

OFFICIAL RECORD OF PROCEEDINGS

Wednesday, 28 February 2007

The Council met at Eleven o'clock

MEMBERS PRESENT:

THE PRESIDENT

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

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

THE HONOURABLE ALBERT HO CHUN-YAN

DR THE HONOURABLE RAYMOND HO CHUNG-TAI, S.B.S.,
S.B.ST.J., J.P.

THE HONOURABLE LEE CHEUK-YAN

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

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

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

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

THE HONOURABLE MARGARET NG

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

THE HONOURABLE JAMES TO KUN-SUN

THE HONOURABLE CHEUNG MAN-KWONG

THE HONOURABLE CHAN YUEN-HAN, J.P.

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

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

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

THE HONOURABLE LEUNG YIU-CHUNG

THE HONOURABLE SIN CHUNG-KAI, J.P.

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

THE HONOURABLE WONG YUNG-KAN, J.P.

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

THE HONOURABLE HOWARD YOUNG, S.B.S., J.P.

DR THE HONOURABLE YEUNG SUM

THE HONOURABLE LAU CHIN-SHEK, J.P.

THE HONOURABLE LAU KONG-WAH, J.P.

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

THE HONOURABLE MIRIAM LAU KIN-YEE, G.B.S., J.P.

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

THE HONOURABLE CHOY SO-YUK, J.P.

THE HONOURABLE ANDREW CHENG KAR-FOO

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

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

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

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

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

THE HONOURABLE ALBERT CHAN WAI-YIP

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

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

THE HONOURABLE VINCENT FANG KANG, J.P.

THE HONOURABLE WONG KWOK-HING, M.H.

THE HONOURABLE LEE WING-TAT

THE HONOURABLE LI KWOK-YING, M.H., J.P.

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

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

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

THE HONOURABLE MA LIK, G.B.S., J.P.

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

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

THE HONOURABLE LEUNG KWOK-HUNG

DR THE HONOURABLE KWOK KA-KI

DR THE HONOURABLE FERNANDO CHEUNG CHIU-HUNG

THE HONOURABLE CHEUNG HOK-MING, S.B.S., J.P.

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

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

THE HONOURABLE CHIM PUI-CHUNG

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

THE HONOURABLE ALBERT JINGHAN CHENG

THE HONOURABLE KWONG CHI-KIN

THE HONOURABLE TAM HEUNG-MAN

PUBLIC OFFICERS ATTENDING:

THE HONOURABLE RAFAEL HUI SI-YAN, G.B.S., J.P.

THE CHIEF SECRETARY FOR ADMINISTRATION

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

THE FINANCIAL SECRETARY

THE HONOURABLE WONG YAN-LUNG, S.C., J.P.

THE SECRETARY FOR JUSTICE

THE HONOURABLE MICHAEL SUEN MING-YEUNG, G.B.S., J.P.

SECRETARY FOR HOUSING, PLANNING AND LANDS

PROF THE HONOURABLE ARTHUR LI KWOK-CHEUNG, G.B.S., J.P.

SECRETARY FOR EDUCATION AND MANPOWER

THE HONOURABLE JOSEPH WONG WING-PING, G.B.S., J.P.

SECRETARY FOR COMMERCE, INDUSTRY AND TECHNOLOGY

DR THE HONOURABLE PATRICK HO CHI-PING, J.P.

SECRETARY FOR HOME AFFAIRS

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, J.P.
SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY

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

THE HONOURABLE AMBROSE LEE SIU-KWONG, I.D.S.M., J.P.
SECRETARY FOR SECURITY

DR THE HONOURABLE YORK CHOW YAT-NGOK, S.B.S., J.P.
SECRETARY FOR HEALTH, WELFARE AND FOOD

THE HONOURABLE DENISE YUE CHUNG-YEE, G.B.S., J.P.
SECRETARY FOR THE CIVIL SERVICE

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

CLERK IN ATTENDANCE:

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

PRESIDENT (in Cantonese): Honourable Members, public officers, today is the first Legislative Council meeting in the year of "dinghai". I wish you all success in everything and good health.

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>
Air Pollution Control (Volatile Organic Compounds) Regulation.....	20/2007
Companies (Revision of Accounts and Reports) Regulation.....	24/2007
Import and Export (Fees) (Amendment) Regulation 2007	25/2007
Companies (Amendment) Ordinance 2004 (Commencement) Notice 2007	26/2007
Financial Reporting Council Ordinance (Commencement) Notice 2007	27/2007
Legal Practitioners (Risk Management Education) (Amendment) Rules 2006 (Commencement) Notice	28/2007
Mutual Legal Assistance in Criminal Matters (Poland) Order (Commencement) Notice	29/2007
Specification of Public Office Notice 2007.....	30/2007
Safety of United Nations and Associated Personnel Ordinance (Commencement) Notice	31/2007

Other Papers

- No. 67 — Annual Report of The Standing Committee on Legal Education and Training for the period from 1 September 2005 to 31 August 2006
- No. 68 — The Hong Kong Academy for Performing Arts Annual Report 2005-2006 and the Financial Statements and Auditor's Report for the year ended 30 June 2006
- No. 69 — Li Po Chun Charitable Trust Fund Annual Report for the period from 1 September 2005 to 31 August 2006
- No. 70 — Audited Statement of Accounts together with the Director of Audit's Report and Trustee's Report on the Administration of the Education Scholarships Fund for the year ending 31 August 2006
- No. 71 — Estimates for the year ending 31 March 2008
Volume IA - General Revenue Account
Volume IB - General Revenue Account
- No. 72 — Estimates for the year ending 31 March 2008
Volume II - Fund Accounts

WRITTEN ANSWERS TO QUESTIONS

Screen-like Buildings

1. **MR ALAN LEONG** (in Chinese): *President, a survey conducted by a green group at the end of last year found that among the 138 private residential developments completed in the recent decade, 104 were classified as screen-like*

buildings. Moreover, all the nine forthcoming projects above railway stations include high-density screen-like buildings of 50 storeys or more. In this connection, will the Government inform this Council:

- (a) whether it has conducted studies over the past three years on the adverse impact caused by the layout of buildings on the air ventilation and environmental hygiene of the neighbouring areas; if it has, of the results and improvement proposals; if not, the reasons for that; and*
- (b) whether it will adopt specific measures for districts with a high density of screen-like buildings to prevent the wall effect from worsening, such as revising the relevant Outline Zoning Plans or imposing appropriate lease conditions when granting land in those districts; if it will, of the details of such measures; if not, the reasons for that?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Chinese):

President, the Government understands and shares the public's concern over the impact of building design and layout on air ventilation. As a matter of fact, we have, in recent years, made efforts to enhance the understanding of the air ventilation issue within the Government and the industry. We have taken various measures to include air ventilation as one of the considerations in the planning and design of development projects. We have also striven to pursue sustainable development to meet the community's aspiration for a quality living environment.

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

- (a) In 2005, the Planning Department completed the Feasibility Study for the Establishment of Air Ventilation Assessment System (the AVA Study). A set of design guidelines for the improvement of air ventilation was formulated on the basis of the findings. The guidelines include the creation of major air paths and open space, appropriate street layout, reference for building design and disposition and the adoption of a varying building height profile and

distribution to avoid wind blockage. The guidelines were incorporated into the Chapter "Urban Design Guidelines" of the Hong Kong Planning Standards and Guidelines in August 2006.

The AVA Study has also proposed a performance-based assessment system to compare the air ventilation impacts of various design options. In July 2006, the Housing, Planning and Lands Bureau and the Environment, Transport and Works Bureau jointly issued a technical circular specifically on air ventilation assessment, under which air ventilation is formally recognized as one of the considerations in the planning of major government development and redevelopment projects. We hope this will set as an example for the industry to follow. The private sector and quasi-public organizations are encouraged to refer to and adopts the guidelines in the planning and design of development projects.

- (b) To keep pace with our social needs and our economic development, we will review and revise the land uses under the Outline Zoning Plans from time to time. Appropriate development parameters such as height restrictions and plot ratio will be formulated. In drawing up town plans and considering development proposals, we will make reference to the "Urban Design Guidelines" and carefully consider the impact of building design and disposition of development proposals on visual quality and air ventilation. The relevant authority will, on individual merits, request applicants to submit an air ventilation assessment through the planning approval mechanism.

In addition, appropriate development densities will be determined for individual sites under town plan and the Buildings Ordinance. This will not only cater for sustainable development of our city, but also meet the community's aspiration for a quality living and working environment. The relevant planning parameters will be specified in land leases to reflect the planning intention of the sites concerned.

Driver Improvement Scheme

2. **MS MIRIAM LAU** (in Chinese): *President, regarding the Driver Improvement Scheme (DIS) implemented by the Transport Department, will the Government inform this Council:*

- (a) *of the respective numbers of participants, in each of the past three years, who attended driving improvement courses voluntarily and those who were directed to attend such courses by the Court, who had three driving offence points deducted from their total driving offence points already incurred upon completion of the courses, and who had incurred driving offence points within six months, one year and two years after completing the courses (with a breakdown by whether or not they had been disqualified from driving after having incurred 15 or more driving offence points for committing driving offences during those periods); and*
- (b) *whether it will consider including a road test in the above courses, so as to enhance the effectiveness of the DIS; if it will, of the specific contents of the test; if not, how the authorities ensure that the objective of the DIS can be achieved?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

(in Chinese): *President, in the past three years, the numbers of drivers who attended driving improvement courses voluntarily or under court orders, as well as those who had three driving offence points deducted upon completion of the courses were as follows:*

<i>Year</i>	<i>Number of voluntary participants</i>		<i>Number of participants under court order</i>	
	<i>Total</i>	<i>Had three points deducted</i>	<i>Total</i>	<i>Had three points deducted</i>
2004	1 990	1 860	170	160
2005	2 150	2 030	50	40
2006	2 610	2 470	30	20

In the past three years, the numbers of drivers who incurred driving offence points again within six months, one year and two years after completing

the courses, as well as those who were disqualified from driving during those periods were as follows:

<i>Year of completion of the course</i>	<i>Accumulated numbers of participants who incurred driving offence points again after completing the courses</i>		
	<i>Within six months</i>	<i>Within one year</i>	<i>Within two years</i>
2004	560 [50]	930 [130]	1 370 [200]
2005	540 [80]	940 [160]	Not Applicable ^(Note 2)
2006	Not Applicable ^(Note 2)	Not Applicable ^(Note 2)	Not Applicable ^(Note 2)

Note 1: Figures in square brackets denote the numbers of participants who were disqualified from driving after incurring 15 points or more.

Note 2: Exact figures are not yet available as the periods (six months, one year and two years) following the completion of the courses have not expired.

At present, driving tests for different types of driving licences are very stringent and are effective in ensuring that successful applicants of driving licences have the competence and driving skills for driving the respective types of vehicles. On the other hand, drivers who have incurred driving offence points for contravening traffic offences mostly have problems with their driving behaviour and attitude rather than driving skills or competence. The main objective of the driving improvement courses is to instill road safety awareness among drivers and remind them of the need for proper driving attitudes. Hence, the objective can be achieved through practical talks, video demonstrations and discussions. We have no plans to include road tests in the courses for the time being.

The Transport Department will review the content of the courses from time to time, making reference to overseas experiences and taking into account the practical needs and traffic accident trends in Hong Kong, so as to maintain the quality of the courses and achieve the objective of effectively improving the driving attitude of the motorists.

Buildings with Seismic Resisting Capability

3. **PROF PATRICK LAU** (in Chinese): *President, the recent earthquake in Taiwan had caused damages to buildings and underground pipelines there.*

Residents in Hong Kong also felt that earthquake and have expressed concern about the safety of local buildings and underground pipelines. It is learnt that the existing Buildings Ordinance (Cap. 123) does not require private buildings in Hong Kong to possess seismic resisting designs, but only requires them to withstand wind gusts of 250 km per hour. It has been reported that old buildings constructed before the '50s in the last century do not even possess any wind resisting designs. It has also been reported that the new code of practice (CoP) issued by the Buildings Department in December 2006 requires new buildings to be added with seismic resisting designs. In this connection, will the Government inform this Council:

- (a) of the respective numbers of buildings which do not have seismic resisting capability, or the wind resisting capability as prescribed by law, broken down by the 18 local administrative districts;*
- (b) of the earthquake intensity that new buildings are able to withstand as required under the above CoP issued by the Buildings Department; and*
- (c) whether it has assessed the seismic resisting capability of underground pipelines (in particular gas pipes), and drawn up contingency measures to deal with any major incidents arising from large-scale gas leakages caused by earthquakes; and whether the authorities have any plans to train qualified personnel capable of carrying out inspections on the gas leakage sites concerned?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Chinese):
President, as Hong Kong is not geographically situated within active seismic belts, the possibility of having serious earthquakes in the territory is relatively low. The strongest locally felt earthquake recorded by the Hong Kong Observatory since 1905 is of Intensity VI to VII under the "Modified Mercalli Scale" (MMS). This locally felt earthquake took place in 1918 and inflicted minor damage on walls of a few buildings constructed under the prevailing building standards at that time. This has been the only earthquake that has caused damage in Hong Kong since 1905.

Replies to the three parts of the question are as follows:

- (a) The extant Buildings Ordinance does not require private buildings in Hong Kong to possess seismic-resistant designs. However, as early as from the 1930s, buildings in Hong Kong had to be designed to withstand wind gusts of 130 km per hour. In the 1950s, this wind-resistance requirement was enhanced to the ability to withstand wind gusts of 250 km per hour. Wind-resistant designs help strengthen building structures and thus make such buildings possess a high load-resisting capacity. Even if an earthquake of MMS Intensity VII occurs, such buildings will still be safe and suffer no serious damage.
- (b) As required by the Buildings Department since December last year, all new concrete buildings have to comply with the "Code of Practice for Structural Use of Concrete 2004". Apart from setting out requirements which improve the design of concrete structures, the Code of Practice also provides guidelines for enhancing the structural behaviour of buildings at beam-column joints. Although these guidelines are not specifically provided for the seismic resisting design of concrete buildings, they could enhance the seismic resisting capability of such buildings.
- (c) As Hong Kong is not geographically situated within active seismic belts, the possibility of having serious earthquakes in the territory is relatively low. This being the case, the relevant legislation and codes of practice in Hong Kong do not specifically require that underground pipes should be seismic resistant. Nevertheless, local public underground pipes, including feed pipes, drain pipes, gas pipes, and so on, are designed for Hong Kong's environment in accordance with widely recognized international standards. Gas distribution pipelines are strong enough to withstand vibrations caused by heavy vehicles and soil settlement and can therefore withstand tremors to some extent.

Regarding contingency measures for gas leakages, Towngas continuously monitors the gas distribution network through an electronic monitoring and data reception system. In case of gas

leakages caused by damaged gas pipes and drastic plunges in gas pressure of the distribution network, the system will send out alarm signals. Personnel in the control room will duly turn off the shut-off valve of the main gas supply pipeline by remote control to prevent further gas leakages. Regarding liquefied petroleum gas (LPG) distribution pipelines, there are also proper safety devices and shut-off valves to prevent massive gas leakages.

In the event of emergencies, the gas supply companies will take contingency measures according to the established emergency procedures. They will also closely liaise with the Electrical and Mechanical Services Department and other government departments to tackle the incidents. In case of the occurrence of any serious incidents including earthquakes in Hong Kong, the Security Bureau will, according to the circumstances, promptly initiate the established contingency measures. It will also co-ordinate the command and control centres of the emergency services and support departments to carry out rescue, recovery and restoration work.

Under the existing registration system, each Registered Gas Installer and persons who are competent to manage LPG stores are required to receive training on the use of gas detectors and master the necessary skills. Hence, they will be able to locate leakage in gas leak incidents and take contingency measures promptly.

Students Discontinuing Schooling

4. **MR ABRAHAM SHEK** (in Chinese): *President, it has been reported that there were 1 297, 1 240 and 1 362 secondary school drop-outs in the past three school years respectively and, among such students, 10% were from secondary schools whose intakes comprise mainly band one students under the Secondary School Places Allocation System, and some were even elite schools students or gifted students. Despite having outstanding performance in primary schools, they could not adapt to secondary education for various reasons and eventually dropped out. It has also been reported that there is a higher risk for students to*

become hermit youths when they start secondary schooling, and the longer they discontinue schooling, the more likely they may become hermit youths. In this connection, will the Government inform this Council:

- (a) whether it has assessed the effectiveness of the support provided for school drop-outs by the Education and Manpower Bureau (the Bureau) and government-aided non-profit-making organizations and whether such support is adequate; if it has, of the assessment results; and*
- (b) whether the authorities will consider allocating additional resources to assist secondary schools in Hong Kong in ascertaining at the earliest stage the reasons for students' absence from school, identifying students with learning difficulties, providing additional counselling services for such students, educating parents and teachers on the proper ways of handling the problems concerned, as well as encouraging parents to seek assistance, so as to avoid the problems faced by students from being aggravated due to delay in addressing them, and in the end resulting in the students discontinuing schooling and becoming hermit youths?*

SECRETARY FOR EDUCATION AND MANPOWER (in Chinese):
President,

- (a) In the past three school years, the number of drop-outs from junior secondary schools was 1 035, 989 and 1 100 respectively. The existing practice is that, except for authorized leave such as sick leave, schools must report to the Bureau all cases of continuous absence for seven days, regardless of the students' age and class level. The Non-Attendance Cases Team (NACT) of the Bureau will analyse and assess the cases using the short-term case management strategy. When the problem is identified, the NACT will collaborate with parents and school social workers to follow up the case, providing assistance such as educational assessment, family counselling and alternative education programmes. The

school development officers of the Regional Education Offices will help the drop-outs return to their original schools, or arrange for placements at schools suiting their needs. When student resumes schooling, the NACT will continue to provide support and monitor the progress according to the needs of the individual cases.

In respect of the effectiveness of the support, according to the record of the Bureau in the past three years, about 60% of secondary school drop-outs resumed schooling within the same school year, as a result of the collaborative efforts of non-governmental organizations and other stakeholders including school heads, teachers and parents.

Besides, since the school year 2000-2001, the Social Welfare Department (SWD) has launched the "One school One Social Worker Policy" to provide services for needy students and their families. Through the District Social Welfare Offices of the SWD, there is close collaboration among the Integrated Children and Youth Services Centres, District Children and Youth Outreaching Social Work Teams, Community Support Services Scheme and secondary schools within districts. The above services are subvented by the Government. The effectiveness of the services is monitored and assessed under the mutually agreed "Funding and Service Agreements". According to the assessment reports submitted by various organizations, the services attain the standard set.

- (b) The causes of secondary school drop-outs are complex, including adjustment problems at school, learning difficulties, lack of learning motivation, inharmonious relationship with peers and/or teachers, family problems, cyber indulgence and social problems like adverse peer influence. The Bureau considers that cultivating a caring and harmonious environment which can foster students' whole person development is a more effective way to present dropout cases. Therefore, the Bureau will continue to encourage schools to, taking into account their specific circumstances, adopt a school-based

approach in implementing holistic measures to prevent dropout cases, and to take prompt action for tackling and following up those cases.

The Government supports schools in helping students adapt to secondary school life, cultivate healthy life habits and strengthen their resilience in face of changes in family situation. The Bureau provides every secondary school with additional graduate and non-graduate teachers, with a view to strengthening remedial teaching, extra-curricular activities, counselling and guidance services. Additional teachers are provided to schools admitting band three and the 10% academically weakest junior secondary school students. Every secondary school is provided with one school social worker. Educational psychologists also support those students with greater needs.

As regards teacher training, the Bureau regularly conducts thematic seminars and workshops on guidance and discipline for teachers. The Bureau will organize a seminar in April this year to equip the school social workers, guidance personnel and teachers with ways to prevent and handle student drop-outs. To enhance the teachers' capacity in identifying and handling students in need, the Bureau has commissioned tertiary institutions to organize certificate courses on guidance and discipline for primary and secondary school teachers. The Bureau will continue to train teachers to identify and support those students in need.

Besides, the Bureau has been actively promoting the parent education and parent-school collaboration by working closely with the Committee on Home-School Co-operation, Federations of Parent-Teacher Associations (FPTAs) in various districts and Parent-teacher Associations (PTAs) in schools. Project grants are allocated on an annual basis to FPTAs and PTAs for producing teaching materials, establishing support networks and arranging talks on guidance for secondary and primary school students. The Bureau also regularly organizes parent workshops and activities.

To enhance parents' capacity in solving their children's problems, the Bureau promotes parent education through programmes in the electronic media, and assist parents and teachers in the early identification of problems and in seeking appropriate assistance.

The Bureau also organizes various guidance programmes to enhance the life skills of students such as social skills, and skills in emotion management, conflict resolution and goals setting for learning. Each year, about 2 000 students from 65 secondary schools participate in the Enhanced Smart Teen Project which is run by various disciplinary forces. The Hong Kong Jockey Club Charities Trust has also earmarked \$400 million to implement a four-year project for secondary schools, namely "P.A.T.H.S. to Adulthood: A Jockey Club Youth Enhancement Scheme" in collaboration with the Bureau and SWD. More than 200 secondary schools have participated.

In sum, the Bureau has much concern for secondary school drop-outs and is committed to tackling the student dropout problem through providing support to school, teachers and parents, as well as cross-sector collaboration.

Employment Situation

5. **MR WONG KWOK-HING** (in Chinese): *President, regarding the employment opportunities provided by large-scale facilities (such as Ngong Ping 360 (NP360), Hong Kong Disneyland (HKD) and Hong Kong International Airport (HKIA)), and the employment situation in the areas where these facilities are located and the remote areas in the vicinity (such as Tung Chung, Tsuen Wan and Kwai Tsing), will the Government inform this Council whether it knows:*

- (a) *the respective numbers of jobs created so far for Hong Kong by each of the above facilities since their construction;*
- (b) *the following employment data of residents in Tung Chung, Tsuen Wan and Kwai Tsing; and*

		<i>Residents in Tung Chung</i>		<i>Residents in Tsuen Wan</i>		<i>Residents in Kwai Tsing</i>		<i>Total</i>	
		<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>
<i>Number of employed persons</i>									
<i>Number of unemployed persons</i>									
<i>Unemployment rate</i>									
<i>Number of CSSA recipients who are unemployed and in the low income group</i>									
<i>Number of persons employed in work in NP360</i>	<i>Number</i>								
	<i>Percentage in total number of employed persons in the three districts</i>								
<i>Number of persons employed to work in HKD</i>	<i>Number</i>								
	<i>Percentage in total number of employed persons in the three districts</i>								
<i>Number of persons employed to work in HKIA</i>	<i>Number</i>								
	<i>Percentage in total number of employed persons in the three districts</i>								
<i>Number of employed persons who were not employed to work in the above facilities</i>	<i>Number</i>								
	<i>Percentage in total number of employed persons in the three districts</i>								

- (c) *apart from constructing large-scale facilities, whether the Government has other projects or measures to assist residents in remote areas in securing employment; if it has, of the details of the projects or measures; if not, the reasons for that?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Chinese): President,

- (a) The construction of HKD and the related infrastructure created over 11 000 jobs, whilst that of NP360 (comprising Ngong Ping Skyrail and Ngong Ping Village) and the associated infrastructure generated some 500 job opportunities. Various works projects under the Airport Core Programme also provided over 30 000 job opportunities for local workers during construction.
- (b) The total number of employees and the district-based breakdown provided by NP360 and HKD are as follows:

<i>Year</i>	<i>NP360</i>		<i>HKD</i>	
	<i>End 2005</i>	<i>End 2006</i>	<i>End 2005</i>	<i>End 2006</i>
Tung Chung	2	44	205	360
Tsuen Wan	3	12	186	197
Kwai Tsing	2	31	502	522
Total no. of staff employed	34	213	About 5 000	About 5 000

As at end 2006, there were about 60 000 persons working at the Airport. Since over 200 companies and a considerable number of staff were involved, a breakdown of employees by residential districts is not available.

According to the data of the Census and Statistics Department (C&SD), the employment figures for Islands (including Tung Chung), Tsuen Wan and Kwai Tsing Districts in 2005 are as follows:

	<i>Number of employed persons</i>	<i>Number of unemployed persons</i>	<i>Unemployment rate (%)</i>
Islands (including Tung Chung)	62 300	4 000	6.1
Tsuen Wan	139 200	6 900	4.7
Kwai Tsing	239 600	18 500	7.2
Total of the three districts	441 100	29 500	6.3

(Note: Figures may not add up to total due to rounding. Figures presented in the above table are statistics which involve the use of the population figures in the compilation process and will be revised later to take into account the results of the 2006 Population By-census.)

Employment and unemployment statistics by District Council (DC) district are based on the data collected in the General Household Survey in May to August each year and compiled jointly by the C&SD and an inter-departmental Working Group on Population Distribution Projections. Detailed breakdowns on a finer basis such as for Tung Chung are, however, not available in this set of statistics. The latest available figures are for the year 2005 and those for 2006 will be released soon.

The numbers of low earnings and unemployment Comprehensive Social Security Assistance (CSSA) cases in Tung Chung/Tai O, Tsuen Wan and Kwai Tsing provided by the Social Welfare Department (SWD) are as follows:

	<i>End 2005</i>			<i>End 2006</i>		
	<i>Low earnings CSSA cases</i>	<i>Unemployment CSSA cases</i>	<i>Total</i>	<i>Low earnings CSSA cases</i>	<i>Unemployment CSSA cases</i>	<i>Total</i>
Tung Chung/ Tai O	601	769	1 370	572	739	1 311
Tsuen Wan	452	1 174	1 626	461	1 131	1 592
Kwai Tsing	2 235	4 003	6 238	2 274	3 711	5 985
Total of the three districts	3 288	5 946	9 234	3 307	5 581	8 888

(Note: Owing to the existing categorization, the SWD does not have specific figures on Tung Chung.)

- (c) The Government is committed to taking forward various works projects in remote districts to promote economic development and create employment opportunities.

The Government has allocated \$14 billion for major construction projects in Tung Chung, Tsuen Wan and Kwai Tsing. These include ongoing projects such as the construction of Route 8 between Tsing Yi and Cheung Sha Wan, improvement works to Tung Chung Road between Lung Tseng Tau and Cheung Sha, construction of an indoor recreation centre and community hall cum library in Area 17 of Tung Chung, as well as retrofitting of noise barriers on Cheung Pei Shan Road in Tsuen Wan. Furthermore, the following projects will commence construction in 2007-2008:

Tsuen Wan drainage tunnel, a swimming pool complex in Area 2 of Tung Chung, district open space in Area 9 of Tsing Yi, district open space in Shek Yam Estate — phases 1 and 4 in Kwai Chung, as well as local open space in Area 50 of Sham Tseng, Tsuen Wan. It is expected that these projects would be able to generate job opportunities for residents in Tung Chung, Tsuen Wan and Kwai Tsing.

The Labour Department (LD) provides a wide range of employment services to help job-seekers, including those residing in remote districts, find suitable jobs. Job-seekers may make use of the Interactive Employment Service website to register for employment services and browse up-to-date information on employment and vacancies. They can also secure job referrals through the Telephone Employment Service hotline. Moreover, residents in remote districts can access the latest vacancy information through vacancy search terminals installed at the Public Enquiry Service Centres of District Offices and the Social Security Field Units of the SWD. The LD will also organize job fairs in the districts, with the participation of large companies as well as small and medium enterprises in the neighbouring districts including the Airport. Besides, the LD has launched the Employment Programme for the Middle-aged and the Work Trial Scheme to help job-seekers with special difficulties in finding jobs.

The LD is launching the Youth Pre-employment Training Programme and the Youth Work Experience and Training Scheme to improve the training and employment opportunities of young people. The training bodies of these programmes have set up training centres in Tung Chung, Tsuen Wan and Kwai Ching which offer various courses on job-search and interpersonal skills, computer application and job-specific skills.

Reception Points for Construction and Demolition Materials

6. **MR CHAN KAM-LAM** (in Chinese): *President, at present, inert construction and demolition (C&D) materials produced in Hong Kong are delivered to the reception point at Guanghaiwan of Taishan, which is 160 km*

from Hong Kong, for disposal and then for reclamation. Given that there will be many reclamation works along the coastal areas of the Pearl River Delta, will the Government inform this Council whether it will continue its negotiation with the mainland authorities to identify other feasible locations as reception points for C&D materials?

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

(in Chinese): President, since the signing of the Implementation Scheme on Hong Kong Disposal of Inert Construction and Demolition Materials between the Government and the State Oceanic Administration (SOA) in mid-2005, we have been actively liaising with the SOA on the detailed arrangement for receiving inert C&D materials from Hong Kong. Last year, the SOA designated a trial site in Guanghaiwan of Taishan to receive the materials. Thereafter, we invited tenders for material delivery and awarded a contract in end 2006, with a view to starting the delivery in the first half of 2007.

We will continue to liaise with the SOA and explore other possible sites in the Mainland with the SOA for the receipt of our inert C&D materials in light of the effectiveness of the delivery to Taishan.

Waiting Time for Visitors to Complete Entry/Exit Formalities

7. **MR HOWARD YOUNG** (in Chinese): *President, in view of the continuous increase in the number of visitors to Hong Kong in recent years, will the Government inform this Council of:*

- (a) *the respective average waiting time for visitors to Hong Kong to complete entry/exit formalities at each immigration control point; and*
- (b) *the measures to shorten the waiting time?*

SECRETARY FOR SECURITY (in Chinese): President, our detailed reply to the question raised by Mr Howard YOUNG is as follows:

- (a) It is the performance pledge of the Immigration Department (ImmD) to complete immigration clearance for 92% of visitors within 15

minutes at the airport and within 30 minutes at the sea and land control points.

In January 2007, the average waiting time of visitors was as follows:

	<i>Waiting time</i>					
	<i>Within 15 minutes</i>		<i>16 to 30 minutes</i>		<i>Over 30 minutes</i>	
	<i>Entry</i>	<i>Exit</i>	<i>Entry</i>	<i>Exit</i>	<i>Entry</i>	<i>Exit</i>
Sea	98.50%	99.25%	1.47%	0.70%	0.03%	0.05%
Land	76.06%	81.06%	19.77%	18.87%	4.17%	0.07%
Airport	99.66%	99.55%	0.34%	0.45%	0	0

- (b) To cope with an ever-increasing number of visitors, we will, in addition to simplifying the clearance procedures and flexible staff deployment, make good use of information technology so as to ensure smoother immigration clearance for visitors. The ImmD plans to extend the e-Channels facilities to visitors holding Travel Pass on a trial basis within 2007. In a longer run, we will establish more control points. It is expected that the opening of a departure terminal at the SkyPlaza of the Airport in March 2007 and the commissioning of the control points for the Shenzhen Bay Port and the Lok Ma Chau Spur Line later this year will help ease the busy traffic at various control points.

Appointment and Removal of Vice-Chancellor/President or Pro-Vice-Chancellor/Vice-President of UGC-funded Tertiary Institutions

8. **MR CHEUNG MAN-KWONG** (in Chinese): *President, regarding the tertiary institutions funded by the University Grants Committee (UGC), will the Government inform this Council:*

- (a) *of the institutions whose relevant legislation or statutes expressly prohibit Council members who are teaching staff, administrative staff or students of the institution concerned from participating in the appointment and removal of the Vice-Chancellor/President or Pro-Vice-Chancellor/Vice-President, and the reasons for making such provisions;*

- (b) *whether it has assessed if such provisions contravene the Hong Kong Bill of Rights Ordinance (Cap. 383) and if they constitute discrimination; and*
- (c) *whether it will amend such provisions; if it will, how and when amendments will be proposed; if not, of the reasons for that, and how it ensures equality before the law?*

SECRETARY FOR EDUCATION AND MANPOWER (in Chinese): President, the UGC-funded institutions are autonomous bodies governed by their own ordinances. These governing ordinances empower the Council of the institutions to appoint and remove Presidents/Vice-Presidents (or their equivalents). Institutions can draw up their own procedures for the appointment of Presidents/Vice-Presidents (or their equivalents) in accordance with the relevant ordinances. Due to historical and other reasons such as different philosophy, religion, culture and circumstances of individual institutions, the ordinances for the eight UGC-funded institutions, including the provisions governing the participation of staff/student Council members in the appointment of President/Vice-Presidents (or their equivalents), do vary.

At present, the ordinances for three of the eight UGC-funded institutions, namely, the City University of Hong Kong, The Chinese University of Hong Kong and the University of Hong Kong, do not contain clauses which expressly limit Council members who are student and staff to participate in their respective Council's decision-making processes regarding the appointment/removal of Presidents and Vice-Presidents. As regards the other five UGC-funded institutions, there are provisions in their respective ordinances which exclude student and/or staff Council members from participating in the Councils' consideration of the appointment, promotion or personal affairs of individual officers, teachers and other staff members, including the appointment/removal of the Presidents and Vice-Presidents.

In view of the transient nature of the student body and the need to prevent conflict and partisanship among staff of the institution, and in order to ensure that decisions in relation to the choice of the heads and deputy heads of the institutions are made on the basis of the long-term needs and interests of the institution, the provisions which treat student and staff Council members differently from other Council members and which exclude student and staff

representatives from direct participation in the appointment/removal of the President and Vice-Presidents (or their equivalents) are justified. The difference in treatment is not arbitrary, nor does it constitute discrimination or offend the principle of equality before law. The provisions are consistent with the Hong Kong Bills of Right Ordinance and the human rights provisions of the Basic Law.

All the UGC-funded institutions are mindful of the important role their staff and students play in the appointment of Presidents and Vice-Presidents. In this regard, all UGC-funded institutions have engaged students and staff in the processes for selecting heads of institutions to ensure that they have ample opportunities to express their views on such matters. Such measures include informal consultations during the selection processes, opportunities for candidates to meet with students and staff members, and presenting views of student and staff members to the Council for consideration.

Licensing of Estate Agents and Salespersons

9. **MISS CHAN YUEN-HAN** (in Chinese): *President, regarding the qualifying examinations and licensing of estate agents and salespersons, which fall within the purview of the Estate Agents Authority (EAA), will the Government inform this Council whether it knows:*

- (a) *the current numbers of licensed estate agents and salespersons who have not completed Form Five of secondary education or its equivalent; and*
- (b) *since the introduction of the qualifying examinations for estate agents and salespersons, the respective numbers of persons who have passed the qualifying examinations but have so far not been granted the relevant licences because they fail to meet the academic requirements, and whether the EAA will help them obtain the relevant licences?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Chinese): President, the licensing regime for the estate agency trade came into effect on 1 January 1999. Under the Estate Agents (Licensing) Regulation, one of the

licensing requirements for estate agency practitioners is completion of Form Five or attainment of an equivalent educational standard (licence applicants must also have passed the relevant qualifying examination within 12 months immediately before the date of application, be aged 18 or above, and be considered fit and proper to hold a licence). During the three-year transition period from 1999 to 2001, a special arrangement was made for those who had practised estate agency work to be exempted from the educational qualification requirement.

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

- (a) As at 31 January 2007, there were 1 749 licensed estate agents and 823 licensed salespersons with an educational level below Form Five standard. All of them are practitioners who were given exemption from the educational qualification requirement in the three-year transition period from 1999 to 2001.
- (b) The numbers of applicants who passed the qualifying examination but were not granted licences as they did not meet the educational qualification requirement since the introduction of the qualifying examinations are given below:

<i>Year</i>	<i>Number of applicants</i>	
	<i>Estate Agents</i>	<i>Salespersons</i>
2002	13	28
2003	4	18
2004	9	57
2005	10	85
2006	18	81
2007 (as at 31 January 2007)	2	5

Note: The figures before 2002 are not available from the EAA's computer records.

The EAA must act in accordance with the law. Since the end of the transition period (31 December 2001), the EAA has no power to grant licences to applicants who do not meet the statutory educational qualification requirement. The only exception is the renewal of the licences of those practitioners who were exempted

from the educational qualification requirement during the transition period.

The EAA clearly informs prospective candidates for the qualifying examinations through various channels of the education qualification requirement. Those who do not possess the required qualification but opt to take the qualifying examination will have to attain the qualification through their own efforts within 12 months from the passing of the qualifying examination, or they will have to pass the qualifying examination again afterwards to be eligible for the issue of a licence.

Applicants who are unable to produce the original documents to certify completion of Form Five or an equivalent educational standard may submit other supporting documents to the EAA for consideration. Alternatively, applicants may seek an assessment of their qualifications from the Hong Kong Council for Academic Accreditation. The Council's assessment will be accepted by the EAA as proof of education attainment.

Broken Window Glasses of Franchised Buses

10. **MS LI FUNG-YING** (in Chinese): *President, in view of the successive incidents involving broken window glasses of franchised buses in recent months, will the Government inform this Council:*

- (a) *of the number of incidents involving broken window glasses of franchised buses while in service and the resultant casualties in each of the past three years, with a detailed breakdown of the particulars of the bus involved in each of the incidents, including the bus company it belonged to, its model, age and the route(s) served as well as the position(s) of the broken window glass(es) and the cause(s) of the incident; and*
- (b) *given that the franchised bus companies, after conducting tests on the upper deck toughened glass windscreens of franchised buses in conjunction with the authorities, have agreed to carry out modification works on such windscreens of all buses or replace them*

with laminated glass by mid-2008, whether the relevant franchised bus companies will carry out such works by phases; if they will, of the details, timetable and the costs of the works of various phases; and

- (c) *whether the authorities and the franchised bus companies will, apart from carrying out the above tests and modification works, take any other follow-up actions and measures in response to the above incidents, in order to prevent recurrence of similar incidents; if they will, of the details of the measures and the implementation timetable?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

(in Chinese): President, according to the information submitted by the franchised bus companies to the Transport Department (TD), there were two, six and 12 incidents involving passengers injured by broken bus windows in 2004, 2005 and 2006 respectively. They involved three, six and 16 injuries in 2004, 2005 and 2006 respectively. The particulars of the bus involved in each incident are at the Annex. According to investigations by the bus companies, the major causes for the incidents were impact by foreign objects and undue opening and closing of windows. There was no direct relationship between broken window glass and the bus model and age, and so on.

The two types of vehicle glass used on franchised buses are laminated glass and toughened glass, both of which can reduce injury when broken. Laminated glass has a plastic interlayer in between two glass layers and is designed to retain the fragments when the glass is shattered. Toughened glass has been heat-treated to increase its strength, which allows it to fracture into small pieces when it breaks. Since the recent incidents of broken windows on franchised buses usually involved toughened glass, the TD has, in conjunction with the bus companies, conducted studies and tests with a view to enhancing the safety of toughened glass. Test results show that attaching a transparent anti-shatter protective film to toughened glass can effectively prevent it from shattering when it breaks accidentally, thereby preventing passenger injuries.

At present, toughened glass is usually used on the upper deck of buses. All franchised bus companies have agreed either to carry out the above improvement measure to the toughened windscreens on the upper deck, or

replace them with laminated glass. The number of buses involved is about 2 400. The bus companies are purchasing the materials and will carry out the improvement works on each bus during its annual maintenance. The entire improvement programme is expected to be completed by mid-2008. The estimated total cost of the works is about \$1.44 million.

In addition to the improvements to existing buses, the concerned bus companies have also undertaken that only laminated glass will be used on the windscreens of new buses and for replacing existing toughened glass windscreens.

Annex

Incidents of Broken Window Glass Involving Passenger Injuries on Franchised Buses

<i>Date (Month/Year)</i>	<i>Bus Company</i>	<i>Bus Type</i>	<i>Bus Age (at the time of accident)</i>	<i>Route</i>	<i>Broken Glass Location</i>	<i>Possible Cause</i>
4/2004	KMB	Dennis Dragon 11 m	9	49X (Kwong Yuen - Tsing Yi Ferry Pier)	Lower deck, nearside windscreen	Flying hard object
7/2004	KMB	Neoplan 12 m	4	276P (Tin Tsz - Sheung Shui)	Lower deck, nearside rearmost window	Impact by tyre fragment
6/2005	KMB	Dennis Dragon 10 m	8	73K (Sheung Shui - Man Kam To)	Upper deck, nearside windscreen	Flying hard object
6/2005	KMB	MCW 11 m (non air-conditioned (A/C))	16	93K (Po Lam - Mong Kok KCR Station)	Lower deck, nearside window behind exit	Unknown
6/2005	KMB	Dennis Dragon 11 m (non A/C)	14	43C (Cheung Hong - Tai Kok Tsui (Island Harbourview))	Lower deck, nearside window behind exit	Undue window opening and closing
8/2005	KMB	MCW 11 m (non A/C)	16	44 (Tsing Yi Estate - Mong Kok KCR Station)	Lower deck, nearside rearmost window	Unknown
9/2005	KMB	Dennis Dragon 11 m (non A/C)	11	85A (Yu Chui Court - Kowloon City Ferry Pier)	Lower deck, nearside window behind exit	Unknown

<i>Date (Month/Year)</i>	<i>Bus Company</i>	<i>Bus Type</i>	<i>Bus Age (at the time of accident)</i>	<i>Route</i>	<i>Broken Glass Location</i>	<i>Possible Cause</i>
11/2005	KMB	Dennis Dragon 11 m	8	40X (Wu Kai Sha Station - Kwai Chung Estate)	Upper deck, offside windscreen	Flying hard object
1/2006	Long Win	Dennis Trident 12 m	8	A43 (Fanling (Luen Wo Hui) - Airport)	Upper deck, windscreen	Impact by passenger
5/2006	Long Win	Dennis Trident 12 m	8	A31 (Tsuen Wan (Discovery Park) - Airport)	Upper deck, windscreen	Impact by passenger
6/2006	KMB	MCW 11 m (non A/C)	16	93A (Po Lam - Kwun Tong Ferry Pier)	Upper deck, offside windscreen	Undue window opening and closing
7/2006	KMB	Leyland Olympian 11 m (non A/C)	13	61M (Yau Oi (South) - Lai King (North))	Lower deck, nearside window behind exit	Undue window opening and closing
7/2006	KMB	Dennis Dragon 11 m	11	61X (Tuen Mun West Rail Station - Kowloon City Ferry Pier)	Upper deck, offside windscreen	Flying hard object
8/2006	KMB	Dennis Dragon 11 m	11	279X (Luen Wo Hui - Tsing Yi Airport Railway Station)	Upper deck, offside windscreen	Flying hard object
8/2006	CTB	Volvo Olympian	8	962 (Tuen Mun (Lung Mun Oasis) - Causeway Bay (Moreton Terrace))	Upper deck, offside windscreen	Flying hard object
9/2006	KMB	Leyland Olympian 11 m (non A/C)	13	31B (Shek Lei (Tai Loong Street) - Olympic Station)	Lower deck, nearside window behind exit	Unknown
9/2006	KMB	Dennis Dragon 10 m	9	N293 (Sheung Tak - Mong Kok (Circular Route))	Upper deck, offside windscreen	Flying hard object
10/2006	CTB	Volvo Olympian	9	307 (Central - Tai Po Town Centre)	Lower deck, nearside window behind exit	Flying hard object

<i>Date (Month/Year)</i>	<i>Bus Company</i>	<i>Bus Type</i>	<i>Bus Age (at the time of accident)</i>	<i>Route</i>	<i>Broken Glass Location</i>	<i>Possible Cause</i>
11/2006	KMB	Dennis Dragon 11 m (non A/C)	12	73A (Choi Yuen - Yu Chui Court)	Lower deck, nearside window behind exit	Unknown
11/2006	KMB	Leyland Olympian 11 m (non A/C)	13	70 (Sheung Shui - Jordan (Wui Cheung Road))	Lower deck, offside window behind staircase	Unknown

Note: Except KMB (Kowloon Motor Bus (1933) Limited), Long Win (Long Win Bus Company Limited) and CTB (Citybus Limited), other franchised bus companies did not have incidents of broken windows in the past three years.

Outsourced Service Contracts

11. **MR LEUNG KWOK-HUNG** (in Chinese): *President, will the Government provide, in the form of the following table, details of each of the existing outsourced service contracts which were awarded by the Housing Authority, Food and Environmental Hygiene Department, Social Welfare Department, Leisure and Cultural Services Department or The Link Management Limited?*

<i>Institution awarding the contract</i>	<i>Location where the outsourced service is provided and name of contractor</i>	<i>Estimated value of service as set out in the tender document (\$ million)</i>	<i>Approved value of contract (please indicate whether this is the lowest bid price) (\$ million)</i>	<i>Number of staff required and terms of remuneration for cleaning workers and security staff as set out in the tender document</i>	<i>Number of staff employed by contractor and their remuneration</i>

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Chinese): President, the outsourced service contracts awarded by government departments through tender procedures involving cleansing workers and security guards are mainly cleansing service contracts, security service contracts and property management contracts.

The Social Welfare Department has no such contracts. The Link Management Limited is a private entity independent of the Government and the Hong Kong Housing Authority, we do not have any information about its outsourced service contracts. As for the Hong Kong Housing Authority, the Food and Environmental Hygiene Department and the Leisure and Cultural Services Department, a summary of their outsourced service contracts is at the Annex.

According to the Stores and Procurement Regulations, the estimated contract value will normally not be specified in the tender documents so as not to undermine the principles of competition and value for money.

Annex

Summary of existing outsourced service contracts involving cleansing workers and security guards awarded through tender procedures

Hong Kong Housing Authority

(a) Cleansing Service

<i>Region covered</i>	<i>Number of contracts</i>	<i>Value of contracts awarded (\$ million)</i>	<i>Number of contracts awarded to the lowest bids^{Note 1}</i>	<i>Requirements in tender documents</i>		<i>Number of workers employed by contractors</i>	<i>Monthly wage for staff employed by contractors (\$)</i>
				<i>Number of workers</i>	<i>Monthly wage (\$)</i>		
Hong Kong Island	11	0.600 to 14.810	3	- (Not specified in the tender documents)	4,898 to 5,126	11 to 68	4,898 to 5,126
Kowloon	31	0.900 to 16.400	7	28 (Not specified in the other 30 tender documents)	4,894 to 5,450	5 to 85	4,898 to 5,500
New Territories	30	1.300 to 21.999	9	- (Not specified in the tender documents)	4,894 to 5,126	6 to 91	4,898 to 5,126

Region covered	Number of contracts	Value of contracts awarded (\$ million)	Number of contracts awarded to the lowest bids ^{Note1}	Requirements in tender documents		Number of workers employed by contractors	Monthly wage for staff employed by contractors (\$)
				Number of workers	Monthly wage (\$)		
Cross-region ^{Note2}	1	8.853	1	-	4,953	30	5,017
				(Not specified in the tender documents)			

(b) Security Service

Region covered	Number of contracts	Value of contracts awarded (\$ million)	Number of contracts awarded to the lowest bids ^{Note1}	Requirements in tender documents		Number of workers employed by contractors	Monthly wage for staff employed by contractors (\$)
				Number of workers	Monthly wage (\$)		
Hong Kong Island	11	3.190 to 13.810	1	7 to 47	4,956 to 6,096	7 to 46	4,989 to 6,188
Kowloon	25	1.718 to 27.561	2	6 to 89	4,989 to 6,359	6 to 89	4,989 to 6,360
New Territories	22	4.271 to 26.782	2	13 to 85	5,576 to 6,358	13 to 85	5,603 to 6,448
Cross-region ^{Note2}	1	33.870	0	100	5,576	100	5,616

(c) Property management service

Region covered	Number of contracts	Value of contracts awarded (\$ million)	Number of contracts awarded to the lowest bids ^{Note1}	Cleansing workers				Security guards			
				Requirements in tender documents		Number of workers employed by contractors	Monthly wage for staff employed by contractors (\$)	Requirements in tender documents		Number of workers employed by contractors	Monthly wage for staff employed by contractors (\$)
				Number of workers	Monthly wage (\$)			Number of workers	Monthly wage (\$)		
Hong Kong Island	5	6.214 to 99.770	0	3 to 65	4,844 to 5,051	3 to 65	4,914 to 5,800	12 to 123	5,419 to 5,884	12 to 123	5,419 to 6,200
Kowloon	19	4.688 to 103.815	7	1 to 94	4,844 to 5,598	1 to 94	4,898 to 6,000	6 to 162	4,989 to 5,884	6 to 162	4,989 to 6,200

Region covered	Number of contracts	Value of contracts awarded (\$ million)	Number of contracts awarded to the lowest bids ^{Note1}	Cleansing workers				Security guards			
				Requirements in tender documents		Number of workers employed by contractors	Monthly wage for staff employed by contractors (\$)	Requirements in tender documents		Number of workers employed by contractors	Monthly wage for staff employed by contractors (\$)
				Number of workers	Monthly wage (\$)			Number of workers	Monthly wage (\$)		
New Territories	25	11.861 to 131.346	11	8 to 116	4,844 to 5,053	8 to 116	4,898 to 5,700	15 to 194	4,936 to 5,900	15 to 194	4,936 to 6,251
Cross-region ^{Note2}	2	94.948 to 97.523	2	76 to 103	5,002	76 to 103	5,002 to 5,103	172 to 195	5,576	172 to 195	5,576 to 5,677

Food and Environmental Hygiene Department

(a) Cleansing service

Region covered	Number of contracts	Value of contracts awarded (\$ million)	Number of contracts awarded to the lowest bids ^{Note1}	Requirements in tender documents		Number of workers employed by contractors	Monthly wage for staff employed by contractors (\$)
				Number of workers	Monthly wage (\$)		
Hong Kong Island	15	0.528 to 53.995	6	2 to 273 (Not specified in two tender documents)	4,442 to 6,798	2 to 275	4,500 to 6,981
Kowloon	18	1.740 to 48.598	5	8 to 224 (Not specified in four tender documents)	4,453 to 6,095	9 to 278	4,600 to 7,000
New Territories	36	1.246 to 58.002	23	6 to 245 (Not specified in eight tender documents)	4,381 to 7,357	2 to 331	4,381 to 8,000
Cross-region ^{Note2}	10	2.145 to 204.470	5	3 to 75 (Not specified in five tender documents)	4,453 to 7,446	5 to 1 315	5,000 to 7,450

(b) Security Service

Region covered	Number of contracts	Value of contracts awarded (\$ million)	Number of contracts awarded to the lowest bids ^{Note1}	Requirements in tender documents		Number of workers employed by contractors	Monthly wage for staff employed by contractors (\$)
				Number of workers	Monthly wage (\$)		
Hong Kong Island	7	0.387 to 3.031	2	4 to 15	4,956 to 5,764	4 to 15	4,956 to 5,764
Kowloon	6	0.844 to 8.331	1	5 to 44	4,956 to 5,419	5 to 44	4,956 to 5,500
New Territories	9	0.128 to 6.062	3	3 to 44	4,956 to 6,095	3 to 44	4,956 to 6,240
Cross-region ^{Note2}	1	1.477	0	9	4,956	9	4,956

Leisure and Cultural Services Department

(a) Cleansing service

Region covered	Number of contracts	Value of contracts awarded (\$ million)	Number of contracts awarded to the lowest bids ^{Note1}	Requirements in tender documents		Number of workers employed by contractors	Monthly wage for staff employed by contractors ^{Note3} (\$)
				Number of workers	Monthly wage (\$)		
Hong Kong Island	8	2.444 to 38.917	6	12 to 261	4,811 to 5,051	12 to 261	4,000 to 5,125
Kowloon	5	1.399 to 147.120	3	9 to 485	4,894 to 5,051	9 to 485	4,953 to 5,051
Cross-New Territories	14	0.695 to 195.938	4	3 to 553	4,811 to 5,126	3 to 553	4,000 to 5,300
Cross-region ^{Note2}	8	1.575 to 27.002	3	4 to 72	4,811 to 4,976	4 to 72	4,811 to 4,995

(b) Security service

Region covered	Number of contracts	Value of contracts awarded (\$ million)	Number of contracts awarded to the lowest bids ^{Note1}	Requirements in tender documents		Number of workers employed by contractors	Monthly wage for staff employed by contractors ^{Note3} (\$)
				Number of workers	Monthly wage (\$)		
Hong Kong Island	6	1.297 to 16.273	2	7 to 35	5,419 to 7,013	7 to 35	5,778 to 6,787.5

Region covered	Number of contracts	Value of contracts awarded (\$ million)	Number of contracts awarded to the lowest bids ^{Note1}	Requirements in tender documents		Number of workers employed by contractors	Monthly wage for staff employed by contractors ^{Note3} (\$)
				Number of workers	Monthly wage (\$)		
Kowloon	5	1.733 to 31.495	1	7 to 110	5,419 to 7,013	7 to 110	5,419 to 7,150
New Territories	6	2.419 to 24.443	3	6 to 200	5,419 to 7,013	6 to 200	5,419 to 6,814.5
Cross-region ^{Note2}	11	2.009 to 24.376	5	9 to 136 (Not specified in one tender document)	6,096 to 7,013	9 to 136	5,980 to 6,849.7

(c) Property management service

Region covered	Number of contracts	Value of contracts awarded (\$ million)	Number of contracts awarded to the lowest bids ^{Note1}	Cleansing workers				Security guards			
				Requirements in tender documents		Number of workers employed by contractors	Monthly wage for staff employed by contractors (\$)	Requirements in tender documents		Number of workers employed by contractors	Monthly wage for staff employed by contractors (\$)
				Number of workers	Monthly wage (\$)			Number of workers	Monthly wage (\$)		
Hong Kong Island	2	6.618 to 26.928	1	4 to 16	4,953 to 4,986	4 to 16	4,953 to 5,200	0	N/A	0	N/A
Kowloon	4	4.988 to 26.820	2	2 to 16	4,953 to 5,110	2 to 16	4,000 to 5,682	0	N/A	0	N/A
New Territories	3	4.934 to 7.375	2	2 to 30	5,004 to 5,126	2 to 30	4,800 to 5,767	0	N/A	0	N/A
Cross-region ^{Note2}	4	8.336 to 22.847	2	12 to 23	5,000 to 5,126	12 to 23	5,000 to 5,300	4	6,814	4	7,150

Note 1 Marking scheme is adopted for evaluation of tenders for these service contracts. The technical and price proposals are evaluated separately. Price proposals are opened and assessed only after the completion of the technical assessment. Normally contracts are awarded to tenderers with the highest combined technical and price score. Therefore, the "lowest bid" refers to the tender which happens to be the highest combined technical and price scorer with the lowest tender price.

Note 2 The contracts covered services for more than one region.

Note 3 Tenders for some of the contracts were invited before the requirement on wages for non-skilled workers employed by contractors came into effect on 6 May 2004. Wages specified in the tender documents are for reference only. Wages for some of the staff employed by contractors may be lower than the reference wages specified in the tender documents.

Regulation of Tutorial Centres

12. **MR LEE WING-TAT** (in Chinese): *President, I have received complaints from many members of the public that tutorial services provided via the Internet or by phone are not subject to regulation by the Education Ordinance (Cap. 279) (the Ordinance), and hence there are tutorial centres providing poor tutorial services through such means. Moreover, it has been reported that some tutorial centres provide tutorial services to students in different rooms by the same teacher through the use of audio-visual equipment, in order to circumvent the restriction that not more than 45 pupils shall be taught at one time by one teacher. In this connection, will the Government inform this Council:*

- (a) *whether at present, it has plans to review and amend the Ordinance in the light of the social changes and advances in technologies in recent years, so as to regulate the quality of the services provided by tutorial centres (including those providing tutorial services via the Internet and by phone); if not, of the reasons for that; and*
- (b) *whether it is currently collaborating with conventional schools or non-government organizations in providing non-profit-making tutorial services to meet students' needs; if not, whether it will plan to provide such services?*

SECRETARY FOR EDUCATION AND MANPOWER (in Chinese): Madam President,

- (a) Students receive essential education at formal schools. The Education and Manpower Bureau (the Bureau) considers that formal schooling is our priority of work and should be sufficient in supporting the growth and development of students. Private tutorial assistance to students is only an option. Students should cautiously consider whether it is necessary to patronize private tutorial schools.

In regulating registered private tutorial schools, our major consideration is whether the premises comply with various safety and health requirements specified under the Education Regulations, the subsidiary legislation of the Ordinance.

Enhancing consumer education is a more effective way to monitor the quality of private tutorial services. The Bureau has distributed leaflets through schools and broadcast on television and radio Announcements of Public Interest to remind parents and students to take note of the course details, learning environment and arrangements for the payment of course fee before patronizing a private tutorial school. To enable parents and students to make informed choices, we have uploaded onto the Bureau website a list of schools registered or provisionally registered under the Ordinance, and set out registration particulars such as the registered school premises and the permitted classroom accommodation, and records of schools which have contravened the Ordinance or its subsidiary legislation. The Bureau will investigate and take follow-up actions including prosecution according to the Ordinance upon receipt of complaints about contravention of the Ordinance.

- (b) The Bureau has been implementing the School-based After-school Learning and Support Programmes (the Programmes) since the 2005-2006 school year. Under the Programmes, non-governmental organizations, public sector schools, and schools under the Direct Subsidy Scheme may apply to the Bureau for a cash grant to operate after-school programmes for primary to senior secondary students in receipt of the Comprehensive Social Security Assistance allowance or full grant under the Student Financial Assistance Scheme. These programmes include after-school homework guidance and activities to nurture life skills.

Facilities Facilitating the Disabled

13. **MR LEUNG YIU-CHUNG** (in Chinese): *President, regarding the provision of facilities, such as tactile guide paths, Braille signs, entrances/exits and accesses allowing the passage of wheelchairs, ramps, toilets for the disabled and lifts serving all floors (facilities for the disabled), at various government buildings and cultural and recreational facilities managed by the Government (government venues) in order to facilitate the access to such venues and use of the services therein by the elderly with mobility problems and the disabled, will the Government inform this Council:*

- (a) *whether it has assessed if the design and facilities of various government venues are in compliance with the various design requirements set out in the Design Manual Barrier Free Access 1997 (DM97); if it has, of the assessment results; if not, the reasons for that;*
- (b) *of the respective numbers of government venues in various districts in which certain facilities for the disabled are still lacking; and the name and address of each of these venues, as well as the facilities that are lacking;*
- (c) *whether it has plans to undertake works to retrofit facilities for the disabled at the government venues referred to in part (b) above; if it has, of the details of the plans; if not, the reasons for that; and*
- (d) *whether it has plans to conduct consultation forums in various districts throughout the territory in order to gauge the public's views on which government venues are in need of facilities for the disabled; if it has, of the details of the plan; if not, the reasons for that?*

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

President, regarding the four parts of the question, my reply is hereafter:

- (a) The Government's policy is to provide people with disabilities with barrier-free access and facilities, to enable their full integration into society. At present, all government buildings as well as cultural and recreational facilities (hereafter government venues) constructed after 1997 are in compliance with the requirements of the DM97.

For government venues constructed before 1997, renovation or repair works are normally carried out every 10 years. In each renovation or repair exercise, access and facilities will definitely be examined and where technically feasible, improvement will be made in compliance with the requirements of DM97.

- (b) Since the implementation of DM97, on top of regular renovation or repair works, the Administration has also initiated a number of measures to improve the access to and facilities of pre-1997

government venues in compliance with the new standards of DM97 as far as possible.

These measures include an improvement project implemented in collaboration with the Sub-committee on Access of the Rehabilitation Advisory Committee, under which assessment on and reviews of access to and facilities of government venues are conducted in conjunction with various government departments on a regular basis in light of the views of people with disabilities, and funding will be sought annually to make improvement to prioritized government venues frequented by people with disabilities. As at the end of 2006, the Administration has earmarked some \$68 million for the project to improve the access to and facilities of 130 government venues.

All government departments and public organizations will also, on their own initiative, carry out access and facility modification works in their service venues to facilitate the use of public services by people in need. Recent examples include:

- (i) the Post Office's modification project for its 36 post offices in 2001 to 2004;
- (ii) the Food and Environmental Hygiene Department's modification project for nine markets cum cooked food centres in 2002 to 2004;
- (iii) the Hong Kong Police Force's modification project for 34 police stations in 2000 to 2002;
- (iv) 40 hospitals and medical institutions under the purview of the Hospital Authority already being provided with suitable access and facilities for people with disabilities;
- (v) 79 public clinics of the Department of Health already being provided with suitable access and facilities for people with disabilities; and

- (vi) 90% of the some 1 600 cultural and recreational venues of the Leisure and Cultural Services Department already being provided with suitable access and facilities for people with disabilities.

- (c) All post-1997 government venues are constructed in compliance with the requirements of DM97. For pre-1997 government venues, access and facilities will be improved in compliance with the requirements of DM97 where technically feasible during renovation or repair works. In addition, the Administration will continue to initiate improvement work to enhance the access to and facilities of pre-1997 government venues in compliance with the requirements of DM97, including the provision of funding for individual government departments to conduct modification works for their venues, and collaborating with the Sub-committee on Access of the Rehabilitation Advisory Committee on the project to make improvement to prioritized government venues frequented by people with disabilities.

- (d) The Sub-committee on Access set up under the Rehabilitation Advisory Committee is a key government advisory machinery on access and facilities for people with disabilities. Its membership comprises people with disabilities, experts from the construction industry, academics and representatives of relevant government departments. The Sub-committee has been maintaining close ties with people with disabilities and local organizations to listen to their views on access and facilities of government venues in the community, before providing the Administration with recommendations for improvement. In fact, the Sub-committee has been collaborating with the Administration to make improvement to the access and facilities of government venues since 1985.

Setting up Specialized Schools for Autistic Children

14. **MR BERNARD CHAN** (in Chinese): *President, it has been reported that there are currently about 10 000 children suffering from autism in Hong Kong*

but the Government has not set up specialized schools for autistic children. In this connection, will the Government inform this Council:

- (a) whether it has assessed how children with autism studying in normal or special schools are learning and adapting, and whether they have encountered any special difficulties;*
- (b) of the reasons for the Government not setting up specialized schools for autistic children, and whether it has assessed the need in this regard;*
- (c) whether it will consider setting up, or encouraging school sponsoring bodies to set up, specialized schools for autistic children, to cater for the special needs of such children; and*
- (d) of the long-term measures to help autistic children as well as their parents and teachers, so that autistic children will be provided with suitable education?*

SECRETARY FOR EDUCATION AND MANPOWER (in Chinese):
President,

- (a) Students with autism usually encounter different degrees of difficulties in learning and social adjustment. Hence, irrespective of whether they study in ordinary schools or special schools, they need additional support of different intensities. The progress of their learning and social adjustment does not only vary from person to person, but is also affected by both individual maturation and environmental factors. In general, with the appropriate support of schools and parents, students with mild autism can integrate into ordinary schools more easily; and the level of support required can thus be reduced gradually. Some students with relatively severe autism may take a longer time to adapt. In some individual cases, the parents of the children with autism and intellectual disability insist on sending the children to ordinary schools, despite the offer of placement in special schools. These children usually have persistent difficulties in social adjustment and learning, thus

exerting much pressure on the schools and teachers. Very often, they would end up seeking placement in special schools.

If teachers encounter difficulties in dealing with students with autism, relevant professional workers like the educational psychologists and special education support officers from the Education and Manpower Bureau (the Bureau) would render assistance. They would work with the teachers and parents concerned on the appropriate behavioural management strategies and review the students' progress regularly.

(b) and (c)

According to the Bureau's records, there are at present 2 384 students with autism studying in special and ordinary schools. The majority of them have intellectual disability and usually study in special schools for children with intellectual disability, which provide combined support for their dual disabilities. The rest have average intelligence and can benefit more from the ordinary school settings as their non-disabled peers can provide them with rich language stimulation and models of social skills. Such environmental factors are conducive to mitigating their learning and social adjustment difficulties. It is the Government's policy to promote integrated education for students with special educational needs (including autism) who can benefit from the ordinary school settings. This is in line with the world trend. Hence, the Administration does not consider it necessary to set up or encourage school sponsoring bodies to set up specialized schools only for students with autism.

(d) Our future direction is that students with both autism and intellectual disability should be placed in special schools for children with intellectual disability. To support students with autism and average intelligence studying in ordinary schools, we adopt the principle of early identification and early intervention, encourage parents to inform schools of their children's disability as early as possible, and promote the whole-school approach in supporting students with special educational needs, including autism. Schools will be

provided with appropriate resources and professional support which include:

- To deploy additional resources holistically for supporting students with diverse learning needs. Other than the basic provisions (such as Capacity Enhancement Grant, enhanced student guidance support and additional teachers), there are designated resources for students with special educational needs, like Intensive Remedial Teaching Programme, New Funding Mode, the Integrated Education Programme, and so on;
- In order to enhance teachers' professional capacity in supporting students with autism and other types of special educational needs, we have formulated a five-year special education training framework with training targets, starting from the 2007-2008 school year. The training framework comprises a 30-hour basic course, a 90-hour advanced course and some 40- to 60-hour thematic courses (with focus on how to support students with certain types of special educational needs such as autism, specific learning difficulties, and so on). Our training targets are that in the five-year period starting from the 2007-2008 school year, at least 10% of the teachers in a school will have completed the basic training; at least three teachers per school will have completed the advanced training; and at least one teacher will attend the thematic training on a certain type of special educational needs. To encourage teachers to attend the courses, supply teachers will be provided for the schools;
- The Bureau has produced a resource package on "Integrated Education ~ Understanding Students with Autism" for primary and secondary schools, and will continue to organize more regional and school-based training courses, seminars and workshops to enhance teachers' knowledge and skills in supporting students with autism. Teaching resources will continue to be developed on a need basis;

- To provide the network support for ordinary schools, there are at present 16 special schools serving as special schools cum resource centres and seven ordinary schools as resource schools adopting the whole-school approach. We plan to increase the number of resource schools and enhance their capacity to provide network support for ordinary schools. Their support services cover teacher empowerment, on-site support, and sharing of experiences and resources. There is a plan for special schools cum resource centres to run short-term attachment programmes for some students with severe emotional and adjustment difficulties from their partner schools on a need basis, with a view to transferring the skills to the teachers; and

- To enhance the effectiveness of the whole-school approach and to enable schools and parents to better understand their roles in the education of students with special educational needs, we are compiling a "Guide on Integrated Education" for schools and another one for parents. Schools and non-government organizations are encouraged to organize more educational activities for parents of students with autism, so that the parents can collaborate with the schools more effectively. This is particularly helpful for the smooth transition of students from pre-school to primary school settings, and from primary to secondary school settings.

Combating Smuggling of Dogs and Cats

15. **MR LI KWOK-YING** (in Chinese): *President, at present, under the Rabies Ordinance (Cap. 421) and its subsidiary legislation, all dogs over the age of five months must be licensed, microchipped and vaccinated against rabies; and a person who contravenes any one of these requirements is liable to a fine of \$10,000. Moreover, a person who imports animals into Hong Kong without a valid permit is liable to a fine of \$50,000 and to imprisonment for one year. In this connection, will the Government inform this Council:*

- (a) *in each of the past three years, of the respective numbers of cases in which fines were imposed by the Court on persons who contravened the above requirements on licensing, implantation of microchips and*

vaccination, as well as the number of convictions for importing dogs and cats into Hong Kong without permits, and the number of dogs and cats involved; and

- (b) *how the law-enforcement agencies such as the Agriculture, Fisheries and Conservation Department (AFCD), the Customs and Excise Department and the Hong Kong Police Force have co-operated to combat the smuggling of dogs and cats, and what actions have been taken in this regard; whether such actions include regular inspection of the pet shops in Hong Kong to ascertain if there were dogs and cats in those shops which had been illegally imported into Hong Kong; if regular inspections had been conducted, of the inspection results in the past three years; if not, the reasons for that?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Chinese): President, Hong Kong has an impressive track record in rabies control, and has been rabies-free for the past 19 years. The last rabies case in animals was reported in 1987.

Maintenance of our rabies-free status hinges upon the effective rabies regulatory regime established under the Rabies Ordinance (Cap. 421). According to the Rabies Ordinance (Cap. 421), all dogs over five months of age must be licensed, implanted with microchip and vaccinated against rabies, and the licence must be renewed and the dog receiving a booster vaccination every three years. Offenders may be liable to a fine of \$10,000. The Government Animal Management Centers and authorized private veterinary practitioners provide the services of issuing licence, implanting microchip and rabies vaccination. The AFCD also carries out anti-rabies campaigns targeted at dogs on fishing boats and in villages in the New Territories.

- (a) For the past three years, the numbers of prosecution cases for contravention of the licensing, microchipping and vaccination requirements are as follows:

<i>Year</i>	<i>Number of prosecution cases</i>
2004	620
2005	482
2006	506

Over the past three years, the figures of imported dogs and cats without a permit are as follows:

	2004		2005		2006	
	Case	Number	Case	Number	Case	Number
Cat	5	5	4	5	3	4
Dog	16	43	14	30	14	16
Total	21	48	18	35	17	20

- (b) In an effort to combat the smuggling of dogs and cats, the AFCD, together with the Customs and Excise Department and the police, conducts search operations against illegal importation of dogs and cats at the airport and borders on travellers, vehicles and boats entering Hong Kong. The AFCD also conducts routine checks on local pet shops, during which valid vaccination certificates for the dogs and cats on sale are inspected. The dogs will also be checked to see if they have been microchipped. If a pet shop has not met all the requirements as specified in the Animal Trader License or is suspected of importing animals illegally, further investigation will be conducted. If there is sufficient evidence, the AFCD will make prosecutions. Statistics on the AFCD's routine checks on local pet shops from 2004 to 2006 are as follows.

	2004	2005	2006
No. of routine inspections conducted	6 926	7 030	6 894
No. of warning letters issued	4	12	11
No. of successful prosecution	16	8	28

Moreover, the AFCD welcomes information or reports from members of the public on illegal importation of dogs and cats as well as traders who sell these animals without an Animal Trader License.

Safety Level of Magnetic Fields

16. **MR JASPER TSANG** (in Chinese): *President, it is learnt that a scientific working group of the International Agency for Research on Cancer (IARC) under the World Health Organization (WHO) has classified extremely low frequency*

(ELF) magnetic fields in environmental exposure as "possibly carcinogenic to humans". In this connection, will the Government inform this Council:

- (a) of the existing legal provisions on various apparatus in respect of magnetic field formation, including the safety standards to be complied with, the safety inspections to be passed and the certificates on product safety to be obtained;*
- (b) whether it will strengthen the aforesaid regulation to safeguard public health; and*
- (c) whether it will follow the practices of some overseas countries by prescribing a safety level of magnetic fields applicable to indoor environment, and treat the level of electromagnetic radiation pollution as one of the factors for determining indoor environmental quality?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Chinese): President, according to documents and publications of the WHO, "ELF magnetic fields" refers to magnetic fields of frequency between 3 and 3 000 hertz (Hz). In June 2001, the IARC, an agency under the administration of the WHO, classified ELF magnetic fields as Group 2B, which means that they are "possibly carcinogenic to humans", but there is so far no sufficient evidence to prove that they can cause cancer to humans. In fact, coffee has also been classified under this group. There are two higher risk categories of Group 1, "carcinogenic to humans"; and Group 2A, "probably carcinogenic to humans". Various organizations have subsequently conducted studies on carcinogenicity of ELF magnetic fields. But up to now, the WHO's conclusion is that there is so far no sufficient evidence to show that exposure to low level ELF magnetic fields will cause cancer.

Replies to the three specific parts of the question are as follows:

- (a) and (b)

In 1998, the International Commission on Non-ionizing Radiation Protection (ICNIRP) and the WHO jointly formulated guidelines on

the safety levels relating to exposure to electro-magnetic fields (EMF) of different frequency ranges (cover ELF to radio frequency). In October 2005, having regard to the guidelines, the International Electrotechnical Commission (IEC) formulated the international safety standard IEC62233 on EMF levels generated by electrical products. In March 2006, the Electrical and Mechanical Services Department (EMSD) started consultation with the electrical product trade on the adoption of IEC62233 for electrical products supplied in Hong Kong, and has been discussing with them implementation details and timetable of the safety standard.

Although there is currently no statutory regulation on ELF magnetic fields, the EMSD carried out tests last year on several types of domestic electrical products on the market which generate relatively higher EMF (including induction cookers, electric fans and electric dryers) and measured their EMF levels. The results showed that the EMF levels generated by all tested products complied with the requirements of IEC62233.

- (c) For Hong Kong, the Hong Kong Planning Standards and Guidelines issued by the Planning Department has made reference to the abovementioned guidelines of the ICNIRP when specifying the safety standards on EMF levels generated by electricity transmission systems. Based on the ICNIRP's guidelines, the Office of the Telecommunications Authority has also developed the "Code of Practice for Protection of Workers and Members of the Public against Non-ionizing Radiation Hazards from Radio Transmitting Equipment" to regulate the levels of radio frequency EMF generated by radio transmission stations.

Paper Coffins

17. **MR FRED LI** (in Chinese): *President, officials of the Health, Welfare and Food Bureau visited Japan in November last year to study the introduction of corrugated cardboard coffins into Hong Kong, with a view to reducing the amount of emissions from cremation and shortening the cremation time. In this connection, will the Government inform this Council:*

- (a) *how the retail prices of paper coffins compare with those of the traditional wooden coffins;*
- (b) *of the effectiveness of promoting the use of paper coffins in Japan, including the current market share of paper coffins;*
- (c) *whether it has sought the views of members of the funeral trade as well as the public on the use of paper coffins; if so, of the details;*
- (d) *of the anticipated reduction in the waiting time for cremation following the introduction of paper coffins into Hong Kong; and*
- (e) *whether it has plans to promote the use of paper coffins; if so, of the details?*

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

- (a) To our knowledge, no paper coffins are made in Hong Kong at present. Retail prices of paper coffins in mainland China generally range from around several hundreds to over a thousand Hong Kong dollars. As for traditional wooden coffins, local retail prices range from several thousands to several tens of thousands Hong Kong dollars.
- (b) We understand that Japan has only recently introduced eco-coffins made of corrugated cardboard. The effectiveness and the market response have yet to be assessed.
- (c) The Food and Environmental Hygiene Department (FEHD) has sought the views of members of the funeral trade on the introduction of paper coffins. They have no in-principle objection to employing environmental protection measures, but have reservations about whether the structures of paper coffins are suitable for use in Hong Kong. The FEHD is of the view that it would take a period of

promotion and education, before the public accept environmentally-friendly paper coffins for funeral use.

- (d) Despite that the cremation time of paper coffin is shorter than that of wooden coffin (about 26 minutes), the time achieved saved does not increase the number of cremations of old design cremators correspondingly. If eco-coffins are popularly used, the FEHD anticipates that its performance pledge on cremation will be improved from the existing 15 days to 14 days.
- (e) To promote the use of eco-coffins, the FEHD has put up notices at its cremation booking offices, and disseminated relevant information via its website. Publicity leaflets have been prepared and distributed to the public at public mortuaries, hospitals, elderly homes and non-government organizations providing care services for senior citizens. Furthermore, the FEHD will take the lead in using eco-coffins for cremating unclaimed bodies, and is planning to invite contractors to supply eco-coffins by open tender.

Redevelopment Plans for Public Hospitals

18. **DR JOSEPH LEE** (in Chinese): *President, in connection with the plans of the Hospital Authority (HA) to redevelop its hospitals, will the Government inform this Council whether it knows:*

- (a) *the redevelopment plans for the hospitals in various hospital clusters over the past five years and in the next 10 years, details of the plans and the estimated expenditures;*
- (b) *how the aforesaid redevelopment plans will tie in with the overall development of the hospital clusters, as well as the staffing and services arrangements; and*
- (c) *if the HA will review its redevelopment plans to ensure that there will be no duplication of services or resources, or wastage of resources?*

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

- (a) In the past five years, the HA has implemented four hospital redevelopment projects. Funding has also been reserved for two proposed hospital redevelopment projects in the future. Details and estimates of the aforesaid redevelopment projects are set out in the Annex.
- (b) As for how the aforesaid redevelopment projects tie in with the development of the relevant hospital cluster, our reply is as follows:
- (i) Kowloon West Cluster — Establishment of a Radiotherapy Centre and Redevelopment of the Accident and Emergency (A&E) Department at Princess Margaret Hospital (PMH)

One of the main objectives of this project is to deal with the increasing number of oncology cases and demand for radiotherapy treatment. This Radiotherapy Centre in the KWC offers timely and highly efficient radiotherapy services and provides treatment to 2 000 new cancer patients annually. The number of new cancer patients the Radiotherapy Centre can handle will increase to 2 800 per annum in the following years. Each year, the Centre will handle 45 000 specialist out-patient attendances and follow-up consultations, as well as 5 500 follow-up attendances for patients receiving chemotherapy, and provide in-patient service of around 21 000 in-patient days. With the support of non-profit-making organizations, a Cancer Patient Resource Centre was set up to further enhance the service in the KWC. To tie in with the redevelopment of the A&E Department of PMH, the HA in 2005 established at PMH's A&E Department the fifth Cluster Major Trauma Centre in Hong Kong. Starting from 2006, the Centre has been receiving

patients with severe trauma in the catchment area of Yan Chai Hospital (YCH) and Caritas Medical Centre (CMC). The KWC has, according to its overall service planning, deployed staff to commission the above new facilities in phases.

- (ii) New Territories West Cluster — Redevelopment and Expansion of Pok Oi Hospital (POH); Tuen Mun Hospital (TMH) Rehabilitation Block

POH has been upgraded to a modern acute general hospital through the redevelopment and expansion project. The additional 272 acute in-patient beds at POH will be able to alleviate the problem of shortage of hospital beds in the NTWC. At the same time, a rehabilitation block has been constructed at TMH to provide 512 additional convalescent/rehabilitation beds to meet the demand for rehabilitation services in the NTWC. To tie in with the opening of the two batches of hospital beds mentioned above, the NTWC will employ additional allied health professionals to strengthen the ambulatory service and launch various rehabilitation programmes, with a view to shortening patients' unnecessary bed-days at hospital, as well as enhancing the efficiency of use of resources and the quality of service.

- (iii) New Territories East Cluster — Prince of Wales Hospital (NTEC) (PWH) — Extension Block

The redevelopment project can increase the space of PWH, improve its layout and upgrade its equipment to meet the standard of a modern tertiary acute hospital and advances in clinical technologies. The project can also enhance the operational efficiency of the hospital and provide a comfortable, patient-oriented environment. The NTEC will

provide the upgraded services through internal redeployment of staff.

(iv) KWC — Redevelopment of CMC Phase 2; Redevelopment of YCH

The redevelopment of CMC and YCH aims to upgrade the existing dilapidated buildings and facilities of the hospitals to meet the standards of modern medical facility, and to enhance the operational efficiency of the hospitals. The redevelopment projects will enable the two hospitals to cope with the increasing demand for medical services in the community arising from the growing and ageing population. By redeveloping YCH, the HA will also strengthen its community-based health care services to deal with the increased cases of chronic illness resulted from the ageing population. The KWC will provide the upgraded services through internal redeployment of staff.

- (c) The main objectives of redeveloping the hospitals are to fulfil rising service demand, upgrade the dilapidated facilities and introduce new technologies at the hospitals, with a view to providing the public with appropriate medical services and an ideal treatment setting. When implementing the hospital redevelopment projects, such as when designing the buildings or selecting the materials for ancillary facilities, the HA has been sticking to the principles of cost-effectiveness and practicability. The hospital redevelopment projects in the past five years were all completed within the scheduled timetable and approved estimates. In addition, the HA Head Office will strive to minimize service duplication and enhance efficiency of use of resources through overall planning. The hospital clusters will, through flexible deployment of resources and service re-engineering, further enhance efficient use of resources and minimize service duplication, while ensuring adequate service provision to meet medical needs of the public.

Annex

The HA's Hospital Redevelopment Projects in the Past Five Years

	<i>Hospital Cluster</i>	<i>Hospital Redevelopment Plan</i>	<i>Project Estimates (\$M) (in Money-of-the-Day prices)</i>	<i>Date of Completion</i>	<i>Details</i>
1.	KW	Establishment of a Radiotherapy Centre and Redevelopment of the A&E Department at PMH	564.4	July 2005	The project scope includes: (i) demolition of the existing A&E Block of PMH; and (ii) construction of a new building to accommodate a Radiotherapy Centre, an expanded and upgraded A&E Department, and the reprovisioning of other facilities in the existing A&E Block.
2.	NTW	Redevelopment and Expansion of POH	1,666.1	December 2006	The scope of the main works includes: (i) construction of a new building to accommodate 622 in-patient beds and other supporting facilities; (ii) demolition of the Central Wing and North Wing; and (iii) provision of a rehabilitation garden and other external landscaping.
3.	NTW	TMH Rehabilitation Block	1,031.4	June 2007	The project scope includes: (i) refurbishment of Staff Quarters Block A for decanting the existing facilities in Staff Quarters Blocks B and C to Staff Quarters Block A; (ii) demolition of Staff Quarters Blocks B and C; and (iii) construction of a rehabilitation block on the site of Staff Quarters Blocks B and C to accommodate: - 512 convalescent/rehabilitation beds; - a day rehabilitation unit with a capacity of 155 places; - related integrated rehabilitation and social support facilities; - other facilities; and - hospital administration and other facilities to be permanently reprovisioned from Staff Quarters Blocks B and C.
4.	NTE	PWH — Extension Block	1,882.1	June 2010 (anticipated date of completion)	The project involves the construction of a new block of about 800 in-patient beds at PWH for the provision of all essential services for the acute, emergency and critical care of adult patients.

Proposed Hospital Redevelopment Projects in the Future (with funding reserved)

	<i>Hospital Cluster</i>	<i>Hospital Redevelopment Plan</i>	<i>Project Estimates (\$M)</i>	<i>Anticipated Date of Completion</i>	<i>Details</i>
1.	KW	Redevelopment of CMC Phase 2	About 1,300 (in Money-of-the-Day prices)	August 2012	The main works include: <ul style="list-style-type: none"> (i) demolition of the existing Wai Ming Block for the construction of a new ambulatory/rehabilitation block on the same site, to accommodate 260 convalescent/rehabilitation beds, ambulatory care and clinical support facilities; (ii) refurbishment of Wai Oi Block to accommodate facilities reprovisioned from Wai Ming Block, Wai On Block and Wai Yan Block; and (iii) demolition of Wai On Block, Wai Yan Block and Wai Tak Block for the construction of a rehabilitation garden.
2.	KW	Redevelopment of YCH	About 420 (at the price level of September 2006)	2014	The main works included: <ul style="list-style-type: none"> (i) Phase 1 which involves the demolition of Blocks C and D for construction of a new building to accommodate the community health and wellness centre and ancillary facilities; and (ii) Phase 2 which involves the demolition of Blocks E and F to provide landscaped area and parking facilities after the existing out-patient and associated ancillary facilities have been decanted to the new community health and wellness centre upon its completion.

Greening Works for Slopes

19. **MISS CHOY SO-YUK** (in Chinese): *President, the Government has indicated that landscaping works will be carried out in conjunction with slope stabilization works. However, I am aware that when stabilization works were carried out for three slopes by the Government recently, no tree was replanted in-situ after the removal of the original ones, and only concrete spraying was employed as finish for one of the slopes. One of them is situated at Old Peak Road (of slope number: 11SW-A/C211), and the other two are at Magazine Gap Road (the slope number of one of them is 11SW-D/CR1180 while the other is adjacent to Grenville House). In this connection, will the Government inform this Council:*

- (a) *of the department responsible for the stabilization works for the aforesaid slopes;*
- (b) *whether tree-planting or other greening works will be carried out at such slopes; if such works will be carried out, of the details and timetable; if not, the reasons for that; and*
- (c) *of the number of slopes for which stabilization works were carried out by the Government last year and, among such slopes, the number of those at which greening works were not carried out and only concrete spraying was employed as finish, and the reasons for that?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

(in Chinese): President,

- (a) The three slopes mentioned in the question are situated at Old Peak Road (slope number 11SW-A/C211), Magazine Gap Road (slope number 11SW-D/CR1180) and the back of Grenville House adjacent to Magazine Gap Road (slope number 11SW-D/CR330). The Highways Department (HyD) is responsible for the general routine maintenance of all three slopes. As part of the Landslip Preventive Measures Programme, the Civil Engineering and Development Department (CEDD) is responsible for carrying out some major slope stabilization works. Under this Programme, the CEDD has recently completed the stabilization works of the two slopes situated respectively at Magazine Gap Road (slope number 11SW-D/CR1180) and at the back of Grenville House adjacent to Magazine Gap Road (slope number 11SW-D/CR330).
- (b) (i) The Slope at Old Peak Road (Slope Number 11SW-A/C211)

During the passage of Typhoon Prapiroon in August last year, some trees on the slope were blown down and posed a road safety hazard. Hence, the HyD removed the fallen trees immediately. As the slope is too steep for replanting, the HyD plans to provide planters at the toe of the slope and to grow plants there as a greening measure. The greening

works will commence in mid-2007 and is expected to complete by the end of 2007.

- (ii) The Slope at Magazine Gap Road (Slope Number 11SW-D/CR1180)

In September 2006, the CEDD completed the stabilization works of the slope. Owing to the loose rock debris on the slope surface and the largely steep slope gradient which rendered a vegetation cover unsuitable, the CEDD protected the slope with a shotcrete cover instead. To improve the appearance, planting holes have been provided on the slope cover and plants in the holes, when fully grown, will provide greening to most of the shotcrete cover of the slope.

- (iii) The Slope at the Back of Grenville House (Slope Number 11SW-D/CR330)

The CEDD also completed the stabilization works for the slope in February 2007. Some trees on the slope were found withered and had to be removed before the commencement of the works. As the largely steep slope gradient rendered a vegetation cover unsuitable, shotcrete cover was used instead and replanting has been carried out in suitable places, including tree planting at the top of the slope and provision of planting holes on the slope cover so that plants in the holes, when fully grown, will provide greening to most of the shotcrete cover of the slope.

- (c) The Government regularly carries out routine maintenance, including drainage clearance and undergrowth cutting, on slopes and retaining walls. These kinds of work do not have any impact on the existing surfaces of the slopes concerned. Apart from the routine maintenance of slopes, the CEDD and other departments responsible for slope maintenance also carried out stabilization and improvement works for a total of 601 slopes and retaining walls in 2006. Shotcrete covers were used on 196 of the above slopes and retaining walls which were not suitable for vegetation covers. However, landscape treatment, such as stone pitching, provision of

toe wall planters, planting holes on the slope covers for growing plants, and so on, was provided on the surfaces of these slopes and retaining walls.

The main reasons why vegetation covers cannot be used in slope stabilization and improvement works include:

- (i) slope safety reasons such as very steep slope gradient or slopes with loose rocks;
- (ii) unsuitability for using vegetation covers on the surfaces of steep rock slopes or masonry retaining walls; and
- (iii) nearby residents' objection to greening for fear of hill fires, mosquito nuisance, and so on.

Use of Plastic Bags by Government Departments

20. **MR ALBERT CHAN** (in Chinese): *President, at present, government departments often use black plastic bags for collecting garbage, broken branches and fallen leaves, and for carrying recovered waste. Some members of the public have reflected to me that the use of large quantities of black plastic bags by the Government has not only produced adverse visual impact, but has also increased plastic waste. In this connection, will the Government inform this Council:*

- (a) *of the respective quantities of plastic bags used by various government departments in each of the past three years, and among such bags, the quantity of those which are non-biodegradable; and*
- (b) *whether there are measures to reduce the quantities of plastic bags used by government departments; if so, of the details of such measures; if not, the reasons for that?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS
(in Chinese): President,

- (a) The Food and Environmental Hygiene Department, being the responsible agent for environmental hygiene and the provision of street cleansing service, uses about 5 million plastic bags each year. This is equivalent to an average of about 750 plastic bags per district per day. Since most of the cleansing work at the offices and venues of bureaux and departments are provided by property management companies or cleansing companies, we do not have information on the number of plastic bags used by those companies for garbage collection. On the other hand, we understand that close to 30 bureaux and departments have been using degradable plastic bags or plastic bags with recycled content as garbage bags in their offices. The Environmental Protection Department will encourage other bureaux and departments to consider switching to degradable plastic bags or plastic bags with recycled content.
- (b) Resource conservation has been a key focus under the "green management" of bureaux and departments. Bureaux and departments have taken a series of measures to reduce the use of plastic bags, including using reusable nylon bags to replace plastic bags, requiring cleansing companies to replace garbage bags only when needed, reusing the same plastic bags, reminding colleagues to reduce the use of plastic bags through internal circulars, and so on.

BILLS

First Reading of Bills

PRESIDENT (in Cantonese): Bill: First Reading.

APPROPRIATION BILL 2007

CLERK (in Cantonese): Appropriation Bill 2007.

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

Second Reading of Bills

PRESIDENT (in Cantonese): Bill: Second Reading.

APPROPRIATION BILL 2007

FINANCIAL SECRETARY (in Chinese): Madam President, I move that the Appropriation Bill 2007 be read a Second time.

"Revitalizing the economy, promoting employment and improving people's livelihood" have been my consistent policy objectives over the years since I became Financial Secretary. They are also my guiding principles in formulating the 2007-2008 Budget. I believe that our economic development over the past few years confirms that they are on the right track.

My gratitude goes to various sectors of the community for the invaluable suggestions they have given me over the past few months. In pursuance of the Chief Executive's "proactive, pragmatic, always people first" concept of governance, I hope, by means of this Budget, to leave wealth with the community where affordable, balance the changing aspirations of our society, and, while leaving room for the next Government, contribute in a visionary way to the long-term economic development, social harmony and stability of Hong Kong.

In August 2003, when I took up the office of Financial Secretary, Hong Kong was beset with severe challenges. After being successively hit by the Asian financial turmoil and the outbreak of SARS, the economy had dipped sharply. At that time, consumer and investor sentiments were very depressed; deflation persisted: since 1998 the Composite Consumer Price Index (CCPI) had fallen by 16% and the Gross Domestic Product (GDP) deflator had declined by the even greater extent of 23 %; and our fiscal deficit was worsening from year to year. At such a crucial moment, the responsibility of being Financial Secretary weighed heavily on me. Although we were confronted with such adversity, I remained fully confident that, with the resilience, ingenuity and

tenacity of Hong Kong people, we would surely ride out the storm together, and see our economy emerging again stronger than ever.

The spirit of Hong Kong prevailed, and with the full support of our nation, our economy has gradually come out from the doldrums and staged a strong recovery, standing out in stark contrast to 2003. The number of negative equity cases had fallen from the peak of over 100 000 to 8 400 by the end of 2006, in tandem with a significant recovery in the property market. Total visitor arrivals had also risen from some 15 million three years ago to more than 25 million in 2006, an increase in excess of 60%. As at mid-February, our stock market's total capitalization had increased by 300% over its 2003 trough. Along with the strong recovery of our economy, the deflation that had persisted for years also ended in mid-2004.

GDP leapt by 6.8% in 2006. Our economy has continuously enjoyed above-trend growth over the past three years, registering an average annual increase of 7.6%. Furthermore, our economic growth has become more and more broad-based. As for consumption, total retail sales for 2006 registered an increase of 23% over those of three years ago. And overall investment has been accelerating for four years in a row. It grew 8% last year, the biggest rise since 2000. (Chart 1)

There have been extensive improvements in the labour market. Total employment has hit successive new highs over the past three years, with the latest figure close to the 3.5 million mark, up by more than 310 000 over its low point in 2003. The unemployment rate has fallen from its peak of 8.5% in mid-2003 to a six-year low of 4.4%. The number of long-term unemployed has also fallen by over half from its 2003 level. As at the end of January this year, the amount of unemployed Comprehensive Social Security Assistance (CSSA) cases was 14 000 less than the high of 51 400 in 2003. (Chart 2)

Upon taking up this office in 2003, in order to address the serious deficit problem and to restore the health of our public finances, I set the following three fiscal targets:

- first, reduce operating expenditure to \$200 billion;

- second, restore fiscal balance in the Operating and Consolidated Accounts; and
- third, bring public expenditure down to 20% of GDP or below.

Due to the combined efforts of the Government and the entire community, we achieved all these targets in 2005-2006, three years ahead of schedule.

2006-2007 Outturn

The Government's financial position has improved markedly as a result of our strong economic recovery.

I estimate that operating expenditure for 2006-2007 will be \$195.7 billion, a moderate increase of 1.7% over the 2005-2006 figure. That government operating expenditure has been contained within \$200 billion for three years in a row is no mean accomplishment.

Due to government departments' efforts in implementing structural reorganization and streamlining procedures, we will be able to reduce the establishment of the Civil Service to approximately 161 800 by the end of March 2007, and so attain our target. My sincere appreciation goes to our clean, efficient and dedicated Civil Service for making strenuous efforts to rein in expenditure, implementing a wide range of policies and providing quality public services to the community, while coping with greatly-increased pressure from various austerity measures.

Government revenue is far higher than expected, due to the strengthening economy, increased corporate profits and salaries, the buoyant stock market and a stable property market. For 2006-2007, I am forecasting surpluses of \$38.6 billion in the Operating Account and \$55.1 billion in the Consolidated Account.

The variances between the revised and original estimates are essentially due to our economy's better-than-expected performance over the past 12 months. Last year, our GDP grew by 6.8%, significantly higher than the 4% to 5% forecast by the market and the Government earlier in the year. This has meant that investment income and revenue from land premiums, stamp duty, profits tax and salaries tax alone are about \$31 billion higher than the original estimates.

Moreover, the preparation of the estimates is a mammoth exercise. Given the fact that government revenue and expenditure total about \$520 billion a year, involving more than 200 revenue items and a large number of expenditure items under some 80 expenditure heads and eight purpose-specific funds, it is understandable that some variances between the estimates and the actual figures will occur as a result of different factors.

Outlook

As the Mainland economy continues to expand, it will remain a driving force for the Asian economy. A weak US Dollar will also help our exports. With an improving employment situation and the pause in US interest rate increases, domestic demand looks set to be the key factor behind economic growth this year. Nevertheless, there remain a number of uncertainties in the external economic environment, such as the increase in global financial market risks, whether the United States property market can achieve a soft landing and the slowdown in the United States economy. We may therefore expect greater volatility in the financial markets this year. Overall, however, I am cautiously optimistic about the economic outlook for 2007.

Taking all these factors into account, and in the absence of unexpected serious incidents or major external shocks, we anticipate that Hong Kong's economy will continue to record solid growth in 2007. We forecast GDP to increase by 4.5% to 5.5%, higher than the average trend growth rate for the past ten years. As our economy gathers further strength, the employment situation should continue to improve.

I am also optimistic about our economic outlook over the medium term. Hong Kong will continue to move up the value chain in services provision, and further consolidate its role as the financial, trade and logistics centre for the region. Our economic integration with the Mainland will also achieve appreciable synergies. Over the medium term from 2008 to 2011, we forecast an annual trend growth rate of 4.5% and a 1.5% trend rate of increase in the GDP deflator. This means that the forecast trend growth rate of nominal GDP over the period from 2008 to 2011 is 6% a year.

The continuous upgrading of productivity has seen our economy achieving strong growth whilst keeping our inflation rate at the relatively low level of 2%

during 2006. The underlying trend is for a further mild increase in 2007, with the inflation rate forecast to average 3.5% over the following four years. Yet because of the reduction in public housing rentals, the implementation of the Pre-Primary Education Voucher Scheme and the measures proposed in this Budget, the inflation rate for 2007 is expected to come down to 1.5%. Moderate inflation is generally regarded by economists as a healthy sign in an economy, and should not be a cause for concern. The Government will nevertheless keep a close watch on the inflation trend. (Chart 3)

The recovery of our economy has allowed us more room to consider and map out the directions for our future development. In promoting economic development, I consider the following three principles to be crucial:

- first, market leads and government facilitates;
- second, maintain strict fiscal discipline and manage public finances prudently by keeping expenditure within the limits of revenues, striving to achieve a fiscal balance and keeping the budget commensurate with the growth rate of GDP;
- third, maintain a low and simple tax regime.

Our ability to undergo continuous economic restructuring is a key element underpinning Hong Kong's competitiveness. Service industries account for 91% of our GDP, and those enjoying the fastest growth include financial services, import/export and logistics. To retain our share of the highly-competitive international market, Hong Kong must keep moving towards high value-added production and a knowledge-based economy. Our economic integration with the Mainland is pivotal to our future development. Hong Kong's restructuring should complement the economic development of the Mainland, and create a "win-win" situation. To achieve this, we should focus on the following three areas:

- first, reinforce our competitive edge by vigorously developing our financial services, trade, logistics and tourism industries, thereby fostering growth in a broad range of economic activities;

- second, create a favourable environment for a knowledge-based economy by pooling talent, encouraging creative industries and facilitating research and development;
- third, care for the disadvantaged, helping them to achieve self-reliance and improve their livelihood.

Consolidating Strengths, Promoting Development

Furthering Economic Integration with the Mainland

We need to strengthen our advantage in having the Mainland as our hinterland, coupled with our own international outlook, so as to develop further Hong Kong's economic competitiveness on the global stage. The rapid economic development and the optimization of industrial structure in the Mainland have presented opportunities as well as challenges. We should grasp the opportunities and, with our creativity and versatile spirit, capitalize on our unique advantages under "one country, two systems" so as to contribute to the sustained development of the Mainland's economy. The signing and implementation of the Closer Economic Partnership Arrangement (CEPA) with the Mainland is the clearest manifestation of this mutually-beneficial economic partnership. We will continue to work closely with the mainland authorities to ensure the effective implementation of CEPA and discuss further liberalization measures with them in order to create more opportunities for our enterprises to access markets in the Mainland.

The four Focus Groups of the Economic Summit on "China's 11th Five-Year Plan and the Development of Hong Kong" have made specific recommendations as to how we can enhance our competitiveness in areas where we are strong and facilitate the development of our nation. The Government is studying these recommendations in detail and pushing ahead with those that can be implemented during the first half of this year.

International Financial Centre

As an important pillar of our economy, the financial services industry contributes directly around 13% of our GDP and employs more than 180 000 people. In 2006, Hong Kong ranked first in Asia and second worldwide, ahead

of New York, in terms of the total amount of funds raised through initial public offerings in our stock market. By abolishing estate duty and exempting offshore funds from profits tax, we have further consolidated our position as a major asset management centre. Looking ahead, it is my belief that the financial services industry will become the most important sector in our economy.

With the Mainland's on-going modernization process, its demand for quality financial services will increase substantially. I therefore consider that this should create ample room for our financial services industry to develop in the years ahead. A complementary, co-operative and interactive relationship needs to be established between the financial systems of the Mainland and Hong Kong. We have an advanced financial infrastructure, a regulatory regime up to international standards, deep and liquid internationalized financial markets, a rich pool of professionals and diversified investment products. These advantages enable us to contribute to raising the efficiency of financial intermediation in the Mainland and facilitating reform of the Mainland's financial system in the following ways:

- first, the entry of Hong Kong's financial institutions and professionals into the mainland market will help upgrade the corporate governance standards of mainland enterprises, introduce innovative financial products and help enhance the efficiency of the Mainland's financial intermediation;
- second, we can help mainland enterprises raise capital and reach out to the international market, and provide a global investment platform for mainland funds. By further expanding our Renminbi (RMB) business, Hong Kong can serve as a test bed for the use of RMB in international trade and financial transactions. Our sound financial system, coupled with close co-operation between the regulatory bodies of both places, can help manage the risks involved;
- third, Hong Kong and the Mainland can work together to establish appropriate channels to allow cross-boundary access to financial instruments issued in the two markets. This will help enrich the variety of financial instruments available in each market and offer

investors more choice. The greater market size resulting from such linkages will also enhance market efficiency and liquidity.

In promoting the development of our markets, we will explore ways to broaden the source of enterprises coming to list in Hong Kong, in an effort to attract quality foreign enterprises. To meet the demand for risk management in mainland financial markets, we are also exploring further ways to develop our derivatives markets, including financial and commodity futures trading, and insurance and reinsurance industries.

As regards improving our regulatory framework, Hong Kong is one of the first places in the world to implement the New Basel Capital Accord, which helps enhance the banking industry's management of risk. In addition, we will introduce a bill into this Council in the current Legislative Session to give statutory backing to major listing requirements. We have also established the Financial Reporting Council to upgrade the regulation of the accounting profession and the quality of financial reporting of companies listed in Hong Kong. Furthermore, we have embarked on an exercise to rewrite the Companies Ordinance to ensure that our company law continues to serve Hong Kong's developing needs as a major international business and financial centre. The Securities and Futures Commission will also explore ways of utilizing part of its levy income to enhance investor protection and education.

By complementing the financial development of our nation and enhancing our own competitiveness as I have elaborated, Hong Kong will flourish as a world-class international financial centre for our nation and enhance the latter's financial security in increasingly-globalized financial markets.

Developing Trade and Logistics

Hong Kong is the world's freest economy. It is also a major international trading centre and a logistics hub. Trade, logistics and related sectors employ one quarter of our working population, with a direct contribution to GDP of 29%.

On the trade front, Hong Kong will continue to play an active role in the World Trade Organization to improve multilateral trade rules and systems. We will, at the same time, keep up our efforts in seeking to enter into more free trade agreements with our trading partners.

To enhance the competitiveness of our logistics industry, we need to provide a seamless system for cargo movements and customs clearance. We will construct an electronic advance cargo information system and implement the On-Board Trucker Information System on a trial basis, with the aim of raising the operational efficiency of the trucking industry. To better equip our logistics practitioners, we will work with the Hong Kong Productivity Council to organize training programmes to help them master job-related information and automation technologies. In addition, the Economic Development and Labour Bureau will continue discussion with the industry on further ways to enhance its competitiveness.

As for air transport, passenger and air cargo throughput reached new highs last year, with 44.5 million travellers passing through the airport and 3.58 million tonnes of air cargo handled. To consolidate Hong Kong's position as an aviation hub, our airport must continuously enhance its efficiency, extend the aviation network and expand its passenger and cargo handling capacities. To facilitate the long-term development of the civil aviation industry, we will earmark about \$3.1 billion to replace the existing air traffic control system and build a new headquarters for the Civil Aviation Department on the Airport Island. In addition, the Civil Aviation Department will enhance existing flight procedures and air traffic control technology and work in collaboration with the aviation industry and the Airport Authority to increase runway capacity further. The Department will also continue discussion with the aviation authorities of the Mainland and Macao on ways to optimize airspace design in the region and open up additional air routes. The Authority is now inviting tenders for an additional cargo terminal and assessing the need for a third runway.

Promoting Tourism

The tourism industry brings in significant revenue and provides abundant employment opportunities.

We are well-positioned to enhance our cosmopolitan tourism profile further. While visitors from all around the world come to Hong Kong for business or to attend conventions and exhibitions, many are here for shopping, dining, as well as cultural and leisure activities that are a fusion of East and West. This demonstrates the charisma of Hong Kong as a fashionable and cosmopolitan city.

The Government will continue to support the build-out of our tourism infrastructure and develop new attractions in order to increase our appeal to visitors. Following the opening of the Hong Kong Wetland Park and Ngong Ping 360 and the completion of new attractions at Hong Kong Disneyland, the redevelopment of Ocean Park started late last year. By the end of this year, we also plan to invite tenders for a new cruise terminal to be situated at Kai Tak. It is expected that the first berth will be completed in 2012. In addition, we will promote green tourism in line with the principles of conservation and sustainable development, so that more visitors can enjoy Hong Kong's natural beauty.

The Mainland is our biggest source market for visitors. There are now 49 mainland cities covered by the Individual Visit Scheme, under which about 260 million people can visit Hong Kong. In support of the "honest and quality tourism" policy of the Mainland, the Hong Kong Tourism Board will focus its efforts in these cities on promoting Hong Kong's quality tourism services, consumer protection and consumer rights. Separately, the Consumer Council will, in conjunction with the tourism industry, provide additional shopping information and assistance to mainland visitors.

To boost the confidence of tourists and citizens in shopping in Hong Kong, the Consumer Council will review existing measures to protect consumer rights, including ways to improve the relevant legislation to combat misleading and undesirable sales practices.

Improving our Business Environment

Removing Barriers

Since I became Financial Secretary, I have been pushing ahead with the work of removing barriers so as to improve our business environment. In the past year, the Business Facilitation Advisory Committee has put forward a number of recommendations to streamline procedures in respect of the regulation of the construction and real estate sectors, food business, retail trade and entertainment industry. To improve our licensing system further, we have introduced the "Be the Smart Regulator" programme, which includes setting up Business Liaison Groups for more business sectors, developing more comprehensive performance pledges and guides to licence applications, and promoting the wider use of electronic services.

Fair competition is crucial to the economic development of Hong Kong. The Competition Policy Review Committee has finished its task and recommended that a cross-sectoral competition law be introduced. We have recently completed consultations on the subject, and are now considering the views received.

Promoting Environmental Protection

Not only can environmental protection enhance our citizens' quality of life, but it also helps improve our business environment. In last year's policy address, the Chief Executive proposed to provide an incentive for replacement of old diesel commercial vehicles with new models. I have budgeted \$3.2 billion for this purpose. The Chief Executive also proposed to lower the first registration tax for environment-friendly vehicles. This programme will be implemented on 1 April. As from today, information on the vehicle models covered by the programme can be found on the websites of the Environmental Protection Department and Transport Department.

To reduce waste and implement the "polluter pays" principle, the Environmental Protection Department is considering the introduction of producer-responsibility schemes for various products. The Department has completed its study on the charging scheme for plastic shopping bags, and is shortly to put forward specific proposals. It is expected that the relevant Bill will be introduced into this Council within the year.

Developing a Knowledge-based Economy

Pooling of Talent

Quality human capital is the most important element in developing a knowledge-based economy. The Government has therefore been investing heavily in education to enhance the quality of teaching and nurture talent. Our provision for education in 2007-08 will be \$50.1 billion, an increase of \$2.2 billion over the current financial year, accounting for nearly a quarter of our total recurrent expenditure.

With a view to expanding our pool of talent, the Government will provide continuous support to local tertiary institutions in attracting more students from outside Hong Kong to study and, upon graduation, stay here to work. In addition, we will continue to attract talent from around the world to pursue careers here through various talent admission schemes. Last year, more than 27 000 professionals were admitted under these schemes, an increase of 57% over 2003.

Technology and Creative Industries

To facilitate the development of a knowledge-based economy, we should make greater efforts to promote scientific and technological research. I will invite the University Grants Committee to consider, in conjunction with the Research Grants Council, how best to encourage higher education institutions to conduct more quality research, including that into innovation and technology. I also intend to relax the restrictions of the Small Entrepreneur Research Assistance Programme and the University-Industry Collaboration Programme under the Innovation and Technology Fund, so as to provide further impetus to the development of applied scientific research.

In order to facilitate public access to the Internet, we will earmark \$210 million over the next two years to provide WiFi networks in government venues for free use by our citizens. WiFi networks will first be installed, within a year, in all public libraries, major cultural and recreational centres, community halls, large parks, and those government offices that are frequently visited by the public.

To promote the economic development of Hong Kong, the business sector must, through innovation and creativity, develop its own designs and brands in order to enhance competitiveness in high value-added industries.

The film industry is a major creative sector. The Film Development Committee has submitted to the Government a report on the industry's development strategy. One of its recommendations is the establishment of a new fund to help finance film production and overcome the shortage of talent. I have earmarked \$300 million for this purpose. The Secretary for Commerce, Industry and Technology will consult the Film Development Council, which will shortly be established, on the detailed operation of the fund.

Helping the Disadvantaged

Over the past two years, the Commission on Poverty has held in-depth discussions on ways to prevent or alleviate poverty and to promote self-reliance, provided the Government with specific proposals and assisted in taking forward work on poverty alleviation. I will allocate about \$900 million to implement a series of measures to help the disadvantaged, including those that promote employment, support the development of social enterprises, strengthen families, nurture children and take care of the elderly. The Commission will continue to study the feasibility of other poverty-alleviation measures and will submit a report to the Government in the middle of this year.

The core principle of our poverty-alleviation policy is to help the disadvantaged move from welfare to self-reliance through promoting employment. In fostering economic development, we must also address the needs of our workers who are unable to adapt to economic restructuring. We will do so by providing them with employment assistance and retraining opportunities, so as to help them achieve self-reliance and improve their livelihood, with a view to building a harmonious society.

The Government has accepted the Commission's recommendation to introduce a one-year pilot Transport Support Scheme in the middle of this year, to encourage unemployed and low-income people in financial difficulties who live in remote areas to seek jobs and work across districts. It is estimated that this scheme will incur expenditure of about \$300 million. To enhance youth employability, we will also provide a transport allowance for participants in the Youth Pre-Employment Training Programme and the Youth Work Experience and Training Programme.

As for CSSA recipients at work, I will raise the "no-deduction" limit for disregarded earnings from \$600 to \$800 and relax the criteria for allowing CSSA recipients to be eligible for disregarded earnings from not less than three months on CSSA to not less than two months. We estimate the cost of this initiative to be about \$30 million a year.

Supporting Social Enterprises

In last year's Budget, I proposed that we should support the development of social enterprises, and this has been widely accepted by the community. The Enhancing Self-Reliance Through Partnership Programme launched by the Home Affairs Department has so far provided funding to 41 social enterprise projects, which are expected to provide about 750 jobs. In order to nurture more management talent for social enterprises, the Hong Kong Council of Social Service and various tertiary institutions, with the support of the Commission on Poverty, will offer Hong Kong's first social enterprise management training course in the middle of this year. In collaboration with the business, social welfare and education sectors, we will continue our efforts to promote and facilitate the further development of social enterprises in Hong Kong.

Strengthening Family Support, Fostering Child Development

Over the past two years, we have provided additional funding of about \$200 million for the provision of support services to families and children in need. In 2007-2008, further funding will be provided to the following services:

- \$52 million to provide more places in early education and training centres and special child care centres for pre-school children with disabilities, and more day training and residential service places for people with disabilities. The Government appreciates the community's demand for residential services for those with disabilities and will endeavour to address this issue;
- \$31 million to give better care to victims of domestic violence, strengthen family welfare services and expand child care services for families in need;
- \$20 million to enhance outreach services for the promotion of mental health in the community and early identification of people with psychological disturbances, so that they may be given appropriate support; and
- an allocation of about \$10 million over the next three years to expand the Capacity Building Mileage Programme by strengthening

education in parenting, encouraging continuous learning and assisting more women to enhance their capabilities.

To provide children from a disadvantaged background with more development opportunities, I will earmark \$300 million to set up a child development fund. The Commission on Poverty will discuss the fund's detailed operation. We also plan to extend the Comprehensive Child Development Service to all districts in phases and strengthen social services support.

Strengthening Elderly Support

The Government will continue to allocate resources to strengthen elderly care and support services. In 2007-2008, the following new or improved services will be introduced and funded by:

- an additional \$38 million to 156 elderly centres to enhance their outreach programmes, so as to encourage and assist more elderly singletons, particularly the unidentified ones, to develop their social life, and provide referral and supporting services to those in need;
- an additional \$16 million to provide more subsidized residential care places in new purpose-built residential care homes for the elderly. As the population ages, the demand for subsidized residential care places for the elderly will increase. The Commission on Poverty and Elderly Commission will continue to explore ways of responding to the challenge effectively; and
- allocating \$96 million in the next four years to implement a trial scheme in two districts to provide one-stop support services to elderly discharges who have difficulty taking care of themselves.

Maintaining Strict Fiscal Discipline, Realizing Sustainable Development

The health of our public finances has a major bearing on the stability of our monetary and financial systems, investor confidence, and the sustainable development of our economy as a whole. One of the most important factors behind the recovery of our financial health has been our maintenance of strict fiscal discipline. I will continue to observe the principles of prudent

management of public finances, keeping expenditure within revenue limits, and ensuring the efficient use, where needed, of resources. My fiscal policy aims to strike a balance between promoting economic development, improving people's livelihood and supporting the long-term development of Hong Kong.

Estimates of Expenditure

Total government expenditure for 2007-2008 is estimated to be \$248.4 billion. Expenditure on Education, Social Welfare, Health and Security will account for over 60% of this. The total provision for government operating expenditure for 2007-2008 will be \$214.2 billion, an increase of \$5.2 billion over 2006-2007. The operating expenditure allocations to various bureaux for the coming year will also be increased accordingly.

Infrastructure Projects

Developing our infrastructure can promote economic development, increase employment opportunities and improve our living environment. As I have previously pledged, we will continue to earmark \$29 billion a year on average for infrastructure projects over the next few years.

During the Budget consultation period, I heard many suggestions for the Government to expedite the implementation of various infrastructure projects in order to create more employment opportunities for the local construction industry. We fully recognize the aspirations of the community and have been making great endeavours to this end. The relevant bureaux and works departments will expedite the implementation of major infrastructure projects. In the next financial year, a number of major projects will commence construction, including the Tamar development project, the improvement and upgrading works for the 2009 East Asian Games sports facilities, Stage 2 of the Replacement and Rehabilitation Programme for Water Mains, and drainage works in various districts. It is expected that these will create about 23 000 jobs for the construction industry.

In addition, we are now planning some major projects, including the Central-Wan Chai Bypass and Wan Chai Development Phase II, Central Kowloon Route and Kai Tak Development, which will involve expenditure of \$25.2 billion, \$12.5 billion and \$9.8 billion respectively. We expect that their implementation will provide about 14 000 new jobs for the construction industry.

However, these projects have yet to commence as they require more time for preparatory work, including public consultation. We very much hope, therefore, that the various sectors of the community can reach a consensus on these projects as soon as possible, so that an early start can be made on them.

We have also revised the Concept Plan for Lantau. In accordance with the overall planning concept of balanced development and conservation, we will accord priority to those projects that can stimulate the local economy and improve people's livelihood. For other projects with implications for the long-term economic development of Hong Kong, we will deliberate on the best implementation model and timetable according to actual circumstances. The feasibility study for the Logistics Park, for example, will shortly be completed. Thereafter, the Government will consult the public on details of the implementation plan.

Civil Service Establishment

Since we must strictly control the size of the Civil Service, we will consider filling existing vacancies or creating new posts only after critically reviewing our manpower situation and exploring the feasibility of other options for service delivery. In order to implement various policy initiatives and meet the community's increasing demand for public services, the civil service establishment will have slightly expanded to around 162 900 by the end of March 2008, an increase of less than 1%.

To complement the creation of new posts and to pre-empt possible succession problems arising in the civil service, we will resume open recruitment of civil servants from 1 April 2007. However, the recruitment freeze will continue to apply to those grades covered by the Second Voluntary Retirement Scheme, unless otherwise approved.

It has long been our policy for civil service pay to offer adequate remuneration to attract, retain and motivate staff of suitable calibre who can provide the public with quality services. By adhering to the principle of broad comparability between civil service and private sector pay, we ensure that civil service remuneration is considered fair by both civil servants and the public. The Secretary for the Civil Service is now discussing with staff representatives how best to apply to the Civil Service the findings of the recently-completed Pay Level Survey and develop an improved civil service annual pay adjustment

mechanism. Should a decision be made on a civil service pay adjustment, it is estimated that the 2007-2008 Budget could meet this need.

Revenue

I have pledged to leave wealth with the people where affordable. As the Government's financial position has improved following the strong recovery of our economy, I will propose a series of tax relief measures to share the fruits of economic prosperity with the community. However, in making any tax concessions, we should, as far as possible, avoid narrowing our tax base further and adhere to the principle of affordability.

Salaries Tax

Marginal Tax Bands and Tax Rates

I propose to revert the marginal bands and marginal rates for salaries tax to their 2002-2003 levels. In other words, the band width will be increased from \$30,000 to \$35,000, and the two highest marginal tax rates will be reduced from 13% and 19% to 12% and 17% respectively. The basic allowance and standard rate will remain unchanged.

Child Allowance

To reduce the burden of parents in raising their children, I propose to increase the child allowance from \$40,000 to \$50,000 for each child. In addition, I propose to introduce an additional one-off child allowance of \$50,000 for each child in the year of birth.

Deduction for Self-education Expenses

To facilitate the development of a knowledge-based economy, the Government has been encouraging employees to seek continual self-advancement through learning. To this end, I propose to increase the maximum amount of deduction for self-education expenses from \$40,000 to \$60,000.

The implementation of the foregoing tax concessions for individuals will start in 2007-2008, reduce the tax burden of 1.1 million taxpayers and cost the Government about \$4.9 billion a year.

Stamp Duty on Property Transactions

It is the aspiration of most middle-class families to purchase their own home. I therefore propose to reduce the rate of stamp duty on transactions of properties with a value between \$1 million and \$2 million from 0.75% to a fixed amount of \$100, which is the same level of duty as for properties with a value at or below \$1 million. This proposal comes into immediate effect. It will benefit about 30 000 home buyers and cost the Government about \$250 million a year.

Duty on Alcoholic Beverages (*Laughter*)

I believe that reducing the duty on alcoholic beverages will help promote the development of our catering industry, tourism and wholesale and retail alcoholic beverage trade, thereby benefiting the community at large. I propose that the duty rate on beer and other types of liquor containing not more than 30% of alcohol be reduced from the current 40% to 20%, and that on wine from the current 80% to 40%. These proposals take immediate effect, and will cost the Government about \$350 million a year.

During the Budget consultation period, some people suggested that the Budget should be more visionary: for instance, the duty on alcoholic beverages should be abolished to boost economic activities, increase employment and promote the development of Hong Kong as the region's wine exhibition, trading and logistics centre. I am willing to consider this innovative idea further if it enjoys broad community support.

Duty-free Tobacco and Alcoholic Beverage Allowances

Currently, the duty-free quantities of tobacco and liquor that local residents are allowed to bring in when entering Hong Kong are not the same as for visitors. I propose to align them. I propose to raise the duty-free quantity of alcoholic beverages that Hong Kong residents may bring back from the current 750 millilitres of still wine to one litre and to apply this to all liquors. I propose, on the other hand, to reduce the quantity of duty-free tobacco that visitors are allowed to bring into Hong Kong to that for local residents. For example, the quantity of duty-free cigarettes for a visitor would be reduced from the current ten packets to three. These proposals will take effect after the relevant subsidiary legislation has been passed.

One-off Measures

I also propose the following one-off measures to share wealth with the community.

Salaries Tax and Tax under Personal Assessment

I propose to waive 50% of salaries tax and tax under personal assessment assessed for 2006-2007, subject to a ceiling of \$15,000. The amount waived will be deducted from the taxpayer's final tax payable for 2006-2007. This proposal will cost the Government about \$8.1 billion in 2007-2008.

Rates

I propose to waive rates for the first two quarters of 2007-2008, subject to a ceiling of \$5,000 per quarter for each rateable tenement. It is expected that 99% of domestic properties and 86% of non-domestic properties will be subject to no rates in these two quarters. This proposal will cost the Government about \$5.2 billion in 2007-2008.

Additional Social Welfare Assistance

I have earlier made a series of specific proposals to help the disadvantaged, involving government expenditure amounting to approximately \$900 million. To share the fruits of economic prosperity with recipients of CSSA and Social Security Allowance (SSA), I also propose to provide one additional month of standard rate CSSA payments for CSSA recipients and one additional month of allowance for SSA recipients. This proposal will benefit over a million people and cost the Government about \$1.5 billion in 2007-2008.

Fiscal Reserves

It is expected that by 31 March this year, our fiscal reserves will stand at \$365.8 billion. Over the next five years, the fiscal reserves will be maintained at a level between \$390 billion and \$580 billion. When I took up office as Financial Secretary, the fiscal deficit problem was very serious, with the Consolidated Account running a deficit of over \$60 billion for two consecutive financial years, and the fiscal reserves expected to shrink further. In view of

this, I set the target level of fiscal reserves at an amount equivalent to about 12 months of government expenditure. The current fiscal reserves have exceeded this level. However, opinions are divided over whether this target should be maintained.

Hong Kong's fiscal reserves serve two main functions. First, they help cope with fiscal pressure arising from economic downturns, unforeseen events or structural changes in the community. Second, they assist the Exchange Fund in maintaining the stability of Hong Kong's monetary and financial systems. I do not consider that the reserves need to keep expanding, but rather they should be maintained at an appropriate level with a view to providing adequate resources to meet our needs.

At the end of last year, the International Monetary Fund (IMF) analysed Hong Kong's financial position. While recognizing that Hong Kong's economy had benefited from our skilful macroeconomic management, the underlying flexibility of our markets and our sophisticated financial market infrastructure, the IMF remains concerned that our narrow tax base, revenue volatility and ageing population will bring pressure to bear on government expenditure over the medium term. The IMF is of the view that, in the absence of any policy change or reform, the levels of reserves needed to anticipate fluctuations in revenue could be around 30 to 50% of GDP, while those aimed at anticipating fiscal pressures arising from population ageing could mean putting in an additional 30% of GDP by 2030. I think the IMF's suggestions can be used as a frame of reference. Since our fiscal reserves are of crucial importance in maintaining a healthy public finance system, the Government needs to listen to more views from the community in this regard before coming to a decision.

Investment Income of the Fiscal Reserves

The investment income of the fiscal reserves is another important source of revenue for the Government, yet it is extremely volatile. It has represented between 0.5% and 18% of government revenue over the past decade. Meanwhile, we have noted calls from the community for higher returns from the fiscal reserves. After careful consideration and with a view to increasing the Government's investment income and enhancing its stability, I have decided to revise the income-sharing arrangement between the fiscal reserves and the Exchange Fund, subject to the principle that the Fund's ability to defend our

currency and stabilize our monetary and financial systems should not be undermined.

Effective from 1 April, the return on the fiscal reserves will be calculated on the basis of the average rate of return of the Exchange Fund's investment portfolio over the past six years. Under the new arrangement, the rate of return on the fiscal reserves for 2007 will be 7%. I will also include the guarantee of a minimum return so as to ensure that the annual investment return in any year will not be lower than the average yield of three-year Exchange Fund Notes for the previous year.

Tax Reform

I pointed out in my last Budget that we must stay alert to the challenges ahead and face up to the long-term pressure on public finances brought to bear by such challenges as a narrow tax base, unstable revenue, economic restructuring and an ageing population. We launched a public consultation on tax reform last July to explore the best way of broadening our tax base. The community generally agrees that the Government should stabilize its revenue by broadening the tax base for the purpose of ensuring the health of our public finances and maintaining our competitiveness. Although the community cannot reach a consensus on the introduction of a Goods and Services Tax, it supports the Government in continuing discussions with the public on other options to broaden the tax base. We will prepare a report after the conclusion of the consultation period at the end of March and submit it for consideration by the Government of the next term.

Health Care Financing

Health care is a major public expenditure item. The Secretary for Health, Welfare and Food will consult the public on reform of health care service delivery and related financing arrangements this year, and will in that context study the proposal to provide a tax deduction for premiums paid to private medical insurance schemes.

Medium Range Forecast

If our economy grows as forecast, the medium range forecast for 2007-208 to 2011-2012 will be as follows:

	2007-2008 (\$ billion)	2008-2009 (\$ billion)	2009-2010 (\$ billion)	2010-2011 (\$ billion)	2011-2012 (\$ billion)
Operating revenue	221.4	244.7	258.2	270.6	287.2
Operating expenditure	214.2	221.7	229.5	237.5	245.8
Operating surplus	7.2	23.0	28.7	33.1	41.4
Capital revenue	52.4	63.0	64.0	63.8	67.5
Capital spending (including payments from the Capital Investment Fund)	34.2	36.4	47.0	51.5	50.2
Repayment of government bonds and notes	-	2.7	3.5	-	-
Capital financing surplus	18.2	23.9	13.5	12.3	17.3
Consolidated surplus	25.4	46.9	42.2	45.4	58.7
- as a percentage of GDP	1.7%	2.9%	2.4%	2.5%	3.0%
Fiscal reserves	391.2	438.1	480.3	525.7	584.4
- as a number of months of government expenditure	19	20	21	22	24
- as a percentage of GDP	25.4%	26.9%	27.8%	28.7%	30.1%
Public expenditure	267.8	276.5	295.6	308.8	316.0
- as a percentage of GDP	17.4%	17.0%	17.1%	16.8%	16.3%

We forecast a surplus of \$7.2 billion in the Operating Account for 2007-2008, and this will build up to \$41.4 billion in 2011-2012. In respect of the Consolidated Account, a surplus of \$25.4 billion is estimated to occur in 2007-2008, and this will build up to \$58.7 billion in 201-2012. We will increase operating expenditure moderately over the next few years to enhance the quality of government services and cater for inflation. (Chart 4)

Concluding Remarks

Madam President, this is the fourth Budget that I have presented for Hong Kong and also the last for the Government of this term. I was born and grew up in Hong Kong. I am honoured to have had the opportunity to serve the citizens of Hong Kong. I feel greatly encouraged to have witnessed over the past three years that our economy has returned to prosperity, our people's livelihood has been steadily improving, and Hong Kong has regained its vibrancy and confidence. By displaying resilience and tenacity in the face of adversity, Hong Kong people have worked another economic miracle.

In preparing my annual Budgets, I have adopted a pragmatic approach based on the principle of prudent management of public finances, listened extensively to the views of the community, and borne in mind the long-term interests of Hong Kong and the well-being of our citizens. I believe that my Budgets have achieved good results in reviving the economy, promoting employment and improving people's livelihood, as far as possible benefiting people from all walks of life.

During my term of office, I have raised some controversial issues, such as the abolition of estate duty, the launch of a public consultation on broadening the tax base and a review of competition policy. While the community has yet to reach a consensus on certain issues, it is my firm conviction that I am duty-bound to raise any proposal that can contribute to the development of Hong Kong. Upon taking up office as Financial Secretary, I set myself the objective of reviving Hong Kong's economy. I am absolutely delighted to see that our economy has now improved so handsomely.

This year marks the 10th anniversary of Hong Kong's return to China. With the vigorous growth of our nation's economy and our competitive advantage in having the Mainland as our hinterland, coupled with our own international outlook, the economic integration between Hong Kong and the Mainland has been deepening. Because of this, I have full confidence in the future of Hong Kong. Our people can rise to any challenge. With solidarity and a determined effort to forge ahead, we will surely realize a bright future for our city. Thank you, Madam President.

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the Appropriation Bill 2007 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 2007 is now adjourned, and the Estimates are referred to the Finance Committee for examination.

NEXT MEETING

PRESIDENT (in Cantonese): I now adjourn the Council until 11.00 am on Wednesday, 7 March 2007.

Adjourned accordingly at one minute to Twelve o'clock.

Chart 1

Gross Domestic Product

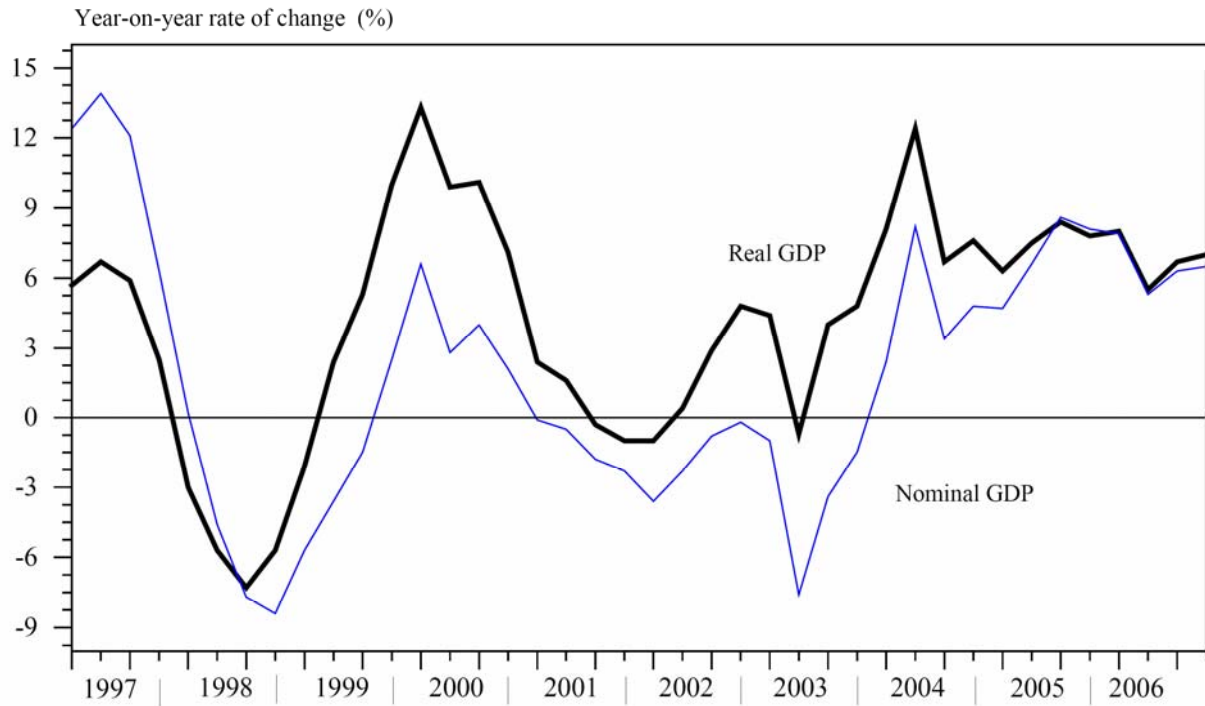


Chart 2

Total Employment

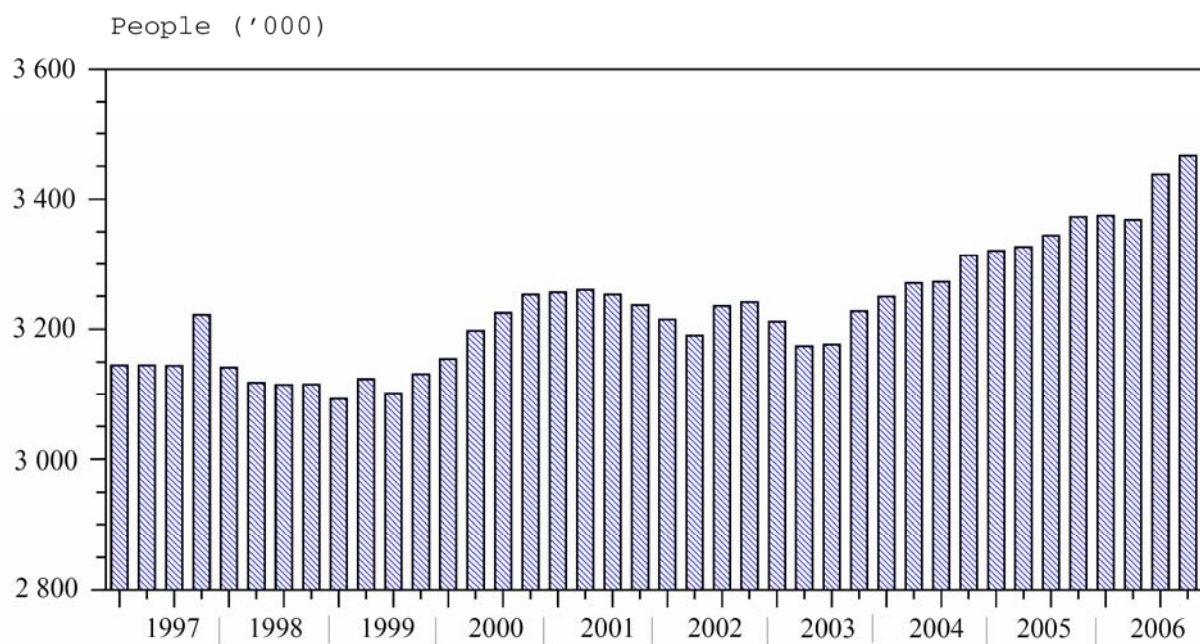


Chart 3

Composite Consumer Price Index and GDP Deflator

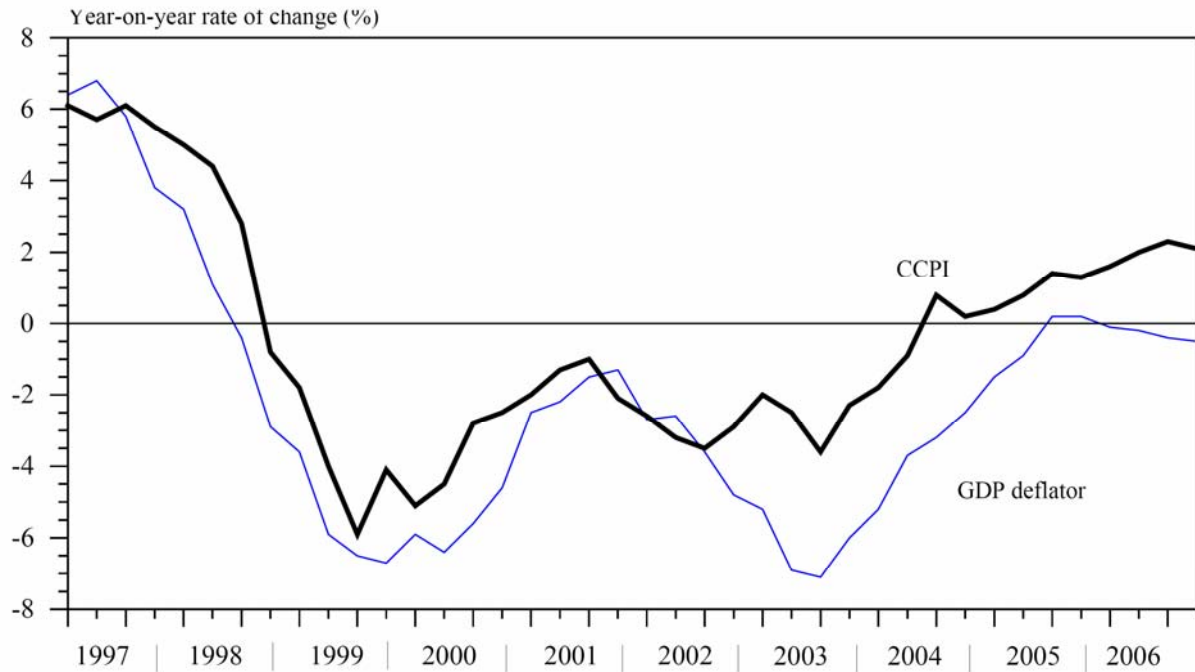
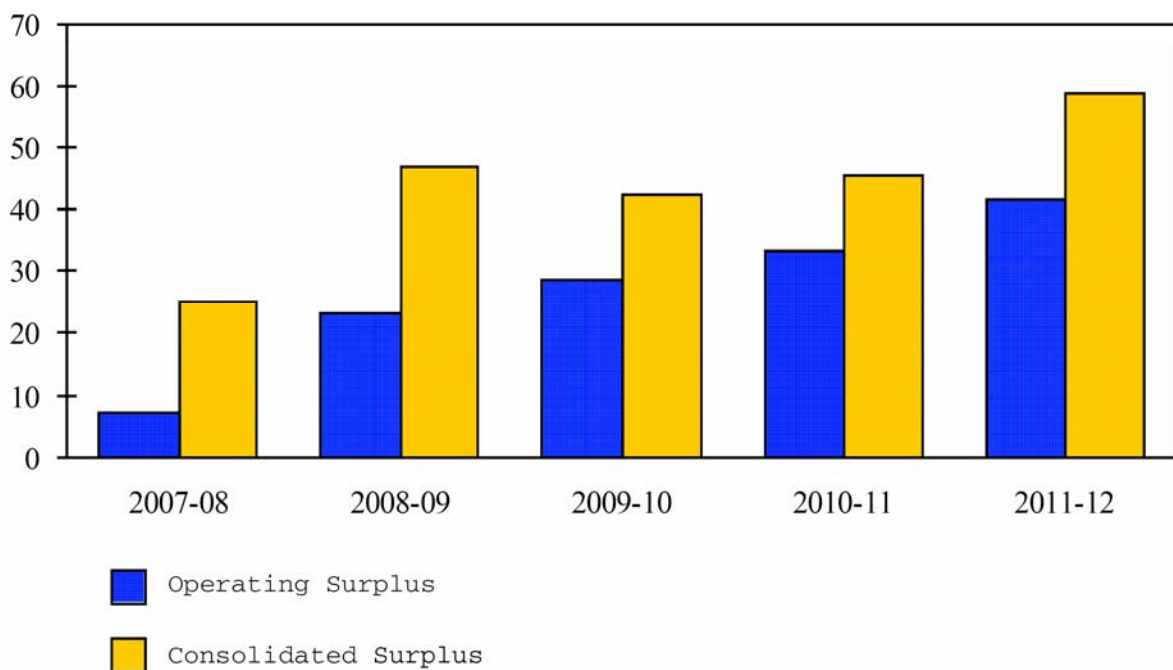


Chart 4

Forecast Surplus

\$ billion



SALARIES TAX

Revision of marginal tax bands and rates

<i>Present</i>		<i>Proposed</i>	
Marginal Tax Band	Marginal Tax Rate (%)	Marginal Tax Band	Marginal Tax Rate (%)
First \$30,000 chargeable income	2.0	First \$35,000 chargeable income	2.0
Next \$30,000	7.0	Next \$35,000	7.0
Next \$30,000	13.0	Next \$35,000	12.0
Remainder	19.0	Remainder	17.0
	Standard Rate (%)		Standard Rate (%)
	16.0		16.0

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

	<i>Present</i> (\$)	<i>Proposed</i> (\$)
Personal Allowances:		
Basic	100,000	100,000
Married	200,000	200,000
Single Parent	100,000	100,000
Additional Allowances:		
Child:		
1st to 9th child		
Year of birth	40,000	100,000
Other years	40,000	50,000
Dependent Parent/Grandparent:		
Aged 60 or above		
Basic	30,000	30,000
Additional allowance (for dependant living with taxpayer)	30,000	30,000
Aged 55 to 59		
Basic	15,000	15,000
Additional allowance (for dependant living with taxpayer)	15,000	15,000
Dependent Brother/Sister	30,000	30,000
Disabled Dependant	60,000	60,000
Deductions:		
Self-Education Expenses	40,000	60,000
Home Loan Interest	100,000	100,000
Elderly Residential Care Expenses	60,000	60,000
Contributions to Recognised Retirement Schemes	12,000	12,000

Supplement

Estimated tax savings of taxpayers by income group after implementation of the proposed salaries tax measures (i.e. widening of marginal bands, reduction of marginal rates, increase in child allowance and the maximum amount of deduction for self-education expenses)

Annual income	No. of taxpayers with reduced liabilities	Average tax savings per taxpayer benefiting from the proposal	Tax savings as a percentage of tax payable
\$100,001 to \$200,000	239 000	\$470	18.7%
\$200,001 to \$300,000	306 000	\$1,670	20.8%
\$300,001 to \$400,000	207 000	\$3,250	19.7%
\$400,001 to \$600,000	183 000	\$6,190	16.8%
\$600,001 to \$900,000	86 000	\$11,290	13.9%
\$900,001 and above	79 000	\$18,970	8.8%
Total	1 100 000	—	—

Supplement

Effect of the proposed salaries tax measures (i.e. widening of marginal bands, reduction of marginal rates, increase in child allowance and the maximum amount of deduction for self-education expenses) on different households

	Tax payable		Tax savings
	Present	After implementation of proposed measures	
A. Annual income \$207,000¹			
1. Single person	\$9,830	\$7,690	\$2,140 (21.8%)
B. Annual income \$300,000			
2. Single person	\$27,500	\$23,500	\$4,000 (14.6%)
3. Single person with self-education expenses of \$60,000 a year	\$19,900	\$13,300	\$6,600 (33.2%)
4. Single person with 1 dependent parent aged 60 or above living with the taxpayer	\$16,100	\$13,300	\$2,800 (17.4%)
5. Married couple with 1 newborn child	\$2,700	—	\$2,700 (100.0%)
6. Married couple with 2 children	\$400	—	\$400 (100.0%)
C. Annual income \$360,000			
7. Single person	\$38,900	\$33,700	\$5,200 (13.4%)
8. Married couple with 1 newborn child	\$12,300	\$2,450	\$9,850 (80.1%)
9. Married couple with 1 child and 1 dependent parent aged 60 or above not living with the taxpayer	\$6,600	\$4,350	\$2,250 (34.1%)
10. Married couple with 1 child and 2 dependent parents aged 60 or above not living with the taxpayer	\$2,700	\$1,750	\$950 (35.2%)
11. Married couple with 2 children	\$5,300	\$2,450	\$2,850 (53.8%)

¹ Families at median household income.

Supplement

	Tax payable		Tax savings
	Present	After implementation of proposed measures	
D. Annual income \$480,000			
12. Single person	\$61,700	\$54,100	\$7,600 (12.3%)
13. Married couple with 1 newborn child	\$35,100	\$20,100	\$15,000 (42.7%)
14. Married couple with 1 child and 1 dependent parent aged 60 or above not living with the taxpayer	\$29,400	\$23,500	\$5,900 (20.1%)
15. Married couple with 2 children	\$27,500	\$20,100	\$7,400 (26.9%)
16. Married couple with 2 children and 2 dependent parents aged 60 or above not living with the taxpayer	\$16,100	\$9,900	\$6,200 (38.5%)
E. Annual income \$720,000			
17. Single person	\$107,300	\$94,900	\$12,400 (11.6%)
18. Married couple with 1 newborn child	\$80,700	\$60,900	\$19,800 (24.5%)
19. Married couple with 1 child and 1 dependent parent aged 60 or above not living with the taxpayer	\$75,000	\$64,300	\$10,700 (14.3%)
20. Married couple with 2 children	\$73,100	\$60,900	\$12,200 (16.7%)
21. Married couple with 2 children and 2 dependent parents aged 60 or above not living with the taxpayer	\$61,700	\$50,700	\$11,000 (17.8%)

Supplement

	Tax payable		Tax savings
	Present	After implementation of proposed measures	
F. Annual income \$1,200,000			
22. Single person	\$192,000	\$176,500	\$15,500 (8.1%)
23. Married couple with 1 newborn child	\$171,900	\$142,500	\$29,400 (17.1%)
24. Married couple with 1 child and 1 dependent parent aged 60 or above not living with the taxpayer	\$166,200	\$145,900	\$20,300 (12.2%)
25. Married couple with 2 children	\$164,300	\$142,500	\$21,800 (13.3%)
26. Married couple with 2 children and 2 dependent parents aged 60 or above not living with the taxpayer	\$152,900	\$132,300	\$20,600 (13.5%)
G. Annual income \$1,800,000			
27. Single person	\$288,000	\$278,500	\$9,500 (3.3%)
28. Married couple with 1 newborn child	\$285,900	\$244,500	\$41,400 (14.5%)
29. Married couple with 1 child and 1 dependent parent aged 60 or above not living with the taxpayer	\$280,200	\$247,900	\$32,300 (11.5%)
30. Married couple with 2 children	\$278,300	\$244,500	\$33,800 (12.1%)
31. Married couple with 2 children and 2 dependent parents aged 60 or above not living with the taxpayer	\$266,900	\$234,300	\$32,600 (12.2%)

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

Income in 2006–07	No. of taxpayers	Average amount of tax deduction (\$)
\$100,001 to \$200,000	447 000	770
\$200,001 to \$300,000	338 000	3,680
\$300,001 to \$400,000	211 000	7,710
\$400,001 to \$600,000	183 000	12,570
\$600,001 to \$900,000	86 000	14,900
\$900,001 and above	85 000	15,000
Total	1 350 000	—

Supplement

EFFECT OF THE GENERAL REVALUATION OF RATES ON MAIN PROPERTY CLASSES

<i>Property Type</i>	<i>2007–08</i>		
	<i>Average Increase in Rateable Value⁽⁶⁾</i>	<i>New Average Rates Payable⁽⁷⁾</i>	<i>Increase</i>
	<i>%</i>	<i>\$ per month</i>	<i>\$ per month</i>
Small Domestic Premises ⁽¹⁾ (Private)	5	246	12
Medium Domestic Premises ⁽¹⁾ (Private)	6	603	34
Large Domestic Premises ⁽¹⁾ (Private)	9	1,597	127
Public Domestic Premises ⁽²⁾	5	138	6
All Domestic Premises⁽³⁾	6	267	14
Shops and Commercial Premises	5	1,703	77
Offices	30	1,873	432
Industrial Premises ⁽⁴⁾	9	665	56
All Non-domestic Premises⁽⁵⁾	9	1,833	152
All Properties	7	477	32

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

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

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

(3) Including car parking spaces.

(4) Including factories and storage premises.

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

(6) The rateable values for 2007–08 reflect the changes in open market rental values between 1 October 2005 and 1 October 2006.

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

Supplement

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

<i>Property Type</i>	<i>2007–08</i>		
	<i>Average Increase in Rateable Value⁽⁶⁾</i>	<i>New Average Rent Payable</i>	<i>Increase</i>
	<i>%</i>	<i>\$ per month</i>	<i>\$ per month</i>
Small Domestic Premises ⁽¹⁾ (Private)	4	139	6
Medium Domestic Premises ⁽¹⁾ (Private)	5	335	15
Large Domestic Premises ⁽¹⁾ (Private)	6	753	42
Public Domestic Premises ⁽²⁾	5	79	4
All Domestic Premises⁽³⁾	4	152	7
Shops and Commercial Premises	4	945	37
Offices	39	2,159	603
Industrial Premises ⁽⁴⁾	8	407	32
All Non-domestic Premises⁽⁵⁾	8	997	74
All Properties	6	258	15

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

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

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

(3) Including car parking spaces.

(4) Including factories and storage premises.

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

(6) The rateable values for 2007–08 reflect the changes in open market rental values between 1 October 2005 and 1 October 2006.

Supplement

**DUTY-FREE TOBACCO AND ALCOHOLIC
BEVERAGE ALLOWANCES**

	Present		Proposed	
	<i>Local Residents</i>	<i>Visitors</i>	<i>Local Residents</i>	<i>Visitors</i>
Tobacco	60 cigarettes, or 15 cigars or 75 grammes of other manufactured tobacco	200 cigarettes, or 50 cigars or 250 grammes of other manufactured tobacco	No change	60 cigarettes, or 15 cigars or 75 grammes of other manufactured tobacco
Alcoholic Beverage	750 millilitres of still wine	1 litre of alcoholic beverages	1 litre of alcoholic beverages	No change

Supplement

ECONOMIC PERFORMANCE IN 2006

1. Estimated rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2006:

	(%)	
(a) Growth rates in real terms of:		
Private consumption expenditure		5.1
Government consumption expenditure		0.3
Gross domestic fixed capital formation		7.9
<i>of which:</i>		
Building and construction	-7.2	
Machinery, equipment and computer software	17.2	
Total exports of goods		10.2
Re-exports	10.7	
Domestic exports	2.3	
Imports of goods		10.0
Exports of services		8.7
Imports of services		6.3
Gross Domestic Product (GDP)		6.8
<i>Per capita GDP, in real terms</i>		6.1
<i>Per capita GDP at current market prices</i>	HK\$214,700 (US\$27,600)	
(b) Rates of change in:		
Composite Consumer Price Index		2.0
GDP Deflator		-0.4
Government Consumption Expenditure Deflator		1.4
(c) Growth rate of nominal GDP		6.5

Supplement

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

	<i>Re-exports</i> (%)	<i>Domestic exports</i> (%)
2004	16	2
2005	11	8
2006	11	2
<i>Share in the value of total exports of goods in 2006</i>	94	6

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

	<i>Retained imports</i>					
	<i>Total</i> (%)	<i>Consumer goods</i> (%)	<i>Foodstuffs</i> (%)	<i>Capital goods</i> (%)	<i>Raw materials and semi-manufactures</i> (%)	<i>Fuels</i> (%)
2004	9	3	6	13	8	8
2005	1	-5	2	16	-8	-6
2006	8	14	2	28	-17	5

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

	<i>Retained imports of capital goods</i>				
	<i>Total</i> (%)	<i>Office equipment</i> (%)	<i>Industrial machinery</i> (%)	<i>Construction machinery</i> (%)	<i>Telecommunications equipment</i> (%)
2004	13	2	20	-11	31
2005	16	9	-2	-34	35
2006	28	32	3	34	39

Supplement

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

Exports of services

	<i>Total</i> (%)	<i>Trade-related</i> <i>services</i> (%)	<i>Transportation</i> <i>services</i> (%)	<i>Travel</i> <i>services</i> (%)	<i>Finance,</i> <i>insurance,</i> <i>business and</i> <i>other services</i> (%)
2004	18	14	19	19	22
2005	11	11	11	10	13
2006	9	11	6	6	10

6. Hong Kong's visible and invisible trade balance in 2006 reckoned on GDP basis ^(Note 1):

	(HK\$ billion)
Total exports of goods	2,467.4
Imports of goods	2,576.3
<i>Visible trade balance</i>	-109.0
Exports of services	562.3
Imports of services	283.9
<i>Invisible trade balance</i>	278.4
<i>Combined visible and invisible trade balance</i>	169.4

Note 1 Preliminary figures.

Supplement

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

	<i>Unemployment rate (%)</i>	<i>Underemployment rate (%)</i>	<i>Growth in labour force (%)</i>	<i>Growth in total employment (%)</i>
2004	6.8	3.2	1.3	2.5
2005	5.6	2.7	0.6	2.0
2006	4.8	2.4	1.3	2.1

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

	<i>Composite CPI (%)</i>	<i>CPI(A) (%)</i>	<i>CPI(B) (%)</i>	<i>CPI(C) (%)</i>
2004	-0.4	*	-0.5	-0.9
2005	1.0	1.1	1.0	0.8
2006	2.0	1.7	2.1	2.2

* Change of less than 0.05%.

*Supplement***ECONOMIC PROSPECTS FOR 2007**

Forecast rates of change in the Gross Domestic Product and prices in 2007:

	(%)
Gross Domestic Product (GDP)	
<i>Real GDP</i>	4.5 to 5.5
<i>Nominal GDP</i>	4 to 5
<i>Per capita GDP, in real terms</i>	3.7 to 4.7
<i>Per capita GDP at current market prices</i>	HK\$221,500-223,700 (US\$28,400-28,700)
Composite Consumer Price Index	1.5
GDP Deflator	-0.5
Government Consumption Expenditure Deflator	2

Appendix A

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SECTION IV - ESTIMATES OF CONTINGENT LIABILITIES	4793

SECTION I – FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA

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

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

2 GDP is forecast to increase by 4.5% to 5.5% in real terms in 2007. For planning purposes, over the ensuing four-year period 2008 to 2011, the trend growth rate of the economy in real terms is assumed at 4.5% per annum. We have made reference to the mid-point of the range forecast of GDP growth rate for 2007 in deriving the MRF.

Price change

3 The GDP deflator, measuring overall price change in the economy, is forecast to decrease by 0.5% in 2007. For the four-year period 2008 to 2011, the GDP deflator is assumed to increase at a trend rate of 1.5% per annum. The Composite Consumer Price Index, measuring inflation in the consumer domain, is forecast to increase by 1.5% in 2007. The trend rate of increase for the ensuing period 2008 to 2011 is assumed to be 3.5% per annum.

Nominal Gross Domestic Product (nominal GDP)

4 Taking the assumptions on the rates of change in the real GDP and the GDP deflator together, the growth rate of GDP in nominal terms is forecast at 4% to 5% in 2007, and the trend growth rate in nominal terms for the period 2008 to 2011 is assumed at 6% per annum.

Detailed Assumptions

5 The MRF incorporates a wide range of detailed assumptions on expenditure and revenue patterns over the forecast period, taking the following, amongst other factors, into account –

- estimated cash flow of capital projects,
- forecast completion dates of these capital projects and their related recurrent consequences in terms of staffing and running costs,
- estimated cash flow arising from new commitments and policy initiatives,
- the expected pattern of demand for individual services,
- the trend in yield from individual revenue sources, and
- new revenue/expenditure measures in the 2007-08 Budget.

Budgetary Criteria

6 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.

7 The following covers the more important budgetary criteria –

— Budget surplus/deficit

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

— Expenditure policy

The general principle is that, over time, expenditure growth should not exceed the growth of the economy. The Government aims to keep public expenditure at or below 20% of GDP. Capital expenditure, by its nature, will fluctuate from year to year.

— Revenue policy

Account is taken of the need to maintain, over time, the real yield from revenue.

— Fiscal reserves

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

Appendix A—Contd.

SECTION II – THE MRF FOR 2006–07 TO 2011–12

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

Table 1

(\$ million)	Original Estimate	Revised Estimate	Estimate	Forecast			
	2006–07	2006–07	2007–08	2008–09	2009–10	2010–11	2011–12
Operating Account							
Operating revenue (<i>Note b</i>)	195,264	211,610	201,524	217,895	228,543	243,642	258,451
Operating expenditure (<i>Note c</i>)	209,000	195,748	214,200	221,700	229,500	237,500	245,800
Surplus/(deficit) before investment income	(13,736)	15,862	(12,676)	(3,805)	(957)	6,142	12,651
Investment income (<i>Note b</i>)	14,361	22,695	19,882	26,811	29,653	26,967	28,720
Operating surplus after investment income	625	38,557	7,206	23,006	28,696	33,109	41,371
Capital Financing Statement							
Capital revenue (<i>Note d</i>)	39,500	46,856	46,048	49,609	50,830	51,719	53,878
Asset sales (<i>Note d</i>)	4,348	107	299	6,721	6,728	6,629	8,228
	43,848	46,963	46,347	56,330	57,558	58,348	62,106
Capital spending (<i>Note e</i>)	39,369	33,867	33,438	35,640	46,285	50,911	49,659
Surplus before investment income/interest expenses	4,479	13,096	12,909	20,690	11,273	7,437	12,447
Investment income (<i>Note d</i>)	3,852	6,807	6,092	6,664	6,444	5,467	5,415
Interest expenses (<i>Note e & f</i>)	826	826	799	754	642	576	577
Surplus after investment income/interest expenses	7,505	19,077	18,202	26,600	17,075	12,328	17,285
Repayment of bonds and notes (<i>Note e & f</i>)	2,550	2,550	-	2,700	3,500	-	-
Capital financing surplus after bond repayment	4,955	16,527	18,202	23,900	13,575	12,328	17,285
Consolidated Account							
Fiscal reserves at 1 April	300,756	310,663	365,747	391,155	438,061	480,332	525,769
Operating surplus	625	38,557	7,206	23,006	28,696	33,109	41,371
Capital financing surplus before bond repayment	7,505	19,077	18,202	26,600	17,075	12,328	17,285
Consolidated surplus	8,130	57,634	25,408	49,606	45,771	45,437	58,656
Repayment of bonds and notes	2,550	2,550	-	2,700	3,500	-	-
Consolidated surplus after bond repayment	5,580	55,084	25,408	46,906	42,271	45,437	58,656
Fiscal reserves at 31 March	306,336	365,747	391,155	438,061	480,332	525,769	584,425
As a number of months of government expenditure	15	19	19	20	21	22	24
As a percentage of GDP	21.1%	24.8%	25.4%	26.9%	27.8%	28.7%	30.1%
Outstanding debts at 31 March							
Toll Revenue Bond	4,098	4,200	2,820	2,320	1,020	790	-
Other government bonds and notes	17,450	17,450	17,450	14,750	11,250	11,250	11,250

Appendix A—Contd.

Notes –

(a) Accounting policies

- (i) The MRF is prepared on a cash basis and reflects forecast receipts and payments, whether or not they relate to operating or capital transactions.
- (ii) The MRF includes the General Revenue Account and the Funds (Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund).

(b) Operating revenue

- (i) The operating revenue has taken into account the revenue-concession measures proposed in the 2007-08 Budget, and is made up of –

	2006-07 Revised Estimate	2007-08 Estimate	2008-09 Forecast	2009-10 Forecast	2010-11 Forecast	2011-12 Forecast
(\$ million)						
Operating revenue before investment income	211,610	201,524	217,895	228,543	243,642	258,451
Investment income	22,695	19,882	26,811	29,653	26,967	28,720
Total	234,305	221,406	244,706	258,196	270,609	287,171

- (ii) For the purpose of the MRF, investment income under the Operating Account includes the investment income of the General Revenue Account which are credited to revenue head Properties and Investments and the investment income of the Land Fund. The rate of investment return for 2007-08 is 7% and for 2008-09 to 2011-12 is assumed to be in the range of 6.4% to 8.3% a year.

(c) Operating expenditure

This represents the expenditure charged to the Operating Account of the General Revenue Account. The levels of operating expenditure in 2007-08 to 2011-12 represent the expenditure guidelines for these years.

(d) Capital revenue

- (i) The breakdown of capital revenue is –

	2006-07 Revised Estimate	2007-08 Estimate	2008-09 Forecast	2009-10 Forecast	2010-11 Forecast	2011-12 Forecast
(\$ million)						
General Revenue Account	4,818	2,336	4,200	3,276	1,213	548
Capital Works Reserve Fund	36,925	38,652	40,771	43,227	45,832	48,593
Capital Investment Fund	2,267	1,976	1,358	728	793	731
Innovation and Technology Fund	10	-	-	-	-	-
Loan Fund	1,866	2,084	2,246	2,530	2,776	2,864
Lotteries Fund	970	1,000	1,034	1,069	1,105	1,142
Capital revenue before asset sales and investment income	46,856	46,048	49,609	50,830	51,719	53,878
Asset sales	107	299	6,721	6,728	6,629	8,228
Investment income	6,807	6,092	6,664	6,444	5,467	5,415
Total	53,770	52,439	62,994	64,002	63,815	67,521

Appendix A—Contd.

- (ii) For the purpose of the MRF, the annual land premium included under the Capital Works Reserve Fund is assumed at 2.5% of GDP throughout the MRF period.
- (iii) For the purpose of the MRF, investment income under the Capital Financing Statement includes investment income of the Funds except Land Fund (i.e. Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Loan Fund and Lotteries Fund).

(e) Capital spending

The breakdown of capital spending is –

	2006–07 Revised Estimate	2007–08 Estimate	2008–09 Forecast	2009–10 Forecast	2010–11 Forecast	2011–12 Forecast
(\$ million)						
General Revenue Account	1,512	2,471	3,970	3,970	3,970	3,970
Capital Works Reserve Fund	24,507	24,978	25,760	37,582	42,497	41,242
Capital Investment Fund	3,124	-	557	358	250	250
Disaster Relief Fund	19	-	-	-	-	-
Innovation and Technology Fund	508	901	938	917	911	874
Loan Fund	3,230	4,132	3,703	3,046	2,974	3,029
Lotteries Fund	967	956	717	412	309	294
Capital spending before interest on and repayment of government bonds and notes	33,867	33,438	35,640	46,285	50,911	49,659
Interest expenses	826	799	754	642	576	577
Repayment of bonds and notes	2,550	-	2,700	3,500	-	-
Total	37,243	34,237	39,094	50,427	51,487	50,236

(f) Government bonds and notes

Interest expenses and repayment of bonds and notes are only in respect of the global bond issue and not the Toll Revenue Bond. The interest expenses and repayment of the Toll Revenue Bond are charged directly against the net toll revenue of concerned tunnels and bridges. The toll revenue thus foregone has been taken into account in forecasting Government's operating revenue.

Appendix A—Contd.

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

9 For monitoring purposes, the Government's own expenditure is consolidated with the expenditure of the Trading Funds and the Housing Authority (collectively referred to as "other public bodies") in order to compare total public expenditure with GDP.

Government Expenditure and Public Expenditure in the Context of the Economy *Table 2*

(\$ million)	Original Estimate	Revised Estimate	Estimate	Forecast			
	2006-07	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Operating expenditure	209,000	195,748	214,200	221,700	229,500	237,500	245,800
Capital expenditure	36,634	31,569	34,237	35,842	46,569	51,237	49,986
Total government expenditure	245,634	227,317	248,437	257,542	276,069	288,737	295,786
Other public bodies expenditure	19,255	18,246	19,408	18,943	19,488	20,093	20,219
Total public expenditure (Note a)	264,889	245,563	267,845	276,485	295,557	308,830	316,005
Gross Domestic Product (calendar year)	1,451,624	1,472,291	1,538,176	1,630,851	1,729,109	1,833,287	1,943,742
Growth in GDP (Note b)							
Nominal terms		6.5%	4.5%	6.0%	6.0%	6.0%	6.0%
Real terms		6.8%	5.0%	4.5%	4.5%	4.5%	4.5%
Growth in government expenditure (Note c)							
Nominal terms		0.4%	9.3%	3.7%	7.2%	4.6%	2.4%
Real terms		-0.1%	9.2%	1.8%	5.0%	2.4%	0.3%
Growth in public expenditure (Note c)							
Nominal terms		0.2%	9.1%	3.2%	6.9%	4.5%	2.3%
Real terms		-0.3%	8.9%	1.4%	4.8%	2.4%	0.2%
Public expenditure as a percentage of GDP	18.2%	16.7%	17.4%	17.0%	17.1%	16.8%	16.3%

Notes –

- (a) Public expenditure comprises government expenditure (i.e. all expenditure charged to the General Revenue Account and financed by the Government's statutory funds excluding Capital Investment Fund), and expenditure by the Trading Funds and the Housing Authority. But not included is expenditure by those organisations, including statutory organisations, in which the Government has only an equity position, such as the Airport Authority, the MTR Corporation Limited and the Kowloon-Canton Railway Corporation. Similarly, advances and equity investments from the Capital Investment Fund as well as repayment of government bonds and notes are excluded as they do not reflect the actual consumption of resources by the Government.
- (b) For 2007-08, the GDP growth in nominal terms of 4.5% represents the mid-point of the range forecast of nominal GDP growth at 4% to 5% for the calendar year 2007. Similarly, the growth in real terms of 5% represents the mid-point of the range forecast of real GDP growth at 4.5% to 5.5% for 2007.
- (c) The growth rates refer to year-on-year change. For example, the rates for 2006-07 refer to the change between revised estimate for 2006-07 and actual expenditure in 2005-06. The rates for 2007-08 refer to the change between the 2007-08 forecast and the 2006-07 revised estimate, and so forth.

10 Table 3 shows the relationship amongst the sum to be appropriated in the 2007-08 Budget, government expenditure and public expenditure. It also shows the effect of the Budget revenue measures on the overall surplus position for 2007-08.

**Relationship between Government Expenditure
and Public Expenditure in 2007-08**

(\$ million)

Table 3

Components of expenditure and revenue	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	205,601	205,601	-	205,601	205,601
Non-recurrent	8,599	8,599	-	8,599	8,599
Capital					
Plant, equipment and works	1,119	-	1,119	1,119	1,119
Subventions	1,352	-	1,352	1,352	1,352
	216,671	214,200	2,471	216,671	216,671
Transfer to Funds	1,617	-	-	-	-
Capital Works Reserve Fund	-	-	25,777	25,777	25,777
Innovation and Technology Fund	-	-	901	901	901
Loan Fund	-	-	4,132	4,132	4,132
Lotteries Fund	-	-	956	956	956
Trading Funds	-	-	-	-	3,731
Housing Authority	-	-	-	-	15,677
	218,288	214,200	34,237	248,437	267,845
Revenue (before Budget revenue measures)					
General Revenue Account					
Taxation		195,320	200	195,520	
Other revenue		33,509	2,136	35,645	
		228,829	2,336	231,165	
Land Fund		9,841	-	9,841	
		238,670	2,336	241,006	
Capital Works Reserve Fund		-	42,677	42,677	
Capital Investment Fund		-	2,158	2,158	
Civil Service Pension Reserve Fund		-	1,210	1,210	
Disaster Relief Fund		-	3	3	
Innovation and Technology Fund		-	285	285	
Loan Fund		-	2,390	2,390	
Lotteries Fund		-	1,380	1,380	
		238,670	52,439	291,109	
Surplus before Budget revenue measures		24,470	18,202	42,672	
Less: Effect of Budget revenue measures		17,264	-	17,264	
Consolidated surplus		7,206	18,202	25,408	

Appendix A—Contd.

SECTION IV – ESTIMATES OF CONTINGENT LIABILITIES

11 The Government's contingent liabilities as at 31 March 2006, and estimates of these should they remain unsettled as at 31 March 2007 or 31 March 2008, are provided below as supplementary information to the MRF –

(at 31 March)	2006 \$m	2007 \$m	2008 \$m
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	10,988	11,702	12,229
Litigation	290	309	323
Possible capital subscriptions to the Asian Development Bank	2,003	2,003	2,003
Guarantees provided under loan guarantee schemes for small and medium enterprises	5,287	5,440	5,131
Total	<u>18,568</u>	<u>19,454</u>	<u>19,686</u>

Appendix B

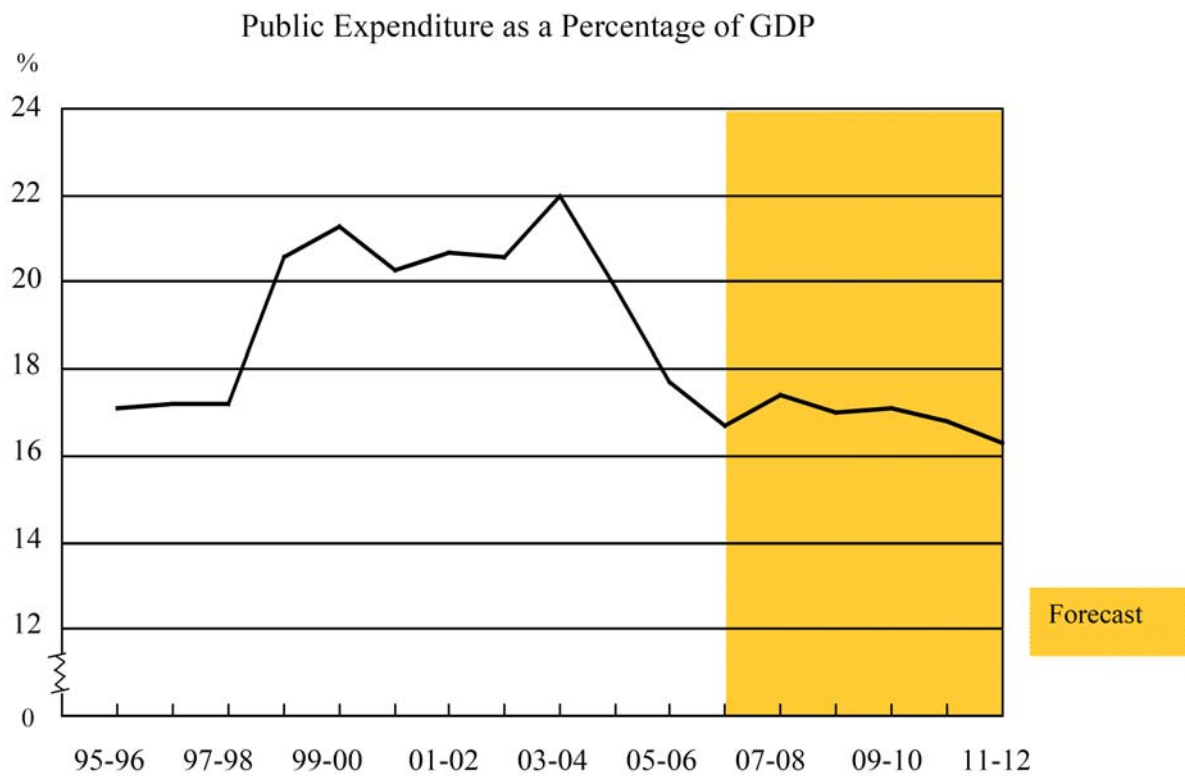
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Note: Expenditure figures for 2006-07 and before as shown in Sections II, III and V have been adjusted to align with the cost-neutral transfers between policy area groups adopted in the 2007-08 estimate.

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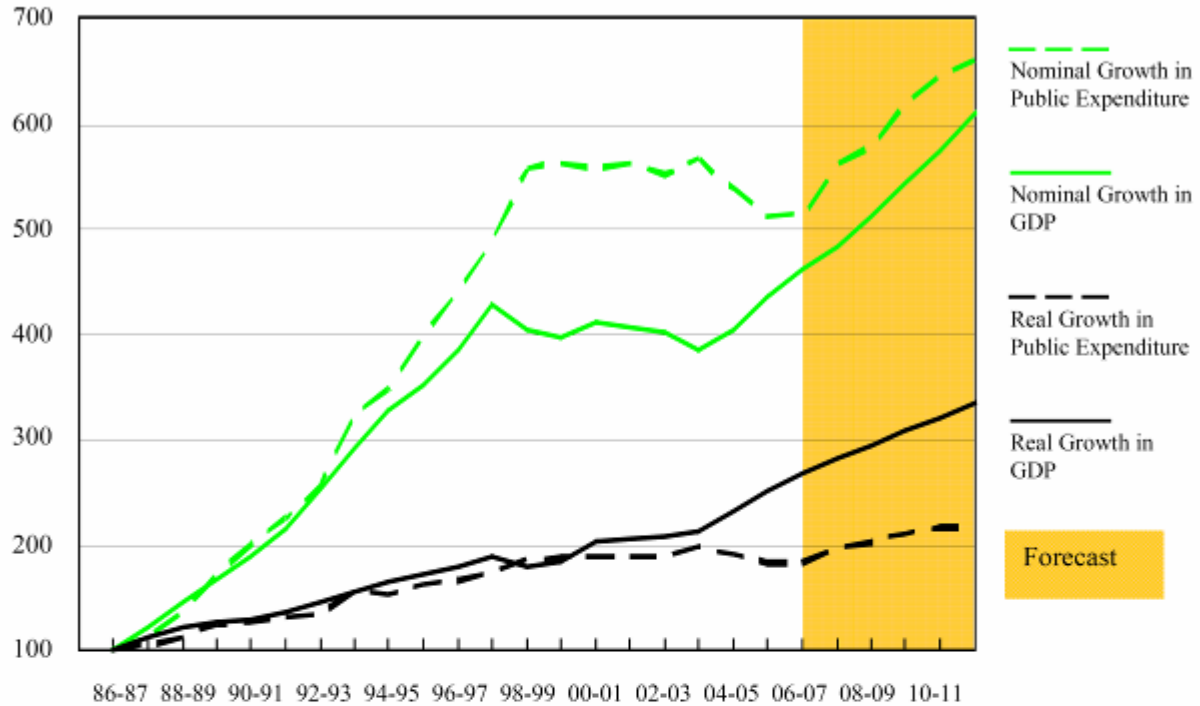
SECTION I – THE ESTIMATES IN THE CONTEXT OF THE ECONOMY**Relationship between Government Expenditure and Public Expenditure in 2007–08 and GDP**

	2007–08 Estimate Sm
General Revenue Account	
Operating	214,200
Capital	2,471
	<hr/> 216,671
Capital Works Reserve Fund	25,777
Innovation and Technology Fund	901
Loan Fund	4,132
Lotteries Fund	956
Government Expenditure	<hr/> 248,437
Trading Funds	3,731
Housing Authority	15,677
Public Expenditure	<hr/> 267,845
GDP	1,538,176
Public Expenditure as a % of GDP	17.4%



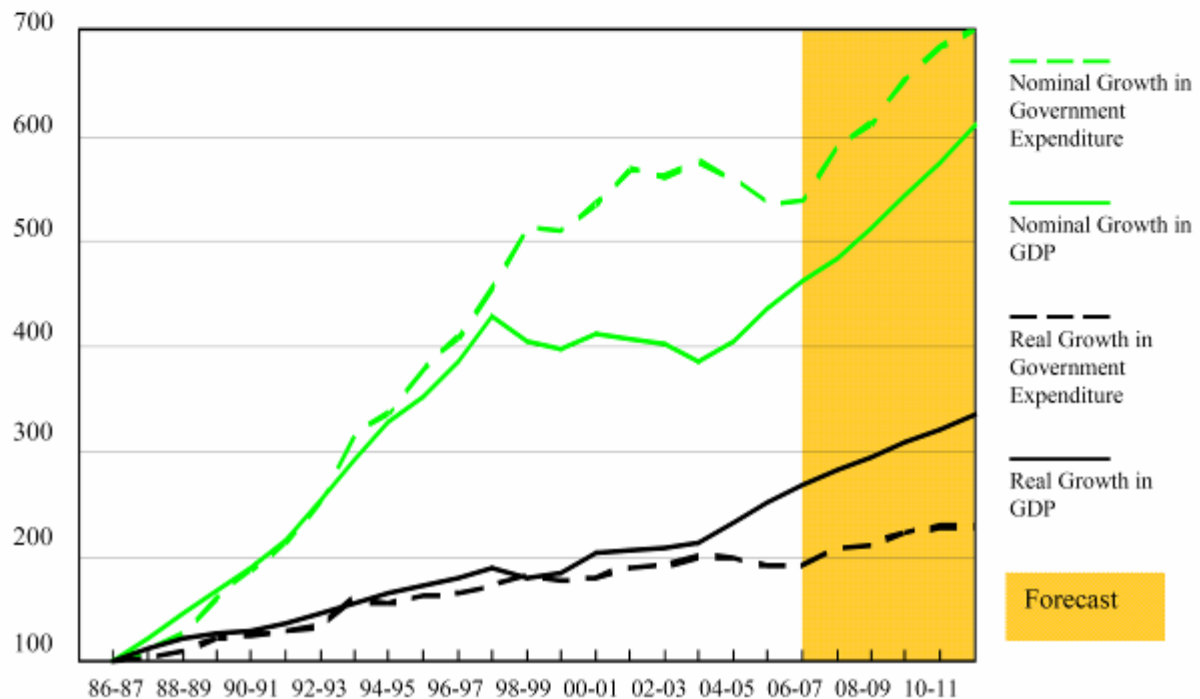
Comparison of Cumulative Growth in Public Expenditure with Cumulative Growth in GDP since the Introduction of Medium Range Forecast

Index (86-87 = 100)



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

Index (86-87 = 100)



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

Recurrent Public Expenditure : Year-on-Year Change

	2006–07 Original Estimate \$m	2006–07 Revised Estimate \$m	2007–08 Estimate \$m	Increase/Decrease over 2006–07 Original Estimate	
				in Nominal Terms %	in Real Terms %
Education	47,856	44,873	50,064	4.6	4.7
Social Welfare	34,584	32,845	35,986	4.1	3.6
Health	29,922	29,774	30,517	2.0	2.1
Security	23,496	22,746	24,058	2.4	2.4
Infrastructure	11,505	11,188	11,554	0.4	0.5
Economic	11,184	10,796	11,254	0.6	0.7
Housing	9,818	10,220	10,246	4.4	3.3
Environment and Food	8,593	7,915	8,731	1.6	1.7
Community and External Affairs	6,995	6,846	7,269	3.9	4.1
Support	29,012	27,327	29,450	1.5	1.1
	<u>212,965</u>	<u>204,530</u>	<u>219,129</u>	2.9	2.8

Appendix B—Contd.

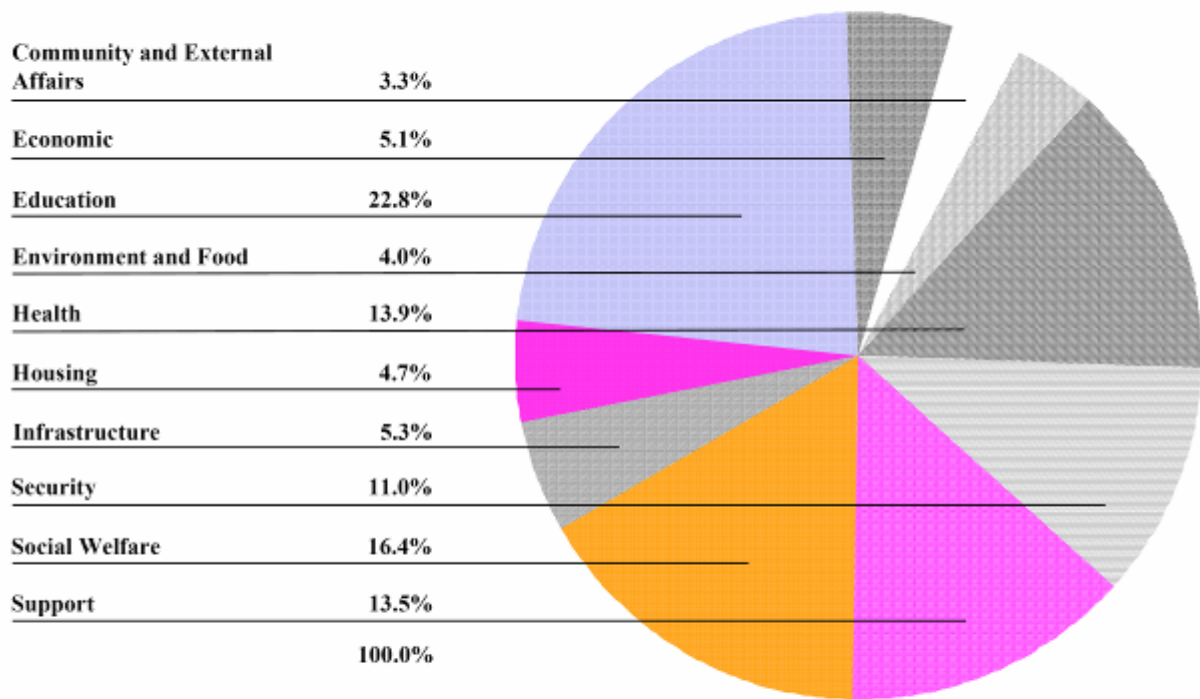
SECTION II – ANALYSIS OF RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Recurrent Government Expenditure : Year-on-Year Change

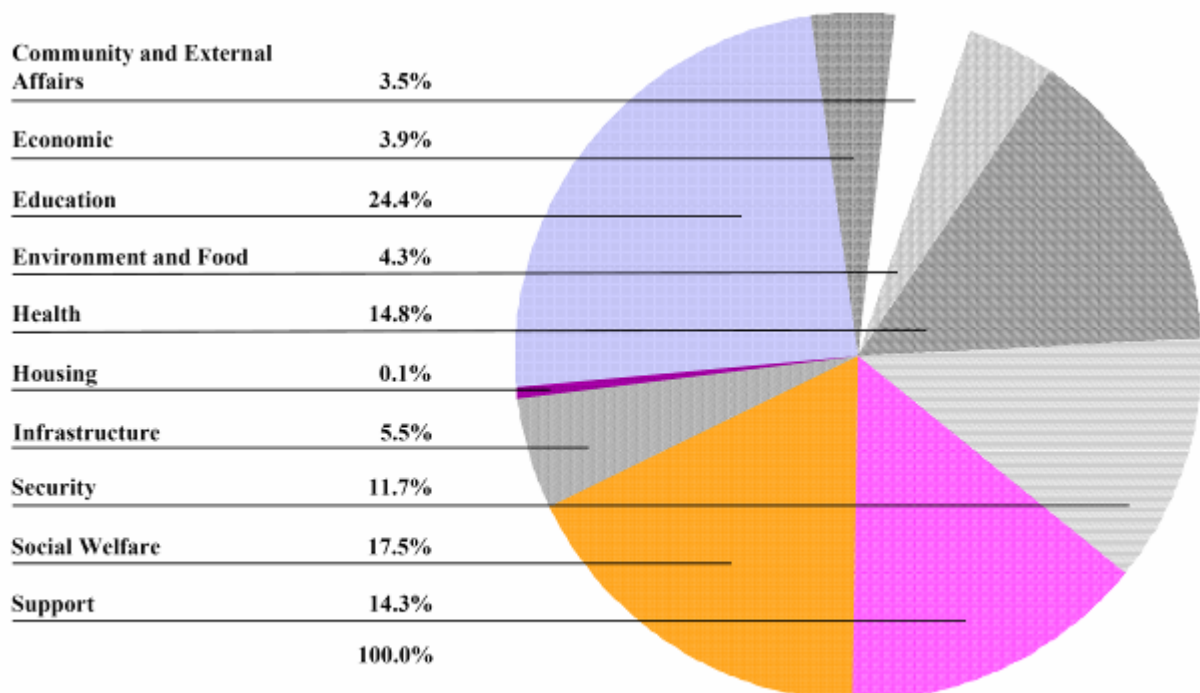
	2006-07 Original Estimate \$m	2006-07 Revised Estimate \$m	2007-08 Estimate \$m	Increase/Decrease over 2006-07 Original Estimate in Nominal Terms %	in Real Estimate in Real Terms %
Education	47,856	44,873	50,064	4.6	4.7
Social Welfare	34,584	32,845	35,986	4.1	3.6
Health	29,922	29,774	30,517	2.0	2.1
Security	23,496	22,746	24,058	2.4	2.4
Infrastructure	11,336	11,034	11,392	0.5	0.6
Environment and Food	8,593	7,915	8,731	1.6	1.7
Economic	7,988	7,502	7,957	-0.4	-0.3
Community and External Affairs	6,995	6,846	7,269	3.9	4.1
Housing	149	153	177	18.6	18.6
Support	29,012	27,327	29,450	1.5	1.1
	<u>199,931</u>	<u>191,015</u>	<u>205,601</u>	<u>2.8</u>	<u>2.8</u>

Appendix B—Contd.

**Percentage Share of Expenditure by Policy Area Group
 Recurrent Public Expenditure : 2007-08 Estimate**



**Percentage Share of Expenditure by Policy Area Group
 Recurrent Government Expenditure : 2007-08 Estimate**



Appendix B—Contd.

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

Total Public Expenditure : Year-on-Year Change

	2006–07 Original Estimate \$m	2006–07 Revised Estimate \$m	2007–08 Estimate \$m	Increase/Decrease over 2006–07 Original Estimate in Nominal Terms %	in Real Terms %
Education	56,450	53,053	57,194	1.3	1.4
Social Welfare	36,231	34,046	37,371	3.2	2.7
Health	32,312	32,053	32,732	1.3	1.4
Security	27,050	25,483	28,937	7.0	6.9
Infrastructure	24,490	22,907	22,398	-8.5	-8.7
Housing	15,821	14,651	15,861	0.3	-0.6
Economic	15,291	13,617	15,471	1.2	1.2
Environment and Food	11,659	10,305	11,896	2.0	2.1
Community and External Affairs	8,424	8,133	8,463	0.5	0.5
Support	37,161	31,315	37,522	1.0	0.6
	<u>264,889</u>	<u>245,563</u>	<u>267,845</u>	1.1	0.9

Appendix B—Contd.

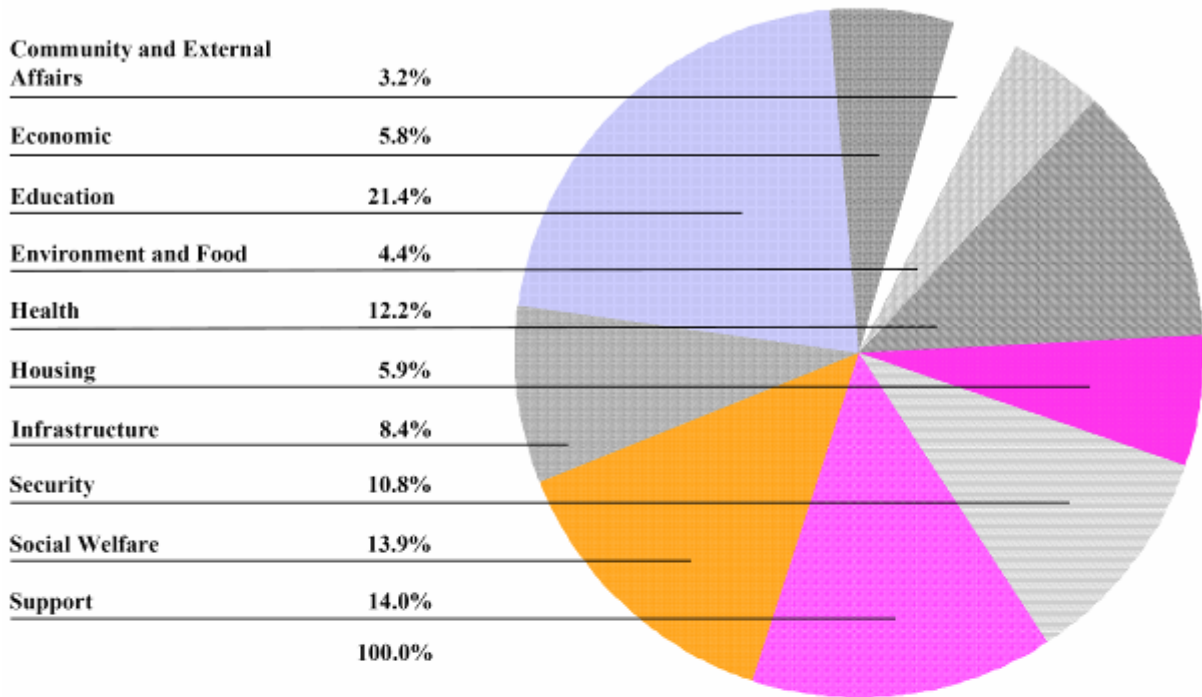
SECTION III – ANALYSIS OF TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Total Government Expenditure : Year-on-Year Change

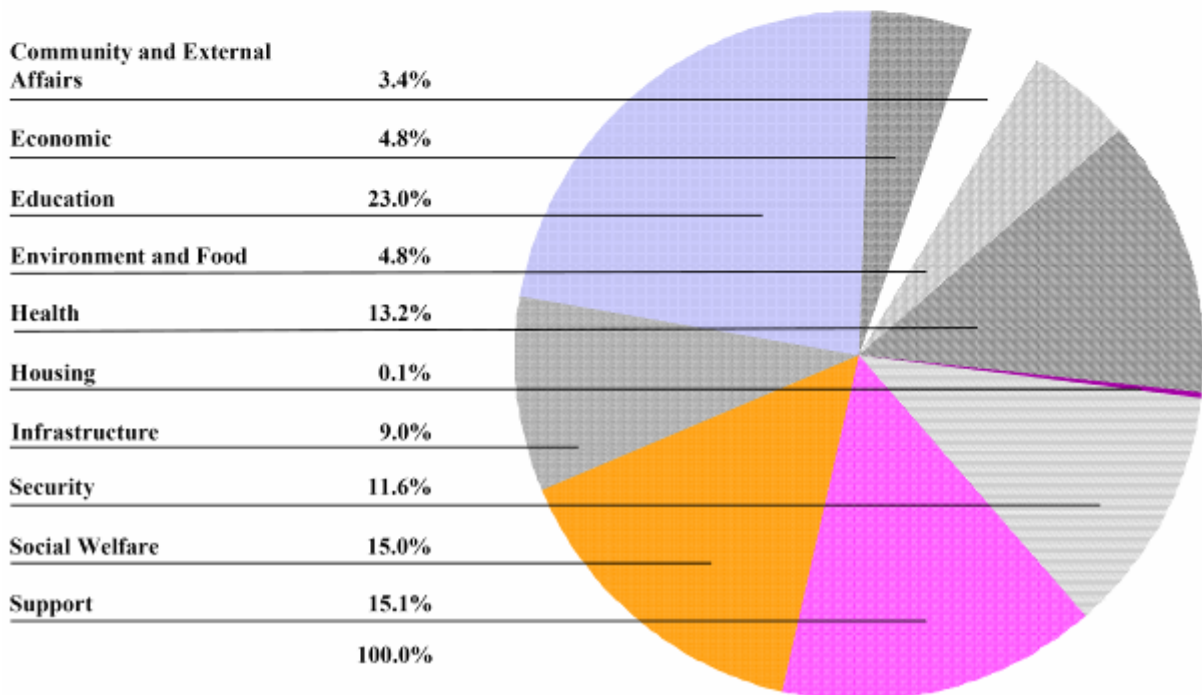
	2006–07 Original Estimate \$m	2006–07 Revised Estimate \$m	2007–08 Estimate \$m	Increase/Decrease over 2006–07 Original Estimate in Nominal Terms %	in Real Terms %
Education	56,450	53,053	57,194	1.3	1.4
Social Welfare	36,231	34,046	37,371	3.2	2.7
Health	32,312	32,053	32,732	1.3	1.4
Security	27,050	25,483	28,937	7.0	6.9
Infrastructure	24,308	22,737	22,202	-8.7	-8.9
Economic	11,878	10,032	11,936	0.5	0.6
Environment and Food	11,659	10,305	11,896	2.0	2.1
Community and External Affairs	8,424	8,133	8,463	0.5	0.5
Housing	161	160	184	13.9	13.9
Support	37,161	31,315	37,522	1.0	0.6
	<u>245,634</u>	<u>227,317</u>	<u>248,437</u>	1.1	1.0

Appendix B—Contd.

**Percentage Share of Expenditure by Policy Area Group
Total Public Expenditure : 2007-08 Estimate**



**Percentage Share of Expenditure by Policy Area Group
Total Government Expenditure : 2007-08 Estimate**



SECTION IV – MAJOR CAPITAL PROJECTS TO BEGIN IN 2007–08

Funds allocated for capital projects to start in 2007–08 include –

	\$ million
Infrastructure and Support	22,425
— Construction, improvement and widening of Pok Oi Interchange/Shua Tin Trunk Road T4/ Tuen Mun Road Tsing Tin Interchange/Tuen Mun Road L18A/Ha Tsuen Section of Ping Ha Road	
— Customs Headquarters Building	
— Demolition of buildings and structures in Kwai Chung, Kennedy Town and Cheung Sha Wan	
— Development at Anderson Road (site formation and associated infrastructure works)	
— Drainage improvement works on Northern Hong Kong Island, in East and West Kowloon and in New Territories	
— Engineering infrastructure works for Pak Shek Kok development	
— Improvement and extension of pedestrian subway system and footbridge in Kwai Chung and Tsuen Wan	
— Improvement to Hong Kong Central mid-level and high level areas water supply	
— Provision and replacement of traffic control, surveillance and information dissemination facilities	
— Provision and uprating of salt water supply for Northwest New Territories/ Northwest Kowloon	
— Replacement and rehabilitation of water mains, stage 2	
— Retrofitting of noise barriers on Tsing Tsuen Bridge, Tseung Kwan O Road and Yuen Shin Road	
— Site formation for school development at Aberdeen Reservoir Road, Aberdeen	
— Tamar Development	
Education	3,138
— Construction, extension, redevelopment and reprovisioning of primary, secondary and special schools	
— Headquarters and onscreen marking centres of the Hong Kong Examinations and Assessment Authority	
— Multi-media Building – stage 2, The City University of Hong Kong	
— New campus at Tiu Keng Leng for the Vocational Training Council	
— 1 500-place student hostel, The Chinese University of Hong Kong	
Health	3,063
— Prince of Wales Hospital – extension block	
— Redevelopment of Caritas Medical Centre, phase 2	
Security	1,824
— Government Complex at Mei Lai Road	
— Junior Police Officers' married quarters in Area 44, Tuen Mun	
— Redevelopment of Lo Wu Correctional Institution	
Community and External Affairs	1,682
— Improvement works to the sports venues for the 2009 East Asian Games	
— Provision of open space and recreation grounds in Ma On Shan, Kwai Chung, Tsing Yi, Sheung Shui, Tsuen Wan, Wong Tai Sin and Ap Lei Chau	
— Renovation of libraries – phase 2 works	
Environment and Food	1,037
— Conversion of aqua privies into flushing toilets	
— North District, Port Shelter and outlying islands sewerage	

Appendix B—*Contd.*

SECTION V – TRENDS IN PUBLIC EXPENDITURE : 2002–03 TO 2007–08

Introduction

1 This section presents trends in public expenditure over the period 2002–03 to 2007–08. The analysis includes expenditure by the Government, the Trading Funds and the Housing Authority.

2 Details of the individual heads of expenditure contributing to a particular policy area are provided in an index in Volume I of the 2007–08 Estimates. This index further provides details by head of expenditure of individual programmes which contribute to a policy area.

Appendix B—Contd.

Recurrent Public Expenditure by Policy Area Group 2002–03 to 2007–08

Policy Area Groups	Actual				Revised Estimate	Estimate
	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08
	%	%	%	%	%	%
Education	22.4	22.2	21.8	22.0	21.9	22.8
Social Welfare	14.6	15.1	15.5	15.9	16.0	16.4
Health	15.3	15.0	14.7	14.6	14.6	13.9
Security	11.5	11.3	11.2	11.1	11.1	11.0
Infrastructure	5.6	5.5	5.5	5.6	5.4	5.3
Economic	5.0	5.1	5.1	5.4	5.3	5.1
Housing	5.2	5.1	5.0	5.3	5.0	4.7
Environment and Food	4.0	3.9	3.7	3.7	3.9	4.0
Community and External Affairs	3.5	3.3	3.2	3.3	3.4	3.3
Support	12.9	13.5	14.3	13.1	13.4	13.5
	100.0	100.0	100.0	100.0	100.0	100.0
	\$m	\$m	\$m	\$m	\$m	\$m
Total Recurrent Public Expenditure	211,728	211,102	205,426	200,710	204,530	219,129

Appendix B—Contd.

Total Public Expenditure by Policy Area Group 2002–03 to 2007–08

Policy Area Groups	Actual				Revised Estimate	Estimate
	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08
	%	%	%	%	%	%
Education	21.0	21.0	21.1	22.0	21.6	21.4
Social Welfare	12.1	12.3	12.9	13.6	13.9	13.9
Health	12.6	12.6	12.5	12.9	13.1	12.2
Security	10.3	9.9	9.9	10.1	10.3	10.8
Infrastructure	9.8	10.0	11.2	10.4	9.4	8.4
Housing	9.0	9.2	7.0	6.3	6.0	5.9
Economic	4.8	5.1	5.1	5.3	5.5	5.8
Environment and Food	4.3	4.0	3.9	3.9	4.2	4.4
Community and External Affairs	3.1	3.0	3.0	3.2	3.3	3.2
Support	13.0	12.9	13.4	12.3	12.7	14.0
	100.0	100.0	100.0	100.0	100.0	100.0
	\$m	\$m	\$m	\$m	\$m	\$m
Total Public Expenditure	263,520	271,098	257,137	244,982	245,563	267,845

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
Travel and Tourism	5	
Education	Education	16
Environment and Food	Agriculture, Fisheries and Food Safety	2
	Environmental Hygiene	32
	Environmental Protection and Conservation	23
Health	Health	15
Housing	Housing	31
Infrastructure	Buildings, Lands and Planning	22
	Transport	21
	Water Supply	24
Security	Administration of Justice	12
	Anti-corruption	13
	Immigration Control	10
	Internal Security	9
	Legal Administration	11
	Legal Aid	20
Social Welfare	Social Welfare	14
	Women's Interests	33
Support	Central Management of the Civil Service	26
	Complaints Against Maladministration	30
	Constitutional Affairs	28
	Intra-Governmental Services	27
	Revenue Collection and Financial Control	25
	Support for Members of the Legislative Council	29

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

GLOSSARY OF TERMS

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

Capital expenditure. This comprises all expenditure charged to the Capital Account of the General Revenue Account, the Capital Works Reserve Fund (including interest on government bonds and notes but excluding repayment of the bonds and notes), Disaster Relief Fund, Innovation and Technology Fund, Loan Fund and Lotteries Fund. Unlike *capital spending*, it excludes advances and equity investments made from the Capital Investment Fund and repayment of government bonds and notes charged to the Capital Works Reserve Fund. Major items are highlighted below –

General Revenue Account

equipment, works and capital subventions of a minor nature

Capital Works Reserve Fund

acquisition of land
 capital subventions
 computerisation
 interest and other expenses on government bonds and notes
 major systems and equipment
 Public Works Programme expenditure

Disaster Relief Fund

relief to disasters that occur outside Hong Kong

Innovation and Technology Fund

projects promoting innovation and technology upgrading in manufacturing and service industries

Loan Fund

loans made under various development schemes supported by the Government
 loans to schools, teachers, students, and housing loans to civil servants, etc.

Lotteries Fund

grants, loans and advances for social welfare services

Capital financing surplus. The difference between *capital revenue* and *capital spending*.

Capital revenue. This comprises certain revenue items in the General Revenue Account and all receipts credited to the Funds (except Land Fund), as highlighted below –

General Revenue Account

disposal proceeds of government quarters and other assets
 estate duty
 loan repayments received
 recovery from Housing Authority
 taxi concessions

Capital Investment Fund

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

Capital Works Reserve Fund

investment income
land premia
recovery from MTR Corporation Limited

Civil Service Pension Reserve Fund

investment income

Disaster Relief Fund

investment income

Innovation and Technology Fund

investment income
loan repayments received
proceeds from sale of investments

Loan Fund

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

Lotteries Fund

auctions of vehicle registration numbers
investment income
loan repayments received
share of proceeds from the Mark Six Lottery

Capital spending. The aggregate of *capital expenditure*, advances and equity investments from the Capital Investment Fund, and repayment of government bonds and notes charged to the Capital Works Reserve Fund.

Consolidated surplus. The difference between *government revenue* and *government spending*.

Fiscal reserves. The accumulated balances of the General Revenue Account and the Funds, including the net proceeds from issuance of bonds and notes and after deducting their repayments charged to Government's accounts.

Government expenditure. The aggregate of *operating expenditure* and *capital expenditure*. Unlike *government spending*, it excludes advances and equity investments from the Capital Investment Fund, and repayment of government bonds and notes charged to Government's accounts. Also, unlike *public expenditure*, it excludes expenditure by the Trading Funds and the Housing Authority.

Government revenue. The aggregate of *operating revenue* and *capital revenue*.

Government spending. The aggregate of *government expenditure*, advances and equity investments from the Capital Investment Fund, and repayment of government bonds and notes charged to the Capital Works Reserve Fund.

Operating expenditure. All expenditure charged to the Operating Account of the General Revenue Account.

Appendix C—Contd.

Operating revenue. This comprises all revenue credited to the General Revenue Account (except those items which are treated as *capital revenue*) and the Land Fund, as highlighted below —

General Revenue Account

- duties
- finances, forfeitures and penalties
- investment income
- rents and rates
- royalties and concessions
- taxes
- utilities, fees and charges

Land Fund

- investment income

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

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

Transfer to Funds. It is not counted as expenditure or spending under the General Revenue Account. In fact, all transfers between the General Revenue Account and the Funds are merely internal transfers within Government's accounts and do not form part of the revenue, expenditure or spending.