

# **OFFICIAL RECORD OF PROCEEDINGS**

**Wednesday, 5 March 2003**

**The Council met at half-past Two o'clock**

## **MEMBERS PRESENT:**

THE PRESIDENT

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

THE HONOURABLE KENNETH TING WOO-SHOU, J.P.

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

THE HONOURABLE CYD HO SAU-LAN

THE HONOURABLE ALBERT HO CHUN-YAN

IR DR THE HONOURABLE RAYMOND HO CHUNG-TAI, J.P.

THE HONOURABLE LEE CHEUK-YAN

THE HONOURABLE MARTIN LEE CHU-MING, S.C., J.P.

THE HONOURABLE ERIC LI KA-CHEUNG, J.P.

DR THE HONOURABLE DAVID LI KWOK-PO, G.B.S., J.P.

THE HONOURABLE FRED LI WAH-MING, J.P.

DR THE HONOURABLE LUI MING-WAH, J.P.

THE HONOURABLE MARGARET NG

THE HONOURABLE MRS SELINA CHOW LIANG SHUK-YEE, G.B.S., J.P.

THE HONOURABLE JAMES TO KUN-SUN

THE HONOURABLE CHEUNG MAN-KWONG

THE HONOURABLE HUI CHEUNG-CHING, J.P.

THE HONOURABLE CHAN KWOK-KEUNG

THE HONOURABLE CHAN YUEN-HAN, J.P.

THE HONOURABLE BERNARD CHAN, J.P.

THE HONOURABLE CHAN KAM-LAM, J.P.

THE HONOURABLE LEUNG YIU-CHUNG

THE HONOURABLE SIN CHUNG-KAI

THE HONOURABLE ANDREW WONG WANG-FAT, J.P.

DR THE HONOURABLE PHILIP WONG YU-HONG

THE HONOURABLE WONG YUNG-KAN

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

THE HONOURABLE HOWARD YOUNG, J.P.

DR THE HONOURABLE YEUNG SUM

THE HONOURABLE YEUNG YIU-CHUNG, B.B.S.

THE HONOURABLE LAU CHIN-SHEK, J.P.

THE HONOURABLE LAU KONG-WAH

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

THE HONOURABLE MIRIAM LAU KIN-YEE, J.P.

THE HONOURABLE AMBROSE LAU HON-CHUEN, G.B.S., J.P.

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

THE HONOURABLE CHOY SO-YUK

THE HONOURABLE ANDREW CHENG KAR-FOO

THE HONOURABLE SZETO WAH

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

DR THE HONOURABLE LAW CHI-KWONG, J.P.

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

DR THE HONOURABLE TANG SIU-TONG, J.P.

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

THE HONOURABLE LI FUNG-YING, J.P.

THE HONOURABLE HENRY WU KING-CHEONG, B.B.S., J.P.

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

THE HONOURABLE MICHAEL MAK KWOK-FUNG

THE HONOURABLE ALBERT CHAN WAI-YIP

THE HONOURABLE LEUNG FU-WAH, M.H., J.P.

DR THE HONOURABLE LO WING-LOK

THE HONOURABLE WONG SING-CHI

THE HONOURABLE FREDERICK FUNG KIN-KEE

THE HONOURABLE LAU PING-CHEUNG

THE HONOURABLE AUDREY EU YUET-MEE, S.C., J.P.

**MEMBERS ABSENT:**

DR THE HONOURABLE DAVID CHU YU-LIN, J.P.

THE HONOURABLE NG LEUNG-SING, J.P.

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

THE HONOURABLE IP KWOK-HIM, J.P.

THE HONOURABLE MA FUNG-KWOK, J.P.

**PUBLIC OFFICERS ATTENDING:**

THE HONOURABLE DONALD TSANG YAM-KUEN, G.B.M., J.P.  
THE CHIEF SECRETARY FOR ADMINISTRATION

THE HONOURABLE ANTONY LEUNG KAM-CHUNG, G.B.S., J.P.  
THE FINANCIAL SECRETARY

THE HONOURABLE ELSIE LEUNG OI-SIE, G.B.M., J.P.  
THE SECRETARY FOR JUSTICE

THE HONOURABLE HENRY TANG YING-YEN, G.B.S., J.P.  
SECRETARY FOR COMMERCE, INDUSTRY AND TECHNOLOGY

THE HONOURABLE MICHAEL SUEN MING-YEUNG, G.B.S., J.P.  
SECRETARY FOR HOUSING, PLANNING AND LANDS

PROF THE HONOURABLE ARTHUR LI KWOK-CHEUNG, G.B.S., J.P.  
SECRETARY FOR EDUCATION AND MANPOWER

DR THE HONOURABLE YEOH ENG-KIONG, J.P.  
SECRETARY FOR HEALTH, WELFARE AND FOOD

THE HONOURABLE JOSEPH WONG WING-PING, G.B.S., J.P.  
SECRETARY FOR THE CIVIL SERVICE

DR THE HONOURABLE PATRICK HO CHI-PING, J.P.  
SECRETARY FOR HOME AFFAIRS

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

THE HONOURABLE STEPHEN IP SHU-KWAN, G.B.S., J.P.  
SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR

DR THE HONOURABLE SARAH LIAO SAU-TUNG, J.P.  
SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

THE HONOURABLE FREDERICK MA SI-HANG  
SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY

THE HONOURABLE STEPHEN LAM SUI-LUNG, J.P.  
SECRETARY FOR CONSTITUTIONAL AFFAIRS

**CLERK IN ATTENDANCE:**

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

**TABLING OF PAPERS**

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

Subsidiary Legislation/Instruments	<i>L.N. No.</i>
Massage Establishments (Amendment) Regulation 2003 .....	51/2003
Probate and Administration Ordinance (Amendment of Schedule 2) Order 2003 .....	52/2003
Chinese Medicine Ordinance (Cap. 549) (Commencement) Notice 2003 .....	53/2003
Chinese Medicines Regulation (Cap. 549 sub. leg.) (Commencement) Notice 2003 .....	54/2003
Chinese Medicine (Fees) Regulation (Cap. 549 sub. leg.) (Commencement) Notice 2003 .....	55/2003
Chinese Medicines Traders (Regulatory) Regulation (Cap. 549 sub. leg.) (Commencement) Notice 2003.....	56/2003
Shipping and Port Control Regulations (Amendment of Third and Seventh Schedules) Notice 2002 (L.N. 123 of 2002) (Commencement) Notice 2003.....	57/2003

**Other Papers**

- No. 67 — Estimates  
           for the year ending 31 March 2004  
           Volume IA - General Revenue Account  
           Volume IB - General Revenue Account
- No. 68 — Estimates  
           for the year ending 31 March 2004  
           Volume II - Fund Accounts

**WRITTEN ANSWERS TO QUESTIONS****Medical and Health Services**

1. **MS CYD HO** (in Chinese): *Madam President, with regard to medical and health services, particularly relating to public health and preventing the spread of diseases, will the Government inform this Council:*

- (a) *of the number of occasions in the past three years on which the Health, Welfare and Food Bureau, Department of Health (DH) and Hospital Authority (HA) communicated with the corresponding Guangdong authorities in respect of matters relating to medical and health services, and list out, in chronological order of the communications, the issues discussed, the responsible local and Guangdong officials involved, the outcome of the discussions and the follow-up actions taken by the relevant authorities in Hong Kong and Guangdong; and*
- (b) *whether it has assessed the effectiveness of the communication mechanism mentioned above; if it has, of the assessment results; whether it will improve and enhance this communication mechanism; if it will, of the implementation timetable, the responsible officials, the circumstances in which the mechanism will be activated, as well as other relevant details?*

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

- (a) Hong Kong operates an effective public health control system, including monitoring the pattern and trend of communicable diseases, through efforts on international, regional and local fronts. We maintain an international network for the exchange of epidemiological information through the World Health Organization (WHO). Currently, the WHO requires notification of all cases of cholera, yellow fever and plague and routine report of statistics on cases of rabies, leprosy, acute flaccid paralysis and virus isolation

data (including influenza). We will report to the WHO incidents involving infectious disease outbreaks which may have global public health significance.

Locally, we have in place a statutory notification system for 27 infectious diseases. The DH also operates a comprehensive disease surveillance system comprising hospitals, clinics and laboratories.

In addition, Hong Kong also maintains close contact with the Ministry of Health in Beijing. The Health, Welfare and Food Bureau, the DH and the HA may contact officers in the Ministry of Health through meetings and exchanges to discuss a wide range of public health issues which are of interest to both sides. These include the control of communicable and non-communicable diseases, health promotion, healthcare management practices, the development of traditional Chinese medicine, and so on. Contacts are also made, wherever necessary, at the provincial level. There is regular exchange of information between the DH of Hong Kong and Guangdong Province on specific communicable diseases such as cholera, viral hepatitis, malaria and HIV/AIDS. In the event of an outbreak of disease in the Mainland, we will also contact the mainland health authorities immediately through various means to obtain the latest information.

Details of meetings between Hong Kong and Guangdong health sector in the past three years in respect of matters relating to medical and health services are listed at Annex.

- (b) We have established channels of communication between the DH in Hong Kong and the health authorities in the Mainland. For outbreaks of diseases which are of public health importance, immediate contacts will be made through the established channels. In the light of recent developments, we shall review our communication channels to ensure even closer collaboration with the mainland authorities for timely exchange of information on public health issues.



## Annex

## Communication between Hong Kong and the Mainland on Health Issues

<i>Date</i>	<i>Details of Meetings</i>
March 2000	Officers from the DH met with the Pearl River Delta Region HIV/AIDS Research Group of Guangdong Province to discuss the control of AIDS/HIV across the border. The information exchange on surveillance on AIDS/HIV was enhanced.
May 2000	A delegation of the Health Department of Guangdong Province attended the HA Convention to exchange views with senior executives of HA on hospital management issues.
June 2000	The DH held a meeting with health authorities of Guangzhou, Hainan, Shenzhen, Zhuhai and Macao. A mechanism for rapid exchange of information on communicable disease outbreaks was established to strengthen the virological and epidemiological surveillance. Monthly reports of selected communicable diseases have been exchanged since the meeting.
August 2000	Representatives from Shenzhen Hospital of Traditional Chinese Medicine (深圳市中醫院) met with DH officers to exchange views and experience on Traditional Chinese Medicine.
September 2000	DH officers met with representatives from the Guangzhou Health Bureau (廣州市衛生局) to exchange information on general health issues.
December 2000	DH officers met with officials from the narcotics commission in Maoming (茂名市禁毒委員會) to exchange information on general health issues.

<i>Date</i>	<i>Details of Meetings</i>
December 2000	DH officers met with officials from Guangzhou Municipal People's Government (廣州市人民政府) to exchange information on general health issues.
May 2001	A delegation of the Health Department of Guangdong Province attended the International Health Federation Congress held in Hong Kong to exchange views with senior executives of the HA on hospital management issues.
May 2001	Executives of city hospitals of Guangdong Province visited the HA to exchange information on various aspects of hospital management and to attend management-training courses.
May 2001	Academics from Association of Maternity and Children Health of Guangdong Province (廣東省婦幼保健學會) exchanged information on general health issues with DH officers.
June 2001	Academics from Guangzhou University of Traditional Chinese Medicine (廣州中醫藥大學) exchanged views and experience on Traditional Chinese Medicine with DH officers.
September 2001	Executives of city hospitals of Guangdong Province visited the HA to exchange information on various aspects of hospital management and to attend management-training courses.
November 2001	Academics from Guangzhou University of Traditional Chinese Medicine (廣州中醫藥大學) exchanged views and experience on Traditional Chinese Medicine with DH officers.
November 2001	Officials from Shenzhen Hygiene and Epidemic Prevention Station (深圳市衛生防疫站) exchanged information on general health issues with DH officers.

<i>Date</i>	<i>Details of Meetings</i>
January 2002	Executives of hospitals in rural areas of Guangdong Province visited the HA to attend training courses in hospital management, visited the public hospitals of Hong Kong and exchanged with the HA staff on hospital management issues.
February 2002	Executives of hospitals in rural areas of Guangdong Province visited the HA to attend training courses in hospital management, visited the public hospitals of Hong Kong and exchanged with the HA staff on hospital management issues.
March 2002	Academics from Association of Maternity and Children Health of Guangdong Province (廣東省婦幼保健學會) exchanged information on general health issues with DH officers.
April 2002	A delegation of the Health Department of Guangdong Province attended the HA Convention to exchange views with senior executives of the HA on hospital management issues.
May 2002	DH officers met with Shunde Health Bureau (順德市衛生局) and exchanged information on general health issues.
August 2002	Executives of hospitals in rural areas of Guangdong Province visited the HA to attend training courses in hospital management, visited the public hospitals of Hong Kong and exchanged with the HA staff on hospital management issues.

### **Immigration Clearance of Foreign Nationals**

2. **MR ALBERT HO** (in Chinese): *Madam President, regarding immigration clearance of foreign nationals, will the Government inform this Council:*

- (a) *of the respective numbers of entries and exits of foreign nationals, their waiting time for clearance, and the number of immigration*

*counters at different border control points in the past year; how these statistics compare with the corresponding immigration figures for permanent residents of the Hong Kong Special Administrative Region (SAR); and*

- (b) *whether it has considered streamlining the clearance procedures for foreign nationals or increasing the number of immigration counters in order to shorten their waiting time?*

**SECRETARY FOR SECURITY** (in Chinese): Madam President,

- (a) In 2002, a record-high of 161.5 million passenger movements were handled by the Immigration Department (ImmD). Foreign visitors accounted for 8.6% (13.9 million) and visitors from mainland China, Taiwan and Macao accounted for 11.8% (19.1 million) of these movements. A breakdown of the figures for Hong Kong permanent residents, non-permanent residents, visitors including those from the Mainland, Taiwan and Macao is at Annex I.

Despite the increase in passenger traffic, the ImmD has been able to maintain its performance pledge of clearing 92% of the passengers within 15 minutes at the Airport and 30 minutes at other control points.

In 2002, the Airport Control Point was able to exceed the pledged standard by clearing 99% of all passengers within 15 minutes. Other control points at Lo Wu, Hung Hom, Man Kam To, Lok Ma Chau, Sha Tau Kok, Macau Ferry Terminal and China Ferry Terminal also exceeded the pledged standard by clearing 98% of the passengers within 30 minutes. Statistics on the waiting time for passengers at different control points are at Annex II.

Further breakdown of statistics to show the waiting time for residents and visitors specifically are maintained only at the Airport

and Lo Wu control points, as shown at Annex III. In general, residents, whose clearance procedures are more straightforward, experience a shorter waiting time.

The number of immigration counters available at various control points and their average manning level are set out at Annex IV. At the Airport, we open more counters for visitors both during the peak and non-peak periods.

- (b) On streamlining of procedures, the ImmD has put in place the following measures:
  - (i) To facilitate *bona fide* frequent visitors and genuine holiday-makers, counter officers could exercise discretion to simplify enquiries over the counter;
  - (ii) Promotional efforts have been made to encourage frequent travellers to apply for the SAR Travel Pass or the APEC Business Travel Card as holders of such Travel Pass or Travel Card can enjoy more streamlined clearance procedures and are allowed to use the counters designated for Hong Kong residents;
  - (iii) A new stamp for imposing conditions of stay for visitors has been introduced since 9 December 2002. It reduces the number of stamping action by counter officers so as to speed up immigration clearance for visitors.

The ImmD has also been taking, and will continue to take, vigorous efforts to increase the number and maximize the use of existing counters:

- (i) Upon completion of improvement works at the Lo Wu and Lok Ma Chau control points, 14 and 22 more counters will be introduced at Lo Wu and Lok Ma Chau respectively;

- (ii) The number of counters deployed for each type of passengers will be adjusted from time to time to cope with the changing volume as well as the composition of the passengers. During festive periods, reinforcement will be flexibly arranged through redeployment from other sections and by suspending the staff's vacation leaves, so that the maximum number of counters can be manned for passengers clearance;
- (iii) Since October 2002, the ImmD has been engaging a private security company to take up crowd control duties at four boundary control points, namely, Sha Tau Kok, Man Kam To, Hung Hom and Lok Ma Chau, thus releasing more manpower resources for counter duties;
- (iv) The shift patterns of staff at major control points are subject to constant review so as to ensure that maximum manpower resources are available to man the counters at peak hours both for Hong Kong residents and visitors.
- (v) The ImmD has introduced new machine-readable Re-entry Permits since December 2001 and will issue machine-readable Document of Identity this year. This would shorten clearance time at control points by doing away with the need to manually input the personal data of holders, and would help speed up passenger flow. Enhancement of productivity through use of information technology means that the ImmD will have more flexibility to meet service demand from visitors;
- (vi) The Automated Passenger Clearance and Automated Vehicle Clearance systems will be launched by the end of 2004. By then, Hong Kong residents travelling on new smart-card based identity cards will be able to complete immigration clearance at self-service channels. The manpower saved can then be deployed to improve the manning level for the clearance of visitors.

### Passengers Statistics by Control Points (2002)

Control Point	Arrival							Departure						
	Permanent Residents	Non-Permanent Residents	Mainland China	Taiwan	Visitors Macao	Others	Total Visitors	Permanent Residents	Non-Permanent Residents	Mainland China	Taiwan	Visitors Macao	Others	Total Visitors
Airport	4 153 309 (-0.09)	778 963 (-5.35)	1 278 427 (15.85)	1 263 696 (0.31)	16 730 (6.82)	4 350 078 (4.23)	6 908 931 (5.44)	4 192 248 (-0.11)	778 329 (-4.51)	1 068 473 (11.65)	1 273 333 (0.16)	17 179 (7.23)	4 392 197 (3.79)	6 751 182 (4.25)
Lo Wu	41 595 696 (4.84)	2 539 967 (-2.69)	3 159 581 (71.72)	286 435 (-22.59)	28 430 (18.09)	910 356 (3.58)	4 384 802 (40.86)	40 517 754 (4.91)	2 484 563 (-2.24)	2 947 125 (73.04)	285 546 (-18.83)	27 289 (18.49)	931 783 (7.89)	4 191 743 (42.50)
Hung Hom	559 392 (3.79)	68 755 (-0.41)	294 566 (34.38)	36 443 (1.23)	1 005 (39.00)	197 716 (11.72)	529 730 (22.37)	729 244 (4.08)	75 300 (-6.39)	221 310 (8.60)	24 651 (-5.56)	875 (-11.79)	153 639 (12.49)	400 475 (8.99)
Man Kam To	375 338 (10.24)	31 100 (-4.28)	102 245 (-4.32)	9 334 (-0.79)	221 (15.71)	26 303 (20.57)	138 103 (-0.13)	465 239 (6.41)	33 726 (-5.26)	76 549 (20.17)	4 107 (-23.28)	164 (-62.39)	16 499 (-4.12)	97 319 (12.25)
Lok Ma Chau	5 917 056 (34.02)	349 618 (14.04)	871 503 (137.05)	626 096 (14.41)	2 681 (26.34)	455 899 (32.85)	1 956 179 (55.23)	6 460 391 (29.51)	365 037 (10.27)	539 111 (75.58)	661 708 (12.83)	3 747 (32.08)	467 189 (30.18)	1 671 755 (33.19)
Sha Tau Kok	619 837 (25.74)	31 084 (33.61)	50 384 (112.55)	47 290 (0.51)	153 (40.37)	38 833 (6.12)	136 660 (27.18)	766 100 (33.23)	28 904 (35.37)	38 473 (101.20)	40 007 (-3.59)	281 (-35.70)	35 937 (4.94)	114 698 (20.35)
Macau Ferry Terminal	3 704 028 (0.09)	247 562 (1.84)	266 393 (40.67)	41 315 (3.77)	253 229 (16.54)	488 420 (-1.23)	1 049 357 (11.52)	3 541 068 (0.02)	221 507 (-1.48)	580 578 (82.06)	37 248 (-0.26)	255 547 (15.46)	466 959 (-3.93)	1 340 332 (26.01)
Chine Ferry Terminal	3 094 994 (-2.72)	201 046 (-0.75)	730 362 (30.98)	110 266 (5.67)	71 314 (-5.74)	481 757 (14.21)	1 393 699 (20.21)	3 386 554 (-2.77)	225 793 (-0.96)	1 246 551 (54.76)	95 519 (2.44)	69 762 (-3.36)	468 820 (14.25)	1 880 652 (36.16)
Total	60 019 650 (6.22)	4 248 095 (-1.44)	6 753 461 (53.21)	2 420 875 (0.30)	373 763 (11.30)	6 949 362 (6.14)	16 497 461 (20.38)	60 058 598 (6.22)	4 213 159 (-1.51)	6 718 170 (53.45)	2 422 119 (0.38)	374 844 (11.14)	6 933 023 (6.03)	16 448 156 (20.35)

Note: Figures in brackets denote percentage change over 2001

## Annex II

Waiting Time of Passengers (in Percentage) at the Control Points  
(Year 2002)

<i>Control Point</i>	<i>0 to 15 minutes</i>	<i>6 to 30 minutes</i>	<i>0 to 30 minutes</i>	<i>31 to 45 minutes</i>	<i>46 to 60 minutes</i>	<i>Over One hour</i>
			<i>Subtotal</i>			
Airport*	99.25	0.75	100.00	0.00	0.00	0.00
Lo Wu	86.79	11.72	98.51	1.46	0.03	0.00
Hung Hom	90.62	8.56	99.18	0.80	0.02	0.00
Man Kam To	100.00	0.00	100.00	0.00	0.00	0.00
Lok Ma Chau	65.03	29.98	95.01	4.73	0.23	0.03
Sha Tau Kok	100.00	0.00	100.00	0.00	0.00	0.00
Macau Ferry Terminal	89.46	9.12	98.58	1.42	0.00	0.00
China Ferry Terminal	85.01	14.45	99.46	0.53	0.01	0.00
Average	89.52	9.32	98.84	1.12	0.04	0.00

Note: \* The performance pledge of the Airport is to clear 92% of the passengers within 15 minutes, and that for all other control points is to clear 92% of passengers within 30 minutes.

## Annex III

Waiting Time of Passengers (in Percentage) at  
Airport and Lo Wu Control Points  
(Year 2002)

<i>Control Point</i>		<i>Arrival</i>				<i>Departure</i>			
		<i>0 to 15 minutes</i>	<i>16 to 30 minutes</i>	<i>0 to 30 minutes Subtotal</i>	<i>31 minutes or over</i>	<i>0 to 15 minutes</i>	<i>16 to 30 minutes</i>	<i>0 to 30 minutes Subtotal</i>	<i>31 minutes or over</i>
Airport	Residents*	100	0	100	0	100	0	100	0
	Visitors**	98	2	100	0	100	0	100	0
Lo Wu	Residents*	92	8	100	0	89	10	99	1
	Visitors**	62	35	97	3	43	51	94	6

\* Including permanent and non-permanent residents.

\*\* Including foreign nationals, visitors from the mainland China, Taiwan and Macao.



Number of Counters at Control Points  
(Year 2002)

<i>Control Points</i>	<i>Number of Available Clearance Counters</i>			<i>Number of Counters Manned for Immigration Clearance</i>							
	<i>Arrival</i>	<i>Departure</i>	<i>Total</i>	<i>During Peak Period</i>				<i>During Non-peak Period</i>			
				<i>Arrival</i>		<i>Departure</i>		<i>Arrival</i>		<i>Departure</i>	
				<i>Residents</i>	<i>Visitors</i>	<i>Residents</i>	<i>Visitors</i>	<i>Residents</i>	<i>Visitors</i>	<i>Residents</i>	<i>Visitors</i>
Airport	120	88	208	10	60	6	40	8	20-40	4-6	15-20
Lo Wu	138	72	210	50-72	25-37	42-60	10-16	25-30	15-20	22-25	6-9
Hung Hom	26	22	48	8-11	6-8	3-6	3-4	3-6	3-4	2-3	2
Man Kam To	14	14	28			3				3	
Lok Ma Chau	23	12	35	5-12	8-15	5-10	5-10	2-4	2-4	2-4	1-3
Sha Tau Kok	8	8	16			3				3	
Macau Ferry Terminal	38	30	68	6-8	6-8	5-6	3-4	4-5	2-4	3-5	1-3
China Ferry Terminal	38	26	64	13-18	13-18	7-15	6-14	6-12	5-11	2-4	4-6

Note: The number of counters manned and deployed for each type of passengers is adjusted from time to time to cope with actual passenger volume and composition.

**Public Transport Fare Adjustment Mechanism**

3. **MR ABRAHAM SHEK:** *Madam President, in January this year, the Government informed the Legislative Council's Panel on Transport that a government study on the need for and the way to establish a new public transport fares adjustment mechanism had commenced several months earlier and was nearing completion. The new mechanism should, inter alia, take into consideration the operating situation of the transport operators. In this connection, will the Government inform this Council:*

- (a) whether it has reviewed the existing fare adjustment mechanism; if it has, of the outcome of the review;*
- (b) whether it has consulted the transport operators on the new mechanism; if it has, of the views collected; if not, the reasons for that;*
- (c) how the new mechanism will take into consideration the different operating situations of the transport operators;*
- (d) whether the new mechanism will apply to all the existing public transport operators; and*
- (e) whether it has assessed the potential impact of the new mechanism on the confidence of investors; if it has, of the assessment results?*

**SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS:**

Madam President, the Government started a study in late 2002 on the regulation of public transport fares. The objective is to develop a more rational and transparent process for fare adjustments which would allow for increase as well as reduction in fares, taking into account relevant factors including public acceptability and affordability of transport fares, the need to allow operators to achieve a reasonable rate of return, the quality of service provided, the operating conditions of the operators and the overall economic situation in Hong Kong. In pursuing this initiative, it is our objective that we should maintain a world-class public transport system to be operated efficiently by the private sector or public corporations without direct government subsidy.

The study focused on the two modes of mass carriers, viz railways and franchised buses, as they together account for over 70% of the total public transport patronage in Hong Kong.

We have raised this subject with the operators concerned at our meetings with them. The feedback we obtained is that it is important for any fare adjustment mechanism to be able to balance the interests of different stakeholders and provide transport operators with a reasonable rate of return. A number of operators indicated that they are prepared to accept a fare adjustment mechanism which would allow for increase as well as reduction in fares. We will continue to engage them in developing our proposal. We will also consult the Transport Panel of the Legislative Council and other stakeholders before a decision is made on the matter.

### **Removal of Minimum Brokerage Commission Rule**

4. **MISS CHAN YUEN-HAN** (in Chinese): *Madam President, the Board of the Hong Kong Exchanges and Clearing Limited (HKEx) has decided to remove the minimum brokerage commission rule with effect from 1 April this year. In this connection, will the Government inform this Council:*

- (a) *for each of the years since the HKEx proposed in 2000 to remove the minimum brokerage commission rule:*
  - (i) *of the respective numbers of securities companies of various categories;*
  - (ii) *of the respective average monthly incomes of securities companies and brokers;*
  - (iii) *of the respective numbers of people who were granted new securities brokers licences and those who had their licences renewed; and*
  - (iv) *of the respective numbers of securities companies which wound up their businesses and securities brokers who became unemployed; and*

- (b) *whether it has assessed the respective numbers of securities companies which may wind up their businesses and securities brokers who may switch jobs or become unemployed upon the removal of the minimum brokerage commission rule; and*
- (c) *as the tripartite forum composed of the Government, the Securities and Futures Commission (SFC) and the HKEx has not, in the four major areas of work which it has preliminarily drawn up to explore measures to assist small and medium-sized brokers, included the formulation of measures to prevent vicious competition for commission on securities transactions and market monopolization by large securities companies and banks, whether the forum will consider such inclusion; if it will, whether the HKEx will consider deferring the removal of the minimum brokerage commission rule until the above preventive measures have been formulated by the forum, so as to enable the survival of small and medium-sized securities companies?*

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

- (a) According to the information provided by the SFC and the HKEx, from 2000 to 2002:
- (i) The respective numbers of securities companies of various categories are as follows:

	2000	2001	2002
Category A	14	14	14
Category B	51	51	51
Category C	446	435	423

The above table is a breakdown of securities companies categorized in terms of turnover by the HKEx. Category A comprises the top 14 securities companies with the highest turnover, while Category B comprises those ranked 15th to 65th. The remaining companies are grouped under Category C.

- (ii) The respective average monthly incomes from brokerage commission of securities companies of various categories are as follows:

	<i>2000*</i> (HK\$ million)	<i>2001</i> (HK\$ million)	<i>2002</i> (HK\$ million)
Category A	427.2	380.7	336.5
Category B	301.9	238.4	199.2
Category C	290.4	179.3	118.9

\* Average amount from June to December in 2000.

The SFC has not compiled statistics on the average monthly incomes of securities brokers.

- (iii) The respective numbers of people who were granted new securities brokers licences and those who had their licences renewed are as follows:

	<i>2000</i>	<i>2001</i>	<i>2002</i>
No. of people granted with new licences	2 252	1 196	832
No. of people with licences renewed	7 517	8 324	8 065

- (iv) The numbers of licences revoked when the securities companies wound up their businesses are as follows:

	<i>2000</i>	<i>2001</i>	<i>2002</i>
No. of licences revoked	7	5	17

We do not have statistics on the number of securities brokers who became unemployed.

- (b) We are unable to assess accurately the respective numbers of securities companies which may wind up their businesses and

securities brokers who may switch jobs or become unemployed upon the removal of the minimum brokerage rule. In fact, a number of market variables, including market turnover, types of investment products offered and quality of services provided as well as overall economic condition and investment sentiment, will affect the business environment of the securities companies. Removal of minimum brokerage commission does not mean complete removal of commissions. This actually leads to liberalization of brokerage commission so that securities companies are allowed greater flexibility in providing diversified services and in pricing according to the needs of the market and investors. They therefore can better adapt to market development.

- (c) The Government has already set up the Working Group on the Business Environment of the Stockbroking Industry (the Working Group) in mid-January. As mentioned by the representative of our Bureau at the meeting of the Legislative Council Panel on Financial Affairs held earlier, the major areas of work preliminarily drawn up by the Working Group will include promotion of a level playing field to create a fairer business environment. The Working Group has been in close communication with the industry during the past month or so and is ready to consider views of various parties.

The Government is committed to the promotion of competition. In respect of the securities market, our policy objective is to ensure a fair, transparent and orderly market where intermediaries are free to enter to offer various types of services and where investors are able to make informed choices. In regulating the securities intermediaries, enhancing the transparency of the securities industry has always been one of the priorities of the SFC and the Hong Kong Monetary Authority (HKMA). So long as securities intermediaries fulfil the relevant requirements and investors' interests are reasonably protected, we will not interfere with their practices. We consider that intermediaries will be able to meet the needs of different clients in the market and provide them with choices by providing different types of services and with different fees.

The SFC will, through its regulatory system, identify whether there is any securities company engaging in any pricing or other forms of

competition which leads to market distortion. If it is noted that any firm engages in unhealthy business strategy which exposes its clients to greater risk, or cannot fulfil the requirements under the Financial Resources Rules, the SFC will approach the management of the securities company concerned. Similarly, in monitoring banks' securities business, the HKMA will pay attention to banks' business strategy and financial position. If a bank engages in unhealthy business strategy that adversely affects its financial position, the HKMA will approach the management of the bank concerned.

### **Preventing Import of Chickens Infected with Avian Flu Virus**

5. **MR FRED LI** (in Chinese): *Madam President, it has been reported that over the past two years, five consignments with a total number of around 10 000 live chickens from the Mainland were denied import into Hong Kong because some of the relevant blood samples taken at entry points from the live chickens had reacted positively to H5 avian flu virus tests. In this connection, will the Government inform this Council:*

- (a) *of the details of these cases;*
- (b) *whether it has subsequently discussed with the relevant mainland authorities ways to prevent the import of chickens infected with avian flu virus into Hong Kong; if so, of the results of the discussions; if not, the reasons for that;*
- (c) *whether it knows if the mainland authorities concerned consequently ordered the temporary suspension of the export of chickens from the farms concerned and specified the length of such moratorium; if so, of the details, the authorities from which such farms shall obtain approvals for resuming the export of chickens, and the factors to be considered by the authorities before granting approvals;*
- (d) *whether, in the future, following the denial of the import of chickens, it will make immediate announcements of the number of chickens involved and the reasons for denial; if so, of the arrangements concerned; if not, of the reasons for that; and*

- (e) *whether the Food and Environmental Hygiene Department (FEHD) found any chickens infected with H5 avian flu virus when it carried out inspections on mainland farms last year; if so, of the follow-up measures it has taken?*

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

- (a) and (b)

To minimize the risk of outbreaks of H5 avian flu, the Government has put in place a comprehensive avian flu surveillance and inspection system. In respect of imported chickens, they must originate from farms registered with the Inspection and Quarantine Bureau in the Mainland. Before the chickens are supplied to Hong Kong, they should be quarantined for five days and tested free of antibodies to H5 avian influenza virus. Upon entry into Hong Kong, imported chickens will need to go through the blood tests for H5 antibodies conducted by the FEHD. At the Man Kam To Control Point, 14 blood samples are taken from each consignment of imported chickens (normally each consignment comprises approximately 2 500 chickens) to test for the presence of H5 antibodies. All 14 blood samples must show negative results in the blood test before the concerned consignment can be released to the market.

In 2001 and 2002, Hong Kong imported about 56 million live chickens from the Mainland. Of these, five consignments of about 9 600 live chickens were returned to the Mainland in accordance with agreed procedures because some of the blood samples failed to pass the test for H5 antibodies and therefore did not comply with Hong Kong's import inspection and quarantine requirements. The chickens of these consignments were in good health showing no clinical signs of avian flu or abnormal mortality. The FEHD had informed the relevant mainland inspection and quarantine authority, requesting them to investigate and take follow-up actions in respect of the chicken farms concerned and suspend them from exporting live chickens to Hong Kong.



- (c) If H5 antibodies are found in imported chickens, the mainland chicken farms in question will be suspended from exporting live chickens to Hong Kong. The relevant mainland authority will investigate the farms in respect of their overall hygiene conditions, husbandry management, and the health condition of chickens, and take follow-up actions. Upon completion of the investigation, the mainland authority will provide the FEHD with the investigation results and the proposed improvement measures. After thorough and comprehensive study, if the farms satisfy our import quarantine requirements, the FEHD will decide whether to allow them to resume exporting chickens to Hong Kong on a trial basis.
- (d) In accordance with existing inspection and quarantine procedures, imported live chickens are tested for H5 antibodies at the import control point. The whole consignment will not be released for sale until blood test results are confirmed negative. As the chickens of the five consignments mentioned in parts (a) and (b) of the reply had been returned to the Mainland and our objective is to minimize the risk of recurrence of avian influenza outbreaks, our usual practice is that we do not make immediate announcements of these isolated events.
- (e) Since the launching of the mainland farm inspection programme last year, FEHD officers have not found any chickens reared in the mainland exporting farms infected with H5 virus during inspections. If infection is detected, we will take the follow-up actions as described in the reply in part (c).

### **Voluntary Early Retirement Programme Implemented by Hospital Authority**

6. **MR MICHAEL MAK** (in Chinese): *Madam President, regarding the Voluntary Early Retirement Programme (the Programme) implemented by the Hospital Authority (HA) at the end of last year, will the Government inform this Council:*

- (a) *whether it knows the HA employees' reactions towards the Programme; the numbers of applicants and those whose*

*applications have been approved so far, as well as the average compensation each successful applicant received, together with a breakdown by ranks; and*

- (b) *of the estimated annual savings on HA's staff emoluments to be achieved by the implementation of the Programme, and whether it has other financial plans to cater for the scenario in which the number of applicants for the Programme is lower than expected?*

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

- (a) The Programme of the HA was open for application from 2 December 2002 to 1 March 2003. Response from staff has been positive. Over 2 200 applications have been received. The HA management is going through all the applications, including screening the applications regarding compliance with the eligibility criteria. Approval of the applications would be subject to service needs. The HA will plan the staff exit in an orderly manner to tie in with the intake of new staff and service rationalization programmes, so as to ensure that its service can be well maintained.
- (b) The annual savings that can be achieved by implementation of the Programme will only be known after the applications have been approved. Members may wish to note that the number of applications received has exceeded the HA's original estimation.

### **Stored Value Phonecards Issued by PCCW**

7. **MISS CHOY SO-YUK** (in Chinese): *Madam President, I have received a complaint that the stored value phonecards issued by the PCCW-HKTC for making local and long-distance international calls from the company's public telephone booths have been replaced by its other phonecards in recent years, and the public telephone booths which accept such stored value phonecards are now very few. In this connection, will the Government inform this Council whether:*

- (a) *it knows the number of public telephone booths provided by the company and, among them, the number of those which still accept the stored value phonecards mentioned above;*
- (b) *it knows the number of such stored value phonecards sold by the company so far and, among them, the number of those still in circulation; and*
- (c) *the Administration will ask the company to make arrangements for refunding to holders of such phonecards their remaining value or exchanging these phonecards with other phonecards of the same value; if it will, of the details; if not, the reasons for that?*

**SECRETARY FOR COMMERCE, INDUSTRY AND TECHNOLOGY** (in Chinese): Madam President,

- (a) According to PCCW-HKTC, they have around 6 000 public payphones and over 1 200 of them can support the usage of the stored value phonecards as mentioned in the question for making local and international calls.
- (b) PCCW-HKTC does not have records on the number of the said phonecards which have been sold by the company, and among them, how many are still in circulation.
- (c) PCCW-HKTC explains that there are sufficient number of payphones around the territory which can support the use of the mentioned phonecards. Therefore it does not have a refund arrangement to replace these old cards by cash or new phonecards.

### **Applications Made Under Admission of Mainland Professionals Scheme for Employment in Hong Kong**

8. **MR SIN CHUNG-KAI** (in Chinese): *Madam President, regarding applications made under the Admission of Mainland Professionals Scheme (the Scheme) for entry to work in Hong Kong, will the Government inform this Council:*

- (a) *of the approval rate of the applications received under the information technology (IT) sector in each quarter since June 2001; whether the rates are rising; if so, of the reasons for that;*
- (b) *whether it has conducted regular reviews on the criteria and mechanism for vetting and approving applications, and monitored the operation of the mechanism and effectiveness of the Scheme; if so, of the details; if not, whether it will draw up a review timetable; and*
- (c) *in view of the closing down of many IT firms, the increasing number of unemployed workers and shrinking wages in the sector, whether it will regularly review the supply and demand of the workforce in the IT sector, with a view to stipulating a quota for admission of professionals for the sector or amending the criteria for entry applications for employment in Hong Kong?*

**SECRETARY FOR SECURITY** (in Chinese): Madam President,

- (a) The Scheme was introduced in June 2001 to admit qualified mainland professionals to work in Hong Kong in order to meet local manpower needs and enhance Hong Kong's competitiveness in the globalized market. Between June and September 2001, the Immigration Department (ImmD) received a total of 193 applications, of which 119 belonged to the IT sector. Excluding withdrawn cases and those under processing, the approval rate for the IT sector during that period was about 75%. The major reasons for the rejected cases were that the applicants did not possess a bachelor degree, certified technical qualifications and working experience in relevant sectors; the academic qualification and working experience of the applicants were not relevant to the position offered; the remuneration package was not commensurate with the market rate, and so on. After the Scheme has been implemented for some time, local enterprises have gained a better understanding of its requirements and eligibility criteria. As a result, the approval rate of the applications in the IT sector rose to 88% in 2002.

The ImmD has been closely monitoring the latest developments in the labour market and every application is scrutinized in accordance with the existing eligibility criteria of the Scheme. A monthly average of 10 cases was approved between June and October 2001 whereas an average of seven cases was approved in 2002.

- (b) When the Scheme was introduced, the Government agreed to review the Scheme one year after its implementation or when over 2 000 mainland professionals from either of the designated sectors have entered Hong Kong for employment. So far 275 mainland professionals including 160 from the IT sector have been admitted in the past one year or so after commencement of the Scheme. We have completed a comprehensive review on the operation and effectiveness of the Scheme in the context of formulating a population policy. It can be seen from the number of approved cases that the ImmD has been meticulously vetting every application based on the eligibility criteria of the Scheme. Through thorough pre-arrival vetting and site visits conducted on individual cases, the existing vetting mechanism has been effective in guarding against abuse.

As regards the effectiveness of the Scheme, a statistical study was conducted between July 2002 and January 2003 amongst employers who have successfully recruited mainland professionals under the Scheme. The respondents reflected that the admission of mainland professionals helped to increase efficiency and productivity, and facilitate business expansion into other markets. Mainland professionals also enhanced knowledge and technological transfer and helped to promote training for local staff. Seventeen employers recruiting a total of 17 mainland professionals anticipated that 73 local jobs would be created. This means that an average of 4.3 new jobs would be created with the importation of each mainland professional. Meanwhile, there have been calls in the community that apart from the IT and financial services sectors, other sectors also require the assistance of mainland professionals to facilitate business development. The existing sectoral restriction of the Scheme is not in line with economic development needs. The Government has made it clear in the recently announced Report of the Task Force on Population Policy that admission arrangements

for mainland professionals would be relaxed by abolishing existing sectoral restriction.

- (c) The Government will continue to closely monitor changes in the local labour market and maintain our existing policy that only those who possess skills, knowledge or experience not readily available locally and whose remuneration packages are comparable to the market rate may be admitted for employment. It is particularly important that we uphold the principle of giving priority of employment to the local population at this time of high unemployment rate. However, as long as applicants satisfy the above-mentioned requirements, the number of entries should be determined by market forces rather than being subject to a quota artificially imposed by the Government. This arrangement, which is in line with the existing practice for the admission of foreign talents, should also be applied to the admission of mainland professionals.

## Annex

### Admission of Mainland Professionals Scheme (June 2001 to December 2002)

#### Employment Applications of IT Sector

<i>Year</i>	<i>Received<sup>1</sup></i>	<i>Approved</i>	<i>Rejected</i>	<i>Withdrawn</i>	<i>Applications under processing<sup>2</sup></i>	<i>Approval Rate<sup>3</sup></i>
2001						
June to September	119	49	16	18	36	75%
October to December	85	22	12	34	17	65%
						Average <sup>4</sup> : 71%
2002						
January to March	45	17	2	9	17	89%
April to June	44	16	6	4	18	73%
July to September	58	37	1	7	13	97%
October to September	26	17	1	2	6	94%
						Average : 88%

1 Including applications under processing carried forward from the previous year.

2 These applications under processing will be carried forward to the next year.

3 The approval rate is calculated after excluding cases which were withdrawn and those under processing at the material time.

4 Weighted average is used to calculate the average approval rate between June to September 2001 to October to December 2001.

**Cases of Obtaining CSSA Payments by Deception**

9. **DR RAYMOND HO** (in Chinese): *Madam President, it has been reported that cases of obtaining Comprehensive Social Security Assistance (CSSA) payments by deception have been increasing in recent years. In this connection, will the Government inform this Council:*

- (a) *of the total amount of CSSA payments that the CSSA recipients concerned obtained by deception in the past three years;*
- (b) *of the average total value of assets owned by the CSSA recipients when they were found to have obtained CSSA payments by deception in the above cases; and*
- (c) *whether further measures are in place to curb acts of obtaining CSSA payments by deception; if so, of the details?*

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

- (a) Over the past three financial years (up to 31 January 2003), there have been a total of 923 CSSA cases where fraud has been established by the Social Welfare Department (SWD). The total amount of overpayment involved was \$45.3 million, broken down as follows:
  - (i) 2000-01 : \$13.2 million (332 cases)
  - (ii) 2001-02 : \$11.0 million (236 cases)
  - (iii) 2002-03 (up to 31 January 2003) : \$21.1 million (355 cases)
- (b) The SWD does not have statistical data on the average amount of assets held by CSSA recipients involved in the above fraudulent cases. According to the SWD's records, the total number of established fraud cases with overpayment attributed to unreported or false reporting of assets during the past three financial years is 222 with details as follows:

- (i) 2000-01: 68 cases
  - (ii) 2001-02: 59 cases
  - (iii) 2002-03 (up to 31 January 2003): 95 cases
- (c) The SWD has reorganized and strengthened its Special Investigation Section to prevent and combat fraud and abuse of social security payment. With effect from 1 April 2002, there are four Teams in the new Special Investigation Section. Two Fraud Investigation Teams handle referral of suspected fraud cases from social security field units and from members of the public who have reported information on suspected CSSA fraud cases through various channels like the "Report Fraud Hotline" and specially designed report forms. The Data-Matching Team conducts investigations into matched cases arising from SWD's regular data matching with nine different government departments and organizations to prevent possible fraud and overpayment, while the Random Check Team conducts full review with quality check on cases selected on a random basis. The findings will not only reveal individual cases of overpayment but will also be analysed with a view to helping the SWD identify high risk case categories, and drawing up a risk control plan so that resources are directed towards cases with a higher risk of overpayment.

### **Compensation for Police Officers Died Accidentally While on Duty**

10. **MR LAU KONG-WAH** (in Chinese): *Madam President, will the Government inform this Council:*

- (a) *whether the calculation of compensation in respect of regular police officers who die accidentally while on duty and the criteria for determining if their remains can be buried at Gallant Garden differ from those in respect of their auxiliary counterparts; if so, of the differences and the reasons therefore; and*
- (b) *if there are differences in the calculation and criteria concerned, whether:*



- (i) *a review will be conducted to ascertain if such different treatment constitutes a case of double standard;*
- (ii) *a study will be carried out to see how such different treatment may affect the morale of auxiliary police officers; and*
- (iii) *consideration will be given to amending existing legislation so that both regular and auxiliary police officers enjoy equal treatment; if not, of the reasons for that?*

**SECRETARY FOR SECURITY** (in Chinese): Madam President:

- (a) Whenever a regular police officer or a member of the Hong Kong Auxiliary Police Force (HKAPF) died from an accident whilst on duty, and provided that the criteria in section 5 of the Employees' Compensation Ordinance, Cap. 282, have been fulfilled, the "compensation in fatal cases" stipulated in section 6 of the same Ordinance will be payable.

For regular police officers who died on duty, death gratuity will also be granted in accordance with section 17 of the Pensions Ordinance, Cap. 89, or section 20 of the Pension Benefits Ordinance, Cap. 99. For auxiliary police officers, a similar mechanism is available under sections 5 and 6 of the Auxiliary Forces Pay and Allowances (Pensions) Regulation, Cap. 254(I).

In accordance with section 39E of the Police Force Ordinance, Cap. 232, the Police Welfare Fund may be used for granting financial assistance to dependants of the deceased police officers, deceased former police officers, auxiliary police officers who died from injuries sustained while on duty, former auxiliary police officers whose deaths were attributable to injuries sustained while on duty, and so on, in order to meet funeral expenses of those deceased persons.

Based on the above provision, if a regular or auxiliary police officer died from an accident while on duty, his dependants may be granted Police Welfare Fund to meet funeral expenses in accordance with the Ordinance.

The appropriate level of funeral service for a regular officer is governed by section 57-01 of the Force Procedures Manual. For an auxiliary police officer, this is based on section 16-01 of the HKAPF Standing Orders.

Section 16-01 of the HKAPF Standing Orders is formulated with reference to section 57-01 of the Force Procedures Manual. Therefore, the appropriate level of funeral service for an auxiliary police officer is determined according to guidelines similar to those applicable to a regular police officer, and the criteria to be met are also similar.

For burial at the Gallant Garden, regular and auxiliary police officers have to fulfil the criteria set out in section 57-15 of the Force Procedures Manual and section 16-15 of the HKAPF Standing Orders respectively. When the criteria are met and in accordance with established guidelines, the police will forward the case details to the Civil Service Bureau for the matter to be decided.

- (b) (i) For regular and auxiliary police officers who died from an accident whilst on duty, there is no difference from a legal perspective in the arrangement and compensation. Double-standard policy does not exist.
- (ii) In addition to the laws, the welfare and benefits of auxiliary police officers are provided in the HKAPF Standing Orders. The HKAPF Standing Orders are reviewed regularly. Before any chapter or section is promulgated, appropriate consultation will be made with different ranks in the Force.

Based on the above reasons, the provisions in relevant laws and regulations have not led to double standard and thus there should be no question of a morale issue.

- (iii) As regular and auxiliary police officers enjoy the same level of protection and benefits under the existing laws when they died from an accident while on duty, there is no plan to amend the existing laws and regulations.

**New Land Use Zoning of "Other Specified Uses" Annotated "Rural Use"**

11. **MS EMILY LAU:** *Madam President, in September 2001, the Town Planning Board (TPB) endorsed a recommendation of the Planning Department to introduce a new land use zoning of "Other Specified Uses" annotated "Rural Use" (OU(RU)) for land intended for maintaining the rural landscape and for rural and recreational uses that were commensurate with the rural environment. Under this new zoning, low-density, low-rise developments (maximum plot ratio of 0.4 and building height of three storeys) may be permitted by the TPB. In June 2002, the new zoning was first introduced in the amended Tai Tong Outline Zoning Plan (OZP), in which three pieces of land were rezoned from "Agriculture" to OU(RU). In this connection, will the Government inform this Council whether:*

- (a) it had conducted proper public consultation on the introduction of the new land use zoning of OU(RU); if so, of the details; if not, the reasons for that;*
- (b) it had assessed if the new land use zoning will lead to speculation on agricultural land, pose threats to the New Territories' rural landscape, and have impacts on sites with conservation and heritage value; if it has, of the assessment results; and*
- (c) it has given due regard to the formulation of a policy on conservation and agriculture before deciding to introduce the new land use zoning?*

**SECRETARY FOR HOUSING, PLANNING AND LANDS:** Madam President,

- (a) Pursuant to section 3 of the Town Planning Ordinance (the Ordinance), the TPB is responsible for the preparation of statutory town plans. From time to time, new statutory plans or amendments to statutory plans introducing new land use zonings and/or associated schedules of uses may be made to suit the changing planning circumstances and socio-economic needs of the community. When a new land use zoning is introduced in a new or

amendment plan, the public will be given an opportunity to inspect and object to the proposals contained in the plans in accordance with the provisions of the Ordinance.

The land use zoning of OU(RU) was first introduced in the draft Tai Tong OZP in June 2002 as a pilot proposal to gauge public views on this zoning. The Yuen Long District Council was consulted before and during the exhibition of the Tai Tong OZP.

In addition, the OU(RU) zoning was included in the public consultation on the Review of the Master Schedule of Notes conducted in August 2002. The Planning Department also held several meetings with the green groups to exchange views on this new zoning. At the request of the green groups, the consultation period for the Master Schedule was actually extended to November 2002 to allow sufficient time for the green groups to prepare a submission to the TPB.

- (b) The planning intention of the OU(RU) zoning is primarily to preserve the character of the rural area. Like other land use zonings, the OU(RU) zone is no more than a mechanism to guide development. Detailed district assessments will be made before any rezoning proposal is put to the TPB for consideration. Even if a site had been rezoned OU(RU), any development that might have an impact on the rural environment would still be subject to the scrutiny of the TPB under the planning permission system. Application for development would only be permitted if the applicant could demonstrate that there would be no adverse impact on the rural environment.
- (c) The OU(RU) zoning was introduced in the draft Tai Tong OZP as a pilot, and its applicability at district level would be subject to detailed assessments. In so doing, we would take into account all relevant considerations, including land use compatibility, accessibility, infrastructure capacity, as well as the Government's policy objectives in respect of conservation and agriculture, before any rezoning proposal to individual sites is put to the TPB.

**Members of Nursing Council of Hong Kong**

12. **MR MICHAEL MAK** (in Chinese): *Madam President, in June 1997, the former Legislative Council passed the amendments to the Nurses Registration Ordinance (Cap. 164), including adding the provision that six of the members of the Nursing Council of Hong Kong shall be elected among registered nurses and enrolled nurses in a manner provided for by regulations. In this connection, will the Government inform this Council of:*

- (a) *the progress in drafting the relevant election regulations and the planned time to introduce the proposed regulations to the Legislative Council; and*
- (b) *the planned time for implementing the relevant regulations; if no implementation date has been fixed, the reasons for that?*

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

- (a) Since the enactment of the Nurses Registration (Amendment) Ordinance 1997 in June 1997, the Administration has been working closely with the Nursing Council of Hong Kong (the Council), known as the Nursing Board of Hong Kong prior to 3 May 1999, to prepare the necessary regulations in relation to the election of the six members who are registered nurses or enrolled nurses to serve on the Council. As it is necessary to provide powers to the Council to enable it to handle election petitions, the Administration introduced relevant amendments to the Nurses Registration Ordinance through the Medical and Health Care (Miscellaneous Amendment) Bill 2000 in January 2000. The Bill however lapsed at the end of the 1999-2000 Legislative Session pending the establishment of a Bills Committee. The same proposed amendments were introduced again through the Medical and Health Care (Miscellaneous Amendment) Bill 2001, which was eventually passed by the Legislative Council in April 2002.

Drafting of the regulations providing for the election of the six members is in progress. With the necessary enabling powers in

place, these regulations are expected to be ready for introduction into the Legislative Council for negative vetting within the current Legislative Session.

- (b) Subject to the scrutiny of Legislative Council, the relevant regulations providing for the election of the six members are planned to be brought into operation later this year.

### **Promotion of Police Officers Participated in Handling Demonstrations**

13. **MS EMILY LAU** (in Chinese): *Madam President, it is learnt that some of the police officers promoted at the end of last year either participated in the operation on 8 May 2001 to tow away the vehicle of demonstrators from the Hong Kong Alliance in Support of Patriotic Democratic Movements of China during the Fortune Global Forum, or that on 30 June last year to seize the loudspeakers of demonstrators during the President of the State's visit to Hong Kong. In this connection, will the executive authorities inform this Council:*

- (a) *of a breakdown by the ranks of the police officers who participated in handling the above demonstrations and were promoted in 2002; and*
- (b) *whether, in considering the promotion of law enforcement officers, the authorities will take into consideration their performance in handling peaceful public meetings and processions; if so, whether they have assessed if this practice will encourage front-line law enforcement officers to adopt a tough attitude and method in handling peaceful public meetings and processions?*

**SECRETARY FOR SECURITY** (in Chinese): Madam President,

- (a) None of the police officers who were directly involved in the two incidents mentioned were promoted in 2002.
- (b) Performance management of police officers in their operational role is conducted through their Annual Reports, which assess them on their competency, character and performance in their current ranks

and posts. Officers who are considered to have potential for promotion are assessed in a separate Promotion Report, which considers them against the competencies and demands of the more senior ranks.

The Commissioner appoints officers to sit on Force Promotion Boards, which consider all officers recommended by Major Formations. For more senior ranks (at the rank of Superintendent or above), the Boards will include a representative from the Civil Service Bureau.

The Promotion Boards conduct assessment of eligible candidates against objective criteria as contained in the Administrative Instructions published Force-wide prior to each promotion exercise. Promotion is by merit and decided on the criteria of character, ability, qualifications and experience. The basic criteria for promotion are:

- Specified minimum years of service in rank;
- A good record of service;
- A good discipline record;
- For certain ranks, attainment of qualifications by passing relevant professional or language examinations;
- Recommendation from Formation or Major Formation Commanders.

### **Industrial Accidents Involving Collapse of Scaffolding**

14. **DR RAYMOND HO** (in Chinese): *Madam President, in view of a serious industrial accident involving the collapse of scaffolding which resulted in casualties on 9 December last year, will the Government inform this Council of:*

- (a) *the number of accidents involving collapse of scaffolding in each of the past three years;*

- (b) *the measures taken last year to enhance awareness of industrial safety amongst members of the construction industry; and*
- (c) *the legal liabilities of works contractors and employers of construction workers in respect of industrial accidents caused by overloading or structural defects of scaffolding?*

**SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR** (in Chinese): Madam President, in respect of the questions raised by Ir Dr the Honourable Raymond HO, my replies are as follows:

- (a) The Labour Department (LD) keeps accident statistics involving workers falling from height but does not have specific records of the number of incidents involving collapse of scaffolds and resultant injuries. As regards fatal accidents, the records kept by the LD indicated that in 2000 and 2001, there was no death arising from collapse of scaffolds. In 2002, there were three fatal accidents.
- (b) In addition to enforcement actions, the LD attaches great importance to enhancing safety awareness amongst people in the construction industry through promotion and publicity as well as education and training.

#### *Enforcement*

In 2002, in addition to routine inspections, the LD launched three blitz operations targeting at work-at-height and scaffolding safety.

During the period 10 October to 15 November 2002, the LD carried out two concurrent special inspection exercises on work-at-height and scaffolding safety — one targeting at construction sites and the other focusing on repair and maintenance works for external walls of existing buildings. During the operations, officers of the LD inspected 3 203 construction sites, issued 17 Suspension Notices and 82 Improvement Notices, and took out 112 prosecutions on breaches of safety regulations.



From 16 December 2002 to 15 February 2003, the LD launched another blitz operation targeting specifically at scaffolding safety, including buildings under construction as well as repair and maintenance works for external walls of existing buildings. During the operation, officers of the Department inspected 3 476 construction sites, issued nine Suspension Notices and 91 Improvement Notices, and took out 112 prosecutions on these breaches.

### *Promotion and Publicity*

On promotion and publicity fronts, the LD has been working in close partnership with other government departments, the Occupational Safety and Health Council, the Construction Industry Training Authority, relevant trade associations and employee unions to organize jointly large-scale safety promotion activities. They aimed at enhancing safety awareness amongst people in the construction industry, and encouraging the provision of safe and healthy working environment through self-regulation by duty holders.

In 2002, in addition to the annual Construction Industry Safety Award Scheme, the LD organized various promotional activities such as occupational safety and health talks, site promotional visits, exhibitions on occupational safety and health, safety quiz competitions, seminars and safety carnivals, and so on. The themes of these activities included work-at-height, work in confined space, lifting appliances and lifting gears, and safety management system.

Furthermore, the LD also broadcast construction safety messages through TV and radio. Last year, the LD produced three TV and four radio Announcements in Public Interest.

Moreover, the LD published a variety of safety publications for the construction industry. They included codes of practice, guidebooks on safety legislation, occupational safety and health guides, safety posters and accident casebooks. These publications

were distributed, free of charge, to contractors, employers, employees, trade associations, employee unions and professional bodies of the construction industry.

In 2002, the LD jointly organized with the Occupational Safety and Health Council two safety forums for the construction industry, one on work-at-height safety and the other on scaffolding safety. The two forums attracted some 1 200 participants.

### *Education and Training*

The Occupational Safety and Health Training Centre of the LD provides a range of training courses and talks on safety legislation for the construction industry. These courses and talks aim at enriching the knowledge of people in the construction sector about safety legislation and enhancing their safety awareness. Last year, the Centre organized 565 training courses for 4 782 people, and conducted 65 tailor-made safety talks to 3 143 participants for companies in the industry.

- (c) The contractors and employers concerned can be legally liable for accidents involving overloading or structural defects of scaffolds.

### *Liability of Contractors*

In construction work involving the use of a scaffold, the contractor responsible is required to comply with the Construction Sites (Safety) Regulations to ensure that the scaffold is so designed and constructed that it does not collapse, overturn or move accidentally. The scaffold must be of sufficient strength and capacity for its intended usage. The contractor shall also ensure that the scaffold is properly maintained and every part of it is kept so securely supported as to ensure its stability.

The contractor responsible for a scaffold shall ensure that, before it is used, the scaffold has been inspected by a competent person and a report has been made and signed by that person, certifying that the scaffold is in a safe working order.

In addition, the contractor shall ensure that any erection, addition, alteration and dismantling of scaffolds is carried out by trained workmen with adequate experience of such work. The work shall also be carried out under the immediate supervision of a competent person.

A contractor contravening the aforesaid legal provisions is liable to a maximum fine of \$200,000, and imprisonment for 12 months where the offence is committed without any reasonable excuse.

### *Liability of employers*

Under the Factories and Industrial Undertakings Ordinance, an employer (including a contractor) shall, so far as is reasonably practicable, ensure the health and safety at work of his employees. These general duties include the provision of a safe system of work for working on scaffolds.

An employer contravening this legal provision is liable to a fine of \$500,000. If an employer commits an offence wilfully and without any reasonable excuse, he is liable to imprisonment for six months in addition to the fine.

## **Furnishings of PRH Units**

15. **MR LAU KONG-WAH** (in Chinese): *Madam President, will the Government inform this Council whether the Housing Authority must remove the furnishings of vacated public rental housing units before handing over the units to new tenants; if so, of the reasons for that; and whether it will change the above measure so that the decision on whether to keep the furnishings of the units concerned will be made according to the new tenants' wish, with a view to saving public expenditure; if it will not, of the reasons for that?*

**SECRETARY FOR HOUSING, PLANNING AND LANDS** (in Chinese): Madam President, the Housing Department (HD) carefully inspects public housing flats upon tenants' removal to ensure that necessary fittings and fixtures are handed over to the new tenant. To minimize material waste, furnishings

which are still in good condition and in compliance with the HD's guidelines will not be removed unless expressly requested by new tenants. However, in older estates where major maintenance works such as repairing spalling concrete, fixing flooring leakages, re-plumbing, re-wiring of electrical cables, and so on, are necessary, the HD will make use of the vacant period to carry out these works. In such circumstances, the HD will need to remove the interior furnishings to facilitate the works and refurbish the flats before handing it over to the new tenants.

### **Selection Criteria for Science Park Tenants**

16. **MR SIN CHUNG-KAI** (in Chinese): *Madam President, it has been reported that of the nine buildings at the Hong Kong Science Park Phase 1, 30% of the facilities and office premises have not yet been rented out. According to the Chief Executive Officer of the Hong Kong Science and Technology Parks Corporation (HKSTP), the selection of the Science Park tenants is strict and only those which have "contribution to the economy and technology in Hong Kong" can be admitted. The progress of the construction will also be adjusted according to the situation, to avoid the facilities and office premises of the Science Park being left idle upon their completion. In this connection, will the Government inform this Council whether it knows:*

- (a) the business natures and staff numbers of the Science Park tenants and, among them, the ratio between new inward investing companies and local start-up companies;*
- (b) the criteria adopted by the HKSTP for determining "contribution to the economy and technology in Hong Kong";*
- (c) as the "Admission Criteria of the Hong Kong Science Park" announced by the Provisional Hong Kong Science Park Company Limited, the precursor to the HKSTP, had been submitted to the Legislative Council Panel on Commerce and Industry in April 2001, whether the HKSTP subsequently adopted these criteria or those mentioned in (b) above in selecting the Science Park tenants; and whether it has drawn up a mechanism for regular review of these selection criteria;*

- (d) *whether adjusting the progress of the construction according to the situation has any cost implication on the HKSTP's investment in the Science Park; if so, of the details and how the HKSTP will cope with this; and*
- (e) *whether the HKSTP will formulate measures and plans to promote the Science Park to overseas research companies or assist local small and medium-sized research companies to become its tenants, so as to fully utilize the equipment therein and enhance its occupancy rate?*

**SECRETARY FOR COMMERCE, INDUSTRY AND TECHNOLOGY** (in Chinese): Madam President,

- (a) As at 25 February 2003, the HKSTP approved 25 applications for admission into the Science Parks as tenants. It also approved another eight companies for admission as incubatees. These 33 companies include 16, 11, one and five enterprises engaged respectively in the areas of electronics, information technology and telecommunications, biotechnology and precision engineering, which comprise the four clusters of enterprises that the Science Park aims to develop. Of these 33 companies, six are new inward investing companies and one is a local start-up company. The ratio of new inward investing companies to local start-up companies is 6:1. Among the remaining 26 companies, 10 had been established for about a year or less when their applications were approved. Overall, these 26 companies plan to expand their research and development activities in Hong Kong or consolidate these activities elsewhere in the Science Park. These 33 companies initially plan to employ about 2 500 additional staff in the first three years after commencement of operation in the Science Park.
- (b) The public mission of the Science Park is to facilitate technological research, development and application to support the development, transfer and use of new or advanced technology in Hong Kong to enable Hong Kong to become a technology-intensive and knowledge-based economy. In the "Admission Criteria of the Hong Kong Science Park" submitted by the Commissioner for

Innovation and Technology to the Legislative Council Panel on Commerce and Industry on 11 April 2001, it was already stated that the applicants had to contribute to the long-term economic success of Hong Kong. The tenants should engage in technology-intensive business and their operations in the Science Park should be carried out through the development, enhancement and/or application of innovation and technology.

- (c) The "Admission Criteria of the Hong Kong Science Park" are in line with what is stated in (b) above. The companies approved for admission are engaged in technology-intensive business. They will carry out operations in technological research and new product development in the Science Park. The Board of Directors of the HKSTP and its committee responsible for admission matters will review, where necessary, the admission criteria taking into account the circumstances with a view to selecting the most appropriate tenants.
- (d) Construction of the Science Park Phase 1 is under the Public Works Programme, with the Architectural Services Department being responsible for the construction process. Part of Phase 1 has already been completed and opened, while the remaining construction work is in progress as scheduled. The last building is expected to be completed in mid-2004. The HKSTP will be responsible for the construction process of Phase 2. Detailed design and planning are now underway and construction has not yet commenced. In July 2001, the Finance Committee of the Legislative Council approved a commitment to inject \$2,435 million as equity and to provide a loan of \$1,043 million to the HKSTP to enable it to proceed with the construction of Science Park Phase 2. Any shortfall is to be borne by the HKSTP. The funds will be injected in phases in the light of the progress and the expenditure pattern of the construction. In such circumstances, there are already stipulations on the maximum amount of funding to be provided.
- (e) The HKSTP has launched a series of marketing activities in Hong Kong and overseas (including the major markets in America, Europe and Asia) and will engage overseas representatives to

further promote the Science Park. As for the assistance to the small and medium-sized local research-based companies, there are 77 technology start-ups participating in the HKSTP's incubation programme and engaging in operations in technological research and new product development. Most of them are local companies. In addition, eight other companies have been approved for admission to the Science Park as incubatees and will more fully utilize the facilities therein.

### **Promotion and Recruitment of Senior Executive Staff by Hospital Authority**

17. **DR LO WING-LOK** (in Chinese): *Madam President, it is learnt that the Hospital Authority (HA) has recently promoted three of its staff to Senior Executive Managers and recruited one Deputy Director, whose ranks are equivalent to D1 to D3 of the Directorate Pay Scale for Civil Service. In this connection, will the Government inform this Council if it knows:*

- (a) the duties and terms of employment (including salaries, fringe benefits and duration of contract) of the four executive staff;*
- (b) the contributions they will make to the medical service provided by the HA and whether there are objective indicators to gauge their contributions; and*
- (c) the HA's rationale and criteria for promoting and recruiting senior executive staff in the face of severe fiscal deficit and resource constraints?*

**SECRETARY FOR HEALTH, WELFARE AND FOOD** (in Chinese): Madam President, since the establishment of the HA in 1991, the HA's management has vigorously undertaken a series of measures to streamline its management functions and enhance its productivity. Over the years, the number of senior executives in the top two tiers of the HA Head Office has been reduced significantly (from 18 in 1992 to the existing six) through merging of work portfolios among senior executives. There are currently five Divisions, with each Division headed by a Director reporting to the Chief Executive. At present, there are four Directors and one Director post is vacant.

Given that staff cost accounts for 80% of the HA's total expenditure, the HA intends to conduct a comprehensive review on its human resource policies and staff remuneration packages to explore further opportunities for optimizing the use of its resources. The HA's remuneration system and practices would need to be overhauled taking into account the overall priorities and objectives of the organization. Following the grade reviews of the medical profession, nurses and pharmacists, the HA will proceed to conduct grade reviews for other allied health grades to ensure that the mix and core competences of the HA staff are in line with the organizational and service needs. To tackle all these urgent and important tasks, the HA decided to strengthen its human resources management at the third-tier level by recruiting a Deputy Director (Human Resources) on 25 November 2002. (In this regard, the Director of a Division may be supported by a Deputy Director where appropriate and justified.) The Deputy Director is employed on contract terms for three years with a cash package of around \$1.8 million per annum (including 15% contract gratuity and mandatory provident fund). Fringe benefits include 25 days of annual leave, free medical benefits, and other employee's benefits (such as sick leave) as provided for under the prevailing the HA human resource policies. This Deputy Director will be responsible for formulating a comprehensive human resource strategy for the HA, and facilitating service reorganization/redevelopment at the cluster/hospital level to tie in with organizational development. He will lead the human resource functions of HA both at the corporate and cluster/hospital levels.

The HA has not promoted three of its staff as Senior Executive Managers. Following a recent review of the remuneration of the HA's senior executives, the HA Board decided to rationalize the existing ranks of Senior Executive Managers (Professional Services) and Executive Manager (Professional Services), and merge the two ranks into a new rank. Such a development is in line with the trend in human resource policies worldwide which advocates delayering. Accordingly, the pay scales of Executive Managers (Professional Services) and Senior Executive Managers (Professional Services) have been merged, similar to the practice adopted for revising the pay scale in 2000 under the Medical Grade Reform for clinical specialists (consultants). The cash package of the merged rank ranges from \$2.1 million to \$2.6 million a year (including cash allowance and retirement benefit at 15% of basic salary). Fringe benefits include 21 to 28 days of annual leave, free medical benefits, and other employee's benefits as provided for under the prevailing the HA human resource policies. The duties



of the Executive Manager/Senior Executive Manager (Professional Services) rank include supporting management reforms at both the corporate and cluster/hospital levels, monitoring and evaluating the quality of service delivered to the public, liaising with other health service organizations and carers in the community to promote seamless healthcare and community partnership, co-ordinating the development of clinical and professional services, providing professional input in the development of non-clinical areas and assisting in the management of professional grades. In line with good human resource policies and the HA's established practice, advancement to the next pay point in the merged pay scale has to be subject to individual merits and is not automatic. The performance of the staff concerned will need to be assessed by the HA senior management before approval is given for an officer to advance to the next pay point. For the three staff in question, they have been assessed to be suitable for advancement to the next pay point in the merged pay scale.

### **Forensic Pathology Service of Department of Health**

18. **DR LAW CHI-KWONG** (in Chinese): *Madam President, regarding the Forensic Pathology Service (FPS) of the Department of Health, will the Government inform this Council:*

- (a) *of the medical services provided to victims of sexual violence; and*
- (b) *whether it has provided medical services to victims of sexual violence who are referred by government departments or organizations other than the police; if so, of the respective numbers of cases and ways of referral in each of the past two years; if not, of the reasons for that and how the victims concerned can be provided with appropriate and recognized forensic services?*

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

- (a) The FPS of the Department of Health provides forensic pathology and clinical forensic medicine services to government departments. It works closely with the police and provides professional input on

medico-legal aspects of criminal cases. Subject to the request made by the police, the FPS will conduct clinical medico-legal examination of victims and suspects of sexual offences. Forensic evidence and body samples will also be collected for further examination by the Government Chemist. The purpose of the medical examination is to document any injuries of victims and to provide the basis on which the FPS gives its expert opinion on medical matters in the course of investigation by the police and, if necessary, in a court of law.

- (b) As explained in (a), the services of the FPS are only provided to government departments, and for cases of sexual violence to the police.

Victims of sexual violence are strongly advised to report the case to the police promptly to ensure timely collection and analysis of vital forensic evidence, which may be presented to a court of law during the prosecution process. Therefore there is no apparent need to make the services of the FPS available to other organizations.

### **Erection of Structures on Historical Sites**

19. **MR BERNARD CHAN:** *Madam President, it has been reported that a government department has built a concrete platform and installed a temporary office over an anti-aircraft position at Wong Nai Chung Gap; while a concrete stairway has also been built at the Devil's Peak forts area. In this connection, will the Government inform this Council:*

- (a) *why a concrete platform and a concrete stairway have been built on these historical sites;*
- (b) *what preventive measures the Government has taken to minimize the damage to these historical sites; and*
- (c) *whether the fiscal deficit affects the measures taken by the Government to protect historical sites; if so, what the effects are?*

**SECRETARY FOR HOME AFFAIRS:** Madam President, at certain points of time in our history, Hong Kong was an important military outpost and battlefield, dotted with hundreds of military buildings and sites of varying scale. The most representative ones are either declared and put under the protection of the Antiquities and Monuments Ordinance, or graded and put under close monitor by the Antiquities and Monuments Office (AMO). The two sites in question are neither declared nor graded, but are recorded for reference in devising long-term protection measures.

In the Wong Nai Chung Gap case, a temporary hoarding (not a platform) was built on the site to provide temporary storage space under a project named "reconstruction of catchwater channels on Hong Kong Island and Lantau Island" commissioned by the Water Supplies Department (WSD). The hoarding has not caused any damage to the historical structures. On completion of the work, the WSD has removed the hoarding in end February 2003 and handed back the site to the District Lands Office. In the Devil Peak's fort case, a footpath has been in existence for many years before it was repaved in 2002 to ensure visitors' safety. In both cases, the works have not caused permanent damages to the main body of the historical structures.

Measures to protect historical sites and structures are implemented at two levels. At the legislative level, sites and structures with outstanding historical and architectural/archaeological values are declared as monuments, and stringent statutory restrictions imposed to prohibit demolition and limit alteration. At the administrative level, the Antiquities Advisory Board has adopted a non-statutory grading system whereby historical buildings are assessed according to their heritage and architectural merits. Relevant government departments are furnished with a list of graded buildings, and are requested to alert the AMO if they receive proposals which may cause disturbance to the buildings. Action will then be taken to identify alternatives or mitigations, and to protect historical buildings from demolition as far as practical.

Irrespective of the fiscal deficit, we attach great importance to the protection of heritage and monuments. Earlier in this year, the Leisure and Cultural Services Department has strengthened the manpower of the AMO through redeployment of internal resources. We would continue to take appropriate measures to ensure smooth delivery of the work of protection of heritage and monuments even under resources constraints.

**Monitoring of Bank Charges for Securities Services**

20. **DR DAVID CHU** (in Chinese): *Madam President, will the Government inform this Council:*

- (a) *whether it monitors the level of charges (other than brokerage commission) for securities services imposed by banks on their clients; and*
- (b) *of the measures in place to prevent banks from overcharging?*

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

- (a) Regarding Authorized Institutions' (AIs) pricing on their services, the Government's policy and role is to provide a level playing field and proactively enhance the transparency of the market, with a view to promoting effective operation of the market mechanism.

In order to ensure transparency in the pricing of services by banks, all AIs are required to follow the requirements in the Code of Banking Practice to make available to customers details of all fees and charges payable in connection with services provided by the AIs, including securities services. The Hong Kong Monetary Authority (HKMA) monitors compliance with the Code through its normal course of supervision of AIs. Recently, the Consumer Council has suggested that there should be more standardization of the nomenclature of the various fees and charges used in the provision of securities services. The HKMA and the Securities and Futures Commission are now considering how to further enhance the transparency of charges on securities-related services, and plan to consult the public after having prepared concrete proposals.

The HKMA also monitors AIs' pricing policies as part of its ongoing supervision of AIs' business practice and financial position. If an AI engages in imprudent pricing or unreasonable business strategy that adversely affects its financial position, the HKMA will seek explanation from the management of the AI concerned.

- (b) The HKMA believes that the most effective measure to prevent excessive pricing by AIs is through market competition. As mentioned above, it supports and promotes a more competitive market through ensuring transparency in the pricing of services by AIs. Under the Code of Banking Practice, AIs are required to make available to customers details of the fees and charges payable in connection with the services provided by the AIs. This should facilitate customers to make price comparison and consumer choice on an informed basis. The HKMA is not aware of any major problems of compliance by AIs in these areas.

## **BILL**

### **First Reading of Bill**

**PRESIDENT** (in Cantonese): Bill: First Reading.

### **APPROPRIATION BILL 2003**

**CLERK** (in Cantonese): Appropriation Bill 2003.

*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 Bill**

**PRESIDENT** (in Cantonese): Bill: Second Reading.

### **APPROPRIATION BILL 2003**

**FINANCIAL SECRETARY** (in Cantonese): Madam President, I move that the Appropriation Bill 2003 be read a Second time.

2. Charles DICKENS once wrote, "It was the best of times; it was the worst of times". This phrase is an apt description of Hong Kong's present situation. The world, with war imminent in the Middle East, faces major uncertainties. In Hong Kong, the unemployment rate persists at a high level, and job losses remain a worry. The psychological and material impacts of negative equity have suppressed demand for consumption and investment. The public has yet to recover its confidence in the future of our economy and vents its dissatisfaction at the Government. It is, if you will, the worst of times. In contrast, the mainland economy is growing rapidly, and investors worldwide compete for a share in its markets. Hong Kong, as the most cosmopolitan commercial city in China and the region, possesses geographical and institutional advantages. As the economy has been restructuring over the past five years, Hong Kong has seen a substantial reduction in the cost of doing business, and this has enhanced our competitiveness. Exports of goods and services again show growth, and tourism continues to flourish. Our citizens have gradually come to realize the inevitability of change. As the Chinese saying goes, "from need to change, from change to solution". To renew our strengths and set a new course, this could well be the best of times.

3. Against such a background, the preparation of this year's Budget has put me in a dilemma. Prudent fiscal management is not simply a matter of balancing the books, but also the interests of various sectors of the community. Cutting expenditure will inevitably affect civil service colleagues. Public expectations of the level of government services will have to be adjusted as well. Raising revenue will increase the burden on taxpayers and thus opposition from the community.

4. My task is clear: Not only to manage public finances properly, but also to propose measures aimed at implementing the plan for economic development and improving people's livelihood mapped out by the Chief Executive.

5. For us to forge ahead, the Government needs to work together with the people, united in determination and with wisdom to meet all challenges, turning adversity into opportunity.

6. Hong Kong economy is on an upward trend. Economic growth in real terms picked up significantly, rising from 0.6% in 2001 to 2.3% in 2002, with the main impetus coming from robust growth in exports of goods and services. Nevertheless, deflation has been more serious than we expected, as evidenced by

a drop of 3% in the Composite Consumer Price Index and 2.7% in the general price level of the economy as measured by the Gross Domestic Product (GDP) deflator. As deflation persisted, local consumption and investment remained weak. The nominal rate of economic growth fell by 0.6% for the whole year, about the same level as forecast last March. (Charts 1 to 2)

7. Though the economy has shown signs of improvement in real terms, the Government's huge fiscal deficit, if not resolved early, will dampen investors' confidence and stifle economic recovery. The consolidated deficit for 2002-03 is forecast to be \$70 billion, \$24.8 billion more than the original estimate. This is mainly because government revenue is 19.2% less than originally estimated. Capital revenue is forecast to be \$29.1 billion less than the original estimate. This substantial decrease is related to the Government's announcement in November last year to suspend land sales for one year, which has resulted in a \$13.9 billion drop in land revenue against the original estimate. Additionally, the Government is studying a merger of the two railway corporations and has postponed the sale of the second tranche of MTR Corporation shares, reducing revenue by a further \$15 billion.

8. The fact that capital revenue fell short of expectations has no doubt aggravated the deficit but the problem emerged well before this financial year. In four of the past five years, the Consolidated Account registered a deficit. That for 2002-03 amounted to 5.5% of the GDP. The Operating Account, which reflects government day-to-day revenue and expenditure, has been in deficit five years in a row, and this has been increasing at an astonishing rate. Excluding investment income from the fiscal reserves, the operating deficit hit \$67.6 billion in 2002-03, equivalent to 5.3% of the GDP. (Charts 3 to 5)

9. The persistent problem of huge deficits is a reflection of four changes that Hong Kong is facing: Cyclical economic adjustment; economic restructuring; population ageing; and evolution of government policies.

10. The impact of cyclical economic adjustment is mainly reflected in the consolidation of the property market and the bursting of the bubble economy, which have resulted in substantial decreases in revenues generated directly and indirectly from real estate activities.

11. As for economic restructuring, the continuing expansion of the regional economy centred in southern China is greatly enhancing the mobility of

production and services. Quite a few of Hong Kong's economic activities have shifted outwards. The majority of our industrial production processes have moved across the boundary in the past 20 years. Hong Kong's import and export trade, once dominated by domestic exports, has become re-export-led, and its development is marked by a recent shift towards offshore trade. Our service industries have also gradually expanded outwards. In the face of challenges brought about by economic restructuring, the Government is pursuing policies that help to increase external demand and promote the development of high value-added industries. Because Hong Kong has a territorial-based tax system, economic restructuring has a profound impact on our public finances.

12. The ageing population has also brought challenges to our public finances. Over the past decade, the percentage of persons aged 65 and above has increased from 9% of the population to 11%, and is forecast to rise to 24% by 2031. An ageing population will lead to an increase in government expenditure on social welfare and health services. The declining proportion of the population in the workforce will also result in reduced revenue.

13. The fourth development is the evolution of government policies. The services provided by the Government over the past decade have improved in both quality and quantity. In addition, due to rigidity in the pay adjustment mechanism for the Government and subvented organizations, the increase in unit costs has been greater than that of the price level in the overall economy. As a result, over the past decade, public expenditure in money terms has increased by an annual average of 8.3%, which is higher than the 4.9% annual average nominal economic growth over the same period. The share of public expenditure in the economy has increased from 15.6% to 21.5% for this year. There has been substantial growth in public expenditure in the major policy areas:

	<i>1992-93(\$ billion)</i>	<i>2002-03(\$ billion)</i>
Education	22.2[2.8%]	54.9[4.3%]
Health	13.6[1.7%]	33.9[2.7%]
Social Welfare	7.3[0.9%]	32.6[2.6%]
Housing	12.9[1.6%]	29.1[2.3%]

[ ] expenditure as a percentage of GDP



14. Moreover, the Government has reduced taxes, fees and charges several times in recent years. Revenue from various government fees and charges, as a percentage of total government recurrent expenditure, has decreased from 18% to 6% over the past decade.

15. Against the background of regionalization and an ageing population, and as high levels of wages and welfare are no longer supported by high land prices, a structural fiscal deficit is inevitable.

16. We have studied these issues in recent years. In February last year, the Task Force on Review of Public Finances submitted its report on the structural problems of our public finances. At about the same time, the Advisory Committee on New Broad-based Taxes published its report on widening the tax base. The report explored the relationship between direct and indirect taxes and our public finances, and recommended, *inter alia*, introduction of a Goods and Services Tax when appropriate.

17. Considering the characteristics of Hong Kong economy and its past trends, we believe that the principles of "big market, small government" and low taxation are the cornerstones of Hong Kong's development. Last year, I proposed to contain public expenditure to 20% of the GDP or below. Besides controlling public expenditure, the Government also considers that it is necessary in the long term to introduce a Goods and Services Tax to broaden the tax base and secure a stable source of public revenue. In view of the present economic situation, we will not introduce such a tax for the time being. We will continue to study details for future implementation.

18. Since the problem of a huge fiscal deficit is serious and needs to be addressed immediately, the Government must propose specific measures to eliminate it.

19. Some commentators claim that, as Hong Kong is undergoing economic restructuring and has been suffering from deflation and high unemployment for consecutive years, the Government should, given its fiscal reserves, reduce taxes and increase public expenditure to stimulate the economy, thus solving the problem of the fiscal deficit. I disagree. The European Union (EU) requires its member states to contain their fiscal deficit within 3% of the GDP. Though the United States is facing a huge deficit, the total amount will not exceed 3% of its GDP either. In contrast, our fiscal deficit is as high as 5.5%. If the

situation continues deteriorating, it may lead to an outflow of capital, thus pushing up interest rates. It will also impede the trend of economic recovery and could even trigger a financial crisis.

20. Many economists and international financial institutions have commented that the fiscal deficit poses potential problems for Hong Kong economy. In its annual visit last month, a delegation from the International Monetary Fund (IMF) observed that "the continued deterioration of the fiscal position has made it the main source of potential macroeconomic vulnerabilities". The IMF called on the Government to formulate "a well-specified deficit reduction plan to bolster market confidence. Despite the uncertain macroeconomic outlook, credible fiscal consolidation has to begin in fiscal year 2003. This will require the implementation of sizeable structural deficit reduction measures in fiscal year 2003 and a commitment to more substantial consolidation, supported by concrete measures, in the next three years."

21. The Government has repeatedly stressed that the problem of the fiscal deficit has to be solved with a three-pronged approach, namely boost the economy, cut expenditure and raise revenue. There is general support in the community for this. Economic growth is a key to solving the problem. Failure to find a decisive solution will in turn stifle economic development. The two are interactive.

22. As Hong Kong economy is externally-oriented, any attempt to stimulate it through expenditure increases and tax reduction will have limited impact. We believe that a more effective way to address the problem of deflation without increasing our financial burden is to increase external demand, which means attracting more visitors, overseas talent and investment immigrants to come to Hong Kong; more foreign enterprises to set up regional offices here; more people to attend schools in Hong Kong and seek medical treatment at our private hospitals; and more foreign capital inflows into Hong Kong's financial market. These measures will reinforce the vigour of various sectors.

23. In January, the Chief Executive set a direction for the economic development of Hong Kong in his policy address. We are implementing concrete measures to carry out the plan to develop our economy and improve people's livelihood. I will give a brief description of the following five areas:

Big market, small government;  
Building Hong Kong into a regional metropolis;  
Developing human resources and infrastructure;  
Enhancing core industries; and  
Increasing employment opportunities.

24. First, on big market, small government. We believe that a free market will lead to optimal distribution of resources, promote economic growth and create employment opportunities. In his policy address, the Chief Executive set out "big market, small government" as the underlying principle of the Government of the Hong Kong Special Administrative Region (SAR)'s philosophy of governance.

25. To contain the growth in public expenditure so that the public sector will not become a burden on the community is fundamental to realizing the principle of "big market, small government". The target I set last year to reduce public expenditure to 20% of the GDP or below in the medium term was for the purpose of restraining the growth of public expenditure.

26. Second, the Government must continue to support the market in policy-making instead of participating in it directly. We will review our regulatory regimes from time to time and modernize rules and regulations to ensure that they remain up-to-date. The introduction of a new housing policy has clarified the Government's role in the housing market. The Government will supply land in response to market demand and provide low-rent public housing for those in need. However, it will no longer act as a property developer by building houses for sale to the public. The task force to be appointed by the Chief Executive will study further measures to improve the business environment.

27. Third, the Government has also clearly stated that it would adopt the "3R1M" approach, that is, to reprioritize the provision of services, reorganize the structure of government departments, reengineer procedures and make full use of the market, so as to optimize resources and provide better services for the public. Over the past year, some government bureaux and departments have been merged and more services have been outsourced. We will also continue to encourage private-sector participation in the provision of services and infrastructure projects.

28. The SAR Government has in recent years intensified its co-operation with the Pearl River Delta (PRD). We have facilitated the flow of people and goods by redeploying resources and streamlining procedures, and are building Hong Kong into a regional metropolis. With the support of the Central Government and the Guangdong Provincial and Municipal Governments, we have achieved substantial progress. In the fourth quarter of last year, the flow of people through the land control points was 9% higher than for the same period in 2001. The number of goods vehicles crossing the boundary also rose by 8%.

29. We will continue to improve facilities at our boundary crossings and construct new cross-boundary links. In the second half of this year, we will begin the construction of the Shenzhen Western Corridor link to Shekou in Shenzhen. We are studying the feasibility of constructing a new vehicular bridge at Lok Ma Chau to facilitate the cross-boundary transportation of cargo. Moreover, the SAR and the Mainland are currently discussing the construction of a bridge linking Hong Kong, Macao and the western part of the PRD as well as a Guangzhou-Shenzhen-Hong Kong express railway. The feasibility of simplifying visa application procedures for mainland residents to visit Hong Kong is also under study with the aim of enabling individual travellers from Guangdong to visit Hong Kong in a personal capacity.

30. Hong Kong is a strategic two-way platform for business between the Mainland and the rest of the world. To attract more overseas companies to invest in the Greater PRD and to set up office in Hong Kong, the Government will provide additional funding of \$200 million over the coming five years for promotional activities. To enhance the effectiveness of our promotional efforts, we will work together with the business sector and the Guangdong authorities to run overseas promotions. Many local businessmen have expressed their strong support for such a partnership. They are ready and willing to contribute their time and make use of their international connections to help the Government promote the investment strengths offered by Hong Kong and the Greater PRD. Invest Hong Kong will co-ordinate such promotions.

31. We are speeding up our discussion on the Mainland/Hong Kong Closer Economic Partnership Arrangement with the Central Government, with a view to reaching an arrangement on the main parts in June. We have made progress in recent discussions.

32. Next, I will talk about developing human resources and infrastructure. Human resources are the cornerstone of a knowledge-based economy. A developed knowledge-based economy requires world-class universities to nurture talent. Many world-renowned tertiary institutions make use of private donations to enhance university education. To encourage universities in Hong Kong to be more proactive fund-raisers, the Government will set up a \$1 billion fund to award matching grants to universities which succeed in securing private donations for purposes other than the construction of campus buildings. Details are being formulated and will be announced by the Education and Manpower Bureau in due course. I will also later propose to raise the ceiling for tax-exempted private donations.

33. Apart from training local people, we will seek to attract more foreign talent to Hong Kong. The Government announced a population policy a week ago with proposals to ease restrictions on the entry of mainland professionals and to expand the scope for investment immigration. We believe that, with more professionals coming to Hong Kong, our economic vitality will be enhanced and local consumer spending will increase, thereby bringing more employment opportunities for our citizens.

34. Another idea to draw in talent is to attract young people to receive basic education here and remain in Hong Kong to further their studies. On completion of their tertiary education, they can apply to stay and make their careers here. This will help to develop our economy and alleviate the problem of an ageing population. Local students can also benefit from an expansion of their horizons through interacting and learning together with students from other places. In this connection, the Government is considering how the relevant policies, including immigration and education, could support such an initiative.

35. Some consider that the Government should take the opportunity of the current economic downturn to invest substantially in infrastructure. We agree. The Government will press on with projects that yield economic and social benefits to Hong Kong. The average annual provision earmarked for infrastructure works is about \$29 billion over the next five years, similar to that for the past few years.

36. At the same time, to speed up project delivery, increase opportunities for investment in Hong Kong and further the principle of "big market, small government", we will introduce a list of infrastructure projects for private sector

participation on a trial basis. We will invite the private sector to submit expressions of interest on 10 or so recreational and cultural facilities projects worth about \$2.5 billion. If private corporations can put forward development packages for individual projects, the Government will consider offering the projects through competitive bidding to the market for development. Depending on market feedback, the format for private sector participation may cover design, build and operate, or other options involving private financing. The Home Affairs Bureau is working on the details. We will consider extending the scheme, if successful, to cover projects under the purview of other bureaux.

37. To stay competitive, Hong Kong must excel in three aspects: quality, creativity and speed. The core industries in Hong Kong, comprising financial services, logistics, tourism, and producer and professional services, possess a considerable competitive edge in these three aspects.

38. In order to maintain Hong Kong's status as an international financial centre, we must move up the value chain to attract quality companies to list in Hong Kong and investors to participate in our market. The Financial Services and the Treasury Bureau is working with the organizations concerned to implement the Corporate Governance Action Plan announced in mid-January. This will upgrade the standard of governance for listed companies and the quality of the equity market. Within this month, I expect to receive the Expert Group's report making recommendations on the regulatory structure and operation of the securities market in respect of listing matters to further improve market quality.

39. With the rapid accumulation of capital in the region, Hong Kong is making strides to become the bond and fund management centre for Asia. The Hong Kong Monetary Authority (HKMA) has already established a Real Time Gross Settlement System for the Hong Kong Dollar and the US Dollar. The HKMA has also established links with the Mainland's government bond and international bond settlement systems so as to reduce the settlement risk of bond trading. The HKMA co-operates actively with central banks in the region on development of an Asian Bond Fund to promote the growth of Asian bond markets. The Mortgage Corporation, Airport Authority, MTR Corporation and Kowloon-Canton Railway Corporation will step up the issuance of bonds in Hong Kong. I welcome investment banks to enhance their fixed-income operations in Hong Kong, including secondary trading.

40. Fund management is the core activity of the financial services industry. It is well-developed in Hong Kong, and the Government encourages fund managers to expand their business here. The Securities and Futures Commission has approved the issue of qualified retail hedge funds and will consult the industry on codes relating to real estate investment trusts.

41. In order to foster the development of retail bonds and other financial products, we will introduce a bill to amend the Companies Ordinance by July to simplify the procedures for the registration and issue of prospectuses. We will make tax proposals to assist the development of the bond market and the fund management industry. I will return to this later.

42. The insurance industry is an important component of the financial market. To enhance the effectiveness of the Office of the Commissioner of Insurance, we are studying arrangements to turn it into an agency independent of the Government. Such an arrangement is in line with international regulatory trends.

43. Hong Kong is one of the busiest container ports and air cargo hubs in the world. Last year, our port ranked first with a throughput of 19 million twenty-foot equivalent units (TEUs). Our airport has also ranked first in the world since 1996 in terms of its volume of international air cargo. Last year, it handled a record 2.48 million tonnes.

44. The Government has done much to support the development of the logistics industry. As mentioned earlier, we are taking steps to raise the capacity for cargo traffic at our land crossings. More improvements will follow in the coming years. As regards maritime transport, the first berth of Container Terminal 9 will be completed later this year, and when all its berths are in full operation in 2005, port capacity will increase by 20%. To ensure that our port remains competitive, the Government will complete the site selection study for Container Terminal 10 by the end of this year.

45. In recent years, there has been remarkable growth in our air cargo volume. Looking to the future we have plenty of room for further development. Last year, the Airport Authority awarded a franchise for the development of an express cargo terminal. The Airport Authority is also exploring opportunities for co-operation with the airport in Shenzhen to develop their potential further. To strengthen our status as an aviation hub, the Government will work hard to secure additional air traffic rights for Hong Kong.

46. We are taking forward the development of a logistics park on North Lantau and the Digital Trade and Transportation Network (DTTN) system. The DTTN will provide an open electronic platform through which relevant sectors, financial institutions and government departments can exchange data at higher speed and lower cost.

47. I come now to tourism. In recent years, tourism has been one of the fastest-growing sectors of the economy. Last year, the number of visitors increased by 21 %. The Hong Kong Tourism Board is forecasting a growth rate in excess of 8% this year. This encouraging development is attributable to the joint efforts of the Government and the tourism industry itself. It is clear that service quality is an important part of our competitive advantage. Many tourists choose to shop in Hong Kong because our goods are fashionable and of guaranteed quality.

48. The tourism industry workforce in Hong Kong enjoys a high reputation for its service quality. Two "thank you" letters from Shanghai clearly bear this out. A tourist from Shanghai shopped in a department store in Hong Kong but forgot to take his purchase away with him, while another left behind a mobile phone while shopping in a leather goods store. On their way back to the stores, these two tourists were worried about how they would be able to explain their problems to the salespersons and retrieve their belongings. However, not only were they able to get them without any difficulty, they were also courteously treated at every stage by those they encountered. It had never crossed their mind that their plight could be resolved in such a prompt and simple manner. They recounted their happy experience to the media after returning to Shanghai. The magazine that published the two stories made the following comment: "The Chinese tourists told their relatives and friends about the quality services they received and Hong Kong's reputation as an international city was built up. This shows that every individual makes his contribution to the investment environment."

49. The Government will continue to promote tourism. New tourist attractions are coming on stream. In addition, we will work together with the business sector to create new lighting effects on both sides of Victoria Harbour. The light show held at the Hong Kong Cultural Centre during Chinese New Year was one such attempt. We hope that more can be done by the end of this year, when a new sightseeing ferry service will be operating. Visitors will be able to enjoy the most spectacular night view in the world from the ferries or from either side of the harbour.



50. As the economic development of the Mainland continues, the producer and professional services of Hong Kong will have ample further opportunities. Last year, large-scale trade promotion activities held by the SAR Government in Chongqing, Shandong and Jiangsu were well-received, with many professional organizations and enterprises participating. This year, the SAR Government will continue to organize promotional activities in other provinces and cities, including the PRD, to develop business opportunities for the service industries of Hong Kong.

51. The remarkable international achievements of the local film industry prove that the creative industries of Hong Kong have great development potential. We will foster this development by strengthening co-operation between the Government and these industries. We have set up a \$50 million Film Guarantee Fund to address the problem of securing film production finance. The Hong Kong Asia Film Financing Forum, with the support of the Film Development Fund, will be held in April to help the industry to attract overseas investment. The Commerce, Industry and Technology Bureau and the Home Affairs Bureau will welcome suggestions from those concerned on promoting the development of various creative industries.

52. The Government also supports high-tech industries. The Science Park is strengthening its support facilities to enhance Hong Kong's capability in integrated circuit design and photonics technology, thereby increasing the related industries' competitiveness in research, product development and design. We will set up a Wireless Solution Development Centre and a Digital Media Centre in the Cyberport this year to strengthen support for industries, particularly small and medium-sized enterprises, in respect of their technical development. Apart from facilitating the development of technology, products and services, this will give a new dimension to the growth of Hong Kong's creative industries.

53. I would like to talk about the issue of increasing employment opportunities. Hong Kong relies on the development of knowledge-based and high value-added economic activities for survival. However, for some members of our labour force, the pace of economic restructuring in Hong Kong may prove too fast. Some industries have ceased to be competitive and their workers need to switch to other trades in order to find a job. To address this problem, the Government will take action on three fronts:

- First, continue to promote industries such as tourism and the local community economy, which can provide jobs for those with comparatively low educational qualifications and skills. Our tourism sector is making significant progress while development of the local community economy has made a good start.
- Second, reinforce various vocational programmes. At present, we provide over \$1 billion each year for various training and retraining opportunities for those in need. The newly-established Manpower Development Committee will examine how to optimize the use of resources and will launch new training programmes and formats to meet the needs of the labour market better.
- Third, in the face of economic restructuring and the persistently high rate of unemployment, provide additional non-recurrent funding of \$270 million to ease unemployment. Of this, \$50 million is earmarked for expansion of the Re-employment Training Programme for the Middle-aged, increasing the number of places from 2 000 to 12 000. Another \$26 million will be allocated for the provision of attachment training for 2 000 university graduates to enhance their job-related skills. The remaining \$200 million, coupled with resources redeployed internally, will be used to extend about 3 600 temporary jobs. We will also enhance the training of local domestic helpers to improve their skills. In addition, we will launch new Intensive Employment Assistance Projects with an allocation of \$100 million from the Lotteries Fund to assist longer-term Comprehensive Social Security Assistance recipients to get back to work.

54. Looking ahead, external economic factors will continue to have a mixed effect on the overall economy of Hong Kong in 2003. The EU and United States economies will still be affected by the unstable situation in the Middle East, whereas the Mainland's accelerated institutional reforms will support the continued growth of its economy. We forecast that our GDP will rise 3% in real terms in 2003, and that, in the face of persistent deflation, the Composite Consumer Price Index will drop by 1.5% and the general price level of the economy by 2%. For the whole year, the economic growth rate is forecast to be 1% in nominal terms.

55. Over the medium-term period 2003 to 2007, we forecast a trend GDP growth rate of 3% per annum in real terms. There will be gradual easing of deflation. Over the same period, our forecast trend rate of overall price change in the economy is 0% per annum and the trend growth rate of nominal GDP is 3%.

56. I have already mentioned that our forecast fiscal deficit in 2002-03 will be \$70 billion. Total government spending will be \$243.3 billion, whereas government revenue will be \$173.3 billion. I forecast that our fiscal reserves will drop to \$303 billion by 31 March this year.

57. Last year, I set three medium-term targets for our public finances, which are to achieve the following by 2006-07:

- attain a balanced Operating Account;
- restore balance in the Consolidated Account; and
- reduce public expenditure to 20% of the GDP or below.

I remain convinced that these three targets are in the overall interest of Hong Kong.

58. To remove the uncertainty caused by the fiscal deficit and to restore investors' confidence, specific proposals must be made and carried out as soon as possible in order to demonstrate our determination. In view of the current economic environment in Hong Kong, we also need to avoid aggravating the problem of deflation and dampening consumer sentiment. In order to strike a balance, I will adopt clear targets, a practicable pace and a step-by-step approach to implementation in proposing revenue-raising and expenditure-cutting measures.

59. We estimate that between now and 2006-07 economic growth will bring the Government about \$30 billion in additional revenue. To achieve fiscal balance by 2006-07, we aim to generate a further \$20 billion through raising revenue and another \$20 billion through cutting down on expenditure in the next four years.

60. I shall deal with containing public expenditure growth first. To contain growth in public expenditure, we must reduce operating expenditure. We are particularly concerned about operating expenditure, as it comprises expenditure on the daily operations of the Government and the public sector, and is rather difficult to adjust. Over the long term, the Government aims to achieve surpluses in the Operating Account so as to provide funding to finance capital expenditure. For the time being, we are unable to achieve this goal, but we must strive to avoid operating deficits in the medium term.

61. The Government has now set a target to reduce operating expenditure from \$220 billion, as originally estimated, to \$200 billion by 2006-07. In controlling expenditure, departments will, through reprioritization of service provision, reorganization of structure and reengineering of procedures, ensure that essential services are not affected. The Government is committed to ensuring administrative efficiency through optimal use of resources, reducing the rigidity of government prices, and controlling the size of the public sector workforce.

62. The Chief Executive in his policy address announced that the establishment of the Civil Service would be reduced by 10% to about 160 000 posts by 2006-07, the recruitment of civil servants would be frozen with effect from 1 April this year, and the second round of the Voluntary Retirement (VR) Scheme would be launched.

63. In addition, the salary of civil servants will be reduced to the level in cash terms as at 30 June 1997. This pay reduction will be carried out in two phases. With the full implementation of the civil service pay reduction, the Government will save about \$7 billion annually on salary expenses and subsidies to subvented organizations.

64. The Government will work out with civil servants an improved pay adjustment mechanism that better reflects the principle of broad comparability of civil service pay with the private sector. It is the Government's aim to complete this exercise, including a pay level survey, within 2004.

65. Social welfare is another item of public expenditure that has been growing very quickly. It now accounts for 15.5% of operating expenditure, with 10.6% for social security payments. The Government will continue to provide vulnerable members of the community and others in need with a basic safety net, so that nobody will become homeless, suffer from hunger, or be deprived of

schooling and medical treatment because of financial difficulties. However, in the light of structural changes in the population, the increasing growth of social security payments demands our attention. The Secretary for Health, Welfare and Food announced detailed proposals on adjustment to social security payments last week. The proposed adjustments are based on the movements of the Social Security Assistance Index of Prices, and are meant to restore social security payments to their original intended buying power. The adjustments to social security payments for elderly and disabled persons will be implemented in two phases over the next two years. The proposed adjustments are reflected in the Estimates for 2003-04 presented to this Council today.

66. We estimate that, after full implementation of the proposed social security payment adjustments, annual expenditure in this area will be reduced by about \$1.71 billion. Despite this adjustment, we anticipate that expenditure on social security payments will continue to grow substantially in the next few years. We will keep the social security schemes under regular review to establish an effective and financially-sustainable basic safety net that provides assistance to individuals and families in financial difficulties.

67. The resources we are using come from the public. We must use them cost-effectively. The Chief Secretary for Administration has designated the Director of Administration, together with the Head of the Efficiency Unit, to co-ordinate the efforts of departments in using resources more cost-effectively and in avoiding waste. The Civil Service Bureau has recently issued a circular to all Heads of Departments, encouraging colleagues to participate actively in the Staff Suggestions Scheme by putting forward cost-saving measures. I also call upon the public to give us their suggestions to help the Government optimize the use of its resources.

68. Last year, I put forward some guiding principles to be adopted by the Government in the management of its finances. One of these was the planning of expenditure in nominal or money terms, in order to avoid the tendency for the rise in the price level of government expenditure to exceed the rise in the general price level of the economy. We have already brought this new arrangement into effect.

69. Starting from this year, with the implementation of the accountability system, each Policy Bureau has been given an expenditure ceiling, that is, the operating expenditure envelope. Directors of Bureaux now have greater

flexibility to deploy resources within their operating expenditure envelope, and may retain for future use part of the savings achieved, thus providing incentives to save.

70. Operating expenditure is estimated to be \$213.6 billion for 2003-04, \$212.2 billion for 2004-05, \$203.4 billion for 2005-06, and \$200 billion as targeted for 2006-07. Within these amounts, the Government will in the coming two years earmark a total of \$8.6 billion to implement the second VR Scheme.

71. To cut operating expenditure by \$20 billion to \$200 billion in four years entails a reduction of about 9%. In practice, the reduction to be borne by departments would be greater than 9% because some items, including civil service pensions and social security payments, will continue to increase. In order to achieve the overall expenditure reduction target, all departments will have to absorb such increases by making greater reductions.

72. We estimate that the Government's total recurrent expenditure for 2003-04 will be \$207 billion, an increase of 1% over the original estimate of \$204.9 billion for 2002-03, with 23.8% for Education, 15.8% for Social Welfare, 15.4% for Health, 15.1% for Support, and 12.1% for Security. In preparing the future allocation of expenditure, consideration will be given to the community's priorities.

73. The estimate of capital expenditure for 2003-04 is \$43.2 billion, an increase of 0.8% over the original estimate for this year. From 2003-04 to 2007-08, annual capital expenditure will average \$42.5 billion, of which around \$29 billion will be set aside for works projects.

74. Total public expenditure for 2006-07 is estimated to be \$262.5 billion, or 18.4% of the GDP forecast for that year, in line with my target set last March of containing public expenditure at not more than 20% of the GDP. (Chart 6)

75. It is necessary to raise additional revenue of \$20 billion between now and 2006-07. The proposals that I am now going to make will raise revenue by \$14 billion, and the remaining \$6 billion will be raised by measures to be proposed as appropriate over the next three years.

76. After thorough consideration of the impact on taxpayers and the economy, I put forth the following measures to help stabilize revenue, broaden the tax base, resolve the budget deficit, and ensure financial stability. I will also propose some tax relief measures to tie in with the population policy and promote further development of education and financial services. I believe that the proposed measures strike a fair and reasonable balance that is consistent with the overall interest of the community.

77. I propose that the marginal tax rates and tax bands under salaries tax revert to their levels before the concessions made in 1998-99. The size of the incremental steps will be increased from 5% to 6%, and the marginal tax rates will be adjusted upward to 2%, 8%, 14% and 20% respectively. The bandwidth will be reduced from \$35,000 to \$30,000.

78. I propose that the basic and married person's allowances revert to their levels before the concessions made in 1998-99, from \$108,000 to \$100,000 and from \$216,000 to \$200,000 respectively. In 1998-99, the allowance for single parent was increased by 44% to the same level as the basic allowance. I propose that the single parent allowance also be reduced to \$100,000. Following implementation of the proposals, about 90 000 more employed persons will come into the tax net, thus helping to broaden the tax base.

79. I also propose that the standard rate of tax be increased from 15% to 16%.

80. Considering the prevailing economic situation and that the public's burden is still rather heavy, I propose that all the above proposals should be implemented in two equal phases in 2003-04 and 2004-05. This will provide some relief to taxpayers.

81. In addition, I propose that the exemption for holiday warrant and passage be removed.

82. I have decided that the allowances for dependent grandparent, parent, brother or sister, disabled dependant, and deduction for self-education expenses and other deductions should remain unchanged. However, in support of the population policy, I propose to increase the allowance for the third to ninth child from \$15,000 to \$30,000, equivalent to that for the first and second child.

83. When fully implemented, the foregoing proposals will generate about \$6.8 billion additional revenue for the Government in a full year. Detailed proposals concerning the salaries tax adjustments are set out in the supplement.

84. We are fully aware that salaries tax increases will have a direct impact on the public, but my proposals should have limited impact on lower to middle income taxpayers. For instance, the tax liabilities of those with monthly incomes of \$8,300 to \$16,700 will be increased by an average of only \$60 a month, with the effective tax rate increasing from 0.7% to 1.2%. The tax liabilities of those with monthly incomes of \$25,000 to \$33,000 will be increased on average by \$410 a month, with the effective tax rate increasing from 3.6% to 5%.

85. I propose that the profits tax rate for corporations be increased from 16% to 17.5% with effect from 2003-04. In addition, I propose that the rate of deeming assessable profits for certain payments such as royalties be increased from 10% to 30%.

86. I further propose that the profits tax rate for unincorporated businesses be increased from 15% to 16%, to be implemented in two phases in two years, in line with the adjustments in the standard rate of salaries tax.

87. Hong Kong has a simple profits tax system with consistently low tax rates and many concessions. We do not have capital gains tax nor do we impose tax on dividends. The proposed rates are still lower than those in neighbouring economies, and the 18.5% rate we had in the 1980s. Our competitive edge will not be affected by the revision in profits tax rates. When fully implemented, the proposals will generate additional revenue of \$3.5 billion for the Government in a full year.

88. I propose that the property tax rate be increased by one percentage point to 16% and be implemented over two years in line with the salaries tax standard rate adjustment. The proposal, when fully implemented, will generate \$70 million additional revenue for the Government in a full year.

89. The motor vehicles first registration tax (FRT) was last adjusted in 1994. The 2000-01 Budget mentioned the need to review the scope of FRT exemptions so as to update the system. We have completed the review in consultation with the trade and found that the practice of exempting air conditioners, audio



equipment, anti-theft devices and distributors' warranties from the taxable value is no longer appropriate in view of changing trade practices. It is now common for vehicles to be fitted with such equipment before import. Providing such exemptions creates a loophole in the tax system. I therefore propose to abolish them. In response to the trade's requests, I also propose to increase the bandwidths and introduce a marginal tax system for private cars. In addition, we shall make suitable adjustments to the tax bands and tax rates for revenue purposes. The adjustment in tax rates will be progressive and will have a greater impact on expensive vehicles. Detailed proposals concerning the adjustments are set out in the supplement.

90. These new tax measures take immediate effect under a Public Revenue Protection Order published in the Gazette today. They will generate \$700 million additional revenue for the Government in a full year.

91. To promote the use of electric vehicles, we propose to extend the exemptions for these vehicles for a further three years to 31 March 2006. This will reduce government revenue by \$400,000 in a full year.

92. I propose that the Air Passenger Departure Tax be increased from \$80 to \$120. The revised rate is still lower than the past high level of \$150. This will generate approximately \$400 million in additional revenue for the Government in a full year.

93. I propose that the duty on exotic horse racing bets be increased from 19% to 20%. This will generate additional revenue of \$150 million for the Government in a full year.

94. Last year I proposed to introduce a Boundary Facilities Improvement Tax to help finance the improvement of boundary facilities. Boundary facilities improvement works now being carried out or planned by the SAR will cost over \$14 billion. We have looked into the details of implementing the Boundary Facilities Improvement Tax and have recently briefed this Council. The bill will be introduced into this Council in the second quarter of this year. This tax will generate additional revenue of over \$1 billion in a full year.

95. As announced earlier, the Government intends to regulate football betting and introduce a football betting duty. The Government has reached an agreement with the Hong Kong Jockey Club on a betting duty, at a rate of 50%

of gross profits. The annual revenue so generated for the Government is estimated to be \$1.5 billion. The bill will be introduced into this Council shortly.

96. To encourage private donations to educational and other charitable organizations, I propose to raise the existing ceiling for tax-exempted donations to approved charitable organizations from 10% of assessable income or profits to 25%. This proposal will cost the Government about \$100 million in a full year.

97. To reinforce the status of Hong Kong as an international financial centre and to remove the concerns of offshore fund managers, we will amend the Inland Revenue Ordinance to exempt offshore funds from profits tax. This will bring Hong Kong in line with major financial markets such as New York and London.

98. At present, subscriptions to and redemptions of units in Hong Kong from unit trust funds domiciled outside Hong Kong are exempted from the fixed stamp duty of \$5. However, this concession is not applicable to unit trust funds domiciled in Hong Kong. I propose to extend the exemption to them as well.

99. These measures will have minimal impact on government revenue.

100. At present, only trading profits from qualified debt instruments with a maturity period of five years or more are eligible for a 50% concession on profits tax. To promote development of the bond market, I propose to reduce the eligible maturity period from five to three years, and grant a 100% concession on profits tax for qualified debt instruments with a maturity period of seven years or more. This proposal will cost the Government \$17 million a year.

101. In view of the present economic situation and the operating difficulties of the transport industry, I have decided to extend the duty concession for ultra low sulphur diesel for another year to the end of March 2004, maintaining the duty rate at \$1.11 per litre. This proposal will cost \$1 billion.

102. The recent revaluation exercise indicates that, as a consequence of drops in market rent, rateable values of premises have fallen by an average of 8%. With the new rateable values coming into effect on 1 April, the majority of rate-payers will have their burden reduced.

103. The above revenue-raising proposals will increase government revenue by \$6 billion in 2003-04, \$13 billion in 2004-05 and \$14 billion each year from 2005-06 onwards. I will consider proposing other revenue measures in the next few years that will bring an additional \$6 billion in order to meet the target of raising \$20 billion by 2006-07.

104. Last year, I announced that government fees and charges would be frozen until the end of March 2003. As most major fees and charges have been frozen for more than five years, and given the present serious deficit situation, I have decided not to extend this measure. I shall consider with the Policy Bureaux how best to adjust individual fees and charges.

105. Land revenue is one source of capital revenue. Following the announcement last November to suspend land sales for one year, the Government will thereafter only sell sites initiated by application. While this enables land supply to better meet market demands, it has become more difficult for the Government to forecast its revenue. The Government estimates that land revenue from 2003-04 to 2007-08 will be as follows:

<i>Year</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>
	<i>(\$ billion)</i>	<i>(\$ billion)</i>	<i>(\$ billion)</i>	<i>(\$ billion)</i>	<i>(\$ billion)</i>
Land revenue	2.5	13.3	19.3	20	20.6

106. To make up the shortage of revenue, the Government plans to sell or securitize a total of \$112 billion worth of assets in the next five years. The estimated revenue is as follows:

<i>Year</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>
	<i>(\$ billion)</i>	<i>(\$ billion)</i>	<i>(\$ billion)</i>	<i>(\$ billion)</i>	<i>(\$ billion)</i>
Total proceeds from the sale of assets and securitization	21	30	24	21	16

107. Next, I will say a few words on the Government's views of issuing bonds. Some have suggested that the Government should issue bonds, and employ financial management techniques to generate revenue which could be classified as income under our cash-based accounting system, so as to avoid substantially

raising tax and cutting expenditure. The Government is not totally against issuing bonds. The questions that have to be considered are the use of the funds so raised, and the interest costs so incurred.

108. Infrastructure is an investment in the future. If there is a lack of funds, the issuance of bonds is an acceptable option. The Government has issued bonds on three occasions in the past. The Financial Secretaries of the day clearly indicated that the purpose of issuing bonds was to provide funding for capital works projects. However, the problem before us now is that our Operating Account suffers from a prolonged shortage of revenue to cover expenditure. Issuance of bonds can only meet cashflow requirements but cannot solve the underlying problem. For the time being, we can draw on our fiscal reserves to cope with the deficit, and the cost of issuing bonds is higher than the investment income from the fiscal reserves. Therefore, we do not see any need to issue bonds.

109. If the economy grows according to our projections and all the foregoing expenditure-cutting and revenue-raising measures are successfully implemented, we will achieve our three fiscal targets, that is, restoring balance in the Operating and Consolidated Accounts and reducing public expenditure to 20% of the GDP or below in 2006-07.

110. Including the extraordinary expenditure of \$3.3 billion for implementing the second VR Scheme, we forecast an operating deficit of \$53.4 billion for 2003-04, \$0.4 billion more than the forecast operating deficit for 2002-03. The operating deficits will gradually decline, falling to \$0.5 billion in 2006-07.

111. In respect of the Consolidated Account, we estimate that a deficit of \$67.9 billion will occur in 2003-04, \$2.1 billion less than 2002-03. The consolidated deficit will decrease over the next two years and will register a surplus of \$8.1 billion in 2006-07.

112. In the next five years, our fiscal reserves will be maintained at a level between \$190 billion and \$240 billion, the equivalent of nine to 11 months of government expenditure, and lower than the 12-month guideline proposed last year. As the community and the economy cannot cope with too vigorous expenditure-cutting and revenue-raising measures, I believe it is acceptable for the fiscal reserves to be maintained at this level, even though this is not entirely satisfactory. Nevertheless, due to the significant reduction in the fiscal reserves

exclusive of the Land Fund, we will move an amendment resolution in this Council shortly to permit the transfer of funds from the Land Fund to the General Revenue Account in order to meet government expenditure requirements. (Charts 7 to 8)

113. In proposing the various fiscal measures, the Government has taken into account their impact on the overall economy. The proposed measures will have only minimal impact since, based on the econometric model adopted by the Government, the growth rate of our economy and price movement will adjust downwards as a result by an annual average of 0.14% and 0.21% respectively between 2003 and 2007.

114. We believe that the package of measures announced this afternoon will enable us to restore balance in our public finances over the medium term, thereby eliminating a factor that may lead to a financial crisis. Investors' confidence in Hong Kong will also be enhanced. People's anxiety about the future will be alleviated when they see that the tax increases and expenditure cuts in the coming years will be mild.

115. Madam President, the preparation of this year's Budget has certainly been a challenging task. I visit districts frequently and talk with people from all walks of life. In preparing this Budget and deliberating various proposals, I reflected on the people I had met and the remarks they had made to me. The thought of the impact of the Government's proposals on them caused me some agony and anxiety. However, it is the people's keen expectation and encouragement that has spurred me on. Over the past few months, many friends have told me that they understand the difficulties I face and have expressed their support. During the consultation period, Members of this Council, academics, experts, representatives of the business sector and local districts gave me valuable opinions and helped me tremendously in preparing this Budget. I wish to take this opportunity to extend my heartfelt thanks to them all.

116. As a member of the community, I am well aware of the impact of the revenue-raising and expenditure-cutting measures. However, as Financial Secretary, I know very well that a persistent fiscal deficit will undermine our financial stability. The proposals I put forward today may have short-term impact, but will prevent larger, long-term problems. I also believe that today's proposals to eliminate the deficit are not so drastic as to impede economic

recovery, and that they have taken into account the affordability of those who will be affected.

117. Madam President, last month I had the honour of being invited to sing with Members of this Council the song "For A Bright Future" which has the following lyrics: "We dare to scale the mountain height: from topmost peak our vision bright." Hong Kong people have conquered one mountain after another and this time is no exception. Our nation is destined to become a world economic power. Hong Kong is its most cosmopolitan city and a world city for the region. We can see clearly what is in store for us. Through perseverance, we will have a bright future.

**PRESIDENT** (in Cantonese): I now propose the question to you and that is: That the Appropriation Bill 2003 be read the Second time.

**PRESIDENT** (in Cantonese): In accordance with the Rules of Procedure, the debate on the Second Reading of the Appropriation Bill 2003 is now adjourned, and the Estimates are referred to the Finance Committee for examination before the Second Reading debate on the Bill resumes.

## **NEXT MEETING**

**PRESIDENT** (in Cantonese): I now adjourn the Council until 2.30 pm on Wednesday, 12 March 2003

*Adjourned accordingly at half-past Three o'clock.*

Chart 1

## Hong Kong's economy on an upward trend in 2002

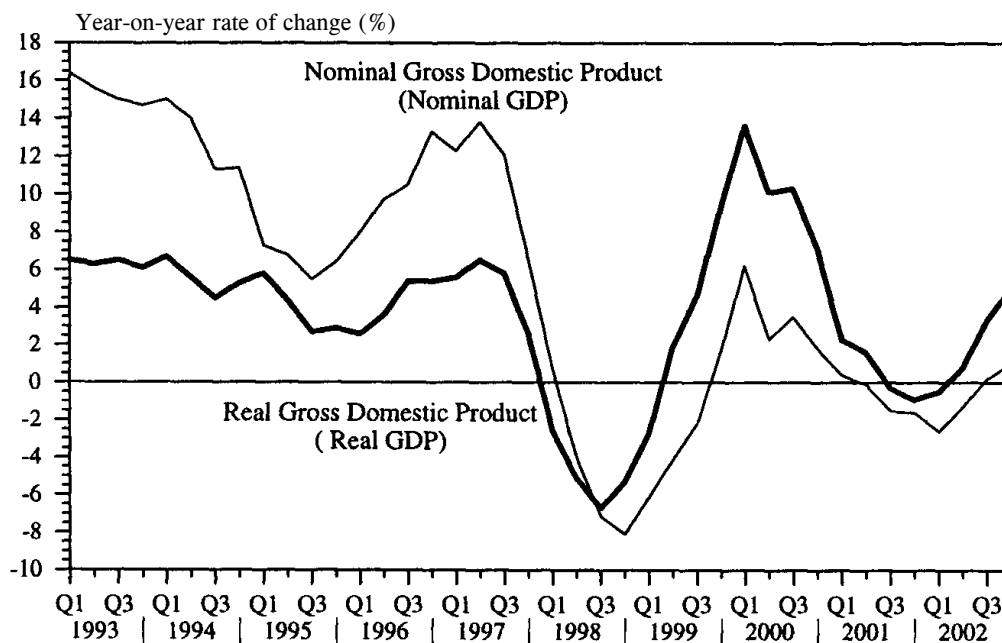


Chart 2

## Deflation persists

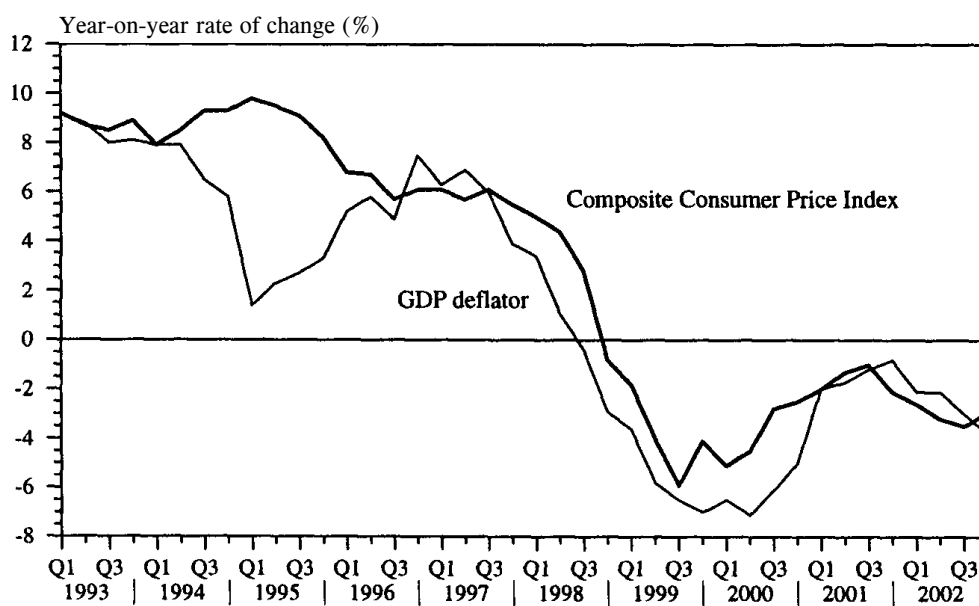


Chart 3

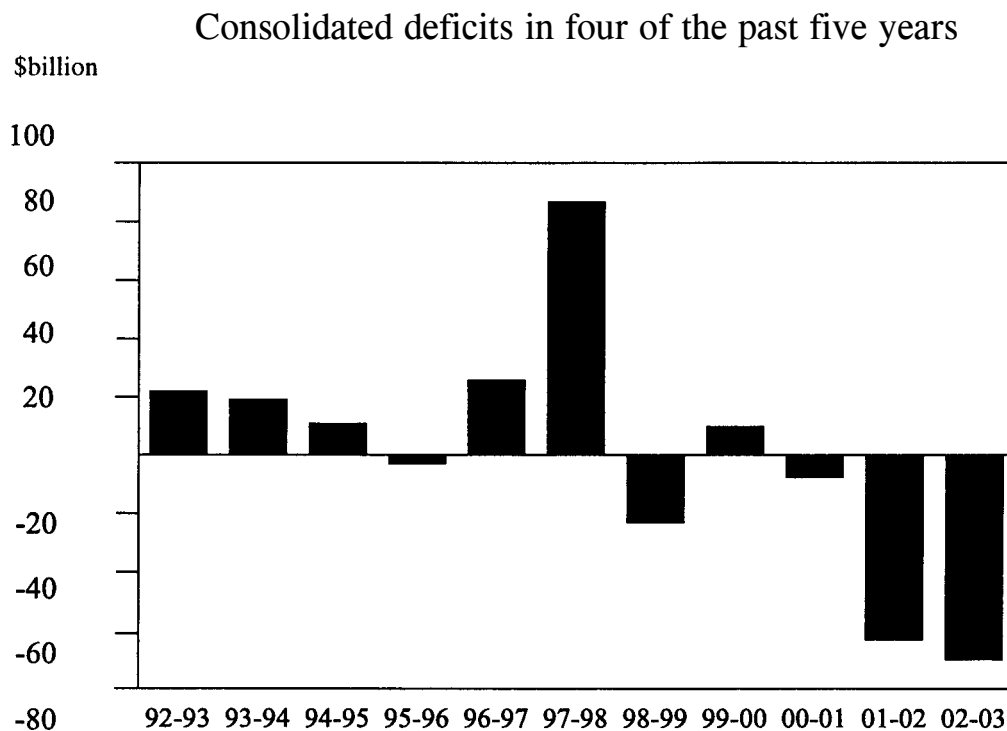


Chart 4

Five consecutive years of operating deficits

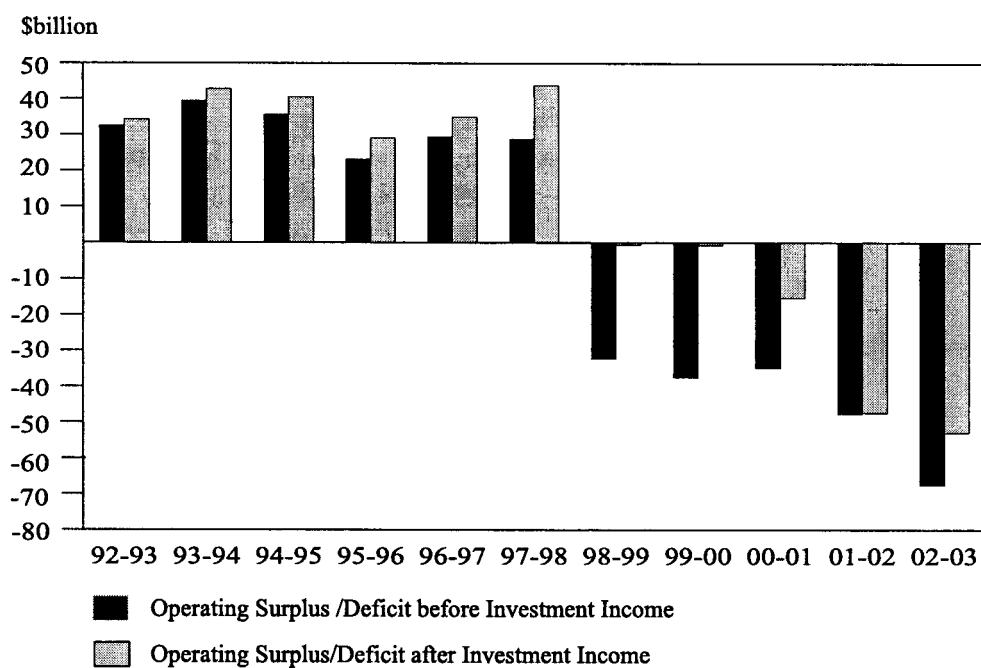




Chart 5

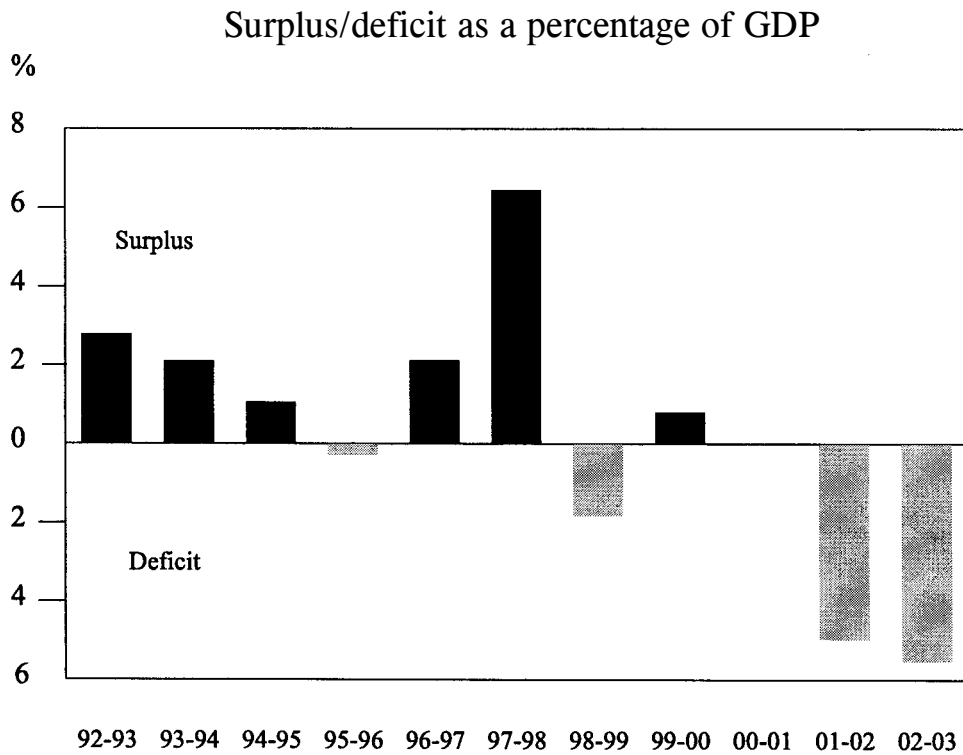


Chart 6

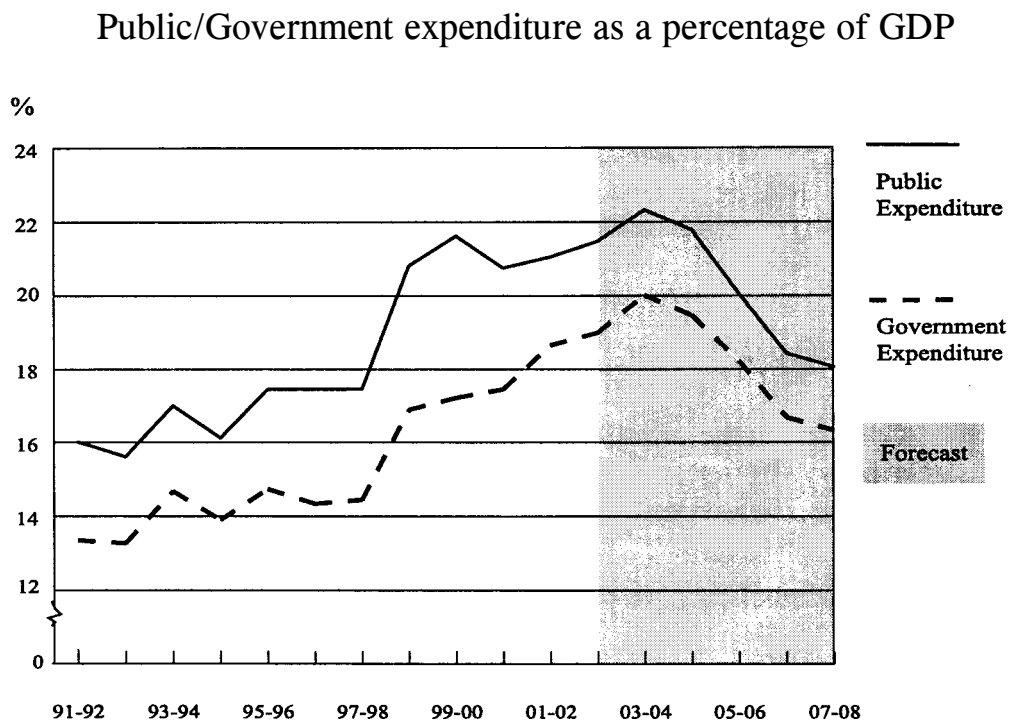


Chart 7

## Forecast of operating and consolidated surplus/deficit

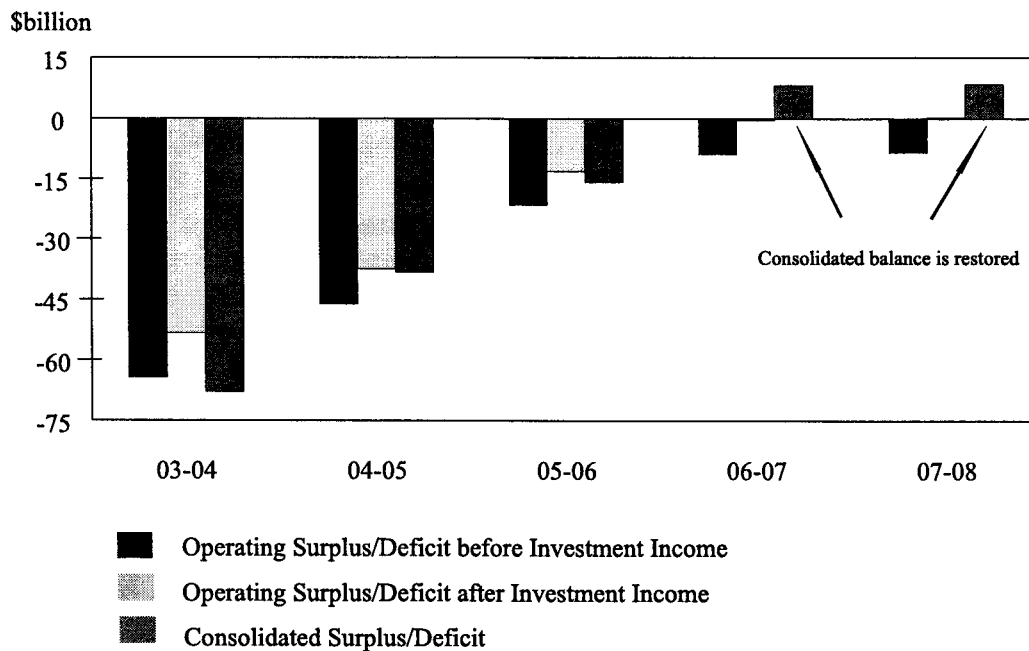
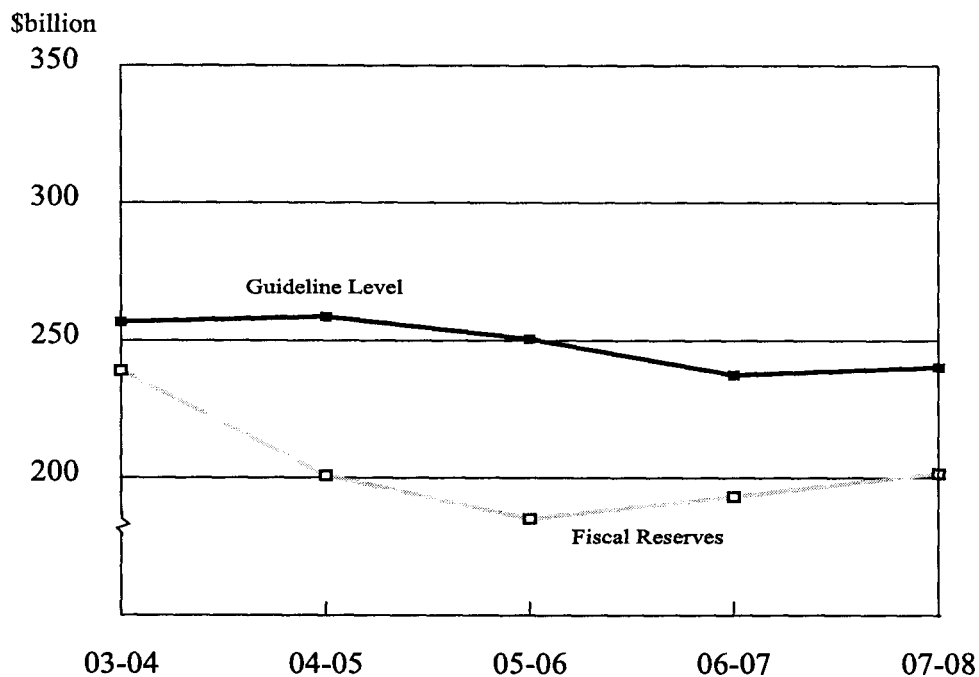


Chart 8

## Forecast of fiscal reserves balance



*Supplement***SALARIES TAX****Summary of Adjustments****A. Changes to allowances and deductions**

	<i>Before 1998-99 concessions (\$)</i>	<i>Present (\$)</i>	<i>Proposed</i>	
			<i>2003-04 (\$)</i>	<i>2004-05</i>
<b>Personal Allowances:</b>				
Basic	100,000	108,000	104,000	100,000
Married	200,000	216,000	208,000	200,000
Single Parent	75,000	108,000	104,000	100,000
<b>Additional Allowances:</b>				
Child:				
1st to 2nd child	27,000	30,000	30,000	30,000
3rd to 9th child	14,000	15,000	30,000	30,000
Dependent Parent/Grandparent:				
Basic	27,000	30,000	30,000	30,000
Additional allowance (for dependant living with taxpayer)	8,000	30,000	30,000	30,000
Dependent Brother/Sister	27,000	30,000	30,000	30,000
Disabled Dependant	25,000	60,000	60,000	60,000
<b>Deductions:</b>				
Self-Education Expenses	20,000	40,000	40,000	40,000
Home Loan Interest	—	150,000 <sup>(1)</sup>	100,000	100,000
Elderly Residential Care Expenses	—	60,000	60,000	60,000
Contributions to recognised retirement schemes	—	12,000	12,000	12,000

<sup>(1)</sup> The maximum amount of deduction for home loan interest was raised from \$100,000 to \$150,000 for the years of assessment 2001-02 and 2002-03.

*Supplement***B. Revision of tax bands and rates**

<i>Before 1998-99 concessions</i>		<i>Present</i>	
<b>Marginal Tax Band</b>	<b>Marginal Tax Rate (%)</b>	<b>Marginal Tax Band</b>	<b>Marginal Tax Rate (%)</b>
First \$30,000 chargeable income	2.0	First \$35,000 chargeable income	2.0
Next \$30,000	8.0	Next \$35,000	7.0
Next \$30,000	14.0	Next \$35,000	12.0
Remainder	20.0	Remainder	17.0
	<b>Standard Rate (%)</b>		<b>Standard Rate (%)</b>
	15.0		15.0

*Proposed*

<b>2003-04</b>		<b>2004-05</b>	
<b>Marginal Tax Band</b>	<b>Marginal Tax Rate (%)</b>	<b>Marginal Tax Band</b>	<b>Marginal Tax Rate (%)</b>
First \$32,500 chargeable income	2.0	First \$30,000 chargeable income	2.0
Next \$32,500	7.5	Next \$30,000	8.0
Next \$32,500	13.0	Next \$30,000	14.0
Remainder	18.5	Remainder	20.0
	<b>Standard Rate (%)</b>		<b>Standard Rate (%)</b>
	15.5		16.0

## Supplement

*Effect of the revision of the marginal tax bands and rates on tax payable for the first \$120,000 chargeable income*

Chargeable Income (\$)	Cumulative income (\$)	Present			2003-04			2004-05		
		Rate	Tax (\$)	Cumulative tax (\$)	Rate	Tax (\$)	Cumulative tax (\$)	Rate	Tax (\$)	Cumulative tax (\$)
First	10,000	2.0%	200	200	2.0%	200	200	2.0%	200	200
Next	10,000	2.0%	200	400	2.0%	200	400	2.0%	200	400
Next	10,000	2.0%	200	600	2.0%	200	600	2.0%	200	600
Next	2,500	2.0%	50	650	2.0%	50	650	8.0%	200	800
Next	2,500	2.0%	50	700	7.5%	187	837	8.0%	200	1,000
Next	2,500	7.0%	175	875	7.5%	188	1,025	8.0%	200	1,200
Next	2,500	7.0%	175	1,050	7.5%	187	1,212	8.0%	200	1,400
Next	10,000	7.0%	700	1,750	7.5%	750	1,962	8.0%	800	2,200
Next	10,000	7.0%	700	2,450	7.5%	750	2,712	8.0%	800	3,000
Next	2,500	7.0%	175	2,625	7.5%	188	2,900	14.0%	350	3,350
Next	2,500	7.0%	175	2,800	7.5%	187	3,087	14.0%	350	3,700
Next	2,500	7.0%	175	2,975	13.0%	325	3,412	14.0%	350	4,050
Next	2,500	7.0%	175	3,150	13.0%	325	3,737	14.0%	350	4,400
Next	10,000	12.0%	1,200	4,350	13.0%	1,300	5,037	14.0%	1,400	5,800
Next	10,000	12.0%	1,200	5,550	13.0%	1,300	6,337	14.0%	1,400	7,200
Next	2,500	12.0%	300	5,850	13.0%	325	6,662	20.0%	500	7,700
Next	2,500	12.0%	300	6,150	13.0%	325	6,987	20.0%	500	8,200
Next	2,500	12.0%	300	6,450	13.0%	325	7,312	20.0%	500	8,700
Next	2,500	12.0%	300	6,750	18.5%	463	7,775	20.0%	500	9,200
Next	2,500	12.0%	300	7,050	18.5%	462	8,237	20.0%	500	9,700
Next	2,500	12.0%	300	7,350	18.5%	463	8,700	20.0%	500	10,200
Next	2,500	17.0%	425	7,775	18.5%	462	9,162	20.0%	500	10,700
Next	2,500	17.0%	425	8,200	18.5%	463	9,625	20.0%	500	11,200
Next	10,000	17.0%	1,700	9,900	18.5%	1,850	11,475	20.0%	2,000	13,200

*Supplement***SALARIES TAX****Effect of adjustments on different income groups**

Annual income	Total no. of taxpayers	Increase over present in average tax liability per month		Effective tax rate after implementation of adjustments
		2003-04	2004-05	
\$100,001 to \$200,000	500,000	\$30	\$60	1.2%
\$200,001 to \$300,000	316,000	\$100	\$230	3.4%
\$300,001 to \$400,000	190,000	\$190	\$410	5.0%
\$400,001 to \$600,000	149,000	\$350	\$730	8.1%
\$600,001 to \$900,000	69,000	\$650	\$1,330	12.0%
\$900,001 and above	66,000	\$1,220	\$2,260	15.2%
Total	1,290,000			

*Supplement***Effect of adjustments on different households**

	Present tax in a year (\$)	Monthly tax increase over present		Effective tax rate after increases	Total increase in effective tax rate
		2003-04 (\$)	2004-05 (\$)		
<u>Annual Income \$105,000</u>					
1. Married couple with 2 children and 1 dependent parent living with the taxpayer	—	—	—	—	—
2. Married couple with 1 child	—	—	—	—	—
3. Single Person	0	1.7	8.3	0.1%	0.1%
<u>Annual Income \$192,000</u>					
4. Married couple with 2 children and 1 dependent parent living with the taxpayer	—	—	—	—	—
5. Married couple with 1 child	—	—	—	—	—
6. Single Person	4,830	103.9	230.8	4.0%	1.4%
<u>Annual Income \$400,000</u>					
7. Married couple with 2 children and 1 dependent parent living with the taxpayer	2,730	105.6	255.8	1.5%	0.8%
8. Married couple with 1 child	15,680	297.1	626.7	5.8%	1.9%
9. Single Person	39,140	407.9	838.3	12.3%	2.5%
<u>Annual Income \$800,000</u>					
10. Married couple with 2 children and 1 dependent parent living with the taxpayer	68,380	684.6	1,401.7	10.7%	2.1%
11. Married couple with 1 child	83,680	797.1	1,626.7	12.9%	2.4%
12. Single Person	107,140	907.9	1,738.3	16.0%	2.6%

*Supplement***Annual income levels below which  
no salaries tax is payable**

	<i>2003-04</i>	<i>2004-05</i>
<b>No dependent parent / grandparent</b>		
Single	\$104,001	\$100,001
Married	\$208,001	\$200,001
Married + 1 child	\$238,001	\$230,001
Married + 2 children	\$268,001	\$260,001
Married + 3 children	\$298,001	\$290,001
<b>No dependent parent / grandparent and having incurred mortgage interest of \$100,000 for residence</b>		
Single	\$204,001	\$200,001
Married	\$308,001	\$300,001
Married + 1 child	\$338,001	\$330,001
Married + 2 children	\$368,001	\$360,001
Married + 3 children	\$398,001	\$390,001
<b>Including two dependent parents / grandparents</b>		
Single	\$164,001	\$160,001
Married	\$268,001	\$260,001
Married + 1 child	\$298,001	\$290,001
Married + 2 children	\$328,001	\$320,001
Married + 3 children	\$358,001	\$350,001
<b>Including two dependent parents / grandparents both living with the taxpayer</b>		
Single	\$224,001	\$220,001
Married	\$328,001	\$320,001
Married + 1 child	\$358,001	\$350,001
Married + 2 children	\$388,001	\$380,001
Married + 3 children	\$418,001	\$410,001
<b>Having incurred an expense of \$60,000 for one dependent parent living in an elderly home</b>		
Single	\$164,001	\$160,001
Married	\$268,001	\$260,001
Married + 1 child	\$298,001	\$290,001
Married + 2 children	\$328,001	\$320,001
Married + 3 children	\$358,001	\$350,001



*Supplement***Annual income levels below which  
no salaries tax is payable**

	<i>2003-04</i>	<i>2004-05</i>
<b>Including one dependent parent/grandparent and having incurred an expense of \$40,000 in attending a training course at an approved institution</b>		
Single	\$174,001	\$170,001
Married	\$278,001	\$270,001
Married + 1 child	\$308,001	\$300,001
Married + 2 children	\$338,001	\$330,001
Married + 3 children	\$368,001	\$360,001
<b>Including one dependent parent/grandparent living with the taxpayer and one disabled dependent brother/sister</b>		
Single	\$254,001	\$250,001
Married	\$358,001	\$350,001
Married + 1 child	\$388,001	\$380,001
Married + 2 children	\$418,001	\$410,001
Married + 3 children	\$448,001	\$440,001
<b>Single parent with</b>		
1 child	\$238,001	\$230,001
2 children	\$268,001	\$260,001
3 children	\$298,001	\$290,001

*Supplement***Annual income levels at which salaries  
taxpayers enter the standard rate zone**

	<i>2003-04</i>	<i>2004-05</i>
<b>No dependent parent/grandparent</b>		
Single	\$998,834	\$770,000
Married	\$1,640,167	\$1,270,000
Married + 1 child	\$1,825,167	\$1,420,000
Married + 2 children	\$2,010,167	\$1,570,000
Married + 3 children	\$2,195,167	\$1,720,000
<b>Including two dependent parents/grandparents</b>		
Single	\$1,368,834	\$1,070,000
Married	\$2,010,167	\$1,570,000
Married + 1 child	\$2,195,167	\$1,720,000
Married + 2 children	\$2,380,167	\$1,870,000
Married + 3 children	\$2,565,167	\$2,020,000
<b>Including two dependent parents/grandparents both living with the taxpayer</b>		
Single	\$1,738,834	\$1,370,000
Married	\$2,380,167	\$1,870,000
Married + 1 child	\$2,565,167	\$2,020,000
Married + 2 children	\$2,750,167	\$2,170,000
Married + 3 children	\$2,935,167	\$2,320,000
<b>Including one dependent parent/grandparent living with the taxpayer and one disabled dependent brother/sister</b>		
Single	\$1,923,834	\$1,520,000
Married	\$2,565,167	\$2,020,000
Married + 1 child	\$2,750,167	\$2,170,000
Married + 2 children	\$2,935,167	\$2,320,000
Married + 3 children	\$3,120,167	\$2,470,000
<b>Single parent with</b>		
1 child	\$1,825,167	\$1,420,000
2 children	\$2,010,167	\$1,570,000
3 children	\$2,195,167	\$1,720,000

*Supplement***First Registration Tax on Motor Vehicles**

Vehicle type	Present tax bands and rates		Proposed tax bands and rates	
Private cars	(a) taxable value does not exceed \$100,000	40%	(a) for first \$150,000 of taxable value	35%
	(b) taxable value exceeds \$100,000 but does not exceed \$200,000	45%	(b) for next \$150,000	75%
	(c) taxable value exceeds \$200,000 but does not exceed \$300,000	50%	(c) for next \$200,000	105%
	(d) taxable value exceeds \$300,000	60%	(d) for the balance (i.e. for taxable value over \$500,000)	150%
Motor cycles	40%		40%	
Motor tricycles	40%		40%	
Goods vehicles				
Van-type light goods vehicles not exceeding 1.9 tonnes permitted gross vehicle weight	(a) taxable value does not exceed \$100,000	40%	(a) for first \$150,000 of taxable value	35%
	(b) taxable value exceeds \$100,000 but does not exceed \$200,000	45%	(b) for next \$150,000 of taxable value	75%
	(c) taxable value exceeds \$200,000	50%	(c) for the balance (i.e. for taxable value over \$300,000)	105%
Van-type light goods vehicles exceeding 1.9 tonnes permitted gross vehicle weight	20%		17%	
Goods vehicles, other than van-type light goods vehicles	18%		15%	
Taxis	4%		3.7%	
Public and private light buses				
Public and private buses (except those exempted from the Motor Vehicle First Registration Tax as specified in the relevant Ordinance)				
Special purpose vehicles				

Note: Under the proposed tax system, no exemption will be given to air-conditioners, audio equipment, anti-theft devices or distributors' warranties. Also, the marginal tax system will be adopted for private cars and van-type light goods vehicles not exceeding 1.9 tonnes.

*Supplement***EFFECT OF THE GENERAL REVALUATION OF RATES  
ON MAIN PROPERTY CLASSES***2003-04*

<i>Property Type</i>	<i>Average Reduction in Rateable Value<sup>(6)</sup></i>	<i>New Average Rates Payable</i>	<i>Savings</i>
	<i>%</i>	<i>\$ per month</i>	<i>\$ per month</i>
Small Domestic Premises <sup>(1)</sup> (Private)	-10	230	<b>25</b>
Medium Domestic Premises <sup>(1)</sup> (Private)	-10	542	<b>57</b>
Large Domestic Premises <sup>(1)</sup> (Private)	-8	1,397	<b>122</b>
Public Domestic Premises <sup>(2)</sup>	-10	130	<b>15</b>
<b>All Domestic Premises<sup>(3)</sup></b>	-9	246	<b>25</b>
Shops and Commercial Premises	-4	1,416	<b>62</b>
Offices	-13	1,064	<b>158</b>
Industrial Premises <sup>(4)</sup>	-9	557	<b>57</b>
<b>All Non-domestic Premises<sup>(5)</sup></b>	-6	1,352	<b>82</b>
<b>All Properties</b>	-8	400	<b>33</b>

(1) Domestic units are classified by relation to saleable areas as below:

Small domestic	up to 69.9m <sup>2</sup>	(up to 752 sq. ft.)
Medium domestic	70m <sup>2</sup> to 99.9m <sup>2</sup>	(753 sq. ft. - 1,075 sq. ft.)
Large domestic	100m <sup>2</sup> and over	(1,076 sq. ft. and above)

(2) Including Housing Authority and Housing Society rental units

(3) Including car parking spaces

(4) Including factories and storage premises

(5) Including miscellaneous premises such as hotels, cinemas, petrol filling stations, schools, car parking spaces

(6) The rateable values for 2003-04 reflect the changes in open market rental values from 1 October 2001 to 1 October 2002

Supplement

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

<i>Property Type</i>	<i>2003-04</i>		
	<i>Average Reduction in Rateable Value<sup>(6)</sup></i>	<i>New Average Rent Payable</i>	<i>Savings</i>
	<i>%</i>	<i>\$ per month</i>	<i>\$ per month</i>
Small Domestic Premises <sup>(1)</sup> (Private)	-9	130	<b>13</b>
Medium Domestic Premises <sup>(1)</sup> (Private)	-9	294	<b>30</b>
Large Domestic Premises <sup>(1)</sup> (Private)	-8	635	<b>57</b>
Public Domestic Premises <sup>(2)</sup>	-10	78	<b>9</b>
<b>All Domestic Premises<sup>(3)</sup></b>	-9	141	<b>14</b>
Shops and Commercial Premises	-3	809	<b>22</b>
Offices	-12	1,087	<b>155</b>
Industrial Premises <sup>(4)</sup>	-9	344	<b>35</b>
<b>All Non-domestic Premises<sup>(5)</sup></b>	-5	753	<b>41</b>
<b>All Properties</b>	-7	223	<b>18</b>

(1) Domestic units are classified by relation to saleable areas as below:

Small domestic	up to 69.9m <sup>2</sup>	(up to 752 sq. ft.)
Medium domestic	70m <sup>2</sup> to 99.9m <sup>2</sup>	(753 sq. ft. - 1,075 sq. ft.)
Large domestic	100m <sup>2</sup> and over	(1,076 sq. ft. and above)

(2) Including Housing Authority and Housing Society rental units

(3) Including car parking spaces

(4) Including factories and storage premises

(5) Including miscellaneous premises such as hotels, cinemas, petrol filling stations, schools, car parking spaces

(6) The rateable values for 2003-04 reflect the changes in open market values from 1 October 2001 to 1 October 2002

*Supplement***ECONOMIC PERFORMANCE IN 2002**

1. Estimated rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2002:

	(%)
(i) Growth rates in real terms of :	
Private consumption expenditure	-1.6
Government consumption expenditure	2.4
Gross domestic fixed capital formation	-4.4
<i>of which :</i>	
building and construction <sup>(Note)</sup>	1.8
machinery, equipment and computer software	-9.6
Total exports of goods	8.6
re-exports	11.0
domestic exports	-11.2
Imports of goods	7.9
Exports of services	12.1
Imports of services	-0.8
<b>Gross Domestic Product (GDP)</b>	<b>2.3</b>
<i>Per capita GDP</i>	1.3
<i>Per capita GDP at current market prices</i>	HK\$187,300 (US\$24,000)
(ii) Rates of change in :	
<b>Composite Consumer Price Index</b>	<b>-3.0</b>
<b>GDP Deflator</b>	<b>-2.7</b>
<b>Government Consumption Expenditure Deflator</b>	<b>-0.4</b>
(iii) <b>Growth rate of nominal GDP</b>	<b>-0.6</b>

Note: Real estate developers' margin is now incorporated into private sector expenditure on building and construction, instead of being delineated separately in the expenditure components of GDP.

*Supplement*

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

	<i>Re-exports</i> (%)	<i>Domestic exports</i> (%)
2000	18	8
2001	-2	-10
2002	11	-11
<i>Share in the value of total exports of goods in 2002</i>	92	8

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

	<i>Retained imports</i>			
	<i>Total</i> (%)	<i>Foodstuffs and consumer goods</i> (%)	<i>Raw materials and semi-manufactures</i> (%)	<i>Capital goods</i> (%)
2000	17	12	17	38
2001	-1	7	-15	8
2002	2	5	10	-14

4. Annual growth rates in real terms of exports and imports of services:

	<i>Exports of services</i> (%)	<i>Imports of services</i> (%)
2000	13	4
2001	6	*
2002	12	-1

\* Change of less than 0.5%.

*Supplement*

## 5. Hong Kong's visible and invisible trade balance in 2002:

	(HK\$ billion)
Total exports of goods	1,561.5
Imports of goods*	1,601.5
<b><i>Visible trade balance</i></b>	<b>-40.0</b>
Exports of services <sup>#</sup>	352.2
Imports of services <sup>#</sup>	188.8
<b><i>Invisible trade balance<sup>#</sup></i></b>	<b>163.4</b>
<b><i>Combined visible and invisible trade balance<sup>#</sup></i></b>	<b>123.4</b>

\* Here imports of goods are valued on f.o.b. basis, instead of on c.i.f. basis as is the on-going practice for the merchandise trade statistics.

# Preliminary figures.

## 6. Annual averages of the unemployment and underemployment rates:

	<b><i>Unemployment rate</i></b> (%)	<b><i>Underemployment rate</i></b> (%)
2000	4.9	2.8
2001	5.1	2.5
2002	7.3	3.0

## 7. Annual rates of change in the Consumer Price Indices:

	<b><i>Composite CPI</i></b> (%)	<b><i>CPI(A)</i></b> (%)	<b><i>CPI(B)</i></b> (%)	<b><i>CPI(C)</i></b> (%)
2000	-3.8	-3.0	-3.9	-4.5
2001	-1.6	-1.7	-1.6	-1.5
2002	-3.0	-3.2	-3.1	-2.8



*Supplement***ECONOMIC PROSPECTS FOR 2003**

Forecast rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2003:

	(%)	
(i) Growth rates in real terms of :		
Private consumption expenditure	0	
Government consumption expenditure	2.5	
Gross domestic fixed capital formation	0.9	
<i>of which :</i>		
building and construction <sup>(Note)</sup>	-5.9	
machinery, equipment and computer software	6.8	
Total exports of goods	6.6	
re-exports	8	
domestic exports	-8	
Imports of goods	6.3	
Exports of services	8	
Imports of services	1.5	
<b>Gross Domestic Product (GDP)</b>	<b>3</b>	
<i>Per capita GDP</i>	1.8	
<i>Per capita GDP at current market prices</i>	HK\$186,900 (US\$24,000)	
(ii) Rates of change in :		
<b>Composite Consumer Price Index</b>	<b>-1.5</b>	
<b>GDP Deflator</b>	<b>-2</b>	
<b>Government Consumption Expenditure Deflator</b>	<b>-2.5</b>	
(iii) <b>Growth rate of nominal GDP</b>	<b>1</b>	

Note: Real estate developers' margin is now incorporated into private sector expenditure on building and construction, instead of being delineated separately in the expenditure components of GDP.

## Appendix A

**MEDIUM RANGE FORECAST 2002–03 TO 2007–08****INTRODUCTION**

The *Medium Range Forecast* (MRF) is a projection of expenditure and revenue for the forecast period based on the forecasting assumptions and budgetary criteria outlined in Section I of this Appendix.

**2** The MRF is presented in three sections:

(I) Forecasting assumptions and budgetary criteria.

(II) The MRF for 2002–03 to 2007–08.

(III) Relationship between Government Expenditure, Public Expenditure and GDP in the MRF.

**3** Government's contingent liabilities at 31 March 2002 and an estimate at 31 March 2003 and 31 March 2004 respectively are provided in Section IV of this Appendix as supplementary information to the MRF.

## Appendix A—Contd.

**SECTION I - FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA**

**4** A number of computer based models are used to derive the MRF. These models reflect a wide range of assumptions about the factors determining each of the components of Government's revenue and expenditure. Some are economic in nature (the general economic assumptions) while others deal with specific areas of Government's activity (the detailed assumptions). These are supported by studies of historical and anticipated trends.

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

**5** For planning purposes, the assumption on the trend growth rate in real terms of GDP for the medium-term period 2003 to 2007 is set at 3% per annum (comprising a 3% growth for 2003, and an average growth of also 3% per annum for the ensuing period 2004 to 2007).

*Price change*

**6** Over the period 2003 to 2007, the trend rate of change in the GDP deflator, as measuring overall price change in the economy, is assumed at 0% per annum (comprising a decrease of 2% for 2003, and an average increase of 0.5% per annum for the ensuing period 2004 to 2007), and the trend rate of change in the Composite Consumer Price Index, as measuring price change in the consumer domain, is assumed at a 0.5% increase per annum (comprising a decrease of 1.5% for 2003, and an average increase of 1% per annum for the ensuing period 2004 to 2007).

*Nominal Gross Domestic Product (nominal GDP)*

**7** Taking the assumptions on the trend rates of change in the real GDP and the GDP deflator together, the trend growth rate of nominal GDP is thus assumed at 3% for the period 2003 to 2007 (comprising a 1% growth for 2003, and an average growth of 3.5% for the ensuing period 2004 to 2007).

**Detailed Assumptions**

**8** A wide range of detailed assumptions relating to developing expenditure and revenue patterns over the forecast period are taken into account. These include:

- estimated cash flow of capital projects.
- forecast completion dates of these capital projects and their related recurrent consequences in terms of staffing and running costs.
- estimated cash flow arising from new commitments resulting from policy initiatives.
- the expected pattern of demand for individual services.
- the trend in yield from individual revenue sources.
- new revenue/expenditure measures in the 2003 Budget.

**Budgetary Criteria**

**9** In addition to the above forecasting assumptions there are a number of criteria against which the results of forecasts are tested for overall acceptability in terms of budgetary policy. Any significant breach of important budgetary criteria results in a review and adjustments, where necessary, of the expenditure and revenue projections.

**10** The following are the more important budgetary criteria:

*—Budget surplus/deficit*

The Government aims to achieve balance in consolidated and operating accounts by 2006-07. In the longer term, the Government needs to achieve an operating surplus to partially finance capital expenditure.

*—Total expenditure growth*

The general principle is that, over time, expenditure growth should not exceed the growth of the economy, taking into account both real and nominal terms. The Government aims to keep public expenditure at or below 20% of GDP by 2006-07.

*—Capital expenditure growth*

By its nature some fluctuations in the level of capital expenditure are to be expected. However, over a period the aim is to contain capital expenditure growth within overall expenditure guidelines.

*—Revenue policy*

Account is taken of the need to maintain over time the real yield from fees and charges, fixed duties, etc. and to review periodically the various tax thresholds in the light of inflation.

*—Fiscal reserves*

The Government in the long run aims to maintain the level of reserves at around 12 months of total government expenditure.

## Appendix A—Contd.

## SECTION II - THE MRF FOR 2002-03 TO 2007-08

11 The current MRF (*Note a*) is summarised in the following three tables which indicate the forecast operating position, capital financing position and consolidated reserves position.

Operating Account

Table 1

	Original Estimate	Revised Estimate	Forecast				
	2002-03	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Operating revenue ( <i>Note b</i> )	149,400	135,060	149,180	165,950	181,900	190,910	194,540
Less : Operating expenditure( <i>Note c</i> )	208,110	201,310	210,300	206,890	203,400	199,760	202,990
Operating surplus/(deficit) before extraordinary expenditure/ investment income	(58,710)	(66,250)	(61,120)	(40,940)	(21,500)	(8,850)	(8,450)
Extraordinary expenditure:							
Voluntary Retirement Schemes( <i>Note c</i> )	(3,250)	(1,300)	(3,300)	(5,300)	—	—	—
<b>Operating surplus/(deficit) before investment income</b>	<b>(61,960)</b>	<b>(67,550)</b>	<b>(64,420)</b>	<b>(46,240)</b>	<b>(21,500)</b>	<b>(8,850)</b>	<b>(8,450)</b>
Investment income ( <i>Note b</i> )	12,640	14,590	11,000	8,820	8,410	8,390	8,750
<b>Operating surplus/(deficit) after investment income</b>	<b>(49,320)</b>	<b>(52,960)</b>	<b>(53,420)</b>	<b>(37,420)</b>	<b>(13,090)</b>	<b>(460)</b>	<b>300</b>

Capital Financing Statement

Table 2

	Original Estimate	Revised Estimate	Forecast				
	2002-03	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Capital revenue ( <i>Note d</i> )	36,440	22,340	11,240	20,540	26,750	27,780	29,100
Sale of government assets ( <i>Note d</i> )	15,000	—	21,000	30,000	24,000	21,000	16,000
Less : General Revenue Account capital expenditure ( <i>Note e</i> )	4,160	2,050	2,000	1,430	3,860	3,970	4,030
: Expenditure on capital projects ( <i>Note f</i> )	34,360	32,270	36,200	39,110	37,010	29,470	29,520
Loans and investments ( <i>Notes g</i> )	9,370	6,120	8,000	10,790	11,610	6,840	3,620
Aid for disaster relief ( <i>Note h</i> )	—	10	—	—	—	—	—
Expenditure for innovation and technology ( <i>Note i</i> )	560	330	520	610	640	120	120
Grants and loans for social welfare services ( <i>Note k</i> )	—	—	1,080	1,390	1,360	640	640
Capital financing surplus/(deficit) before investment income	2,990	(18,440)	(15,560)	(2,790)	(3,730)	7,740	7,170
Investment income ( <i>Note d</i> )	1,120	1,350	1,110	1,990	1,040	870	930
<b>Capital financing surplus/(deficit) after investment</b>	<b>4,110</b>	<b>(17,090)</b>	<b>(14,450)</b>	<b>(800)</b>	<b>(2,690)</b>	<b>8,610</b>	<b>8,100</b>

Consolidated Reserves

Table 3

	Original Estimate	Revised Estimate	Forecast				
	2002-03	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Fiscal Reserves at 1 April ( <i>Note j</i> )	369,760	372,500	303,040	239,140	200,920	185,140	193,290
Lotteries Fund balance at 1 April	—	—	3,970	—	—	—	—
Operating surplus/(deficit) (per Table 1)	(49,320)	(52,960)	(53,420)	(37,420)	(13,090)	(460)	300
Capital financing surplus/(deficit) (per Table 2)	4,110	(17,090)	(14,450)	(800)	(2,690)	8,610	8,100
<b>Consolidated surplus/(deficit)</b>	<b>(45,210)</b>	<b>(70,050)</b>	<b>(67,870)</b>	<b>(38,220)</b>	<b>(15,780)</b>	<b>8,150</b>	<b>8,400</b>
Write-back of provision for loss in investments with the Exchange Fund	1,030	590	—	—	—	—	—
<b>Fiscal Reserves at 31 March (<i>Note j</i>)</b>	<b>325,580</b>	<b>303,040</b>	<b>239,140</b>	<b>200,920</b>	<b>185,140</b>	<b>193,290</b>	<b>201,690</b>
As number of months of Government Expenditure	15	15	11	9	9	10	10

## Appendix A—Contd.

**Notes on the Medium Range Forecast***(a) Accounting policies*

- (i) The Medium Range Forecast, like Government's Accounts, is prepared on a cash basis and reflects forecast receipts and payments, whether or not they relate to recurrent or capital transactions.
- (ii) The Medium Range Forecast includes the General Revenue Account and the Funds (the Capital Investment Fund, the Capital Works Reserve Fund, the Civil Service Pension Reserve Fund, the Disaster Relief Fund, the Innovation and Technology Fund, the Land Fund, the Loan Fund, and the Lotteries Fund with effect from 1 April 2003).

*(b) Operating revenue*

- (i) Operating revenue is defined in Appendix C.
- (ii) For the purpose of the Medium Range Forecast, the investment earnings of the balance of the General Revenue Account which is credited to revenue head Properties and Investments and the investment earnings of the Land Fund are consolidated and shown separately under Investment Income in Table 1. The rate of return on investment earnings is assumed at 4.5% in 2003-04 and 5% in 2004-05 to 2007-08.
- (iii) The level of operating revenue in 2003-04 has taken into account the revenue concession and revenue-raising measures in the 2003 Budget.

*(c) Operating expenditure*

- (i) Operating expenditure is defined in Appendix C.
- (ii) The operating expenditure in 2002-03 to 2004-05 includes provision for expenditure under the first and second Voluntary Retirement Schemes. The one-off expenditure under these schemes comprises commuted pensions and compensation for takers of the schemes. The forecast remaining expenditure for the first Voluntary Retirement Scheme introduced in 2000-01 is \$1.3 billion in 2002-03. The forecast expenditure for the second Voluntary Retirement Scheme to be introduced in 2003-04 is \$3.3 billion in 2003-04 and \$5.3 billion in 2004-05.
- (iii) The level of operating expenditure in 2003-04 to 2007-08 has assumed a 6% reduction in the salaries of the civil service and the salary-related portion of recurrent subventions which will take effect by two equal instalments, i.e. on 1 January 2004 and 1 January 2005. This assumed salary reduction, if implemented, will save about \$0.9 billion in 2003-04, \$4.3 billion in 2004-05 and \$6.9 billion from 2005-06. For the purpose of measuring real change in expenditure levels, it has also incorporated the adjustment to the standard payment rates of the Comprehensive Social Security Assistance and Social Security Allowance announced in February 2003.

*(d) Capital revenue*

- (i) The breakdown of capital revenue to the General Revenue Account and the Funds is —

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m	\$m
General Revenue Account	5,000	8,750	28,740	26,400	23,460	18,530
Capital Works Reserve Fund	11,790	3,050	14,500	19,700	20,210	20,920
Capital Investment Fund	2,430	2,330	2,280	2,330	2,290	2,390
Civil Service Pension Reserve Fund	560	590	710	750	790	830
Innovation and Technology Fund	230	100	110	0	0	0
Loan Fund	3,680	17,690	5,350	1,870	2,160	2,620
Lotteries Fund	—	840	840	740	740	740
<b>Total</b>	<b>23,690</b>	<b>33,350</b>	<b>52,530</b>	<b>51,790</b>	<b>49,650</b>	<b>46,030</b>

- (ii) For the purpose of the Medium Range Forecast, the investment earnings on the balances of the Funds other than the Land Fund are shown separately under Investment Income in Table 2. The forecast proceeds from sale of assets have been incorporated in the capital revenue: \$21 billion in 2003-04; \$30 billion in 2004-05; \$24 billion in 2005-06; \$21 billion in 2006-07 and \$16 billion in 2007-08.
- (iii) For the purpose of the Medium Range Forecast, the annual land premia included under the Capital Works Reserve Fund for 2004-05 and 2005-06 to 2007-08 are respectively assumed at 1% and 1.4% of GDP.

Appendix A—*Contd.***Notes on the Medium Range Forecast —*Contd.****(e) General Revenue Account capital expenditure*

This comprises expenditure chargeable to the General Revenue Account in respect of purchase of equipment and works of a minor nature.

*(f) Expenditure on capital projects*

This comprises expenditure chargeable to the Capital Works Reserve Fund in respect of the Public Works Programme, land acquisition, capital subventions, major systems and equipment and computerisation.

*(g) Loans and investments*

- (i) These comprise loans made from the Loan Fund, including loans to schools, teachers, students, housing loans, and loans under the special finance scheme for small and medium enterprises, and advances and equity investments made from the Capital Investment Fund mainly to Trading Funds and government-owned corporations.

- (ii) The forecast of payments from the Loan Fund is —

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
\$m	\$m	\$m	\$m	\$m	\$m
3,140	3,420	3,980	4,370	3,580	3,370

- (iii) The forecast of payments from the Capital Investment Fund is —

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
\$m	\$m	\$m	\$m	\$m	\$m
2,980	4,580	6,810	7,240	3,260	250

*(h) Aid for disaster relief*

This is actual expenditure made from the Disaster Relief Fund for providing relief to disasters that occur outside Hong Kong. Because of the unpredictable nature of disasters, no estimate of future expenditure is made for the forecast period.

*(i) Expenditure for innovation and technology*

This comprises expenditure chargeable to the Innovation and Technology Fund to finance projects to help promote innovation and technology upgrading in manufacturing and service industries.

*(j) Fiscal reserves*

The fiscal reserves represent the accumulated balances of the General Revenue Account and the Funds, including the Lotteries Fund, from 1 April 2003.

*(k) Grants and loans for social welfare services*

These comprise grants, loans and advances made from the Lotteries Fund for social welfare services.

## Appendix A—Contd.

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

**12** For monitoring purposes, the Government's own expenditure is consolidated with the expenditure of other public bodies such as the Housing Authority in order to compare total public expenditure with the size of the economy. The results are set out in Table 4.

**Government Expenditure and Public Expenditure in the Context of the Economy***Table 4*

	Original Estimate	Revised Estimate	Forecast				
	2002-03	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Operating expenditure	211,360	202,610	213,600	212,190	203,400	199,760	202,990
Capital expenditure	42,890	37,800	43,220	46,520	47,240	37,780	37,680
<b>Total government expenditure</b>	<b>254,250</b>	<b>240,410</b>	<b>256,820</b>	<b>258,710</b>	<b>250,640</b>	<b>237,540</b>	<b>240,670</b>
Add: Other public bodies	32,930	32,650	29,700	30,850	25,210	24,990	25,710
<b>Total public expenditure (Note 1)</b>	<b>287,180</b>	<b>273,060</b>	<b>286,520</b>	<b>289,560</b>	<b>275,850</b>	<b>262,530</b>	<b>266,380</b>
<b>Gross Domestic Product (calendar year)</b>	<b>1,256,210</b>	<b>1,271,080</b>	<b>1,283,230</b>	<b>1,328,620</b>	<b>1,375,600</b>	<b>1,424,250</b>	<b>1,474,620</b>
<b>Growth in GDP (Note 2)</b>							
Money terms (Note 3)		-0.6%	1.0%	3.5%	3.5%	3.5%	3.5%
Real terms (Note 3)		2.3%	3.0%	3.0%	3.0%	3.0%	3.0%
<b>Growth in government expenditure</b>							
Money terms (Note 4)		+0.8%	+6.4%	+0.7%	-3.1%	-5.2%	+1.3%
Real terms (Note 4)		+2.6%	+9.0%	+2.2%	-2.3%	-5.5%	+0.4%
<b>Growth in public expenditure</b>							
Money terms		+1.4%	+4.9%	+1.1%	-4.7%	-4.8%	+1.5%
Real terms		+3.4%	+7.6%	+2.5%	-4.0%	-5.1%	+0.7%
<b>Government expenditure as a percentage of GDP</b>		18.9%	20.0%	19.5%	18.2%	16.7%	16.3%
<b>Public expenditure as a percentage of GDP</b>	22.9%	21.5%	22.3%	21.8%	20.1%	18.4%	18.1%

*Note 1* Public expenditure comprises government expenditure (i.e. all expenditure charged to the General Revenue Account and financed by the Government's statutory funds excluding Capital Investment Fund), and expenditure by the Trading Funds and the Housing Authority. But *not* included is expenditure by those organisations, including statutory organisations, in which the Government has only an equity position, such as the Airport Authority, the MTR Corporation Ltd and the Kowloon-Canton Railway Corporation. Similarly, advances and equity investments from the Capital Investment Fund are excluded as they do not reflect the actual consumption of resources by the Government.

*Note 2* The GDP figure used with the original estimate put out last year was based on the old GDP series. In the revised estimate here, the new GDP series incorporating technical revision, which was released in August last year, is used. In absolute terms, the new GDP series is slightly higher than the old series.

*Note 3* Over the period 2003-2007, the forecast of trend real growth in GDP is 3% per annum, and, with the forecast of trend rate of change in the GDP deflator at 0% per annum, the forecast trend nominal growth in GDP is also 3%.

*Note 4* The growth rates refer to year on year change. For example, the rates for 2002-03 refer to the change between revised estimate for 2002-03 and actual expenditure in 2001-02. The rates for 2003-04 refer to the change between the 2003-04 forecast over 2002-03 revised estimate and so forth. The growth rates in 2003-04 are calculated after realignment of the underlying expenditure figures for 2002-03 and 2003-04 to reflect the reclassification of expenditure of the Lotteries Fund from that of public bodies to government expenditure from 2003-04.

## Appendix A—Contd.

13 Table 5 shows the sum to be appropriated in the 2003 Budget analysed between operating and capital expenditure and after including expenditure from the Funds and other public bodies. It also shows the derivation of public expenditure for 2003–04 given in Table 4.

14 Table 5 also illustrates the effect of the Budget revenue measures on the overall surplus/deficit position for 2003–04.

**Relationship between Government Expenditure  
and Public Expenditure in 2003–04**

Table 5

Components of expenditure and revenue	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
	\$m	\$m	\$m	\$m	\$m
<b>Expenditure</b>					
General Revenue Account:					
Recurrent account	207,840	207,840	—	207,840	207,840
Capital account					
Plant, equipment and works	1,060	—	1,060	1,060	1,060
Other non-recurrent	6,620	6,620	—	6,620	6,620
Subventions	940	—	940	940	940
	216,460	214,460	2,000	216,460	216,460
Transfer to Funds	63,010	—	—	—	—
Capital Works Reserve Fund	—	—	36,200	36,200	36,200
Loan Fund	—	—	3,420	3,420	3,420
Innovation and Technology Fund	—	—	520	520	520
Trading Funds	—	—	—	—	3,380
Lotteries Fund	—	—	1,080	1,080	1,080
Housing Authority	—	—	—	—	26,370
	279,470	214,460	43,220	257,680	287,430
<b>Less:</b> Assumed salary reduction	—	(860)	—	(860)	(910)
	279,470	213,600	43,220	256,820	286,520
<b>Revenue (before Budget revenue measures)</b>					
General Revenue Account:					
Taxation		114,490	1,510	116,000	
Other revenue		33,420	1,240	34,660	
		147,910	2,750	150,660	
Sale of assets		—	21,000	21,000	
Land Fund		6,270	—	6,270	
		154,180	23,750	177,930	
Capital Works Reserve Fund		—	3,050	3,050	
Capital Investment Fund		—	2,330	2,330	
Civil Service Pension Reserve Fund		—	590	590	
Disaster Relief Fund		—	—	—	
Loan Fund		—	2,690	2,690	
Innovation and Technology Fund		—	100	100	
Lotteries Fund		—	840	840	
		154,180	33,350	187,530	
<b>Surplus/(deficit) before Budget revenue measures</b>		(59,420)	(9,870)	(69,290)	
<b>Less:</b> Effect of Budget revenue measures		6,000	—	6,000	
<b>Surplus/(deficit) after Budget revenue measures</b>		(53,420)	(9,870)	(63,290)	
<b>Less:</b> Advances and equity investments from the Capital Investment Fund <sup>(1)</sup>		—	(4,580)	(4,580)	
<b>Consolidated surplus/(deficit)</b>		(53,420)	(14,450)	(67,870)	

(1) Advances and equity investments from the Capital Investment Fund are excluded from government expenditure (see also Note 1 to Table 4).



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

**15** The Government's contingent liabilities are \$17,089 million at 31 March 2002 and estimated to be \$16,436 million at 31 March 2003 and \$20,134 million at 31 March 2004, comprising —

	2001-02 \$m	Estimate 2002-03 \$m	Estimate 2003-04 \$m
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	9,016	8,962	9,043
Litigation	4,256	4,230	4,268
Possible capital subscriptions to the Asian Development Bank	1,743	1,743	1,743
Guarantees provided under the SME Business Installations and Equipment Loan Guarantee Scheme, the Special Finance Scheme for Small and Medium Enterprises and the Film Guarantee Fund	2,074	1,501	5,080
Total	17,089	16,436	20,134

## Appendix B

## CONTENTS

SECTION I - THE ESTIMATES IN THE CONTEXT OF THE ECONOMY	Page
Relationship between Government Expenditure, Public Expenditure in 2003-2004 and GDP	4369
SECTION II - ANALYSIS OF RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP	
Recurrent Public Expenditure — Year on Year Change	4372
Percentage Share of Expenditure by Policy Area Group —	
Recurrent Public Expenditure	4373
Recurrent Government Expenditure	
SECTION III - ANALYSIS OF TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP	
Total Public Expenditure — Year on Year Change	4374
Percentage Share of Expenditure by Policy Area Group —	
Total Public Expenditure	4375
Total Government Expenditure	
SECTION IV - MAJOR CAPITAL PROJECTS TO BEGIN IN 2003-04	4376
SECTION V - TRENDS IN PUBLIC EXPENDITURE : 1998-99 TO 2003-04	4377
SECTION VI - KEY TO CLASSIFICATION OF EXPENDITURE	4380

## Appendix B—Contd.

SECTION I - THE ESTIMATES <sup>(Note)</sup> IN THE CONTEXT OF THE ECONOMY

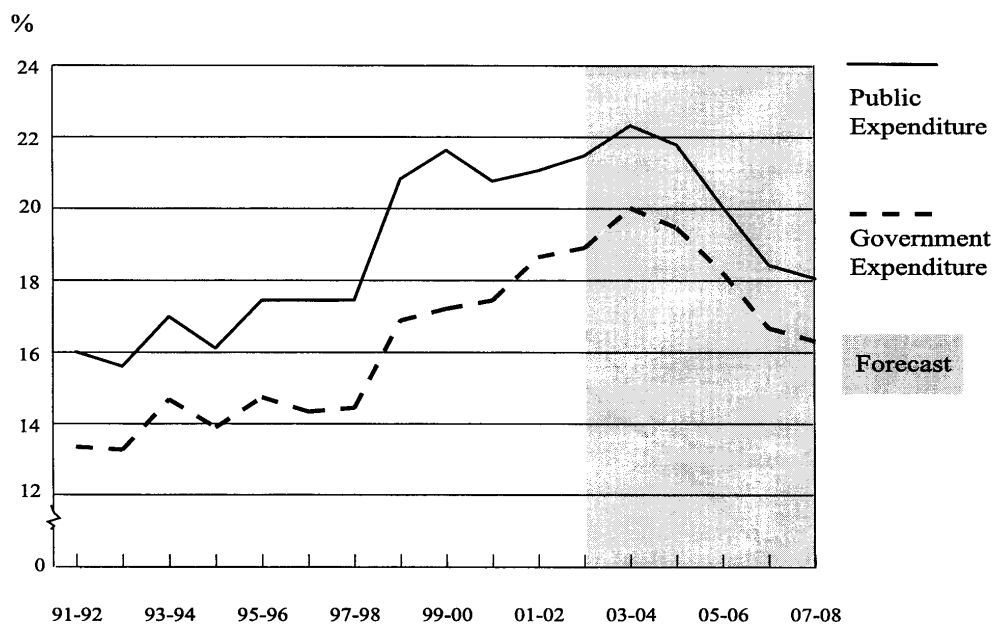
## Relationship between Government Expenditure, Public Expenditure in 2003-04 and GDP

	(All figures in \$million at 2003-04 prices)	
	Government Expenditure	Public Expenditure
General Revenue Account		
• Operating	213,600	213,600
• Capital	2,000	2,000
	<hr/>	<hr/>
	215,600	215,600
Capital Works Reserve Fund	36,200	36,200
Loan Fund	3,420	3,420
Lotteries Fund	1,080	1,080
Innovation and Technology Fund	520	520
	<hr/>	<hr/>
	256,820	256,820
	<hr/>	<hr/>
Trading Funds		3,360
Housing Authority		26,340
		<hr/>
		286,520
		<hr/>
GDP		1,283,230
Government Expenditure as a % of GDP		20.0%
Public Expenditure as a % of GDP		22.3%

Note : The 2003-04 expenditure estimates in this Appendix have assumed a 3.0% reduction in the salaries of the civil service and the salary-related portion of recurrent subventions to take effect from 1 January 2004.

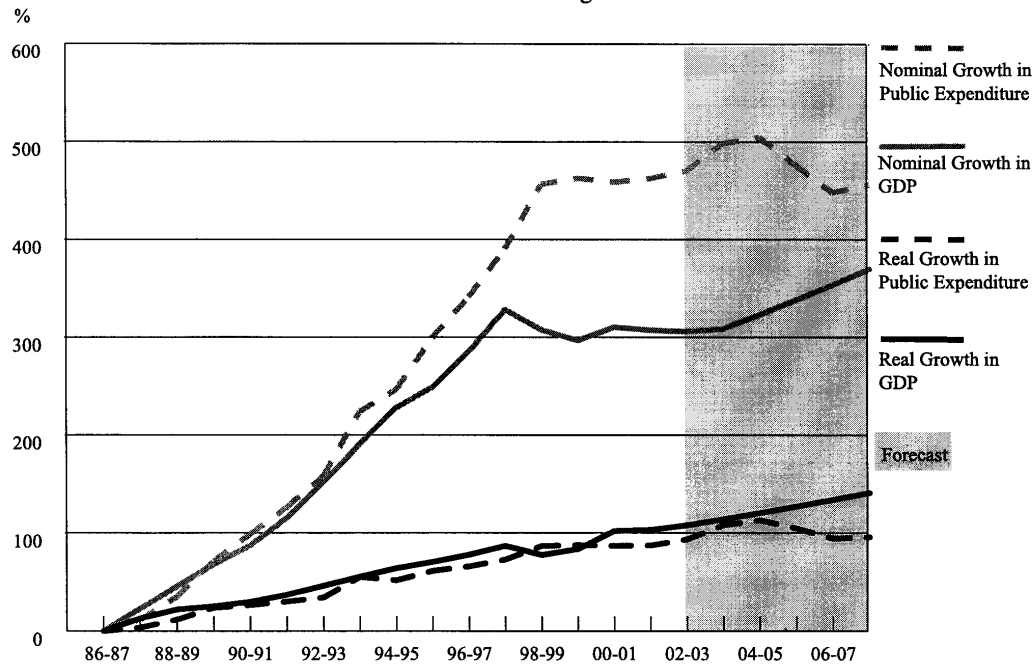
Appendix B—*Contd.*

## Public/Government Expenditure as a Percentage of GDP

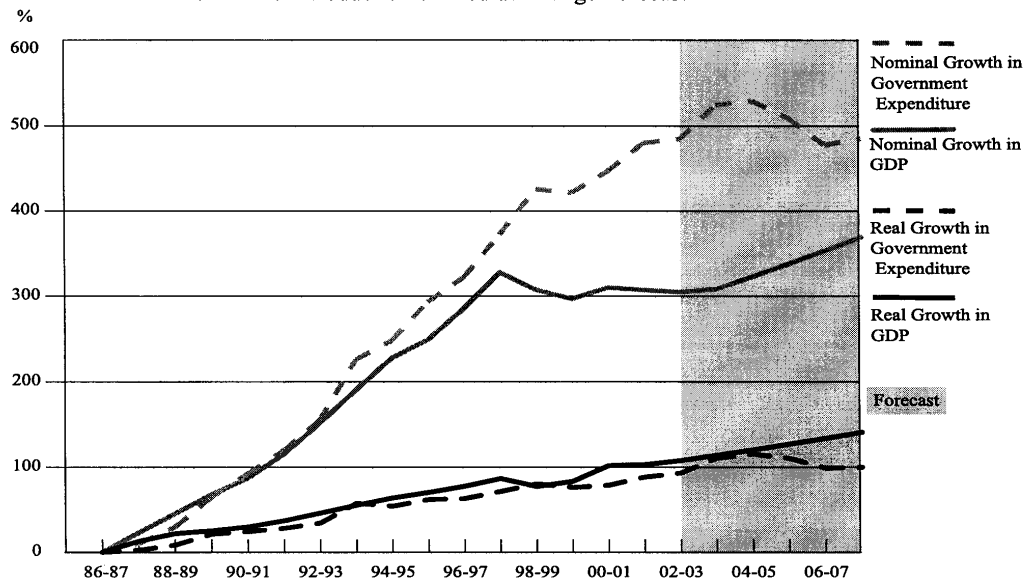


## Appendix B—Contd.

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



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



Appendix B—Contd.

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

## Recurrent Public Expenditure - Year on Year Change

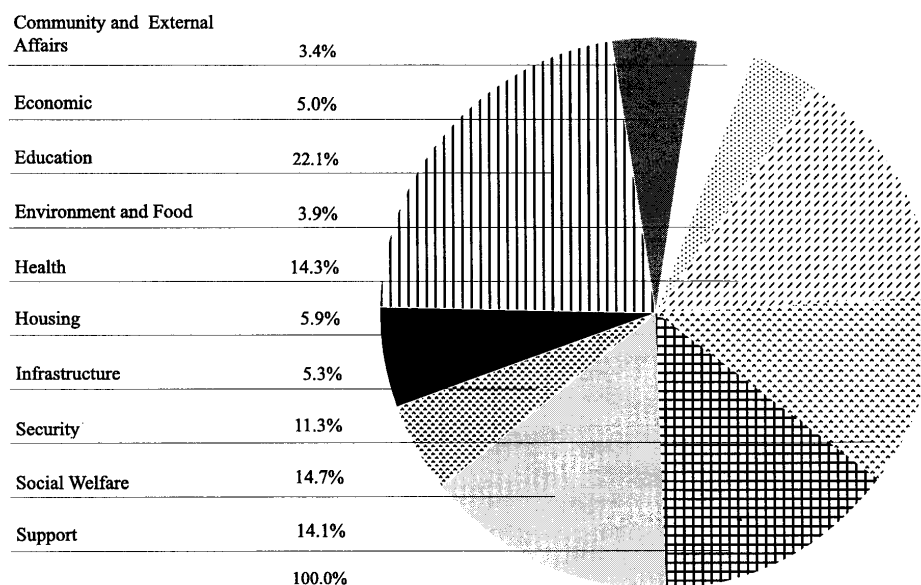
*(All figures in \$million)*

	2002-03 Original Estimate	2002-03 Revised Estimate	2003-04 Estimate	% Increase/Decrease over 2002-03 original estimate in Nominal Terms	% Increase/Decrease over 2002-03 revised estimate in Nominal Terms	in Real Terms (see Note)
<b>Education</b>	49,315	47,275	<b>49,260</b>	-0.1	+4.2	+6.3
<b>Health</b>	32,450	32,460	<b>31,890</b>	-1.7	-1.8	+0.2
<b>Social Welfare</b>	32,125	31,465	<b>32,765</b>	+2.0	+4.1	+7.5
<b>Support</b>						
• Central Management of the Civil Service	18,170	17,945	<b>21,030</b>	+15.7	+17.2	+17.8
• Others	10,260	9,980	<b>10,285</b>	+0.2	+3.1	+5.0
	<u>28,430</u>	<u>27,925</u>	<u><b>31,315</b></u>	<u>+10.1</u>	<u>+12.1</u>	<u>+13.2</u>
<b>Security</b>	24,810	24,960	<b>25,015</b>	+0.8	+0.2	+2.1
<b>Housing</b>	12,235	12,770	<b>13,030</b>	+6.5	+2.0	+3.2
<b>Infrastructure</b>						
• Water Supply	5,505	5,365	<b>5,380</b>	-2.3	+0.3	+1.9
• Buildings, Lands and Planning	3,330	3,195	<b>3,295</b>	-1.1	+3.1	+5.3
• Transport	3,105	3,050	<b>3,085</b>	-0.6	+1.1	+3.2
	<u>11,940</u>	<u>11,610</u>	<u><b>11,760</b></u>	<u>-1.5</u>	<u>+1.3</u>	<u>+3.2</u>
<b>Economic</b>	11,825	11,025	<b>11,135</b>	-5.8	+1.0	+3.0
<b>Environment and Food</b>	9,005	8,610	<b>8,760</b>	-2.7	+1.7	+3.4
<b>Community and External Affairs</b>						
• Recreation, Culture and Amenities	5,660	5,650	<b>5,710</b>	+0.9	+1.1	+2.7
• District and Community Relations	1,910	1,890	<b>1,860</b>	-2.6	-1.6	+0.3
	<u>7,570</u>	<u>7,540</u>	<u><b>7,570</b></u>	<u>0</u>	<u>+0.4</u>	<u>+2.1</u>
<b>Total Recurrent Public Expenditure</b>	<u>219,705</u>	<u>215,640</u>	<u><b>222,500</b></u>	<u>+1.3</u>	<u>+3.2</u>	<u>+5.2</u>

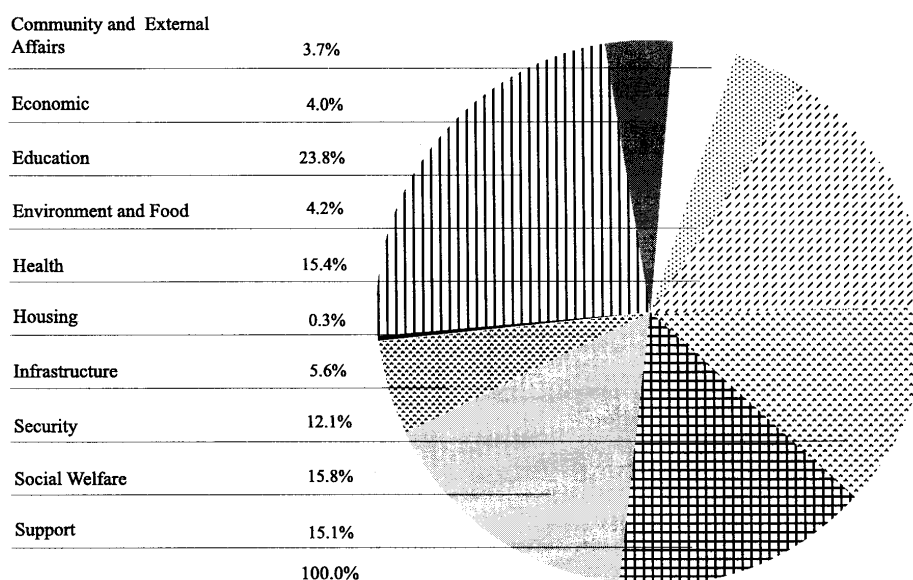
Note : As the above 2003-04 estimates have included assumptions on price changes for various expenditure components (e.g. operating expenses, plant and equipment, etc.) and an assumed reduction of 3% in salaries for the civil service and the salary-related portion of recurrent subventions from 1 January 2004, the percentage increase/decrease is calculated after adjustment to bring the expenditure figures for 2002-03 and 2003-04 to the same price level.

## Appendix B—Contd.

Percentage Share of Expenditure by Policy Area Group - Recurrent Public Expenditure



Percentage Share of Expenditure by Policy Area Group - Recurrent Government Expenditure



## Appendix B—Contd.

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

## Total Public Expenditure - Year on Year Change

*(All figures in \$million)*

	2002-03 Original Estimate  <i>(see Note 1)</i>	2002-03 Revised Estimate	2003-04 Estimate	% Increase/Decrease over 2002-03 original estimate in Nominal Terms	% Increase/Decrease over 2002-03 revised estimate in Nominal Terms	in Real Terms  <i>(see Note 2)</i>
<b>Education</b>	59,395	54,890	61,025	+2.7	+11.2	+13.8
<b>Support</b>						
• Others	16,870	16,070	16,400	-2.8	+2.1	+5.1
• Central Management of the Civil Service	19,580	18,900	22,345	+14.1	+18.2	+20.1
	36,450	34,970	38,745	+6.3	+10.8	+13.2
<b>Health</b>	34,410	33,900	33,405	-2.9	-1.5	+0.7
<b>Social Welfare</b>	33,740	32,560	33,975	+0.7	+4.3	+7.8
<b>Housing</b>	28,735	29,050	26,940	-6.2	-7.3	-4.3
<b>Security</b>	28,600	27,860	27,915	-2.4	+0.2	+2.2
<b>Infrastructure</b>						
• Buildings, Lands and Planning	10,590	9,545	10,880	+2.7	+14.0	+19.3
• Water Supply	7,435	7,440	6,715	-9.7	-9.7	-7.6
• Transport	7,365	7,995	9,495	+28.9	+18.8	+24.0
	25,390	24,980	27,090	+6.7	+8.4	+12.8
<b>Economic</b>	19,140	14,710	17,115	-10.6	+16.4	+19.0
<b>Environment and Food</b>	12,480	11,635	11,350	-9.1	-2.4	-0.2
<b>Community and External Affairs</b>						
• Recreation, Culture and Amenities	6,470	6,335	6,750	+4.3	+6.6	+8.9
• District and Community Relations	2,370	2,165	2,205	-7.0	+1.8	+4.2
	8,840	8,500	8,955	+1.3	+5.4	+7.7
<b>Total Public Expenditure</b>	287,180	273,055	286,515	-0.2	+4.9	+7.7

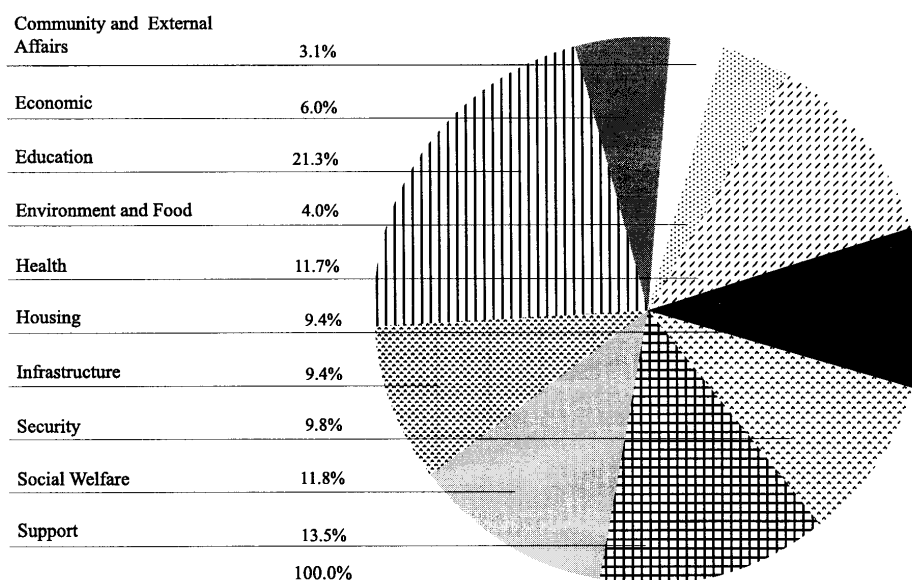
*Note 1* Certain figures have been reclassified to be consistent with the classification for 2002-03 Revised Estimate and 2003-04 Estimate.

*Note 2* As the above 2003-04 estimates have included assumptions on price changes for various expenditure components (e.g. operating expenses, plant and equipment, etc.) and an assumed reduction of 3% in salaries for the civil service and the salary-related portion of recurrent subventions from 1 January 2004, the percentage increase/decrease is calculated after adjustment to bring the expenditure figures for 2002-03 and 2003-04 to the same price level.

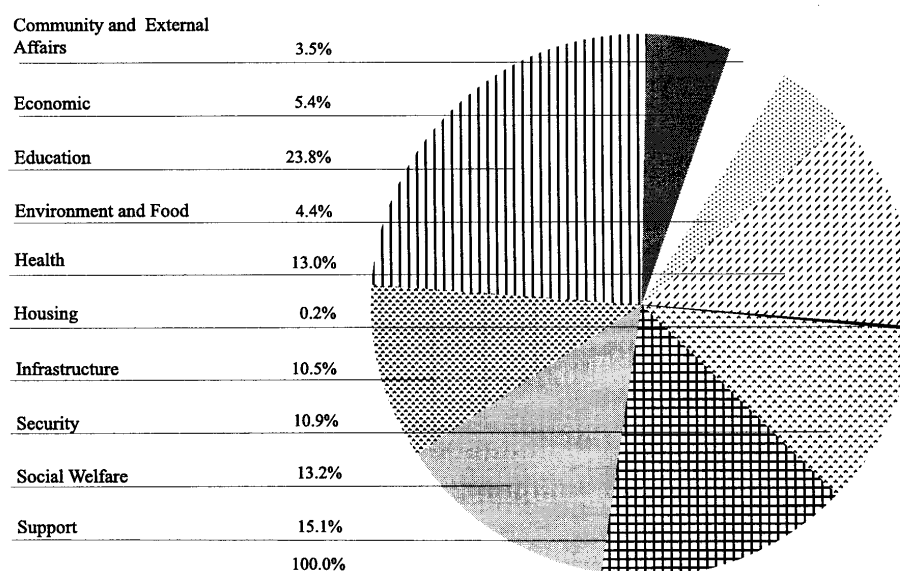


## Appendix B—Contd.

Percentage Share of Expenditure by Policy Area Group - Total Public Expenditure



Percentage Share of Expenditure by Policy Area Group - Total Government Expenditure



## Appendix B—Contd.

**SECTION IV - MAJOR CAPITAL PROJECTS TO BEGIN IN 2003-04**

Funds allocated for capital projects to start in 2003-04 include:

	<i>\$million</i>
<b>Infrastructure</b>	<b>26,921</b>
— Deep Bay Link	
— Shenzhen Western Corridor	
— Reconstruction and improvement of Tuen Mun Road	
— South East Kowloon development related works	
— Wan Chai development phase II – engineering works	
— Replacement and rehabilitation of watermain, stage I phase I	
<b>Support</b>	<b>6,400</b>
— Central Government Complex, Legislative Council Complex, exhibition gallery and civic place at Tamar, Central	
<b>Education</b>	<b>5,365</b>
— Construction of additional primary, secondary and special schools	
— School Improvement Programme, Final Phase – remaining works	
<b>Security</b>	<b>3,916</b>
— Construction of cross-boundary facilities at Shenzhen Western Corridor and Huanggang	
— Reprovisioning of Civil Aid Service and Fire Services Department facilities at Site 17, West Kowloon Reclamation, Yau Ma Tei	
<b>Health</b>	<b>2,507</b>
— Redevelopment of Caritas Medical Centre, phase 2	
— Redevelopment of staff quarters for the establishment of a rehabilitation block at Tuen Mun Hospital	
<b>Economic</b>	<b>1,868</b>
— New Broadcasting House in Area 86, Tseung Kwan O	
— Enhancement of tourism facilities	
<b>Environment and Food</b>	<b>1,121</b>
— Environmental improvement of Shing Mun River—stage 2	
— General improvement works to and retro-fitting of air-conditioning in existing markets and cooked food centres	
— Outlying Islands sewerage, stage 1 phase 1 part 1	
<b>Community and External Affairs</b>	<b>1,049</b>
— Hammer Hill Road Park and other open spaces	
— Stanley Complex	
— Recreation and sport facilities in Tseung Kwan O and Tin Shui Wai	

Appendix B—*Contd.*

## **SECTION V - TRENDS IN PUBLIC EXPENDITURE : 1998-99 TO 2003-04**

### **Introduction**

The section presents trends in public expenditure over the period 1998-99 to 2003-04. This analysis is expressed in public expenditure terms and includes expenditure by the Trading Funds, the Housing Authority, the Lotteries Fund and the previous Provisional Urban Council and Provisional Regional Council (up to 31 December 1999). It shows the actual and estimated recurrent and total expenditure during this period and expresses this in terms of 10 main policy area groups. Where appropriate, policy area groups are further analysed by policy areas.

**2** Details of the individual heads of expenditure contributing to a particular policy area are provided in an index in Volume I of the 2003-04 Estimates. This index further provides details by head of expenditure of individual programmes which contribute to a policy area.

**3** The analysis provided in this section shows how resources have been and will, in 2003-04, be allocated to different policy area groups. Where appropriate, historical figures have been adjusted to comply with the current classification of expenditure.

## Appendix B—Contd.

## Recurrent Public Expenditure by Policy Area Group 1998–99 to 2003–04

Policy Area Groups	Actual				Revised Estimate	Estimate
	1998–99	1999–2000	2000–01	2001–02	2002–03	2003–04
	%	%	%	%	%	%
<b>Education</b>	21.8	22.0	22.3	22.0	21.9	22.1
<b>Health</b>	15.3	15.3	15.4	15.2	15.0	14.3
<b>Social Welfare</b>	13.5	13.7	13.8	13.8	14.6	14.7
<b>Support</b>	11.9	12.2	12.7	13.7	13.0	14.1
<b>Security</b>						
Internal Security	9.7	9.4	9.3	9.0	8.9	8.6
Other	1.7	1.8	1.6	1.6	1.6	1.6
Immigration	1.1	1.1	1.1	1.1	1.1	1.1
	12.5	12.3	12.0	11.7	11.6	11.3
<b>Housing</b>	6.3	6.0	5.8	5.8	5.9	5.9
<b>Economic</b>	5.4	5.2	5.2	5.1	5.1	5.0
<b>Infrastructure</b>						
Water Supply	2.6	2.6	2.6	2.5	2.5	2.4
Buildings, Lands and Planning	1.4	1.4	1.4	1.5	1.5	1.5
Transport	1.4	1.5	1.4	1.4	1.4	1.4
	5.4	5.5	5.4	5.4	5.4	5.3
<b>Environment and Food</b>	4.2	4.2	4.0	3.9	4.0	3.9
<b>Community and External Affairs</b>						
Recreation, Culture and Amenities	2.9	2.8	2.6	2.6	2.6	2.6
District and Community Relations	0.8	0.8	0.8	0.8	0.9	0.8
	3.7	3.6	3.4	3.4	3.5	3.4
	100.0	100.0	100.0	100.0	100.0	100.0
<b>Total Recurrent Public Expenditure</b>	\$m	\$m	\$m	\$m	\$m	\$m
	187,857	195,272	198,619	210,445	215,640	222,500

## Appendix B—Contd.

## Total Public Expenditure by Policy Area Group 1998–99 to 2003–04

Policy Area Groups	Actual				Revised Estimate	Estimate
	1998–99	1999–2000	2000–01	2001–02	2002–03	2003–04
	%	%	%	%	%	%
<b>Education</b>	18.2	18.7	19.2	19.4	20.1	21.3
<b>Support</b>	11.1	11.6	11.6	13.0	12.8	13.5
<b>Health</b>	11.8	11.8	12.2	12.7	12.4	11.7
<b>Social Welfare</b>	9.9	10.2	10.5	11.2	11.9	11.8
<b>Housing</b>	14.6	17.0	15.9	11.9	10.6	9.4
<b>Security</b>						
Internal Security	7.3	7.5	7.8	8.0	7.9	7.4
Other	1.3	1.3	1.4	1.3	1.3	1.3
Immigration	0.8	0.8	0.8	0.9	1.0	1.1
	9.4	9.6	10.0	10.2	10.2	9.8
<b>Infrastructure</b>						
Buildings, Lands and Planning	3.1	3.0	3.2	4.0	3.5	3.8
Water Supply	3.1	3.1	3.0	2.9	2.7	2.3
Transport	2.5	2.4	2.4	2.4	3.0	3.3
	8.7	8.5	8.6	9.3	9.2	9.4
<b>Economic</b>	8.0	4.6	4.7	5.1	5.4	6.0
<b>Environment and Food</b>	5.0	4.6	4.2	4.1	4.3	4.0
<b>Community and External Affairs</b>						
Recreation, Culture and Amenities	2.7	2.8	2.4	2.4	2.3	2.3
District and Community Relations	0.6	0.6	0.7	0.7	0.8	0.8
	3.3	3.4	3.1	3.1	3.1	3.1
	100.0	100.0	100.0	100.0	100.0	100.0

	\$m	\$m	\$m	\$m	\$m	\$m
<b>Total Public Expenditure</b>	266,448	269,484	267,507	269,359	273,055	286,515

Appendix B—Contd.

## SECTION VI - KEY TO CLASSIFICATION OF EXPENDITURE

## Index Of Policy Area Groups

Policy Area Group	Description by Policy Area	Reference (Note)
Community and External Affairs	District and Community Relations	19
	Recreation, Culture, Amenities and Entertainment Licensing	18
Economic	Air and Sea Communications and Logistics Development	3
	Commerce and Industry	6
	Employment and Labour	8
	Financial Services	1
	Information Technology and Broadcasting	17
	Manpower Development	34
	Posts, Power, Competition Policy and Consumer Protection	4
	Public Safety	7
Education	Travel and Tourism	5
	Education	16
Environment and Food	Environmental Hygiene	32
	Environmental Protection and Conservation	23
	Agriculture, Fisheries and Food Safety	2
Health	Health	15
Housing	Housing	31
Infrastructure	Buildings, Lands and Planning	22
	Transport	21
	Water Supply	24
Security	Immigration Control	10
	Internal Security	9
	Administration of Justice	12
	Anti-corruption	13
	Legal Administration	11
	Legal Aid	20
Social Welfare	Social Welfare	14
	Women's Interest	33
Support	Central Management of the Civil Service	26
	Complaints Against Maladministration	30
	Constitutional Affairs	28
	Intra-governmental Services	27
	Revenue Collection and Financial Control	25
	Support for Members of the Legislative Council	29

*Note :* The Policy Area Reference corresponds with that used in the Index of Policy Areas in the Estimates of Expenditure.

## Appendix C

## GLOSSARY OF TERMS

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Note: Terms shown in ***bold italic*** are defined elsewhere in the glossary.

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**Capital expenditure.** All expenditure charged to the Capital Works Reserve Fund, the Disaster Relief Fund, the Loan Fund, the Innovation and Technology Fund and the Lotteries Fund plus expenditure from the General Revenue Account on plant, equipment and works and capital subventions, excluding transfers to Funds. It does not include advances and equity investments made from the Capital Investment Fund.

**Capital revenue.** All revenue credited to the Funds and the exceptions listed under *operating revenue*.

**Consolidated surplus/deficit.** *Surplus/deficit* after advances and equity investments from the Capital Investment Fund.

**Fiscal reserves.** The accumulated balances of the General Revenue Account and the Funds.

**Funds expenditure.** Expenditure charged to the Capital Works Reserve Fund, the Capital Investment Fund, the Disaster Relief Fund, the Loan Fund, the Innovation and Technology Fund and Lotteries Fund excluding transfers from the Funds.

**Funds revenue.** All receipts, except transfers from General Revenue Account, which are credited directly to the Funds. These comprise —

*Capital Investment Fund*

repayments received  
dividends  
interest  
interest on balances

*Capital Works Reserve Fund*

donations for projects  
land premia  
investment income  
recovery from MTR Corporation Ltd  
recoveries from Trading Funds

*Civil Service Pension Reserve Fund*

investment income

*Disaster Relief Fund*

investment income

*Innovation and Technology Fund*

loan repayments received  
investment income

*Land Fund*

investment income

*Loan Fund*

loan repayments received  
interest on loans  
interest on balances

*Lotteries Fund*

loan repayments received  
share of proceeds from the Mark Six Lottery  
investment income

## Appendix C—Contd.

**General Revenue Account expenditure.** All expenditure charged to General Revenue Account in accordance with the Appropriation Ordinance, excluding transfers to the Funds.

**General Revenue Account revenue.** All receipts credited to any of the revenue heads, excluding transfers from the Funds.

**Government expenditure.** The aggregate of *operating expenditure* and *capital expenditure*. It is not the same as *public expenditure*.

**Government revenue.** The aggregate of *Funds revenue* and *General Revenue Account revenue*.

**Operating expenditure.** All expenditure from General Revenue Account charged to any of the subheads listed in the Estimates under 'Recurrent Account', *plus* Other Non-Recurrent expenditure.

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

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

**Operating revenue.** This comprises all receipts to be credited to General Revenue Account under any of the following revenue heads, namely —

- Duties
- General Rates
- Internal Revenue
- Motor Vehicle Taxes
- Fines, Forfeitures and Penalties
- Royalties and Concessions
- Properties and Investments
- Loans, Reimbursements, Contributions and Other Receipts (excluding transfers from Funds)
- Utilities
- Fees and Charges

except the following —

- disposal proceeds of government quarters and other assets
- estate duty
- taxi concessions
- recovery from Housing Authority
- donations
- repayment of loans and advances

which are treated as *capital revenue*.

**Total expenditure.** The aggregate of government expenditure and advances and equity investments made from the Capital Investment Fund.

**Surplus/deficit.** The difference between *Government revenue* and *Total expenditure*.