relating to the incident; whether the HKMA has terminated the employment of any such staff member so far; if it has, of the number of staff members involved; if not, the reasons for that;*
- (2) *of the number of complaints received by the HKMA regarding mis-selling of investment products by banks; the number of complaints referred by the HKMA to the Securities and Futures Commission (SFC) for follow-up and, among these cases, the number of substantiated cases which involved irregularities; and*
- (3) *of the measures taken by the HKMA, other than requesting banks to submit information on their internal control systems, to strengthen its efforts in monitoring the sale of investment products by banks, so as to prevent the recurrence of similar incidents?*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Chinese): *President,*

- (1) The HKMA deployed around 300 persons during the peak time in 2009 (including around 200 temporary staff hired on contracts, while the rest being HKMA's permanent staff or secondees from an audit firm) to handle complaints regarding the sale by banks of Lehman-related investment products. The scale of manpower has been gradually reduced in subsequent years. At present, the Enforcement Department of the HKMA, in charge of the enforcement of relevant laws and regulations and the complaint handling function, is manned by some 60 permanent staff and 20 hired on contracts.

- (2) Since September 2008, the HKMA received 21 878 complaints on mis-selling of Lehman-related investment products. Following investigation, the HKMA referred 3 633 complaints, in which sufficient grounds had been identified for disciplinary action, to the SFC for further action. Of these complaints, the vast majority of the investors involved have been compensated pursuant to the agreements reached between the HKMA, SFC and relevant distributing banks of the Lehman-related investment products under section 201 of the Securities and Futures Ordinance. A total of 19 391 complaints have been resolved by compensations under such agreements.
- (3) Taking into account the experience gained from the global financial crisis in 2008 and the Lehman episode, the changing market development and public expectation, the HKMA has taken steps to enhance the regulatory focus on business conduct of authorized institutions (AIs). The HKMA has devoted increasing supervisory resources to enhance the conduct supervision of AIs. With a view to developing a more robust regulatory structure, the HKMA established in April 2010 a new Banking Conduct Department, and redeployed existing resources on securities enforcement and complaint handling to form a new Enforcement Department.

The HKMA has introduced a number of investor protection measures to enhance AIs' sale process in respect of investment products, including:

- segregating investment corners from the general banking services areas to avoid confusion by retail banking clients in relation to traditional deposit-taking activities and retail investment activities;
- audio-recording the sale process and the client risk profile assessment process;
- enhancing control procedures for transactions with a mismatch between the product risk and a client's risk tolerance;

- implementing a Pre-Investment Cooling-off Period for unlisted structured products so as to allow less sophisticated retail banking clients (for example, elderly and first-time buyers) at least two days to understand and consider the appropriateness of the proposed investment, and to consult their family or friends;
- allowing vulnerable clients (for example, elderly and the illiterate) to opt for additional safeguards during the sale process (having a friend or relative and/or an additional bank staff to witness the sale process); and
- implementing Important Facts Statement to enhance disclosure of the key product risks and features of currency-linked and/or interest rate-linked investment products issued by AIs.

The HKMA has been working closely with the SFC in introducing and implementing a number of conduct requirements on intermediaries. The HKMA has also stepped up on-site examinations and off-site surveillance of the sale of investment products. In respect of the issues identified during the supervisory process, the HKMA has issued a number of circulars to provide guidance to AIs.

With regard to enhancing the standards of governance of the banking industry, the HKMA has rolled out a number of initiatives, including developing training programmes for directors and senior management of AIs, and developing an enhanced competency framework for private wealth management industry practitioners.

The HKMA also actively participates in public education activities with a view to enhancing the public knowledge in investment products and understanding of investors' rights and responsibilities, and helping clients become smart and responsible investors.

The aforesaid measures have helped enhance investor protection and standardized the sale process. Investors are now given clearer product information and have a better awareness of their rights and obligations. The compliance culture of banks and the controls over the sale process have also been strengthened.

Human Resources Policies and Pay Systems of Statutory Bodies

14. **MR TANG KA-PIU** (in Chinese): *President, in respect of the various statutory bodies which employ their own staff (such as the Hospital Authority as well as the Hong Kong Examinations and Assessment Authority), will the Government inform this Council:*

- (1) *whether it knows the following information:*
 - (i) *for each statutory body in each of the years 2011-2012 and 2012-2013, (a) the ranks of the three posts with the highest annual remunerations (including salaries, bonuses and other cash allowances), (b) the expenditure on the total encashed compensation for these three posts, (c) the total number of employees, (d) the total payroll cost, and (e) the total revenue and the percentage of Government's recurrent subvention in the total revenue;*
 - (ii) *the number of persons with disabilities currently employed by and its percentage in the total number of employees of each statutory body; the number of statutory bodies which have not employed any person with disabilities; the number of statutory bodies which have drawn up policies or guidelines on the employment of persons with disabilities;*
 - (iii) *the retirement age stipulated, and the respective numbers of days of paternity leave, maternity leave, study leave and parental leave provided to its employees by each statutory body; and*

- (iv) *the number of employees who are currently employed at the statutory minimum wage rate by each statutory body;*
- (2) *whether the Government has monitored the human resources policies and pay systems (including the remunerations for and the number of employees at management level, as well as the appropriate number and terms of employment for various ranks of employees) of such statutory bodies; if it has, of the details; if not, the reasons for that; and*
- (3) *as there are comments that some statutory bodies have adopted a pay structure which "fattens the top and slims the bottom" or wasted public money by paying cash rewards to their staff, whether the authorities will request the governing bodies of various statutory bodies to conduct a comprehensive review on their human resources policies and pay systems and to establish well-defined mechanisms on accountability and penalties; if they will, of the details; if not, the reasons for that?*

SECRETARY FOR HOME AFFAIRS (in Chinese): President, regarding the enquiry raised by Mr TANG Ka-piu, the co-ordinated reply prepared having consulted relevant bureaux and departments is as follows:

- (1) (i) At present, there are about 240 statutory bodies in Hong Kong. They perform a wide range of functions in specified areas in accordance with the legislation, including advisory and regulatory functions, handling of appeals and provision of services. Those statutory bodies which employ for themselves a relatively large number of staff are mainly non-departmental public bodies and public corporations. There are 21 of them.

The total number of employees, total payroll cost, total revenue and the percentage of Government's recurrent subvention in the total revenue of the aforementioned non-departmental public bodies and public corporations are provided in the table below:

2011-2012

<i>Name of non-departmental public bodies or public corporations</i>	<i>Total number of employees</i>	<i>Total payroll cost (\$ million)</i>	<i>Total revenue (\$ million)</i>	<i>Percentage of Government's recurrent subvention received in the total revenue (%)</i>
Airport Authority	1 123	1,272	12,154	0*
The Hong Kong Science and Technology Parks Corporation	187	119	758	0*
Ocean Park Corporation	1 946	528	1,590	0*
The Kowloon-Canton Railway Corporation [#]	5	6	1,675	0*
The Prince Philip Dental Hospital	292	95	141.9	88.3
Consumer Council	159	70	99.1	80.8
The Hong Kong Academy for Performing Arts	331	167.9	381.8	55.4
Employees Retraining Board	205	74	66.4	0*
Equal Opportunities Commission	88	46.1	89.9	97.9
Hong Kong Arts Development Council	61	16.3	113	72.3
Hong Kong Deposit Protection Board	10	3.7	330.3	0*
Hong Kong Examinations and Assessment Authority	445	221	600.6	0*

<i>Name of non-departmental public bodies or public corporations</i>	<i>Total number of employees</i>	<i>Total payroll cost (\$ million)</i>	<i>Total revenue (\$ million)</i>	<i>Percentage of Government's recurrent subvention received in the total revenue (%)</i>
Hong Kong Housing Authority	8 250	4,530	17,364	0*
Hong Kong Productivity Council	615	301	516	34.5
Hong Kong Tourism Board	336	171.7	636	82.1
Hong Kong Trade Development Council	1 008	569.7	2,434.4	15.5
Hospital Authority	61,228	29,241	41,393	91.6
Occupational Safety and Health Council	64	29.9	118.1	0*
West Kowloon Cultural District Authority	99	70.9	933.8	0*
Urban Renewal Authority	446	234	3,690.2	0*
Vocational Training Council	5 385	2,568	3,765	54.9

Notes:

* Those statutory bodies do not receive Government's recurrent subvention.

The financial year of the Kowloon-Canton Railway Corporation (KCRC) starts on 1 January and ends on 31 December. Since the rail merger, KCRC has granted the operation right of its railway assets to the MTR Corporation Limited (MTRCL). Under the Service Concession Agreement with MTRCL, KCRC receives annual payments for the use of its railway assets by MTRCL. The Government does not separately provide subvention for its recurrent expenditure. KCRC's total revenue has yet to deduct the operating costs, tax, interest, depreciation and amortization charges.

2012-2013

<i>Name of non-departmental public bodies or public corporations</i>	<i>Total number of employees</i>	<i>Total payroll cost (\$ million)</i>	<i>Total revenue (\$ million)</i>	<i>Percentage of Government's recurrent subvention received in the total revenue (%)</i>
Airport Authority	1 290	1,403	13,134	0*
The Hong Kong Science and Technology Parks Corporation	189	128	796	0*
Ocean Park Corporation	1 978	614	1,850	0*
The Kowloon-Canton Railway Corporation [#]	5	6	2,066	0*
The Prince Philip Dental Hospital	296	100	146.6	89.1
Consumer Council	158	74.6	97.6	85.8
The Hong Kong Academy for Performing Arts	361	182.4	448.6	56
Employees Retraining Board	205	77	41.75	0*
Equal Opportunities Commission	91	49.5	97.6	97.7
Hong Kong Arts Development Council	62	17.4	140.1	62.7
Hong Kong Deposit Protection Board	13	5.4	341.4	0*
Hong Kong Examinations and Assessment Authority	429	218	543.7	0*

<i>Name of non-departmental public bodies or public corporations</i>	<i>Total number of employees</i>	<i>Total payroll cost (\$ million)</i>	<i>Total revenue (\$ million)</i>	<i>Percentage of Government's recurrent subvention received in the total revenue (%)</i>
Hong Kong Housing Authority	8 369	4,898	19,347	0*
Hong Kong Productivity Council	645	314	553	34.2
Hong Kong Tourism Board	338	194.8	678	81.9
Hong Kong Trade Development Council	1 045	628.2	2,499.3	15.4
Hospital Authority	64 213	31,861	45,386	92.4
Occupational Safety and Health Council	67	33.3	145.2	0*
West Kowloon Cultural District Authority	135	97	995	0*
Urban Renewal Authority	495	265	5,341.0	0*
Vocational Training Council	5 485	2,702	3,944	55.9

Notes:

* Those statutory bodies do not receive Government's recurrent subvention.

The financial year of KCRC starts on 1 January and ends on 31 December.

Non-departmental public bodies and public corporations all have their own governing boards or board of directors, and are required under the relevant legislation to operate independently and effectively. The remuneration of senior executives employed by these statutory bodies are determined by their governing boards or board of directors as specified in the relevant legislation. The total remuneration of senior

executives of these bodies normally comprises a fixed salary and performance-based variable pay. Generally speaking, the annual remuneration of individual posts (including salaries, bonuses and other cash allowances), the three posts receiving the highest remuneration in the body and the expenditure on the total encashed compensation for these three posts will be subject to various factors, such as the incumbents' qualifications, the market situation at the time of employment and the duties they need to perform. This information may be related to the personal circumstances of the incumbents and disclosure of the information may affect recruitment of potential candidates.

- (ii) With regard to employment of persons with disabilities, all non-departmental public bodies and public corporations will be guided by the relevant codes of practice issued by the Equal Opportunities Commission or have in place relevant policies/guidelines.

Information on employment of persons with disabilities by non-departmental public bodies and public corporations is provided in the table below.

<i>Name of non-departmental public bodies or public corporations</i>	<i>Number of persons with disabilities employed as at 1 January 2014</i>	<i>Percentage of persons with disabilities employed in the total number of employees (%)</i>
Airport Authority	4	0.3
The Hong Kong Science and Technology Parks Corporation	0	0
Ocean Park Corporation	52	2.6
The Kowloon-Canton Railway Corporation	0	0

<i>Name of non-departmental public bodies or public corporations</i>	<i>Number of persons with disabilities employed as at 1 January 2014</i>	<i>Percentage of persons with disabilities employed in the total number of employees (%)</i>
The Prince Philip Dental Hospital	1	0.3
Consumer Council	1	0.6
The Hong Kong Academy for Performing Arts	1	0.3
Employees Retraining Board	1	0.5
Equal Opportunities Commission	6	6.6
Hong Kong Arts Development Council	0	0
Hong Kong Deposit Protection Board	0	0
Hong Kong Examinations and Assessment Authority	Not applicable (at the time of employment there was no indication whether the employees are persons with disabilities or not)	Not applicable
Hong Kong Housing Authority	246	2.9
Hong Kong Productivity Council	3	0.5
Hong Kong Tourism Board	0	0
Hong Kong Trade Development Council	3	0.3
Hospital Authority	1 595	2.5

<i>Name of non-departmental public bodies or public corporations</i>	<i>Number of persons with disabilities employed as at 1 January 2014</i>	<i>Percentage of persons with disabilities employed in the total number of employees (%)</i>
Occupational Safety and Health Council	0	0
West Kowloon Cultural District Authority	1	0.7
Urban Renewal Authority	2	0.4
Vocational Training Council	35	0.6

- (iii) Non-departmental public bodies and public corporations, having regard to the nature of their operation and service and their staffing requirements, will formulate suitable terms and conditions of employment for staff of different ranks. Such terms and conditions include the stipulated retirement age and employees' fringe benefits such as the numbers of days of paternity leave, maternity leave, study leave and parental leave, which are too detailed to be exhaustive. In general, non-departmental public bodies and public corporations will formulate the terms and conditions for their employees with reference to the relevant legislation and the best practices of relevant organizations.
- (iv) The level of wages offered by all non-departmental public bodies and public corporations comply with the requirement for statutory minimum wage (that is, they are at or above the level of the prevailing statutory minimum wage).

(2) and (3)

In general, the human resources policies and employees' remuneration systems of statutory bodies are determined in the light

of their operational needs. The terms and conditions of employment they offer should be able to attract and retain staff of the appropriate calibre, experience and expertise and should have had due regard to the level of responsibilities of the relevant posts and the specific nature of operation of the organizations concerned.

To achieve greater consistency and objectivity in the organizations' remuneration arrangements, in general these bodies have designated committees to deal with their remuneration policies and arrangements, to track the remuneration levels and trends in the relevant human resource market by conducting regular remuneration surveys, to review the performance and remuneration of employees, particularly that of the chief executive officers, and to formulate its recommendation to the relevant governing board or approving authority.

Supply of and Demand for Powdered Formula for Infants and Young Children

15. **DR KWOK KA-KI** (in Chinese): *President, since March 2013, the Government has implemented the requirement that no more than a total net weight of 1.8 kg of powdered formula for infants and young children under the age of 36 months (powdered formula) may be carried by each person aged 16 or above on his/her departure from Hong Kong within a 24-hour period (restriction on powdered formula). The Government commissioned a consultant last year to conduct stress tests on the supply of powdered formula during and around the "National Day Golden Week", and subsequently decided to maintain the aforesaid requirement. Meanwhile, the survey results issued by the Government last month reveal that powdered formula is still in short supply in some districts, such as the Eastern District and Yuen Long. In this connection, will the Government inform this Council:*

- (1) *whether it knows, since the launch of the "milk powder coupon scheme" (coupon scheme), the monthly (i) number of members of Parents' Clubs, (ii) quantity of powdered formula purchased via the hotlines set up by suppliers of powdered formula, (iii) number of persons receiving milk powder coupons, (iv) average number of milk*

powder coupons received by each person, and (v) percentage of coupons used for collecting powdered formula at designated pharmacies in the total number of coupons given, broken down by the major brand of powdered formula as set out in the table below;

(Year/month)

<i>Brand of powdered formula</i>	<i>(i)</i>	<i>(ii)</i>	<i>(iii)</i>	<i>(iv)</i>	<i>(v)</i>
<i>Abbott</i>					
<i>Cow & Gate</i>					
<i>Friso</i>					
<i>Mead Johnson</i>					
<i>Nestle</i>					
<i>Wyeth</i>					
<i>Snow Brand</i>					

- (2) *whether it knows the following information in respect of each type of powdered formula of the major brands since the launch of the coupon scheme: (i) monthly rate of change in retail prices, (ii) the current highest retail price and the districts concerned, and (iii) the current lowest retail price and the districts concerned;*
- (3) *whether it has any new measure to encourage the suppliers and retailers of powdered formula to further improve the supply chain for powdered formula, so as to ensure that local infants and young children can have an adequate supply of powdered formula at reasonable prices; if so, of the details; if not, the reasons for that; and*
- (4) *whether it will consider reducing the maximum quantity of powdered formula that may be carried out of Hong Kong to 0.9 kg under the restriction on powdered formula, so as to ensure a sufficient supply of powdered formula in the local market?*

SECRETARY FOR FOOD AND HEALTH (in Chinese): President, the Government has accepted the stress test result and the assessment by the consultant commissioned earlier on the supply chain of powdered formula, and has listened to the views of the Committee on Supply Chain of Powdered

Formula⁽¹⁾ (the Committee). The Government considers that unless powdered formula suppliers substantially improve their supply chain, it is difficult to ensure stable and sufficient supply of powdered formula to meet local demand.

Based on the premise of ensuring stable and sufficient supply of powdered formula for meeting the needs of local infants and young children, the Government considers it premature to repeal the provisions introduced by the Import and Export (General) (Amendment) Regulation 2013 (Amendment Regulation) regulating the export of powdered formula at this stage.

In December 2013, the Food and Health Bureau reported to the Legislative Council Panel on Food Safety and Environmental Hygiene on the above decision. Food and Health Bureau also suggested that the Committee should continue its operation to follow up on and monitor the improvements of powdered formula supply chain undertaken by the suppliers. To facilitate the work of the Committee, Food and Health Bureau has engaged a consultant to conduct regular surveys on the supply of major brands of powdered formula and any unusual fluctuation in prices. Food and Health Bureau has submitted the report of the surveys conducted in January 2014 to the Committee to seek members' views.

Looking ahead, Food and Health Bureau will listen to the views of both the Committee and Legislative Council, and decide on the Government's position in respect of the Amendment Regulation having regard to the progress on the improvements of powdered formula supply chain. It will continue to closely monitor the supply of powdered formula and maintain close liaison with the trade.

My reply to the various parts of the question is as follows:

(1) The seven major suppliers⁽²⁾ and the Hong Kong General Chamber of Pharmacy Limited (HKGCP) announced in June 2013 the implementation of the Coupon Scheme. These suppliers have not

(1) In July 2013, the Government appointed a Committee on Supply Chain of Powdered Formula to study and recommend to the Government improvement measures in the supply chain of powdered formula. The Committee comprises 14 non-official members, including major powdered formula suppliers, retailers, parents, representatives from the logistics sector, relevant academia and those representing consumer interests.

(2) The seven major suppliers include Abbott, Cow & Gate, Friso, Mead Johnson, Nestle, Snow Brand and Wyeth. They account for over 95% of the market share.

provided the Food and Health Bureau with the number of members of their Parents' Clubs. Nor have they consented to the Food and Health Bureau disclosing the sales figures of individual brands. As such, we can only provide the aggregate figures of the seven major suppliers as follows:

	<i>Quantity of powdered formula sold through pre-order channels for home delivery or collection at retail outlets (Number of cans)</i>	<i>Number of persons receiving coupons in a particular month</i>	<i>Average number of coupons received by each person in a particular month^{Note}</i>	<i>Number of coupons used for collecting powdered formula at designated pharmacies over the total number of coupons given in a particular month</i>
June 2013	8 497	9	24	0
July 2013	9 053	7	18	0
August 2013	7 930	9	22	0
September 2013	10 412	60	11	0.8%
October 2013	20 986	386	15	0%
November 2013	36 034	320	16	4.8%
December 2013	68 080	740	18	13.5%
January 2014	68 837	389	18	27.3%

Note:

Under the Coupon Scheme, a parent of each eligible infant/young child can obtain six coupons each month for purchasing a maximum of six cans of powdered formula. That said, certain suppliers may issue coupons for the next few months in one go to parents. Each person can therefore obtain more than six coupons on average within a month, but he/she can only purchase a maximum of six cans of powdered formula in a month with coupons designated for use in that particular month.

- (2) The Food and Health Bureau does not have information on the rate of change in retail prices and the districts concerned in respect of each type of powdered formula of the major brands since the launch of the Coupon Scheme.

However, the Food and Health Bureau commissioned a consultant in January 2014 to conduct surveys on the retail supply and prices of powdered formula. For focused resource deployment and better

survey efficiency, the surveys covered two brands with more serious shortage as reported by the press recently and observed during the stress test conducted in 2013, that is, Mead Johnson and Friso, and were carried out in five districts known to have experienced more serious shortage in 2013, that is, North District, Yuen Long, Tuen Mun, Yau Tsim Mong and Eastern District.

The results of surveys on retail prices are set out at the Annex.

- (3) To urge and encourage the suppliers and retailers of powdered formula to further improve the supply chain, the Committee has held a number of meetings and provided its views on this issue.

In the meeting held in November 2013, the Committee accepted the recommendations set out in the Consultancy Report of the consultant commissioned by the Government, and considered that the suppliers and retailers can improve the supply chain in the following areas:

- (i) actions would need to be taken by the trade to ensure that the Coupon Scheme as a safety net for supply meets the expectations of local parents and gains their confidence and acceptance. To this end, there should be an increase in the number of pharmacies participating in the Scheme, wider distribution of these pharmacies and reduced redemption lead time under the Scheme;
- (ii) the trade should step up publicity on the Scheme for parents. Many parents at present are not familiar with the details of the Scheme or the use of the coupons. Some are not even aware of the implementation of the Scheme. As an ongoing effort, suppliers should promote the Scheme through simple and easy-to-understand messages so as to encourage local parents to enrol early;
- (iii) the number of participating retail outlets is grossly inadequate in certain districts (for example, only four outlets in the North District where there was a serious shortage of powdered

formula supply in early 2013). This has discouraged parents from participating in the Scheme. A member suggested that the trade should explore the possibility of inviting major chain stores to join the Scheme; and

- (iv) co-ordination and monitoring of the improvement measures would need to be enhanced. Since the three improvement measures other than the Coupon Scheme, namely, reservation of enough stock of powdered formula at the suppliers' level, increased delivery and boosted hotline service, are intertwined closely with the Scheme, suppliers should introduce an effective co-ordination and monitoring mechanism to ensure the overall effectiveness and sustainability of these measures.

The suppliers and retailers are actively following up the above recommendations. In view of the peak period of demand for powdered formula in the run-up to Christmas and Lunar New Year, the Food and Health Bureau has proactively met with representatives of the seven major suppliers, HKGCPL and major chain stores in December 2013 and January 2014. At the meetings, the Food and Health Bureau urged the trade to be fully prepared in the run-up to Christmas and Lunar New Year to ensure sufficient supply of powdered formula, with priority accorded to meeting the demand of local infants and young children.

The Food and Health Bureau also urged the trade to take the opportunity to strengthen significantly the promotion of various pre-order services.

The current pre-order services of powdered formula provided by the seven major suppliers include the Coupon Scheme and placing orders through suppliers' hotlines for home delivery or collection from chain stores. Through separating local demand from non-local demand, these services can act as a "dedicated supply chain" for local infants and young children. They can play an effective role in ensuring adequate supply for local infants and young children when powdered formula is in shortage. The

Government considers that in the face of tight market situation, purchasing powdered formula through the pre-order services is a preferred approach.

During the peak demand period in the run-up to the Lunar New Year, the Food and Health Bureau noted that the pressure on demand for powdered formula at the retail level could be reduced by encouraging parents to use various pre-order services. Food and Health Bureau therefore considers that the continuous promotion of these services can help to ensure stable and sufficient supply of powdered formula for local infants and young children.

- (4) The Amendment Regulation⁽³⁾ has been very effective. Since the implementation of the Amendment Regulation, parallel trading activities related to powdered formula have dropped substantially, while the supply of powdered formula at retail outlets has become sufficient when compared with the situation in early 2013, though shortage of some popular brands of powdered formula is still observed at times. Since the Amendment Regulation came into effect, there has been a continued expansion in the volume of import, re-export and retained import of powdered formula. To a certain extent it has worked well in balancing the four areas relating to powdered formula, that is, supply, retail, local demand and non-local demand. It has catered for the needs of local parents for powdered formula while safeguarding free trade and commerce. As such, we consider that the existing regulatory arrangement should be maintained.
- (3) The Government implemented the Amendment Regulation on 1 March 2013, prohibiting the export of powdered formula for infants and young children aged under 36 months from Hong Kong except with a licence issued by the Director-General of Trade and Industry. Having regard to the need of those leaving Hong Kong for powdered formula for personal use, there is an exemption provision under the Amendment Regulation, allowing not more than a total net weight of 1.8 kg of powdered formula to be carried by each person aged 16 or above leaving Hong Kong. For an infant under six months who has to rely on powdered formula as the sole source of food, 1.8 kg of powdered formula (equal to two cans) would normally be sufficient for a two-week period. To prevent parallel traders from abusing such exemption by making multiple journeys to Hong Kong within the same day to enjoy the exemption repeatedly, the Amendment Regulation stipulates that the exemption is only applicable to a person on his first departure from Hong Kong within a 24-hour period.

Results of Surveys on Retail Prices

Mead Johnson

<i>Stage</i>	<i>Survey Period</i>	<i>Average Retail Price at Pharmacies (\$)</i>	<i>Price offered by Major Chain Stores/ Recommended Retail Price (\$)</i>	<i>Difference (%)</i>
1	4 to 8 January	342	294	+16%
	11 to 15 January	322	294	+10%
	18 to 22 January	308	294	+5%
	23 to 27 January	301	294	+2%
2	4 to 8 January	298	265	+12%
	11 to 15 January	288	265	+9%
	18 to 22 January	274	265	+3%
	23 to 27 January	269	265	+2%
3	4 to 8 January	284	237	+20%
	11 to 15 January	274	237	+16%
	18 to 22 January	257	237	+8%
	23 to 27 January	251	237	+6%

Friso

<i>Stage</i>	<i>Survey Period</i>	<i>Average Retail Price at Pharmacies (\$)</i>	<i>Price offered by Major Chain Stores/ Recommended Retail Price (\$)</i>	<i>Difference (%)</i>
1	4 to 8 January	251	283	-11%
	11 to 15 January	252	283	-11%
	18 to 22 January	249	283	-12%
	23 to 27 January	249	283	-12%
2	4 to 8 January	232	246	-6%
	11 to 15 January	231	246	-6%
	18 to 22 January	228	246	-7%
	23 to 27 January	227	246	-8%

<i>Stage</i>	<i>Survey Period</i>	<i>Average Retail Price at Pharmacies (\$)</i>	<i>Price offered by Major Chain Stores/ Recommended Retail Price (\$)</i>	<i>Difference (%)</i>
3	4 to 8 January	216	216	0%
	11 to 15 January	217	216	+0.5%
	18 to 22 January	214	216	-1%
	23 to 27 January	214	216	-1%

Immigration Policy and CSSA for New Immigrants

16. **MR PAUL TSE** (in Chinese): *President, there are press comments that despite their vast territories and having natural resources which are far more abundant than Hong Kong, Switzerland, Britain, Canada and Taiwan have recently raised their immigration requirements, tightened their polices on welfare benefits for new immigrants, and even abolished with immediate effect their business migration programmes which have been implemented for many years, after such countries/places have considered factors such as the impacts of immigrants on the local economy and the livelihood of local people, as well as the harms probably outweighing the benefits brought by accepting immigrants. On the other hand, the Court of Final Appeal (CFA) of Hong Kong has ruled earlier in a case that the requirement for seven-year residence in Hong Kong (residence requirement) stipulated by the Government for the Comprehensive Social Security Assistance (CSSA) Scheme is unconstitutional and the residence requirement has to be restored to one year which was the requirement before 1 January 2004. Some members of the public are worried that allowing the new arrivals to apply for and receive CSSA will inevitably lead to a significant increase in welfare expenditure. In this connection, will the Government inform this Council:*

- (1) *whether it will make reference to the practices of the aforesaid countries/places and draw up corresponding options for alleviating the pressure posed by the new arrivals on welfare expenditure, for example, amending CSSA's residence requirement or imposing appropriate additional conditions by means of administrative orders,*

legislative amendments or enactment of legislation; if it will, of the details; if not, the reasons for that;

- (2) of the policies and measures put in place to step up the checking of whether CSSA applicants possess assets outside Hong Kong of value exceeding the asset limits for applying for CSSA;*
- (3) of the total number of CSSA applications received by the Social Welfare Department (SWD) since the aforesaid CFA judgment from applicants who have not yet resided in Hong Kong for seven years; and*
- (4) whether, in respect of cases similar to the aforesaid case which involve major social issues that are rather controversial, the Secretary for Justice will conduct studies and review on whether the adoption of a subjective "proportionality analysis" by judges as the basis for their rulings may give rise to the impression in the community of "judges making laws", or even the constitutional problem of the judiciary overriding the legislature, particularly when the legislature cannot, due to the political reality, rectify court rulings by means of enacting legislation even though such rulings have enormous repercussions in society; and based on the results of the studies and review, draw up relevant policies or solutions to address the issues?*

SECRETARY FOR LABOUR AND WELFARE (in Chinese): President, my reply to Mr Paul TSE's question is set out below:

(1) and (3)

The SWD complies with the judgment of the CFA on the judicial review case on the residence requirement of the CSSA Scheme on 17 December 2013, and has already restored the "one-year residence requirement" which was in effect before 1 January 2004 in accordance with the judgment. Persons under the age of 18 will continue to be exempted from the residence requirement under CSSA. The SWD will continue to process the applications according to the applicable procedures.

Whether or not new arrivals will apply for CSSA mainly depends on their financial situation and interest in applying for the Scheme. As a matter of fact, the education level and family income of new arrivals have been on a rising trend. For instance, the proportion of persons from the Mainland residing in Hong Kong for less than seven years aged 15 and above who have attained secondary education level or above increased from 68% in 2001 to 85% in 2011; while the proportion with post-secondary education level rose from 6% to 16%. Meanwhile, the median monthly domestic household income of households with member(s) from the Mainland residing in Hong Kong for less than seven years increased by nearly 20% from \$12,050 to \$14,070 over the same period.

Since the CFA handed down the judgment on 17 December 2013 and until 24 February 2014, the SWD has received altogether 3 112 CSSA applications involving persons residing in Hong Kong for less than seven years, that is, on average 69 applications per working day.

The Government will continue to implement various measures to enhance work incentive and alleviate poverty, for example, the Statutory Minimum Wage, Work Incentive Transport Subsidy and various programmes under the Community Care Fund. The Chief Executive announced in his 2014 Policy Address the Government's proposal of introducing a Low-income Working Family Allowance to encourage self-reliance amongst low-income families. More allowance will be granted to those who work more. Particular attention will be given to children and young people in low-income families to promote upward social mobility and break the vicious cycle of inter-generational poverty.

- (2) In handling CSSA applications, the SWD will interview the applicants and pay home visits in order to verify the information (for example, assets outside Hong Kong) provided by the applicants and their family members, and remind applicants to make honest reports on their circumstances and of the serious consequences of cheating CSSA payment. The Fraud Investigation Teams of SWD conduct in-depth investigation into suspected fraud cases, verify the authenticity of case information and operate a special hotline to

receive reports from the public. The SWD will continue to implement measures to prevent and combat CSSA frauds as appropriate.

- (4) According to the Basic Law, courts of the Hong Kong Special Administrative Region are vested with independent judicial power and power of final adjudication. The power of final adjudication is vested in the CFA. The Government respects and complies with the judgment of the CFA in the judicial review case on the residence requirement of the CSSA Scheme. The Government has also considered the effect of the judgment on other social welfare programmes. In this regard, the CFA clearly pointed out that the judgment was specific to the CSSA Scheme involved in that case and should not be applied generally to the application arrangements for other welfare programmes.

Statistics Related to Mainland Visitors to Hong Kong

17. **MR ALBERT HO** (in Chinese): *President, according to the Assessment Report on Hong Kong's Capacity to Receive Tourists (Assessment Report) released by the Government last month, there has been a continuous growth in the overall visitor arrivals to Hong Kong in the past 10 years, and the percentage of Mainland visitors in the annual overall figure has increased from about 50% when the Individual Visit Scheme (IVS) was introduced to over 70% at present. In addition, it is projected that visitor arrivals in 2023 will surpass 100 million. In this connection, will the Government inform this Council:*

- (1) *of the respective overall spendings in Hong Kong by (i) overnight visitors and (ii) same-day visitors from the Mainland in 2012 and 2013;*
- (2) *of the respective numbers of jobs created by Mainland visitors' spendings in Hong Kong last year for the (i) retail, (ii) catering, (iii) hotel, (iv) transport and (v) tourism industries, with a breakdown by monthly salary band (as set out in Table 1) of such jobs; and*

Table 1

<i>Monthly salary (HK\$)</i>	<i>Retail</i>	<i>Catering</i>	<i>Hotel</i>	<i>Transport</i>	<i>Tourism</i>
<i>10,000 or below</i>					
<i>10,001 to 15,000</i>					
<i>15,001 to 20,000</i>					
<i>20,001 to 25,000</i>					
<i>25,001 to 30,000</i>					
<i>30,001 or above</i>					

- (3) *of the (i) highest daily visitor arrivals in 2013, (ii) average daily visitor arrivals in 2013, and (iii) the projected year by which the handling capacity will be saturated, at the land boundary control points in Hong Kong, with a breakdown by name of boundary control point as set out in Table 2?*

Table 2

<i>Land boundary control point</i>	<i>Highest daily visitor arrivals in 2013</i>	<i>Average daily visitor arrivals in 2013</i>	<i>Projected year by which the handling capacity will be saturated</i>
<i>Lo Wu</i>			
<i>Hung Hom</i>			
<i>Lok Ma Chau Spur Line</i>			
<i>Lok Ma Chau (Huanggang)</i>			
<i>Man Kam To</i>			
<i>Shenzhen Bay</i>			
<i>Sha Tau Kok</i>			

SECRETARY FOR COMMERCE AND ECONOMIC DEVELOPMENT (in Chinese): President, in response to the public concern about the impact of the continuous growth in visitor arrivals on the livelihood of the community, the HKSAR Government has comprehensively assessed Hong Kong's capacity to receive tourists. The areas taken into account include the handling capacity of control points, capacity of tourism attractions, receiving capacity of hotels, carrying capacity of public transport network, impact on the livelihood of the

community, and economic impact, and so on. The Assessment Report was completed at the end of last year.

Our replies to the questions raised by Mr Albert HO are as follows:

- (1) According to the Assessment Report, the total spending of Mainland overnight and same-day visitors in Hong Kong in 2012 is set out in the table below:

<i>Total Spending of Mainland Visitors in Hong Kong in 2012*</i>	
Same-day visitors	\$49.278 billion
Overnight visitors	\$129.416 billion
Total	\$178.694 billion

Note:

- * The estimation is based on the result of the sample survey conducted by the Hong Kong Tourism Board.

As it takes time to analyse the data, the breakdown of the total spending of Mainland visitors in Hong Kong in 2013 is not yet available at this stage.

- (2) According to the Assessment Report, the spending of visitors under the IVS in 2012 has created over 110 000 jobs, accounting for 3.1% of total employment. The number of jobs created by IVS visitors' spending in 2012 for various related sectors is set out in the table below:

<i>Number of jobs created by IVS visitors' spending in 2012 for various related sectors</i>	
Retail	74 420
Hotel and Accommodation Bills	12 110
Meals Outside Hotels	17 170
Others	9 330
Cross-boundary Passenger Transport Services	1 250
Total	114 280

We did not analyse relevant data on number of jobs by monthly salary.

- (3) According to the latest information provided by the Immigration Department (ImmD), the daily highest and daily average visitor arrivals of various land boundary control points from January to December 2013 are set out in the table below:

<i>Land Boundary Control Points</i>	<i>Daily Highest Visitor Arrivals from January to December 2013</i>	<i>Daily Average Visitor Arrivals from January to December 2013</i>
Lo Wu	53 453	33 226
Hung Hom	6 739	3 895
Lok Ma Chau Spur Line	49 264	23 620
Lok Ma Chau	26 875	14 675
Man Kam To [#]	7 689	3 014
Shenzhen Bay	43 241	22 776
Sha Tau Kok	4 405	1 862

Note:

- # Due to reconstruction works at the passenger clearance area of the Shenzhen side of the Man Kam To Control Point, clearance services for passengers at the control point had been suspended since 22 February 2010. Following completion of the works, the control point became fully operational again on 26 August 2013. The visitor arrivals listed above cover the period from 26 August to 31 December 2013.

The ImmD has no information on the projected year by which the handling capacity of individual control points will be saturated. The ImmD will continue to improve efficiency through various means, such as improving the control points' facilities, making use of information technology, and so on.

Vietnamese Boat People and Refugees in Hong Kong

18. **MR WONG YUK-MAN** (in Chinese): *President, it has been reported that on 22 January 2014, a Vietnamese street sleeper was suspected to have been frozen to death under a flyover beside Tung Chau Street. It has also been reported that at present, more than 20 Vietnamese boat people/refugees (boat*

people/refugees) are street sleeping there. In this connection, will the Government inform this Council:

- (1) *of the current number of boat people/refugees in Hong Kong, and, among them, the number of those who have obtained Hong Kong permanent resident status;*
- (2) *whether any application by boat people/refugees for settlement in Hong Kong has been refused; if so, of the reasons for that and the number of people involved; and*
- (3) *given that the boat people/refugees who have not obtained Hong Kong permanent resident status are ineligible to apply for social welfare in Hong Kong in accordance with normal procedures, how the Government helps them overcome the difficulties in their livelihood?*

SECRETARY FOR SECURITY (in Chinese): President, in January 1998, the HKSAR Government ended the "port of first asylum policy" for Vietnamese people arriving illegally in Hong Kong. Subsequently, the HKSAR Government implemented the "Widened Local Resettlement Scheme" (the Scheme) in February 2000 for Vietnamese Refugees (VRs) and eligible Vietnamese Migrants (VMs) (1 424 persons in total) to apply for settlement in Hong Kong. Applicants would become Hong Kong residents once their applications are approved. After fulfilling relevant legal requirements, they may apply to the Immigration Department for Verification of Eligibility for Permanent Identity Card in accordance with the relevant provisions under the Basic Law and the Immigration Ordinance (Cap. 115).

My reply to the various parts of the question is as follows:

- (1) and (2)

As at end January 2014, 1 400 VRs and eligible VMs applied for settlement in Hong Kong under the Scheme; all applications were approved. The Administration does not maintain statistics on the number of VRs and VMs who have been verified as eligible for permanent identity card, upon application.

- (3) VRs and eligible VMs whose application for settlement in Hong Kong has been approved under the Scheme are Hong Kong residents. Just like other Hong Kong residents, they can approach service units of the Social Welfare Department if they are facing difficulties and are in need of assistance. Service units will provide them with emergency assistance, including food, temporary accommodation and daily necessities if they are in need.

Proper Treatment of Sewage and Utilization of Reclaimed Water

19. **MR CHAN HAK-KAN** (in Chinese): *President, according to the information on the website of the Drainage Services Department (DSD), 93% of the population in Hong Kong are served by the existing sewage network. The types of sewage treatment facilities consist of preliminary treatment, primary treatment, chemically enhanced primary treatment, secondary treatment and tertiary treatment. Most of the facilities belong to the preliminary/screening or minor secondary types (the respective numbers of which are 22 and 32) and are mainly located in the old urban areas on Hong Kong Island and in Kowloon. The authorities are improving the sewage treatment facilities under a territory-wide sewage rehabilitation and improvement programme. Moreover, in an effort to explore new water resources, the Government of the previous term has launched pilot schemes of reclaimed water usage, under which wastewater is purified with a series of effective treatment processes as well as disinfection and sterilization procedures to become reclaimed water that meets the stringent standards of effluent reuse. Regarding the proper treatment of sewage and utilization of reclaimed water, will the Government inform this Council:*

- (1) *of the details of the aforesaid rehabilitation and improvement programme; how the authorities intend to treat properly the sewage generated by the remaining 7% of the population who are not served by the sewage network, and of the difficulties involved;*
- (2) *given that the Ngong Ping Sewage Treatment Works is the only tertiary treatment facility at present, whether the authorities will, in addition to upgrading Shek Wu Hui Sewage Treatment Works (SWH STW) progressively to the tertiary level, study if there is a need to provide more tertiary treatment facilities; if so, of the details; if not, the reasons for that;*

- (3) *given that water resources in Hong Kong are very precious, whether it has assessed if the reclaimed water generated from the Sewage Treatment Works (STWs) is fully utilized at present; if so, of the outcome; whether it has any plan to expand the usage of reclaimed water; if so, of the details; if not, the reasons for that;*
- (4) *given that Hong Kong's sewage disposal strategy was formulated in 1989 and has been in use since then, for how long the relevant sewage treatment technologies and discharge licence standards (including the percentile and upper limit/monthly geometric mean) have been adopted; whether it has assessed if those technologies and standards are up to par with the latest international standards; if the assessment outcome is in the affirmative, of the details; if the assessment outcome is in the negative, whether it will conduct a review and introduce improvement;*
- (5) *given that amendments were made only in 1990 and 1993 to the Water Pollution Control Ordinance (WPCO) (Cap. 358) since its enactment in 1980, whether the authorities have assessed if WPCO is still effective in regulating the discharge and treatment of sewage; if so, of the outcome; and*
- (6) *as it has been reported that in addition to Sha Tin Sewage Treatment Works (Sha Tin STW), the authorities also plan to relocate the STWs in Sai Kung and Sham Tseng to caverns, whether the authorities will take this opportunity to upgrade the treatment level of those two STWs; if so, of the details; if not, the reasons for that?*

SECRETARY FOR THE ENVIRONMENT (in Chinese): President,

- (1) For planning the public sewerage system, the whole of Hong Kong is divided into 16 catchment areas, each with a Sewerage Master Plan (SMP) produced. The SMPs provide a blueprint of the required sewerage infrastructure with the objective to collect sewage on a catchment-by-catchment basis and direct it to STWs for processing. At present, the public sewerage system serves about 93% of the population and collects about 2.8 million cubic metres of sewage

every day. About 70% of the collected sewage receives chemically enhanced primary treatment or a higher level of treatment before being discharged. At present, sewage treatment facilities operated by the DSD include 21 preliminary STWs, four chemically enhanced primary STWs and 40 secondary STWs.

The remaining 7% of the population are mainly in unsewered rural areas. In determining the priority for implementation of new sewerage projects, we would consider various factors including the extent of the environmental problems and the benefits of the new sewerage, future development of the area, population projections, proximity to trunk sewers, cost-effectiveness, project readiness and local views and support.

- (2) In determining the sewage treatment level for individual STWs to achieve optimal cost-effectiveness for protecting the environment, we would consider various factors including their geographical conditions, the relevant sensitive receivers, and the hydrology, assimilative capacity and Water Quality Objectives (WQOs) of the receiving water bodies. If the proposed STW is a designated project requiring an environmental permit, an environmental impact assessment and associated water quality modelling would need to be carried out to determine the level of sewage treatment. At present, apart from the SWH STW, we have also started the planning for upgrading the Yuen Long STW to tertiary treatment level in order to further protect the water quality of Deep Bay.
- (3) Reclaimed water as a new water resource is an important initiative of the water supply management measures under the Total Water Management strategy which the Government has been implementing since 2008. Reclaimed water produced from STWs is generally used for non-potable applications such as toilet flushing, irrigation or street cleansing. Currently, non-potable water demand in Hong Kong mainly comes from toilet flushing.

To save precious fresh water resources, the Water Supplies Department (WSD) has been providing seawater for toilet flushing

since the 1950s. Currently, the supply network for provision of seawater for toilet flushing (the Network) covers about 80% of the population in Hong Kong and save about 270 million cubic metres of fresh water each year. With the progressive completion of the seawater supply systems in Pok Fu Lam, Yuen Long and Tin Shui Wai by next year, seawater supply for toilet flushing will be provided gradually to customers in these areas. Meanwhile, we have started planning of the seawater supply system for Tung Chung. It is anticipated that the population covered by the Network will increase to 85%. Apart from saving freshwater, using seawater for toilet flushing is more cost-effective than other water resources (for example, reclaimed water) in most areas in Hong Kong.

However, for some areas that are far from the seashore, such as Sheung Shui and Fanling, the costs for installation and operation of seawater supply systems are very high. This provides the opportunity for use of reclaimed water. The DSD is planning to expand the SWH STW and upgrade its treatment technology. Taking the opportunity, the WSD has in collaboration with the relevant departments studied the feasibility of producing reclaimed water of acceptable standard from the tertiary treated sewage effluent from the SWH STW for supplying the district for non-potable uses (including irrigation, toilet flushing, and so on). The results of the study revealed that it would be cost-effective to supply reclaimed water to the district as the additional treatment process required for producing reclaimed water from the treated effluent of the SWH STW would be simple. The WSD has already started the planning work and expects that it will take eight years from planning to commencement of the supply of reclaimed water. The WSD will continue to actively explore the opportunities and feasibility of supplying reclaimed water to those areas, which are outside seawater supply zones, for non-potable uses.

- (4) The Environmental Protection Department (EPD) applies licensing control, as provided under the WPCO, to regulate any wastewater discharge made into the waters of Hong Kong, including treated effluent from government sewage treatment facilities. In

establishing stringent standards in the WPCO licence, the EPD takes into account the need for protecting the receiving water body, and makes reference to the effluent standards stipulated in the technical memorandum issued under the WPCO and recommendations made in the relevant environmental impact assessment reports. In general, we specify more stringent effluent standards if the discharge is at a high flow rate, the receiving water body has low assimilative capacity, or the water body has sensitive uses. In summary, we establish the effluent standards in the WPCO licence according to the needs of individual cases, and our licensing criteria are in line with international practices.

- (5) Following the enactment of the WPCO in 1980, the EPD progressively declared the waters of Hong Kong as Water Control Zones (WCZs), and government sewage treatment facilities located in various WCZs were also progressively put under licensing control. Since the implementation of the WPCO, the public sewerage system has already served about 93% of the population and the water quality in Hong Kong has continued to improve. For example, for those rivers and streams susceptible to the impact of discharges, the compliance with the key WQOs increased from 47% in 1987 to 89% in 2012. The WQO compliance rate for bathing beaches increased from 65% in 1987 to 100% in 2010, and full compliance with the WQO has been maintained. At the same time, the occurrence of red tides in Hong Kong has decreased substantially from over 80 cases per year in 1988 to less than 20 cases per year since 2006. Overall, based on the monitoring data gathered in the past 27 years, the WPCO and our water quality management measures are effective and have successfully brought about water quality improvement in most parts of Hong Kong.
- (6) As mentioned above, we would consider various factors to determine the sewage treatment level for individual STWs. The existing Sha Tin STW is a secondary STW. The treated effluent is conveyed to Kai Tak River in Wong Tai Sin for discharge to Victoria Harbour. According to the preliminary planning under the current feasibility study, the relocated Sha Tin STW could maintain the same effluent quality and export route after relocation. In the next investigation

and design stage, the DSD will continue to liaise with the EPD to ensure that the future effluent quality will continue to meet the requirements for the use of the receiving water body.

The current sewage treatment levels of the existing Sai Kung STW (SK STW) and Sham Tseng STW (ST STW) have already met the WQOs of the concerned receiving waters. As the relocation of the SK STW and ST STW would not change the environmental conditions of the concerned areas, there may not be a need for upgrading the treatment level of the two STWs after their relocation. Nevertheless, the DSD will review in the forthcoming feasibility study the effluent standards and quality of the existing SK STW and ST STW and discuss with the relevant departments, including the EPD, in detail any necessary changes or upgrading of the sewage treatment standards on relocation.

Statistics on Convictions of Foreign Domestic Helpers

20. **MR DENNIS KWOK** (in Chinese): *President, will the Government inform this Council of the number of foreign domestic helpers convicted by court in Hong Kong in the past three years, with a breakdown by type of crimes in the table below?*

<i>Type of crimes</i>	<i>Number of people convicted</i>		
	<i>2011</i>	<i>2012</i>	<i>2013</i>
<i>Violent crime</i>			
<i>Robbery</i>			
<i>Burglary</i>			
<i>Theft</i>			
<i>Fraud and forgery</i>			
<i>Indecency (sexual offences)</i>			
<i>Serious drug offences</i>			
<i>Serious immigration offences</i>			
<i>Preventive crime</i>			
<i>Total</i>			

SECRETARY FOR SECURITY (in Chinese): President, according to the police, the numbers of foreign domestic helpers convicted by court in Hong Kong in 2011, 2012 and 2013 (breakdown by major types of criminal offences) are at Annex.

Annex

Numbers of foreign domestic helpers convicted by court in Hong Kong
between 2011 and 2013⁽¹⁾

<i>Types of Criminal Offence</i> ⁽²⁾	2011	2012	2013
Violent crimes	12	19	7
Robberies	0	0	0
Burglaries	1	2	1
Thefts	513	436	310
Frauds and forgeries	5	8	4
Sexual offences	0	1	0
Serious drug offences	1	0	0
Serious immigration offences ⁽³⁾	1	4	2
Preventive crimes	0	2	0

Notes:

- (1) The years in the table were the years of arrest of the convicted persons whose cases had been concluded. The number of convictions as shown in the above table was only the number of cases concluded on or before 18 February 2014. Figures of convicted persons may increase subsequently as some of the cases have not been concluded. A person may be involved in more than one offence.
- (2) According to the classification of criminal offences of the police, violent crimes include wounding, serious assault and criminal intimidation; sexual offences include unlawful sexual intercourse and controlling of prostitution; serious drug offences include trafficking in dangerous drugs and possession of dangerous drugs; and preventive crimes include possession of offensive weapon and going equipped for stealing. Certain types of crimes may be categorized in more than one type of classification.
- (3) According to the definition of crimes in "Crime in Hong Kong" of the police, serious immigration offences include aiding and abetting of illegal immigrants and using identity card relating to another, but do not include crimes such as illegal working and overstaying.

BILLS**First Reading of Bills**

PRESIDENT (in Cantonese): Bill: First Reading.

APPROPRIATION BILL 2014

CLERK (in Cantonese): Appropriation Bill 2014.

Bill read the First time and ordered to be set down for Second Reading pursuant to Rule 53(3) of the Rules of Procedure.

Second Reading of Bills

PRESIDENT (in Cantonese): Bill: Second Reading.

APPROPRIATION BILL 2014

FINANCIAL SECRETARY (in Cantonese): President, I move that the Appropriation Bill 2014 be read the Second time.

Introduction

In the 16 years since our return to China, Hong Kong has seen significant developments in people's livelihood and in the social, economic and political spheres. Now, in 2014, we have reached a crucial juncture. We must work together to prepare ourselves for the future, to strengthen further our solid foundation for the well-being of this generation and the next.

The community is now discussing the methods for selecting the Chief Executive in 2017 and for forming the Legislative Council in 2016. I fervently hope that the community will set aside differences, reach a consensus and chart a course towards universal suffrage.

On the economic front, the external environment last year was mixed with the US Federal Reserve Board changing towards the end of the year the quantitative easing policy which it has sustained for years. It is likely that there will be larger and more frequent capital flows into and out of Hong Kong. We must be prepared to withstand the inevitable volatility while adapting to the underlying changes in the global landscape to open up opportunity for future development.

Last month, the Chief Executive delivered a wide ranging Policy Address with over 160 measures benefiting a broad spectrum of the community. The additional expenditure involved is \$25 billion. I shall ensure that financial resources are adequate to fully support the early launch of the relevant initiatives to meet the aspirations of the public.

I set up the Working Group on Long-Term Fiscal Planning to explore ways to make more comprehensive planning for our public finances to cope with an ageing population and other long-term commitments. I would like to express my heartfelt gratitude to the experts and scholars in the Working Group for their hard work in the past six months or so as well as their independent and professional analyses and recommendations. The Working Group's report points out that, with an ageing population and a shrinking workforce, economic and revenue growth would decelerate; a structural deficit would be inevitable if expenditure growth outpaces revenue growth in a persistent manner. This reminds us of the importance of "living within our means" and "fiscal prudence". The Government will keep the overall fiscal health in view and take timely targeted measures to ensure the sustainability of public finances.

Competitiveness is the theme of this Budget. I shall set out proposals on bolstering Hong Kong's position as an international hub, the promotion of industries, the keys and limits to development, and fiscal sustainability. I believe that the proposed measures will enhance our competitiveness, help keep Hong Kong's economy growing, improve our business environment, increase employment opportunities and maintain the health of public finances. With all this in place, I hope that everyone in the community will be able to realize their potential, live a better life and pursue their aspirations.

Economic Performance in 2013

The domestic sector remained resilient amid challenges facing the global economy in 2013. The Hong Kong economy grew by 2.9% for the year, a marked improvement over 1.5% in 2012.

The United States and European economies were beset by a tepid recovery, which put a drag on Hong Kong's trade performance. Merchandise exports to the United States shrank by 4% in 2013 and those to the European Union (EU) fell by 1%.

China's robust economy is the driving force of economic growth in the region and underpins the Hong Kong economy. More than half of Hong Kong's exports of goods went to the Mainland market, outpacing other markets. As for tourism, visitors from the Mainland accounted for 75% of the total arrivals and helped stabilize the local economy and preserve employment.

Energy and raw material prices remained stable, alongside a generally moderate increase in import prices of food. Domestic price pressures, however, were more notable. Inflation edged up in the third quarter of last year, reflecting the lagged effects of the surge in private housing rentals in 2012, but tapered subsequently following the decelerated rise in fresh-letting rentals since early 2013. The average headline inflation rate for 2013 as a whole was 4.3%, while the underlying inflation rate, at 4%, was down by 0.7 percentage point from 2012.

The unemployment rate averaged at a low level of 3.3%, buoying the local consumption market. The initiatives introduced in last year's Budget, including a \$33 billion package of one-off counter-cyclical measures, had a fiscal stimulus effect of boosting the Gross Domestic Product (GDP) by 1.3 percentage points, thereby helping to stabilize the economy and preserve employment.

Economic Outlook for 2014

The United States economy may see some improvement in 2014. Nevertheless, there is still uncertainty over the Federal Reserve Board's exit strategy and interest rate policy. Possible market fluctuations and the risk of reversal of capital flows will cast shadows over global economic growth this year.

The Eurozone has pulled out of recession. However, the root problems have yet to be solved, the financial markets are feeble, and unemployment rates are high. Fundamentals are still weak and, as a result, the economic recovery will remain sluggish.

Japan's government debt has reached as high as two and a half times the country's GDP. The economy, while being troubled by the threat of deflation, lacked momentum over the past two decades. It remains to be seen whether the economy will be able to maintain its growth trend propped up by the Japanese Government's quantitative easing programme last year.

The fiscal issues faced by these advanced economies have features in common, namely imbalanced fiscal structures, high debts and high unemployment rates. The governments of these economies adopted expansionary policies to boost economic growth and employment, but the need to mend public finances and reduce fiscal deficits give rise to contractionary pressures. Such contradictory policies would intensify social conflicts and unrest and make the road to economic recovery even more bumpy. Hong Kong must learn from their lessons.

Ultra-low interest rates and abundant liquidity under the loose global monetary environment have exposed emerging markets to risks of all kinds, including bursting of asset-price bubbles, greater volatilities of stock prices and exchange rates and intensified inflation pressure. This will dampen their economic growth and performance.

The geopolitical uncertainties in many parts of the world are still a cause for concern in the coming year. It is difficult to predict what will happen.

The faster economic growth in the Mainland provides crucial support to the regional economy. In Hong Kong, local consumption prospects remain positive, inbound visitor numbers continue to grow and major infrastructure works are steaming ahead, all fuelling domestic demand; the weak external environment is also expected to show some improvement.

I forecast GDP growth of three to 4% in 2014, lower than the average annual growth rate of 4.5% over the past decade. As for unemployment rate,

barring any external shocks, the labour market is expected to remain in a state of full employment.

On inflation, global economic growth and inflation are likely to stay modest, and global food prices should hold steady by and large. Domestically, the uptrend of factor costs is tapering off. This, coupled with the markedly slower rise in rentals for fresh-letting of flats and shops last year, will help ease inflation pressure this year. I forecast that the headline inflation for 2014 will average 4.6% and underlying inflation at 3.7%.

Low interest rates and abundant liquidity have seen the local property market out of line with economic fundamentals, with heightened risk of a bubble. Before the supply-demand situation of the property market regains its balance, Government must continue with its demand-side management measures. These serve to forestall an increased risk of a property bubble that would hamper our macro-economic and financial stability. Keeping the external environment and market conditions in view, I shall adjust these exceptional measures where and when appropriate.

Hong Kong's Competitiveness

Some citizens have expressed concern about Hong Kong losing its edge. They worry that weakening competitiveness and slower development might see Hong Kong lose its international status to other places and take their toll on our economy and employment. Our competitive edge cannot be taken for granted, nor is it self-sustaining. It is essential that we seize every opportunity to improve, and aptly respond to possible crises along the way. On the one hand, we should understand our advantages and limitations, and consolidate our time-honoured success model. On the other hand, we should adapt to evolving circumstances.

Hong Kong's economic success over the years owes much to our efforts to grasp the opportunities presented by our country's development, to our steadfast commitment to free market principles and to our firm positioning as a world city. In the Index of Economic Freedom released by The Heritage Foundation last month, Hong Kong ranked first for the 20th consecutive year. For eight years in a row, we have been accredited by the World Bank with a top ranking for ease of paying taxes in its survey 'Paying Taxes — The Global Picture'. Our total tax

rate is among the lowest in advanced economies. Hong Kong was rated as one of the world's three most competitive economies for the ninth consecutive year by the International Institute for Management Development in Lausanne, Switzerland.

Such international recognition and acclaim do not come easy. The reports highlight a wealth of intangible assets we possess, including a set of relative strengths and social values upheld by years of hard work and perseverance. But, as our competitors are also striving for excellence, we have to work harder to stay ahead.

The market economy regime encourages enterprises and individuals to translate their strengths and talents into economic benefits based on their own choices and their own efforts. It thrives on our fine tradition of the rule of the law, a level playing field promoting fair competition, an efficient public sector, and a simple and low tax regime.

The Hong Kong economy could not have attained its economic achievements through the domestic sector alone. The key has been to integrate with the global community, forge extensive and strong commercial ties with the rest of the world, and to tap into markets outside Hong Kong. That is why we have all along maintained a highly open market to ensure the free flows of people, goods, capital and information, with a view to strengthening our position as an international city where East meets West.

All along, Hong Kong has been participating in, and has benefited from, China's reform and liberalization. Reunification has given us a unique competitive edge under "one country, two systems". Hong Kong has become not only the largest investor in the Mainland, but also an intermediary and a bridge for trade between China and the rest of the world. Our nation's new round of economic reform will bring about new competition on the one hand, and much room for development on the other.

Our well-established trading and logistics industry, financial services industry, tourism industry and professional services have been showcasing Hong Kong to the international community. They have become Hong Kong's pillar industries, not on account of any mandatory government selection, but because

they have been able to capitalize on their own strengths as well as Hong Kong's edge. Decades of effort by these industries amid natural selection in the international market have contributed to Hong Kong's position as a commercial hub, a financial centre, and an international tourist destination.

In the foreseeable future, there is still ample room for these industries to flourish and keep moving up the value chain in their pursuit of new areas of growth, providing support and job opportunities for our economy. At the same time, we must nurture with patience new industries which have potential and international competitiveness. By doing so, we are opening up more new opportunities for our future economic development.

Manpower, land supply and an ageing population are the major constraints to Hong Kong's future development. To overcome them, we must endeavour to nurture a wealth of suitable talent for the future, increase land supply to expand the scale of the economy, and plan well ahead for an ageing society.

International Hub

Hong Kong boasts unparalleled access across Asia, and unrivalled connections both to international markets and to the China market. With a complementary mix of talented people and efficient infrastructure, well-developed international and domestic transport networks, quality business support services and financial infrastructure of the highest world standards, Hong Kong will continue to thrive as an international hub, a focal point for multinational enterprises.

To stay highly efficient and become even more competitive, we must put in place a comprehensive strategy, not only for improving the efficiency in the flow of people, goods, capital and information, but also for enhancing the quality of our living environment and our position as an international hub. Among other things, this tops the future agenda of Government. Our financial commitment in capital works has reached a high of \$340 billion. This has yet to include our investments in mega projects, such as a new airport runway, new development areas, and reclamations. These projects will help boost Hong Kong's efficiency and economic strength, improve the living conditions, and build an ideal city for the future.

Transport Networks

As a major international aviation centre, Hong Kong currently has nearly 110 air carriers operating about 7 100 scheduled flights per week to and from almost 180 cities. As one of the busiest ports in the world, our city is served by about 80 international shipping lines with some 380 liner services per week to 550 destinations worldwide. Moreover, we are well connected with the Mainland through four road-based boundary crossings, two rail-based boundary crossings and two cross-boundary ferry terminals.

The Hong Kong International Airport at Chek Lap Kok is Hong Kong's most important external transport infrastructure and an essential ancillary facility for all industries. As one of the world's best and busiest airports, it handled almost 60 million passengers and more than 4.1 million tonnes of air cargo last year. With the burgeoning demand for aviation services, hourly flight movements of the two existing runways will increase from the current 65 to 68 next year.

We are assisting the Airport Authority Hong Kong (AA) to press ahead with planning for a three-runway system. The project, estimated to cost over \$100 billion, will foster our long-term economic development and enhance our competitiveness. The AA is conducting the environmental impact assessment with a view to securing approval this year in order to take forward the project as soon as possible for commissioning in 2023. The AA is preparing the detailed project cost, formulating budgets and examining viable financing options, which include increasing recurrent revenue, issuing bonds and keeping its operating surplus as reserves. The Government will support the financing of the project.

Upon the commissioning of the Hong Kong-Zhuhai-Macao Bridge in 2016, the development potential of Lantau Island will be significantly enhanced as the island transforms from the western end of Hong Kong into the centre of the Pearl River Delta (PRD). It will then take one hour to travel from Hong Kong to Macao and Zhuhai, three hours to most of the major towns and cities of the Western PRD, and about one day to major cities in Indochina such as Hanoi. This increased connectivity will help expand our market hinterland, and facilitate people flows and logistics connectivity between Hong Kong and neighbouring areas.

Upon completion of work next year, the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL) will reduce the journey time between Guangzhou and Hong Kong to 48 minutes, bringing together our 7 million people metropolitan area and a market of 60 million people. The XRL will also give passengers easy access to the Mainland's 16 000 kilometres high-speed railway network to all the major cities.

Domestically, we have been investing in large-scale strategic road and railway projects totalling over \$90 billion in the past five years to upgrade network efficiency. Projects under construction include the Tuen Mun-Chek Lap Kok Link, Central-Wan Chai Bypass and Island Eastern Corridor Link, as well as widening of Tolo Highway and Fanling Highway. They are on track for completion successively before the end of 2018. There are also major projects under planning, such as the Central Kowloon Route, the Tseung Kwan O-Lam Tin Tunnel, and Tseung Kwan O Cross Bay Link.

As for railways, the West Island Line, the South Island Line (East), the Kwun Tong Line Extension and the Shatin to Central Link, at a total cost of over \$110 billion, are all under construction. They are expected to be completed for commissioning between the end of this year and 2020. The existing network will then be extended to strengthen the role of railways as the backbone of the public transport system. Government will shortly announce a blueprint for railway development beyond 2020.

Financial Infrastructure

Apart from ensuring a better flow of people and goods, Hong Kong has been enhancing its financial infrastructure for a smoother flow of capital. Three main components of the financial infrastructure, namely the interbank Real Time Gross Settlement (RTGS) systems, debt securities settlement and custodian systems, and system links for cross-border transactions. These provide multi-currency and multi-channel platforms to handle local real-time transactions in Hong Kong dollar and major foreign currencies, covering global banking, equity and debt markets.

The Hong Kong Monetary Authority (HKMA) has been actively promoting electronic payment systems to boost the operational efficiency of enterprises and banks. With the launch of the first Electronic Bill Presentment and Payment

platform last year, the public can now receive and schedule payments for various types of electronic bills online. Major bill-issuing departments of Government are expected to be on board by the end of this year to facilitate the online receipt and settlement of bills such as water charges and rates.

In collaboration with the Hong Kong Association of Banks, the HKMA has issued the Best Practice for Near Field Communication (NFC) Mobile Payment in Hong Kong to ensure the steady development of the market. Four objectives are set out in the Best Practice, namely "multiple payment services on a single NFC-enabled mobile phone, service continuity despite switching mobile network operators, service continuity despite changing phones, and a high level of security". Meanwhile, an "e-cheque service" is expected to be launched in the latter half of 2015. The service allows individuals and enterprises to issue or deposit e-cheques via the Internet, thus cutting the time and cost for handling cheques by banks.

In last year's Budget, I proposed to introduce a licensing scheme to regulate stored value facilities (SVF), in order to ensure financial stability of SVF issuers, and to protect and manage the transactions properly. The proposed regulatory regime will foster the development of local e-commerce and relevant information technology (IT) sectors. We received general support as well as constructive suggestions from the public during consultation. We seek to introduce the relevant bill into this Council in the next legislative session.

We are committed to strengthening the capacity of our trading platforms. We are set to implement a scripless securities market with enhanced efficiency and investor protection. Government plans to introduce the relevant bill into this Council in the first half of this year.

Development as a Smart City

Rapid IT development means swift access to worldwide information. Capacity in information processing and analysis has become a key component of the competitive edge of modern large enterprises. Small and medium enterprises (SMEs) in all sectors also stand to benefit from making use of IT for greater efficiency. Hong Kong's IT infrastructure is well developed. Today, 97% of households are able to access broadband services, and 83% make use of these services. With 10 000 Wi-Fi hotspots offered by Government and

commercial sector, Hong Kong has one of highest concentrations of hotspots in the world. We also have a high mobile phone penetration rate of 237%.

In fact, we have won wide international recognition for our achievements in areas such as IT infrastructure, internet security and the free flow of information. Hong Kong was ranked first in International Internet Bandwidth. As for the Global Innovation Index and Data Centre Risk Index, Hong Kong comes first in Asia.

In the recent fourth update of the Digital 21 Strategy, we have proposed a series of initiatives under the theme of "Smarter Hong Kong, Smarter Living", including the following five:

- (1) doubling the number of Wi-Fi hotspots with complete or time-limited free public access to 20 000 by the end of this year through public-private partnership to promote city-wide Wi-Fi for all. We shall engage the public in the naming of a common Wi-Fi brand. Citizens and visitors will have easy and convenient access to Wi-Fi services;
- (2) making all government information released for public consumption machine-readable in digital formats from next year onwards to provide more opportunities for the business sector. Currently, Public Sector Information available for free access covers real-time data such as road traffic information, geo-referenced public facility data, property market statistics, population census statistics, and so on;
- (3) further digitalizing government operations and actively implementing paperless solutions to enhance efficiency facilitate information sharing and protect the environment;
- (4) looking into the wider use of the Internet of Things, sensors and big data analytics to enhance our municipal management; and
- (5) considering the provision of digital identity to all Hong Kong citizens in order to develop a common, shared and safe platform for the delivery of services such as electronic health records and e-cheques.

A Liveable City

Hong Kong needs to keep investing in environmental infrastructure to ensure cleaner air, cleaner sea water, and better treatment of solid waste. They are key to meeting the aspirations for healthy living and making Hong Kong an attractive place for all, locals as well as talents from abroad.

An incentive-cum-regulatory approach to phase out all the 82 000 pre-Euro IV diesel commercial vehicles by 2020 is being pursued. We have earmarked \$11.4 billion for the *ex-gratia* payment scheme, which will be open for application from 1 March. For years, we have been promoting the use of electric vehicles by exempting them from First Registration Tax. I propose to extend the tax exemption by three years up to 31 March 2017.

The Harbour Area Treatment Scheme collects sewage from both sides of Victoria Harbour for centralized treatment at Stonecutters Island. Stage 1 of the scheme has been completed at \$8.3 billion. As to Stage 2A, works are in progress at an estimated cost of \$17.5 billion. Upon the scheduled completion of the main works this year, the water quality of the Victoria Harbour will further improve. Sludge produced in the course of sewage treatment will be transferred to the Sludge Treatment Facility which will come into service this year. The facility will turn the sludge into energy, while alleviating the burden on landfills.

As for the management of municipal solid waste, we shall invest about \$30 billion in waste recycling and treatment facilities. We are pressing ahead with the provision of organic waste treatment facilities, community green stations, and waste electrical and electronic equipment processing facilities. The Government is also actively pursuing measures to support the long-term and sustainable development of the recycling industry by setting up a Recycling Fund, enhancing training, promoting green procurement, and so on. We are also actively taking forward the development of the Integrated Waste Management Facilities Phase 1 and the extension of the three landfills.

Seventy percent to 80% of Hong Kong's fresh water comes from Dongjiang. Given the rising demand for fresh water in Guangdong Province and the challenge due to climate change, we shall endeavour to increase the supply of fresh water from local sources. The Government has reserved a site for the construction of a desalination plant, and the planning and investigation study will largely be completed early next year. The desalination plant is

expected to commence operation in 2020. Although the initial annual output of the plant will account for just 5% to 10% of Hong Kong's total fresh water consumption, I believe seawater desalination can serve as an important water source for Hong Kong in the long run as technology advances.

Development of Industries

Hong Kong's economic accomplishment is the fruit of the concerted efforts of the community and the Government over the years. The Government is committed to maintaining a favourable business environment for enterprises to flourish. We liaise actively with other governments to open up more markets for enterprises, and address the specific needs of individual sectors by introducing measures to help them stand up to intense international competition.

Innovation and Technology Industry

To tie in with economic restructuring, even knowledge-based and high value-added industries need to progress with the times. Pursuing innovation and making good use of technology will not only facilitate development of industries, but also help raise the productivity of all sectors.

The Government aims to provide an enabling environment and proper financial support for universities, research and development (R&D) organizations and industry to conduct research and commercialize their innovations. In 2012, Hong Kong's total R&D expenditure amounted to around \$15 billion, of which more than half came from the public sector. We shall accelerate technology transfer of upstream R&D results to translate more innovations into commercialized midstream and downstream R&D products or services.

The Innovation and Technology Fund (ITF) has been supporting applied R&D and is constantly being refined to nurture an environment conducive to innovation and technology in Hong Kong. Established 15 years ago, the ITF has funded more than 3 600 projects with about \$8 billion. To further enhance the application and commercialization of R&D results, we shall introduce two new measures:

- (1) setting up an Enterprise Support Scheme (ESS) to replace the Small Entrepreneur Research Assistance Programme. The ESS will provide funding support for R&D activities of private sector

companies, irrespective of size, with the funding ceiling for each project raised from \$6 million to \$10 million. While the recipient company must bear at least half of the cost, it may retain all the intellectual property rights of the project; and

- (2) extending the scope of funding to development work and system integration, industrial design, compliance testing and clinical trials. This will render stronger support to downstream R&D and commercialization activities, allowing full exploitation of the technological edge of local industries.

These two measures are intended to further boost R&D investments and commercialization activities among private companies at home and attract those from abroad to bring their R&D departments to our city, hence creating a more diversified ecology for innovation and technology.

I am happy to see the mushrooming of start-ups in Hong Kong over the last few years. Although no new business could guarantee success, more favourable environment will certainly help translate more new ideas into business opportunities.

The Government will create a better ecological environment for technology start-ups in collaboration with local R&D institutions and universities. The ITF will provide an annual funding of up to \$24 million to the six designated universities to provide seed money for R&D projects that they recommend, encouraging their students and teachers to start downstream R&D businesses and commercialize their R&D results.

The Hong Kong Science and Technology Parks Corporation, Cyberport and Hong Kong Design Centre will continue to provide various incubation programmes and support services for the start-ups, such as shared workspace, business knowledge training, business liaison and interflow, and investment matching activities. All these aim to help start-ups tide over the difficulties encountered in the initial stage of their business and grow further. The "StartmeupHK" portal of Invest Hong Kong provides start-ups with an information and exchange platform. To cater for innovation and technology start-ups in particular, the Government will soon launch an interactive portal to pool stakeholders in the start-up ecosystem to promote their inventions and innovations to attract funding.

The Chief Executive, in his Policy Address, proposed to set up an Innovation and Technology Bureau as a centralized body to co-ordinate and promote innovation and technology policy. The proposal is widely supported by the industry, and I look forward to its early implementation.

Pillar Industries

The four pillar industries recorded a cumulative growth of 84% over the past 10 years up to 2012, exceeding the overall economic growth for the same period. They currently employ over 1.7 million people, or almost half of the total labour force, and contribute close to 60% of the GDP. They are the linchpin of Hong Kong's economy.

Trading and Logistics Industry

Hong Kong is the ninth largest trading entity in the world with a sophisticated trading and logistics industry. In 2013, visible trade, including re-exports, domestic exports and imports of goods, amounted to over \$8.2 trillion, approaching four times of the GDP.

Market Access

We have strived to open up new markets for Hong Kong's enterprises by fostering closer ties at G2G level, and protect the interests of business people through trade agreements. The 10 member states of the Association of Southeast Asian Nations (ASEAN), which enjoy rapid economic growth, are Hong Kong's second largest trading partner in terms of goods and fourth largest in terms of services. We shall vigorously pursue the upcoming negotiations of a free trade agreement with ASEAN.

We have signed 17 Investment Promotion and Protection Agreements so far. The negotiations with Bahrain and Myanmar were concluded last year, and those with Russia and Chile will proceed this year.

We shall continue to help Hong Kong enterprises develop once again the traditional European and American markets, which are on their way to recovery. The relevant Hong Kong Economic and Trade Offices and the Hong Kong Trade Development Council (HKTDC) have organized large-scale promotional events,

arranged exchange visits and explore other means to promote bilateral trade and investment, and encouraged European and American enterprises to capitalize on Hong Kong's position as the gateway to the Asia-Pacific market. All these activities seek to secure the best opportunities for the Hong Kong business sector.

Hong Kong has always been a staunch supporter of the multilateral trading system. At the end of last year, the World Trade Organization (WTO) held the Ninth WTO Ministerial Conference in Bali, Indonesia, and reached the first-ever multilateral trade agreement since its establishment. As Chairman of the Sixth Ministerial Conference, I am deeply encouraged. This trade agreement will rationalize the import/export and customs formalities and procedures of over 150 WTO members. It will help reduce costs and bring economic benefits worth around US\$1 trillion. Hong Kong's importers and exporters as well as the logistics industry will stand to benefit directly while enterprises in general can also achieve cost savings in customs clearance when exporting their products.

High Value-added Logistics Services

Faced with competition from neighbouring regions, Hong Kong's trading and logistics industry has been developing towards the provision of high value-added services in recent years in such areas as inventory management, regional distribution and global supply chain management. Airfreight throughput kept scaling new heights. Despite its tiny 1% share in total trade volume, air cargo accounts for over one third of our total trade in value terms.

To dovetail with the latest developments of the airfreight logistics industry, the AA is planning and developing relevant sites on the Airport Island. Hong Kong has registered the world's largest international air cargo throughput for years, and the AA keeps upgrading the airport's facilities. A new air cargo terminal was fully commissioned last October, and the midfield development project scheduled for completion in 2015 will provide a new passenger concourse with an additional 20 aircraft parking stands and other ancillary facilities.

Over the past three years, we have released three logistics sites with a total floor area of 280 000 sq m at Tsing Yi. We are conducting technical assessments for the 10 hectares of land reserved at Tuen Mun West to ascertain its feasibility for developing into modern logistics facilities.

Scattered throughout the New Territories, many "brownfield sites" are being used for port backup, container vehicle parking and open storage purposes, and so on. Although such services are in demand, the potential of these sites has not been maximized. I have asked relevant Policy Bureaux and departments to explore feasible improvement measures, including accommodating some of these operations in suitable multi-storey buildings. We are proactively studying the consolidation of the existing backup sites for the port and logistics industry around Kwai Chung and Tsing Yi Container Terminals, to facilitate the development of the logistics industry and enhance the efficiency of the Hong Kong Port, and at the same time, better utilize the valuable land resources.

Financial Services

The financial services industry contributes 15.9% of Hong Kong's GDP. Its per capita value added, at \$1.4 million, is the highest among all pillar industries. The financial services industry helps spur the development of Hong Kong's economy as a whole as it not only benefits its 230 000 strong direct workforce, but also indirectly creates plenty of employment opportunities in related sectors, such as legal, accounting and IT services, and support the operation of other industries.

Offshore Renminbi Business Centre

Hong Kong is the world's largest offshore Renminbi (RMB) business centre. At the end of last year, RMB deposits and outstanding RMB certificates of deposits totalled more than RMB 1 trillion yuan, accounting for 70% of the offshore pool of RMB liquidity. RMB trade settlement conducted through Hong Kong banks last year exceeded RMB 3.8 trillion yuan, with a year-on-year increase of 45%. The average daily turnover on Hong Kong's RMB RTGS system has posted a remarkable increase of nearly 100 fold from RMB 5 billion yuan in 2010 to RMB 500 billion yuan at end 2013. In the past few years, the RMB transactions conducted between local and overseas banks have increased substantially. The amounts due to and due from overseas banks have each increased significantly by more than eight times, from less than RMB 20 billion yuan at end 2010 to some RMB 160 billion yuan.

The RMB Qualified Foreign Institutional Investors (RQFII) Scheme was further expanded last year, bringing the total investment quota to RMB 270 billion yuan, exceeding the aggregate quota of all other offshore RMB

centres. The RQFII Scheme facilitates the launch of more innovative and diversified RMB investment products in Hong Kong to promote two-way flow of RMB funds between the Mainland and Hong Kong.

The Ministry of Finance issued sovereign bonds in Hong Kong twice last year, totalling RMB 23 billion yuan, and offered for the first time sovereign bonds of 30 year tenor. This demonstrates the regularization of the issuance of RMB sovereign bonds in Hong Kong by the Central Government.

The proposals in the Mainland's blueprint for the deepening of reforms include further opening up the financial industry and the capital markets both domestically and externally. We shall continue to support our country's accelerated drive to realize capital account convertibility and internationalization of the RMB by acting as a bridge between our nation and the rest of the world, and serving as a platform for Mainland funds and enterprises to reach out to the international market.

The world's financial centres are developing offshore RMB business. Hong Kong, with its first-mover advantage, is well-positioned to provide RMB services to overseas financial institutions at the wholesale level. At the same time, we should strengthen our existing services, including RMB trade financing, RMB-denominated financial products and cross-border reinsurance, direct cross-border investment from the Mainland, asset management and fund development. Consensus has been reached between the Securities and Futures Commission and relevant Mainland authorities on the mutual recognition of funds. On implementation, this arrangement will further promote the diversification of fund products in the Mainland and Hong Kong.

Asset Management

Hong Kong's wealth and asset management business has been growing exponentially, ranking top in Asia. At end 2012, there were 45 banks operating private wealth management business in Hong Kong. The assets under management of these banks and other fund managers recorded year-on-year growth of 40%, reaching a record high of \$12.6 trillion.

In last year's Budget, I proposed to allow private equity funds also to enjoy tax exemption for offshore funds to attract them to expand their business in Hong Kong. We have completed an industry consultation and shall take forward the

legislative work as soon as possible. As for my proposal on introducing an open-ended fund company structure to attract more funds to establish in Hong Kong, relevant regulatory frameworks have been drawn up and consultation will begin next month.

In 2010, I extended the stamp duty concession to cover exchange traded funds (ETFs) that track indices comprising not more than 40% of Hong Kong stocks. The number of ETFs listed in Hong Kong have since seen a substantial increase from 69 at end 2010 to 116 at the end of last year. The daily average turnover of ETFs also increased from \$2.4 billion to \$3.7 billion, making Hong Kong one of the largest ETF markets in the Asia-Pacific Region. I propose to waive the stamp duty for the trading of all ETFs, so that the trading cost of ETFs with a higher percentage of Hong Kong stocks in their portfolios can be reduced as well. This will help promote the development, management and trading of ETFs in Hong Kong.

Hong Kong is a popular platform for multinational enterprises to manage their global or regional treasury functions. To draw more of these functions to Hong Kong and to enhance our strengths in financial and professional services, I have asked the Financial Services and the Treasury Bureau to set up a task force in collaboration with the HKMA. The task force will review the requirements under the Inland Revenue Ordinance for interest deductions in the taxation of corporate treasury activities, and clarify the criteria for such deductions. It will come up with concrete proposals within one year.

Local Bonds

Compared with RMB business and asset management, the development of Hong Kong's bond market has a slower start. One reason is that the Hong Kong-US dollar peg prompts enterprises to raise funds in the more mature and more-liquid United States bond market. Another is that the sound fiscal health of Government precludes the need for raising funds through bond issuance. Nevertheless, developing the local bond market is important for consolidating Hong Kong's status as an international financial centre.

We introduced the Government Bond Programme (GBP) in 2009 to expand the base of investors. We have implemented measures under the GBP to allow market makers to acquire institutional bonds with varying maturities more easily. This will give institutional investors further flexibility and promote the

development of the secondary bond market. Separately, we have introduced the relevant Bill to enable the issuance of Islamic bonds under the GBP, in order to encourage more issuers to raise funds through the financial market of Hong Kong.

In view of the enthusiastic public response to inflation-linked retail bonds (iBond) issued by the Government and the prevailing low interest rates of the Hong Kong dollar, I propose another iBond issue of up to \$10 billion with a maturity of three years. This issue will target Hong Kong residents. Interest will be paid to bond holders once every six months at a rate linked to the inflation rates of the last half year period. The HKMA will announce the details in due course.

Tourism

Tourism has been making immense contribution to Hong Kong's economy. In 2013, visitors to Hong Kong exceeded 50 million, an increase of 11.7% over 2012. Total spending went up by 14.8% to \$340 billion. Tourism, making up 4.7% of the GDP and employing over 250 000 people, has been driving the growth of many other industries, such as retail, catering and transport. I appreciate that an excessive number or over-concentration of visitors may exert pressure on our society. The Government should strive to ensure that there is sufficient capacity to receive visitors.

In order to attract high-spending visitors to Hong Kong, thus bringing about more economic benefits from tourism, we should continue to upgrade our tourist facilities, host attractive mega events and maintain an adequate supply of high-end hotel accommodation.

On tourist facilities, the construction of the waterpark at Tai Shue Wan in the Ocean Park and the "Iron Man Experience" in the Hong Kong Disneyland has commenced in phases. The terminal building and the first berth of the Kai Tak Cruise Terminal came into operation last June. Cruise lines and passengers have found the Terminal's facilities and services satisfactory. With construction works now in the final stage, the second berth is planned to be commissioned this year. "Kai Tak Fantasy" — International Ideas Competition on Urban Planning and Design is now under way, and it is our target to develop the site into a spectacular world-class tourism, entertainment and leisure hub.

As for hotels, the Government is pressing ahead with the infrastructure works at the southern end of the runway and south apron of the former Kai Tak Airport. We are identifying feasible ways for the gradual release of the six sites facing the Victoria Harbour within the "hotel belt" adjacent to the Kai Tak Cruise Terminal to the market starting from the end of next year. These prime sites can be developed into a distinctive hotel cluster with five-star accommodation as well as gourmet and entertainment facilities.

The hotel project at the Murray Building site has been successfully tendered. Upon commissioning, this hotel, together with the Ocean Hotel in the Ocean Park and the third hotel in the Hong Kong Disneyland, will provide altogether over 1 500 rooms, offering more diverse and novel choices of quality hotel accommodation.

Overnight business travellers are our prime targets. According to the Hong Kong Tourism Board (HKTB), the total spending of visitors attending conventions and exhibitions in Hong Kong reached \$16.3 billion in 2013. Their per capita spending was close to \$10,000, 21% more than that of other overnight visitors.

As our neighbouring cities have been proactive in drawing convention and exhibition visitors in recent years, we must adjust our strategies from time to time. I shall allocate an additional \$45 million for the HKTB to provide more attractive and targeted services and concessions for organizers and participants of conventions and exhibitions of various scales and types in the coming three years. Meanwhile, the Government is studying the demand for convention and exhibition facilities in Hong Kong in the next 15 years.

We have to keep enriching our cultural, art and sports programmes which will, apart from enabling local residents to enjoy more, refresh our city's appeal to overseas visitors and attract them to come back again at different times. We shall provide additional funding of \$50 million to the HKTB in the coming two years to strengthen even further its popular events, such as the Wine and Dine Festival, the New Year Countdown Celebrations and the Chinese New Year Night Parade. One way to do so is to introduce 3D projection mapping technology to help showcase the magnificent night view of the Victoria Harbour during mega events. Residents and visitors alike can enjoy this projection

mapping show as part of the year end festivities in 2014. We shall continue to seek to host mega events, including through financial support from the Mega Events Fund, on the Victoria harbourfront for the enjoyment of residents and visitors.

Business and Professional Services

Hong Kong has one of the most advanced services industry in the world. Professional services and other producer services contribute 13% of the GDP and employ about 500 000 people. The professional services industry in particular recorded high growth in recent years, contributing nearly 5% of the GDP. The Government will continue to strengthen G2G ties with its Mainland and overseas counterparts, secure more liberalization measures and forge more free trade agreements to help Hong Kong service industries access external markets, especially the Mainland market, under more favourable conditions.

Closer Economic Partnership Arrangement

In 2011, the Central Government announced the objective of achieving basically liberalization of trade in services between the Mainland and Hong Kong through the Closer Economic Partnership Arrangement (CEPA) by the end of the National 12th Five-Year Plan period. The HKSAR Government is working closely with the Ministry of Commerce, striving to further open up the Mainland market to Hong Kong. We shall work with Guangdong Province, aiming at early achievement of basic liberalization of trade in services between Hong Kong and Guangdong this year.

Trade in Services Agreement

To tap into the services markets outside the Mainland, Hong Kong is actively participating in the plurilateral Trade in Services Agreement negotiations. We aim to reach a high-standard WTO plus agreement to secure better market access for our service industries. Twenty-two other parties are taking part in the negotiations, including eight of our top ten service trading partners. These participating economies account for half of Hong Kong's trade in services.

Cross-boundary Professional Services

In recent years, arbitration and mediation have become the mainstream modes of resolving international commercial disputes. Building on our robust legal system and tradition, the Government has all along been actively promoting Hong Kong's legal and arbitration services, and making its best efforts to advocate and develop mediation services, with a view to enhancing Hong Kong's position as an international legal and dispute resolution services centre in the Asia-Pacific Region.

Last year, we completed the reform to modernize our trust law, making our trust services industry more competitive. The Government will work with the industry to promote our strengths in this respect, and encourage settlors all over the world to choose Hong Kong as their base for trust administration.

Trade in intellectual property has great development potential. The Secretary for Commerce and Economic Development will continue to lead the relevant working group to devise measures to develop Hong Kong as an intellectual property trading hub in the region. The objectives are to provide more financing and trading channels for enterprises, and promote the development of the creative and technology industries.

Small and Medium Enterprises

Small and Medium Enterprises (SMEs) make up over 90% of local enterprises and employ 1.3 million people, or half of the number of employees in the private sector. Despite the unfavourable global economic climate over the past few years, the number of SMEs and their employees have been increasing. This underscores SMEs' role as the mainstay of our economy and employment market.

The development of SMEs has always been high on my agenda, and I appreciate the different challenges that they face such as surging costs and keen competition. Over the years, the Government has rolled out an array of appropriate measures to support their development. Given the uncertain external economic environment, I shall continue to lend support to local SMEs in financing, market expansion, brand building and productivity enhancement through the following seven measures:

- (1) extending the application period for the special concessionary measures under the SME Financing Guarantee Scheme for one year to the end of February 2015. From its launch to the end of 2013, over 8 000 applications have been approved, benefiting over 5 500 enterprises with total loan guarantee of more than \$27 billion;
- (2) continuing the implementation of the Small Business Policy (SBP) scheme by the Hong Kong Export Credit Insurance Corporation to allow SMEs engaging in export trade more flexibility in taking out insurance cover. The SBP scheme has been well received since its launch in March last year. More than 700 applications have been approved with the value of total insured business amounting to over \$1 billion. SBP policyholders will continue to enjoy waiver of the annual policy fee and up to 20% premium discount;
- (3) earmarking \$50 million to support retailers on a matching fund basis for the use of IT and other technology solutions to increase productivity;
- (4) promoting cloud computing applications among SMEs and providing training to help them adopt appropriate and affordable IT solutions;
- (5) continuing with the Hong Kong Mortgage Corporation Limited's Microfinance Scheme. Up to the end of 2013, 106 applications have been approved under the scheme, with a total loan amount of over \$28 million;
- (6) continuing to make use of the dedicated fund and extend the network of the HKTDC Design Gallery to assist Hong Kong enterprises in developing brands, in upgrading and restructuring, as well as in exploring market opportunities in the Mainland; and
- (7) continuing to identify suitable workspace for individuals and enterprises engaging in creative industries and help promote their work. The "Comix Home Base" converted from a pre-war building was open in July last year. The creative industries landmark "PMQ", a \$500 million government project of revitalizing the former Police Married Quarters on Hollywood Road, is coming on stream in the first half of this year.

We do have a good number of industries with potential for development. I have received many proposals from various organizations as well as Members of this Council on how to promote sectors with development potential, an example being a centre for retail and wholesale fashion businesses at the district level. I am supportive of such proactive and self-initiated efforts of the industry. Government will render appropriate assistance to industries with potential for further development.

Key to Development

Manpower

The Government attaches great importance to investment in people. In 2014-2015, the recurrent expenditure on education will be \$67.1 billion, taking up the largest share of recurrent government expenditure, also an increase of nearly 80% over 1997-1998.

A general rise in the education level of the workforce helps our market move towards a high value-added model. However, there remain a manpower mismatch and relatively high youth unemployment rate that we need to address. The city cannot afford to let the talent of any of its members go to waste. To ensure that our manpower resources can meet the needs of economic development; we have to specifically strengthen life planning, vocational education and training for the youth.

Shortage of manpower hampers the development of certain industries. Labour shortage in the construction sector, for instance, would affect the delivery of infrastructure projects. Apart from encouraging young people to join these industries, admitting from abroad talent and workers not available in Hong Kong will also help maintain our competitiveness. I hope that employers, employees and the community will work towards solutions to the problems through candid and open discussions.

Career Navigation and Training

The Vocational Training Council (VTC) will launch a pilot training and support scheme to attract new entrants for industries with keen demand for labour. Under the scheme, structured apprenticeship training programmes will

be integrated with clear career progression pathways. The 2 000 apprentices joining the scheme will receive an allowance from Government and the industries. Meanwhile, the Education Bureau will strengthen support to schools to enrich and strengthen career guidance service and life planning education to enable students to realize their potential.

In my last Budget, I announced the setting up of the Task Force on Manpower Development of the Retail Industry to study the outlook of the retail industry and its manpower demand and supply. The Government has accepted the Task Force's recommendations and will allocate \$130 million for their implementation, including the funding support mentioned earlier for retailers to increase productivity. We will also assist the VTC in strengthening its vocational education and training with reference to the Specifications of Competency Standards for the Retail Industry that was newly drawn up under the Qualifications Framework (QF). This includes running retail courses through a professional institution and launching pilot courses combining classroom learning and work placement. We shall work with the industry to enhance the image of the trade. The Labour Department will provide targeted recruitment and employment services as well as organize large-scale and district-based job fairs, all dedicated to the retail industry.

We shall seek closer collaboration with tertiary institutions and the industry to bring IT education more in line with the needs of the industry. We shall step up publicity about the contribution made by IT to our society and economy to enhance the profession's image. There are many examples of renowned IT talents around the world who started their own businesses at a young age and soon became leading figures in the IT sector. To identify such gifted young people earlier, we plan to incorporate enrichment programmes in secondary schools which are outstanding in IT education. By so doing, we hope to cultivate young IT professionals and even entrepreneurs to meet the development needs of a digital society.

Professionals and skilled personnel in various areas of the financial services industry are of vital importance to the sustained development and expansion of the sector. In this connection, the Financial Services and the Treasury Bureau will consult the industry and conduct an in-depth study on related issues, and submit their recommendations to me.

Continuing Education and Training

Continuing education is crucial to productivity enhancement and economic development. The Education Bureau plans to establish an endowment fund of \$1 billion to provide a steady source of funding to support the sustainable development of the QF, benefitting employees and employers, education and training providers, assessment agencies and quality assurance bodies. We hope this initiative will encourage continuous learning among practitioners of the sectors concerned.

In 2014-2015, the Employees Retraining Board (ERB) will offer 130 000 training places and services for those aged 15 or above with education attainment at sub-degree level or below. Resources have also been reserved to provide an additional 40 000 places to meet the potential demand from the employment market. The Finance Committee of this Council has approved the Government's injection of \$15 billion into the ERB as part of our long-term support.

Land Supply

To address the demand for land in the short, medium and long terms, I shall continue to co-ordinate the efforts of the various government departments to increase housing land supply with a view to achieving the target of providing 470 000 residential flats in the coming ten years. We shall seek to increase the supply of commercial land to provide more opportunity for the community and various sectors. I shall allocate an additional funding of over \$650 million in the coming five years to the bureaux and departments involved in this work to create 229 posts of different grades to enhance land development efforts.

Residential Land Supply

In this financial year, the Government put up for sale 36 residential sites capable of providing about 14 000 private residential units, a record high since 2000-2001. Together with other development projects, the total housing land supply from different sources will be capable of providing about 18 000 private residential units, falling short of the original annual average target of 20 000 units, mainly due to slower than expected progress in railway property development projects, projects of the Urban Renewal Authority (URA) and projects subject to lease modification/land exchange. Taking into account the

private residential developments which have started or will start on disposed sites, together with other unsold units of completed projects, about 71 000 private residential units are estimated to be available for sale in the next three to four years.

So far we have identified 150 sites for residential use which, if their statutory plans could all be successfully amended, are expected to be made available over the next five years to provide about 210 000 public and private units. The 2014-2015 Land Sale Programme will include 34 residential sites capable of providing about 15 500 units in total. Among these sites, 24 are new ones. Taking into account the housing land supply from different sources, we expect that the average annual target of land supply for private housing can be met in the coming financial year. The Secretary for Development will announce tomorrow the Land Sale Programme for the coming year.

Public housing takes up 60% of the new housing target. To achieve the new target on the provision of public rental housing flats and Home Ownership Scheme flats, the Government is fully committed to supplying additional sites to the Housing Authority. Apart from adequate supply of land and manpower resources, we have to ensure that there will be sufficient funding for the Housing Authority as well.

The Housing Authority will have an estimated balance of \$68 billion at the end of this financial year. The sum can meet the funding requirement of the development programme for the next four years. However, to achieve the new housing production target, the Housing Authority must keep enhancing cost-effectiveness and sustainability of modus operandi in the long run. I hope that it will conclude the assessment next year on additional financial resources needed for the next 10 years after consolidating revenue increases and cost savings. This will facilitate its discussions with Government on a feasible long-term financial arrangement.

Room for Business Development

The Land Sale Programme for the coming financial year will include seven sites for commercial/business use and one for "hotel only" use, providing a total floor area of about 230 000 sq m and some 1 100 hotel rooms.

To accommodate more economic activities and create more job opportunities, we shall increase land supply for commercial use in different districts through seven measures:

- (1) continuing with the measures to facilitate revitalization of industrial buildings and expediting the rezoning of industrial sites, to make available more floor area for commercial and other uses. The Planning Department is expected to complete a new round of industrial land review within this year to explore converting some sites no longer required for industrial use into other uses including commercial. The Lands Department has approved lease modification or land exchange applications in the past two years that are capable of providing about 250 000 sq m of additional commercial floor area;
- (2) expediting the conversion of suitable Government, Institution or Community (GIC) sites in core business districts for commercial use. The two multi-storey car parks at Murray Road in Central and Rumsey Street in Sheung Wan are estimated to provide Grade A office space of some 76 000 sq m. The Middle Road Multi-storey Car Park Building in Tsim Sha Tsui, the Trade and Industry Department Tower in Mong Kok and the former Mong Kok Market will be converted for commercial use, providing about 53 000 sq m of commercial floor area. Meanwhile, we are taking forward the plan to relocate the offices in the three government office buildings in Wan Chai. Some of the offices therein will be reprovisioned to the West Kowloon Government Offices, the construction of which is expected to commence next year. Planning is also under way for the construction of the replacement offices in Kai Tak, Tseung Kwan O and Cheung Sha Wan;
- (3) completing the land use and traffic impact study of the government site at Caroline Hill Road as soon as possible for the provision of more commercial floor area in Causeway Bay;
- (4) the planning of the new Central harbourfront as a whole is expected to provide an estimated commercial floor area of about 260 000 sq m for office, retail, hotel and exhibition, and so on, uses;

- (5) the Kai Tak Development, an important source of future commercial land in Hong Kong, will provide about 1.4 million sq m of commercial floor area, including hotel sites, in phases over the three years from 2016-2017;
- (6) implementing the relocation and integration of the existing government facilities in the two action areas of Kowloon East on Kwun Tong waterfront and in Kowloon Bay, and kicking start the advance works. This project will provide some 500 000 sq m of commercial floor area. The Government will identify suitable government sites in those areas to be released in the next financial year, providing over 120 000 sq m of commercial floor area; and
- (7) conducting public consultation and a pilot study this year on the development of urban underground space in four strategic districts, namely Causeway Bay, Happy Valley, Admiralty/Wan Chai and Tsim Sha Tsui West.

Long-term Development

From a long-term point of view, when planning for new town extensions and new development areas, we must capitalize on the locational advantages to provide sites for the commercial sector and other industries. This will create employment opportunities and facilitate economic development in the areas. There are seven projects on this front:

- (1) in the development plans including the North East New Territories New Development Areas, Lok Ma Chau Loop, Hung Shui Kiu New Development Area, Tung Chung New Town Development Extension, and so on, over 140 hectares have been reserved for commercial use and for the development of various industries. The sites are expected to create over 160 000 new jobs, boosting economic activities in these localities;
- (2) \$60 million has been earmarked for a preliminary feasibility study on the topside and underground space development of the Hong Kong-Zhuhai-Macao Bridge Hong Kong Boundary Crossing Facilities (HKBCF), covering about 130 hectares, for commercial

purposes such as shopping, dining, entertainment and hotels as well as on providing the necessary supporting infrastructure;

- (3) tying in with the planning of the three-runway system and the synergy of the Lantau Development, the airport's North Commercial District development will be expedited to maximize the benefits;
- (4) the HKBCF will connect with Tuen Mun Areas 40 and 46 via the Tuen Mun-Chek Lap Kok Link. Relevant planning and engineering studies have commenced, covering a total planning area of over 50 hectares;
- (5) in the Preliminary Feasibility Study on Developing the New Territories North, which covers 5 300 hectares, the potential for economic development and employment creation in the areas around the boundary crossings at Lok Ma Chau, Man Kam To and Liantang/Heung Yuen Wai will be explored;
- (6) the study on the East Lantau Metropolis will commence as soon as possible. Consideration is being given to the proposal for building an artificial island in central waters between Hong Kong Island and Lantau Island, to develop a new core commercial district. The new metropolis, to be well fitted with transport and infrastructure facilities, could accommodate a population of several hundred thousand and provide many employment opportunities; and
- (7) preparing for the study on reclamation on an appropriate scale at Sunny Bay, and commencing preliminary feasibility studies progressively on other near-shore reclamation sites for the development of various industries and building up of a long-term land reserve. (Chart 1)

(Mr Albert CHAN yelled)

PRESIDENT (in Cantonese): Stop it.

An Ageing Population

FINANCIAL SECRETARY (in Chinese): Hong Kong people enjoy a life expectancy which is among the longest in the world — 81 years for men and 86 years for women. The population aged 65 or above will surge from 980 000 at present, or 14% of the total population, to 2 560 000 by 2041, or 30% of the total population. Of these, about 960 000 will be aged 80 or over. (Chart 2)

Elderly Services

Recurrent expenditure on elderly services has increased more than 40% from \$3.8 billion to \$5.4 billion over the past five years. From 2014-2015, we shall increase annual expenditure in this area with an additional funding of more than \$660 million to implement and enhance the following four areas of elderly services and facilities. This covers:

- (1) some \$170 million for providing 1 500 additional places for the Enhanced Home and Community Care Services, and widening the scope of home care services for these additional places and the existing 5 600 places to strengthen our support for frail elderly persons living at home;
- (2) some \$160 million for upgrading 51 social centres for the elderly to neighbourhood elderly centres, and enabling all subvented elderly centres to increase their manpower as well as programme expenses. The purposes are to enhance the support for elderly people as well as processing care needs assessment and service applications for long-term care services;
- (3) some \$200 million for raising the subsidies for places under the Enhanced Bought Place Scheme (EBPS) and the Nursing Home Place Purchase Scheme, upgrading subvented nursing home places to provide continuum of care, and enhancing the service of the three new contract homes. These aim to enhance care and support for the elderly; and
- (4) \$120 million for providing some 950 new subsidized residential care places for the elderly through the commencement of new contract

homes, the purchase of additional places under the EBPS, and as a pilot, the purchase of residential care places from elderly homes run by Hong Kong non-governmental organizations in the Mainland.

We have tasked the Elderly Commission to prepare an Elderly Services Programme Plan within two years. The Commission will also explore the feasibility of introducing residential care service vouchers for the elderly. About \$800 million has been earmarked to issue a total of 3 000 residential care services vouchers in phases within three years from 2015-2016. The Government will inject \$10 billion into the Lotteries Fund to implement the Special Scheme on Privately Owned Sites for Welfare Uses to provide additional places for elderly and rehabilitation services.

Healthcare

Over the past five years, Government's recurrent allocation to the Hospital Authority (HA) has increased by \$15 billion, or nearly 50%. The total recurrent provision for 2014-2015 exceeds \$47 billion.

On infrastructure, we commenced the construction of Tin Shui Wai Hospital and Hong Kong Children's Hospital. The preparatory works for the expansion of United Christian Hospital and redevelopment of Kwong Wah Hospital have started. We shall seek this Council's funding approval for the redevelopment of Queen Mary Hospital and Kwai Chung Hospital, as well as the expansion of Hong Kong Red Cross Blood Transfusion Service Headquarters. We shall spend \$55 billion on these projects as part of an ongoing effort to improve public healthcare facilities and provide 1 400 additional hospital beds. Besides, we are conducting strategic studies on the construction of an acute general hospital in the Kai Tak Development Area. In the longer term, the HA will start planning for the redevelopment of Queen Elizabeth Hospital and phase two redevelopment project of Prince of Wales Hospital to address the community's long-term demand for healthcare services.

A grant of \$13 billion was approved by this Council in late 2013 for the HA to improve and upgrade its facilities over the next ten years. This covers the renovation of over 500 wards in 34 hospitals; provision of around 800 additional beds in 11 hospitals; expansion of operating theatres, accident and emergency

departments, and general out-patient clinics; and setting up additional endoscopy centres and ambulatory facilities, and so on. The HA will also comprehensively upgrade the major electrical and mechanical engineering installations in hospitals and strengthen the Universal Accessibility Programme. It is estimated that the grant will be used to implement about 5 000 projects. These projects will complement the major new hospital and hospital redevelopment projects to prepare for an ageing population.

In pursuit of the healthy and sustainable development of our dual-track healthcare system, the Government is considering a voluntary health protection scheme to encourage those who can afford it to make greater use of private healthcare services. I pledged in the 2008-2009 Budget to earmark \$50 billion to support healthcare reform. The Food and Health Bureau will shortly consult the public on the details of the scheme. I shall consider providing tax reliefs for subscribers of regulated insurance products after a consensus is reached in the community.

Disease prevention and control forms an important line of defence in public health. Government has endeavoured to strengthen primary care, including proactively promoting healthy living, as well as strengthening disease prevention strategies and surveillance systems, with a view to lowering risks of disease and hence expenditure on healthcare. In the coming five years, the Government will allocate additional funding of over \$420 million for the study and implementation of a pilot programme to subsidise colorectal cancer screening for specific age groups.

Studies by the World Health Organization (WHO) and others point out that increasing tobacco duty is an effective means of tobacco control to lower the health risks of the public. It helps reduce direct medical expenses caused by smoking and second-hand smoking. To safeguard public health, I propose to increase the duty on cigarettes by 20 cents per stick with immediate effect. This will bring the proportion of tobacco duty to the retail price of cigarettes to about 70% which meets the minimum level recommended by the WHO. I wish to emphasize that this is not a budgetary measure to increase revenue. We shall continue to strengthen smoking cessation services, as well as publicity and law enforcement on tobacco control. The Customs and Excise Department will step up enforcement against different forms of illicit cigarette trading.

Public Finances

The Working Group on Long-Term Fiscal Planning was set up last June. Economists and experts from the accounting, tax and actuarial fields were invited to explore ways for our public finances to cope with an ageing population and long-term financial commitments. The Working Group performed a health check on the current state of Hong Kong's public finances and made projections of Government's long-term fiscal position up to 2041-2042, having regard to demographic trends, economic growth and prevailing policies. The detailed results will be released next week.

According to the Working Group's analysis, the Government's overall fiscal position in the short to medium terms remains healthy. In the longer term, however, the Government must seek to foster economic growth, and align the growth rates of government revenue and government expenditure.

With per capita GDP at US\$38,000, Hong Kong is now a mature economy. It is highly unlikely that the economy will grow at a rate of 8% to 9% per annum as it did in the 1970s and 1980s. Over the past three decades, the annual real GDP growth averaged 4.6%. The economic growth momentum is expected to slow down as our population ages, reducing our labour force. The Working Group projects that over the next 20 to 30 years nominal GDP will grow at an average rate of 4.4% per annum; real GDP will grow at a trend rate of 2.8% per annum, which is a notch higher than most other mature economies.

The trend growth of government revenue has been on a par with nominal GDP growth over the past three decades. Assuming that the existing tax regime and tax rates were to remain unchanged, and barring any severe external shocks, the Working Group forecasts an average annual trend growth rate of 4.5% for government revenue in the next 20 to 30 years. Towards the end of the projection period, government revenue is projected at 19.8% of nominal GDP.

The average annual growth rate of government expenditure since reunification is 4.7%. Taking into account the economic growth trends and demographic changes, the Working Group has made the following three projections based on different expenditure growth scenarios:

- (1) if no service enhancement were to be made to the three areas of education, social welfare and healthcare, such that their recurrent expenditure were to be adjusted only for demographic and price factors, government expenditure would grow by 5.3% per annum during the projection period. Because the growth rate of government expenditure exceeds that of government revenue at 4.5% per annum, a structural deficit would surface in 15 years' time;
- (2) if services were to be enhanced further for the three areas by 1% to 2% per annum on top of adjustment for demographic and price factors, government expenditure would grow at an average of 6% to 6.7% per annum. In that case, a structural deficit would surface in eight to ten years' time; and
- (3) if services were to be enhanced following the historical trends at about 3% per annum for the three areas, on top of adjustments for demographic and price factors, government expenditure would grow at an average growth rate of 7.5% per annum. In that case, a structural deficit would surface in seven years' time.

The projection results and analysis of the Working Group spark off a clear warning and call for serious attention. If government expenditure keeps growing and outpacing economic and revenue growth, a structural deficit would be inevitable.

The Working Group recommends that the Government should implement a combination of measures, including containing expenditure growth, preserving the revenue base and saving for future generations, to cope with the fiscal challenges ahead.

We should neither take the problem lightly nor over worry. Our public finances are still in good shape. Our economy will continue to grow in the coming 20 to 30 years. This implies that our revenue will continue to rise and we can still afford expenditure increases. Nevertheless, the growth in public expenditure must be commensurate with that of the economy and government revenue. I believe that as long as we take timely, resolute and effective actions, we can prevent the projected results from surfacing, and avoid subjecting our future generations to irreversible fiscal plight.

Containing Expenditure Growth

The Working Group recommends that public expenditure be controlled at or around 20% of GDP. It is a suitable level as it ensures that the Government will not consume excessive social resources and that government expenditure will be kept at a level commensurate with government revenue. In fact, government revenue exceeded this level in only seven out of the past 40 financial years.

It is incumbent upon the Government to strictly contain the growth of expenditure. When preparing annual budgets, the Government would hold fast to the forecast nominal GDP growth rates over the medium term as planning ceilings for total government expenditure. We should uphold fiscal disciplines, and put in place a more vigorous internal control and monitoring mechanism for assessing and prioritizing competing funding priorities with appropriate offsettings from different programmes.

Government departments and the public sector should conduct expenditure reviews and introduce efficiency measures with a view to doing more with less. In response to community needs, the Government will continue to increase recurrent spending. But we must be wary that it is always easier to increase than to cut recurrent expenditure, and their cumulative financial impact cannot be ignored. All government departments should consider how best to consolidate their services and funding schemes, and phase out outdated and redundant items.

Preserving Revenue Base

The second major recommendation of the Working Group is that the Government should preserve, stabilize and broaden the revenue base. I am all for it. Having regard to the competitiveness of Hong Kong and the impact on the community, there is little room for major tax hikes. In principle, I shall not rule out any means to increase tax revenue. However, I also understand that it will be controversial to propose any new taxes, which need thorough consideration and public discussion. At the present stage, the Government's priorities are to overcome the constraints posed by the ageing population on our economic growth, keep moving our economy up the value-added chain, and increase and preserve our revenue. Meanwhile, we have to ensure that our expenditure growth keeps pace with economic and revenue growth. We should also strive to forge a consensus in the community on preparing for Hong Kong's fiscal challenge in the short, medium and long terms.

To prevent revenue loss, the Inland Revenue Department (IRD) will draw on international experience, step up tax enforcement and make better use of IT to combat tax evasion and avoidance, thereby recovering tax payable. The IRD has recovered over \$14 billion in taxes over the past three years. We should preserve our indirect taxes such as rates and business registration fees, because they are broad-based and stable revenue sources.

Fees and charges is an important source of government revenue. Last year, I asked government departments to review their fees and charges, beginning with items which did not directly affect people's livelihood. After a review of more than 1 300 fees and charges, more than 200 increases have been proposed. These will reduce the loss of public revenue by around \$60 million per year. We shall review other fees and charges this year, including water charges, which have not been revised for 19 years, the fees for use of leisure facilities and services, and charges relating to environmental hygiene services.

Saving for the Future

Our fiscal reserves currently stand at over \$700 billion. Of this amount, \$220 billion is the balance of the Land Fund and \$130 billion is held in funds with designated uses. Only the remaining \$400 billion or so, held in the General Revenue Account, may be flexibly deployed to meet the day-to-day operation of the Government. We can consider setting up a savings scheme to prepare for the future having regard to the experience of other economies. One example is the setting up of a "Future Fund" comprising the Land Fund and a portion of future surpluses. The Government may draw on this contingency fund in the event of sustained budget deficit to finance strategic infrastructure projects conducive to Hong Kong's future economic development.

An ageing population will pose sustained challenges to public finances. The conclusions and recommendations of the Working Group have provided a scientific and objective basis for the community to better understand the issues, and consider rational and pragmatic options ahead. We should take early action to address the challenges ahead when our public finances are still healthy. My colleagues and I shall examine the options in detail considering views from various sectors of the community, and take forward appropriate measures. I hope the experts and scholars in the Working Group will continue to tender their valuable advice to the Government.

Relief Measures

The Chief Executive has put forth in this year's Policy Address an array of measures to help the needy and the disadvantaged, and improve the livelihood of the grassroots. Public response to the measures has been positive. I am aware of further requests seeking additional relief for the other sectors of the community, such as support for parents, children's education, self-advancement expenses, wage and rental expenses on the part of SMEs.

I am also aware that the public has expressed concern about the Government's choice between recurrent and one-off relief measures. These measures serve different purposes. Recurrent measures may be deployed for new policies, new services or the enhancement of existing services. One-off relief measures, on the other hand, aim primarily at helping the public to cope with short-term financial pressure, or as a counter-cyclical measure to preserve economic stability and short-term employment. Unlike recurrent measures, one-off measures are necessarily subject to adjustment in the light of the economic and financial position of the year.

When drawing up the one-off relief measures to be included in this Budget, I have taken into account the series of recurrent measures introduced by the Government earlier to help the grassroots, the economic outlook for the next financial year, especially a slight slowdown in inflation, and the financial position in the current financial year. I now propose to launch five measures involving about \$20 billion. Together with other measures in this Budget, the fiscal stimulus effect on GDP will be 0.7 percentage point. These five measures include:

- (1) reducing salaries tax and tax under personal assessment for 2013-2014 by 75%, subject to a ceiling of \$10,000. This proposal will benefit 1.74 million taxpayers in the territory. The reduction will be reflected in the final tax payable for 2013-2014. This will cost the Government about \$9.2 billion;
- (2) reducing profits tax for 2013-2014 by 75%, subject to a ceiling of \$10,000. This proposal will benefit 126 000 taxpayers in the territory. The reduction will be reflected in the final tax payable for 2013-2014. This will cost the Government about \$1 billion;

- (3) waiving rates for the first two quarters of 2014-2015, subject to a ceiling of \$1,500 per quarter for each rateable property. It is estimated to benefit around 3.1 million properties, and will cost Government about \$6.1 billion;
- (4) paying one month's rent for public housing tenants. The Government will pay one month's base rent for tenants who are required to pay extra rent to the Housing Authority. For non-elderly tenants of the Hong Kong Housing Society's Group B estates, the Government will pay two thirds of their rent for one month. This measure will involve \$1 billion; and
- (5) providing an extra allowance to Comprehensive Social Security Assistance (CSSA) recipients, equal to one month of the standard rate CSSA payments, and an extra allowance to Old Age Allowance, Old Age Living Allowance and Disability Allowance recipients, equal to one month of the allowances. This will involve an additional expenditure of \$2.7 billion.

In addition to one-off measures, I propose to increase the allowances for maintaining dependent parents or grandparents to alleviate taxpayers' burden. The three measures, which will benefit about 550 000 taxpayers and cost the Government about \$300 million a year, are:

- (1) increasing the allowance for maintaining a dependent parent or grandparent aged 60 or above from \$38,000 to \$40,000. The same increase applies to the additional allowance for taxpayers residing with these parents or grandparents continuously throughout the year;
- (2) increasing the allowance for maintaining a dependent parent or grandparent aged between 55 and 59 from \$19,000 to \$20,000. The same increase applies to the additional allowance for taxpayers residing with these parents or grandparents continuously throughout the year; and
- (3) for taxpayers whose parents or grandparents are admitted to residential care homes, the deduction ceiling for elderly residential care expenses will be raised from the current \$76,000 to \$80,000.

Revised Estimates for 2013-2014

The revised estimate for government revenue for 2013-2014 is \$447.8 billion, \$12.7 billion or 2.9% higher than the original estimate. Amid uncertain global economic situation, revenue from profits tax is \$11.5 billion or 8.8% less than originally estimated while that from salaries tax is \$4 billion or 7.8% higher than the original estimate. Last year, the Government put additional sites on the market on a quarterly basis to augment land supply. As a result, the sale of land brought in \$84.1 billion, about \$15.1 billion or 21.9% higher than the original estimate. I forecast that the revised estimate for government expenditure will be \$435.8 billion, which is \$4.2 billion lower than the original estimate.

For 2013-2014, I forecast a surplus of \$12 billion. By 31 March 2014, fiscal reserves are expected to reach \$745.9 billion.

Estimates for 2014-2015

Operating expenditure for 2014-2015 is estimated to be \$325 billion. This is ...

(Mr LEUNG Kwok-hung rose and left his seat. He then hurried to an aisle of the Chamber, holding a props teeth set in his hand)

PRESIDENT (in Cantonese): Financial Secretary, please hold on. Mr LEUNG Kwok-hung, leave the Chamber at once.

(Mr LEUNG Kwok-hung yelled, and hurled the props teeth set forward)

PRESIDENT (in Cantonese): Leave the Chamber at once.

(Mr LEUNG Kwok-hung kept yelling, while leaving the Chamber with the assistance of the Clerk and security officers)

PRESIDENT (in Cantonese): Financial Secretary, please continue.

FINANCIAL SECRETARY (in Chinese): President, operating expenditure for 2014-2015 is estimated to be \$325 billion. This is 4.1% or \$13.8 billion less than the revised estimate for 2013-2014, mainly due to the reduction of one-off relief measures and one-off injections into funds for designated uses. Recurrent expenditure accounts for \$307.4 billion, or over 94% of the 2014-2015 operating expenditure, which is an increase of \$22.3 billion or 7.8% over the revised estimate for 2013-2014. This represents Government's continued commitment to improving people's livelihood. (Chart 3)

Of the recurrent expenditure for the next financial year, almost 60% will be deployed to the three policy area groups of education, health and social welfare. Recurrent expenditure on education will be \$67.1 billion, an increase of 5.3% over 2013-2014. Major new proposals include regularizing three Community Care Fund programmes for underprivileged students, costing \$529 million a year; and enhancing support for non-Chinese speaking students and those with special educational needs, costing about \$400 million a year. In addition, the Government will earmark \$436 million each year to increase the intake of senior-year undergraduate places in University Grants Committee-funded institutions by 1 000 places. Another \$965 million will be reserved for a new scheme to subsidize up to 1 000 students per cohort to pursue self-financing undergraduate programmes in selected disciplines to meet Hong Kong's manpower needs. The scheme will benefit three cohorts of students.

Recurrent expenditure on medical and health services for 2014-2015 will be \$52.4 billion, 5.2% higher than that for 2013-2014. Besides the major new initiatives mentioned earlier, the Government will provide additional funding of nearly \$600 million per year for increasing the annual voucher value under the Elderly Health Care Voucher Scheme to \$2,000 per person.

Recurrent expenditure on welfare for 2014-2015 will reach \$56.9 billion, increasing by 9.7% from that in 2013-2014. Besides the major new initiatives mentioned earlier, the Government will enhance services for persons with disabilities, involving an additional expenditure of about \$360 million per year. The Government will pursue the extension of the Public Transport Fare

Concession Scheme for the Elderly and Eligible Persons with Disabilities to eligible children with disabilities under the age of 12, and the phased extension of the Concession Scheme to green minibuses, involving an additional expenditure of \$176 million per year. In addition, the Government will continue to enhance the CSSA Scheme and increase the annual recurrent funding for non-governmental organizations under the Lump Sum Grant Subvention System, involving an additional expenditure of about \$126 million and about \$470 million per year respectively. The Government has also earmarked \$3 billion for the proposed introduction of the Low-income Working Family Allowance.

I forecast that capital expenditure for 2014-2015 will be \$86.2 billion, including \$70.8 billion on capital works. In recent years, capital works expenditure has been maintained at high levels, reflecting the Government's vigorous investment in infrastructure.

Owing to the reduction in operating expenditure, total government expenditure is estimated to be \$411.2 billion in the next financial year, 5.7% less than that of last year. Public expenditure will be equivalent to 19.8% of the GDP.

Having rolled out a number of new policy initiatives in recent years, the Government has been counting on the professional and effective civil service to implement them. On the one hand, we shall seek to enhance efficiency through internal redeployment and streamlining. On the other hand, we shall also strengthen the establishment and set service priorities based on actual needs. The civil service establishment is expected to expand by 2 556 posts to 173 961 in 2014-2015. This represents a year-on-year increase of 1.5%, 50% up from that of the previous year and the highest since 2007-2008.

Total government revenue for 2014-2015 is estimated to be \$430.1 billion. Earnings and profits tax, estimated at \$177.5 billion, remain the major sources of revenue. Land revenue is estimated to be \$70 billion.

Taking all these into account, I forecast a surplus of \$9.1 billion in the Consolidated Account in the coming year. Fiscal reserves are estimated to be \$755 billion by the end of March 2015, representing about 34% of the GDP and equivalent to 22 months of government expenditure.

Medium Range Forecast

Influenced by the global financial crisis, the annual average growth rate of Hong Kong's economy over the past five years was only 2.7% in real terms, much lower than our average trend growth rate of 4.5% in the past decade. The external economic environment remains uncertain in the coming few years. The risks associated with the US Federal Reserve Board's exit policy are of particular concern. For the medium term, the annual average growth rate is forecast to be 3.5% in real terms from 2015 to 2018, and the underlying inflation rate will also average at 3.5%.

I forecast an annual surplus in the Operating Account in the four years from 2015-2016. With a number of major infrastructure projects entering their construction peaks, a deficit will arise in the Capital Account, but a surplus is expected in the Consolidated Account in all years except 2015-2016. Fiscal reserves are estimated at approximately \$799.2 billion by end March 2019, representing about 29.1% of the GDP and equivalent to 19 months of government expenditure.

Concluding Remarks

President, as the Financial Secretary, my foremost priorities are to promote economic development and to maintain a sound business and employment environment. Through sustainable development and diversification of the economy, I believe every member of our society will have the opportunity to unleash their potential and realize their aspirations. This will provide a more solid foundation for the development of our next generation.

I note that some members of the public are wary of any excessive growth in our spending and are worried that Hong Kong will be moving towards welfarism. I understand their concern. However, I would like to point out that the Government's welfare spendings are meant to help the needy by providing them with short-term relief, so that those capable of working could re-enter the labour market, make a living on their own, and leave the safety net as soon as possible. I believe that so long as our society maintains adequate upward mobility channels and a level playing field, people will be able to improve their living through hard work. Those who are in need today may be able to offer a helping hand and pay back to the community some day.

We have seen examples of governments spending beyond their means in recent years in Europe and America. This not only undermines the stability of a society but also gives rise to far-reaching consequences for the future. The community's rising aspirations in an evolving environment will inevitably put increasing pressure on public finances.

A philosopher once said, "Society is a partnership. It is a partnership not only between those who are living, but between those who are living, those who are dead, and those who are to be born." Past generations have laid a solid foundation for economic and financial development in Hong Kong. I believe that the present generation recognizes the importance of fiscal prudence, that is, to avoid making today's spending a burden for the next generation.

We are faced with various challenges and choices. Yet, I have full confidence in Hong Kong people. Looking back, Hong Kong has gone through many tough times. In the midst of these ups and downs, we survive the crises, breaking new grounds with our bare hands. With confidence, we shall be able to meet the challenges that come our way.

"Believe in opportunity, not fate" — this is the innate mindset of Hong Kong people. No matter what difficulties we face, we stay positive, optimistic and tenacious. These unyielding qualities are deeply ingrained in us and form part of our collective DNA. I believe that, at this crucial point in time, our wisdom and experience will continue to guide us to act with pragmatism and make the best choice for the future of Hong Kong.

Thank you, President.

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the Appropriation Bill 2014 be read the Second time.

In accordance with the Rules of Procedure, the debate on the Second Reading of the Appropriation Bill 2014 is now adjourned, and the Estimates are referred to the Finance Committee for examination before the debate on the Bill resumes.

MEMBERS' MOTIONS

PRESIDENT (in Cantonese): Member's motion. Mr Andrew LEUNG will move a motion under Rule 49E(2) of the Rules of Procedure to take note of the Antiquities and Monuments (Declaration of Historical Buildings) (No. 2) Notice 2013, which was included in Report No. 12/13-14 of the House Committee laid on the Table of this Council.

Members who wish to speak on the motion will please press the "Request to speak" button.

I now call upon Mr Andrew LEUNG to speak and move the motion.

MOTION UNDER RULE 49E(2) OF THE RULES OF PROCEDURE

MR ANDREW LEUNG (in Cantonese): President, in my capacity as Chairman of the House Committee, I move the motion, as printed on the Agenda, under Rule 49E(2) of the Rules of Procedure to allow Members to have a debate on the Antiquities and Monuments (Declaration of Historical Buildings) (No. 2) Notice 2013 which was included in Report No. 12/13-14 of the House Committee on Consideration of Subsidiary Legislation and Other Instruments.

President, I so submit.

Mr Andrew LEUNG moved the following motion:

"That this Council takes note of Report No. 12/13-14 of the House Committee laid on the Table of the Council on 26 February 2014 in relation to the subsidiary legislation and instrument(s) as listed below:

<u>Item Number</u>	<u>Title of Subsidiary Legislation or Instrument</u>
(1)	Antiquities and Monuments (Declaration of Historical Buildings) (No. 2) Notice 2013 (L.N. 206/2013)."

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the motion moved by Mr Andrew LEUNG be passed.

DR KWOK KA-KI (in Cantonese): President, in my capacity as Chairman of the Subcommittee on Antiquities and Monuments (Declaration of Historical Buildings) (No. 2) Notice 2013 (the Subcommittee), I hereby report the deliberations of the Subcommittee.

The main purpose of the Antiquities and Monuments (Declaration of Historical Buildings) (No. 2) Notice 2013 (the Notice) is to declare Fat Tat Tong in Sha Tau Kok and Tat Tak Communal Hall in Ping Shan, Yuen Long, as declared monuments.

Members of the Subcommittee welcome the statutory protection for the two aforesaid buildings, which are rich in historical interest and heritage value. During the course of scrutiny, members noted that Fat Tat Tong is the first monument which is still being used for residential purposes. In view of the Administration's plan to undertake restoration works at an estimated cost of \$8 million and subsequent maintenance works at around \$200,000 per annum for the building, members are very much concerned about the opening of the building to public access, as well as the detailed arrangements. Some members have suggested that the Administration should consider requesting the owners of the building to sign a legally binding consent on the opening arrangement, or arranging the costs of restoration and maintenance works as a loan to the owners. In case the owners breach the arrangement, the Government can take appropriate actions.

The Administration has explained that public access to a building is not a prerequisite for monument declaration under the existing policy and legislation. The declaration of a privately-owned building as a declared monument will not automatically give the general public a right of access. The opening of a declared monument to public access should be decided on a case-by-case basis. The authorities must secure the support and co-operation from the owners before allowing public access to a declared monument.

The Administration has advised that the owners of Fat Tat Tong have expressly agreed to the declaration of the building concerned as a monument, as

well as opening it to public access. The authorities have already started negotiations with the owners of Fat Tat Tong on the details of the opening arrangement in future.

The Subcommittee does not fully accept the Administration's explanation. Quite a number of members consider that the authorities should ensure public access to monuments preserved with public funds, and that the authorities have not made satisfactory efforts in this regard.

Some members also consider it insufficient that the current heritage conservation policy focuses only on the preservation of individual buildings. They have pointed out that areas surrounding a monument needs proper preservation and planning, so that the history and culture of the whole area can be conserved. Some members have pointed out that the Government once suggested adopting a "dot-line-plane" approach in heritage conservation, which means that heritage conservation should not be confined to the preservation of individual buildings only, but also be expanded to cover the relevant streets and areas. Unfortunately, the Government seems to have forgotten this principle.

The Administration has advised that the Development Bureau has invited the Antiquities Advisory Board (AAB) to assist in a policy review of the conservation of built heritage, covering such issues as conservation of larger areas, preservation of privately-owned historic buildings, and facilitation of public appreciation of historic buildings. The Subcommittee has invited the Chairman of the AAB to attend its meeting to exchange views with members on the policy review. In reply, the AAB has advised that as the policy review is still ongoing, it would not be appropriate for the AAB to discuss it with the Subcommittee at this juncture. The AAB will submit a report to the Government upon completion of the review and will brief the relevant panels on the report.

In view of the deficiencies in the existing policy on built heritage conservation and the lack of co-ordination within the Administration for taking forward the related policies, the Subcommittee urges the Chief Secretary for Administration to co-ordinate the relevant bureaux and departments in formulating a more comprehensive built heritage conservation policy and enhancing the conservation work.

President, although the Subcommittee has different views on the Government's heritage conservation policy and its approach to the handling of monuments, the Subcommittee supports the implementation of the Notice generally. The Subcommittee's concern about the policy on built heritage conservation has been relayed to the Panel on Development for follow-up.

President, I am going to present my personal views on the Notice as follows.

President, the two buildings have very high conservation value, particularly Fat Tat Tong because it is a rare monument built by a returned overseas Chinese in the 1920s with a East-meets-West construction method. Located in Sha Tau Kok, Fat Tat Tong is one of the few monuments spared overdevelopment, hence the preservation of its characteristics.

However, throughout the entire course of our discussion with the Government, our greatest concern, which was not addressed by the Government, was that Fat Tat Tong is the only mansion, though declared as a monument, which still has inhabitants in it. This situation is unprecedented. In the discussions of the Subcommittee, we have repeatedly asked the Government to make efforts to ensure future public access to Fat Tat Tong, which incurs a cost of \$8 million for restoration works and around \$200,000 per annum for maintenance. Nevertheless, the Government has not given any detailed account on the grounds that the authorities do not have such a policy.

In fact, the Subcommittee should have had an opportunity to visit Fat Tat Tong last Saturday, so as to ask the descendants who have inherited Fat Tat Tong about the substantive arrangements for the future, but as the Council had to continue with its meeting to deal with the bill on stamp duty, we were unable to visit Fat Tat Tong before the Notice is passed. Nevertheless, I believe Members and colleagues in the Panel on Development definitely wish to have further discussions with the owners of Fat Tat Tong after the building is declared as a monument.

As Fat Tat Tong is currently inhabited by the descendants, we are concerned about whether it can be open for public access without difficulties in the future. The Government must formulate a policy to assure the proper use of public funds, and more importantly, ensure public access to the building.

President, during the discussion, members have repeatedly requested the Government to draw up valid legal documents and ask the owners of Fat Tat Tong or their descendants to sign them, but the Government has never agreed. We have even requested that the relevant expenses be treated as a loan, so that if the owners of Fat Tat Tong refuse to open the monument to public access in the future, the Government will have the right to recover the relevant costs.

Why did members make such a suggestion? It is because Fat Tat Tong is quite different from other monuments. Part of the sum of \$8 million will be used to restore Fat Tat Tong with a view to making this monument a safe mansion. Obviously, the descendants inheriting Fat Tat Tong can use this safe mansion after the Government has used public funds to restore it. As material interest is involved, we believe the Government has the responsibility to ensure the proper use of public coffers. Given that the Government has commissioned the AAB to review the long-term policy on built heritage conservation, we expect the AAB to give a full account to the public upon completion of the review.

During the discussions of the Subcommittee, members were concerned about not only individual monuments. Although the Government has made a lot of efforts to preserve many monuments, including Ho Tung Gardens, it has not formulated any long-term and practicable policy to fully protect the monuments.

In addition, members are very much concerned about Tat Tak Communal Hall, a monument in Ping Shan, Yuen Long, which is worth preserving because it is the only existing communal hall for vigilant guard groups against British invasion. Its historical value is indisputable. Unfortunately, however, Tat Tak Communal Hall had often been subject to flooding over a period of time in the past as a result of the unsatisfactory development of its surrounding environment.

Considering that there is insufficient signage in the vicinity of Tat Tak Communal Hall to lead tourists to the Hall, members have requested the Government to step up publicity for the two monuments and train docents (most importantly) and volunteers to help provide guided tours upon completion of the necessary maintenance works for the two declared monuments.

We are particularly concerned about transport arrangements around the two monuments, especially Fat Tat Tong. The Government needs to ensure that members of the public, especially those interested in visiting this historic

building, are able to arrive at the destination without difficulties. Transport arrangements call for co-ordination among government departments, such as the Transport Department and Home Affairs Department.

In addition, members have raised a number of concerns about the opening hours of the monuments concerned, including the possibility of extending the opening hours so that the monuments concerned are open to public access most of the time, especially on public holidays.

President, in sum, members are very much concerned about the Government's efforts in heritage conservation, and worried about the preservation method, legal protection and future arrangements for public access adopted by the Government in relation to the two monuments. In any case, the Subcommittee has decided to agree to and support the Notice proposed by the Government for the time being, and hope that the Government will brief the relevant panels on the overall policy on historic building preservation as soon as possible.

I so submit. Thank you, President.

MISS CHAN YUEN-HAN (in Cantonese): President, at the meeting of the Subcommittee on Antiquities and Monuments (Declaration of Historical Buildings) (No. 2) Notice 2013, I was once again convinced that, as far as the mindset and development of conservation are concerned, the Government lags behind the entire community or some of its ideas drawn up in 2004. When the Council studied a notice on Fat Tat Tong last time, we gave the same views. Now with this examination of other antiquities and monuments, we have to repeat them once again. Sometimes we also appreciate the difficulties faced by the Government in changing its policy, but having gone through one discussion after another, those officials attending Council meetings should at least tell us something and bring us a little hope. However, on these issues, obviously the Government has never given any consideration to addressing the aspirations of the community. Our aspirations are not groundless. We have all along been raising such aspirations, which were advocated by the Government previously.

President, whether at subcommittee meetings or Council meetings, I have often mentioned the "dot-line-plane" concept. This viewpoint is not invented by me, but an idea advocated by the Government after the policy review on built

heritage conservation conducted in 2004, and we did pin high hopes on it at that time. What is "dot-line-plane" after all? When we want to develop and preserve a building, we must consider how to extend a dot to make a line, multiply lines to form a plane, and then work on the whole piece. This concept was not created by the Hong Kong Government itself. Governments in many other parts of the world also insist on adopting the "dot-line-plane" concept, thus enabling the preservation of many historical buildings in the local communities.

After returning to this Council to be a Member for this term, I would join the relevant subcommittees whenever such matters arose, because I found it a must to make Hong Kong a city teeming with life, and life originated from history, which can in turn create opportunities for tourism development. I further consider that, as a more important point about heritage conservation and development, we must keep more stories of the past in the community so that more people of the future generations can know how Hong Kong has wended its way through history.

Dr KWOK Ka-ki mentioned earlier that such buildings as ancestral halls, which we have seen on this occasion, in fact reflect the course of the past struggle against British rule and violent repression, and this is why residents of the New Territories attach great importance to Tat Tak Communal Hall. However, the Government ignores them, leaving them to flooding or lack of attention. In its history, Hong Kong has experienced the War of Resistance Against Japanese Occupation, and some mass movements in the British colonial era, but the Government does not take them into account. More often than not, when the Government was faced with such things, it just ignored them, and preserved the buildings just with reference to their ages as required by law. If a building has a history of the number of years required by law, it will be preserved according to the usual practice. Seeing this situation, we feel very dejected.

During the discussion on Fat Tat Tong at the Subcommittee meeting, as Dr KWOK Ka-ki said earlier, we mentioned many technical problems, including how such a beautiful building as Fat Tat Tong should be preserved, and what should be done if capital injection by the Government is involved in the future. Whenever we enquired about such technical problems, the attending officials were unable to give a reply. I always ask, while taking forward development, how can the Government preserve those buildings assessed to have historical value? This is very important to tourism, employment and culture, which have

been my concerns all along. Therefore, I consider it necessary to engage in negotiations with the Government by all means.

However, the Government has been dragging its feet over the views raised by the Subcommittee, advising that it would rather return the matter to the relevant panels for follow-up. President, I am not taking an opposition stance, but I also feel frustrated because once referred to the panels, matters will often be put aside forever. At present, the most important issue is the Government's policy. The Financial Secretary also suggested just now developing the tourism industry, and even making it more upmarket. However, does it include some historical stories of the city? Unfortunately, the Government does not know how to appreciate history. What can we do then?

President, perhaps let me cite an example, say Fat Tat Tong. I am now looking at a picture of Fat Tat Tong. Let us visit it when there is a chance. This Council was supposed to visit Fat Tat Tong but the visit was cancelled because the Council had to hold a marathon meeting. Fat Tat Tong is a very beautiful building where five houses are linked together by a very pretty footbridge commanding picturesque views. When I travelled to different countries, I would often visit such buildings and listen to stories about them. Coming back Fat Tat Tong, it is very beautiful indeed, even more beautiful than many other places, including some places in the Mainland. From the perspectives of historical value, aesthetics, visitors, and so on, it will be very characteristic and beautiful if well preserved. Moreover, there is plenty of open space nearby providing more-than-sufficient conditions for good development, if the Government so wishes. I said the other day that if the Government could develop some attractions, such as snacks with Hakka characteristics, a beautiful ambience could be created. However, although I have raised this view, the Government does not seem to have taken it into consideration. I hope that, after hearing our views today, the Secretary would study with other departments how best to begin drawing up appropriate policies and measures on the basis of preservation of the historical and architectural values of this beautiful building.

Let me stress another point. Because of the airport development, many buildings throughout Kwun Tong and Wong Tai Sin have been preserved over the past decade or two. After so many years, we find that if only the Government is willing to make a little change, it can get the job done. For example, the century-plus-old Kai Tak River, formerly known as Lung Tsun River, between Tung Tau Estate and San Po Kong has been preserved by the Government,

without being covered. This is a result of the support from officials in charge and the then Secretary for Development, Mrs Carrie LAM, for the civil advocacy on preservation of the Kai Tak River. The Kai Tak River was supposed to be covered, but eventually it was not. How should the Government proceed with development given its decision not to cover the river then? In the course of making recommendations, we talked about the section of the river in front of Nga Tsin Wai Tsuen. There were a lot of rocks which came from the Kowloon Walled City and, to my surprise, the officials wanted to throw them all away. However, after hearing the folklore stories, they eventually agreed to keeping the rocks with an open mind, so that when people of the future generations go there, they can know that the demolished Kowloon Walled City was not far away in the past, and farther away was a place called Nga Tsin Wai. And these rocks that are now preserved were used in the Kowloon Walled City.

This experience is not unique to Hong Kong. At Cheonggyecheon in Seoul, President LEE Myung-bak preserved every piece of antiquity. As a result, after the restoration of Cheonggyecheon, many people enjoy going to Seoul to visit Cheonggyecheon, thus promoting the development of the local cultural and creative industries, which extends up to Dongdaemun and other places, and that river has become very important. Another example is Kyoto, Japan. There is a river trail called the Philosopher's Walk, which is not wide but fully planted with sakura on both banks. Every time I visited Kinkaku-ji Temple or Ginkaku-ji Temple, I would stroll along the Philosopher's Walk. Frankly, these examples illustrate how we can pass on antiquities from one generation to the next by various means. I do not expect every place to be made so beautiful. I just hope that when the AAB decides to preserve some antiquities, the Government can make more efforts in appropriate development while preserving them.

The Government has indicated the need to upgrade the tourism industry. The Financial Secretary also said so today, but the question is, how can the Government as a whole tie in with it? It requires collaboration in all aspects from different bureaux at the lower level to attract up-market customers to come and listen to our short stories and see the old buildings. How great it would be! In this way, our city will be able to preserve the stories of the past, so that not only Hong Kong people know their past, but many foreigners also know that Hong Kong, though a small place, is very rich in heritage and old architecture. So, why do we not do it?

Therefore, I consider that the whole Government fails to catch up with the expectation of the community on heritage conservation, nor have the Secretaries and departments implemented the "dot-line-plane" conservation concept developed back in those years and co-ordinated their efforts in this regard. Arguably the policy direction is there, only that there is a lack of complementary support. I reckon that notices on antiquities and monuments will still be presented to the Council for approval in future. I will continue to keep an eye on them. Nevertheless, President, I know it is difficult, because it is the Secretary for Development, Paul CHAN, instead of the Secretary for Home Affairs, who attends this Council's meeting and, from a certain perspective, antiquities and monuments should fall within the portfolio of the Home Affairs Bureau. To my understanding, whenever cross-bureau policy is involved, the situation would become very difficult. How can we work around it? We always advocate joint meetings. This Council has also made a lot of efforts. I think that the SAR Government needs to think it over, and the Secretary should take the lead. The current difficulty is that matters related to development are taken charge of by the Development Bureau but issues of cultural conservation fall under the charge of other bureaux. How can we break through these barriers? If this problem is not solved, we will have to make the same comments whenever the Government presents a relevant notice.

Sometimes I feel very dejected, but in any case, I am determined, and I hope very much to drive the Government to make efforts in preserving more stories, history and vitality of this city of Hong Kong, thus enabling the tourism industry and heritage resources to yield brilliant results in such a small place.

President, I so submit.

PRESIDENT (in Cantonese): Does any other Member wish to speak?

(No Member indicated a wish to speak)

PRESIDENT (in Cantonese): Members have already spoken. I now call upon the Secretary for Development to speak. This debate session will come to a close after the Secretary has spoken.

SECRETARY FOR DEVELOPMENT (in Cantonese): President, the Antiquities and Monuments (Declaration of Historical Buildings) (No. 2) Notice 2013 was laid on the table of the Legislative Council on 8 January 2014. It was scrutinized by the Subcommittee on subsidiary legislation chaired by Dr KWOK Ka-ki. The relevant work has been completed, and the Chairman and members of the Subcommittee raised no objection to the Notice.

Here I would like to express gratitude to the Chairman and members of the Subcommittee for their scrutiny. I also thank Dr KWOK Ka-ki and Miss CHAN Yuen-han who gave their valuable views earlier.

The Antiquities and Monuments (Declaration of Historical Buildings) (No. 2) Notice 2013 seeks to declare Fat Tat Tong and Tat Tak Communal Hall as monuments in order to bring them under statutory protection. Once the two buildings are declared as monuments, any alterations to them are subject to a prior permit from the Antiquities Authority, namely the Secretary for Development.

Fat Tat Tong, built in 1933, not only bears testimony to the history of a renowned Hakka family in the area, but is also a typical example of residences of eclectic style, composed of Chinese and Western elements. The Antiquities and Monuments Office will proceed with preparatory studies for the restoration works of Fat Tat Tong this year and expects to finish the studies in 2015. The restoration works will commence in 2016 and take about one year. Upon completion of the restoration works, Fat Tat Tong will be partially open for public viewing.

Tat Tak Communal Hall was built in 1857 by TANG Fan-yau, a member of the gentry of Ping Shan. It is the only remaining purpose-built communal hall in Hong Kong which served as an assembly cum worshipping place for a joint village alliance and a management office of an open market. All the restoration works of Tat Tak Communal Hall are expected to be completed in 2016. By that time, as a historical witness of the social and economic development of the locality, Tat Tak Communal Hall will be one of the attractions along the Ping Shan Heritage Trail for public viewing and appreciation.

Dr KWOK Ka-ki mentioned earlier that if the Government restores a privately-owned declared monument with public funds, it should sign a legally

binding contract with the private owners, stipulating the detailed arrangements for opening the monument concerned. If the owners breach the contract, the Government can take legal actions against them. I would like to reiterate here that it is the Government's policy objective to strike a proper balance between respect for private property ownership and heritage conservation. Public access is not a prerequisite for declaring a building as a monument under the Antiquities and Monuments Ordinance (Cap. 53). Moreover, the declaration of a privately-owned building as a monument will not necessarily affect the ownership status and the current usage of the building, or automatically give the general public a right of access. This is also the case in many jurisdictions, such as the Mainland, Macao, the United Kingdom and Singapore. Once a building is declared as a monument, it will be subject to permanent statutory protection and be preserved. It will become a visible and tangible record of our heritage and history for the enjoyment of the present and future generations. In many cases, the public can appreciate their appearances from publicly accessible points. As to whether monuments can be further opened up to public access, it has to be decided on a case-by-case basis. In fact, once a building is declared as a monument, its development will be subject to restrictions. Therefore, it is neither uncommon nor occasional that private owners are reluctant to have the buildings in their ownership declared as monuments.

Properties in Hong Kong are very valuable. Depending on their locations, even some old properties have a certain level of redevelopment value. If we set the regulation that acceptance of government funding for maintenance should obligate opening up the building for public viewing inside, sometimes it may backfire. Maintenance costs are sometimes disproportionately low relative to the market value or redevelopment value of the property concerned. At the same time, we have to consider privacy-related factors as well. Let us take this monument as an example. It is still inhabited. If it is open to outside visitors while there are still inhabitants, different people may have different standards regarding to what extent they are willing to cede their privacy. If the owners do not accept our request or requirement that acceptance of government funding for maintenance and protection should obligate opening up the building for public access, and for this reason we will not assist in the restoration, is this the best approach? I have doubts about it. After all, are we seeking to protect the monument concerned? Relatively speaking, if the monument can be protected, is it already in the best interest of the whole community that we use some public funds to restore it?

President, Miss CHAN Yuen-han mentioned earlier the "dot-line-plane" approach to conservation. In fact, during the discussion on another notice at a Council meeting last month, Miss CHAN also raised similar views. At that time, I gave a response as follows: Hong Kong is small and densely populated, and given its economic and social development, the space available for development is very limited. The Government has all along endeavoured to conserve historical buildings amid rapid urban development. Where circumstances permit, we also attempt to carry out more extensive conservation, for example, through projects like "Conserving Central". However, like other metropolises with a high level of economic development, such as Paris and London, we need to make difficult choices. In fact, there are still controversies among stakeholders over the definition of conservation, the understanding and expectation on how the new and the old co-exist, the way to conserve historical buildings of different eras, and so on. Society has yet to reach a consensus on conservation. The world has not identified a universal formula for conservation either. The Antiquities Advisory Board (AAB) is helping the Government in reviewing Hong Kong's heritage conservation policy, and will also look into the possibility of carrying out more extensive conservation in Hong Kong. If such conservation effort is to be made, I believe society will actually need to engage in some thorough discussions and comprehensive consideration.

Dr KWOK Ka-ki mentioned Ho Tung Gardens earlier in his speech and expressed the view that the Government had failed to exert its utmost for conservation. This criticism is untrue and biased. When we announced that Ho Tung Gardens would not be declared as a monument, we explained in detail, and I can now say briefly, that after the former Secretary for Development and I declared Ho Tung Gardens as a provisional monument, we explored with the owners the possibilities of land exchange and adjustment of the scale of development, and the amount of compensation involved in case it was declared as a monument. We had made a series of efforts on various fronts. When we announced that it could not be declared as a monument, we also tried to go inside to take some photographs and video recording so that both the exterior appearance and the interior setting of this precious building could be preserved for appreciation by us and future generations. However, if for various reasons the owners are unwilling to co-operate, we cannot force them to.

During the scrutiny by the Subcommittee, we did consider the difficulties involved in buying the title to such monuments as Fat Tat Tong for conservation purpose by means of land exchange or using public money. Members in society

need to discuss how much they are willing to pay for the historical buildings and monuments. Let us take Ho Tung Gardens as an example. The valuation made by professionals commissioned by the owner was almost \$7 billion at that time; therefore we did not buy the title. After all, how many billions of dollars is the amount acceptable to society? Discussion on this point is needed in society. Even if society is willing to fork out a sum of money to buy a certain historical building or monument, in case the owners are really reluctant to sell it, what can we do? Should we take over the ownership of the building in the same manner as land resumption? If so, does this move contravene the principle of respecting and safeguarding private property ownership that has all along been upheld in Hong Kong? Up to which level can our flexibility and bottom line be extended in this regard? I think these require further discussions and consensus in society.

Thank you, President.

PRESIDENT (in Cantonese): In accordance with Rule 49E(9) of the Rules of Procedure, I will not put any question on the motion.

NEXT MEETING

PRESIDENT (in Cantonese): I now adjourn the Council until 11 am on Wednesday, 19 March 2014.

Adjourned accordingly at eleven minutes past One o'clock.

Chart 1

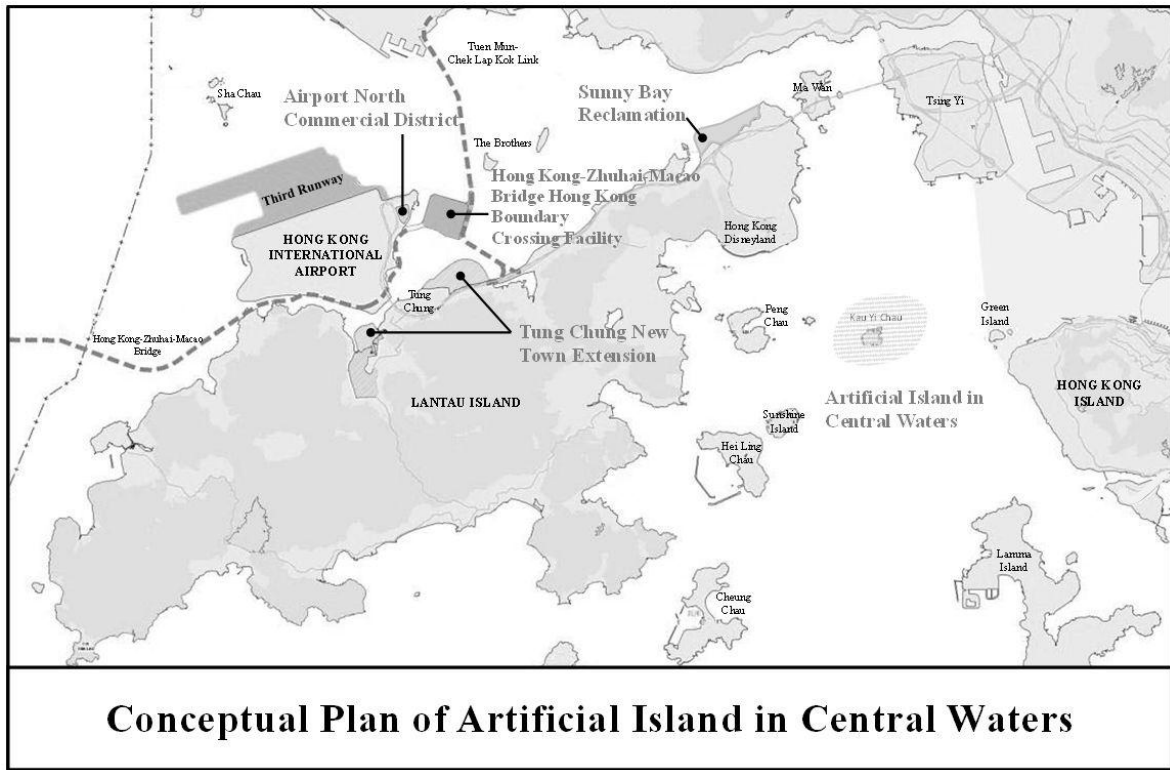
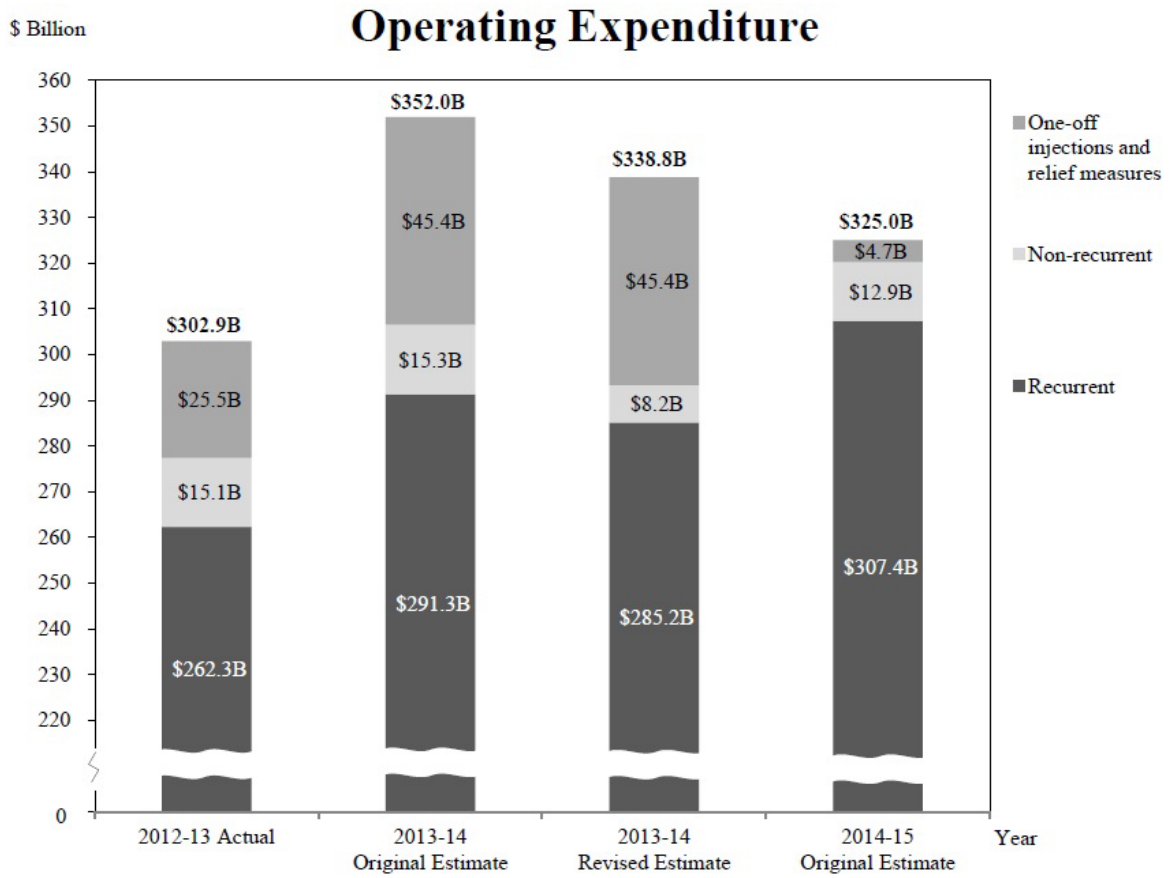


Chart 2



Chart 3



Supplement

EFFECT OF RATES CONCESSION ON MAIN PROPERTY CLASSES

2014-15

<i>Property Type</i>	<i>No Concession⁽⁶⁾</i>		<i>With Rates Concession⁽⁷⁾</i>	
	<i>Average Rates Payable (\$ for the year)</i>	<i>Average Rates Payable (\$ per month)</i>	<i>Average Rates Payable (\$ for the year)</i>	<i>Average Rates Payable (\$ per month)</i>
Small Domestic Premises ⁽¹⁾ (Private)	5,088	424	2,856	238
Medium Domestic Premises ⁽¹⁾ (Private)	11,544	962	8,700	725
Large Domestic Premises ⁽¹⁾ (Private)	27,180	2,265	24,276	2,023
Public Domestic Premises ⁽²⁾	2,616	218	1,308	109
All Domestic Premises⁽³⁾	5,208	434	3,324	277
Shops and Commercial Premises	37,524	3,127	34,992	2,916
Offices	42,480	3,540	39,732	3,311
Industrial Premises ⁽⁴⁾	13,512	1,126	11,052	921
All Non-domestic Premises⁽⁵⁾	34,176	2,848	31,908	2,659
All Properties	8,952	746	7,020	585

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

Small domestic	up to 69.9m ²	(up to 752 ft ²)
Medium domestic	70m ² to 99.9m ²	(753 ft ² to 1 075 ft ²)
Large domestic	100m ² and over	(1 076 ft ² and over)

(2) Including Housing Authority and Housing Society rental units.

(3) Including car parking spaces in domestic premises.

(4) Including factories and storage premises.

(5) Including miscellaneous premises such as hotels, cinemas, petrol filling stations, schools and car parking spaces in non-domestic premises.

(6) The rates payable have reflected the changes in rateable values for 2014-15 after the General Revaluation.

(7) The proposed rates concession is capped at \$1,500 per quarter for the first two quarters of 2014-15.

*Supplement***SALARIES TAX****Changes to Allowances and Deductions**

	<i>Present</i> (\$)	<i>Proposed</i> (\$)	<i>Increase</i> (\$) (%)	
Personal Allowances:				
Basic	120,000	120,000	—	—
Married	240,000	240,000	—	—
Single Parent	120,000	120,000	—	—
Other Allowances:				
Child:				
1st to 9th child				
Year of birth	140,000	140,000	—	—
Other years	70,000	70,000	—	—
Dependent Parent/Grandparent:				
Aged 60 or above				
Basic	38,000	40,000	2,000	5
Additional allowance (for a dependant living with the taxpayer)	38,000	40,000	2,000	5
Aged 55 to 59				
Basic	19,000	20,000	1,000	5
Additional allowance (for a dependant living with the taxpayer)	19,000	20,000	1,000	5
Dependent Brother/Sister	33,000	33,000	—	—
Disabled Dependant	66,000	66,000	—	—
Deduction Ceiling:				
Self-Education Expenses	80,000	80,000	—	—
Home Loan Interest (Number of years of deduction)	100,000 (15 years of assessment)	100,000 (15 years of assessment)	—	—
Approved Charitable Donations	35% of income	35% of income	—	—
Elderly Residential Care Expenses	76,000	80,000	4,000	5
Contributions to Recognised Retirement Schemes	15,000	18,000*	3,000	20

* The maximum level of relevant income under the Mandatory Provident Fund Schemes Ordinance will be increased to \$30,000 with effect from 1 June 2014. Subject to the passage of the Inland Revenue (Amendment) (No. 3) Bill 2013 by the Legislative Council (which was introduced by the Government in December 2013), the maximum amount of deductible contributions will be \$17,500 for the year of assessment 2014-15 and \$18,000 for the year of assessment 2015-16 onwards.

*Supplement***Effect of the proposed one-off reduction of salaries tax, tax under personal assessment and profits tax**

Salaries tax and tax under personal assessment-
75% tax reduction subject to a cap at \$10,000 per case

Income in 2013-14	No. of taxpayers	Average amount of tax reduction	Average % of tax reduced
\$120,001 to \$200,000	414 000	\$710	75%
\$200,001 to \$300,000	420 000	\$3,600	73%
\$300,001 to \$400,000	291 000	\$6,150	54%
\$400,001 to \$600,000	306 000	\$8,190	32%
\$600,001 to \$900,000	158 000	\$9,810	16%
Above \$900,000	151 000	\$10,000	4%
Total	1 740 000	—	—

Profits tax-
75% tax reduction subject to a cap at \$10,000 per case

Profits in 2013-14	No. of businesses#	Average amount of tax reduction	Average % of tax reduced
\$100,000 and below	42 000	\$4,520	73%
\$100,001 to \$200,000	16 000	\$10,000	41%
\$200,001 to \$300,000	10 000	\$10,000	24%
\$300,001 to \$400,000	7 000	\$10,000	17%
\$400,001 to \$600,000	9 000	\$10,000	12%
\$600,001 to \$900,000	8 000	\$10,000	8%
Above \$900,000	34 000	\$10,000	0.3%
Total	126 000	—	—

Including 97 000 corporations and 29 000 unincorporated businesses.

*Supplement***DUTY RATES OF TOBACCO**

	<i>Present</i> <i>(\$ per 1 000 sticks)</i>	<i>Proposed</i> <i>(\$ per 1 000 sticks)</i>
Cigarettes	1,706	1,906
	<i>(\$ per kg)</i>	<i>(\$ per kg)</i>
Cigars	2,197	2,455
Chinese prepared tobacco	419	468
All other manufactured tobacco except tobacco intended for the manufacture of cigarettes	2,067	2,309

ECONOMIC PERFORMANCE IN 2013

1. Estimated rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2013:

	(%)
(a) Growth rates in real terms of:	
Private consumption expenditure	4.2
Government consumption expenditure	2.7
Gross domestic fixed capital formation	3.3
<i>of which :</i>	
Building and construction	-1.2
Machinery, equipment and intellectual property products	10.5
Total exports of goods	6.7
Imports of goods	7.6
Exports of services	5.8
Imports of services	1.5
Gross Domestic Product (GDP)	2.9
<i>Per capita GDP in real terms</i>	2.5
<i>Per capita GDP at current market prices</i>	HK\$295,300 (US\$38,100)
(b) Rates of change in:	
Composite Consumer Price Index	4.3
GDP Deflator	1.2
Government Consumption Expenditure Deflator	4.3
(c) Growth rate of nominal GDP	4.2

Supplement

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

	<i>Re-exports</i> (%)	<i>Domestic exports</i> (%)
2011	3	-12
2012	0	-13
2013	3	-9
<i>Share in the value of total exports of goods in 2013</i>	98	2

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

	<i>Retained imports</i>					
	<i>Total</i> (%)	<i>Consumer goods</i> (%)	<i>Foodstuffs</i> (%)	<i>Capital goods</i> (%)	<i>Raw materials and semi-manufactures</i> (%)	<i>Fuels</i> (%)
2011	8	33	6	15	-4	-10
2012	4	6	2	22	-6	-7
2013	6	3	9	22	-3	0

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

	<i>Retained imports of capital goods</i>				
	<i>Total</i> (%)	<i>Office equipment</i> (%)	<i>Industrial machinery</i> (%)	<i>Construction machinery</i> (%)	<i>Telecommunications equipment</i> (%)
2011	15	-20	-10	-14	126
2012	22	22	-26	-26	100
2013	22	9	-24	57	52

Supplement

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

Exports of services

	<i>Total</i>	<i>Trade-related</i>	<i>Transportation</i>	<i>Travel</i>	<i>Finance,</i>
	<i>(%)</i>	<i>services</i>	<i>services</i>	<i>services</i>	<i>insurance,</i>
	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>business and</i>
					<i>other services</i>
					<i>(%)</i>
2011	5	3	1	16	5
2012	2	1	-4	10	3
2013	6	1	0	19	4

6. Hong Kong's visible and invisible trade balance in 2013 reckoned on GDP basis ^(Note 1):

	(HK\$ billion)
Total exports of goods	3,816.4
Imports of goods	4,394.9
<i>Visible trade balance</i>	-578.5
Exports of services	1,066.0
Imports of services	465.2
<i>Invisible trade balance</i>	600.9
<i>Combined visible and invisible trade balance</i>	22.3

Note 1 Preliminary figures.

Supplement

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

	<i>Unemployment rate (%)</i>	<i>Underemployment rate (%)</i>	<i>Growth in labour force (%)</i>	<i>Growth in total employment (%)</i>
2011	3.4	1.7	2.0	2.9
2012	3.3	1.5	2.2	2.4
2013	3.3	1.5	2.3	2.3

8. Annual rates of change in the Consumer Price Indices:

	<i>Composite CPI</i>		<i>CPI(A)</i>	<i>CPI(B)</i>	<i>CPI(C)</i>
	<i>Headline (%)</i>	<i>Underlying (%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>
2011	5.3	5.3	5.6	5.2	5.1
2012	4.1	4.7	3.6	4.3	4.1
2013	4.3	4.0	5.1	4.1	3.8

*Supplement***ECONOMIC PROSPECTS FOR 2014**

Forecast rates of change in the Gross Domestic Product and prices in 2014:

Gross Domestic Product (GDP)	(%)
<i>Real GDP</i>	3 to 4
<i>Nominal GDP</i>	4 to 5
<i>Per capita GDP in real terms</i>	2.1 to 3.1
<i>Per capita GDP at current market prices</i>	HK\$304,500-307,400 (US\$39,000-39,400)
Composite Consumer Price Index	
<i>Headline Composite Consumer Price Index</i>	4.6
<i>Underlying Composite Consumer Price Index</i>	3.7
GDP Deflator	1

Appendix A

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SECTION II	— MEDIUM RANGE FORECAST	8216
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SECTION I FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA

1 The Medium Range Forecast (MRF) is a fiscal planning tool. It sets out the high-level forecast of government expenditure and revenue covering the five-year period including the budget year, i.e. from 2014-15 to 2018-19.

2 A wide range of assumptions underlying the factors affecting Government's revenue and expenditure are used to derive the MRF. Some assumptions are economic in nature (the general economic assumptions) while others deal with specific areas of Government's activities (other assumptions).

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

3 GDP is forecast to increase by 3% to 4% in real terms in 2014. We have used the mid-point of this range forecast in deriving the MRF. For planning purposes, in the four-year period 2015 to 2018, the trend growth rate of the economy in real terms is assumed to be 3.5% per annum.

Price change

4 The GDP deflator, measuring overall price change in the economy, is forecast to increase by 1% in 2014. For the four-year period 2015 to 2018, the GDP deflator is assumed to increase at a trend rate of 2% per annum.

5 The Composite Consumer Price Index (CCPI), measuring inflation in the consumer domain, is forecast to increase by 4.6% in 2014. Netting out the effects of various one-off relief measures, the underlying CCPI is forecast to increase by 3.7% in 2014. For the ensuing period 2015 to 2018, the trend rate of increase for the underlying CCPI is assumed to be 3.5% per annum.

Nominal Gross Domestic Product (nominal GDP)

6 Given the assumptions on the rates of change in the real GDP and the GDP deflator, the GDP in nominal terms is forecast to increase by 4% to 5% in 2014, and the trend growth rate in nominal terms for the period 2015 to 2018 is assumed to be 5.5% per annum.

Other Assumptions

- 7 Other assumptions on expenditure and revenue patterns over the forecast period are as follows –
- The operating expenditure for 2015-16 and beyond represents the expenditure guideline only, assuming operating expenditure would grow in line with nominal GDP.
 - The capital expenditure for 2014-15 and beyond reflects the estimated cash flow requirements for capital projects including approved capital works projects and those at an advanced stage of planning.
 - The revenue projections for 2015-16 and beyond basically reflect the relevant trend yields.

Budgetary Criteria

8 Article 107 of the Basic Law stipulates that “the Hong Kong Special Administrative Region shall follow the principle of keeping expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product”.

9 Article 108 of the Basic Law stipulates that “the Hong Kong Special Administrative Region shall, taking the low tax policy previously pursued in Hong Kong as reference, enact laws on its own concerning types of taxes, tax rates, tax reductions, allowances and exemptions, and other matters of taxation”.

10 For the purpose of preparing the MRF, the following criteria are also relevant –

— Budget surplus/deficit

The Government aims to achieve a balance in the consolidated and operating accounts. The Government aims, over time, to achieve an operating surplus to partially finance capital expenditure.

— Expenditure policy

The general principle is that, over time, the growth rate of expenditure should not exceed the growth rate of the economy. The Government aims to keep public expenditure at or below 20% of GDP.

— Revenue policy

The Government aims to maintain, over time, the real yield from revenue.

— Fiscal reserves

The Government aims to maintain adequate reserves in the long run.

SECTION II MEDIUM RANGE FORECAST

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

Table 1

(\$ million)	2013–14 Revised Estimate	2014–15 Estimate	2015–16 Forecast	2016–17 Forecast	2017–18 Forecast	2018–19 Forecast
Operating Account						
Operating revenue (<i>Note (b)</i>)	347,868	348,882	392,241	405,615	431,440	467,486
Less: Operating expenditure (<i>Note (c)</i>)	338,781	325,000	388,800	357,400	377,100	397,800
Operating surplus	9,087	23,882	3,441	48,215	54,340	69,686
Capital Account						
Capital revenue (<i>Note (d)</i>)	99,937	81,165	70,058	70,299	74,098	78,739
Less: Capital expenditure (<i>Note (e)</i>)	97,010	86,163	101,779	108,735	107,230	107,038
Capital surplus/(deficit)	2,927	(4,998)	(31,721)	(38,436)	(33,132)	(28,299)
Consolidated Account						
Government revenue	447,805	430,047	462,299	475,914	505,538	546,225
Less: Government expenditure	435,791	411,163	490,579	466,135	484,330	504,838
Consolidated surplus/(deficit) before repayment of bonds and notes	12,014	18,884	(28,280)	9,779	21,208	41,387
Less: Repayment of bonds and notes (<i>Note (f)</i>)	-	9,750	-	-	-	-
Consolidated surplus/(deficit) after repayment of bonds and notes	12,014	9,134	(28,280)	9,779	21,208	41,387
Fiscal reserves at 31 March	745,928	755,062	726,782	736,561	757,769	799,156
In terms of number of months of government expenditure	21	22	18	19	19	19
In terms of percentage of GDP	35.1%	34.0%	31.1%	29.8%	29.1%	29.1%
Being balance held in –						
General Revenue Account	394,241	402,613				
Funds with designated use	131,957	124,809				
Capital Works Reserve Fund	78,679	70,307				
Capital Investment Fund	1,992	1,341				
Civil Service Pension Reserve Fund	27,029	28,002				
Disaster Relief Fund	29	50				
Innovation and Technology Fund	1,801	990				
Loan Fund	1,357	2,098				
Lotteries Fund	21,070	22,021				
Land Fund	219,730	227,640				
	745,928	755,062				

Appendix A—Contd.

Notes –

(a) Accounting policies

- (i) The MRF is prepared on a cash basis and reflects forecast receipts and payments, whether they relate to operating or capital transactions.
- (ii) The MRF includes the General Revenue Account and eight Funds (Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund). It does not include the Bond Fund which is managed separately and the balance of which does not form part of the fiscal reserves.

(b) Operating revenue

- (i) The operating revenue takes into account the revenue measures proposed in the 2014-15 Budget, and is made up of –

(\$ million)	2013-14 Revised Estimate	2014-15 Estimate	2015-16 Forecast	2016-17 Forecast	2017-18 Forecast	2018-19 Forecast
Operating revenue before investment income	317,760	326,862	355,779	374,022	399,468	429,296
Investment income	30,108	22,020	36,462	31,593	31,972	38,190
Total	347,868	348,882	392,241	405,615	431,440	467,486

- (ii) Investment income under the Operating Account includes investment income of the General Revenue Account which is credited to revenue head Properties and Investments, and investment income of the Land Fund. The rate of investment return for 2014 is 3.6% and for 2015 to 2018 is assumed to be in the range of 4.8% to 6% a year.

(c) Operating expenditure

This represents expenditure charged to the Operating Account of the General Revenue Account. The levels of operating expenditure in 2015-16 to 2018-19 represent the expenditure guideline for these years based on the latest GDP forecast in nominal terms (i.e. 5.5% growth per annum). The sum for 2015-16 has been adjusted to include \$50 billion for supporting healthcare reform.

(d) Capital revenue

- (i) The breakdown of capital revenue is –

(\$ million)	2013-14 Revised Estimate	2014-15 Estimate	2015-16 Forecast	2016-17 Forecast	2017-18 Forecast	2018-19 Forecast
General Revenue Account	3,376	1,248	626	586	1,719	1,715
Capital Investment Fund	1,532	1,273	1,026	989	947	934
Capital Works Reserve Fund	84,252	70,131	57,990	60,894	64,565	68,793
Disaster Relief Fund	1	-	-	-	-	-
Innovation and Technology Fund	31	15	-	-	-	-
Loan Fund	2,503	2,114	2,337	2,436	2,593	2,645
Lotteries Fund	1,212	1,227	1,250	1,273	1,296	1,321
Capital revenue before asset sales and investment income	92,907	76,008	63,229	66,178	71,120	75,408
Asset sales	151	177	177	177	177	177
Investment income	6,879	4,980	6,652	3,944	2,801	3,154
Total	99,937	81,165	70,058	70,299	74,098	78,739

Appendix A—Contd.

(ii) Land premium included under the Capital Works Reserve Fund for 2014-15 is assumed to be \$70 billion. For 2015-16 onwards, it is assumed to be 2.5% of GDP.

(iii) Investment income under the Capital Account includes investment income of the Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Loan Fund and Lotteries Fund.

(e) *Capital expenditure*

The breakdown of capital expenditure is –

(\$ million)	2013-14 Revised Estimate	2014-15 Estimate	2015-16 Forecast	2016-17 Forecast	2017-18 Forecast	2018-19 Forecast
General Revenue Account	2,585	3,329	3,970	3,970	3,970	3,970
Capital Investment Fund	12	12	888	868	268	268
Capital Works Reserve Fund	88,325	76,854	88,874	97,775	97,804	97,837
Disaster Relief Fund	172	-	-	-	-	-
Innovation and Technology Fund	723	882	939	969	868	877
Loan Fund	4,305	4,079	4,752	2,872	2,568	2,613
Lotteries Fund	888	1,007	2,356	2,281	1,752	1,473
Total	97,010	86,163	101,779	108,735	107,230	107,038

(f) *Repayment of bonds and notes*

Repayment of bonds and notes is only in respect of the global bond issue in 2004. Outstanding principal as at 31 March 2019 is estimated at \$1,500 million.

Appendix A—Contd.

SECTION III RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE/PUBLIC EXPENDITURE AND GDP IN THE MEDIUM RANGE FORECAST

12 For monitoring purposes, expenditure of the Trading Funds and the Housing Authority (collectively referred to as “other public bodies” in this Appendix) is added to government expenditure in order to compare public expenditure with GDP.

Government Expenditure and Public Expenditure
in the Context of the Economy

Table 2

(\$ million)	2013-14 Revised Estimate	2014-15 Estimate	2015-16 Forecast	2016-17 Forecast	2017-18 Forecast	2018-19 Forecast
Operating expenditure	338,781	325,000	388,800	357,400	377,100	397,800
Capital expenditure	97,010	86,163	101,779	108,735	107,230	107,038
Government expenditure	435,791	411,163	490,579	466,135	484,330	504,838
Other public bodies expenditure	25,662	28,875	32,463	37,455	40,659	42,560
Public expenditure (Note (a))	461,453	440,038	523,042	503,590	524,989	547,398
Gross Domestic Product (calendar year)	2,122,492	2,218,000	2,340,000	2,468,700	2,604,500	2,747,700
Nominal growth in GDP (Note (b))	4.2%	4.5%	5.5%	5.5%	5.5%	5.5%
Growth in government expenditure (Note (c))	15.5%	-5.7%	19.3%	-5.0%	3.9%	4.2%
Growth in public expenditure (Note (c))	15.3%	-4.6%	18.9%	-3.7%	4.2%	4.3%
Public expenditure in terms of percentage of GDP	21.7%	19.8%	22.4%	20.4%	20.2%	19.9%

Notes –

- (a) Public expenditure comprises government expenditure and expenditure by other public bodies. It does not include expenditure by those organisations, including statutory organisations in which the Government has only an equity position, such as the Airport Authority and the MTR Corporation Limited.
- (b) For 2014-15, the nominal GDP growth of 4.5% represents the mid-point of the range forecast of 4% to 5% for the calendar year 2014.
- (c) The growth rates refer to year-on-year change. For example, the rates for 2013-14 refer to the change between revised estimate for 2013-14 and actual expenditure in 2012-13. The rates for 2014-15 refer to the change between the 2014-15 estimate and the 2013-14 revised estimate, and so forth.

13 Table 3 shows the relationship amongst the sum to be appropriated in the 2014-15 Budget, government expenditure and public expenditure.

**Relationship between Government Expenditure
and Public Expenditure in 2014-15**

Table 3

(\$ million)	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
	307,433	307,433	-	307,433	307,433
	17,567	17,567	-	17,567	17,567
Capital					
	1,789	-	1,789	1,789	1,789
	1,540	-	1,540	1,540	1,540
	328,329	325,000	3,329	328,329	328,329
	7,519	-	-	-	-
	-	-	12	12	12
	-	-	76,854	76,854	76,854
	-	-	882	882	882
	-	-	4,079	4,079	4,079
	-	-	1,007	1,007	1,007
	-	-	-	-	5,041
	-	-	-	-	23,834
	335,848	325,000	86,163	411,163	440,038
Revenue					
General Revenue Account					
		290,784	70	290,854	
		50,188	1,178	51,366	
		340,972	1,248	342,220	
		7,910	-	7,910	
		348,882	1,248	350,130	
		-	1,361	1,361	
		-	73,232	73,232	
		-	973	973	
		-	2	2	
		-	71	71	
		-	2,320	2,320	
		-	1,958	1,958	
		348,882	81,165	430,047	
Surplus/(Deficit)		23,882	(4,998)	18,884	

Appendix A—*Contd.***SECTION IV CONTINGENT AND MAJOR UNFUNDED LIABILITIES**

14 The Government's contingent liabilities as at 31 March 2013, 31 March 2014 and 31 March 2015, are provided below as supplementary information to the MRF –

(\$ million)	2013	At 31 March 2014	2015
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	29,475	30,282	34,425
Guarantees provided under the Special Loan Guarantee Scheme	50,955	42,534	29,061
Guarantees provided under the SME Financing Guarantee Scheme – Special Concessionary Measures	20,924	29,685	27,561
Guarantees provided under the SME Loan Guarantee Scheme	7,452	7,958	7,571
Possible capital subscriptions to the Asian Development Bank	6,391	6,558	6,558
Legal claims, disputes and proceedings	7,821	7,529	4,653
Guarantees provided under a commercial loan of the Ocean Park Corporation	1,388	1,388	1,388
Total	124,406	125,934	111,217

15 The Government's major unfunded liabilities as at 31 March 2013 were as follows –

(\$ million)	
Present value of statutory pension obligations	714,745
Untaken leave (<i>Note (a)</i>)	25,106
Government bonds and notes issued in 2004 (<i>Note (b)</i>)	11,250

Notes –

(a) The estimate for 'untaken leave' gives an indication of the overall value of leave earned but not yet taken by serving public officers.

(b) Based on US\$1 = HK\$7.8

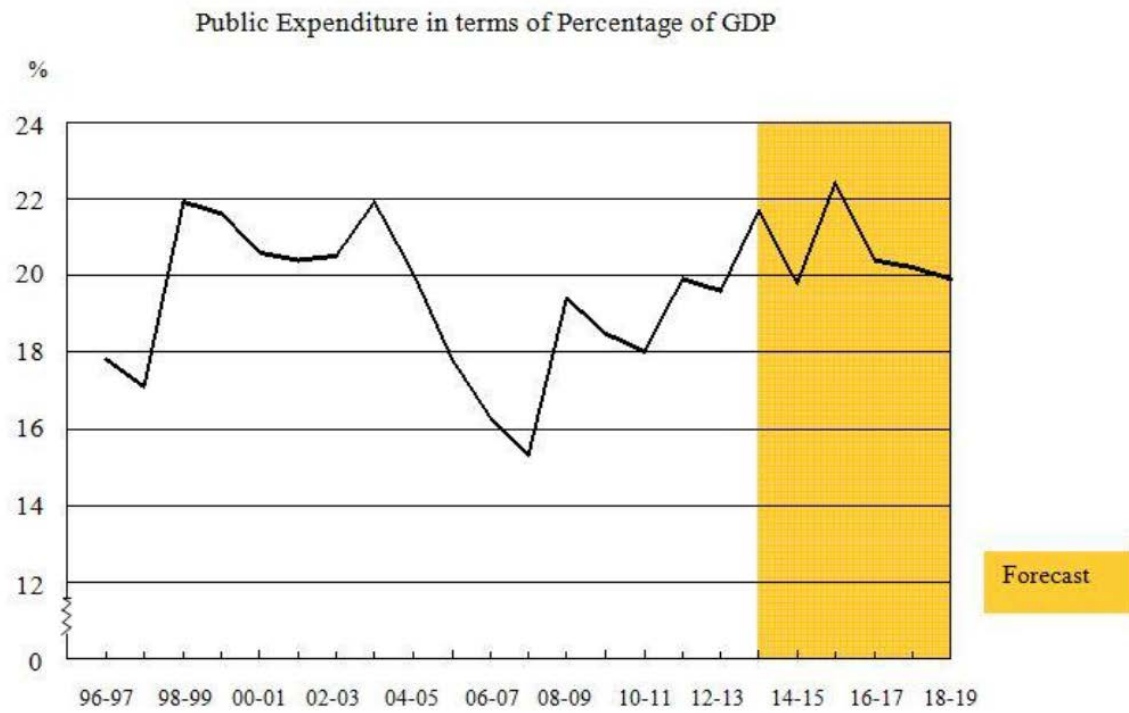
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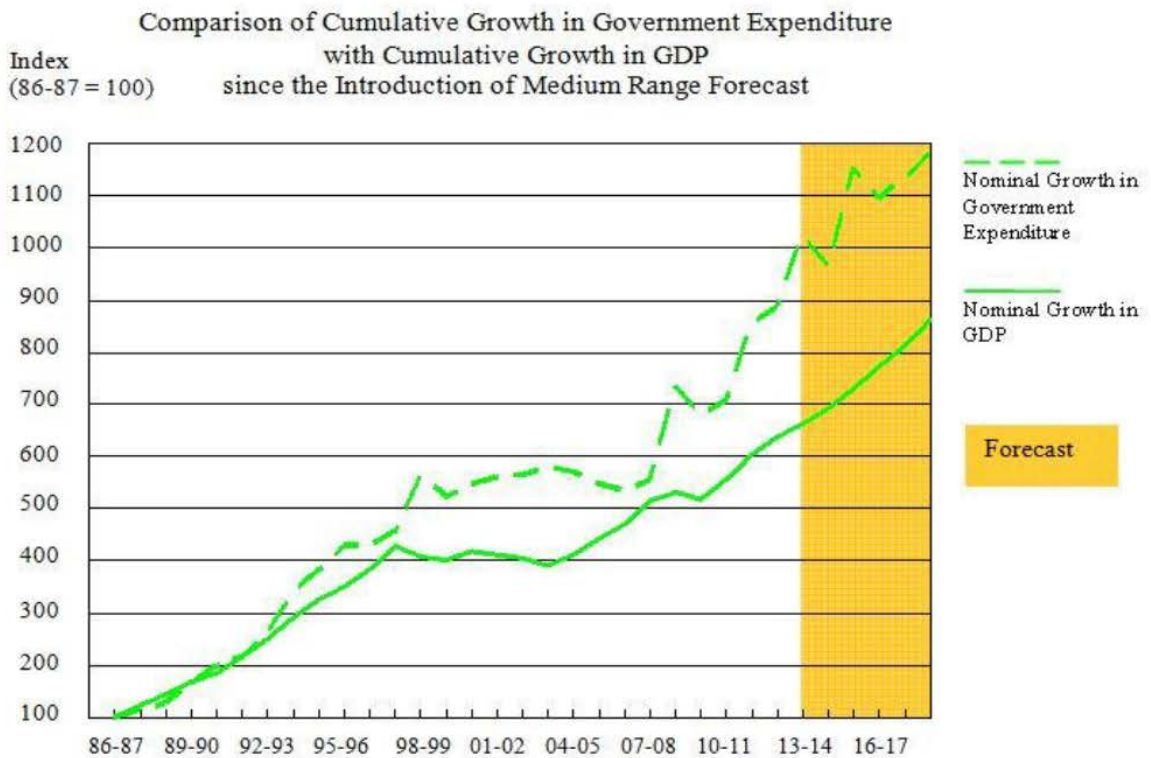
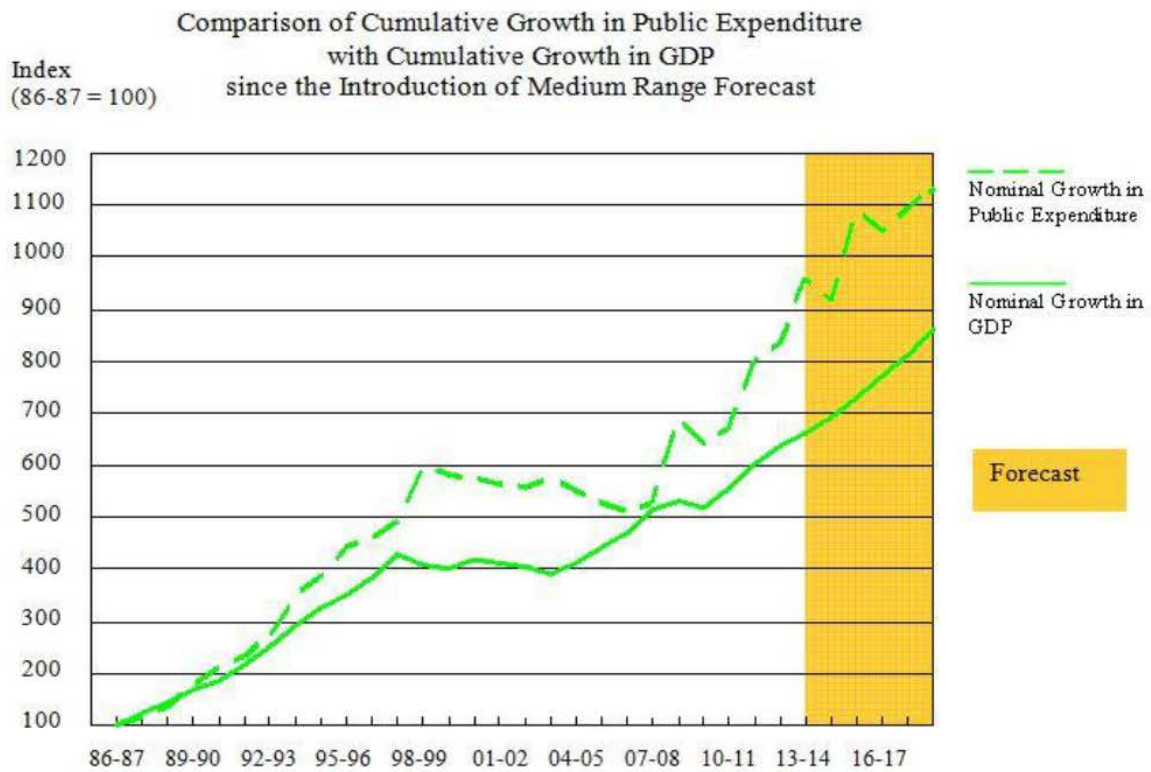
Appendix B—*Contd.*

SECTION I THE ESTIMATES IN THE CONTEXT OF THE ECONOMY

Relationship between Government Expenditure, Public Expenditure and GDP

	2014-15 Estimate \$m
General Revenue Account	
Operating	325,000
Capital	3,329
	<hr/> 328,329
Capital Investment Fund	12
Capital Works Reserve Fund	76,854
Innovation and Technology Fund	882
Loan Fund	4,079
Lotteries Fund	1,007
Government Expenditure	<hr/> 411,163
Trading Funds	5,041
Housing Authority	23,834
Public Expenditure	<hr/> 440,038
GDP	2,218,000
Public Expenditure in terms of percentage of GDP	19.8%





Appendix B—Contd.

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

Recurrent Public Expenditure : Year-on-Year Change

	2012-13 Actual \$m	2013-14 Revised Estimate \$m	2014-15 Estimate \$m	Increase/Decrease over 2013-14 Revised Estimate	
				in Nominal Terms %	in Real Terms %
Education	60,449	63,752	67,131	5.3	5.0
Social Welfare	42,813	51,892	56,908	9.7	6.8
Health	46,226	49,768	52,373	5.2	5.0
Security	31,377	32,836	34,293	4.4	4.2
Infrastructure	17,177	18,018	18,788	4.3	2.9
Economic	12,992	14,020	14,567	3.9	2.9
Environment and Food	11,100	11,770	13,042	10.8	10.2
Housing	10,672	12,138	12,828	5.7	3.5
Community and External Affairs	9,192	9,763	10,370	6.2	5.6
Support	35,176	37,848	44,413	17.3	15.1
	<u>277,174</u>	<u>301,805</u>	<u>324,713</u>	7.6	6.4

Nominal GDP growth in 2014

4% to 5%

Appendix B—Contd.

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

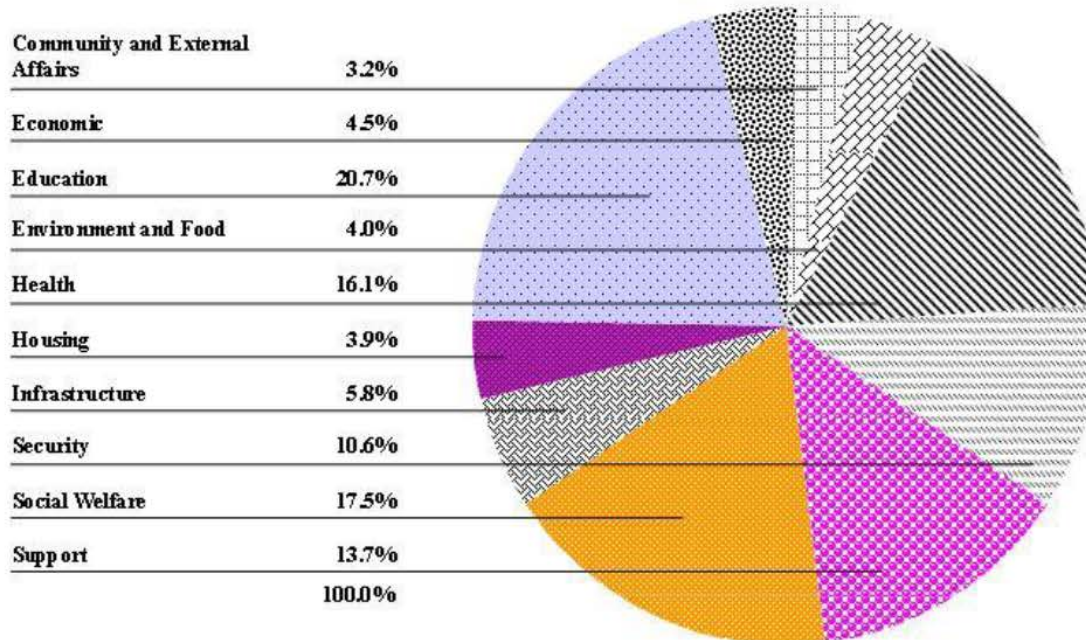
Recurrent Government Expenditure : Year-on-Year Change

	2012–13 Actual \$m	2013–14 Revised Estimate \$m	2014–15 Estimate \$m	Increase/Decrease over 2013–14 Revised Estimate	
				in Nominal Terms %	in Real Terms %
Education	60,449	63,752	67,131	5.3	5.0
Social Welfare	42,813	51,892	56,908	9.7	6.8
Health	46,226	49,768	52,373	5.2	5.0
Security	31,377	32,836	34,293	4.4	4.2
Infrastructure	17,021	17,849	18,583	4.1	2.8
Economic	8,717	9,402	9,983	6.2	5.7
Environment and Food	11,100	11,770	13,042	10.8	10.2
Housing	250	285	337	18.2	18.1
Community and External Affairs	9,192	9,763	10,370	6.2	5.6
Support	35,176	37,848	44,413	17.3	15.1
	<u>262,321</u>	<u>285,165</u>	<u>307,433</u>	7.8	6.7

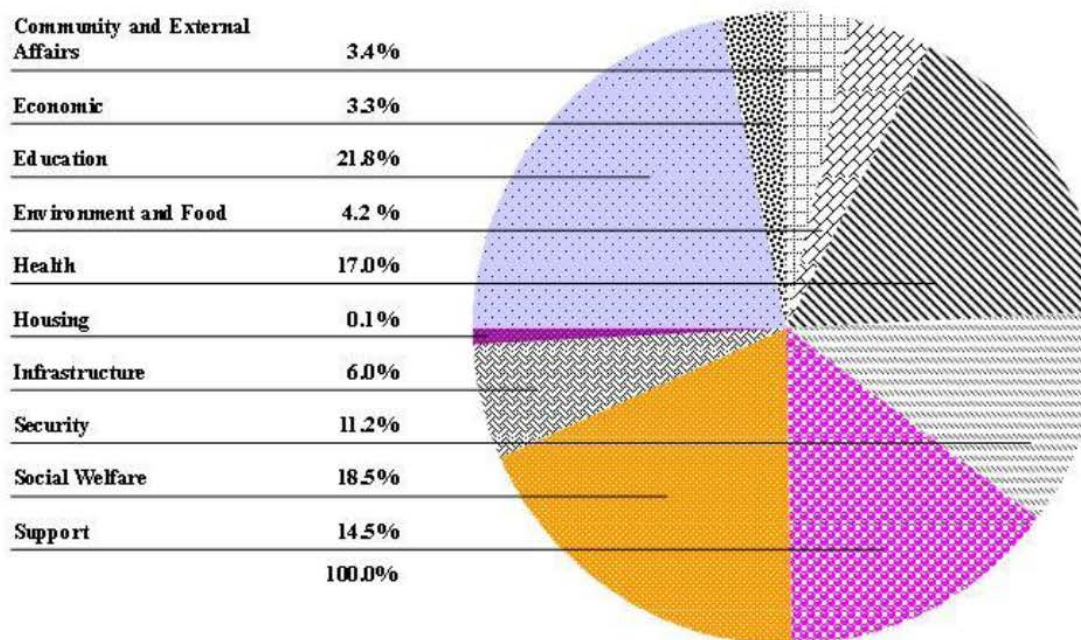
Nominal GDP growth in 2014

4% to 5%

Percentage Share of Expenditure by Policy Area Group
 Recurrent Public Expenditure: 2014-15 Estimate



Percentage Share of Expenditure by Policy Area Group
 Recurrent Government Expenditure: 2014-15 Estimate



Appendix B—Contd.

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

Total Public Expenditure : Year-on-Year Change

	2012–13 Actual \$m	2013–14 Revised Estimate \$m	2014–15 Estimate \$m	Increase/Decrease over 2013–14 Revised Estimate	
				in Nominal Terms %	in Real Terms %
Education	76,600	76,856	75,372	-1.9	-2.4
Social Welfare	45,894	55,543	61,906	11.5	8.7
Health	59,572	67,369	56,667	-15.9	-16.3
Security	33,937	35,278	38,689	9.7	9.0
Infrastructure	61,695	74,620	78,165	4.8	0.1
Economic	33,298	37,367	21,438	-42.6	-43.4
Environment and Food	18,911	24,246	23,006	-5.1	-6.8
Housing	20,501	23,145	25,311	9.4	5.5
Community and External Affairs	13,228	27,784	12,769	-54.0	-54.7
Support	36,543	39,245	46,715	19.0	16.8
	<u>400,179</u>	<u>461,453</u>	<u>440,038</u>	<u>-4.6</u>	<u>-6.5</u>

Nominal GDP growth in 2014

4% to 5%

Appendix B—Contd.

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

Total Government Expenditure : Year-on-Year Change

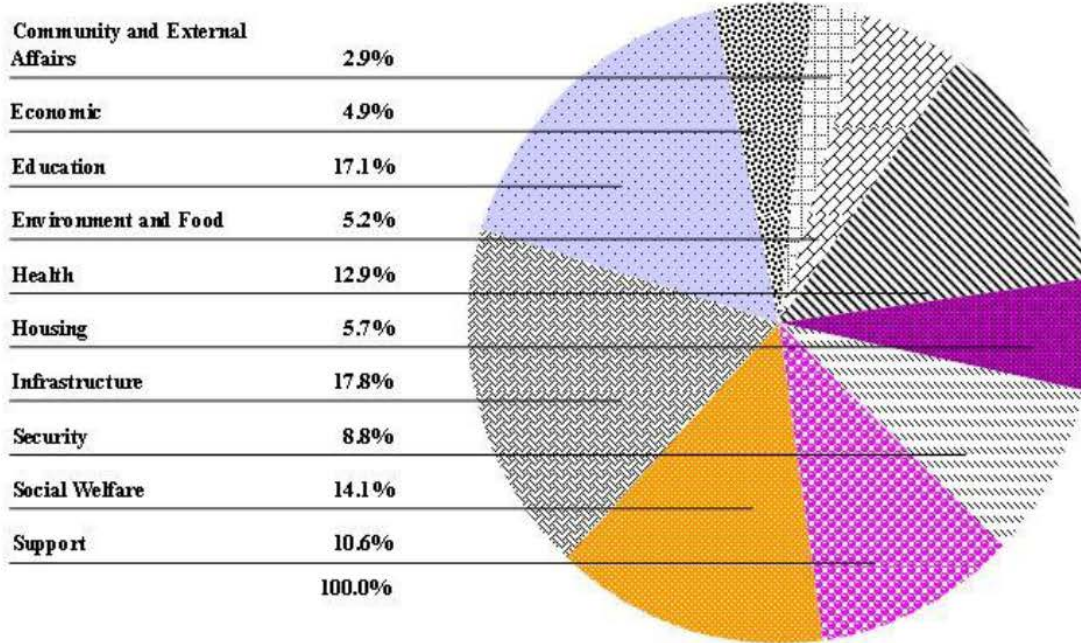
	2012–13 Actual \$m	2013–14 Revised Estimate \$m	2014–15 Estimate \$m	Increase/Decrease over 2013–14 Revised Estimate	
				in Nominal Terms %	in Real Terms %
Education	76,600	76,856	75,372	-1.9	-2.4
Social Welfare	45,894	55,543	61,906	11.5	8.7
Health	59,572	67,369	56,667	-15.9	-16.3
Security	33,937	35,278	38,689	9.7	9.0
Infrastructure	61,532	74,433	77,950	4.7	0.1
Economic	28,948	32,567	16,612	-49.0	-49.5
Environment and Food	18,911	24,246	23,006	-5.1	-6.8
Housing	2,159	2,470	1,477	-40.2	-40.4
Community and External Affairs	13,228	27,784	12,769	-54.0	-54.7
Support	36,543	39,245	46,715	19.0	16.8
	<u>377,324</u>	<u>435,791</u>	<u>411,163</u>	-5.7	-7.4

Nominal GDP growth in 2014

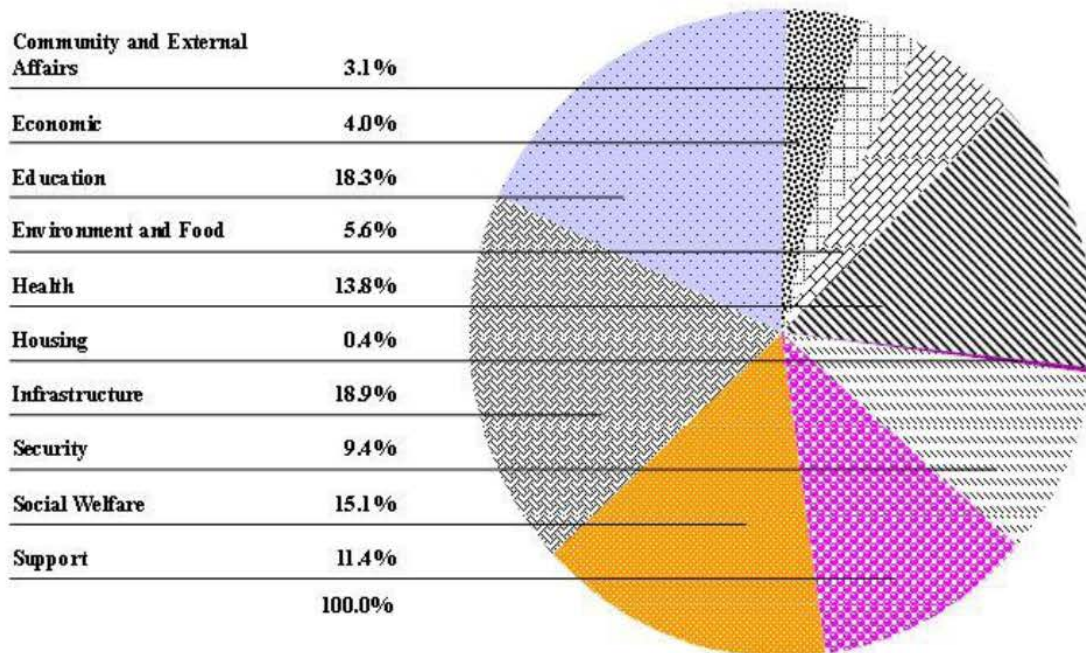
4% to 5%

Appendix B—Contd.

Percentage Share of Expenditure by Policy Area Group
Total Public Expenditure: 2014-15 Estimate



Percentage Share of Expenditure by Policy Area Group
Total Government Expenditure: 2014-15 Estimate



SECTION IV MAJOR CAPITAL PROJECTS ESTIMATED TO BEGIN IN 2014-15

Major capital projects estimated to begin in 2014-15 include –

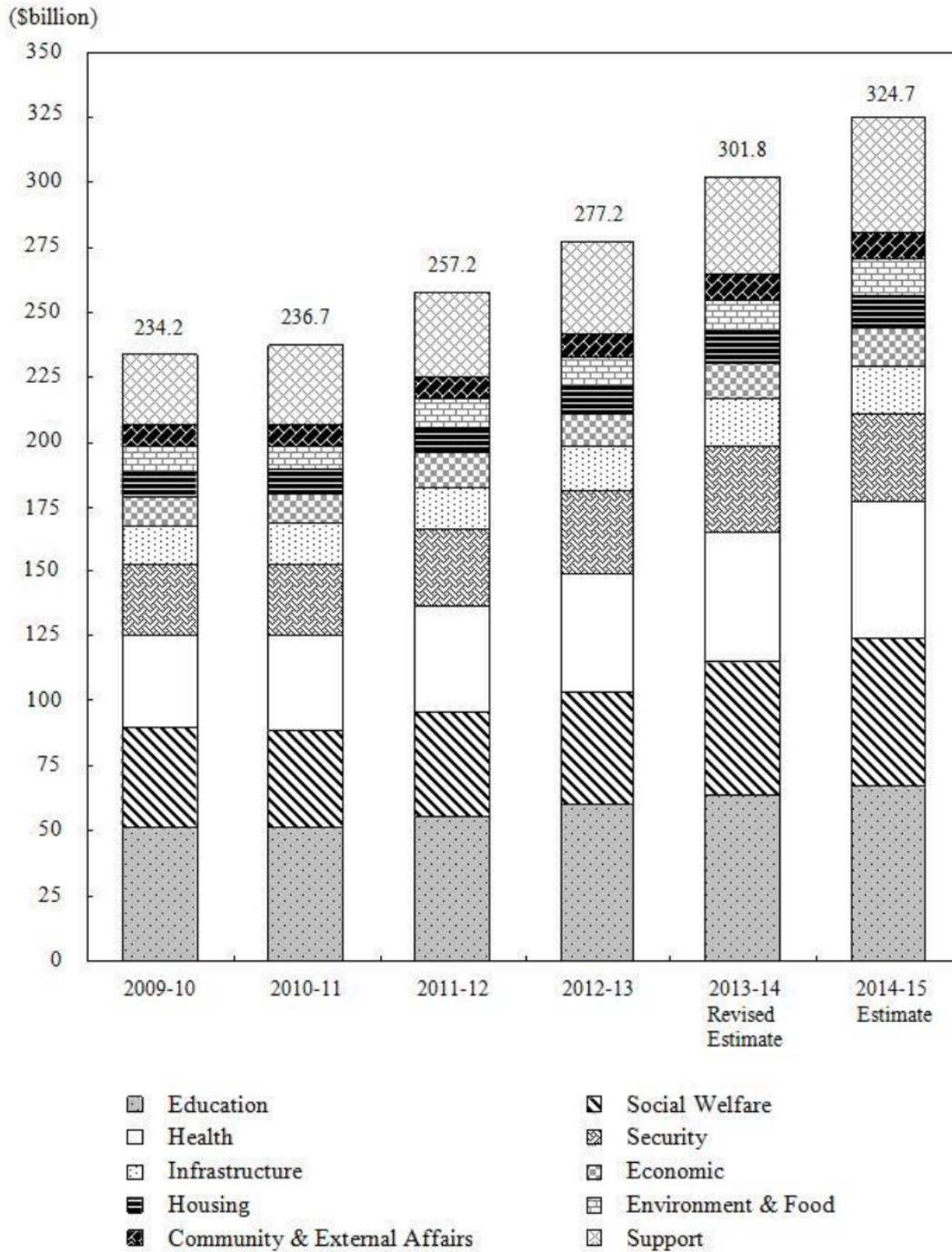
	Project Estimates \$ million
Infrastructure	8,405
— Advance site formation and engineering infrastructure works at Kwu Tung North new development area and Fanling North new development area—detailed design and site investigation	
— Construction of additional floors at Central Piers Nos. 4, 5 and 6	
— Cross Bay Link, Tseung Kwan O—detailed design and site investigation	
— Development of Anderson Road Quarry site—detailed design and site investigations	
— Feasibility study on relocation of Diamond Hill fresh water and salt water service reservoirs to caverns	
— Footbridge across Po Yap Road linking Tseung Kwan O Area 55 and Area 65	
— Greening master plans for the New Territories South East and North West—priority greening works	
— Integrated basement for West Kowloon Cultural District—design, site investigation and advance works	
— Ma On Shan development—roads, drainage and sewerage works at Whitehead and Lok Wo Sha, phase 2	
— Main engineering infrastructure in association with the proposed developments in Area 56, Tung Chung	
— Pilot study on underground space development in selected strategic urban areas	
— Planning and engineering study on Sunny Bay reclamation	
— Planning, engineering and architectural study for topside development at Hong Kong boundary crossing facilities island of Hong Kong–Zhuhai–Macao Bridge	
— Reprovisioning of Harcourt Road fresh water pumping station	
— Retrofitting of noise barriers on Tuen Mun Road (Town Centre Section)	
— Road improvement works in West Kowloon reclamation development, phase 1	
— Strategic studies for artificial islands in the central waters	
Environment and Food	5,963
— Development of waste electrical and electronic equipment treatment and recycling facility	
— Feasibility study on relocation of Sai Kung sewage treatment works to caverns	
— Feasibility study on relocation of Sham Tseng sewage treatment works to caverns	
— Organic waste treatment facilities phase 1	
— Relocation of Sha Tin sewage treatment works to caverns—consultants' fees and investigation	
— Reprovisioning of Food and Environmental Hygiene Department Sai Yee Street Environmental Hygiene Offices-cum-Vehicle Depot at Yen Ming Road, West Kowloon Reclamation Area	
— Shek Wu Hui sewage treatment works—further expansion phase 1A—advance works, consultants' fees and investigation	
— Tuen Mun sewerage—Castle Peak Road trunk sewer and Tuen Mun village sewerage	
— West New Territories landfill extension—consultants' fees and investigations	
Security	3,610
— Construction of departmental quarters for Customs and Excise Department at Yau Yue Wan Village Road, Tseung Kwan O, Kowloon	
— Kowloon East Regional Headquarters and Operational Base-cum-Ngau Tau Kok Divisional Police Station	

Appendix B—*Contd.*

	Project Estimates \$ million
Community and External Affairs	3,366
— Community hall at Sau Ming Road, Kwun Tong	
— Lei Yue Mun Waterfront Enhancement Project—construction of a public landing facility	
— Lei Yue Mun Waterfront Enhancement Project—development of a waterfront promenade and related improvement works	
— Renovation of Hong Kong Museum of Art	
— Reprovisioning of Pak Tin community hall and special child care centre-cum-early education and training centre in Pak Tin Estate redevelopment site, and construction of footbridge link at Nam Cheong Street, Sham Shui Po	
— Sports centre in Area 14 (Siu Lun), Tuen Mun	
— Sports centre in Area 24D, Sha Tin	
Health	2,216
— Redevelopment of Queen Mary Hospital (phase 1)—preparatory works	
— Refurbishment of Hong Kong Buddhist Hospital	
Education	1,247
— A 36-classroom primary school in Area 36, Fanling	
— A school for social development for girls at Choi Hing Road, Kwun Tong, Kowloon	
— Two special schools at site 5C-5, Kai Tak development, Kowloon	

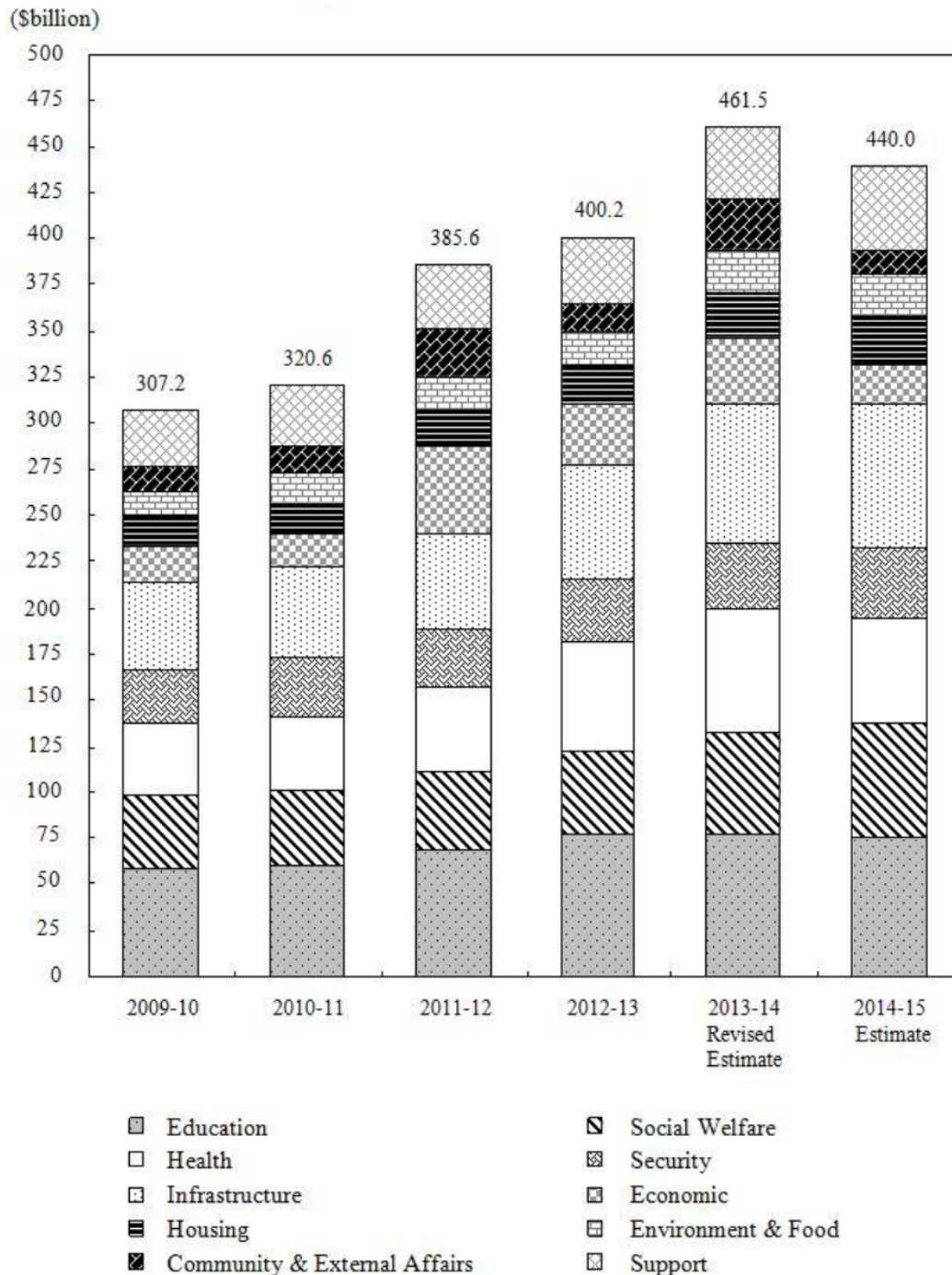
SECTION V TRENDS IN PUBLIC EXPENDITURE : 2009-10 TO 2014-15

Recurrent Public Expenditure by Policy Area Group 2009-10 to 2014-15



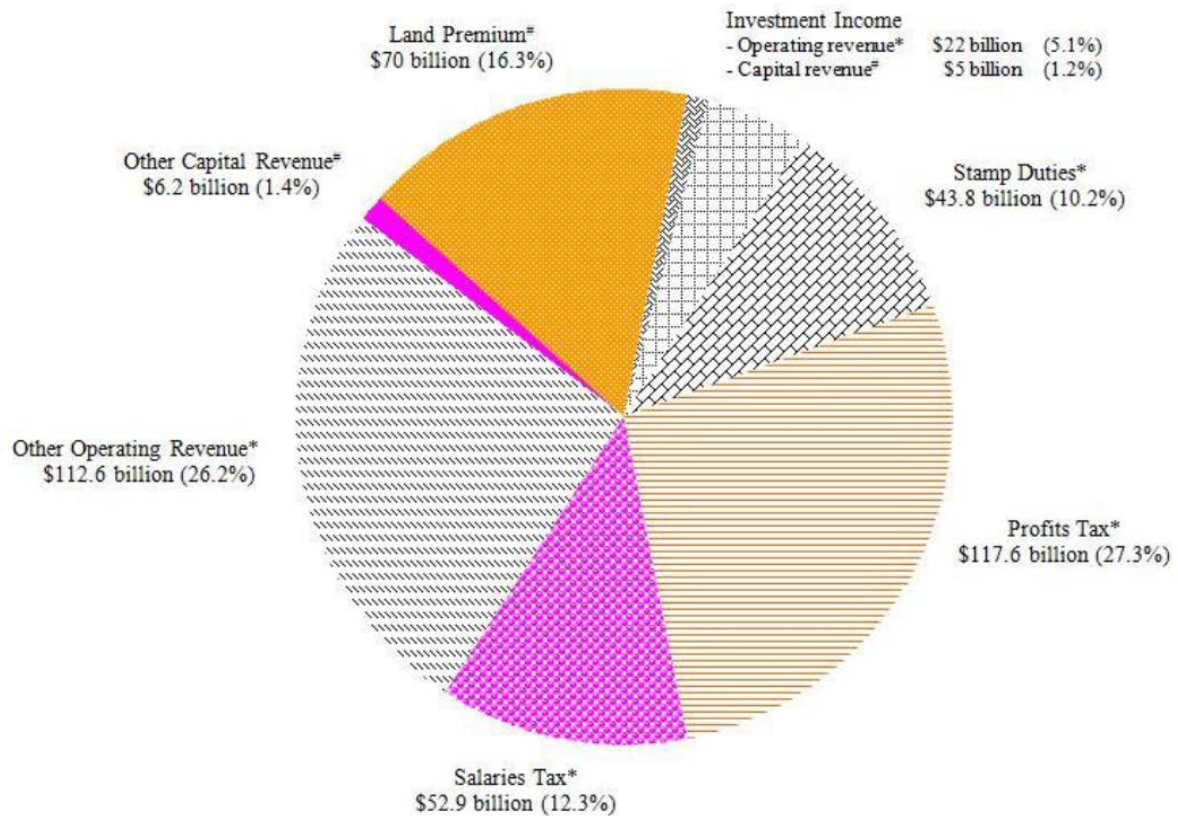
SECTION V TRENDS IN PUBLIC EXPENDITURE : 2009-10 TO 2014-15

Total Public Expenditure by Policy Area Group 2009-10 to 2014-15



SECTION VI ANALYSIS OF GOVERNMENT REVENUE

2014-15 Estimate (\$430.1 billion)



* Operating Revenue \$348.9 billion (81.1%)

‡ Capital Revenue \$81.2 billion (18.9%)

Appendix B—Contd.

SECTION VII CLASSIFICATION OF EXPENDITURE BY POLICY AREA GROUP

Policy Area Group	Policy Area	(Note)
Community and External Affairs	19	District and Community Relations
	18	Recreation, Culture, Amenities and Entertainment Licensing
Economic	3	Air and Sea Communications and Logistics Development
	6	Commerce and Industry
	8	Employment and Labour
	1	Financial Services
	17	Information Technology and Broadcasting
	34	Manpower Development
	4	Posts, Competition Policy and Consumer Protection
	7	Public Safety
Education	5	Travel and Tourism
	16	Education
Environment and Food	2	Agriculture, Fisheries and Food Safety
	32	Environmental Hygiene
	23	Environmental Protection, Conservation, Power and Sustainable Development
Health	15	Health
Housing	31	Housing
Infrastructure	22	Buildings, Lands, Planning, Heritage Conservation, Greening and Landscape
	21	Land and Waterborne Transport
	24	Water Supply, Drainage and Slope Safety
Security	12	Administration of Justice
	13	Anti-corruption
	10	Immigration Control
	9	Internal Security
	11	Legal Administration
	20	Legal Aid
Social Welfare	14	Social Welfare
	33	Women's Interests
Support	26	Central Management of the Civil Service
	30	Complaints Against Maladministration
	28	Constitutional and Mainland Affairs
	27	Intra-Governmental Services
	25	Revenue Collection and Financial Control
	29	Support for Members of the Legislative Council

Note: Details of individual heads of expenditure contributing to a particular policy area are provided in an index in Volume I of the 2014-15 Estimates. The index further provides details, by head of expenditure, of individual programmes which contribute to a policy area.

GLOSSARY OF TERMS

Note: Terms shown in *bold italic* are defined elsewhere in the glossary.

Capital expenditure. This comprises all expenditure charged to the Capital Account of the General Revenue Account, Capital Investment Fund, Capital Works Reserve Fund (including interest on government bonds and notes but excluding repayment of the bonds and notes), Disaster Relief Fund, Innovation and Technology Fund, Loan Fund and Lotteries Fund. Major items are highlighted below –

General Revenue Account

equipment, works and capital subventions of a minor nature

Capital Investment Fund

advances and equity investments

Capital Works Reserve Fund

acquisition of land
 capital subventions
 computerisation
 interest and other expenses on government bonds and notes issued in 2004
 major systems and equipment
 Public Works Programme expenditure

Disaster Relief Fund

relief to disasters that occur outside Hong Kong

Innovation and Technology Fund

projects promoting innovation and technology upgrading in manufacturing and service industries

Loan Fund

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

Lotteries Fund

grants, loans and advances for social welfare services

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

Capital revenue. This comprises certain revenue items in the General Revenue Account and all receipts credited to seven Funds, as highlighted below –

General Revenue Account

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

Capital Investment Fund

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

Appendix C—Contd.

Capital Works Reserve Fund

investment income
land premium
recovery from MTR Corporation Limited

Civil Service Pension Reserve Fund

investment income

Disaster Relief Fund

investment income

Innovation and Technology Fund

investment income
loan repayments received
proceeds from sale of investments

Loan Fund

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

Lotteries Fund

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

Consolidated surplus/deficit before repayment of bonds and notes. The difference between *government revenue* and *government expenditure*.

Fiscal reserves. The accumulated balances of the General Revenue Account, Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund.

Government expenditure. The aggregate of *operating expenditure* and *capital expenditure*. Unlike *public expenditure*, it excludes expenditure by the Trading Funds and the Housing Authority.

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

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

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

General Revenue Account

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

Land Fund

investment income

Appendix C—*Contd.*

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

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

Transfer to Funds. Transfers between the General Revenue Account and the eight Funds (Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund) are not counted as government revenue and expenditure as these are merely internal transfers within Government's accounts.