

OFFICIAL RECORD OF PROCEEDINGS

Wednesday, 13 June 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.

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

THE HONOURABLE LEE CHEUK-YAN

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

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

MEMBERS ABSENT:

THE HONOURABLE ALBERT HO CHUN-YAN

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

PUBLIC OFFICERS ATTENDING:

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

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 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

CLERKS IN ATTENDANCE:

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

MS PAULINE NG MAN-WAH, ASSISTANT SECRETARY GENERAL

MRS VIVIAN KAM NG LAI-MAN, ASSISTANT SECRETARY GENERAL

PRESIDENT (in Cantonese): Clerk, for a quorum is not present, please ring the bell to summon Members to the Chamber.

(After the summoning bell had been rung, a number of Members entered the Chamber)

PRESIDENT (in Cantonese): A quorum is present. The meeting starts now.

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>
Building Management (Fee Revision) Regulation 2007	106/2007
Hotel and Guesthouse Accommodation (Revision of Licence Fees) Regulation 2007	107/2007
Unsolicited Electronic Messages Regulation	108/2007
Statutes of The Chinese University of Hong Kong (Amendment) (No. 2) Statute 2007	109/2007
Mass Transit Railway (Amendment) Regulation 2007 ...	110/2007
Kowloon-Canton Railway Corporation (Suspension) Regulation	111/2007
Mass Transit Railway (Transport Interchange) (Amendment) Regulation 2007	112/2007
Kowloon-Canton Railway (Restricted Area) (No. 2) Notice 1997 (Amendment) Notice 2007	113/2007

Other Papers

No. 95 — Report by the Trustee of the Correctional Services Children's Education Trust for the period from 1 September 2005 to 31 August 2006

Report of the Bills Committee on Housing (Amendment) Bill 2007

Report of the Bills Committee on Revenue Bill 2007

Report of the Bills Committee on City University of Hong Kong (Amendment) Bill 2006

ORAL ANSWERS TO QUESTIONS

PRESIDENT (in Cantonese): Questions. First question.

Waiting Time for Specialist Out-patient Services

1. **MR ALBERT CHAN** (in Cantonese): *President, recently, quite a number of members of the public have complained to me about the long waiting time for the specialist out-patient (SOP) services at public hospitals. For example, a resident of Tung Chung pointed out that he has to wait for three years for a consultation appointment. Many people have told me that their clinical conditions have worsened due to the lack of timely treatment over a prolonged period. In this connection, will the Government inform this Council:*

- (a) *of the average waiting time for each SOP service last year, together with a breakdown of the cases by the waiting time (that is, less than one year, one to less than two years, two to less than three years and three years or above) as at the end of last year;*
- (b) *of the longest waiting time among the present cases for each SOP service; and*
- (c) *whether it will take measures to alleviate the problem of excessively long waiting time for SOP services; if so, of the details; if not, the reasons for that?*

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

Madam President, the Hospital Authority (HA) has put in place a triage system at its SOP clinics. Health care personnel will arrange the date of medical appointment for new patients on the basis of the urgency of their clinical conditions at the time of referral, taking into account various factors including the patients' clinical history, the presenting symptoms and the findings from physical examination and investigations.

Under the triage system, new SOP cases are classified into priority 1 (urgent), priority 2 (semi-urgent) and routine categories. To ensure that patients with urgent conditions are given appropriate medical attention in a timely manner, the HA will arrange doctors to attend to priority 1 and priority 2 cases as soon as possible. The current median waiting time for these two categories of cases is one week and five weeks respectively. The triage system benefits patients with urgent conditions by shortening their waiting time. Nevertheless, the waiting time for patients with non-urgent conditions would be longer.

Referrals of new patients to SOP clinics under the HA are usually screened first by a nurse and then by a doctor in the relevant specialty. To ensure that no urgent medical conditions are overlooked at the initial triage, all referrals that have been classified as routine cases would be double-checked by a senior doctor in the relevant specialty within seven working days of the initial triage. If a patient's condition deteriorates before the date of appointment, he may contact the SOP clinic concerned and request an earlier appointment. However, if the condition is acute, the patient should seek immediate attention from accident and emergency departments. Depending on the patient's needs, the medical staff there may arrange for an earlier SOP appointment for the patient.

(a) and (b)

A breakdown by major specialties of the median waiting time and the waiting time at the 99th percentile for new cases booked in 2006, that is, 99%; or in other words, the waiting time of the 1% with the longest waiting time, is listed in the following table.

	<i>Median (Week)</i>	<i>99th Percentile (Week)</i>
Ear, Nose and Throat	8	91
Gynaecology	8	65
Medicine	10	93
Ophthalmology	2	100
Orthopaedics	13	113
Paediatrics	5	55
Psychiatry	5	93
Surgery	15	147
All Specialties	7	119

The overall median waiting time for new SOP cases booked under the HA is about seven weeks. In terms of median waiting time, the three specialties with the longest waiting time in descending order are Surgery, Orthopaedics and Medicine.

A breakdown of the number of new SOP cases booked by the waiting time (that is, less than a year, one to two years, two to three years and over three years) in 2006 is listed in the following table.

	Waiting Time								Total Number of New Cases with Consultation Appointment Made
	< 1 year		1 to 2 years		2 to 3 years		> 3 years		
	Number	%	Number	%	Number	%	Number	%	
Ear, Nose and Throat	60 282	86.5%	9 267	13.3%	128	0.2%	0	0.0%	69 677
Gynaecology	50 214	96.2%	1 963	3.8%	0	0.0%	0	0.0%	52 177
Medicine	82 088	89.3%	9 278	10.1%	378	0.4%	133	0.1%	91 877
Ophthalmology	96 146	92.6%	7 265	7.0%	381	0.4%	0	0.0%	103 792
Orthopaedics	73 099	87.7%	8 926	10.7%	1 316	1.6%	0	0.0%	83 341
Paediatrics	24 111	98.8%	252	1.0%	49	0.2%	0	0.0%	24 412
Psychiatry	33 037	92.2%	2 590	7.2%	188	0.5%	6	0.0%	35 821
Surgery	96 037	72.0%	28 342	21.3%	8 350	6.3%	566	0.4%	133 295
All Specialties	594 161	88.1%	68 111	10.1%	11 079	1.6%	706	0.1%	674 057

Of the 670 000 some new cases in 2006, the waiting time was less than one year in over 590 000 cases (or 88% of the total number of new cases). Of these new cases in which the waiting time was less than one year, the waiting time for more than 240 000 cases was less than two weeks; and for about 130 000 other cases, the waiting time was between two to eight weeks. In other words, for about 55% of all the new cases, the first appointment could be arranged within eight weeks. This shows that the triage system is effective in facilitating the provision of appropriate medical services for patients with urgent medical conditions in a timely manner.

(c) On the other hand, we are also concerned about the waiting time for patients with non-urgent conditions. To improve the situation, the HA has taken the following measures:

- Increasing the appointment quota of the SOP clinics, family clinics and general out-patient clinics (GOPCs);
- Deploying specialists on a sessional basis at GOPCs to support the management of chronically ill patients;
- Setting up 18 family medicine specialist clinics to take up the patients categorized as routine cases and act as a gatekeeper for SOP clinics;
- Training more specialists;
- Reducing unnecessary referrals by the distribution of referral and triage guidelines to relevant doctors in the private sector; and
- Establishing protocols for the discharge of medically stable patients to be followed up at the primary care level.

On top of the above measures, the HA has decided to set up a working group to conduct a thorough examination of the operation of the existing SOP service and put forward feasible options for shortening the waiting time.

MR ALBERT CHAN (in Cantonese): *President, I welcome the Secretary's suggestion to set up a working group to look into the matter. However, President, looking at the figures, we found that the waiting time for more than 80 000 cases was more than one year. In the past, we received numerous complaints from residents that a patient would be on the verge of death when it eventually came to his turn for SOP service; in other words, the patient's clinical condition had deteriorated from non-urgent to extremely critical, and died shortly after he had received SOP services. How can the Secretary ensure that cases which are not classified as urgent initially but bear the risk of deterioration will not become life-threatening to patients in the absence of medical treatment, but will be provided with appropriate attention and treatment, and that this situation will be improved?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, it is by no means easy to answer this supplementary question in a simple way. First, in respect of the patients' symptoms, while the condition of some patients may remain rather stable for many years, some may present abrupt changes at a certain time. So, should the clinical condition of a patient present abrupt or significant changes while he is still waiting for an appointment, just as I said in the main reply, he may seek earlier medical appointment at SOP clinics. Generally speaking, once notified of a patient's condition, the nurse would consult a doctor on the patient's condition to see if there is a need to arrange for an immediate or earlier appointment.

Will a patient be neglected due to the excessively long waiting time? This relates to the existing referral system. As far as I understand it, whether or not the doctor's referral letter is well written, accurate and detailed will, to a large extent, determine if the patient concerned can have an earlier appointment. I recalled that when I was still working in the HA, I had already reminded it of the importance of designing referral letter samples for doctors requesting referral to clearly set out the patient's clinical condition and findings of the relevant examination, so that SOP doctors can have a good understanding of the patient's need for immediate treatment and advise him on the desirability of having an earlier or later appointment.

I think that the issue cannot be addressed by the HA alone, but also requires the efforts of doctors making the referrals, that is, doctors working in the private sector and out-patient clinics. In this connection, while the several

measures implemented by the HA, which I mentioned earlier, should continue, the complementary effort of doctors making referrals is also required.

MR TAM YIU-CHUNG (in Cantonese): *President, the Secretary mentioned in the main reply that more specialist doctors would be trained. But, President, the fierce competition for doctors in the private sector has attracted a large number of HA doctors. In this circumstance, what measures have been put in place by either the HA or the Government to recruit more doctors and give them opportunities of training? What relevant measures have been put in place?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): I think that the HA is addressing the issue with a two-pronged approach. Firstly, the Government has provided the HA with additional resources to recruit nearly all the up-and-coming medical graduates or interns who have completed their training, who will then have an opportunity to receive specialist training. Secondly, despite that some specialist doctors have been attracted to the private sector, the HA hopes that they may stay in office longer, either to serve the patients or train the younger doctors. The number of this kind of doctors is increasing.

We are able to cater for the community's needs in this regard. Certainly, if a doctor considers that the private sector offers better development opportunities to him, there is no way we can stop him and prevent him from leaving. Nonetheless, I am of the view that if some doctors do not wish to engage in personal development on a full-time basis, but still wish to make contribution to the public hospitals or continue with their effort in either research or teaching, they may choose to go back to work for the public hospitals for a certain time, say, for two sessions per week. Such flexible arrangement will help prevent a sudden drain of expertise in the HA, and yet, this certainly requires the co-ordination of various hospital clusters and hospital management.

MR JAMES TIEN (in Cantonese): *President, I think that in spite of Hong Kong's economic recovery in recent years, such problems as air pollution or food safety have become more serious. No wonder the number of patients with ear, nose, throat and eye problems is also on the increase. I think that triage alone cannot solve this problem. May I ask the Government whether, in view of the*

excessively long waiting time for SOP service, it will consider relaxing the existing quota of foreign medical practitioners of certain specialties to enable them to practise in Hong Kong? Otherwise, given that the waiting time is as long as two to three years, I think that there will still be plenty of patients waiting in spite of the triage system.

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, I believe the question should not be answered or understood in this way. Firstly, we should note that there are currently 17 000 registered doctors in Hong Kong (Appendix 1), among whom only some 4 600 are working in the HA. However, 96% of the hospitalized patients are cared for at HA hospitals, in which the majority are specialist patients. This shows that while doctors are readily available in the private sector as opposed to relatively fewer patients, HA doctors have to take care of a large number of patients. In that case, how can we ensure that there is an even distribution under the system? I believe it is very difficult, under the existing funding system, in particular, to achieve an even distribution between public and private-sector hospitals. The Government is considering a number of options from such perspectives as health care financing, with a view to gradually resolving this problem.

Is there a need for foreign doctors to come to Hong Kong to help? I believe Hong Kong doctors should be capable of addressing this problem given the current workload and the medical care demanded by patients. However, if the health care resources of the community can be further increased, it will be necessary to slightly increase the number of doctors trained, especially the number of medical graduates of the universities. Calculation is being made in this respect.

MR LI KWOK-YING (in Cantonese): *I think the Secretary should be aware of the fact that the shortage of doctors is a phenomenon of medical services as a whole, where both the private and public sectors are trying to win over doctors. At present, many doctors have moved from the public sector to the private sector, which demonstrates that there is a lost of balance between the private and public sectors. In order to resolve this problem, the Secretary said that more medical graduates should be recruited with the funding. However, this is still not enough. In balancing the private and public sectors, has the Secretary considered contracting out certain specialist services to the private sector?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, I am also considering cases involving some special surgeries, such as cataract surgeries, where excessively long waiting time is required. We prepare to provide funding to the HA to enable it to procure private services to help the patients concerned, and consideration is being given to this proposal. Similarly, I believe, in future, should there be services which the public sector fails to provide, but can be obtained in the private sector through procurement without causing abuse by either the doctors or patients, consideration will also be given to it.

MR DANIEL LAM (in Cantonese): *President, will the Secretary inform this Council whether he will review whether the specialist facilities of such new towns as Tung Chung can meet with the residents' needs given an increasing population?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, I think that with the growing population of all new towns, the need for medical services will definitely increase. Take Tung Chung as an example, Tung Chung Hospital and its future development have been made a priority project. At present, consideration is being given to the development of this hospital and the possibility of private-public collaboration projects, with a view to better catering for the needs of Tung Chung and Lantau residents.

MRS SELINA CHOW (in Cantonese): *Whichever way look at them, the number of priority 1 (urgent) and priority 2 (semi-urgent) cases as provided by the Secretary in the first part of the main reply are indeed most astonishing. Earlier, the Secretary mentioned that an even distribution of medical services between the public and private sectors had yet to be achieved and it depended on such arrangements as health care financing. May I ask the Secretary: Given that private-public collaboration has been discussed for quite some time, why is it introduced as early as possible for the benefit of patients whose cases have been classified as urgent and semi-urgent with a waiting time of three months? Is it possible for the Government to provide assistance to the low-income people or the elderly, in particular, through private-public collaboration with the funding provided?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, first of all, I have mentioned earlier that the availability of SOP services is not the only factor determining how the problem can be dealt with. Because even though the HA had previously increased the manpower and other resources for SOP on several occasions, only a few patients had their waiting time shortened in the short run. In the long run, however, a large number of patients are still waiting for appointments. I believe the biggest problem is the absence of a well-established primary health care system in Hong Kong, which I consider to be the most important. If such a system is in place, the majority of patients who are waiting will be provided with community or primary health care services, and they will not have to wait for medical treatment at hospitals or SOP clinics. I think this is a more important direction of reform. The Government is now considering and studying the relevant proposal and the health care financing arrangement, and an account will be made to members of the public and the Legislative Council in due course.

MRS SELINA CHOW (in Cantonese): *The Secretary has not specifically answered my supplementary question. I am talking about the possibility of achieving an even distribution of services through private-public collaboration, so as to enable the Government to focus on the needy patients. Although referral of patients can be made either for the time being or upon completion of the project, has the Government focused specifically on the needy patients in considering the current problem of uneven distribution of public- and private-sector services? And, can the problem be resolved at once?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, I believe this issue is not completely independent of health care financing because a decision to increase resources for the procurement of private-sector services for patients who are waiting for public-sector services begs one question: Where do the resources come from? I think that given the existing resources of the Government, it would be impossible to mobilize extra resources on a large scale for such an initiative. However, for cases where patients need cataract surgeries, for instance, which I mentioned earlier, consideration will be given to procuring private-sector services through a certain mode, so that patients who are waiting for their turn to undergo surgeries will not have to wait so long.

PRESIDENT (in Cantonese): We have spent more than 18 minutes on this question. Last supplementary question.

MR WONG KWOK-HING (in Cantonese): *President, doctors always advise patients to seek medical treatment before their condition gets too serious. Yet, what I can note from the Secretary's main reply is that, the waiting time for SOP service can be as long as three years. As such, even the originally minor illness may become a serious illness, and that a serious illness will eventually take one's life. Therefore, may I ask the Secretary via the President, whether the Government has any statistics showing cases where a patient's medical condition had deteriorated or even cost his life due to the long waiting time? Is there any statistics showing such cases? If the Secretary is unable to give a reply at today's meeting, can he provide the relevant information after the meeting? If no such statistics have been compiled, will he start to do so at once?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, firstly, the Government has not compiled such statistics, and I think neither does the HA. Just as I said when I replied Mr Albert CHAN, if a patient's condition deteriorates while he is still waiting for an appointment, he may seek earlier consultation or immediate attention from accident and emergency departments. It is therefore a very rare case for a patient's condition to deteriorate until death before he is attended to. This is rarely the case. Certainly, whether or not this kind of survey can be successfully conducted hinges on the co-operation of patients. The HA's existing information system alone cannot capture the necessary figures.

MR WONG KWOK-HING (in Cantonese): *President, the Secretary has not replied whether the relevant statistics will be compiled at once. This is part of the supplementary question raised by me just now.*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, I will have to consult the HA to see if such statistics can be compiled.

PRESIDENT (in Cantonese): Second question.

Accident and Emergency Services of Public Hospitals

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

- (a) *of the current average queuing time for consultation in the Accident and Emergency (A&E) departments of public hospitals for patients of categories 4 and 5 under the triage system, whose conditions are not considered urgent, broken down by hospital clusters of the Hospital Authority (HA);*
- (b) *of the respective unit costs of treating patients in the A&E departments of public hospitals and clinics under the HA; and*
- (c) *whether it will consider setting up 24-hour clinics operated by private practitioners adjacent to the A&E departments of public hospitals, so as to reduce the number of patients seeking A&E services and save medical expenditure for the HA?*

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

- (a) According to the statistics collated by the HA on A&E attendances of public hospitals in 2006-2007, the average waiting time for cases in triage category 4 (semi-urgent) and category 5 (non-urgent) is 73 and 98 minutes respectively. A breakdown of average waiting time for the cases by hospital clusters is set out in the Table below:

	Average waiting time for consultation in the A&E departments of public hospitals for patients of triage categories 4 and 5 (minutes)							Average waiting time
	Hospitals in Hong Kong East Cluster	Hospitals in Hong Kong West Cluster	Hospitals in Kowloon Central Cluster	Hospitals in Kowloon East Cluster	Hospitals in Kowloon West Cluster	Hospitals in New Territories East Cluster	Hospitals in New Territories West Cluster	
2006-2007								
Category 4 patients (semi-urgent)	58.0	76.0	61.0	79.0	86.0	53.0	100.0	73.0
Category 5 patients (non-urgent)	104.0	129.0	92.0	126.0	96.0	61.0	102.0	98.0

- (b) The unit cost per attendance at the HA's A&E departments is \$720. It is almost two times higher than the unit cost per attendance at General Outpatient Clinics of \$260.
- (c) In 2006-2007, the A&E departments of public hospitals handled a total of 1.34 million attendances in triage category 4 (semi-urgent) and category 5 (non-urgent), which accounted for 68% of the total number of A&E attendances.

The HA is very concerned about the improper use of A&E services by patients with non-emergency conditions. While it is understandable that some patients are not able to determine whether their acute conditions require emergency or non-emergency medical care, it is also true that others simply utilize the A&E departments as a convenient alternative to out-patient clinics, in particular outside normal hours for consultation of clinics, resulting in a wasteful use of public hospital resources. In addition, the use of the services of the A&E departments by a large number of patients with non-emergency conditions would unduly add to the workload of front-line staff. This affects the efficiency of care for patients with genuine emergency conditions. Long waiting time for patients with non-emergency conditions would also result in patient complaint and conflict with front-line staff, which in turn will dampen staff morale.

In order to minimize improper use of A&E services by patients with non-emergency conditions, we will continue to encourage the public to make better use of the services of family doctors, who should be the first point of contact when accessing medical services, and primary medical services. An assessment on the urgency on the patient's conditions should be made by the family doctors, and an attendance at the A&E departments should only be made when there is a genuine need to do so.

The HA has stepped up family medicine specialist training over the past few years. It is hoped that more primary care doctors will put greater emphasis on developing long-term relations with their patients and provide them with the necessary medical care in times of need, for example, by providing patients with a means of contact after consultation hours so as to enable them to seek medical advice.

The HA has no plan to set up any 24-hour clinics to be operated by private practitioners adjacent to the A&E departments. At present, most private hospitals and some private clinics are providing round-the-clock services. We will encourage the private sector to make further development in this direction. For example, family doctors in solo practice within a district may collaborate to take turns to provide service beyond normal clinic opening hours.

To facilitate the choice of services required by patients with non-emergency conditions, information is made available in the A&E departments under the HA about the private practitioners and 24-hour clinics in the districts where the A&E departments are located. Such information includes, among others, the specialties registered, means of contact and operating hours. Public hospitals will also strengthen their liaison with private practitioners and 24-hour clinics operating in their district so as to ensure that patients with emergency conditions referred to the A&E departments by these practitioners and clinics will receive prompt attention and care.

MR LAU WONG-FAT (in Cantonese): *Madam President, it is understood that a "Foundation on Medical Service Research" has subsidized a study on publicizing the triage system in order to reduce the improper use of A&E services and adjust the mode of medical service delivery. What recommendations have been made on the mode of service delivery by the study?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, I have no idea which report Mr LAU is referring to.

PRESIDENT (in Cantonese): Secretary, please sit down first. Mr LAU, which foundation are you referring to?

MR LAU WONG-FAT (in Cantonese): *I have just heard of it, the "Foundation on Medical Service Research". Is this true? If yes, what recommendations have been made?*

PRESIDENT (in Cantonese): Secretary, are you aware of such a foundation?

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, I have no idea which particular foundation is referred to because many think-tanks have put forward different views. I do not know which foundation Mr LAU is referring to.

PRESIDENT (in Cantonese): Mr LAU Wong-fat, as you know there is such a foundation, would you please find out the relevant information and write to the Secretary direct?

MR CHEUNG HOK-MING (in Cantonese): *President, in the main reply, the Secretary mentioned that the average waiting time for semi-urgent and non-urgent categories is 73 minutes and 98 minutes respectively. I can see from the table that there is a big difference between the average waiting time in two districts, namely the New Territories East Cluster and the New Territories West Cluster, with an average waiting time of 53 minutes and 100 minutes respectively for semi-urgent patients. May I ask the Secretary whether such a huge difference is due to a problem in procedure or manpower? Can the Secretary give us an answer here?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, I believe the major difference lies in the lack of primary medical services in the clusters, prompting the non-urgent or semi-urgent patients to turn to the A&E departments, thus resulting in a large number of such patients there. I therefore consider this the major problem. Of course, we will also do an analysis. For instance, the ratio between hospital services and the population in New Territories West was on the low side in the past. So, we have expanded Pok Oi Hospital, the services of which will begin to increase by the end of this year. I believe the waiting time will be improved then.

However, I have to reiterate that in normal circumstances, we do not encourage patients of triage category 4 and category 5 to use the A&E services. We hope they can receive services from primary medical service providers in the

community, no matter in the public or private sector, as this is more convenient. Moreover, such services in the New Territories are not too expensive, about on a par with the charge of \$100 of the A&E departments. I therefore hope that the people, through education and counselling, will seek such services in the vicinity of their homes.

MR CHEUNG HOK-MING (in Cantonese): *President, I asked the Secretary whether the problem was due to manpower or procedure. But the Secretary clearly replied that it was due to an increase in the patients' demand. May I ask the Secretary whether an increase in manpower will be considered accordingly in view of the increase in patients?*

PRESIDENT (in Cantonese): Mr CHEUNG Hok-ming, please wait for another turn because the question you just asked is not part of your previous supplementary question.

DR LUI MING-WAH (in Cantonese): *In part (c) of the main reply, the Secretary mentioned "the use of the services of the A&E departments by a large number of patients with non-emergency conditions". This is extremely unsatisfactory. Under such circumstances, what punitive measures will be imposed in order to reduce the use of A&E services by these non-urgent patients, apart from encouraging the public to make better use of family doctor services and educating the public?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, hospitals cope with patients' needs with a caring and humanitarian attitude. Even though patients with such conditions may not need to go to the A&E departments, they consider it necessary due to their own worries. So, our most important task is to set up the triage system in the A&E departments, explaining the situation to them and allowing them to wait. And waiting itself is a kind of punishment. For the general public, if they have to wait for one or two hours when they are sick, they will certainly feel very anxious. So, many patients will prefer seeking treatment from private doctors or public out-patient clinics in the vicinity of their homes after visiting the A&E departments once or twice to find that services will not be provided immediately

because of their non-urgent conditions. I believe the situation will gradually change. But most importantly, as I said when answering other questions, our primary medical care system needs a thorough revamp so that people's behaviour will be geared to our services, thus avoiding the waste of time and money.

MISS TAM HEUNG-MAN (in Cantonese): *In part (c) of the main reply, the Administration mentioned that it would encourage the public to make better use of the services of family doctors. But according to my understanding, services of family doctors are provided mostly in the private sector. The Government has made little effort in the development or conducted any in-depth study of this. As far as I know, many family doctors in the United Kingdom provide non-urgent medical services to the local people. According to the table provided by the Secretary, category 5 patients have to wait for a very long time. Will the Government consider providing more family doctors so that non-urgent patients, in particular category 5 patients, will turn to family doctors for consultation?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, as I just said, a more thorough revamp is needed so that more patients will receive services from family doctors or primary medical care system in the community. At present, however, primary medical services can deal with not only services provided by the doctors, but also other primary services including nursing, elderly services and psychiatric services. We therefore hope that importance will be attached to this aspect in the future development no matter in terms of resource deployment or design of the medical model as a whole.

MR LAU KONG-WAH (in Cantonese): *According to the figures mentioned by the Secretary, about 70% of these two categories of patients are still using the A&E services. This is in fact unsatisfactory. Charges had been imposed on the users of A&E services by the Government but the effect was not at all satisfactory. The Secretary just said that they had to wait for a longer time as a punishment. This is not a nice way of putting it because it is not people-oriented. One part of Mr LAU Wong-fat's question asked whether it is possible to set up clinics operated by private practitioners adjacent to the A&E*

departments in order to serve as an instant triage system. This is in fact a very good method. I do not understand why the Secretary said that he did not have this plan. Does the Secretary conceive such a plan problematic after consideration or give no consideration to such an idea at all on the ground that it is not effective?

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

Madam President, first of all, I would like to clarify that I did not say we had deliberately punished the patients. I only said that the patients would have to wait for a longer time when a large number of people seek treatment. So, I pointed out that waiting itself was a punishment when answering Dr LUI Ming-wah's question. I think we can only try our best and the HA has indeed done its best. Regarding why I consider it unnecessary to set up other out-patient clinics adjacent to the A&E departments, it is because most of the patients do not fall sick outside the A&E departments but at home. If primary health care services are provided in the vicinity of their homes, why should they go to the A&E departments? We should encourage the patients to consult doctors in the vicinity of their homes, thus saving transportation cost. This is, on the contrary, the most important point. So, the crucial thing is to develop primary health care services. Now, more and more primary medical service providers or doctors have collaborated in their operation so that their consultation hours can be lengthened to provide convenience to the patients in the district concerned. I am sure that we should allow room for their development.

MR LI KWOK-YING (in Cantonese): *According to the table in the main reply provided by the Secretary, the waiting time for semi-urgent and non-urgent patients ranges from 53 minutes to 100 minutes. In fact, this has highlighted the heavy workload of the A&E departments. In other words, since doctors in New Territories West have to deal with urgent cases, they can be available for handling semi-urgent patients in 100 minutes. Even though LAU Kong-wah suggested private practitioners could be allowed to set up clinics adjacent to the A&E departments, the Secretary still gave a negative answer. I know that the HA has plans to engage part-time doctors on contract terms. Could the authorities consider such an arrangement in order to alleviate the workload of the A&E departments in individual districts?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, under the existing arrangement of the A&E departments, there are a group of doctors responsible for treating category 4 and category 5 patients every day. This is tantamount to out-patient services. So, the waiting time will be longer if more people seek treatment from the A&E departments and *vice versa*. There is another team of doctors responsible for handling patients with emergency conditions. Hence, there will be other doctors responsible for treating categories 1 to 3 patients seeking A&E services. Of course, if a catastrophic incident occurs and all doctors are drafted, doctors responsible for category 4 and category 5 patients have to put down their work and deal with the emergency. So, this is similar to the idea of setting up out-patient clinics adjacent to the A&E departments as proposed by Members. We just think that it is difficult for the patients themselves to determine which category they belong to and they will only know their problem after analysis by the medical staff in the A&E departments. So, we will not deliberately divert patients to other places for treatment.

MR LI KWOK-YING (in Cantonese): *President, I would like to seek a clarification from the Secretary because I do not quite understand one point. Generally speaking, patients with non-emergency conditions have to wait as long as 100 minutes under the triage system. Does this mean that even though there is no urgent patient, doctors responsible for treating patients with emergency conditions will not handle non-urgent patients?*

PRESIDENT (in Cantonese): Mr LI Kwok-ying, as you are also aware, no clarification is allowed in question time. You may ask the question through other channels.

We have spent more than 17 minutes on this question. Last supplementary question.

MR DANIEL LAM (in Cantonese): *The Secretary said in the last part of the main reply that the authorities "would encourage the private sector to make further development in this direction. For example, family doctors in solo practice within a district may collaborate to take turns to provide service beyond normal clinic opening hours." Can the Secretary tell us whether assistance will be provided apart from giving encouragement?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, we can only give encouragement under the current policy. Of course, if deployment of resources is discussed in the context of health care financing in the future, we may consider whether subsidy should be provided for this.

PRESIDENT (in Cantonese): Third question.

Funeral Offerings Causing Environmental Pollution

3. **MR LEUNG YIU-CHUNG** (in Cantonese): *President, it is learnt that styrofoam and plastic materials are often used by funeral practitioners for making sacrificial offerings. Toxic gases such as dioxins emitted by burning such offerings not only cause serious environmental pollution but also pose health hazards to the staff in the funeral trade and nearby residents. In this connection, will the Government inform this Council whether it will:*

- (a) *stipulate that funeral practitioners may only use, for making sacrificial offerings, those materials which will not emit toxic gases when being burnt; if it will, of the details; if not, the reasons for that;*
- (b) *use instruments to regularly monitor if toxic gases are found in the air in the vicinity of funeral parlours or crematoriums; if it will, of the details; if not, the reasons for that; and*
- (c) *take initiatives to encourage funeral practitioners and the public to be more concerned about environment protection during funeral rituals?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS (in Cantonese): President, the burning of sacrificial offerings is subject to the regulation of the Air Pollution Control Ordinance. Funeral practitioners should make proper arrangements for burning sacrificial offerings to ensure that the emissions will not affect the health of or pose a nuisance to nearby residents. If burning sacrificial offerings cause nuisances or health risks to nearby residents

due to improper arrangements, the Environmental Protection Department (EPD) will issue air pollution abatement notices requiring the practitioners to take steps to mitigate air pollutant emissions or even stop the burning activities.

From 2004 to 2006, the EPD received a total of 34 complaints of air pollution involving the burning of sacrificial offerings in funeral parlours. According to the results of EPD's investigations, none of these cases were found to affect nearby residents' health. Only one of these cases might have posed a nuisance to nearby residents. In this connection, the EPD has issued an air pollution abatement notice and is taking further legal action on that case.

Under the Air Pollution Control Ordinance, the operation of large premises for burning activities, such as crematoriums, requires a Specified Process Licence. According to the conditions stipulated in the licence, the operators of crematoriums must use the best practical means for controlling the emission of air pollutants, including dioxin, to ensure that neither health hazards nor nuisance will be caused to nearby residents.

The burning of sacrificial offerings in a funeral parlour is a small-scale burning activity that does not have significant impact on the overall air quality. Hence, there is no need to install air monitoring instruments in the vicinity. Crematoriums are currently operated by the Food and Environmental Hygiene Department (FEHD). The FEHD monitors regularly the emission of pollutants by the crematoriums in compliance with the licence conditions stipulated under the Air Pollution Control Ordinance, so as to ensure that neither health hazards nor nuisance is caused to nearby residents.

To encourage the community to use environmentally-friendly funeral materials for cremation, the FEHD issues guidelines to the funeral trade and bereaved families on the specifications of suitable coffins for cremation. Apart from specifying the size of the coffins and the materials that should not be used in the making of coffins, the guidelines also expressly advise the bereaved families not to place metal or plastic articles inside the coffins, and to remove all metal or plastic ornaments on their surfaces before cremation. Moreover, the FEHD has informed the licensed undertakers of burials about the introduction of an additional licence condition. This condition stipulates that starting from 1 October 2007, an undertaker of burials shall only source or arrange a coffin for cremation for the bereaved families that meets the FEHD's requirements. Repeated violations of this condition by a licensed undertaker of burials will result in licence cancellation.

To promote environmental protection, the FEHD will take the lead in using eco-coffins for cremating unclaimed bodies. The FEHD has invited contractors to supply eco-coffins by open tender, which are expected to come into use this month.

The EPD will also liaise with the trade and encourage funeral practitioners to be more attentive to protecting the environment when conducting funeral services and avoiding the use of styrofoam and plastic materials for making sacrificial offerings.

MR LEUNG YIU-CHUNG (in Cantonese): *President, I have received a complaint from a funeral practitioner claiming that in face of fierce competition recently, sacrificial offerings have to look very similar to the real things, just like items in our daily life. To achieve the desired effect, however, he would have to use a lot of styrofoam and plastic materials. Moreover, the temperature of burning these sacrificial offerings at night is not very high. A special coverage by the South China Morning Post claims that if the burning temperature is not high, dioxin can be emitted easily. He is thus very worried.*

The Secretary indicated in the main reply that as this belongs to a small-scale burning activity, it is not necessary to install air monitoring instruments. May I ask the Secretary how she can know that dioxin is not emitted if air monitoring instruments are not installed? Moreover, as the funeral parlours are adjacent to residential dwellings, especially those located in Hung Hom and Tai Kok Tsui, how will the Secretary ensure that their health will not be affected by hazardous gases?

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

(in Cantonese): President, first of all, if the friend Mr LEUNG Yiu-chung mentioned uses styrofoam to make sacrificial offerings — although styrofoam will cause air pollution, it will not emit dioxin when being burnt, because styrofoam does not contain chlorine. Products which will emit dioxin in burning all contain chlorine which will only turn into dioxin when combined with hydrocarbon, but styrofoam does not contain chlorine. However, the EPD does not encourage the use of styrofoam because it will emit other toxic gases when being burnt in low temperature.

Concerning the issue of high or low temperature, this is relative in nature. The temperature of burning sacrificial offerings in general is considerably lower than that of a cremator. The former is even lower than the low temperature that generates dioxin. The so-called low temperature is about 500-odd°C, but such burning activities usually will not reach 500-odd°C. I am not suggesting that it will definitely not emit dioxin, but we absolutely believe that these plastic materials or styrofoam — they should be grouped into one..... I wish your friend will also take note that the EPD is currently carrying out publicity work among the funeral trade to discourage the use of plastic, styrofoam and other petroleum products — that is, substances produced from petroleum — in making sacrificial offerings. In fact, we hope that they will reduce using them and the best approach is not to use them at all because sacrificial offerings are originally made with paper and should not be made with these new materials.

As to why we do not carry out monitoring, the reason is that these processes generally last for a very short period. For instance, as the concentration of dioxin emitted is very low and the dioxin will be dissipated into the ambient air, if we need to test whether dioxin is emitted, we will have to monitor it for a long period of time to collect samples before any result can be tested. On receipt of a complaint and upon warning being given by colleagues of the EPD arriving at the scene, they very often would have already stopped the burning; or they would stop when they saw the EPD officers anyhow. It is therefore impossible to reach the detection limit, which is the minimum concentration for testing, if the sampling is conducted for only one hour.

Moreover, as regards the impact on the overall air quality, we hold that it will not cause any detectable impact, but rather, it will affect the people burning the sacrificial offerings most directly because they will be burning the offerings in front of the cremator. Thus, our publicity work now is targeted at the people burning the sacrificial offerings — I believe their ancestors would also not wish their descendants to kill themselves by inhaling the toxic gases this way, right? From this angle, they are the major victims, while the impact on the ambient air is not so great.

PRESIDENT (in Cantonese): Has your supplementary question not been answered?

MR LEUNG YIU-CHUNG (in Cantonese): *Yes, President, the Secretary has not answered my supplementary question, in particular, on how she can protect the health of the residents in the vicinity or the staff. President, because.....*

PRESIDENT (in Cantonese): You just need to state the part not yet answered and do not need to explain it.

MR LEUNG YIU-CHUNG (in Cantonese): *Not quite, President, let me finish first. The Secretary has some misunderstanding. The air monitoring instruments I referred to are not of a temporary nature, but are those installed for long-term monitoring. The Secretary has answered loud and clear that short-term monitoring is not effective and I agree with that. However, the point is that the burning of sacrificial offerings lasts for the whole night and thus monitoring work can be conducted throughout the night, rather than a short duration. May I ask the Secretary how effective monitoring can be taken to ensure that the air quality will not affect the staff and residents in the vicinity?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS (in Cantonese): President, if we need to test the air quality in relation to these activities, it must be of a short duration because it will only burn for one hour, so will the monitoring. As to the testing of air pollution on the whole, we already have the air quality monitoring stations for that. When it dissipates into the ambient air, it will mix together. We have all along been testing for any increase in dioxin in the overall air composition in Hong Kong. If there is, we will certainly stringently enforce actions against processes which may have emitted dioxin, such as from a certain cremator or the burning of fuel with impurities, but we will not target at such small-scale activities. With respect to long-term monitoring, we already have measures in place.

PROF PATRICK LAU (in Cantonese): *President, in relation to part (c) of Mr LEUNG's main question, I heard the Secretary reply just now that work had been done among the funeral trade. The Secretary also stated that the people*

burning the sacrificial offerings were the ones affected most directly. In this connection, may I ask the Government what education and publicity initiatives have been carried out to make the public aware that inhaling these gases may be harmful?

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS (in Cantonese): President, the EPD already has a series of publicity and education initiatives. In fact, we have also been liaising directly with the funeral trade because the most direct way is to start with the trade. They can inform the bereaved families carrying out the sacrificial rituals which sacrificial offerings they have brought along are suitable for burning. We will step up this kind of publicity activities.

MS EMILY LAU (in Cantonese): *President, the Secretary mentioned eco-coffins in the last paragraph of her main reply and indicated that the authorities had taken the lead in using eco-coffins for cremating unclaimed bodies. Will the Secretary tell us, firstly, how many such cases there are? The Secretary also stated that an open tender will be conducted soon. How will this be carried out? Will the authorities stipulate that eco-coffins must be used..... are eco-coffins the same as paper coffins mentioned in the past?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS (in Cantonese): President, I have already mentioned in the main reply just now that the Government will take the lead in using eco-coffins for cremating unclaimed bodies. In view of the quantity required, that is, the quantity we project for each year, an open tender will be conducted, but I do not have this information at hand and I have also asked Dr CHOW just now..... but we both do not have such information at hand.

Eco-coffins are paper coffins. We will allow time for gradual public acceptance of these coffins. Members may have seen these coffins in the newspapers, which are rather nice and not causally made at all. However, as this involves traditional culture, we will not, for the time being, require all cremations to use these coffins.

MISS CHOY SO-YUK (in Cantonese): *President, I wish to ask a question on the staff who may be affected by their working environment. For example, is there any occupational disease compensation scheme for this now? For instance, can such cases be included as they have to persistently carry out certain types of jobs, making their physical health vulnerable to certain kinds of gases, that is, can they be included in the occupational disease compensation schemes?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS (in Cantonese): President, this supplementary question may have to be answered by Dr CHOW again because there are express stipulations on occupational diseases as to how they are formed and thereby compensation can be claimed.

In any event, the Occupational Safety and Health Ordinance stipulates that it is the responsibility of every person in charge of the workplace to ensure that sufficient ventilation of fresh air is maintained in the workplace, and that the air in the workplace is, so far as is reasonably practicable, free of any impurities which will put workers' health at risk. Officers of the Labour Department are tasked with the duty to enforce this Ordinance and they have issued a code of practice on how to monitor impurities in the air or chemicals in the workplace, with a view to providing guidelines for air quality in workplaces. If the staff taking charge of the burning of sacrificial offerings are subject to an unreasonable or excessive amount of chemicals, they will be protected by this Ordinance.

However, whether or not an employee suffers from an occupational disease has to be decided by a board in accordance with the impact inflicted on the employee. For instance, whether he has inhaled excessive particles, or whether the black smoke, which is the substance most frequently generated in the course of burning, has truly caused his pneumoconiosis, is to be decided by the doctor. We certainly do not wish to deal with the matter after such incidents have happened. In accordance with the Occupational Safety and Health Ordinance, employees can, in fact, request sufficient ventilation of fresh air in the working environment to avoid being affected by these chemicals.

PRESIDENT (in Cantonese): We have spent more than 16 minutes on this question. Last supplementary question.

MR ALBERT CHAN (in Cantonese): *President, the Secretary mentioned in the main reply that there was only one case, among the numerous complaints, which was found to have posed a nuisance. I am not sure if that case was the one I lodged regarding Cheung Chau because the cremator in the funeral parlour on Cheung Chau is provisional and it is located only 10 to 20 ft away from the residential dwellings. The windows of the residence are just opposite to the site of burning, constituting..... although I have lodged the complaint for many years, the Government, to date, does not have a definite plan on permanently relocating the cremator for funeral offerings. In the interest of public health, will the Secretary consider relocating, as early as possible, that provisional cremator for funeral offerings?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS (in Cantonese): *President, I cannot provide detailed information about an individual case here. Of course, if the situation is true as Mr CHAN has described, that is, it is a provisional cremator which has caused considerable nuisance, my colleagues will certainly follow up the issue and consider what improvement can be made.*

PRESIDENT (in Cantonese): Fourth question.

Young People Abusing Drugs

4. **MR JASPER TSANG** (in Cantonese): *President, it has been reported that due to shortage in resources, the Kwai Chung Hospital under the Hospital Authority (HA) has ceased to provide medical examination and early treatment services to young people abusing psychoactive drugs in recent months. In this connection, will the Government inform this Council:*

- (a) *whether the past three years saw an upward trend in the number of young people abusing drugs (including early-stage drug abusers), please illustrate with specific figures;*
- (b) *of the number of young people served in the three years before the cessation of the service and the effectiveness of such service; and*
- (c) *of the measures it has adopted to assist young people in need of such service after cessation of the service?*

SECRETARY FOR SECURITY (in Cantonese): Madam President,

- (a) According to the Central Registry of Drug Abuse, the number of reported young drug abusers aged under 21 has increased over the past three years:

2004	2005	2005/2004	2006	2006/2005
2 186	2 276	4.1 %	2 549	12 %

- (b) According to the information provided by the HA, the early screening programme at Kwai Chung Hospital for young people aged under 25 for physical and mental problems caused by drug abuse recruited 168 young psychotropic substance abusers. Upon body check-up and motivational counselling with them:

- 46 of them were willing to undergo treatment to quit drugs. The abstinence rate for these 46 persons was 66% one year later.
- 31 were referred to other specialties for treatment due to physical health problems.
- 16 were given psychiatric treatment due to mental health problems.
- the remaining 75 did not accept or receive follow-up service through Kwai Chung Hospital.

The substance abuse clinics (SACs) of the HA mainly provide treatment to persons with mental health problems caused by substance abuse (including drug abuse). Although these clinics are not meant for providing physical check-up and health assessment in general, Kwai Chung Hospital applied and received funding support from the Beat Drugs Fund to launch a body check-up programme from September 2002 to February 2004 to provide the early screening service.

- (c) To address the psychotropic substance abuse problem among the youth, the authorities are enhancing early intervention services,

including body check and early treatment services and preventive education to educate youngsters on the harms of drug abuse.

- (i) A working group has been set up under the Treatment and Rehabilitation Sub-Committee of the Action Committee Against Narcotics (ACAN) to draw up measures to strengthen co-operation between private medical practitioners and social workers. The aim is to tap the professional expertise of medical practitioners to address the medical needs of abusers, and to widen the network for preventive education and early intervention at the community level. Abusers, in particular young and occasional abusers, will be given medical advice and treatment, or referred to counselling or other services at an early stage. In 2007-2008 we will launch a pilot co-operation scheme, involving body check-ups and early treatment services.
- (ii) The Beat Drugs Fund has provided funding support to a number of organizations since 2005-2006 for projects which involved the use of health check and related intervention techniques to help young substance abusers.
- (iii) The New Territories West Cluster of the HA also joins hands with voluntary organizations to provide about four to six sessions of voluntary outreaching service each year to young substance abusers of the region, involving drug education, health screening and assessment. Cases will be referred to relevant organizations for follow-up services if needed.
- (iv) Five Counselling Centres for Psychotropic Substance Abusers (CCPSAs), specifically set up to tackle the problem of psychotropic substance abuse, work closely with health care professionals and other anti-drug organizations in helping the youth at risk and drug abusers. We have provided these centres with additional resources starting from April this year to strengthen outreaching services, and collaboration with other stakeholders to identify young drug abusers for early treatment.

As regards the recent case of students suspected of abusing drugs in school, I would like to take this opportunity to reiterate that the Administration is very concerned about the youth drug abuse situation. We will spare no efforts and combat the problem on all fronts. Apart from the above initiatives, we will take forward various measures including strengthening the liaison between schools and the police, organizing seminars for teachers and social workers on anti-drug education, engaging parents actively in drug prevention education for their children and intensifying publicity targeting the youth. We will continue to tap the views of the ACAN, anti-drug workers and the public in formulating anti-drug initiatives. We will enhance our partnership with various sectors of the community, including schools, parents, social workers, medical workers, academia, and the media in the fight against drugs.

MR JASPER TSANG (in Cantonese): *President, just as the Secretary has also noted, the recent drug abuse cases in school have aroused widespread concern in society. However, when the Secretary mentioned this incident, he only mentioned co-operation with schools on the education, promotion and prevention fronts. With regard to body check-ups and early treatment services (the several measures mentioned by the Secretary in part (c) of the main reply), we are concerned about how those measures will be tied in with schools and how the Government can ensure that students understand that they can use such service if they are in need. May I ask the Secretary to provide more information about this?*

SECRETARY FOR SECURITY (in Cantonese): Madam President, regarding drug abuse by young people, we have to promote co-operation among various parties to combat the problem. First, law-enforcement agencies, such as the police and the Customs and Excise Department, will deal with the problem at source by combating the smuggling of drugs. Moreover, in this connection, if efforts are only made on the law-enforcement front to combat drug abuse, we are not getting to the root of the problem. We consider that promotion and education, particularly the provision of assistance to drug abuser through early identification, are crucial. In this connection, we notice that parents, teachers and social workers have frequent contact with these young people. We will step

up our co-operation with schools to examine ways to pass on the knowledge to teachers, so that teachers may identify young people or students suspected of abusing drugs at the earliest possible time, and thereby effect early intervention and assistance. For instance, teachers may refer these cases to social workers or refer the students for check-up. We hope to work on this aspect.

MR ALAN LEONG (in Cantonese): *May I ask the Secretary whether the Government has examined why the number of young drug abusers aged under 21 is on the rise? What are the reasons?*

SECRETARY FOR SECURITY (in Cantonese): Madam President, according to the studies conducted by us, it is a common problem in the so-called affluent and open societies generally, which is not unique to Hong Kong. If we look at the situation in Western societies, we will note that the problem of drug abuse among young people has become extremely widespread, and the situation in Hong Kong is not particularly serious. Despite that, we are not treating the problem lightly. For instance, young people have a wrong impression that the damage caused by psychoactive drug abuse is less serious than other narcotics like heroin which people used to take in the past. But this is a misconception. According to medical literature, the frequent intake or abuse of this category of drugs will cause damage to the brain and health of these young people, and the damage done is as serious as that caused by heroin. Therefore, we must step up publicity on this.

Moreover, those so-called popular drugs are often found in discos, parties or rave parties. So, we also have to target this group of young people to encourage them to participate in some healthy recreational activities through education and promotion. In this respect, the Narcotics Division will launch a series of promotion and activities during the coming summer vacation with a view to encouraging young people to participate in some healthy activities instead of joining undesirable peers to abuse drugs.

MS EMILY LAU (in Cantonese): *President, I would like to ask a question about drug abuse cases in school. The Secretary said that they were concerned about the issue and he mentioned earlier that healthy recreational activities were*

offered. With regard to the drug abuse problem among students discovered in school, may I ask whether the authorities have information indicating the penetration of triad members in schools to sell drugs? Have the authorities reflected to the relevant departments that more healthy entertainments should be provided during school, I do not mean during school holidays but regular school days, to attract the young people, so that they will stay away from drugs? Do the authorities have such information?

SECRETARY FOR SECURITY (in Cantonese): Madam President, according to the information we have at hand, it is uncommon that drug traffickers will penetrate schools to sell drugs. In some surveys and interviews conducted by us in the past, some young drug abusers were asked about the locations they usually took those drugs. According to the findings of the survey, most of the respondents took drugs at places of entertainment like discos or parties. The next most popular place for taking or abusing drugs was their homes or their friends' homes. As for abusing drugs in schools, according to our past survey, only 24 persons had done so, which only accounted for 1% of drug abusers. As shown by the figure, it should not be a common phenomenon. Despite that, we are very much concerned about the drug abuse problem among the youth and students in school. We will strengthen our co-operation with schools and social workers to examine ways to double our efforts in publicity and anti-drug abuse.

MS EMILY LAU (in Cantonese): *The Secretary has not answered the part on healthy entertainment which does not only focus on advising them not to take drugs or combating drug abuse. I asked whether the authorities have invited the persons concerned to provide more attractive and healthy entertainments in school.*

SECRETARY FOR SECURITY (in Cantonese): Actually, we are now working in collaboration with the Education and Manpower Bureau in this respect. In view of the incident that occurred two days ago, the Commissioner for Narcotics convened an urgent meeting to pool efforts from the Education and Manpower Bureau, social workers and the police to examine the work to be carried out on this front. First, to educate students in school of the hazards of drug abuse; second, to put in more efforts in school, say introducing more healthy activities, as Ms LAU suggested earlier, to make young people stay away from narcotics.

DR KWOK KA-KI (in Cantonese): *According to the figures provided by the Secretary, the number of young drug abusers has increased from 2 186 in 2004 to 2 549 in 2006. However, many social workers have told us that the figures are provided by certain government or voluntary organizations on a voluntary basis, which fundamentally do not include the figures recorded by other relevant organizations. That is to say, a vast majority of young drug abusers are not counted, and the figures are thus on the low side. The scheme offered by the HA for young drug abusers aged under 21 can only help 168 persons, so the number of people benefiting from the scheme is indeed very small. Does the Government have any plan to increase the resources for the relevant scheme significantly to enable more persons in need of counselling, medical service and medication to benefit?*

SECRETARY FOR SECURITY (in Cantonese): Madam President, perhaps I may first talk about the Beat Drugs Fund. Under the Beat Drugs Fund, subsidies can only be provided on a one-off basis and for a prescribed period, so continuous support cannot be provided. However, we understand the demand of abusers of psychoactive drugs for medical services. Taken on board the views of the sector, the Treatment and Rehabilitation Sub-Committee of the ACAN has set up a working group and drawn up relevant measures. We wish to make use of social resources to strengthen the co-operation between private medical practitioners and social workers. We will launch a pilot co-operation scheme involving social workers and private medical practitioners in 2007-2008, which include the provision of body check-ups and early treatment services.

MR JASPER TSANG (in Cantonese): *President, as the Secretary pointed out just now, the Beat Drugs Fund can only provide one-off subsidies, so the screening programme for young people provided by Kwai Chung Hospital with the subsidy of the Fund had only run for a year or so and was then ceased. However, according to the information provided by the Secretary, Kwai Chung Hospital had in fact helped many young people during this year or so. May I ask the Secretary whether the Government has planned to provide resources in the long term to organizations under the HA, which are similar to Kwai Chung Hospital, so that they may provide body check-ups and early treatment services?*

SECRETARY FOR SECURITY (in Cantonese): Madam President, regarding the suggestion made by Mr Jasper TSANG just now, we will refer it to the

Narcotics Division and the ACAN for discussion, and examine the future strategy to be adopted in this respect. As I said earlier, we would tap social resources and private medical practitioners, for we think this can achieve better effects. Regarding Mr TSANG's earlier suggestion on the provision of resources to the HA by the Government, we will reconsider it after the meeting.

PRESIDENT (in Cantonese): We have spent more than 17 minutes on this question. Last supplementary question.

MISS CHOY SO-YUK (in Cantonese): *President, in part (c) of the main reply, the Secretary said that a pilot co-operation scheme had been launched. Will the Secretary tell us whether the scheme is effective and whether the duration of the scheme will be extended?*

SECRETARY FOR SECURITY (in Cantonese): Madam President, the working group and the relevant sub-committee under the ACAN are now considering the details of the scheme, it is thus too early to assess the effectiveness of the scheme at this stage. I believe we have to wait until the entire scheme has been introduced and operated for some time before we can assess its effectiveness.

PRESIDENT (in Cantonese): Fifth question.

Regulation of MPF Management Fees

5. **MISS TAM HEUNG-MAN** (in Cantonese): *It is reported that some Mandatory Provident Fund (MPF) trustees charge MPF fund management fees up to 2% to 3% a year, thus substantially reducing the accrued benefits receivable by employees upon retirement. In this connection, will the Government inform this Council:*

- (a) *whether it will consider amending the relevant legislation to enable employees to choose MPF trustees on their own, so as to lower MPF fund management fees by means of market forces; if it will, of the details and timetable of such amendments; if not, the reasons for that;*

- (b) *given that the annual management fees of quite a number of investment funds in foreign countries are only within the range of 0.4% to 0.6%, whether it has explored which of the experience of foreign countries may be drawn on by Hong Kong to lower MPF fund management fees; and*
- (c) *whether it will regulate the levels of fund management fees charged by MPF trustees?*

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

- (a) The Mandatory Provident Fund Schemes Authority (MPFA) is actively considering a practicable option to allow employees to choose trustees of MPF with a view to increasing market competition and driving down the fees of MPF funds. The Government is supportive of any measures proposed by the MPFA which could effectively improve the operation of the MPF system so as to provide better retirement protection for the employees.

As MPF contributions are made by both employers and employees, we must fully consult the employers and employees and consider their views before introducing any major changes. In considering ways to allow employees to choose the MPF trustees, the MPFA has to ensure that the relevant arrangements are supported by both employers and employees. The issues that need to be considered include the possible proliferation of accounts, transfers and increased administrative work that may be brought about by the changes, which might lead to increased operating costs. Moreover, as the existing system allows employers to offset the severance payments and long service payments by their contributions, employers would expect that they could participate in choosing the MPF trustees. The MPFA must analyse in detail the implications of the proposal on both employers and employees and strike a balance in assessing its costs and benefits.

The preliminary proposal being considered by the MPFA is to allow employees to choose MPF schemes regarding the accrued benefits

derived from their own contributions. The MPFA is now consulting the professional bodies in the industry on the implementation of the proposal and the arrangements. If practicable, this would result in around 60% of MPF benefits being portable between trustees.

The MPFA plans to consult other relevant stakeholders on the proposal later this year and put forward recommendations to the Government within this year.

- (b) The MPFA has carried out research into the fees and charges of retirement savings systems in other jurisdictions. The findings show that the design and operation of the systems vary considerably across jurisdictions. The fee structures and mechanism as well as the calculation and reporting of fees are also widely different. Therefore, the MPFA considers that it is very difficult for Hong Kong to make a meaningful comparison with foreign countries.

Moreover, owing to differences in services provided and types of fees, it is not possible to directly compare the MPF scheme with investment funds in general.

The MPFA is of the view that the most valid international comparison is probably to consider the Australian retail superannuation system because of its structural similarities with the MPF system. According to information obtained by the MPFA, fees as percentage of assets under the system is around 1.53% (excluding contribution fees), while the average fund expense ratio of MPF funds in Hong Kong is 2.06%. However, it should be noted that since the Australian retail superannuation system was established in 1992 with a total asset value of more than US\$40 billion, it outperforms our MPF system both in terms of its maturity and asset size of funds.

In the light of experience of other jurisdictions, the MPFA will conduct follow-up studies on a number of issues to help ensure that fees and charges are set at a reasonable level. These issues include:

- (i) discussion with stakeholders, including trustees, about how the operation of the system can be refined with the objective of reducing operating costs and fees and charges;
 - (ii) helping MPF funds to achieve greater economies of scale by facilitating mergers and restructures of funds;
 - (iii) considering how the MPF system can be expanded to achieve greater economies of scale, for example, by facilitating more voluntary contributions from members into the system;
 - (iv) considering whether product costs can be reduced, for example, by making greater use of simplified and lower cost investment products;
 - (v) considering ways for greater portability of benefits to increase market competition without increasing the operating costs of the schemes (please refer to part (a) of the main reply for the proposal);
 - (vi) considering whether disclosure of fees and charges can be further improved; and
 - (vii) enhancing education and helping scheme members to gain a full understanding of the importance of fees and charges.
- (c) The existing MPF system mainly relies on market forces to set the type and level of fees.

The MPFA is committed to improving the transparency of fees so as to help bring market forces into full play. Following the issue of the Code on Disclosure for MPF Investment Funds in 2004, the MPFA is developing a web-based comparative platform to help scheme members compare fees and charges across funds and schemes. The first phase of this platform, which will provide scheme members with information about the highest/average/lowest expenses by fund types, will be available in July this year. The second, a more sophisticatedly designed phase, will show detailed

information about fees and charges for each individual fund. The launching time of the second phase will depend on the progress of the relevant legislative work. A bill incorporating the relevant proposed amendments will be introduced into the Legislative Council later this month.

MISS TAM HEUNG-MAN (in Cantonese): *I have to thank the Secretary for his detailed explanation. In fact, since the introduction of MPF, MPF trustees have been earning handsome revenue, for they have been charging management fees much higher than those charged overseas. A number of measures are suggested in the third page of the Secretary's main reply, however, those measures are relatively passive in nature. Apart from suggesting the public to increase their MPF contributions or voluntary contributions, or implementing other measures, will the Government set a management fee cap in view of the exorbitant management fees charged to protect the interest of contributors? The MPF contributions by the public should be translated into their power of spending in future upon retirement. If their spending power is low, they may have to subsist on government subsidies eventually.*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): President, I agree with Miss TAM's view that if an exorbitant management fee is charged, the amount of fund an employee may finally receive at his or her retirement will be affected. However, as I have explained in the main reply, we hope to lower these management fees by means of market forces. As I have said in part (a) of the main reply, if schemes giving more flexibility to employees in transferring their MPF from one trustee to another are introduced in future, competition will be brought in, thereby lowering the fees charged.

Certainly, in Hong Kong, we rely on market forces in the determination of fees. However, if all measures to be introduced in future fail to yield effect, and that the Government and the MPFA consider the interest of employees may be affected, I believe other alternatives will be considered at the time. It cannot be ruled out that Miss TAM's earlier suggestion on introducing regulation or capping the maximum management fees charged will be included. However, I believe promoting competition should be the first step, so as to allow the market to lower the fees charged.

PRESIDENT (in Cantonese): A total of 11 Members wish to ask supplementary questions, will Members who have the opportunity to put questions please be as concise as possible.

MR CHIM PUI-CHUNG (in Cantonese): *President, according to the Secretary's main reply, we understand that everyone is contributing to MPF, but they can only recover the money after a long time. It is stated in the main reply that the rate of total expenses of MPF is 2.06%. May I ask whether statistics on the accrued benefits of scheme members have been kept over the past years? Though they have not yet shared the money, how much have they received? They may be getting no benefit at all. As the expense is 2.06% per annum, which will add up to more than 8% over four years, they may be suffering a loss indeed. Will the Secretary explain this?*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): The return made by the MPFA in the past few years was rather satisfactory. On the whole, the rate of return for MPF under the system in five years is 6.99% after deduction of expenses. Certainly, for funds with high investment risk, the return may be higher, this is the rule. However, as I have said earlier, according to the information provided by the MPFA, the rate of return of MPF in five years is 6.99% after deduction of expenses, which is fair. Therefore, Mr CHIM does not have to worry about that, for there is no question of the public suffering net losses.

MS MIRIAM LAU (in Cantonese): *Actually, with regard to the information on and rate of return of MPF investment funds, the transparency is extremely low now. More often than not, employers and employees only know that they have to make contributions and sign a lot of documents, but they know very little about the information of those funds. In the last paragraph of the main reply, it is mentioned that the Code on Disclosure for MPF Investment Funds was issued by the MPFA in 2004. May I ask the Secretary whether the MPFA has any monitoring mechanism to ensure compliance with the Code on Disclosure by MPF trustees? Have measures been put in place to ensure compliance with the Code on Disclosure by trustees, for instance, will non-compliance be liable to penalty?*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): The MPFA will vet offer documents and audit reports of MPF funds. Moreover, regular site inspections and sampling verification of relevant documents will be carried out to ensure that approved trustees have complied with the requirements on information disclosure and that the actual fees charged tally with the information disclosed. I very much agree with Ms LAU's earlier remark on the incompleteness of the information disclosed. Members may recall that more than a year ago, I already reported to Honourable Members in the Legislative Council that the MPFA would step up its efforts in this respect. Therefore, an information platform will be launched next month to enable employees to gain a better understanding of the fees charged by these funds and all the relevant information. Continual improvement and perfection will be made in this respect.

PRESIDENT (in Cantonese): Has your supplementary question not been answered?

MS MIRIAM LAU (in Cantonese): *The Secretary has not answered my question. I asked him whether measures have been put in place to ensure compliance with the Code by trustees, say whether penalty will be imposed.*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): As far as I understand it, in the event of serious incidents, the MPFA is authorized to suspend or revoke the licence of the approved trustee concerned. However, I believe it is left to the MPFA to decide whether the gravity of a certain case is up to that grade, say whether the failure to provide detailed information will result in a suspension of licence. I may perhaps obtain more information from the MPFA and then give an account to Ms LAU and Honourable Members, may I? (Appendix I)

MR CHAN KAM-LAM (in Cantonese): *President, I particularly welcome the reply given by the Secretary today, for at least his attitude has changed significantly compared with the past. In the past, when we mentioned the introduction of a "savings passbook" scheme for MPF, the Government and the MPFA would say no, no, no. But today, the Secretary has at least said that further studies will be conducted.*

Secretary, in the main reply, you said that the MPFA would hold consultations and that preliminary proposals were being considered. Will the Secretary tell us the factors now under MPFA consideration? As the MPFA is only considering allowing employees to identify external management companies for their own contributions at present, why is the arrangement not applicable overall?

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): First, I have to thank Mr CHAN for his supplementary question. Actually, like the Financial Services Branch and the MPFA, Mr CHAN has all along shown a keen interest in options which provide portability for employees' contributions. I remembered that Mr CHAN had met with me and discussed the option on the so-called "savings passbook" scheme. I thus have to thank Mr CHAN for expressing concern for this topic once again.

Regarding the plan I mentioned earlier, a preliminary proposal has been drawn up at present, but I would rather not say that it will definitely be implemented at a certain time or give details of the plan. As I have said in the main reply, under our proposal, on joining a company which has already chosen the MPF trustee, an employee may transfer his or her contributions to other trustees within a year. For example, an employee, after doing the calculation, may consider the 3% management fee charged by the selected trustee unreasonably high while its performance is far from satisfactory. According to our proposal, employees will be allowed to change the trustee of their contributions once a year.

However, as I have explained in the main reply, since employers have already selected the trustees, we should discuss this with them under the system and work out how the arrangement can be made feasible. Moreover, Members can imagine that if the change of trustee is frequent, it may affect the operating costs. President, since we have to consider a host of factors from different aspects, the MPFA will need more time for this. However, I can assure Members that the MPFA will take an extremely proactive approach in this matter. Members know particularly that the new Chairman is now pursuing the issue vigorously, so Members can rest assured.

MR SIN CHUNG-KAI (in Cantonese): *When the legislation was scrutinized 10 years ago, we already proposed the granting of this right to choose to employees.*

However, the former Secretary for Financial Services, who is now one of your bosses, Rafael HUI, rejected this proposal of ours. Today, the new Chairman has put forth this proposal, so this will surely be more than welcome. The time for such an action has long since past, but it is at least better than taking no action at all. My supplementary question is about a point in the second page of the Secretary's main reply, stating that if employees are allowed to make their own choice, it is estimated that 60% of them will be free to choose their trustees. May I ask the Government of its expectation on the remaining 40%?

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): We are now talking about contributions made by employees, so it will be around 60%, for this may include some voluntary contributions. However, in respect of trustees, since part of the contributions is made by employers, the employer concerned may not want any change and may specify the employment of a certain trustee. This is how the 60% figure is worked out.

PRESIDENT (in Cantonese): On this question, we have spent more than..... Mr SIN Chung-kai, has your supplementary question not been answered?

MR SIN CHUNG-KAI (in Cantonese): *I do not have any more questions.*

PRESIDENT (in Cantonese): We have spent more than 19 minutes on this question. Last supplementary question.

MR LEUNG KWOK-HUNG (in Cantonese): *In the main reply, Secretary Frederick MA has explained the reason for consulting both employees and employers, that is, part of the contributions will be used to offset severance payments and long service payments. Under such an arrangement, many employees may see their benefits being cancelled out before they toil through lives unto their death, for their MPF will be used for other purposes, for severance payments and long service payments. Worse still, the management fee charged is excessively high. Has the Secretary considered amending the relevant ordinance to prohibit employers from using their contributions to offset*

severance payments and long service payments? For only by doing so can the vision of ensuring workers have enough money to support themselves in their old age be truly realized.

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): Mr LEUNG, when the Ordinance was enacted, as I said earlier, its design allowed employers to use their contributions to offset severance payments and long service payments. Certainly, when the MPFA carries out consultations again, it will listen to all the views, and I believe Mr LEUNG Kwok-hung's opinion may be brought up by others at the time. We will carry out further consultation. However, I believe there must be justifications for this legislative intent. I think we will look into it again then.

MR LEUNG KWOK-HUNG (in Cantonese): *The Secretary has not answered my question. I asked the Secretary whether the offset arrangement would be abolished so that employees would enjoy support in their old age. For the original purpose of setting up MPF can only be achieved this way.*

PRESIDENT (in Cantonese): Secretary, do you have anything to add?

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): President, I only wish to say that regarding these major topics, a lot of studies and consultations have to be carried out, covering employees, employers and various parties. When the MPFA conducts studies in this respect, it will certainly consider the views of all parties.

PRESIDENT (in Cantonese): Last oral question.

Heat Stress Index

6. **MISS CHOY SO-YUK** (in Cantonese): *President, it has been reported that, after consolidating the statistics from 1983 to 2005 on mortality rate, temperature, humidity, wind speed and the heat of the sun, the Hong Kong*

Observatory (HKO) has found that whenever the heat stress index (HSI) moved up one level in summer, the mortality rate would increase by twofold, and in winter, whenever the HSI moved down one level, mortality rate would increase by 130%. As such, the HKO is considering announcing the HSI on a daily basis from 2009 onwards. In this connection, will the Government inform this Council:

- (a) of the details of the HSI from 1983 to 2005; and*
- (b) whether it will, besides alerting the public by announcing the HSI when it reaches a dangerous level, consider putting in place complementary measures with binding effect to safeguard public health; if it will, of the details?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): Madam President, the HKO has carried out studies on thermal stress indices since the late 1990s. Such studies help the HKO to issue cold and very hot weather warnings to alert the public on the need to take necessary precautions to cope with extreme temperatures and to facilitate government departments and non-governmental organizations (NGOs) in providing appropriate support services to those in need.

Apart from temperature, the comfort of human beings is affected by other weather parameters such as humidity and wind speed and such effects are usually quantified through thermal stress indices. Over 100 thermal stress indices have so far been recorded. In its latest study, the HKO employs a thermal stress index called the Net Effective Temperature (NET) to study the recent climate change and the possible relationship between the NET and mortality. The NET reflects the common perception that people tend to feel more stressful on hot and humid days without wind in summer, and cold, humid and windy days in winter.

My answer to the two parts of Miss CHOY So-yuk's question is as follows:

- (a) Details of the mean daily maximum NET in summer and the mean daily minimum NET in winter from 1983 to 2005 are in the Annex. Generally speaking, the mean daily maximum NET in Hong Kong in summer (May to September) increased at a rate of 0.15 per

decade in this period. In winter (November to March), the mean daily minimum NET in Hong Kong increased at a rate of 1.15 per decade in the same period.

- (b) Currently, the cold and very hot warnings issued by the HKO effectively alert the public on the need to take necessary precautions to cope with extreme temperatures. Government departments and NGOs also provide necessary support to those in need in the event of such warnings. For instance, the Home Affairs Department provides temporary shelters to people in need in the event of cold or very hot weather.

The research work of the HKO on thermal indices is ongoing. The HKO will also make reference to the Guideline on Universal Thermal Climate Index by the World Meteorological Organization (WMO) planned to be released in 2009. The existing cold and very hot warnings have served us well and further studies will be required before we can determine whether there is a need to introduce a thermal stress index for public dissemination.

Annex

Mean Daily Maximum NET in Summer and
Mean Daily Minimum NET in Winter
from 1983 to 2005

<i>Year</i>	<i>Mean Daily Maximum NET in Summer</i>	<i>Mean Daily Minimum NET in Winter</i>
1983	26.3	7.1
1984	25.4	7.8
1985	25.5	7.9
1986	25.9	9.8
1987	25.3	8.6
1988	26.0	8.1
1989	25.7	8.8
1990	25.7	10.0
1991	26.1	8.4
1992	25.8	8.7

<i>Year</i>	<i>Mean Daily Maximum NET in Summer</i>	<i>Mean Daily Minimum NET in Winter</i>
1993	26.1	8.5
1994	25.5	9.1
1995	25.4	8.8
1996	25.7	9.9
1997	25.4	9.9
1998	26.3	11.0
1999	26.0	8.7
2000	25.7	10.6
2001	26.1	11.3
2002	26.0	10.2
2003	26.2	9.9
2004	26.0	9.7
2005	26.2	10.0

MISS CHOY SO-YUK (in Cantonese): *President, we can see from the Annex of the Secretary's main reply that the mean daily NET has been increasing and hovering on the high side since the reunification. I certainly hope that the temperature has been pushed up by the warmth among people, but I am afraid this is not the case.*

May I ask the Secretary whether or not research has been done on the correlation between this phenomenon and air pollution; and whether this is attributable to the mortality rate — especially that of the elderly — in the past decade?

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): I certainly believe that there is warmth among people, but this kind of warmth, as compared with the relationship between the index and mortality rate under discussion now..... this is exactly the reason the Director of HKO wanted to conduct this relatively academic and statistical research. He echoed Miss CHOY that because of factors like global warming and urbanization, the temperature in Hong Kong, just as in the rest of the world, is getting warmer, especially in summer nights. Usually, the weather at night should be cooler, but now it is getting warmer. Just as the Honourable Member has pointed out just now, it is increasing at a rate of 0.15 unit per decade.

Exactly because of this, the Director of HKO has conducted research on this and found that from 1983 until recently, statistically speaking, there is some correlation between the index and the mortality rate. I wish to emphasize, however, that this may only be a statistical correlation. Thus, the HKO will continue the research.

Moreover, as there is not yet an international standard in the world, the WMO is now formulating a universal guideline for global reference. This guideline, however, will not be available until 2009. In the meantime, the HKO will continue this research.

PRESIDENT (in Cantonese): Miss CHOY So-yuk, has your supplementary question not been answered?

MISS CHOY SO-YUK (in Cantonese): *President, the Secretary has not answered whether the changes in summer and winter are attributable to the mortality rate of the elderly, and whether this has been reflected in the statistics?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): The mortality under discussion is caused by, for instance, elderly dying of heatstroke in extremely hot weather in summer, or in winter, of the cold weather or hypothermia. These are exactly the subjects for the study, not on the age, but on the causes of death. In other words, as I mentioned just now, it is death caused by heatstroke in hot weather or because of the cold weather.

As Members may notice in the past period of time (1983 to 2006), 15 people died because of the hot weather, while 64 people died because of the cold weather. These are the data collected and the computation will continue. The correlation between the two will also be studied statistically.

MISS CHAN YUEN-HAN (in Cantonese): *I am aware of global warming, and the Director of HKO also said that by the end of this century, the winter in Hong Kong might disappear. The Government also said that the Director of HKO has already done a lot of work in recent years, including, among others, the formulation of HSI.*

Nevertheless, I am concerned that..... actually, the Secretary for Economic Development and Labour is the right person to answer this question today because it falls under the ambit of labour. How does the Government address the issue of workers working outdoors in very hot or cold weather? Especially in view of summer days being so hot, humid and windless, which is the toughest time, many workers are exposed to the scorching sun.

Will the Government consider..... as the Director of HKO may announce the HSI in 2008 or 2009 — hopefully, in 2008, should the Government not give corresponding consideration to the labour issues? Just as the rainstorm black warning and rainstorm red warning now, which did not exist in the past, the Government has formulated these initiatives in response to problems arisen.

May I ask the Secretary, once the HSI is established in Hong Kong, what preparation the Government will make to protect workers in this context? Just like the arrangements under the rainstorm black or red warning now?

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): I understand that Miss CHAN Yuen-han is very concerned about the workers, but as a matter of fact, other than workers, the elderly and other citizens are also affected by hot weather. Thus, the key is the HKO's liaison with the Department of Health in formulating the very hot weather index. Be it the HSI or the very hot weather index, the key is to provide the public with an index so that they can be aware of the hot weather and take precautions. At present, we have already done so. For example, when the HKO issues a very hot weather warning, we will alert the public to take precautions to avoid getting heatstroke by all means, such as by maintaining indoor ventilation, avoiding direct exposure to intense sunlight or doing strenuous exercise in hot and humid weather, wearing suitable clothing, and so on. There are guidelines covering all these aspects.

I certainly understand that Miss CHAN is most concerned about whether workers should work outdoors in very hot weather; or what precautions are in place. These are common concerns to all. As compared with other places, however, Hong Kong is in fact not that hot. I believe Members have been to many places where the temperature of some of them can reach as high as 40-odd °C, but people may still work under the burning sun.

The HKO is very much concerned about this issue and took the initiative to conduct the research I mentioned just now, that is, to study the humidity, wind speed, and so on, in hot weather and then look at the corresponding mortality rate, and conduct an academic study to see if any statistical correlation can be established between them and then continue to..... At present, the HKO has yet to decide whether it will announce the HSI on a daily basis because it holds that the public find the cold and very hot weather warnings now most easy to understand. The HKO will issue the very hot weather warning as long as the temperature exceeds 33°C. It holds that this is easier to understand and also more effective, and thus it has not yet decided whether it will announce this index on a daily basis. We are now waiting for the guideline to be issued by the WMO and then decide the next step. Thus, in the meantime, I believe we will continue using the existing measures, that is, whenever the weather gets hot or very hot, the Department of Health and the HKO will issue warnings to alert the public to take necessary measures.

MISS CHAN YUEN-HAN (in Cantonese): *The Secretary has not answered my supplementary question. I said that, being the Secretary for Economic Development and Labour, he should care about outdoor workers exposed to the burning sun. Should he not make preparation for that? The Secretary seemed to say that it is not necessary to make preparation because Hong Kong will not get any hotter. Did he not mean so? The Secretary's reply lasted a few minutes, but it failed to answer my supplementary question. My question is: Has the Economic Development and Labour Bureau made preparation for this? Hong Kong is getting hotter and hotter now. The people in Shanghai and Guangzhou do not have to go to work when the weather is too hot. They do have such a guideline.....*

PRESIDENT (in Cantonese): You just need to put your follow-up question.

MISS CHAN YUEN-HAN (in Cantonese): *OK, thank you.*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): I believe Miss CHAN is also aware that the people living in those

cities she mentioned just now do not have to go to work only when the temperature reaches 39°C, but I know that such cases are rare in Hong Kong. We are not refusing to consider it in Hong Kong. As a matter of fact, I have taken a few minutes to reply just now to tell Miss CHAN that we are currently collecting such data and conducting some work, and we have announced some measures, for instance, the necessary measures I mentioned just now. Did the Member actually want to ask whether outdoor work would become inappropriate when the temperature reached a certain level? I caught that point, but I wish to tell Miss CHAN that we have not yet reached that stage.

I have already stated just now that compared with other cities, the weather in Hong Kong is hot; but if we have been to other places, and we know that the temperature of some other places can reach as high as 40-odd °C. We are not saying that we will sit on our hands, just that we will conduct the research first to see the correlation between the two, and then decide whether this index is to be announced. If we have to announce the index, do we, when it reaches a certain level, take measures to alert the public that it is not suitable to engage in outdoor work? These are issues we will look into, but as of now, I hold that we have not yet reached the stage of announcing the index.

MR HOWARD YOUNG (in Cantonese): *President, with reference to the second column of the Annex, that is, the Mean Daily Minimum NET, without much calculation or by mere skimming through the figures, it is obvious — I find it very obvious — that the temperature in winter is rising. Theoretically speaking, according to this trend, the issuance of cold weather warnings should become less frequent. Has the Secretary collected data on this? Has the number of cold weather warnings issued in the past few years actually dropped correspondingly?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): President, this is an interesting question. Theoretically speaking, the situation should be as described by the Honourable Member just now. The point is the temperature at night is warmer now. This is the first point. Why does the night get warmer now? That is because of urbanization. With the increase in the number of buildings, the heat absorbed by the concrete will be dissipated at night, thereby making the temperature at night less cold.

In fact, I also asked the Director of HKO about this because I have read those figures. By logical thinking, the number of days of cold weather warnings issued should get less and less, but, President, the reality tells otherwise. As Members may note that in 2000, there were 28 days on which we had to issue the cold weather warnings; in 2002, only 18 days; but in 2005, the number surged to 46 days. I have asked the Director of HKO about this and his explanation was that the weather was unstable. Therefore, sometimes when the weather became unstable in a certain year, the number of days of cold weather warnings issued would increase. However, in 2006, the number dropped again from 46 days to 20 days. It is hard for me to explain the weather either and I also had to ask the Director of HKO and his explanation was that the weather was unstable.

PRESIDENT (in Cantonese): We have spent more than 16 minutes on this question. Last supplementary question.

MR LAU KONG-WAH (in Cantonese): *President, the Director of HKO can calculate the mortality rate based on the wind speed and humidity. I am not sure if this belongs to fung shui, which indicates that fung shui does work. However, will the Secretary tell us, according to this trend, whether he can tell the public that people will be subject to increasing danger if the weather becomes warmer and warmer?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): I do not know if the Director of HKO is well versed in fung shui, but I do know that the weather in winter is getting less and less cold. As to whether the public will be subject to increasing danger, if you look at the statistics, you can say that..... it is, in fact, hard for me to answer because if the weather is very hot, the temperature will increase, thereby pushing up the mortality rate. Following this logic, the winter should not be too cold. Let us not forget that people die not only in hot weather, but also, judging from the figures just now, in cold weather.

Members may see that from 1983 to 2006, more people (64 people in total) died in the cold weather than in the hot weather (only 15 people). It is thus

difficult to answer the Member's question. All I can say is, statistically speaking, if — not if, it is a matter of fact, that is, the temperature now on average rises by 0.15 unit every decade. In other words, in summer when the temperature rises by every one unit, the mortality rate will double. From this angle, that is, statistically speaking, there exists a correlation.

PRESIDENT (in Cantonese): Oral questions end here.

WRITTEN ANSWERS TO QUESTIONS

Civil Servant Employment Rehabilitation Support Programme

7. **MR KWONG CHI-KIN** (in Chinese): *President, it is learnt that cases in which civil servants were incompetent to perform the duties of their original posts after work-related injuries have been increasing in recent years and the Civil Service Bureau (the Bureau) has not formulated any employment rehabilitation support programme so far. In this connection, will the Government inform this Council:*

- (a) *of the number of employees in various government departments who were injured at work or suffered from occupational diseases in each of the past three years, and details of the existing measures to assist them in returning to work; and*
- (b) *whether the Bureau will formulate, next year or in the near future, policies, pledges and administrative guidelines to assist civil servants in returning to work after recovery from injuries; if it will, of the details; if not, the reasons for that?*

SECRETARY FOR THE CIVIL SERVICE (in Chinese): President,

- (a) The number of staff members of the Government who were injured on duty or suffered from occupational diseases in the past three years are set out in the Annex.

Under the existing arrangements, to show its concern, departmental management keeps in touch, from time to time, with the staff members who are injured on duty or suffer from occupational diseases in the course of their treatment as well as recuperation. If necessary, appropriate support and counselling is provided to them to facilitate their early recovery and resumption of duty. According to our experience, most of the staff members who were injured on duty or suffered from occupational diseases have no problem in returning to their original work positions after recovery. For the other cases, departmental management will provide the staff members concerned with appropriate devices, or rearrange their duties or redeploy them to lighter duties having regard to medical advice and their health conditions, in order to help them return to work and discharge their duties effectively. If the staff members concerned are not medically fit to perform their original duties, the relevant departmental management will take into account their specific circumstances and make suitable posting arrangements.

- (b) The existing measures to assist the staff members concerned in returning to work after recovery from injuries on duty or occupational diseases are working well. It is flexible in addressing the different needs of such staff members and assisting them to resolve the problems they may encounter upon resumption of duty. Government departments will continue to review the operation and effectiveness of these measures from time to time and make appropriate improvements as and when necessary.

Annex

Occupational Injuries and Occupational Diseases
in Government Bureaux and Departments
for the period from 2004 to 2006

A. Occupational Injuries

<i>Bureau/Department</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
1 Agriculture, Fisheries and Conservation Department	127	113	87
2 Architectural Services Department	1	5	4
3 Auxiliary Medical Service	4	5	5

<i>Bureau/Department</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
4 Buildings Department	2	3	2
5 Census and Statistics Department	7	5	7
6 Chief Executive's Office	1	0	0
7 Chief Secretary for Administration's Office	2	2	1
8 Civil Aid Service	7	27	17
9 Civil Aviation Department	0	1	2
10 Civil Engineering and Development Department	16	10	11
11 Commerce, Industry and Technology Bureau	1	0	0
12 Companies Registry	1	0	1
13 Correctional Services Department	79	70	94
14 Customs and Excise Department	48	50	45
15 Department of Health	31	54	70
16 Department of Justice	1	0	1
17 Drainage Services Department	31	23	15
18 Education and Manpower Bureau	33	46	43
19 Efficiency Unit	0	1	1
20 Electrical and Mechanical Services Department	52	50	39
21 Environment, Transport and Works Bureau	1	0	1
22 Environmental Protection Department	2	8	3
23 Financial Services and the Treasury Bureau	0	0	1
24 Fire Services Department	229	218	188
25 Food and Environmental Hygiene Department	639	637	534
26 Government Flying Service	12	10	5
27 Government Laboratory	1	2	2
28 Government Logistics Department	7	8	2
29 Health, Welfare and Food Bureau	0	0	1
30 Highways Department	6	15	5
31 Home Affairs Bureau	0	1	1
32 Home Affairs Department	6	5	7
33 Hong Kong Observatory	1	1	5
34 Hong Kong Police Force	557	601	494
35 Hongkong Post	233	223	207
36 Housing Department	35	28	31
37 Immigration Department	28	25	36
38 Independent Commission Against Corruption	1	1	2
39 Information Services Department	1	0	0
40 Inland Revenue Department	8	3	6

<i>Bureau/Department</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
41 Innovation and Technology Commission	2	1	3
42 Invest Hong Kong	0	0	1
43 Judiciary	2	5	3
44 Labour Department	19	14	8
45 Land Registry	2	4	1
46 Lands Department	14	18	18
47 Legal Aid Department	1	1	4
48 Leisure and Cultural Services Department	304	280	264
49 Marine Department	19	18	22
50 Office of Government Chief Information Officer	1	0	0
51 Office of the Telecommunications Authority	0	0	2
52 Planning Department	0	1	4
53 Radio Television Hong Kong	12	6	5
54 Rating and Valuation Department	1	0	0
55 Registration and Electoral Office	2	0	0
56 Secretariat for Independent Police Complaints Council	0	0	1
57 Social Welfare Department	34	34	51
58 Student Financial Assistance Agency	5	2	3
59 Television and Entertainment Licensing Authority	0	0	1
60 Trade and Industry Department	0	2	0
61 Transport Department	4	6	3
62 Treasury	1	1	0
63 University Grants Committee Secretariat	0	0	1
64 Water Supplies Department	85	59	73
65 Civil Servants working in Hospital Authority	230	184	162

B. Occupational Diseases

<i>Bureau/Department</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
1 Companies Registry	0	0	1
2 Department of Health	2	8	2
3 Fire Services Department	0	1	1
4 Food and Environmental Hygiene Department	0	1	2
5 Hong Kong Police Force	1	0	1
6 Hongkong Post	1	1	1
7 Immigration Department	0	2	0

<i>Bureau/Department</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
8 Inland Revenue Department	0	0	1
9 Judiciary	0	1	0
10 Labour Department	0	1	0
11 Leisure and Cultural Services Department	1	0	1
12 Treasury	0	0	1
13 Civil Servants working in Hospital Authority	0	3	0

Note:

- Occupational injuries are injury cases arising from work accidents, resulting in death or incapacity for work of over three consecutive days, and reported under the Employees' Compensation Ordinance.
- Occupational disease is defined as confirmed occupational diseases reported under the Employees' Compensation Ordinance (Cap. 282), the Occupational Deafness (Compensation) Ordinance (Cap. 469), and the Pneumoconiosis (Compensation) Ordinance (Cap. 360).
- The above statistics are provided by the Labour Department.

Leak of Public Examination Questions

8. **MR ABRAHAM SHEK** (in Chinese): *President, it has been reported that an incident of suspected leak of a public examination question occurred in the current school year. Despite repeated assurances by the Hong Kong Examinations and Assessment Authority (HKEAA) that the processes of design, review, printing, packing and distribution of public examination papers are all tightly controlled, the occurrence of incidents of suspected leak of examination questions is still common. In this connection, will the Government inform this Council:*

- whether it knows the measures taken by the HKEAA to prevent the leak of public examination questions; and*
- given that there have been incidents of suspected leak of public examination questions over the years, and a number of tutorial schools have even made promotional claims that their tutors have correctly guessed questions of public examinations, whether it knows if the HKEAA will learn from experience, and comprehensively review and reform the processes involved in public examinations in Hong Kong, in particular those in respect of the*

design and review of examination questions, so as to dispel the doubts of candidates, enhance the authoritativeness and credibility of such examinations, and ensure that all candidates will obtain the results they deserve in examinations conducted in a more fair and open manner?

SECRETARY FOR THE CIVIL SERVICE (in the absence of Secretary for Education and Manpower) (in Chinese): President, on 29 April 2007, the press reported that some candidates sitting for the Hong Kong Certificate of Education Examination suspected that a question in the Chinese Language writing paper had been leaked.

The HKEAA had immediately carried out an investigation on the allegation. After reviewing the process of preparing the examination question paper concerned, the HKEAA had found no evidence of a leak. Notwithstanding the outcome of investigation, the HKEAA has, through the media and its website, invited candidates and members of the public to provide material information on the suspected leak. However, it has not received any material information which warrants further investigation so far.

Our reply to the question is set out below:

- (a) The function of the HKEAA is to ensure that public examinations are conducted in a fair, effective, and reliable manner. The HKEAA has put in place tightly-controlled processes of designing, reviewing, printing, packing, and distributing examination papers to ensure confidentiality of public examination questions. It has implemented the recommendations of the Corruption Prevention Department of the Independent Commission Against Corruption (ICAC) on declaration of interest and measures to safeguard confidentiality of examination papers. The process of designing and reviewing public examination questions is carried out with high vigilance. There is a stringent process in recruiting members of the vetting committees of each examination subject. To prevent conflict of interest, the HKEAA will not engage anyone who has any association with private tutorial schools in the process of designing examination questions. In addition, the HKEAA has set up an internal audit team which regularly audits internal management and the process of conducting public examinations.

- (b) The Education and Manpower Bureau and HKEAA understand the public's high expectation of the credibility of the public examination system. At the same time, we notice that media reports on suspected leak of public examination questions are often based on speculation of candidates. The HKEAA will continue to strictly enforce measures to safeguard confidentiality, conduct risk assessment from time to time, and collaborate with the Corruption Prevention Department of the ICAC in reviewing the relevant processes to prevent leak of examination questions so as to ensure that public examinations are conducted in a fair, effective, and reliable manner.

Providing One-off Grants to Live Poultry Retail Workers

9. **MR MA LIK** (in Chinese): *President, the Finance Committee (FC) of this Council approved on 2 July 2004 the Administration's funding proposal for making ex gratia payments to live poultry retailers who surrender their tenancies of public markets under the Food and Environmental Hygiene Department or fresh provision shop licences with endorsement to sell live poultry, and for providing one-off grants to live poultry retail workers (hereinafter as "affected workers") so as to alleviate the impact on them as a result of the retailers concerned ceasing operation. Recently, I have received requests for assistance from some of these affected workers who pointed out that their applications for grants had been rejected on the grounds that they had not been directly employed by the retailers concerned. In this connection, will the Government inform this Council:*

- (a) *of the up-to-date number of affected workers to whom grants have been awarded, the total amount of money disbursed and its percentage in the relevant commitment, and the number of applications rejected on the grounds mentioned above;*
- (b) *as the relevant papers submitted to FC (FCR(2004-05)25 and FCR(2005-06)28) did not stipulate that affected workers not directly employed by the retailers concerned were ineligible for the grants, of the reasons for rejecting their applications and the total amount of money involved; and whether it will reconsider such applications; and*

- (c) *whether it has assessed if the Government should submit a supplementary paper to the FC to seek its approval for not following the relevant FC papers and introducing an additional condition in vetting applications; if it has and the assessment outcome is in the negative, of the justifications for that?*

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

- (a) The FC of the Legislative Council approved funding in July 2004 for:
- (i) making *ex gratia* payment to live poultry retailers "who chose to surrender their fresh provision shop licences with endorsement to sell live poultry or public market tenancies";
 - (ii) providing retraining courses and one-off grants to assist local live poultry retail workers who lost their jobs as a result of their employers ceasing operation by surrendering their licences or tenancies; and
 - (iii) making loans on an unsecured basis to live poultry retailers holding fresh provision shop licences with endorsement to sell live poultry who wished to continue operating to upgrade their facilities to enhance their sanitary and hygiene conditions.

The Voluntary Surrender Scheme for Live Poultry Retailers (the Scheme) began accepting applications from live poultry retailers in mid-July 2004. In July 2005, the FC approved the extension of the Scheme to cover the live poultry trade (including farmers, wholesalers and related transporters), granting *ex gratia* payment to help them cease operation or switch to other businesses. Under the new Scheme, a one-off grant of \$18,000 was offered to each of the local live poultry farm, wholesale and transport workers who lost their jobs as a result of their employers ceasing operation under the Scheme. The FC also approved the extension of the application period to August 2006 for surrender of licences by live poultry retailers and application for one-off grant by workers they employed,

so as to tally with the application deadline for other workers under the Scheme. The Scheme was closed in August 2006. Of the 253 live poultry retail workers that had applied for one-off grants, 200 applications were approved with a total grant of \$3,256,000 disbursed. The disbursement accounted for about 4% of the commitment of \$83,028,000 for the Scheme. Of the 53 unsuccessful applications, 15 cases were rejected because the applicants were not employed by the licensees or tenants who joined the Scheme. Other applications were rejected because the applicants were ineligible, failed to furnish the relevant supporting documents or lost their jobs not as a result of their employers ceasing operation under the Scheme.

(b) and (c)

The Administration had stipulated clearly in the papers submitted to the FC that the financial assistance/one-off grants aimed to assist live poultry retail workers who became unemployed when their employers ceased their operations under the Scheme. Therefore, the financial assistance/one-off grants would only be granted to workers employed by eligible live poultry retail trade licensees and market stall tenants who had joined the Scheme and surrendered their licences/tenancies. When processing and approving all the applications for financial assistance/one-off grants, the Administration followed the criteria set by the FC when approving the funding commitment for the Scheme. There is no question of the Administration not following the criteria in the relevant FC papers or imposing any additional condition on its own when vetting the applications.

Civil Servants Taking Sick Leave

10. **MR ANDREW CHENG** (in Chinese): *President, some civil servants have told me that, despite having been awarded compensation for work injuries, the Administration still required them, under Civil Service Regulation (CSR) 1291, to attend specified government clinics or clinics of the Hospital Authority (HA) when they wish to take sick leave, and the sick leave certificates issued by other medical practitioners are not accepted. They have also pointed out that at*

present the Government does not provide any channel for appeal against the imposition of the above restriction, which is unfair to the affected civil servants. In this connection, will the Government inform this Council:

- (a) of the number of civil servants on whom the above restriction under CSR 1291 was imposed last year;*
- (b) whether it has assessed if the above restriction can effectively prevent abuse of sick leave by civil servants, and whether it is reasonable to impose such a restriction on civil servants; and*
- (c) whether it will formulate clear guidelines regarding the application and enforcement of the above provision for management staff to follow, and establish an appeal channel for the affected civil servants to seek redress; if not, of the reasons for that?*

SECRETARY FOR THE CIVIL SERVICE (in Chinese): President, the administration of sick leave for civil servants, including the application procedures and measures against abuse, is governed by the relevant CSR. Sick leave is generally granted to civil servants on production of medical certificates issued by registered medical practitioners. Where there are indications of abuse of sick leave by a civil servant, CSR 1291 provides that the Head of Department concerned may require the concerned civil servant to attend before a government or HA doctor(s), or a particular government or HA clinic(s), on each occasion he wishes to take sick leave.

Applications for sick leave related to injury on duty or occupational disease are not subject to the requirement under CSR 1291. Sick leave related to injury on duty or occupational disease will be granted to concerned civil servants so long as their applications are supported by medical certificates issued in accordance with the requirements laid down in the Employees' Compensation Ordinance (Cap. 282).

Turning to part (a) of the question, there were 299 civil servants subject to the requirement under CSR 1291 in 2006.

As regards part (b) of the question, we consider that the requirement under CSR 1291 strikes an appropriate balance between making sick leave available to civil servants who are sick on the one hand, and safeguarding against abuse of

sick leave on the other hand. It is important to note that the CSR 1291 requirement is invoked not to deny sick leave to a civil servant. A civil servant subject to the CSR 1291 requirement continues to be entitled to sick leave provided he attends the designated government or HA clinic(s) and is issued with valid sick leave certificates. Where a civil servant has genuine difficulties in attending a designated clinic(s), he may approach the departmental management concerned, which would decide whether to expand the list of designated clinics or to approve some form of exceptional arrangement. Under the established mechanism, the departmental management concerned will review all civil servants subject to the CSR 1291 requirement on a quarterly basis. The departmental management concerned will lift the CSR 1291 requirement on a said civil servant when it is satisfied that there is no further concern of abuse by the civil servant.

As for part (c) of the question, to facilitate the effective management of sick leave in the Civil Service, the Civil Service Bureau has issued to all bureaux/departments a set of guidelines on the relevant procedures and measures, including CSR 1291. If a civil servant has doubts about the reasons for his being subject to the requirement under CSR 1291, he should discuss the matter with the departmental management concerned. There are also established channels for civil servants to voice their complaints on staff-management related issues, including application of CSR 1291, and for different levels of management to deal with such complaints.

Outdoor Activities to Celebrate 10th Anniversary of HKSAR

11. **MR HOWARD YOUNG** (in Chinese): *President, since April this year, the Government and community groups have been organizing different activities in various districts in Hong Kong to celebrate the 10th anniversary of the establishment of the Hong Kong Special Administrative Region. Given that some celebration activities held outdoors may cause nuisance and inconvenience to residents in the neighbourhood, will the Government inform this Council of the number of the above activities organized by the Government and community groups since April this year that were held outdoors, and whether the Government has received complaints about such activities; if it has, of the major subject matters of the complaints and the measures the Government will take to reduce the number of similar complaints as far as possible, so as to enable the remainder of the celebration activities to be held smoothly without affecting residents in the neighbourhood?*

SECRETARY FOR THE CIVIL SERVICE (in the absence of Secretary for Home Affairs) (in Chinese): President, since April this year, various events have been launched to celebrate the 10th anniversary of the establishment of the Hong Kong Special Administrative Region. As at end May, of the 460 events included in the Government's 10th Anniversary Celebrations Events Calendar, a total of 114 celebration events, organized by the Government or non-governmental organizations, have already taken place. Among them, 26 were held outdoors. Four of these events have attracted a total of 26 complaints, and they were all noise-related.

In preparing for the celebration events, the relevant government departments have borne in mind the need to avoid causing nuisance and inconvenience to the public, particularly residents in the neighbourhood. As a large number of these celebrations are district functions, the 18 District Offices have also reminded organizers of outdoor events to avoid causing noise nuisance to nearby residents as far as possible. For instance, they have been advised to arrange for events to be held at locations as distanced from residential areas as possible, and that the stage as well as the public address system should not be facing residential buildings. Some organizations may also be requested to carry out noise assessment when the event is in progress. In the event that the noise is found to exceed the permitted level, or if complaints about noise nuisance are received, the organizer will be asked to reduce the noise level immediately to minimize the impact on nearby residents. The District Offices will continue their efforts in monitoring the situation.

Work Safety at Container Yards

12. **MS LI FUNG-YING** (in Chinese): *President, some containers were toppled by strong gales on the 18th of last month, injuring four people. Regarding work safety at yards for loading, unloading and storage of containers (container yards), will the Government inform this Council:*

- (a) *of the respective numbers of inspections and prosecutions made by the government departments concerned in relation to the above matter in each of the past three years, broken down by the offences involved, and among such prosecutions, the number of convicted cases and the penalties imposed; and*

- (b) *as the typhoon season is drawing near, whether the Government has measures to prevent the recurrence of similar accidents; if it has, of the details; if not, the reasons for that?*

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

- (a) In 2004, 2005 and 2006, the Labour Department (LD) made 543, 486 and 635 inspections to container yards respectively. During the same period, the LD took out 47 summonses regarding work safety at container yards. Details are as follows:

<i>Related Legislation</i>	<i>Number of Prosecutions</i>			<i>Number of Convictions</i>			<i>Average Fine (\$)</i>		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
Proprietors failed to ensure the health and safety at work of workers, contravening section 6A of the Factories and Industrial Undertakings Ordinance	11	8	9	11	6	5	22,181	13,333	8,800
Proprietors failed to employ persons with relevant certificates, contravening section 6BA of the Factories and Industrial Undertakings Ordinance	2	0	4	2	0	2	3,000	-	2,000
Employers failed to ensure the safety and health at work of employees, contravening section 6 of the Occupational Safety and Health Ordinance	2	2	2	2	2	0	10,000	22,500	-
Proprietors or occupiers of premises contravened other safety and health provisions	2	1	2	2	1	2	12,500	5,000	10,000

<i>Related Legislation</i>	<i>Number of Prosecutions</i>			<i>Number of Convictions</i>			<i>Average Fine (\$)</i>		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
Employees failed to take care of the safety and health of other persons, contravening section 6B of the Factories and Industrial Undertakings Ordinance/section 8 of the Occupational Safety and Health Ordinance	1	1	0	1	1	0	2,500	600	-
Total:	18	12	17	18	10	9*			

(Note *: Some cases in 2006 are still pending court hearing)

- (b) The LD is very concerned about work safety in container yards during the typhoon season. A range of measures has been taken since this April to enhance enforcement, publicity and educational efforts.

In mid-April this year, a meeting was held between the LD and the Central Container Handling Safety Committee to discuss various work safety issues. Among other things, it was agreed during the meeting to organize a safety seminar to remind the industry of the necessary safety measures that ought to be taken.

The Hong Kong Observatory, the Central Container Handling Safety Committee and various container handling trade associations and workers' unions participated in the seminar held on 8 May this year. It was attended by representatives from most container yards. During the seminar, representatives of the LD explained in detail the necessary work safety procedures to be carried out at container yards, including issues that require extra attention during the typhoon season. Besides, experts from the Hong Kong Observatory also elaborated in detail the latest meteorological data and methods of interpreting them.

Since late May, the LD has launched a month-long container handling safety enforcement campaign to urge the responsible persons of container yards to take precautionary procedures to prevent accidents due to typhoon and adverse weather.

In addition, on publicity and promotion, the LD has produced a radio API for broadcasting at various radio stations to promulgate the safety measures that ought to be taken at container yards under severe weather conditions. Furthermore, the LD will, in collaboration with the Occupational Safety and Health Council, strengthen safety promotional efforts to remind people in the container industry to take necessary precautionary procedures during the typhoon season.

Complaints About Telecommunications or Subscription Television Services

13. **MR LEE WING-TAT** (in Chinese): *President, it is learnt that the number of complaints about telecommunications or subscription television services received by the Office of the Telecommunications Authority (OFTA) and the Consumer Council in recent years has increased substantially. In this connection, will the Government inform this Council:*

- (a) *since the selling of telecommunications and subscription television services is often conducted by phone, whether the authorities will stipulate that a service contract will take effect only after a complete copy of the relevant contract has been provided by the service operator to the customer, so as to protect the interests of both parties;*
- (b) *whether it will amend the Telecommunications Ordinance (Cap. 106) (TO) to empower the OFTA to vet the service contracts prepared by telecommunications service operators and strike out any unreasonable terms and conditions contained therein (for example, the terms on automatic renewal of services upon the expiry of the contract period); if not, how the authorities protect consumers against losses arising from such unreasonable terms and conditions;*
- (c) *of the details of the Consumer Dispute Adjudication Scheme being considered by the Consumer Council and OFTA recently, and since the scheme is of a voluntary nature, how the authorities will handle complaints involving telecommunications and subscription television service operators who have not joined the scheme; and*

- (d) *whether it has studied the stipulation that a cooling-off period shall be included in such service contracts to allow for unconditional termination of such contracts by consumers during the period; if not, of the reasons for that?*

SECRETARY FOR COMMERCE, INDUSTRY AND TECHNOLOGY (in Chinese): President, at present, telecommunications services and pay television services in Hong Kong are regulated respectively by the Telecommunications Authority (TA) and the Broadcasting Authority (BA) in accordance with the TO and the Broadcasting Ordinance (Cap. 562) (BO). Although section 7M of the TO stipulates that telecommunications service providers shall not engage in conduct which is misleading or deceptive in promoting, marketing or advertising their services, contractual matters between the telecommunications service providers or the pay television programme service licensees and their clients fall outside the scope of the TO or BO.

My reply to the question raised by the Honourable LEE Wing-tat is as follows:

- (a) Under the existing legislation and the terms and conditions of the telecommunications licence or the pay television programme service licence, neither of the TA nor the BA is empowered to require that a service contract should take effect only upon the provision of a full copy of the contract to the customer by the telecommunications service provider or the pay television programme service licensee.

However, in the voluntary Code of Practice for the Service Contracts for the Provision of Public Telecommunications Services issued by the TA to all telecommunications service providers in 2004, one of the guidelines is that a copy of the contract should be made available to the customer, upon request, within a reasonable period of time. As for pay television services, the Commissioner for Television and Entertainment Licensing, being the Principal Executive Officer of the BA, has written to all domestic pay television programme service licensees asking them to improve their sales and promotion activities. In response to the concern of the Television and Entertainment Licensing Authority, the domestic pay

television programme service licensees have put in place their own administrative measures to address the issue, including reconfirming through follow-up telephone calls the service details offered to customers by salespersons.

- (b) The OFTA is considering the establishment of a dedicated professional arbitration mechanism for telecommunications services to resolve disputes over contracts, services or billings (see part (c) below). On the other hand, if consumers are of the view that there are unreasonable terms in the contracts, they may seek a determination from the Court under the Unconscionable Contracts Ordinance (Cap. 458) that the relevant terms are invalid. In view of the above, we consider it unnecessary at this stage to amend the TO to empower the TA to vet the contracts prepared by telecommunications service providers. The OFTA will also continue to work closely with the Consumer Council to undertake consumer education through various channels such as television, radio, newspapers and websites, to remind consumers to pay close attention to and gain full understanding of the contract terms and their obligations before entering into any service contracts with telecommunications service providers, so as to prevent any loss that may incur.
- (c) Currently, no organization other than the Court has power to adjudicate on disputes relating to telecommunications service contracts. Therefore, the OFTA is liaising with the industry for the introduction of a pilot "Consumer Dispute Adjudication Scheme" to resolve disputes over contracts, services or billings of telecommunications services. Telecommunications service providers may join the scheme on a voluntary basis, with an undertaking to accept the adjudication outcomes. As the scheme is still under deliberation, the details are yet to be finalized.
- (d) Stipulation of a mandatory cooling-off period for contracts relating to telecommunications or pay television services might lead to delays in consumers' obtaining the required services. However, one of the nine Best Practice Indicators for the promotion of telecommunications services, drawn up by the OFTA in March

2005, encourages the industry to introduce the "quality control confirmation calls" mechanism, whereby calls should be made by the telecommunications service providers to the consumers to confirm the major terms and conditions of the contract before commencing the provision of services. This measure can ensure that the consumer is fully aware of the major terms of the service when signing the applications, and reduce the risk that he was misled to sign the contract. The consumer will also be given an opportunity to withdraw or change his application. Although the Best Practice Indicators are implemented on a voluntary basis, the major fixed telecommunications network services operators in Hong Kong have already introduced the "quality control confirmation calls" mechanism. As mentioned in part (a) above, pay television programme service licensees have also adopted similar arrangements.

We will continue to closely monitor the market situation and will review relevant legislation and guidelines from time to time to protect consumers by enabling them to acquire the required telecommunications and pay television services in a fair and reasonable manner.

Relaying China Central Television Channels by Hong Kong Ground Stations

14. **MR JASPER TSANG** (in Chinese): *President, it has been reported that some groups have asked the Government to strive, on behalf of Hong Kong people, for the channels of the China Central Television (CCTV) on the Mainland to be relayed by ground stations in Hong Kong. In this connection, will the Government inform this Council:*

- (a) *of the number of CCTV channels that can be received in Hong Kong at present; and*
- (b) *why more CCTV channels cannot be relayed by ground stations in Hong Kong; whether the Government has plans to discuss with the relevant mainland authorities how to follow up the matter; if it has, of the details of such plans; if not, the reasons for that?*

SECRETARY FOR COMMERCE, INDUSTRY AND TECHNOLOGY (in Chinese): President, my reply to the question is as follows:

- (a) Hong Kong viewers can now receive CCTV programmes through the following three means:
 - (i) all programmes of free CCTV channels transmitted from the Mainland to Hong Kong via satellite, including CCTV-1 (Comprehensive Channel), CCTV-2 (Economy), CCTV-4 (International, in Chinese), CCTV-7 (Agriculture and Military), CCTV-9 (International, in English), CCTV-10 (Science and Technology), CCTV-11 (Chinese Opera) and CCTV-12 (Society and Law);
 - (ii) all programmes of CCTV channels provided by domestic pay television operators, including CCTV-4, CCTV-9, CCTV-11 and CCTV-News by Hong Kong Cable Television Limited, and CCTV-4 and CCTV-9 by NOW TV and TVB Pay Vision Limited; and
 - (iii) some programmes of individual CCTV channels provided by domestic free television operators, that is, Television Broadcasts Limited (TVB) and Asia Television Limited (ATV), at different time slots every day (details at Annex).
- (b) Under the "open sky" policy adopted by the Government of the Hong Kong Special Administrative Region, the public may receive free satellite television channels from all over the world (including the Mainland) covering Hong Kong. Thus, there are no restrictions for CCTV to cover Hong Kong via satellite transmission, and indeed some CCTV channels have already been broadcast to Hong Kong as mentioned above. The public can receive these free satellite television channels through satellite television reception systems, such as Satellite Master Antenna Television Systems in multi-storey buildings or Television Receive Only Systems for the exclusive use by a single household (that is, dish antennae). Currently, some 744 000 domestic households in Hong Kong can receive free satellite television via Satellite Master Antenna Television Systems in multi-storey buildings, many of which can receive CCTV channels.

Regarding the transmission of free-to-air terrestrial television, due to a lack of spare frequency spectrum, Hong Kong cannot accommodate any additional analogue terrestrial television channel for the time being. The two free television stations will launch digital terrestrial television (DTT) broadcasting this year. Our target is to switch off analogue television broadcasting in five years after the commencement of DTT broadcasting, but we have not decided on the use of the frequency spectrum to be freed up after the analogue switch-off.

Annex

CCTV Programmes Provided by Local Free Television Stations

<i>Free Television Stations</i>	<i>CCTV Programmes</i>	<i>Schedule</i>
TVB Pearl	Some programmes of CCTV-9 (Live)	- Monday-Friday: 8.00 am to 10.00 am
	Some programmes of CCTV-4	- Daily: 5.30 am to 6.00 am
ATV World	Some programmes of CCTV-9 (Live)	- Monday-Friday: 8.00 am to 10.30 am - Saturday: 9.00 am to 11.00 am - Sunday: 7.00 am to 9.00 am
	Some programmes of CCTV-1	- Monday-Saturday: 7.00 am to 7.30 am - Sunday: 6.30 am to 7.00 am - Monday-Friday and Sunday: 6.05 pm to 6.25 pm - Monday-Friday: 20 minutes between 12.00 midnight and 1.00 am
	Some programmes of CCTV-4	- Monday-Friday: 12.00 noon to 12.15 pm
	Some programmes of CCTV-9	- Monday, Tuesday, Wednesday and Friday: 6:25 pm to 6.55 pm - Daily: 55 minutes between 1.00 am and 4.00 am

Wall Effect Caused by Buildings

15. **MR JAMES TO** (in Chinese): *President, about the problem of wall effect brought about by buildings, will the Government inform this Council:*

- (a) *as I was informed at a meeting with the Planning Department in November 2005 that the Department would request the Lands Department (LandsD) to include a condition relating to allocation of non-building areas in the Conditions of Sale for a site at Hoi Fai Road in Tai Kok Tsui (Kowloon Inland Lot No. 11146) in order to ensure that space would be reserved between the buildings to be constructed on the site and the existing buildings, so as to improve air ventilation and reduce wall effect; however, such condition was not included in the Conditions of Sale published by the LandsD recently, of the reasons for the LandsD not including the condition;*
- (b) *as the current guidelines on air ventilation are not legally binding, whether the Government will consider ensuring developers' compliance with such guidelines by introducing legislation or developing interim mandatory air ventilation assessment (AVA) criteria;*
- (c) *as the Government has advised that the railway companies would take into account the government guidelines on air ventilation in the planning and design of the projects, whether the Government will exercise its influence on the boards of directors of the two railway companies in order to ensure that such guidelines will not be disobeyed by the railway companies for commercial reasons; and*
- (d) *whether it will study the impact on the surrounding environment caused by projects which are currently alleged to be buildings creating the wall effect, and whether it will identify the Government lands pending sale which may potentially be developed into buildings creating the wall effect; if it will not, the reasons for that, and how the Government helps the public to understand the impact on the surrounding environment caused by developments creating the wall effect?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Chinese):
President, my reply to the four parts of the question is as follows:

- (a) The Conditions of Sale for the site at Hoi Fai Road (Kowloon Inland Lot No. 11146) were included in the List of Sites for Sale by Application (commonly known as "Application List") only after they had been vetted by the relevant professional government departments. Also, the use and developable scale of the site are in compliance with the planning intention of the relevant Outline Zoning Plan (OZP) in force.

In the area around Tai Kok Tsui and the West Kowloon Reclamation, new road networks, which converge with the east-bound and west-bound roads of the old district and directly lead to the new waterfront, provide not only transport links but also breezeways and view corridors for the area. In terms of layout design on the district level, the area does not rely on the Kowloon Inland Lot No. 11146 to serve as the ventilation opening for the area.

As regards development intensity, the plot ratio of the site is 7.5, less than that of other similar developments in Kowloon. Given the height restriction (140 m above Principal Datum) specified in the Conditions of Sale, buildings to be erected on the site will be lower than the neighbouring ones.

- (b) Under the Feasibility Study for Establishment of Air Ventilation Assessment System completed in 2005, a set of guidelines have been recommended on how building mass, height, disposition and permeability can improve air ventilation in the pedestrian wind environment. The guidelines are qualitative in nature and not quantitative. In applying the guidelines, due consideration should be given to the uniqueness of the each individual site and other relevant peripheral factors. At present, it is not desirable to implement them compulsorily through legislation.

The guidelines have been incorporated into the Hong Kong Planning Standards and Guidelines. Air ventilation is formally recognized

as one of the considerations in the planning of major development and redevelopment proposals. Proponent departments/bureaux or authorities responsible for government projects are required to undertake AVA. We will continue to encourage quasi-government organizations and private sector to include AVA in planning and design of their projects on a voluntary basis.

- (c) All railway development projects are required to meet statutory requirements. For individual cases which call for consideration by the board of directors of the railway companies, government officials who act as directors on the boards will, based on the specific circumstances of each case and the justifications put forward by the railway companies, consider giving appropriate advice to the boards. It is a collective decision of the boards of directors as to how a case of this kind should be dealt with ultimately.
- (d) The Town Planning Board (TPB) reviews and amends OZPs to provide clear parameters to guide individual developments. The First Schedule to the Building (Planning) Regulations specifies the maximum plot ratios and site coverage permitted for domestic and non-domestic buildings in relation to building heights. This aims to control the building bulk and space around buildings and streets.

For environmentally sensitive areas and comprehensive development areas, the TPB may require the project proponents to submit relevant environmental and visual impact assessment to ensure the scale of developments would not result in adverse environmental and visual impact.

Before a government site is included into the Application List, the Planning Department will make an appropriate assessment. In making such assessment, the Planning Department will examine development parameters such as development intensity and building height, and undertake AVA for some major sites. As mentioned above, the Conditions of Sale will be included in the Application List only after they have been vetted by the relevant professional government departments.

Details of urban design standards and AVA are set out in the Hong Kong Planning Standards and Guidelines, which is a public document for reference by the trade and the public. The entire document has been uploaded to the webpage of the Planning Department (<http://www.pland.gov.hk/tech_doc/hkpsg/english/index.htm>) for public access.

Raising Salaries of Doctors

16. **DR KWOK KA-KI** (in Chinese): *President, according to a document issued by the Government to Legislative Council Members on 15 May this year, the starting salaries for certain grades in the Civil Service would be raised by one to five points. As the salary structure of the staff in the Hospital Authority (HA) has been delinked from the pay scales of the Civil Service, the Government, therefore, has not undertaken to raise the starting salary of HA doctors accordingly. In 2000, due to a fiscal deficit in the Government, the HA lowered the starting salary of doctors by five points, and their maximum pay points by eight points, both of which have not yet returned to the pre-2000 level. Earlier, a group of representatives for front-line doctors openly demanded that the HA raise the starting salary and maximum pay by five and eight points respectively to boost the persistently low morale and retain the talents among its doctors. In this connection, will the Government inform this Council whether it will allocate additional resources to the HA so that it can raise the salaries of its doctors, thus bringing their salaries in line with those of the corresponding grades in the Civil Service?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Chinese): President, in 2000, the Government followed the findings of the 1999 Civil Service Starting Salaries Survey (SSS) and adjusted downwards the starting salaries for entry ranks of certain civil service grades. With reference to the findings of the 1999 SSS, the HA lowered the starting salaries for its entry ranks in 2000, including adjusting downwards the starting salary for the entry rank of the medical grade by five pay points. On the other hand, the HA has over the

years implemented various reforms on staff's remuneration structures, amongst which the 2000 Medical Grade Reform has put in place a new Resident pay scale to cater for the arrangement of specialist training for Residents.

The Government has recently decided to follow the findings of the 2006 SSS to adjust upwards the starting salaries of certain civil service grades. As for the staff of subvented organizations, including the HA staff, since their salary structures have been delinked from the civil service pay scales, it is up to these organizations to decide whether or not to follow the starting salaries for the Civil Service and adjust their staff's salaries. Regarding the subvention provided by the Government to the subvented organizations, if the subventions had been reduced in connection with the downward revision of starting salaries for the Civil Service in 2000, the Government will adjust their subventions in the context of the present exercise of adjustment of starting salaries for the Civil Service. The additional subvention allocated to these organizations will be determined by the terms of individual subvention agreements, the amount of reductions made in 2000 as a result of the adjustment of starting salaries in that year, and so on. We are now discussing with departments concerned and the HA on the subvention, with a view to determining the detailed arrangements on the adjustment of subvention to the HA.

The HA has all along been paying close attention to the overall remuneration structure and professional development of the medical grade, including its pay scale. The HA will continue to communicate proactively with its staff and implement measures to further improve the working hours, remuneration package and promotion prospects of the medical grade staff, with a view to addressing the concerns of front-line doctors on issues related to their career prospects, job security and workload, and so on.

Beijing Office of HKSAR Government

17. **MR SIN CHUNG-KAI** (in Chinese): *President, regarding the requests for assistance made by Hong Kong residents to the Beijing Office (BJO) of the*

Hong Kong Special Administrative Region Government in the past four years, will the Government inform this Council of the respective annual numbers of cases in respect of which the BJO:

- (a) contacted the mainland authorities to assist the assistance seekers in following up the cases, with a breakdown by the mainland authorities involved and the nature of requests; and*
- (b) suggested the assistance seekers to lodge a complaint directly to the mainland authorities, with a breakdown by the nature of requests?*

SECRETARY FOR CONSTITUTIONAL AFFAIRS (in Chinese): President, from 2003 to 2006, the BJO received 895 cases of request for assistance. These cases, including those which the BJO has referred to the mainland authorities concerned and those which assistance seekers have been advised to contact the mainland authorities direct, are listed by categories in the attached tables.

The BJO has spared no effort in assisting Hong Kong residents seeking assistance by helping to reflect their views and requests to the relevant mainland authorities. In general, the BJO would refer the cases of request for assistance by Hong Kong residents to the relevant mainland authorities, except for cases under judicial proceedings or involving private contractual disputes. On some occasions, the BJO has advised assistance seekers to contact the relevant mainland authorities direct. These include, for example, cases where the assistance seekers request the BJO to apply for business-related permits on their behalf, in which cases the BJO would advise them to submit their applications to the concerned mainland authorities direct. There have also been occasions where assistance from the BJO is sought to pass on the letters of invitation to national leaders to attend events organized by the assistance seekers, in which case the BJO would advise the latter to send the letters of invitation to the relevant authorities direct.

Statistics on Cases of Request for Assistance Received by the BJO

Categories of Cases of Request for Assistance	2003										
	No. of Cases	Relevant Mainland Authorities Receiving Referral Cases									
		State or Provincial Letters and Calls Departments	Commerce Departments	Real Estate Administrations	Procuratorates and Courts	Public Security Departments	Health Departments	Labour and Social Security Departments	Civil Affairs Departments	Advised to Contact Directly with Relevant Mainland Authorities	Cases Not Handled ^{Note}
Business and trade disputes	64	-	47	-	10	-	-	-	-	-	7
Complaints relating to real estate in the Mainland	50	4	-	27	5	9	-	-	-	1	4
Complaints against administrative, law-enforcement and judicial agencies in the Mainland	139	10	10	19	29	27	10	-	-	-	34
Others	68	7	7	-	8	21	7	-	6	2	10
Total	321	21	64	46	52	57	17	0	6	3	55

<i>Categories of Cases of Request for Assistance</i>	<i>2004</i>										
	<i>No. of Cases</i>	<i>Relevant Mainland Authorities Receiving Referral Cases</i>									
		<i>State or Provincial Letters and Calls Departments</i>	<i>Commerce Departments</i>	<i>Real Estate Administrations</i>	<i>Procuratorates and Courts</i>	<i>Public Security Departments</i>	<i>Health Departments</i>	<i>Labour and Social Security Departments</i>	<i>Civil Affairs Departments</i>	<i>Advised to Contact Directly with Relevant Mainland Authorities</i>	<i>Cases Not Handled^{Note}</i>
Business and trade disputes	42	17	-	3	19	-	-	-	-	1	2
Complaints relating to real estate in the Mainland	35	16	-	-	19	-	-	-	-	-	-
Complaints against administrative, law-enforcement and judicial agencies in the Mainland	93	3	-	7	72	5	-	-	-	-	6
Others	44	14	-	4	12	3	-	-	4	-	7
Total	214	50	0	14	122	8	0	0	4	1	15

<i>Categories of Cases of Request for Assistance</i>	2005										
	<i>No. of Cases</i>	<i>Relevant Mainland Authorities Receiving Referral Cases</i>									
		<i>State or Provincial Letters and Calls Departments</i>	<i>Commerce Departments</i>	<i>Real Estate Administrations</i>	<i>Procuratorates and Courts</i>	<i>Public Security Departments</i>	<i>Health Departments</i>	<i>Labour and Social Security Departments</i>	<i>Civil Affairs Departments</i>	<i>Advised to Contact Directly with Relevant Mainland Authorities</i>	<i>Cases Not Handled^{Note}</i>
Business and trade disputes	36	-	23	-	4	1	-	-	-	-	8
Complaints relating to real estate in the Mainland	57	-	-	50	5	-	-	-	-	-	2
Complaints against administrative, law-enforcement and judicial agencies in the Mainland	78	13	12	2	28	11	1	2	3	-	6
Others	53	14	3	6	6	10	3	3	3	-	5
Total	224	27	38	58	43	22	4	5	6	0	21

<i>Categories of Cases of Request for Assistance</i>	2006										
	<i>No. of Cases</i>	<i>Relevant Mainland Authorities Receiving Referral Cases</i>									
		<i>State or Provincial Letters and Calls Departments</i>	<i>Commerce Departments</i>	<i>Real Estate Administrations</i>	<i>Procuratorates and Courts</i>	<i>Public Security Departments</i>	<i>Health Departments</i>	<i>Labour and Social Security Departments</i>	<i>Civil Affairs Departments</i>	<i>Advised to Contact Directly with Relevant Mainland Authorities</i>	<i>Cases Not Handled^{Note}</i>
Business and trade disputes	32	7	15	2	5	-	-	-	-	1	2
Complaints relating to real estate in the Mainland	21	-	2	10	9	-	-	-	-	-	-
Complaints against administrative, law-enforcement and judicial agencies in the Mainland	24	7	8	-	4	1	-	-	-	-	4
Others	59	30	11	4	2	2	-	2	-	-	8
Total	136	44	36	16	20	3	0	2	0	1	14

Note: The BJO does not handle cases where:

1. the assistance seekers are not Hong Kong residents;
2. the case are under judicial proceedings;
3. the cases are private contractual disputes. Under such circumstances, the BJO will advise the assistance seeker to resolve the dispute through legal channels. Where required, the BJO will provide contact information of the Mainland's Law Society to facilitate the assistance seeker to look for professional legal advice and protect his legal rights.

Bicycle Accidents in Tseung Kwan O

18. **MS EMILY LAU** (in Chinese): *President, recently, several serious traffic accidents involving bicycles have occurred successively in Tseung Kwan O, arousing public concern. In this connection, will the executive authorities inform this Council:*

- (a) *of the number of traffic accidents involving bicycles which took place in Tseung Kwan O in each of the past three years, together with a breakdown by the locations at which such accidents occurred and the casualties involved;*
- (b) *of the measures to improve the situation that the cycling tracks in the district are not connected; whether they will consider, by drawing reference from the design of the cycling tracks in Sha Tin, linking up various cycling tracks in the district by constructing footbridges and subways with cycling tracks, so that members of the public do not need to cycle on carriageways, thereby reducing the danger to which they are exposed; and*
- (c) *given that currently, members of the public travel to and from different housing estates in the district mainly by cycling, whether the authorities will enhance the public transport services in the district, such as by providing additional circular bus routes?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

(in Chinese): President,

- (a) In 2004, 2005 and 2006, there were 41, 37 and 23 traffic accidents involving bicycles respectively in Tseung Kwan O. Out of these traffic accidents, 45, 45 and 26 injuries respectively were involved, and no fatality was recorded. A breakdown of these accidents by location is set out as follows:

<i>Number of traffic accidents involving bicycles in Tseung Kwan O</i>						
<i>Area</i>	<i>2004</i>		<i>2005</i>		<i>2006</i>	
	<i>No. of cases</i>	<i>No. of injuries</i>	<i>No. of cases</i>	<i>No. of injuries</i>	<i>No. of cases</i>	<i>No. of injuries</i>
Hong Sing/Tsui Lam	3	3	1	1	1	1
Po Lam	14	14	5	8	7	9
Hang Hau	12	16	6	7	7	7
Tseung Kwan O Central	10	10	13	14	6	7
Tiu Keng Leng	2	2	12	15	2	2
Total	41	45	37	45	23	26

- (b) The road network and public transport system in Hong Kong are well developed. The general road traffic is heavy and road space is limited. Based on road safety and traffic considerations, we do not encourage the use of bicycles as a transport mode in the urban areas under the existing policy. As for the proposal of constructing additional footbridges and subways with cycling tracks in Tseung Kwan O, we will within our policy remit consider the provision of separate crossing facilities for bicycles on a case-by-case basis, provided that it is technically and geographically feasible and that resources are available.
- (c) At present, residents in Tseung Kwan O can travel to and from different locations in the district by the Mass Transit Railway (MTR). The MTR Tseung Kwan O Extension (TKOE) has four stations in the district, *viz* Po Lam Station, Hang Hau Station, Tseung Kwan O Station and Tiu Keng Leng Station. The TKOE's catchment area covers most of the developed areas in the district. In addition, residents in Tseung Kwan O can take the eight green minibus routes and six franchised bus routes to travel between different housing estates and community facilities in the district.

As mentioned above, residents are provided with various public transport services for travelling within the Tseung Kwan O District. The Transport Department will continue to monitor the situation and will adjust and improve the public transport services in the district as necessary in response to the developments of Tseung Kwan O and the transport demand of the residents.

Combating Sale of Duty-not-paid Cigarettes

19. **MR LAU KONG-WAH** (in Chinese): *President, regarding efforts to combat the sale of duty-not-paid cigarettes (commonly known as "illicit cigarettes"), will the Government inform this Council:*

- (a) *of the quantity of illicit cigarettes seized by the authorities in the past two years, the means through which the cigarettes were seized and the relevant details, together with a breakdown of the quantities of illicit cigarettes seized in various public housing estates by the names of the estates;*
- (b) *whether it has discovered any cases in which illicit cigarettes were found being stored in public housing units or private premises; if so, of the public and private housing estates involved; and*
- (c) *whether it has assessed the effectiveness of current measures in combating such crimes, and of the new measures in place to step up the efforts to crack down on the sale of illicit cigarettes?*

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

- (a) Over the past two years (from May 2005 to April 2007), the Customs and Excise Department (C&ED) has seized more than 20 million sticks of dutiable cigarette at the retail level, of which some 5.7 million were seized in premises of public housing estates (please refer to Annex 1 for details).

There are mainly three ways leading to the C&ED's seizures of illicit cigarettes: (1) intelligence gathered through various channels; (2) regular inspections on black spots of illicit cigarette activities; and (3) public complaints.

- (b) Over the past two years (from May 2005 to April 2007), the C&ED has detected the storage of illicit cigarettes in flats of public housing estates and private premises. The public and private housing estates involved are listed at Annex 2.

- (c) The C&ED's efforts in combating the sale of illicit cigarettes have been very effective. The once common open selling of illicit cigarettes in public areas has basically been eliminated. Such activities have now been reduced to furtive peddling to known customers. Moreover, the C&ED would refer those public housing flats found used for storing illicit cigarettes to the Housing Department for follow-up action, and some of these flats have been taken back by the Department. This measure has effectively deterred the storage of illicit cigarettes in public housing flats.

The C&ED received 1 247 public complaints relating to the selling of illicit cigarettes in 2006, a decrease of 31.6% from the 1 823 complaints received in 2005. The 408 complaints received in the first five months this year also represent a decrease of 25.4% from the 547 complaints received in the same period last year. The C&ED will continue to strengthen intelligence gathering and will adjust its strategy for combating the sale of illicit cigarettes from time to time in response to the *modus operandi* of this illegal trade.

Annex 1

Public housing estates involved in seizures of dutiable cigarettes (from May 2005 to April 2007)

<i>Public Housing Estate</i>	<i>Quantity of illicit cigarettes seized in the premises of the Public Housing Estate (stick)</i>
Long Ping Estate	1 936 600
Cheung On Estate	589 911
Lower Wong Tai Sin Estate	267 580
Tai Yuen Estate	252 000
Tsz Man Estate	180 400
So Uk Estate	178 171
Choi Yuen Estate	174 340
Wah Sum Estate	171 200
Tai Wo Hau Estate	134 940
Yiu On Estate	129 996
Lai Kok Estate	125 120

<i>Public Housing Estate</i>	<i>Quantity of illicit cigarettes seized in the premises of the Public Housing Estate (stick)</i>
Tak Tin Estate	115 700
Siu Sai Wan Estate	103 240
Lek Yuen Estate	92 940
Shek Wai Kok Estate	88 800
Tai Hing Estate	73 320
Tsui Ping Estate	70 200
Kwong Fuk Estate	67 820
Lei Muk Shue Estate	62 800
Po Tin Estate	54 800
Cheung Shan Estate	50 560
Yat Tung Estate	46 800
Chuk Yuen (South) Estate	44 460
Tsing Yi Estate	43 200
Wu King Estate	41 200
Butterfly Estate	39 240
Leung King Estate	38 540
Kwong Yuen Estate	36 000
Lee On Estate	35 000
Yau Tong Estate	34 300
Fu Shan Estate	29 600
Lok Fu Estate	29 560
Wan Tsui Estate	25 400
Cheung Wah Estate	25 360
Cheung Fat Estate	23 080
Oi Man Estate	23 080
Shun Lee Estate	21 700
Chung On Estate	21 200
Choi Wan Estate	20 350
Kwai Shing (East) Estate	18 040
Kwai Fong Estate	16 820
Fuk Loi Estate	15 220
Tin Chak Estate	14 080
Shek Kip Mei Estate	13 960
Ping Tin Estate	13 340
Yau Oi Estate	12 600

<i>Public Housing Estate</i>	<i>Quantity of illicit cigarettes seized in the premises of the Public Housing Estate (stick)</i>
Kwai Hing Estate	11 600
Yue Wan Estate	11 200
Cheung Hong Estate	10 080
Chun Shek Estate	9 340
Shun Tin Estate	8 312
Po Lam Estate	7 400
Lower Ngau Tau Kok Estate	6 660
Tin Ping Estate	6 480
Shun On Estate	6 200
Kai Yip Estate	5 600
Pok Hong Estate	5 520
Tin Wah Estate	4 000
Siu Lek Yuen Estate	3 600
Upper Wong Tai Sin Estate	3 520
Mei Tung Estate	3 400
Cheung Wang Estate	3 200
Tin Heng Estate	3 200
Shan King Estate	3 180
Wong Chuk Hang Estate	3 100
Nam Cheong Estate	3 000
Ka Fuk Estate	2 880
Sheung Tak Estate	2 840
Oi Tung Estate	2 800
Wah Ming Estate	2 620
Fu Tai Estate	2 560
Fung Tak Estate	2 480
Lei Yue Mun Estate	2 400
Tin Yiu Estate	2 000
Tin Yan Estate	2 000
Tin Tsz Estate	1 800
Tai Wo Estate	1 740
Wang Tau Hom Estate	1 540
Kwai Chung Estate	1 440
Sun Chui Estate	1 440
Tin Yat Estate	1 360

<i>Public Housing Estate</i>	<i>Quantity of illicit cigarettes seized in the premises of the Public Housing Estate (stick)</i>
Shek Lei Estate	1 340
Choi Hung Estate	1 200
Sun Tin Wai Estate	1 000
Tsz Lok Estate	800
Fu Cheong Estate	600
King Lam Estate	600
Hang On Estate	400
On Yam Estate	400
Pak Tin Estate	300
Total	5 759 700

Annex 2

Public and private housing estates involved in storage of illicit cigarettes in residential flats (from May 2005 to April 2007)

<i>Public Housing Estate</i>	<i>Private Housing Estate</i>
Cheung On Estate	Shatin Estate
Cheung Wah Estate	Amoy Garden
Chung On Estate	Kiu Yu Mansion
Fung Tak Estate	Jubilee Garden
Ka Fuk Estate	Jade Plaza
Kwong Fuk Estate	Flora Plaza
Kwong Yuen Estate	
Lei Muk Shue Estate	
Lei Yue Mun Estate	
Leung King Estate	
Lok Fu Estate	
Lower Wong Tai Sin Estate	
Oi Man Estate	
Shek Kip Mei Estate	
Tai Hing Estate	
Tai Wo Hau Estate	
Tai Yuen Estate	
Tak Tin Estate	

Fund Management Fees of MPF

20. **MR FREDERICK FUNG** (in Chinese): *President, it has been reported that many trustees of the Mandatory Provident Fund (MPF) charge high fund management fees, resulting in the employees' accrued benefits being eroded by as much as 40% upon their retirement. In this connection, will the Government inform this Council:*

- (a) *of the highest, lowest and average fund management fees charged by the trustees in each of the past five years;*
- (b) *of the ratio of the employees' accrued benefits upon their retirement to the total amount of management fees throughout the contribution period as calculated according to the current average fund management fees; and*
- (c) *whether it knows if the Mandatory Provident Fund Schemes Authority:*
 - (i) *has put in place measures to prevent trustees from charging excessive fund management fees; if it has, of these measures, and if it has assessed whether these measures are effective; if no such measures are in place, the reasons for that;*
 - (ii) *has studied in the past the levels of fund management fees charged by the trustees and compared them with the corresponding figures of foreign countries; if it has, of the results; if it has not, the reasons for that;*
 - (iii) *is aware of the existing criteria adopted by the trustees for determining the levels of management fees charged for MPF funds of different risk categories;*
 - (iv) *has assessed if the trustees' practice of charging the same percentage rate of management fees for MPF funds of different risk categories is fair; if it has; of the results; if it has not, the reasons for that; and*
 - (v) *has studied any proposals to lower the levels of fund management fees; if it has, of the contents of the proposals*

concerned, and whether such proposals include a study on greater involvement of employees in the decision-making process for the selection of the trustees; if so, of the details; if not, the reasons for that?

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

- (a) Trustees of MPF funds are required to disclose fee information according to different fee types under the Code on Disclosure for MPF Investment Funds. According to the Mandatory Provident Fund Schemes Authority (MPFA), in general, the disclosed fees have not changed materially over the past five years. However, it is very difficult to understand the totality of fees and charges by looking at the segregated information about different fee types such as fees for investment manager, trustee and administrator. Fund expenses are best reflected as a percentage of fund size, that is, Fund Expense Ratio (FER). Based on the information submitted by trustees (up to 8 June 2007), the average FER of MPF funds calculated on an asset-weighted basis was 2.06% and the lowest and highest FERs were 0.41% and 4.19% respectively.
- (b) As calculated according to the current average MPF FER of around 2%, if an employee contributes for 40 years, his final benefits will be reduced by nearly 40% as compared to the theoretical position if no fee were charged. In other words, if the total contribution of the member and his employer is \$960,000, his accrued benefits will increase to \$1.85 million upon his retirement as compared to about \$3 million on a no-fee basis. In that case, the ratio of the employees' accrued benefits to the total amount of management fees throughout the contribution period would be around 1.6 to 1.
- (c) (i) As far as the fees for MPF funds are concerned, the existing legislation only provides for the limits on monthly fees chargeable to capital preservation funds and the limitation on fees for transfers between schemes or accounts. The MPF system mainly relies on market forces to set the type and level

of fees. The MPFA is committed to improving the transparency of fees so as to help bring market forces into full play.

Following the issue of the Code on Disclosure for MPF Investment Funds in 2004, the MPFA is developing a web-based comparative platform to help scheme members compare fees and charges across funds and schemes. The first phase of this platform, which will provide scheme members with information about the highest/average/lowest expenses by fund types, will be available in July this year. The second, a more sophisticatedly designed phase, will show detailed information about fees and charges for each individual fund. The launching time of the second phase will depend on the progress of the relevant legislative work. A bill incorporating the relevant proposed amendments will be introduced into the Legislative Council later this month.

Moreover, the MPFA from time to time reviews the operational arrangements of the existing system in consultation with the industry, and proposes legislative amendments to streamline the procedures and reduce the operating costs of MPF schemes. Educating scheme members about the importance of fees and charges in investment decisions is also part of the MPFA's ongoing efforts.

We believe the above measures will help in the setting of MPF fees at a reasonable level in the long run.

- (ii) The MPFA has recently carried out research into the fees and charges of MPF schemes. The findings show that given the complexity of the fee structures, the different practices of the industry and the limitation of data, it is rather difficult to come to any definite conclusion on the current level of fees and charges of MPF schemes based on benchmarks such as local retail funds, funds of occupational retirement schemes and other international pension funds.

As regards the fees and charges of other overseas retirement savings systems, the research findings of the MPFA show that the design and operation of the systems vary considerably across jurisdictions. The fee structures and mechanism as well as the calculation and reporting of fees are also widely different. Therefore, the MPFA considers that it is very difficult for Hong Kong to make a meaningful comparison with foreign countries.

The MPFA is of the view that the most valid international comparison is probably to consider the Australian retail superannuation system because of its structural similarities with the MPF system. According to information obtained by the MPFA, the fees as percentage of assets under the system is around 1.53% (excluding contribution fees)^{Note}, while the average FER of MPF funds in Hong Kong is 2.06%. However, it should be noted that since the Australian retail superannuation system was established in 1992 with a total asset value of more than US\$40 billion, it outperforms our MPF system both in terms of its maturity and asset size of funds.

(iii) and (iv)

MPF funds are commercial investment products, and the levels of fees and charges for such funds are commercial decisions by individual companies taking different factors into consideration. The MPFA's present focus is to enhance the transparency of fees charged for MPF funds, thereby bringing the market forces into full play in determining fee levels. Moreover, the MPFA is actively following up the other measures mentioned in part (v).

(v) Under the existing system, upon termination of employment, an employee may, by his own choice, open a preserved

^{Note} There is a 0.27% to 1.51% contribution-based fee on top of an asset-based management fee. The relevant data are based on the information provided to the Australian Securities and Investments Commission by trustees between 1 October 2005 and 30 June 2006.

account in any MPF schemes operated by approved trustees and transfer the accrued benefits derived from his previous employments to that preserved account. At present, the MPF benefits portable between schemes also include contributions from self-employed persons and special voluntary contributions from employees, which together account for around 30% of the MPF benefits.

To promote market competition, the MPFA is actively considering a practicable option to expand employees' choices by allowing them to choose MPF trustees regarding the accrued benefits derived from their own contributions. As the proposal may lead to a proliferation of accounts, transfers and administrative work, hence increasing the operating costs of MPF funds, the MPFA is now consulting the professional bodies in the industry on the implementation of the proposal and the arrangements. If practicable, this would result in around 60% of MPF benefits being portable between trustees.

The MPFA plans to consult other relevant stakeholders on the proposal later this year and put forward recommendations to the Government within this year.

In the light of experience of other jurisdictions, the MPFA will also conduct follow-up studies on a number of issues to help ensure that fees and charges are set at a reasonable level.

These issues include:

- discussion with stakeholders, including trustees, about how the operation of the system can be refined with the objective of reducing operating costs and fees and charges;
- helping MPF funds to achieve greater economies of scale by facilitating mergers and restructures of funds;
- considering how the MPF system can be expanded to achieve greater economies of scale, for example, by

facilitating more voluntary contributions from members into the system;

- considering whether product costs can be reduced, for example, by making greater use of simplified and lower cost investment products;
- considering ways for greater portability of benefits to increase market competition without increasing the operating costs of the schemes (please refer to the second paragraph of part (v) above for the proposal);
- considering whether disclosure of fees and charges can be further improved; and
- enhancing education and helping scheme members to gain a full understanding of the importance of fees and charges.

BILLS

First Reading of Bills

PRESIDENT (in Cantonese): Bill: First Reading.

SUPPLEMENTARY APPROPRIATION (2006-2007) BILL

CLERK (in Cantonese): Supplementary Appropriation (2006-2007) Bill.

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): Bills: Second Reading.

SUPPLEMENTARY APPROPRIATION (2006-2007) BILL

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): Madam President, I move that the Supplementary Appropriation (2006-2007) Bill (the Bill) be read the Second time.

Section 9 of the Public Finance Ordinance provides, "If at the close of account for any financial year it is found that expenditure charged to any head is in excess of the sum appropriated for that head by an Appropriation Ordinance, the excess shall be included in a Supplementary Appropriation Bill which shall be introduced into the Legislative Council as soon as practicable after the close of the financial year to which the excess expenditure relates."

The account for the 2006-2007 financial year has come to a close. Although the overall government expenditure is lower than the original estimate, the expenditure charged to 10 of all the 82 heads is in excess of the sum appropriated for the respective heads. The amount of supplementary provision for all the expenditure in excess has been approved by the Finance Committee or under the powers delegated by it.

The Bill is hereby introduced into the Legislative Council to seek final legislative authority for the supplementary provision in respect of the 10 heads totalling about \$1.2 billion.

Thank you, Madam President.

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the Supplementary Appropriation (2006-2007) Bill be read the Second time.

In accordance with the Rules of Procedure, the debate is now adjourned and the Bill referred to the House Committee.

Resumption of Second Reading Debate on Bills

PRESIDENT (in Cantonese): We now resume the Second Reading debate on the Housing (Amendment) Bill 2007.

HOUSING (AMENDMENT) BILL 2007**Resumption of debate on Second Reading which was moved on 31 January 2007**

PRESIDENT (in Cantonese): Mrs Selina CHOW, Chairman of the Bills Committee on the above Bill, will now address the Council on the Report.

MRS SELINA CHOW (in Cantonese): Madam President, in my capacity as Chairman of the Bills Committee on Housing (Amendment) Bill 2007, I would like to report on the deliberations of the Bills Committee.

The objectives of the Housing (Amendment) Bill 2007 (the Bill) are to remove the 10% median rent-to-income ratio (MRIR) cap provided under the existing Housing Ordinance (HO) and the three-year interval restriction on rent adjustment, so as to implement a new rent adjustment framework that provides for both upward and downward rent adjustments (that is, the so-called two-way rent adjustment mechanism) according to changes in public rental housing tenants' household income. The proposed rent review cycle is two years.

The Bills Committee has held a total of 12 meetings since its establishment in February this year, including two meetings with deputations to listen to their views. I will give a brief account on the Bills Committee's deliberations on several major issues.

Since some members of the Bills Committee expressed grave concern about the repeal of the provisions concerning the 10% MRIR cap, the Bills Committee had therefore conducted an in-depth study on the justification of repealing the provisions concerned. The authorities explained that, according to the ruling of the Court of Final Appeal (CFA) handed down in 2005 on the judicial review concerning the decisions of the Housing Authority (HA) to defer rent reviews, the 10% MRIR limitation provided for does not purport to be a statutory definition of the tenants' affordability. The CFA also pointed out that the problems discussed in the judicial review illustrated the desirability of having a long-term and comprehensive review of the whole public housing policy, including the MRIR methodology and its ceiling of 10% which has been criticized by some as arbitrary. The authorities accepted these views and later discovered on completion of a review that, the recent upsurge in the MRIR of

PRH tenants was due to a wide range of extraneous factors, including the growing number of small and elderly households and Comprehensive Social Security Assistance (CSSA) recipients; exit of high-income tenants; major improvement in the HA's space allocation standard, replacement of old estates by new ones, and so on. These factors do not necessarily relate to the changes in the income of households and rent. Due to the continued existence of these factors, the MRIR hence still stands above 10%. And, despite an increase in the income of PRH tenants, there will be no upward but only downward adjustment of rent. This provision is not only unreasonable, but also fails to operate in a sustainable manner. In order to thoroughly rectify such an unsatisfactory and impracticable practice, the only solution is to replace it with a new rent adjustment mechanism.

(THE PRESIDENT'S DEPUTY, MS MIRIAM LAU, took the Chair)

In order to discount the impact of increase in the number of small households on the upsurge of MRIR, the Bills Committee has examined the feasibility of applying the 10% MRIR cap individually to each household size group in guiding rent adjustments. The authorities pointed out that although this proposal would largely discount the effects of changes in household size distribution, the MRIR would still be influenced by the other extraneous factors mentioned above. Furthermore, it might even lead to a situation where two similar PRH units in the same block would attract different rents simply because they were occupied by households from two different household size groups. Rent adjustment would become even more complicated when there were changes in the number of members in households and when the same household size group was living in a wide range of PRH flats of different types and sizes.

Having gained a better understanding and went through thorough discussions, the majority of Bills Committee members supported the implementation of a new mechanism. By putting in place a new mechanism, the compilation by the HA of an income index based on the income data collected from PRH tenants and the tracking of "pure income change" of PRH tenants will then match more closely with tenants' affordability. The findings of the HA's telephone survey conducted in December 2006 indicated that some 77% of the respondents (66% among the respondents living in PRH) supported the proposed new rent adjustment mechanism.

However, some members of the Bills Committee expressed grave concern that the introduction of the new rent adjustment mechanism was to pave the way for rent increases. They worried that excessive rent increases by the HA would be inconsistent with the aim of PRH to provide affordable housing for the grassroots. The authorities explained that there were provisions in the Bill requiring the HA to adjust PRH rent strictly in accordance with the rate of increase or decrease in the income index, which may act as a *de facto* cap on the rate of rent increase in each rent review. In other words, PRH rent will be increased only if there is a general increase in PRH tenants' household income, and the rate of any such increase in PRH rent is related to the rate of increase in PRH tenants' household income. Furthermore, the authorities also emphasized that the HO obliges the HA to direct its policy towards ensuring that the revenue from its estates "shall be sufficient to meet its recurrent expenditure on its estates". As a result, by putting in place the new rent adjustment mechanism, the HA will be in a better position to achieve its mission of providing affordable housing to those in genuine need.

Although the authorities guaranteed that a *de facto* cap is provided under the new rent adjustment mechanism, whereas the HA has also implemented the Rent Assistance Scheme (RAS) to cater for the needs of needy tenants, the majority of Bills Committee members emphasized that following the repeal of the provisions concerning MRIR, there would still be a need to impose a cap on MRIR or rent increase so as to prevent the HA from increasing rent indefinitely, and avoid imposing pressure of rent increases on the tenants, especially the low-income tenants. In this connection, the Bills Committee urged the authorities to consider a number of proposals relating to the provision of a rent-to-income ratio (RIR) cap or a rent increase cap, which include imposing a statutory RIR cap at individual household level; setting a rent level cap with reference to weighted average ratios of rent and income in each household size group; reducing the 20% RIR cap under the RAS to 15% RIR and improving the RAS, as well as introducing a MRIR cap in respect of increase in PRH rents in each rent review. All these are proposals put forward by members.

The authorities reiterated that any form of global RIR, be it mean or median, would be affected by a number of extraneous factors, and was therefore not appropriate. Furthermore, the HA would have to require information on the RIR of each and every PRH household for the purpose of conducting a rent review of some 650 000 PRH households, where the amount of work and administrative costs required were enormous and would also create considerable

disturbance to all PRH tenants. However, after considering the proposed amendments by members and consultation with the HA, the authorities finally agreed to move amendments to the Bill to prescribe that PRH rent shall increase in each two-year rent review cycle by the rate of increase of the income index or 10%, whichever is less. In other words, the rent increase can only be 10% at maximum. The majority of members supported the relevant amendments. To address members' concern about the RAS, the HA agreed to make a number of amendments, which mainly include revising the RIR of the RAS from 20% to 18.5%; relaxing the income threshold from 60% to 70% of the respective Waiting List Income Limits; requiring non-elderly RAS beneficiaries to move to cheaper flats after receiving rent assistance for a continuous period of three years if there are suitable flats available.

On the computation of income index, a member expressed concern that the Bill failed to spell out the details of data collection and computing methodology of the income index. The authorities explained that, given the technical complexity involved, it would be inappropriate to spell out the relevant details in the law.

However, the Bills Committee noted the objection raised by many deputations to the exclusion of CSSA households and "well-off tenants" from the coverage of the income index. In this connection, the authorities explained that the "income" of CSSA households was effectively social security allowance and "well-off tenants" were substantially better off than other PRH households. The inclusion of these tenants in the income index might distort the outcome of computation. In order to further minimize the potential distortion brought about by these tenants, households with "top" 1% of household income in each household size group would also be excluded from the calculation of the income index. To address members' concern about the inclusion of households with "pretty high income" in the calculation of the income index, the authorities agreed to apply more stringent selection rules and exclude these tenants from the coverage of the income index. The authorities would consider the proportion of households with "pretty high income" who had been excluded from the calculation of the income index in each compilation exercise through a statistical process.

The replacement of the triennial rent review cycle by the proposed biennial rent review cycle in the Bill had aroused the concern of some members of the Bills Committee. They considered that the triennial rent review cycle should be

maintained on the grounds that a longer rent review cycle would lower administrative costs and avoid causing disturbances to tenants.

In this connection, the authorities explained that the adoption of a shorter rent review cycle of two years would help achieve a more moderate rent adjustment in every review and allow the HA to react more quickly to changes in socio-economic circumstances. As regards the administrative costs incurred if a shorter rent review cycle was adopted, the authorities pointed out that the additional workload generated from the income index calculation and rent review/adjustment would be absorbed by existing staff. Some members still held that a longer rent review cycle would help stabilize PRH rent and avoid frequent rent increases. Members would move amendments to adopt a three-year rent review cycle.

The Bills Committee noted that the HA agreed to, upon the passage of the Bill, reduce PRH rent by 11.6% across the board. Some members requested the authorities to reduce PRH rent first in order to comply with the 10% MRIR cap. The authorities pointed out that, in accordance with the CFA's ruling handed down in 2005, the HA was not under a statutory duty to review PRH rent and revise it so as to ensure that the 10% MRIR was not exceeded. The authorities advised that the 11.6% rent reduction had been proposed with a view to providing a new rental starting point upon which the new rent adjustment mechanism could operate effectively and fairly.

The Bills Committee was also concerned about how the proposed rent reduction of 11.6% had been worked out. The authorities explained that, in order to ensure the coherence and consistency of the entire rent adjustment framework, the HA had used income index to determine the new rental basis. The reduced rate of 11.6% was determined based on the extent of changes in the income index since 1997 because the rent of the largest proportion of the existing PRH flats and that of newly completed flats were last reviewed in 1997. Members were also informed that after the rent reduction, some 70% of PRH units would have a monthly rent less than \$1,500 and some 90% less than \$2,000. The findings of the HA's telephone survey conducted in December 2006 revealed that some 80% respondents considered the rate of rent reduction appropriate or too much.

Furthermore, other amendments to the Bill as proposed by the authorities include stipulating the commencement date of the Bill to be 1 January 2008;

providing that the HA is not required to vary the rent if the rate of change of the income index is 0.1% or below, and specifying that the HA shall appoint the Census and Statistics Department to compute the income index. The Bills Committee supported the relevant amendments.

Deputy President, I have made the above remarks on behalf of the Bills Committee. I will now speak on behalf of the Liberal Party to state our position in respect of this Bill.

Firstly, I have to revisit an old issue to recall our collective memory. At the midnight on 28 June 1997, the Liberal Party voted against the then proposed rent adjustment mechanism, whereby a 10% MRIR cap is applied and has proved unworkable. I recall that the then Legislative Council had not conducted any thorough discussion or consultation on the mechanism concerned. This unreasonable and unworkable mechanism was hastily endorsed. At that time, four of our Members had spoken on this issue and highlighted our doubts and disagreement with this mechanism. Now, it proves that the Liberal Party's opposition was grounded.

Today, we support this Bill and believe such changes are essential. What is more, the new proposal not only balances the support provided by the community to the low-income households in respect of the provision of housing, but also sets out the responsibilities that they should bear within their affordability. The two-way rent adjustment mechanism designed by the HA has removed other unrelated factors and linked up rent with affordability, which is absolutely fair as rent adjustment will then follow closely with changes in income and PRH households will therefore not find it so difficult to accept. After all, rent assistance is a safety net to cater for households in difficulties. Certainly, we also notice that there are currently some 140 000 households eligible to apply for rent assistance, but only some 14 000 have filed applications. Perhaps it is because the scheme was not implemented in a friendly manner. We consider this a possibility. However, given that the HA has decided to relax the application requirements, whereby some 140 000 households will be eligible for rent assistance, it will be necessary to review and improve the entire implementation method so as to enable the needy who are genuinely eligible to feel the sincerity of the authorities' concerned in implementing such a good initiative and in helping them.

Although the Liberal Party understands and accepts the authorities' explanation that it would be unlikely to effect crazy increases in rent given the close relationship between the new mechanism and the income index, a large number of PRH households earn rather low incomes. So, in order to enable them to live peacefully, we called on the authorities to impose a cap on rent increase. Having reviewed the data of the past decade, if we do the calculation using data of the two years when the economy performed outstandingly (that is, around 1997) under the new mechanism, only a 10% increase in rent is justified for the two-year cycle. We requested the Government to move an amendment — that is, to impose a 10% cap on rent increase after the new mechanism is put in place — which may induce more support, and will not subject the HA to too much restraint or heavy losses. We consider that if this amendment is proposed by the Government, it would be easier for the Legislative Council and the community to forge a consensus. It is hoped that the amendment can be successfully passed today.

Deputy President, the Liberal Party believes the majority of Hong Kong residents, whether or not they are public housing residents, would wish to resolve the problem today, which has plagued the community for some time. Furthermore, public housing residents also expect to have a reduction in rent in August upon the enactment of the Bill. In that event, everyone will be pleased.

Deputy President, the Liberal Party supports the Second Reading of the Bill and all the amendments to be moved by the Government.

MR WONG KWOK-HING (in Cantonese): Deputy President, the Housing (Amendment) Bill, which will be put to the vote in this Council today, is a significant Bill that would have an impact on people's livelihood. Earlier on, representatives of many deputations and PRH tenants staged protests outside the Legislative Council Building, and this is a protest banner of "opposing rent increases without caps" handed to me just now by a representative of the Hong Kong Federation of Trade Unions (FTU).

Deputy President, this Bill shall have impact on the present 680 000 PRH households and about 2 million PRH tenants. Most of these PRH tenants belong to the lower classes. They work hard regularly every day, but still only

manage to earn a meagre income, and the life they lead can hardly be described as affluent. Some of them are actually living in abject poverty, and a lot of them are single elderly persons. Therefore, with regard to the Bill put forward by the Government today, which proposes to change the PRH rent adjustment mechanism by removing the protection for the residents, that is, the cap on the overall rent, I think we must be very careful in weighing the pros and cons of the new measure. It is because once the PRH loses the low rent protection, it will bring about a tremendous burden and impact on the life of the grass-roots people.

Deputy President, insofar as Hong Kong's public housing policy is concerned, there should be some genuine collective memory, instead of some arbitrary collective memory of it. This in fact started as early as the '50s of the last century; and during the past few decades, public housing has always provided low cost housing to Hong Kong people. While satisfying the basic housing needs of the people, it has also provided a large body of inexpensive labour to support the development of many different industries.

Regarding this low-rent policy, the business sector should actually support it most fervently. Why do they oppose it? With low-rent housing, they may pay less wages to workers, and this must be beneficial to the development of the business sector. So, it really puzzles us a lot: Why do the businessmen oppose the capping of rents and change the low-rent policy? I really think that they are really short-sighted.

In order to fully implement the original intent of the housing policy for the grassroots and to tackle the problem of frequent increases in PRH rents in the '90s, the former Legislative Council passed a private Members' Bill before the reunification to specify that the Housing Authority (HA) can adjust the rents at an interval of not shorter than three years, and that the cap on rent increases should be 10% of the MRIR. However, after the Ordinance has come into effect, the HA has not complied with it faithfully.

In fact, after the reunification, Hong Kong has experienced the financial turmoil, SARS outbreak, a financial downturn, and so on, thus making the rents in general plummet drastically. However, the HA did not reduce the rents during this period, thus making the MRIR stay at a level higher than 10% for a long period of time, and at its peak, the MRIR was even as high as 14.8%.

According to the Government, after the passage of this Bill, the HA will refund the over-charged rents to tenants through a rent reduction of 11.6%. I would like to ask, "If the original mechanism does not exist, how can the 11.6% rent reduction be granted to PRH tenants?" Deputy President, in the meantime, the Government also emphasizes that, if the new mechanism is not passed by the Legislative Council, it would be impossible for the HA to implement the rent reduction. In other words, the rent reduction for PRH tenants has been bundled by the Government up with the passage of the Bill. If Members do not accept the new mechanism, they have to bear the political risk of obstructing the reduction of PRH rents. It is indeed disappointing and regretful for us to see them adopt such a half-coercion-half-incentive approach of amending the legislation.

Why does the Government have to employ such tricks in selling the PRH rent adjustment mechanism which provides for upward or downward adjustment? Naturally it is because there are some problems with the Government's amendments. In the Bill put forward by the Government this time, the authorities have repealed all the PRH protection made by Members in 1997: The stipulation that the rent review should be conducted every three years will be reverted back to every two years, thereby cutting short the cycle. With regard to the 10% MRIR cap, it was even denounced by officials as "a draconian law" that must be repealed. Although the Administration has frequently stressed in meetings of the Bills Committee that the income index can fully reflect the actual situation, and that the mechanism providing for upward or downward adjustment can better reflect the affordability of tenants, the Government has all along declined the request made by Honourable colleagues and PRH deputations for setting an overall cap in the new adjustment mechanism for PRH rents, which is comparable to the 1997 amendments — that is, to put a cap on any possible rent increases. Deputy President, now this cap is removed. This seems to imply that the rents could surge to a level beyond the cap. Therefore, in my opinion, while this new PRH rent adjustment mechanism appears to be introducing reductions, actually it secretly brings in increases. What is more, it is a rent adjustment mechanism that allows incessant increases without any limits. Therefore, this amendment legislation is actually an attempt to change the Government's low-cost public housing policy that has been implemented during the past few decades, thus making PRH rents no longer subject to any constraints. I think the most tragic part of it is the fact that the SAR Government has destroyed such a good policy with its own hands. The low rents are conducive to a more harmonious and stable society, which is

beneficial to the long-term governance of the SAR Government. Why does the Government have to destroy such a good policy with its own hands?

Deputy President, during the final stage of deliberations on the Bill, both the Government and the HA made some concessions for the sake of political compromise to specify that rent increases should be introduced every two years and that each increase should be capped at 10%. On the surface, this appears to be a cap on rent increases, but actually in introducing this cap, the Government just intends to do something perfunctory to satisfy Members and to divert people's attention to something else. It is absolutely not an attempt to put a cap on the rate of rent increases, as requested by Members and deputations. Every time when the Government proposes a rate of rent increases, it is completely different from our existing mechanism as well as public housing deputations' request for an overall rent cap.

Therefore, I had suggested a private Member's Bill during the deliberations of the Bills Committee to request the Government to incorporate the existing cap on rent increases into the new mechanism, and continue to use the MRIR for reference. And I propose that the increases should not be more than a 12% MRIR. I think this proposal can co-exist with the Government's amendment, so as to supplement the inadequacy of the Government's amendment and to protect the interests of PRH tenants; and at the same time, it can balance the financial situation of the HA and its rental income requirements. In fact, the HA has already made it clear in the Report on The Review of Domestic Rent Policy that the MRIR will still be maintained in the new mechanism, and will become a reference index of measuring the affordability of tenants. As such, while the dual standards are available, why does the Government not adopt them? Unfortunately, since the Government had already imposed restrictions in the long title when the Bill was introduced, my amendment was eventually turned down because it was beyond the scope of the long title.

Deputy President, but I must reiterate that, if the new mechanism does not put a cap on the overall rents, then the housing needs of the grass-roots people will not be protected. When there is no cap on rent increases, the rate of rent increases is not subject to any supervision and the rent increase cycle has been shortened, PRH tenants will be placed in an even more difficult situation in future and will lead an even more difficult life. Deputy President, although we can get a transient rent reduction, but what the PRH tenants can get in exchange

is endless rent increases. Therefore, I cannot support the Bill introduced by the Government today.

I so submit.

(Some people applauded loudly in the public gallery)

DEPUTY PRESIDENT (in Cantonese): Mr WONG Kwok-hing, pleased put the model under the table.

MR CHAN KAM-LAM (in Cantonese): Deputy President, the public housing block model placed before me by Mr WONG Kwok-hing has created a wall effect. Deputy President, I can hardly see you now.

Coincidence is not lacking in this world. On 27 June 1997, that was 10 years ago, in this very same Chamber, incumbent Members of the then Legislation Council disregarding the objection of the Government proposed a Members' motion to amend the Housing Ordinance. The four Members who proposed the amendments at that time are proposing different amendments to the Housing Ordinance here today. The result may probably be the same as that passed 10 years ago. At that time, the proposal put forth by me was passed. Today, it is most likely that the motions proposed by the Government or the Democratic Alliance for the Betterment and Progress of Hong Kong (DAB) will be passed. However, due to the bundling voting tactic the opposition in this Council may employ, it is also possible that the legislation stipulating the original MRIR will remain unchanged.

Recalling the situation in the past decade, the amendment to cap the MRIR at 10% was passed in 1997, and today is indeed a very good opportunity to draw a conclusion on the issue.

I surely hope that all the amendments proposed by the Government today will be successfully passed, putting a full stop to the dispute on the 10% MRIR. In the year 1997, the relevant amendments did spark off a fierce debate in the former Legislative Council. Some Members echoed the Government's argument that the MRIR was not a comprehensive indicator as the tenants' affordability was not reflected accurately, and, it would affect the financial

position of the Housing Authority in the long run. However, from another angle, in view of the substantial rent increases in a row, Members, driven by their vision to champion for the interest of the public, reacted strongly to express their concern for protection of the people.

We all know that the 660 000 households living in PRH are the low-income group in general. Therefore, certain protection measures must be made to ensure that rents charged are affordable to them. Though the arrangement has been criticized fiercely in society for favouring PRH tenants and is regarded as a political gesture aiming to canvass votes, the DAB cannot fully agree with this. The DAB thinks that since PRH tenants have to pass a means test before they are allocated PRH flats, it is very important that rents are set at a reasonable level. Certain members of society often quote the rent-to-income ratio of private housing tenants, which ranges from 35% to 40%, as an example to illustrate that the rental burden shouldered by PRH tenants, which only ranges from 15% to 18.5%, is actually very low. Though such a statement is not absolutely wrong, for it is after all the fact, it has obviously overlooked the limited rent affordability of the low-income group and that a system must be set up to protect them. This is the original idea of the benevolent PRH policy. It is therefore a decision made with political orientation, but this decision with that political orientation is absolutely right.

Frankly, the rent-to-income ratio of private housing tenants, which ranges from 35% to 40% at present, is indeed extremely unreasonable. We should not presume that it is reasonable for the middle class, who are earning above-average income, to pay higher rent or bear a heavier rental burden. Members should have noticed signs of the middle class moving towards impoverishment. In the past decade, the economy of Hong Kong had undergone significant adjustments and the problem of negative equity asset was extremely serious, which demonstrated that the middle class were indeed facing great difficulties. If we disregard the housing burden now borne by middle-class households, we are in fact disregarding a hidden social crisis.

Deputy President, the crux of the problem is that the Government actually lacked the will to implement the existing legislation which was passed on 27 June 1997. Particularly at a time when the median was increasing, the economy slumped and the income of tenants decreased, the Government would rather waive their rents than making rent cuts. That was really an undesirable

situation, which surely no one wished to see. We had seen substantial rent reductions of private housing, which amounted to 30%, 40%, 50% and even 60%, but the rent for PRH still remained unchanged. The most undesirable consequence of the situation was the great disparity in society. Half of the population in Hong Kong lived in PRH, and their grievance would definitely lead to serious disturbance in society. Therefore, at that time, relentless criticisms were fired against the Government and the dispute had never been settled. This was the fact. It was until 2004 when the final judgement on the judicial review lodged by Ms HO Choi-wan was handed down by the Court that the dispute came to an end.

Deputy President, when we have all calmed down and realized that the implementation of the existing legislation is impossible, but still insist and consider that the existing legislation has provided for a maximum limit or a cap, and may be regarded as a safeguard, we are actually being unrealistic. Therefore, during the prolonged consultation on the rental issue conducted by the HA, voices demanding the maintenance of the MRIR have died down. Even PRH tenants have admitted that the existing situation should not continue. More people are of the opinion that a rent adjustment mechanism which allows for both upward and downward adjustments should be set up to pre-empt future disputes on rent adjustments.

Last year, during the consultation on the rental issue, we had conducted several opinion polls. According to our analysis of the opinions collected, 85% of the respondents considered a rent mechanism which allowed for upward or downward adjustment should be set up and more than 70% of the respondents agreed that rent adjustment should be based on the rate of changes in tenants' income. This can be regarded as a strong and clear reflection of public views. All along, the DAB has stressed that the existing situation is undesirable and a new rent adjustment mechanism with higher transparency should be set up, for we think this is essential. Moreover, this mechanism must be highly transparent, fair and impartial; it should also be simple and easy to understand. For more often than not, when we come to rent adjustments, many people in the community will have a lot of questions. They will ask why the rent should be adjusted, why the increase or deduction should be so substantial or why the deduction is so small. People will have different views. Therefore, we consider that the mechanism must be simple and easy to understand, which will cause no disputes.

Certainly, at residents' assemblies held at PRH estates, we have also expressed this opinion, which is a request generally accepted by the residents. Why do we have such a request? Mainly because we hope that the mechanism will operate effectively with continuity. I believe the approach to base rental adjustment on the rate of change of tenants' income is feasible. Since the adjustment is linked with tenants' income, increases in income will set the rates of future rent increase. If their income has not increased, the rent will not be increased nor adjusted. If their income has decreased, the rent will be reduced. This is an arrangement to link PRH rent with tenants' income. Some residents worry about their future, for they fear rents will be increased infinitely. This is also a cause of concern to us. But indeed, we do not have to worry about this, for if rents are increased infinitely, it means that the income earned by tenants is also increasing infinitely. It will be something good then. Such worries are unnecessary, for it will be stipulated unequivocally in the law.

With regard to the setting up of the new rent adjustment mechanism, we have to examine ways to take into account the rent affordability of tenants. In fact, during the entire course of scrutiny of the Bill, we have thoroughly reviewed other housing policies related to the various rental policies. We consider that the existing rent-to-income ratio which ranges roughly from 12% to 15% in general can still be regarded as relatively reasonable. However, we know that many tenants still have worries. Among the 600 000 households, the majority of them belongs to the low-income group. This group of tenants, particularly those with disabilities, the unemployed and the elderly, may encounter more difficulties in paying rent than other tenants at large. Besides, the income of certain household may differ from the findings of the income survey. Therefore, during the scrutiny of the Bill, we have also expressed these worries to the Government, hoping the authorities will address these worries of tenants in drafting the legislation, so that they will accept the legislation more readily.

I think the current arrangement should be acceptable. First, the Government has undertaken to reduce the rent by 11.6% in August this year upon the passage of the Bill to lower the rent-to-income ratio to 12.5% as a start. On the other hand, the authorities will lower the income threshold for applying rent assistance from 20% at present to 18.5%, so that tenants facing financial hardship with a rent-to-income ratio over 18.5% may apply for a 25% rent reduction. We think that in respect of this mechanism, the Government has paid heed to many views expressed during the scrutiny of the Bill, for we have

particularly requested the provision of a rent increase cap in the course. At two meetings with the HA, we made this request and fought for it. Lastly, we certainly welcome the Government's acceptance of our proposal, stating that in the event of a rent increase, the increase shall not exceed 10%. We hope that this arrangement will completely remove the tenants' worries about the uncertainty of the rate of rent adjustment, for the increase has already been capped at a specific level. Though some tenants have expressed worries about the possible increase in rent in future, they should now understand it. This has now been included in the legislation, which is a concession the Government had all along been unwilling to make in the past.

Certainly, at the previous meeting with the HA, the Government said that it involved political consideration.

Deputy President, despite the scarcity of resources in society, we should provide proper assistance to the people in need in society within our ability. For this reason, a reasonable rental policy will not only enable tenants to maintain their standard of living at a relatively stable level, but will also enable our limited social resources to be used in a more reasonable manner.

Deputy President, I support the motion proposed by the Government.

DEPUTY PRESIDENT (in Cantonese): Speaking time is up.

MR FREDERICK FUNG (in Cantonese): Deputy President, before I come to the contents of my speech, I would like to respond to the remarks made just now by Mr CHAN Kam-lam. I was not that emotionally aroused before I heard these remarks, but after hearing them I must say I am furious.

He pointed out that the amendment on that day, that is, the amendment in the existing law, had been proposed by him 10 years ago. It turns out that his aim is exactly the opposite of strong proof of doing this all for the people. He is not making a rational explanation as to why there should be a rent cap for the sake of setting up a rent cap for tenants of PRH. Then why did he have to propose it at that time? After making the amendment, now he agrees that this cannot be enforced and it is not right and it will not work and so he agrees that this should be repealed.

Back then he was a self-styled angel of light and a saviour of the PRH tenants, but now he turns back and thrashes himself. The then saviour now denies that it is correct. Now he is saying that another part of him is even more appealing, for the amendment proposed by the DAB has got the blessing of the Government and it comes in the disguise of an amendment from the authorities. Now he is putting on the costume of another angel of light, in even greater glory and splendour than the angel a decade ago. What kind of an assembly is this Council supposed to be? As an assembly, should this Council not hold rational discussions on policies and ideas and after endorsing or agreeing on them, enact them as laws? When he says things like these today, it can only be that either he was wrong at that time or he is wrong right now. But he is saying that he is right on both occasions and on these two occasions he is doing it for the people. Unfortunately, his arguments on these two occasions just do not hold water and contradict each other.

Deputy President, the debate today is actually very important. It is so not only because it is about a mechanism for raising or reducing PRH rent, but also because the amendments made to the law today are about the rental policy. On that day, I voted in support of Mr CHAN Kam-lam because I thought that there should be a PRH rent cap. Why should there be such a cap? We just have to see what kind of people is living in the PRH estates. Why should there be PRH estates in the first place? Why do these people have to live there? Why do these people live in PRH flats and not private housing flats? Why does LI Ka-shing not live in the PRH estates? Precisely because we have PRH estates to serve a specific purpose.

It is not difficult to see that in the 1950s, there were no very clear reasons for building PRH blocks. It might be to house the homeless, those displaced by natural disasters or hit by misfortune, or those low-income people on the PRH Waiting List. Once in the 1970s, it became increasingly noticeable that most of the PRH tenants had been on the Waiting List and there were less people who became PRH tenants through other means. Now almost all the PRH tenants have been on the Waiting List before they can live in their flats. The only exceptions are those who are in a more unfortunate situation than those on the Waiting List and they are allocated PRH flats on compassionate grounds. An overwhelming majority of PRH tenants belong to the low-income households. Why does the Government build housing blocks for them? Because their income is low. Apart from low income, it is also because of the fact that if

these people are not provided with public housing, it would lead to social problems. We do not want to see squatter huts sprawling disorderly on the hills. We do not want to see our streets filled up with homeless people and street-sleepers in ragged clothes huddling in a miserable corner beneath a flyover. Hong Kong is an affluent society and we can cope with this problem and come up with a solution, and it is to build public housing blocks.

Why does PRH rent have to be lower than the market rate? It is because tenants cannot afford a high rent. These flats could have been leased at market rate, but why are they not? Because we know that the people have a low income and in order that they can live on that meagre income, we would not charge them rent at market rate. It follows that the PRH rental policy is different from that for the market and as long as there is a PRH policy, there is such a rental policy.

As for the question of capping, it may be a thing of the distant future to discuss it now. But why should this be capped? Because the constant hikes in rents are making the tenants very scared. The Secretary must know about this, for he is older than me. The lady sitting next to him may not know for she is younger. Before the 1970s, there was no increase in rents for the resettlement estate units. It was only \$14 in the 1950s and it was \$16 or \$17 in the 1970s. However, rentals began to increase in the 1970s and they went up by a significant rate in the 1980s. I recall in 1982, after I had graduated and returned to Hong Kong and became the Director of the Hong Kong People's Council on Public Housing Policy, the first problem I had to tackle was increase in PRH rents. How much were the rents increased at that time? I think the Secretary must have forgotten it. But I certainly remember it. It was the first day I took part in social movement. At that time, the rates of increase were from 33% to 48%. Which housing estate had an increase of 48%? It is the Pak Tin Estate of today. Increases in rent subsequently were milder but they were invariably double-digit, usually higher than the inflation rate. This kind of policy on PRH rent increase made the tenants feel very frightened. It turned out that if only they had lived in the PRH estates for about 10 years, they would be paying a rent double that of the rent they paid initially.

At that time, it was because of this reason that we demanded that the rents should be capped. Actually, our demand was not just that the increases should be capped. We were afraid that rents would keep on increasing and they would double, triple, or become for four or five times more than the initial rent. It

was only after the rents had been capped that we were assured. This would prevent low-income families from paying rents as much as those of private housing flats. When they had spent so much time waiting for allocation of PRH flats, it was only natural that they wanted to lead a stable life. When the tenants can lead a stable life, it would be also be a good thing for Hong Kong and the business sector. When they have fewer worries in life, at least they can be healthier as they go to work. This argument is backed up by many theories in the West and for that matter I do not wish to dwell on it. People in a capitalist society can live such a long life because they have welfare policies. The reason why Marxism does not work is actually because there are no welfare policies in a Marxist society and such policies include public housing policy like the one we have.

As the public housing policy has developed up to the present day, there is already a policy in place for "well-off" tenants. The essence of this policy for "well-off" tenants is that once tenants whose income has exceeded a certain level, they would be required to pay one and a half times or double the rents they are paying and they would have to move out if they have a certain amount of assets. In other words, the authorities have another policy to cap the rents for high-income families and the remaining ones are not well-off families and they are also those who cannot be evicted under the policy. These people have to bear with the present rent policy. These people are the ones who have the greatest difficulties with this rent policy. I also agree to the idea that "well-off" tenants with a higher income should be asked to leave. I do not think anyone would dispute this point. For the remaining tenants, if the rent cap is cancelled, then I would think that this is really a great problem.

Another argument is that all along public housing is an important part of assistance given to the poor. I am sure the Secretary knows it. Deputy President, I think you would also see the point. According to what Mr CHAN Kam-lam has said, rent for private housing flats would take up 25% to 30% of the household income — actually what he said was 35% to 40% but I would say it is 25% to 30%. Many studies have pointed out that the rent of private housing is a factor leading to poverty. This is what is happening to residents in districts like Sham Shui Po, Tai Kok Tsui, Hung Hom, Western District, the old urban area in Tsuen Wan, and so on. Once residents there move into PRH flats, their hardship in life is instantly relieved because the proportion of rent to their income has dropped to about 15% to 20%. The money which was formerly used for paying rent can now be saved up for use as living expenses or

giving better education to the children, and so on. Hence apart from providing a suitable and comfortable shelter for the people, public housing is also an important policy to ease the poverty situation of low-income families.

The problem now is that the amendment will deprive the policy of its core and most vital element and, that is, no cap will be imposed. In its place is a mechanism which allows for upward and downward adjustments. This is in fact a rent increase mechanism and it does not set any upper limit for rents. The two are completely different things. Suppose the rent cap policy can be likened to an orange, what the authorities are doing is to try to use a mandarin to replace it. Deputy President, we can all tell the difference between an orange and a mandarin. So the amendments proposed in respect of the Bill are really making the PRH tenants very nervous. This is understandable and it should be agreed. It is because if the Bill is passed, a policy which would give protection to the tenants will disappear.

Deputy President, I would like to tell Members that ever since the passage of the existing legislation, it has never been enforced. The law was passed in 1997 but a freeze on rent has been in place since 1998 and it is still in force now. What is the situation behind this rent freeze? The MRIR of the PRH tenants has been on the rise and it has gone beyond 10%, and it once reached 14.8% at the peak. Under the former practice, the Housing Authority (HA) would increase the rents every two years. How can it not increase the rents? The HA has never failed to increase the rents. But in 1998 it did not. It may be due to the economic downturn at that time. It kept on not making any rent increases after 2000. The reason is that if a PRH rent review is conducted, the only option for the HA is to reduce the rents because the MRIR has already passed the prescribed 10%. In order to avoid having to reduce the rents, the HA can only resort to a rent freeze. With respect to this rent freeze since 2000, I think that this is more of an unwilling move taken by the authorities since they are bound by statutory requirements than reluctance on their part to increase the rents.

If this 10% MRIR cap is removed, this is in effect removing the upper limit and once this is removed, the Government is free to raise the rents. Is it true that the Government cannot reduce the rents? All along the Government could have reduced the rents and it can do so even without amending the law. It is precisely because the Government does not want to reduce the rents and it hopes that approval can be given to it to raise the rents. So it wants to remove

this upper limit. During discussions in the Bills Committee and in the Housing Panel, the authorities said that this MRIR posed a big problem and it could lead to bias in the computation of rent. Such was the reason given by the Housing Department. The authorities pointed out that over the past decade there had been a surge in one-person PRH households, and as their income is usually lower, this has caused the MRIR to fall. In this way, even as the income of PRH tenants is rising, the authorities would have to reduce the rents.

Moreover, such PRH tenants are living in bigger flats and as their flats get bigger, they would of course have to pay higher rents. This also accounts for the fall in MRIR. With respect to this, I would present my argument later on when proposing my amendment. Why can these people live in bigger flats? This is after all, something which the authorities permit. Buddy — I have picked up the pet phrase of "Long Hair". The living space per person allocated to these brother and sister tenants is approved by the authorities. Back in the 1950s, everyone was entitled to 3.5 sq m of living space, but now it has been increased to 11 sq m. All along the residents have never taken any part in determining this space allotment standard. They would welcome any move by the authorities to provide more living space. But they have never taken any part to make the decision. Why did the authorities not impose any limitation on that? Why after the limitation has been relaxed that the authorities start to blame them for asking to live in such big flats? Why is this put up as a ground to justify the removal of this cap?

As I see it, if the authorities think that these problems are caused by the cap, then I think what should be done is not to remove the cap but to improve it. Only by doing so can this be said to be in line with the spirit of the original amendment to the law. What the proponent of the present amendment wants to do is to renounce that spirit. In those days, the spirit was a cap should be set. If it is now thought that there are problems with the computation of the cap and that the MRIR is no good, then another way of computation should be found. I will propose an amendment on using an average. If it is thought that an average is no good, then the authorities can look for another way to compute the cap and make improvement in this regard. If the authorities think that it is no good to see flat size get bigger and bigger, the policy concerned can be revised. Efforts can be made to see if it is more reasonable to keep the living space per person at 11 sq m or to reduce it to 10 sq m? Discussions can be held to decide on the average living space per person in PRH flats.

Over these past two or three months, the authorities stated in public that the policy on tenants living in "spacious" flats would be tightened. This has led to one-person households living in 300-sq m flats being asked to move out. If this policy on "spacious" PRH flats is enforced strictly, the area of flats where the tenants live is actually permitted and agreed by the authorities as a matter of policy. In these circumstances, should there be a rent-to-income ratio cap? I would think so. If it is thought that the computation method used is not sound, then this should be made better. As to how much the cap should be, since I will propose an amendment on that later, I hope to share my view with Honourable colleagues later on.

Lastly, I wish to stress that the PRH rent policy and the provision of PRH are in fact two sides of the same coin. In other words, there must not be a situation in which PRH is provided but its rent is increased sharply, or the rent of PRH provided is beyond the affordability of some people. Of course, the authorities may say that there is a policy on households with financial hardship. With respect to this, I have asked the Secretary if this policy can be written into the law. The answer given is that policies can be changed at any time and the PRH rent policy can be changed today, tomorrow, the day after tomorrow, or one year from now or 10 years from now and the procedures of making the change all take place within the HA. I must point out, however, that most HA meetings are held behind closed doors and we will never see the process of the change. If it is thought that this policy on households with financial hardship is workable, then it should be written into the law and tabled before this Council. After discussion in this Council, if Members all agree to it, the proposal from the authorities would sound more convincing. It is unfortunate that all along the authorities have refused to enact the policy on rent assistance as law.

What the authorities are doing is only to use a mechanism for raising rents — that is, a mandarin — to trade in for the removal of the rent cap. My view is that this rent cap is one of the quintessential elements of the PRH policy. It is a vital link in it. I even think that nothing must be done to affect it. If any such move is to be endorsed, then it must only be done after sufficient discussions in the community and it must comply with the findings of any consultation exercise conducted. I think only by doing these can any change in this vital policy direction be contemplated.

Deputy President, I do not agree to these amendments. I will propose three other amendments of my own and I will speak on the contents of these amendments later on. Thank you.

(People in the gallery clapped their hands loudly for the second time)

DEPUTY PRESIDENT (in Cantonese): Quiet, please.

MR LEE CHEUK-YAN (in Cantonese): Deputy President, the question today is extremely important, because it would affect some 600 000 PRH households in Hong Kong with a population of almost 2 million.

PRH can be seen as one of the very few good measures taken by the Hong Kong Government during the colonial era. I think had there been not such a good policy, anyway, good as it might be, there could also be problems associated with it. This is because the opposition to the colonial government at that time was not strong enough, or it might be due to this good measure, that the colonial government could have lasted so long. Well, let bygones be bygones, what we are doing is also for the good of the people. If this is a good measure, I think I have to say it is, because after all, this PRH policy has served to stabilize Hong Kong society during these few decades past and hence enabled the economy to grow and prosper. This policy can be considered an important stabilizing factor in our society.

The wage earners in Hong Kong, especially the 1 million-plus low-skilled workers with low educational attainment, are earning very low wages. Suppose a low-income family has to pay a rent which takes up 20% to 40% of its income, like the rent for a flat in the private sector, I do not think the family can ever survive or raise their children and pay for their schooling. It follows that the economy of Hong Kong would never have become what it is today. This is indeed a good measure. The introduction of public housing in those days served to enable low-income groups and families to climb up the social ladder in some 20 to 30 years' time. Now the children of many PRH residents have moved out of the PRH flats and become members of the middle class.

Therefore, the middle class in Hong Kong actually have benefited from the present PRH policy. We hope that the PRH policy today can also benefit the middle class of the future. In other words, the second generation of the poor PRH families can grow up under this low rent policy and eventually break the poverty cycle. Then there will be no inter-generational poverty. For this reason, the PRH policy is very significant indeed as it can reduce the gap between the rich and the poor and enable many low-income families to survive. Apart from survival, they can also have some consumption power and play a part in the economic activities, thus enabling the economy to thrive. We must therefore never allow this policy to come to shambles.

We really want to see greater stability in society so that there can be better economic development or improvement to people's life, but it is unfortunate that the Government does not seem to care about this. The aim of the Amendment Bill today is to repeal a rent policy which takes into account the affordability of the tenants and in future this factor will no longer be considered.

Before I go on, I must first say that I have great regrets because Secretary Michael SUEN is acting like a rascal with respect to this Bill. How? The Secretary has told us many times that if the Bill is not passed, there will be no reduction in PRH rent. I think he has gone too far. Why? Because even if there were no such a Bill, the Secretary should have reduced the rents a long time ago.

(People in the public gallery clapped their hands loudly for the third time)

DEPUTY PRESIDENT (in Cantonese): Quiet, please.

MR LEE CHEUK-YAN (in Cantonese): That is something he owes to the PRH tenants. In those days Hong Kong was caught in a great economic recession and deflation set in. The income of the residents might have dropped by 10%, 20% or even 30%. Was a reduction in rent made at that time? No, the rent was not reduced. We are very unhappy because there was no rent reduction back then and that is something he owes to the PRH tenants. This is what he owes them. He should have reduced the rents a long time ago. Had there been a rent reduction, this 10% MRIR cap could have worked and put into force.

This can be enforced if only rent is reduced but there is no way it can be enforced if the rent is not reduced. Mr CHAN Kam-lam has said that this cannot be enforced. Why not? It can be enforced and there is no doubt about it. Only that he chooses not to do it. The Government has failed its duty when it does not do it. It is also irresponsible. So the rents should have been reduced a long time ago. What the Secretary has said is not justified. He should have reduced the rents a long time ago, that is, at the time when there was deflation and also when the lawsuit was lost. Rents should have been reduced at that time. He should not say to us today that rents cannot be reduced if the Bill is not passed. There is no reason for him to say that. He is just acting like a rascal.

DEPUTY PRESIDENT (in Cantonese): Please face me when you speak.

MR LEE CHEUK-YAN (in Cantonese): All right.

DEPUTY PRESIDENT (in Cantonese): You should not be speaking to Mr SUEN, please face me when you speak.

MR LEE CHEUK-YAN (in Cantonese): Yes, Deputy President. I am not saying that you are acting like a rascal, I am talking about the Secretary.

Deputy President, I now come to the most important part of the Bill. Now we have an old mechanism but the Government wants to introduce a new one. The old mechanism is simple and clear and it takes into account the affordability of the residents. Under the old mechanism, if the MRIR exceeds 10%, rents will not be increased. We would think on the other hand that if the MRIR is more than 10%, then there should be a rent reduction. But the Secretary has never done this. The spirit of that mechanism is such that when the MRIR exceeds 10%, there should be a reduction; and when it is under 10%, there should be an increase. This is fair enough. Deputy President, the most important thing is that this mechanism can truly take into account the affordability of residents. This is a good policy. Just imagine, when there is a sharp drop in income and that results in the MRIR exceeding the 10% mark, then

no rent will be increased. People can stop worrying about a possible rent hike and they can put their mind at ease. When the MRIR is less than 10%, then the rent can be increased because people have more income and they are financially better off. This is the fairest practice.

Unfortunately, the Secretary wants to remove this rent cap and put a new mechanism in its place. This is a change from a mechanism which factors in affordability to a new mechanism which imposes rent hikes like shifting to automatic gear. The Secretary may deny that this is an automatic rent hike, and he may say that this mechanism is really one which allows for increases and reductions. To be fair, this is really a mechanism which permits upward and downward adjustments. But we can just see that this mechanism depends on the upward movement of the income index. If the income of the people over the next 10 years rises, and I hope it will be so, then there would be increases in rent all through these 10 years. In other words, there will be an increase every two years. Mr CHAN Kam-lam has just said the people should not worry about endless increases in rent. The people are indeed very worried, but he says, "Never mind, what is wrong with endless rent increases? It is only when there are endless pay rises that there can be endless increases in rent."

Deputy President, please do not forget that there are some people who do not get a pay rise. There are some people who get a pay rise but there are also many who do not. These people who do not have a pay rise will have to bear with the hardship of a rent increase. This is because the Government will no longer consider their affordability. There is no consideration of the 10% MRIR cap. Not at all. In future there will only be an automatic shift to the rent hike gear. It means endless rent hikes. For some people, the worst thing is they do not get endless pay rises. For them, it may be endless pay freezes or endless pay cuts. It would be terrible if they have to face endless rent increases.

(THE PRESIDENT resumed the Chair)

The greatest problem with this new mechanism is this automatic rent hike regardless of the people's affordability. This is what we oppose most strongly. Of course, the Secretary does have some sense and all along we have been holding rational discussions with him. He told me that if rent was to increase

by 10%, the statistics would distort that 10% cap and so the real income situation of the people was not reflected. He offered a few reasons why there is a distortion. First, the number of CSSA recipients is large and so the MRIR is distorted. Second, there is an increase in poor singles moving into PRH flats and so the number of one-person households has greatly surged. Come to think about this. Since the income of one-person households is on the low side, their MRIR will be on the high side. If these are unemployed people, it would be very high indeed. When the Secretary says that a surge in these kinds of PRH tenants results in distortion, I would think that we can discuss it if this is considered a problem. I once made a suggestion to the Secretary and, that is, to subdivide the household groups. According to figures given to us by the Secretary, if the household groups are subdivided, the MRIR for one-person households is 20% after the rent reduction. This figure is very high indeed. So we can see that there is a big problem here when the rent is as high as 20% of the income. It is 15.2% for two-person households and 10.8% and 10.5% respectively for three-person and five-person households.

We can see that if the household groups are subdivided, the three-person and five-person households will soon see their rents increased, whereas the one-person households will not see a rent increase for quite a long time. This should be the case. The reason is that one-person households are poorer and their rents should not be increased. Households with three to five persons may have more of their members going out for work and hence their affordability is higher. It follows that their rents can be increased. I think this is fair enough. I think the matter can be tackled by dividing up the household groups with various sizes of flats. The result may be the one-bedroom and two-bedroom flats will have a rent increase, meaning that almost 60% of the flats will have a rent increase. Flats with one to three persons may not have a rent increase, for they are really very poor. Should we not do this? The poor do not have to get a rent increase but those who can afford it will get one. This is the mechanism I suggested to him for his consideration.

President, the worst thing about Secretary Michael SUEN is that in the course of discussions in the Bills Committee, I found that there was a term which must never appear and, that is, the term "median". He took away this statistical term altogether, that is, whenever the term "median" was mentioned, he or his representative would say that nothing could be discussed. We have said that there are many ways of making an amendment to rationalize the affordability

factor. When the Secretary said that there was distortion, I had put things right, but the Secretary said that it would not do. All in all, no discussion can be made on the term "median". I feel most sorry for this.

Today, I read in the newspaper that WONG Kwan of the Federation of Hong Kong, Kowloon, and New Territories Public Housing Estates Resident and Shop-owner Organizations said that he thought Members had gone a bit overboard in making these suggestions at the last moment. President, I do not propose that in the last second. I said from the very beginning that for me it would be fine if we were to sit down and explore a better mechanism. We are opposed right from the beginning to the Government's proposal to repeal the mechanism, but we agree that some changes can be made to improve it. All along, we have been making our suggestions. But the Secretary insists that there must be no mention of the term "median", otherwise the discussion would have to discontinue. We have actually done our best before the voting today in the hope that we can join hands with the Secretary to perfect the mechanism. I regret very much to see what can be called a mockery of history. Mr CHAN Kam-lam was the initiator of the 10% MRIR cap. At that time, we lent him our support but, to our great surprise, he is now saying no to his former self. This self is of course Mr CHAN Kam-lam, not me. We will continue to lend him our support today, but he does not want it. As Mr Frederick FUNG has just said, in short, he is a white devil, a chameleon. At that time he said that he was smart and now he is saying that he is even smarter. He is saying no to his former self. Now he is even smarter, having come up with a new method to change the *status quo* and, that is, on the basis of the new mechanism proposed by the Government, to cap the biennial rent increase at 10%. In sum, the upward adjustment should not be more than 10%.

But President, I think this biennial 10% cap is as high as the ceiling here. And when can it be used? If only the PRH tenants will get a 5% pay rise every year like the civil servants, then perhaps it can be usable. I am not very optimistic about this. I think that is tragic. Because people's wages are pushed down and even if the civil servants can get a pay rise, the wages of the low-income workers will still be pushed down. Hence the above scenario will never happen. The biennial 10% cap proposal is indeed a very high ceiling. It makes me wonder how much practical use it has got. Mr CHAN Kam-lam says that his proposal works, but actually it does not. I hope PRH tenants will not be deceived by his clever and sweet words.

President, lastly, what I wish to say is that the Government has always stressed that if the Bill is not passed today, no rent will be reduced. Some people say that it will not do if no rent is reduced. I know very well that it will not do if there is no rent reduction. Of course, we all hope that there can be a cut in rent. But this must be justified. I hope the PRH tenants will understand the point and they must not give up something big in return for a petty favour. We must look farther ahead. This is where the welfare of the people lies. They should rather give that up than to yield to the threats of the Government and succumb when it is playing the rascal. Therefore, we oppose the Bill. Thank you, President.

(People in the public gallery clapped their hands loudly for the fourth time)

PRESIDENT (in Cantonese): People in the public gallery, this may be the first time you come to the Legislative Council to listen to a debate, but you must observe the rules here. I now tell you the rules of this Council and they are: You are not allowed to clap your hands and speak loudly. If you respect this Council, I would extend my welcome to you. But if you clap your hands or make any noise again, I am obliged to ask you to leave. I hope you can listen to the debate quietly.

MR LEE WING-TAT (in Cantonese): President, the Bill we discuss is very important for it will affect the lives of hundreds of thousand tenants of PRH. As a matter of fact, the issues of PRH construction and their rents have always captured the attention of many people when policies involving people's livelihood are discussed in the political assemblies in Hong Kong. This is because at stake is the well-being of some 600 000 households which translate into some 2 million people. I have heard what Mr LEE Cheuk-yan say on the aim of the PRH rent policy and in general I agree with him. Despite the fact that during these few decades, that is, from the days of Murray MacLEHOSE up to the present, there were many cases of people presenting petitions or staging demonstrations, on the whole, people would prefer stable and better living conditions. Hence the production of PRH flats and the rental stability of these flats are very important. Unfortunately, a great number of changes took place in the 1990s and affected the stability of PRH rent. I would talk about that later on.

At times I fail to understand why the Government is always approaching the issue of PRH rent from the perspective of the private sector. If Members are aware of the accounts of the PRH rent, they will know that the annual expenditure on rent is about \$14 billion. Even if the analysis made by the Government is adopted and I accept that, the present rent is about 20% to 30% lower than that in the private sector. In other words, the Government spends some \$2.8 billion to some \$3 billion a year to keep PRH rent at a low level. I have this question for the Secretary. If some \$3 billion is spent each year but it can make some 2 million residents refrain from venting their discontent, would this expenditure not be worthwhile? This is much better than spending \$1 billion to put up the Harbour Fest show, right?

No matter if this is seen from a sociological or political science point of view, spending a few billion dollars to make the PRH rent stable and PRH tenants refrain from starting a row with the authorities, presenting petitions or staging protests is indeed a good measure for the community. Of the total public expenditure of some \$200 billion, the \$3 billion something only accounts for 1.5%. The difference between me and the Secretary is that we do not make such fine computations. If this is a kind of waste, of course it would seem to be a very great amount, but pitched against a total of some \$200 billion, this is not a very big sum indeed. So I do not quite see why the top government officials, when making their policy decisions, would care so much about the fact that PRH rent seems to be much lower than the rent of private housing, such that we have to debate the PRH rent. With respect to this point, I do not know if officials are really like that. Once I asked Mr SUEN jokingly if it was because he had too much free time and nothing to do that he wanted to do something about that issue. He laughed. Actually, he has got a lot of work to do. The reclamation project is a big headache. Then there are the Queen's Pier and the Star Ferry Pier incidents. Why does he have to handle this issue?

Back in the colonial times the Government proposed that PRH flats should be produced and a rent policy was introduced. The basis of these was in general correct. However, there were some marked changes in the 1990s and as Mr Frederick FUNG has said, we seldom heard about rent increases in the 1960s and 1970s. According to information from the Government, in the 1990s, there was a big change in the rate of upward adjustments in rent. In the past, the increase was a few or 10 percentage points every two years. But during the period from 1990 to 1997, even the mildest increase was 13% to 14% for two years. The biggest increase was 30%. When Frederick FUNG and I were

members of the Housing Authority, on every occasion of rent adjustment, there would surely be much noise and clamour outside the HA office. There would certainly be people there to present petitions or stage protests. Not that the residents could not accept any rent increase, only that the rate of increase was too great. This in turn had a big impact on them. In my opinion, the most important principle is that the rent policy should be stable and kept within the affordability of the residents.

In this debate, what is within the affordability of the residents? Of course, there are many options open to us in science or in these so-called indices. We may use the median, or the consumer price index, or the PRH household income index which the Government is talking about. These indices can certainly be considered scientifically or mathematically. But what is most difficult for me to understand is why the Government finds it so hard to accept a median. Why does it consider the median as something like a devil that must be exorcised? I do not quite agree. If the Government thinks that the 10% MRIR cannot satisfy its requirements on rent adjustment, then a debate can be held to see if it can be changed to 11%, 12% or 13%. The Government in amending this law has a premise and, as Mr LEE Cheuk-yan has said, the term "median" must never be mentioned while other things can be discussed. I think this is not the way to deal with a policy or a problem scientifically.

If the Government thinks that the median is no good, the Secretary should know and if I remember it correctly, the median is used as a reference indicator in the determination of rent for new buildings. This is the way it is done now. For a small unit with an area of 5 sq m, the MRIR of 15% is used as a reference indicator. This is only a reference indicator. For a unit of 7 sq m, the MRIR of 18.5% is used. Since the MRIR is still a reference indicator for internal use by government departments, why does the Government think that this mathematical concept is totally unacceptable? I just fail to see why.

When the Government takes part in a debate, it is certainly because it thinks that views from other people are no good that it feels justified to put up what it considers to be a better alternative. This explains why the Government is heaping all sorts of derogative epithets onto other people's views, saying that they are evil, fiendish and diabolic. But the Secretary should pause and think, his own department is using this indicator, only as a reference. Can the other two indicators also be used? I do not think they cannot be used and both the

inflation indicator and the index proposed by the Government now can be discussed. I would not say that the Government's index is evil or fiendish or what not, for I do not think it is scientific to say so. If the rate of rent increase after a biennial review is as low as 2%, of course this is not too bad. A rate of 10% is certainly on the high side. When debating this issue, I think Members should approach the issue with a rational frame of mind and see what kind of an issue we are talking about.

I agree with LEE Cheuk-yan that the Government showed an excessively hardliner stand right from the beginning, saying that there would be no debate on the subject of median or indicator. This instantly made many residents' groups call for a cap and that there should be a ceiling on rent increase. I think as things develop up to now, there are actually very few options open to us. We know from our internal discussions that for this Bill from the Government, there will certainly be enough votes to take it through the Second and Third Readings. Unless this 10% MRIR cap stays, once this Bill is passed without any amendments whatsoever, the HA will be free to impose any rent increase and there will be no ceiling. Is the proposal made by the Government to raise the rent by 10% every two years the best option? I do not think it is necessarily the best option. However, when compared to the Bill passing the Second and Third Readings and with all the amendments from Members being voted down, this amendment from the Government is a second best option though not the best. If there is no such an amendment, in future when the HA raises the rents, it does not have to be 10% for every two years. As LEE Cheuk-yan says, if there really comes a day, of course there is a very thin chance that there will ever be such a day, but if wages increase by 6% like this year and in the next by 6% as well, then the rents will be increased by 12% in two years.

It is because of this reason that the Democratic Party supports this amendment from the Government. Without such a miniature cap, would this be the best option for the some 600 000 PRH households? We have to think clearly on that. Mr LEE Cheuk-yan opposes earlier one of the Government's amendments, that is, on the 10% MRIR included in the process. The Democratic Party supports the proposals made by the residents' groups and LEE Cheuk-yan. We consider there is basically no conflict between them. Reporters often ask me if these will clash with the cap idea. Actually, there is no such a thing. It can be said that there is even greater restraint on the Government with respect to rent increases, for it can only be done when the two

conditions are met. The rate of increase would be lower if only one condition is met. This is true in mathematical terms. I know that the Secretary is very good at maths, so he knows what I am talking about and I do not think we should argue about that.

I would like to talk about one more thing. I started many discussions in the Bills Committee on the issue of rent assistance. In fact, I have repeatedly talked about it for many years. Why do I care so much about it? On this issue of rent protection for the residents, there are two sides to it. One is protection of a general nature, that is, protection for the ordinary PRH tenants other than those paying the rent for "well-off" tenants and those getting rent assistance. The other kind of protection is one which I often talk about. I respect these people very much. What are these people? They are the four-person households. The parents are working and they are not on CSSA and their household income is less than the threshold of \$11,670. Under the existing system, they cannot get any rent assistance. Suppose one of the parents is a cleaning worker and the other is a watchman, this is how their total income would fit in. The rent they pay could be 19.9% of their income.

A four-person household with a relatively more stable income, that is, a total income of some \$20,000, when it pays a rent of \$2,000, it is only 10% of the household income. And such households can withstand the pressure of a rent increase. For a four-person family which only has an income of \$11,670, even \$100 is quite a sum of money. We must always remember that for those PRH tenants whose income is close to the rent assistance income threshold, even a sum of \$10 or \$100 may affect their daily expenses or they must have to cut back on the expenses of their children in extra-curricular activities. They may not be able to have a family day every Sunday, like spending \$50 or \$100 for a meal in a Chinese restaurant like other families. They may have to be very careful even with sums like these.

From the time I was a member of the HA up to the present, I have a feeling that there should be a review of the existing rent assistance scheme. If we are to encourage people who want to go out to work, we should give a greater incentive to couples who each earn some \$5,000 and choose not to receive the CSSA payments. After discussing the issue for so many years, the Government has now accepted many suggestions made by the Democratic Party including expanding the scope for rent assistance and making improvements on many problems, especially the requirement that tenants will have to move out after

receiving rent assistance for a certain period of time. This is a very undesirable, threatening requirement. The result is that although there are 140 000 households eligible for rent assistance, only some 10 000 have applied. This is because they are afraid that they will be asked to move out. I therefore think that it would be ideal to abolish this requirement. It would be most desirable even if this requirement is completely scrapped as the requirement is not applicable only to those tenants of 1992.

I still hope that the Secretary can give some thoughts to this. We are not giving any special assistance to these people. He must always remember what kind of people they are. They are the working poor, that is, poor families with members working. They are those who prefer working to getting CSSA and their income is really very low. But under the new system, they still have to pay a rent of 18.4% of their income. For many other tenants, this 18.4% may not mean very much, but for those four-person households with an income of \$12,000, every dollar counts and a few hundred dollars would mean much to them. I hope that after the Bill is passed, that is, if it can really be passed, when the Government undertakes a review in the future, it should make a study into the relevant conditions. For example, it should examine if things can be made a bit lenient with respect to removal and other matters and this would enable tenants to benefit from the rent assistance policy.

President, with respect to rent review, the Government has not accepted many of the demands made by the residents' groups. I would like to give a fair comment and that is, when dealing with this Bill, the Government is at least somewhat more relaxed when compared to the debate last Wednesday. At least we can have a debate with the Government on some issues. I do not agree with the Secretary in some issues, and when I debate this issue with a cool head, I do not find any of his arguments convincing. However, he has accepted many of the principles including that on the cap as proposed by Members in the Bills Committee from various parties and groupings and even from the residents' groups.

Is this rate of an increase of 10% every two years too lenient? I do not think so. Tenants will still have to face rent increases. But compared to 20% increases for every two years from 1991 to 1997, this rate of 10% is not unchecked. We must also remember that it is not that there will certainly be a rent increase of 10% for every two years. If the wages of workers change, such as they get a rise of 3% in the first year and another 3% in the second year, then the rent increase will only be 6%. With respect to this point, I think the

Secretary has accepted the view of Honourable colleagues of this Council. The Secretary has also taken on board our view on rent assistance and he has made quite a substantial amendment which is rarely seen in recent years. In view of these, the Democratic Party will support the Second and Third Readings.

Having said that, I hope the Secretary can remember that even if the policy is endorsed with the passage of this Bill, it does not mean that the rent issue is resolved once and for all. We must always remember that many low-income people face a problem with the rents and they have a vastly different mentality on that issue compared with those with a stable income, let alone those who are well-off. There are many Members who are returned by direct elections and when they visit the PRH estates, sometimes they do not see why tenants care so much about paying \$100 to \$200 more in rent, because we do not share these people's feelings. I lived in a PRH estate when I was young and many people here also once lived in these PRH estates before. We do not live in these estates now and we may see things differently. For many of us, the Secretary or other colleagues, it is a very common thing to spend \$100, \$200 or \$1,000 for a meal. But for these residents, every cent and every dollar counts. We must remember that they do not just have to cope with rents but other things as well, such as the expensive transport costs, and so on.

So even if the Bill is passed, I still hope that the Secretary can handle with an open mind the issues of future rent adjustments and reform in rent assistance. Thank you, President.

MR LEUNG KWOK-HUNG (in Cantonese): President, I am very glad to see Secretary Michael SUEN sitting here to listen to what I am going to say. Once I went to his home in order to tell him what I had in mind. On that day, I wanted to give him a list showing him what are the effects of the Bill he has now proposed on the residents of PRH. As the saying goes: A scholar wants to buy a donkey and after writing three full pages, the word donkey is still nowhere to be seen. This is the same case with our political parties. They just keep on talking. They talk about this effect and that effect and they say certain effects are there and some are not there. Just what are the effects? These can be worked out in figures. I hope the Secretary can retract from his decision. This is because after he has revised the mechanism, there is a chance that PRH tenants will have to pay more than \$40,000 in rent over the next 10 years. And the kind of flats concerned is those asking for a mere \$2,100 in rent now.

Figures are the best way to show how a system or a change will benefit what kind of people. I do not know if the Democratic Party or the DAB has ever done that computations. I called upon them in the Legislative Council Panel on Housing that they should do something good and work out that sum, then post it in their branch offices to tell the tenants that if they are to support this idea, then over the next 10 years they may have to pay some \$40,000 more in rent. When parties are doing all these to ask the tenants to support them, they are doing these in good sense and for the good of the people. Has any party ever done that? No. I can tell you that this is really strange. When someone has done something that will affect others, he does not tell them about the outcome. All he says is that he is doing that for their own good. How strange this system is.

Today I read from the newspaper about Mr ZHANG Junsheng. There are many people here who know him and they may have drunk wine or sipped tea with him. About the issue of whether or not there should be universal suffrage in Hong Kong, he said that this was not the right time for it. For if not, Mr LEUNG Kwok-hung would not stand up in this Chamber. He also said that.....

PRESIDENT (in Cantonese): Mr LEUNG Kwok-hung, I see what you mean, but would you speak on the Bill?

MR LEUNG KWOK-HUNG (in Cantonese): President, this is related.

PRESIDENT (in Cantonese): Then can you please come back to the subject?

MR LEUNG KWOK-HUNG (in Cantonese): President, he was of the view that this was not the right time for universal suffrage. Because most people would vote for some people who are for the interests of the grassroots, hence the interests of the business sector would be neglected. Now I am standing here in this Chamber and I am elected by PRH tenants into the Legislative Council. There are many PRH tenants in New Territories East. There is a vast ocean of PRH blocks in New Territories East. I cannot help but speak up for the tenants here. I am a PRH tenant myself, am I not? There is only one person in this Council who lives in a PRH flat and of course I see the point.

I can tell Members that most PRH tenants would be really scared when they hear about this system. It is because some political parties are saying good things for the Government. There are some people who are saying good things for the Government out of their own initiative. The person who has gone too far in this is Mr CHAN Kam-lam. He has left. He is not in the Chamber. Oh, he is here. I am sorry. *(Laughter)* I have gone to the housing estate next to mine and he is a member of the District Council there. When I pointed this out, the residents there were very angry. This Ordinance was enacted back in those days out of sheer goodwill. And what is that goodwill? It is to subject the Government to some limitations when it wants to raise the rents. This is as simple as that.

Now what the Government wants are limitations in raising the rent. The two do not contradict each other. The first hurdle is whether or not the authorities can raise the rents. The second hurdle is when rents can be increased, how much should they be increased? However, the Government is saying that this will not do. The first task is to repeal the Ordinance passed by Members of the former Legislative Council who represented public opinion. The first thing to do is to remove the restrictions on raising the rent. The Court has confirmed that the authorities are not required to reduce the rents but they cannot raise them too. In other words, the Court of Final Appeal has confirmed that the authorities have an obligation to fulfil their pledge. What the Government is doing is that it will only play bad loser. It is giving you a small favour but in return it will take the best part of your chattels.

Secretary, under the present law, cumulatively speaking, by how much will the authorities have to reduce the rents? Some 30%. People from the same political party as Mr CHAN Kam-lam are also saying that rents should be cut by 30%, rents should be cut by 30%. This is the slogan they chant. Not something made up by us. It is worked out from computations. Can the Secretary tell me, if this rent adjustment mechanism starts to work, the first thing that should be done is to return the 30% to the residents. Now only 11.6% will be returned. Should we thank the Government for this? The situation now is like someone has robbed my money and he gives me \$10 so that I can hop on a bus and go home. This is like showing pity on me. In that case, do I have to say "thank you"? The authorities are saying that money has been given to you. In future, when you are flayed, fleeced and slaughtered again, you must say "thank you" to the authorities.

Members, we must make this point clear enough. Many people are saying that since a reduction of rent by 11.6% has been secured, should we not be grateful? Members, the Court of Final Appeal has ruled that before the law is amended, the Government should be subjected to limitation when it proposes any rent adjustment. Even if no reduction in rent is made, at least the rent which has been increased in excess should all be returned before any increase in rent can be made. I am surprised to see no one has raised this outrageous point in this Chamber. This is the first point.

Second, I know that Mr SUEN has poor eyesight. My eyesight is not good either. Now I want to show him the some \$40,000. President, I think he can see it even if this is a bit far away. This table I got here is really amazing. I have spent a lot of efforts to make it. Have the authorities ever told the people that there is a chance that rents will be raised some \$40,000 over the next 10 years? Have any figures been computed to show people this point? Can all those political parties which support the authorities not make a banner like this and post it in the PRH estates? Mrs FAN once stood for the election and of course she would know that in all the public housing estates and major streets, posters would be put up. But do we find any person who says that if residents support the Government, they will stand to lose \$40,000? No.

The truth I want to expose is that political parties which support the Government do not dare to tell the truth about the impact on the users. No one can tolerate this kind of mentality these days. Customers first, this is the rule of the game. Why should this mentality be adopted? Because the benefit of public housing is considered a kind of almsgiving, hence there is no need to ask those who take the alms. Is it a lie to say that the Housing Authority (HA) is subsidizing the PRH tenants? There is income from managing the PRH rents collected. People who borrow money should pay an interest. The HA does have an income, the only problem is that it is spendthrift. The Government is saying that it does not have enough funds and so it calls a stop to the sale and production of Home Ownership Scheme flats. It forgoes its source of income and it is pushing those PRH tenants who want to improve their lot to the corners. They must go out and buy a flat in the private sector and pay a much higher price. Otherwise, there is no way they can vacate units for those on the PRH Waiting List. For those people whom the Government is powerless to deal with, that is, those people who have taken the advantage, the Government just asks them to pay one and a half or double the amount of rent they are paying. Earlier on, the Government was even taking a crazy move as to lend them money to buy flats so

that they will cease to live in PRH flats. This move is only subsidizing the developers. Anyway, I do not want to pursue this matter now.

The Government has got countless ways to engage in segregation, raise the rents and make people leave their PRH flats. But the authorities are not using these methods. This is simple. For Donald TSANG's boss and Donald TSANG — actually the two are your bosses too — are bent on propping up the property market and they must make PRH tenants live exactly like the meaning of the title of the Japanese movie "House on Fire", overwhelmed by anxiety and fear.

Members, perhaps I would like to tell my story too. Twenty years ago, I was a cleaning worker in the Kowloon Motor Bus Company Limited. And 20 years later, I filed a lawsuit for a lady and found that her wage is less than what I used to get 20 years ago and her working hours are longer than mine. She lives in a PRH flat. What are PRH flats? PRH flats, especially the old ones and that even applies to those at Tung Chung too, are the homes of the poor. If a large chunk of her income, that is, 20%, is used to pay the rent, how can she improve her lot? I do not think this is a problem of maths, it is a policy problem. Has the Government ever thought about this? Has it ever done so when it is saying all the time that it wants to eliminate poverty?

I have talked about another story here. There was this young lady who was the vice-chairman of the student union. She saw me off when I had finished my talk and she said to me that she would have to quit school. I asked her of the reason. She said that her father was out of work. Her father used to be an electrician and he later became a security guard and there was no money to pay for her education. Will this mechanism which allows upward and downward adjustments in rent make her family pay more rent? How is this young lady to pursue her studies and will she be able to make a change to adjust to her financial situation? All these questions do not require answers. The answers can be found just by looking at the figures. For the some 3 million PRH residents, their interests are simply ignored. President, this is what I wanted to say from the very beginning. If this Council is to continue with the way it is and if it is not returned by "one person, one vote", this is bound to be what we will see.

Secretary Michael SUEN is not going to retract from his decision, for he has got the support he needs. For a piece of legislation which is passed by the

legislature, he is repealing it by means of this so-called amendment. Would he not feel ashamed? I do not know why Members are still giving him their support.

Members, Mr SUEN once called the police to arrest us and he wants to silence this view. What on earth is he afraid of? He is afraid that the PRH residents will know the truth. With great regrets, I have to apologize first here for I have not done my best to make PRH residents understand such a complicated mechanism. I am very sorry about it. I have pledged to fight for their interests but I fail.

I must add, however, earlier on I saw Mrs Selina CHOW say cheerfully that they had said long ago that it would not work and today was the time to rectify it. Then Mr CHAN Kam-lam echoed and said that he too was righting wrongs.

We should remember that this is the case with The Link REIT too. These things appeared to be good initially but in actual fact they are doing harm to the poor for the rich. I am sure there is a retribution for this. Those who do not have a conscience will say that there is no such thing as retribution. But the eyes of the people are always discerning. They can tell who is right and who is wrong.

The other thing is, as I have said many times, a government which does not heed the voice of the people, like Mr SUEN who insisted on having his way and tore down the Queen's Pier, is in fact sowing the seeds of estrangement and hostility among the people. President.....

PRESIDENT (in Cantonese) Please face the Chair.

MR LEUNG KWOK-HUNG (in Cantonese): I know. This is something you know as well. When he is doing things this way, surely he is to be blamed for the social discords in Hong Kong. Does he think that he can suppress us by the use of naked power? Does he think that people will be deceived by his tricks?

This is the skin of a watermelon. Actually, we are forbidden to bring this in. We know very well what is meant by treading on the skin of a watermelon.

And this is a banana skin. I know well enough that these things are often frowned upon on grounds of decorum and propriety. But this is what his proposal is in effect like. It is like the skins of a watermelon and a banana. They are placed on our way to make us trip over, not just for once, but twice. The watermelon skin is meant for us. The banana skin is meant for CHAN Kam-lam and all those who place their trust in the Government and who give it their support. I have actually made a distinction here. The watermelon skin is Mr SUEN and the banana skin is for those who trust in him.

I do not like to speculate on the soul of a person. My hope and wish is that they will really act in the interest of the people and that they can really mend their ways. A slave who thinks that he has been cheated will rise up in resistance, but a slave who wallows in pleasure will not know how to put up any resistance. Likewise, a person who comes to the aid of the wicked to perpetuate evil will not put up any resistance. I hope they can learn from this moral. I hope they can post the banner I have just shown them in the public housing estates as a way of holding themselves accountable to their constituents. Thank you, President.

PRESIDENT (in Cantonese): Mr LEUNG Kwok-hung, please bring your banner and fruit skins away later.

MR LEUNG KWOK-HUNG (in Cantonese): I will.

PRESIDENT (in Cantonese): This is because the banner will obstruct Members as they enter and leave this Chamber. As for the fruit skins, I am afraid they will attract ants.

MR LEUNG YIU-CHUNG (in Cantonese): President, I speak to oppose the Second Reading and I call upon Honourable colleagues to vote against the Second Reading.

President, why am I doing this? Because I think that the reason for this Bill being introduced in this Council for Second Reading is mainly the ruling made by the Court of Final Appeal in November 2005, after which the Housing

Department (HD) and the Housing Authority (HA) started to make an amendment to the Ordinance concerned. I remember in the Court, although the ruling was made by a majority of the presiding Judges, there was one Judge who agreed to the relevant provisions of the Housing Ordinance and he was of the view that the Ordinance could protect the PRH tenants and that the Government should reduce PRH rents.

President, the original amendment to the Housing Ordinance was proposed by me in 1997. My proposal included two parts. The first was to change the period of rent adjustment from the original two years to three years. In addition, the rate of adjustment in rent must not be greater than the inflation rate. However, my proposal was amended by Mr LEE Wing-tat and Mr CHAN Kam-lam respectively. In the end, the amendment of Mr CHAN Kam-lam was passed.

Since this Bill we proposed was passed with the support of a majority of Honourable colleagues, there is no reason why we should reject the law that has been passed. Moreover, a Judge also thought that the law could protect the PRH tenants. On this premise, why do we have to reject the law we enacted? Therefore, I would encourage and persuade Honourable colleagues to vote against the Second Reading of the Bill in order that the existing principles can be maintained.

President, what are these principles? In 1997, I proposed the amendment mainly because I saw what was happening at that time. The HD was raising the rents every two years. It was not adjusting the rents as such but raising them and there were only increases and no reduction was ever made. The rents were increased once every two years and the rate of increase was from 25% to 28% on average. It was a very high figure, and rents were increased every two years at this rate without a stop. As we know, rents would be increased all the time from this base and when there were such big increases every two years, the accumulated rate of increase would be phenomenal. At that time, many residents said that they could not put up with such a rate of increase because their salary was not growing at that rate. As a general rule, their salary would only increase by 2% or 3% in a year, but rents were increased by more than 20% every two years. How could their income catch up with the increase in rent? And rents were to be increased every two years. And two years would pass very soon and rents would be increased again. The income of the residents failed to catch up even with the rate of inflation and the pressure on them was great given that they had to pay for the increased rents.

We should think about some other questions. Why should PRH flats be built? What is the use of public housing? This touches not only on the right of accommodation of the people, but there are also welfare implications to it. Public housing would not only ensure that the people would have a place to live, it would also serve to ease the pressure in their life so that they can lead a better life or have the standard of their living raised somewhat higher and they may enjoy a reasonable standard of living. How can the people afford the rent when it is raised every two years and at such a great rate? It is because of this reason that they once lodged a complaint with me. I find their grievances justified because a tenancy agreement for commercial premises would usually last for three years, why is that for the PRH tenants two years? Why is there such an inconsistency? If rent is to be increased frequently, why can the interval of rent increases not be made longer, say, once every three years? In addition, can the rate of increase be humbler, that is, show more tolerance? It is not that no rent increase is permitted, only that the rate of increase must not be greater than the inflation rate.

In those days, the concept of a median was also fashionable. The HD also used the median. In determining new rents, as Mr LEE Wing-tat has just said, a median of 18.5% was used. Since Mr LEE Wing-tat and Mr CHAN Kam-lam were members of the HA at that time, so the preference shown by the HA was accepted. In this way, the median was used and the inflation rate was changed into the median and it was set at 10%. At that time I did not think that 10% was that good. Why? Because the median is the point in between. In other words, PRH tenants beneath this point are still subject to great pressure and this means that 50% of the tenants were still under great pressure. On the other hand, those tenants above that point, that is, the other half of the tenants, have a comparatively larger income and the rate of increase in rent would not create such a great impact on them. But that is not a very good practice. I did not agree to that. However, Mr CHAN Kam-lam told me that if I did not support his amendment, there would be no hope that my amendment would be passed. In such circumstances, I had to ponder over the question of how this issue was to be dealt with.

I found out that although the median was not a good thing, at least there would be a ceiling. That is the cap we are talking about. This ceiling or cap can enable us to see by how much can rents be increased and how great the rate can be. Therefore, all the Members returned by direct elections supported the

amendment proposed by Mr CHAN Kam-lam and so it became the law we have today. In other words, a rent review is to take place every three years and rents should be 10% of the median household income.

What are the effects of this law? I think the HA or the HD would never have dreamt of them before. The effects are the older buildings become less and less in number and the rents are revised upwards all the time. As there were great changes in the economy and income had dropped, so the result was that from 2000 the Government realized that no rent could be increased. This is because under the law, if rent is to be adjusted, the rate should not be more than 10%. The HA was smart enough to see that since any adjustment could not be more than 10% on each occasion, then it would mean that rents had to be reduced instead. Therefore, they took a very smart move, one that I had never thought of before and that was to impose a freeze on rents. When a rent freeze is imposed, it would mean that the statutory requirement could be circumvented. What are the bad results of this permanent freeze on rents? Since the economic conditions in a society do not change according to one's wishes but they are changing all the time, in the end, the median has reached an incredibly high level of 14.7%. This is far too much different from the statutory requirement.

At that time, the HA or the Policy Bureau concerned did not want to face the reality and so the median was allowed to soar while no rent was reduced. The PRH tenants became furious and they called residents' meetings. The residents thought — they used a rather unpleasant word but I think I have to say it out anyway — that the Government was shameless. Because although there is a law, it did not enforce it. This means that the Government did not comply with the law. How could this be tolerated? A PRH tenant stepped forward to sue the Government and initiated legal proceedings with it. Actually, that resident was forced to do so. President, the tenant was subject to great pressure herself because her family members told her not to cause so much trouble, that it would be useless for ordinary members of the public to sue the Government. However, she came out nonetheless and she felt that she was not doing this for herself, but for all the PRH tenants. Furthermore, she did not just represent all the PRH tenants but all the members of Hong Kong society. Since the law is there, she is convinced that the Government must never side-step the law. This is a government which has no respect for the law. How can this be possible? How are we to tolerate the Government when it is doing such things? So she thought that she had to take legal action against the Government.

A very strange thing happened. I do not know if Members still recall the result of the first round of the lawsuit. To everyone's surprise, this ordinary woman on the street won and the Government lost. Of course, the Government lodged an appeal for it felt it had been aggrieved. The result was one that we did not want to see, and the woman lost. In the end, the Court of Final Appeal closed the case by ruling that it would be alright if the Government did not raise rents by more than 10%. But there was no stipulation in law that rents should be reduced. The Secretary was very happy with the ruling and he was greatly relieved as he did not have to reduce the rents.

President, though this was the ruling given, I wonder if the Secretary would recall that he made a pledge at that time that irrespective of the outcome of the lawsuit, he would reduce the rents. That was what he had said. But unfortunately, he did not honour this pledge and he has never done it. I recall members of the public have put it this way: The Government owes the people some \$16 billion. This figure is worked out from the amount of rent that should have been reduced. It is most regrettable that the Government has failed to do it.

What should the Government do now? It has got a radical approach and thought up a new method, a new rent adjustment mechanism based on the household income of PRH tenants. The Government even says that if this new mechanism is passed, an 11.6% reduction in rent can be effected right away. It sounds all very nice because a reduction in rent is mentioned. Some tenants asked me when this rent reduction would materialize. They asked me that question because they might not hear too well and they just got overjoyed on hearing any news about rent reduction. President, why were they so happy? Because a reduction in rent was possible but because all through these many years, there had never been any actual reduction in rent, so they all hoped that this measure could be implemented soon. Also, as Honourable colleagues have said, economic conditions were really bad over the past few years and rents should have been reduced but there had never been any reduction. So there is really an urgent need for rent reduction.

However, even if a sense of urgency is there, it does not mean that things must be bundled up. Even if there is no new rent adjustment mechanism, that does not mean that no rent can be reduced. I think that argument is not justified. But the Secretary keeps on saying that it is not that they do not want to reduce the

rents, only that there is no mechanism to enable them to do so. Whenever we discussed the issue with the Secretary or his colleagues, they would say that they wanted to reduce the rents but there was no mechanism for them to do so. President, it is actually a very simple thing to reduce the rents. There is a law which now states very clearly that the rents should not exceed the 10% median household income cap. Now it is already 14.7% and what is needed is to reduce the percentage to 10%. It is that simple. What else should be considered? The law has made it very clear, why can this not be done? I just fail to understand.

In an arbitrary attempt to forge a relationship with things, the Secretary has invented an 11.6%. This 11.6% is different from the percentage worked out by us. As Mr LEUNG Kwok-hung has said, the percentage worked out is 30%, not 11.6%. Why does the Government have to do this? Why can it not do it according to the facts instead of making such a thing up? Some people may say, there is no new mechanism under the old law and there is such a mess now is mainly because the law is not written too clearly and there is no mechanism for rent adjustment.

President, it is true that the law does not have any rent adjustment mechanism. But it has a limit and no matter how much is increased, there is an upper limit and, that is, the 10% cap. This is clear enough. We do not mind if a rent adjustment mechanism is to be introduced, but what we do mind is, President, that there are no upper limit and no cap.

President, even if the authorities propose a rent adjustment mechanism today, I do not think it would matter so much, but the original 10% cap must not be scrapped. If this cap is to stay, I would think that it could work and it can complement a rent adjustment mechanism as well. Why can this not be done? What is being done now is to repeal the original law and change the three-year interval to two years. I think that it runs counter to the previous principle insisted by me, and that is, the PRH tenants should pay affordable and steady rents and they should not have to worry about any changes. If this effect is not achieved, I do not think I can give my support to the resumed Second Reading.

I therefore have this call upon Honourable colleagues. The PRH policy as applied to the tenants should aim at upholding their well-being and their rights.

Hence, the original mechanism should be retained and a ceiling must be imposed. Now the 10% cap as proposed by the Government is only a very small cap, not a big one. It is only when there is a big cap that can there be a stable base to maintain the living standards of PRH tenants. President, I so submit.

DR YEUNG SUM (in Cantonese): President, on behalf of the Democratic Party, Mr LEE Wing-tat already spoke earlier on to state our position and voting intention on the amendment in respect of rent adjustment. We shall first support Mr LEE Cheuk-yan's amendment, and then we shall also support the Government's proposal of increasing rents not exceeding 10% every two years, and that the rate of increase shall depend upon the actual price index and the overall rate of rent increases.

My speech aims at highlighting only one point, that is, the proposal that there should be a cap on rent increases. The Democratic Party agrees that there should be a cap on PRH rents. When this news was released, real estate practitioners and academics on economics challenged the Democratic Party for supporting the cap on PRH rents. They were of the opinion that the support for the cap on PRH rents violated the rules of free economy; and that since Hong Kong is a free economy, instead of being capped by legislation, rents should be determined by the supply and demand situation in the market.

Secondly, there is another allegation which says that since PRH tenants are already substantially subsidized by the Government, they should either move out of their PRH flats or pay more rents after their children have grown up. Some even say that there are already many well-off tenants living in PRH flats, why should we still support the cap on their rents?

President, first of all, allow me to make the following remarks. PRH flats provided under the public housing policy are completely different from the ordinary commodities in a free market. Basically, they are not goods in a free market affected by their demand and supply. Instead, it is a kind of social welfare. This kind of social welfare is not provided to everyone, but only to certain specific targets — the low-income people. With the provision of subsidies in public housing, they can lead a stable life, thus facilitating the improvement of their livelihood. I believe most Members who are present today have basically grown up in public housing estates.

President, with regard to the means tests, for example, the income ceiling for a four-member family is \$14,600 — it means that if the total income of a four-member family exceeds \$14,600, it is basically not eligible for applying for public housing. Therefore, PRH flats are not goods transacted according to their demand and supply in a free market; instead, it is a kind of subsidized welfare with its specific targets being the low-income persons.

President, I feel that public housing has played a significant role in Hong Kong. Over 30% of Hong Kong people are living in public housing estates built by the Government — a kind of subsidized housing. First, it brings about a stabilizing effect on society, providing low-income persons with accommodation. I can recall that I used to live in a squatter area in my childhood. After the outbreak of a major fire there, we could move into public housing. We were overjoyed at that time. We were first accommodated in a resettlement estate, and later we moved into a low-cost housing estate. Later on, after securing a job in the University of Hong Kong, I became entitled to a rent allowance. So we moved into a rented private flat, and in the meantime, we surrendered the PRH flat in Shek Yam Estate (we moved from Tai Wo Hau to Shek Yam Estate) to the Government.

In fact, the provision of subsidized public housing has enabled low-income persons to lead a stable life and raise their children. Very often, it also promotes social mobility. I believe many middle-class people have also grown up in public housing estates. It is exactly because the Government has provided such subsidy that they can make good use of the opportunity to climb their way up the social ladder and improve the conditions of their families. This has led to the emergence of many middle-class people. Therefore, public housing does serve a very significant social function.

However, very unfortunately, many people working in the financial sector or the real estate sector in a free market have failed to see that this kind of subsidized welfare has served great functions not just for some people, but it is also very useful to the stability and mobility of society as a whole. We should not think that no drastic changes should be made to some proven social policies — now over 30% of the people are living in public housing estates. We shall have to pay a huge price if we harbour such a thought.

Third, apart from stabilizing society and promoting social mobility, public housing can also serve many economic functions. We can see that, nowadays

30% of the people are living in public housing. This has facilitated their growth, and even enabled them to get married and raise their children. In fact, it has generated very strong uplifting effects on the entire labour market and the overall intellectual level. Therefore, if the cap on rent increases is removed, which is unacceptable to the Democratic Party, we should not link it up in any way with market economy.

In fact, regarding this rent-related ordinance, we have been fighting against the Government over it for a long time. I believe Secretary Michael Suen must have accepted the viewpoints of different sectors before presenting this rent adjustment mechanism with a 10% cap. This is because if the "cap" is not incorporated into it, the Democratic Party will not be able to consider it, let alone supporting it. Of course, we can enjoy the highest stability if the *status quo* can be maintained. But if the Government can have enough votes, we shall not be able to maintain the existing law. Therefore, we shall support the Government's approach, which is, though not the best, still better than the option of not having any cap on rent increases at all.

I so submit.

MR TOMMY CHEUNG (in Cantonese): Madam President, in the wake of a major fire in Shek Kip Mei in 1953, the Government started to build public housing to provide accommodation for the fire victims. Since then, public housing has kept on developing and making improvement for more than five decades, and all the various kinds of public housing have become the happy and sweet homes of more than half of the local population. Nowadays, more than 1.2 million people are living in subsidized flats for sale in the public sector, whereas over 2.1 million are still living in public rental housing (PRH). Since such a substantial population is involved, any changes in PRH rents will have a bearing on more than one third of the people. Therefore, we must be very prudent about this.

Shortly before the reunification in 1997, a private Members' Bill introduced by Mr LEUNG Yiu-chung and Mr CHAN Kam-lam was passed by the former Legislative Council, thus establishing the median rent-to-income ratio (MRIR) with its cap being set at 10%. On the other hand, the rent review cycle was changed from two years to three years. Consequently, during the 10 years after that, many disputes regarding the adjustment of PRH rents were triggered.

The Liberal Party had long foreseen the many inadequacies in the Bill which was introduced with great haste before the reunification. As such, we had already opposed it at that time.

In fact, the greatest absurdity of the Bill lies in certain wishful presumptions. At that time, Hong Kong was enjoying the greatest economic boom. Prices of all the properties in Hong Kong surged to historic high levels; the stock market witnessed great prosperity and the unemployment rate was low. Therefore, Members who sponsored the Bill had wishfully presumed that only inflation could ever exist in this world, whereas deflation would never occur; that the economy would only go up but would never decline; and that the composition of PRH tenants would never change.

So, when Hong Kong experienced the financial turmoil and the SARS outbreak, we witnessed the upsurge of the unemployment rate and the continual deflation that lasted several years. In addition, the number of CSSA families increased substantially and the decline of the birth rate reduced the number of persons in a family. As a result, the MRIR was artificially boosted up to a high level. But under the relevant ordinance, the HA was not authorized to introduce any rent reduction without violating the pegged ratio. With all these factors at work, there was no way that the PRH rents could be reduced, and on the other hand, PRH tenants had to bear the suffering miserably. Therefore, during this period of deflation, the PRH rents that could have been reduced were eventually not reduced at all. It was most unfair to PRH tenants.

For this reason, and due to their dissatisfaction with the HA's delayed rent review, some PRH tenants applied for a judicial review. At the conclusion of the proceedings that lasted three years, the Court of Final Appeal ruled in favour of the HA in 2005 in the rent reduction lawsuit. After paying the "tuition fee" in this three-year lawsuit, we started to realize that the existing PRH rent policy was totally outdated and a full-scale reform was wanting. Otherwise, PRH tenants will not be able to enjoy the opportunities of improving their lot through the reduction of rents.

In order to allay the concerns of PRH tenants, so that they do not have to worry about excessively high rent increases that might be beyond their affordability in future, the Liberal Party had proposed to the Government that the rate of rent increase every two years should be capped at 10%, thus ensuring that the rate of increase would be within the affordability of tenants.

Yet, when economic adversities necessitate a reduction of rents, the rate of reduction would not be capped, so as to alleviate the difficulties of PRH tenants as far as possible.

This "capping" proposal put forward by the Liberal Party would not cause too great an impact on the future adjustment of rents. As we take a retrospective look at the past decade or so since 1992, the economic growth rate during any two consecutive years was at most around 10%. Therefore, the rate of rent increase of 10% can already be considered as a very reasonable level. But this restriction should not apply to well-off PRH tenants; and on the other hand, as the rents of CSSA tenants were paid by the Government, so they would not be affected either.

Regarding households in hardship, we also think that we should help them by all means. So finally the Government agreed to relax the eligibility criterion for applying for rent assistance by lowering the rent-to-income ratio from 20% to 18.5%.

We are very glad that the Government has responded positively to our suggestion, so as to enable this PRH rent adjustment mechanism, which has taken tenants' income and affordability into consideration and provides for both upward and downward adjustments, to be accepted by basically most of the people in society; and we are also glad that the Bill can come to its Third Reading in this Council today. After this Bill has been passed and become effective, the rents of public housing will be reduced by 11.6%, thus substantially reducing the burden of PRH tenants who have been waiting for it for years.

But Mr LEE Cheuk-yan is now proposing to retain the original provisions. This is a step backward on the basic issue of the 10% MRIR cap which is an area most badly in need of rectification. He has absurdly requested to allow the co-existence of both the new and old provisions.

Mr LEE Cheuk-yan said that the retention of the old mechanism was an extra insurance policy, and that there was no conflict between the new and old provisions, and it was possible for them to co-exist. However, there are a lot of discrepancies between the new and old provisions, and they are absolutely two extremes. Let us take the rent review cycle as an example. The rent review cycle in the old mechanism is three years, whereas the one in the new mechanism

is two. The old mechanism uses the median income to determine the rate of adjustment, whereas the new mechanism uses the family incomes of PRH tenants as the criterion for making adjustments to rents. Not only are the differences of the two mechanisms substantial, they also contradict each other. I really cannot see how the two provisions can co-exist without affecting each other.

I would like to stress that, anyone taking this course of action is just creating unnecessary trouble. It is like what could have happened in the final of the World Cup Tournament in 2006, when France and Italy fought to the final stage in which the championship had to be decided by the penalty kick shootout. Suddenly, the French thought that they were at a disadvantage as Zinedine ZIDANE had already been sent out of the field. So they proposed to use the toss of a coin plus the penalty kick shootout to decide the winner. Should that happen, how can that soccer match carry on?

Please think about this. This Ordinance, enacted in a rush before the reunification, has already tortured the PRH tenants for 10 years. They have already been subject to incessant disputes, but their aspiration to rent reduction has not been realized so far. Are we hoping to make them continue to suffer on top of what they have already suffered during the past 10 years? I hope that Members can be more pragmatic and refrain from imposing any further hurdles for PRH tenants on the road to rent reduction, and that we can expeditiously pass the new rent mechanism which is accepted by the majority of Hong Kong people.

With regard to the rate of reduction proposed this time, it was set according to the following rationale. Since the last rent adjustment was made in 1997, so by comparing the present income of the people with that in 1997, we can work out the starting point for redetermining the rents. This is reasonable. So the Liberal Party supports the present approach of reducing rents by 11.6%. Even if the rents are reduced by this rate, the HA will already lose \$1.41 billion annually in rental income. Regarding the concern that reductions will come into effects slowly, but increases will be introduced very quickly, the Government has already agreed to cap rent increases at 10%, thus providing the people with a safety net. We find this adequate. Therefore, with regard to Mr Frederick FUNG's proposal of specifying that any rent increases should not make the average rent-to-income ratio exceed 15%, the Liberal Party will not support it.

With regard to the rent review cycle, we agree that two years are more appropriate because from our experience gained during the last decade, we can see that, with rapid changes in our economy, two years sometimes are already long enough to see lots of drastic changes taking place, let alone three years. If we wait for changes to accumulate for three years, the tenants will eventually have to shoulder a rate of increase that may be too high. Therefore, we cannot agree with the amendment of changing the adjustment cycle to three years.

In fact, regarding this legislative amendment for implementing rent reduction, the tenants must find it most helpful. After the rent reduction has taken effect, the monthly rents of about 70% PRH flats will be less than \$2,100, and that the MRIR will drop to 12.6%.

Apart from the rent reduction, we should not lose sight of the HA's earlier promise that there would be a one-month rent waiver, which means a loss of another \$963 million in revenue. This rent waiver is a belated undertaking by the HA. At the time of the SARS outbreak, I already requested the HA and Mr Michael SUEN, then Secretary for Housing, Planning, Lands and Works, to grant PRH tenants a one-month rent waiver so as to reduce tenants' burden. However, since the HA was plagued by the lawsuit on PRH rents, we had to wait until the conclusion of the lawsuit to make the request again. The Government at long last honours this undertaking when the Amendment Bill was tabled to the Legislative Council for discussion.

Besides, may I ask Members to note that, apart from taking care of the existing tenants, the HA also has the responsibility of continuing the construction of public housing, so as to help the grassroots in housing. In the meantime, the HA also has to take care of the feelings of the general taxpayers. Therefore, in implementing the rent reduction arrangements, it must adopt a balanced consideration of the overall interests of the people. The HA will not be able to get the support of people from all walks of life unless it can ensure the sustainability of its public housing policy.

Madam President, I so submit.

DR KWOK KA-KI (in Cantonese): President, I am not a member of this Bills Committee. However, since I grew up in a housing estate, and my earlier years

were directly affected by the public housing policy, so I feel that I must say something.

In 1953, after the outbreak of a major fire in Shek Kip Mei, the then Government, deliberately or otherwise, started to implement the public housing policy in order to address the needs of the people. It started with the construction of some seven-storey buildings and later it constructed today's modern buildings. Earlier on, many colleagues said that we should not provide too much welfare to PRH tenants because it would be unfair to taxpayers.

Can everyone move in and live in such public housing? Of course not. At present, PRH tenants can be classified into three categories. The first category of tenants can move into PRH flats only after they have been found to be eligible and have gone through such processes as making applications, waiting, vetting of incomes and assets, and so on. Tenants belonging to the second category are allocated PRH flats through compassionate rehousing, under which applicants have to go through a stringent vetting process. The last category includes tenants who become eligible for public housing because they are rehoused due to the clearance of squatter areas and old districts. They do not gain the right to live in PRH flats automatically or easily. From these three categories of tenants, we can see that most PRH households are low-income families. During the past few decades, public housing has served a very significant function — a social function that is a very important factor in bringing about social stability and enabling low-income persons and poverty-stricken families to have a chance to live in Hong Kong.

Both the public housing policy and health care policy have been policies in which we take pride here in Hong Kong. But it seems that some changes are being made to these two significant pillars. The Bauhinia Foundation Research Centre (BFRC) has recently released a report on health care financing, in which it is forecast that — since the BFRC has a very close relationship with the Government, it has already forecast that the Government intends to cap its medical expenditure. We do not know whether the Government would at the same time also hope to cap its expenditure regarding its housing policy, thus it would bring about a complete revamp of its public housing policy at this juncture.

I can see that Mr CHAN Kam-lam is in the Chamber now. I do not know whether he is grossly aggrieved because just now Mr Tommy CHEUNG levelled a lot of unfair criticisms at him, including the comment that this Bill was passed

in 1997 in a great hurry, and that it should not have been passed in 1997 because the overall economy then was very good and there was high inflation. I find such comments rather unfair because after I re-read Mr CHAN Kam-lam's relevant speech in 1997, I still find his speech rather reasonable and with sound principles. At that time, he said, "The DAB is of the view that the MRIR should not be higher than 10%." What makes us most discontented was, Mr Marco WU, then Deputy Director of Housing, severely criticized several colleagues — certainly including Mr CHAN Kam-lam — at that time through the mass media, saying that the MRIR of less than 10% was just an arbitrarily set percentage. Were such remarks similar to what Mr Tommy CHEUNG has said?

Mr CHAN also said that it was unfair that the Bill had not defined how the MRIR was determined. Mr CHAN said that he had not invented this MRIR; instead, it had all along been the standard and criterion used by the Government. Now this is the greatest difference: At that time, the percentage put forward by Mr CHAN Kam-lam was different from that put forward by the Government. At that time, the Government's proposed percentage was 15% to 18.5%. It was exactly for this reason that Mr CHAN expressed extreme dissatisfaction over Mr Marco WU, then Deputy Director of Housing, and said that Mr WU's comments were unfair. In 1997, the MRIR was maintained at 8% or 9%. However, after several rent adjustments, the rate of rent increase was already higher than the inflation rate, and for some of the PRH categories, the rate of increases was even higher than the accumulated nominal wage increase. With the completion of the redevelopment programmes of some old housing estates, most of the refurbished public housing estates have been commissioned. Even if the same rate of rent increase is maintained, it is estimated that the MRIR of public housing will only rise further in 2006.

The relevant legislation was enacted in 1997. The Government often says that Hong Kong is a place that upholds the rule of law. So, we must comply with the law. But what made us very discontented was, even after the enactment of the legislation in 1997, the Government had never reduced the PRH rents as required by law even though the MRIR of PRH tenants had kept going up. By the third quarter of 2006, the MRIR of PRH tenants had risen to 14.3%. Did the Government reduce the rents very easily and casually? No.

The rate of reduction which the Government will have to implement today, 11.6%, is not something granted to tenants as alms. First, this had been

necessitated by a ruling of the Court of Final Appeal, which legally required the Government to reduce rents according to this Ordinance. Secondly, according to this legislation, it is necessary for the Government to maintain the MRIR at below 10%. Why did the Government not do so after the Ordinance had been passed for so many years? In particular, in 2003, when Hong Kong was plagued by the SARS outbreak and the economy was at its rock bottom, and the people's incomes were most adversely affected. At that time, a lot of people were semi-unemployed, under-employed or unemployed. But the Government did not reduce the PRH rents.

Just now, a colleague said, it was like a match in the World Cup Tournament. Out of the fear of losing the match, someone moves the goal away from its original position when the scorer of the opposing team is about to shoot. Is this not a reflection of what the Government has done? As this law has not been enforced, then at this juncture, apart from reducing rents as prescribed by law, the Government even resorts to moving the goal away by repealing this law enacted in 1997. What on earth is this if it is not an act tantamount to moving the goal away?

I would like to reiterate that the Government must enable the grass-roots people and low-income persons to have a stable place to live in if it wishes to maintain a harmonious society. This is very important. The issue of PRH rents must not be taken as an isolated incident. During the past few years, the policies adopted by the Government have caused worries among many low-income or even middle-income persons.

First of all, the high land price policy has been revived. Through an agreement with property developers, the Government has changed the method of land disposal. An Application List system is adopted which literally fixes land premiums and property prices at a level which both the Government and the property developers consider appropriate. However, to the majority of people with ordinary incomes or middle-level incomes, those are levels that they can hardly afford. I am not sure if the Government wishes to see the recurrences of those past incidents which had caused widespread public grievances. But since we can see the emergence of such a trend, we cannot help feeling worried. The Government is "secretly collaborating" with property developers, and in many cases, high land premiums are still maintained at land auctions.

Second, it is about The Link REIT. As we all know, prior to the emergence of The Link REIT, the shopping arcades managed by the Hong Kong Housing Authority (HA) played two major roles: One is to generate a stable income for the HA, and the other is to provide PRH tenants with shopping arcades where reasonably-priced goods are available, particularly when more than one third of them are tenants in financial hardship or those low-income tenants. However, with the listing of The Link REIT on the local stock exchange, the golden eggs are now given to the investors, including well known hedge funds that have been raiding the Hong Kong market. Furthermore, the way The Link Management operates is driving shops popular with tenants out of the shopping arcades in public housing estates, including shops that, in the view of The Link Management from whom the rents collected are not attractive and do not have much prospects of paying higher rents.

By reading all these incidents together, we can see that the government policy has undergone a drastic change, which, I have to say, is causing a great uneasiness in me. Over the past few decades, whenever the economy of Hong Kong appears to become better and better, the disparity between the rich and the poor would actually become more and more serious. The number of low-income persons in relation to the overall population has kept rising. Not only has the Government failed to see this, it is rubbing salt into the wound by amending the law governing the level of PRH rents, which is simply unreasonable. Of course, finally, the Government has made a compromise after all by setting the rate of rent increase at less than 10%, but this remains much less desirable than the legislation enacted in 1997, which is a lot fairer by comparison. The reason the legislation proposed by Mr CHAN Kam-lam is fair is that rents are pitched at a reasonable percentage in relation to household income. At present, people are facing enormous pressure in terms of expenditures incurred, and this does not stop at paying rents for the public housing units. Apart from paying rents, people have to make Mandatory Provident Fund contributions, and soon enough, they will have to make Mandatory Medical Fund contributions. There are, in many ways, things that are beyond their control, such as education expenses for textbooks and stationery for the kids, and so on. These are weights adding to their burden. But it seems that the Government has not shown any compassion for them.

With the amendments made to the Ordinance, this particular safeguard, meaning that this more reasonable rent-to-income ratio which takes care of the grass-roots people and low-income persons in particular, will be abolished.

Today will be a sad day to remember, because it is most likely that the Bill will be passed. To me, what is even more regrettable is that some Members and the parties to which they belong have turned their back to the principle they used to uphold. I fail to understand why the principles that were once valid, that were once strongly defended some 10 years ago, would have become obsolete now? In fact, the arguments advanced then and now are somewhat similar, and the Government continues to argue that the ratio of 10% is not fair, but why is Mr CHAN, who felt free to criticize the Deputy Director of Housing, Mr Marco WU with rather good reasoning in the past, keeping his lips sealed today to the new amendments proposed by the Government? I think the people will feel unhappy about this.

As a matter of fact, the Legislative Council is capable of offering protection to the public, particularly the low-income persons, purely because we are able to work together in joined forces by throwing our weight behind legislation that offers protection to the public. However, if some of us should fail to move in the same direction, or if they are now tilted towards the Government on certain issues and are turning their backs to the constituents, PRH tenants and low-income persons who have been supporting them, I think it would be most regrettable indeed.

At any rate, the Bill tabled before us is going to be passed today. I certainly do not wish to see this draconian law which we find regrettable can be passed. Soon enough, after the Second Reading of the Bill, a number of amendments will be proposed. A number of Members of this Council will be trying to incorporate certain safeguards into this draconian law. Of course, on the whole, this is not going to make any substantial difference, but it is better than doing nothing at all. Therefore, I will certainly support the amendments proposed by these Members. Having said that, what I really want to do today is to vote down the new amendments proposed by the Government, so as to do justice to the public, particularly the PRH tenants.

With these remarks, I oppose the Second Reading of the Bill.

MISS CHAN YUEN-HAN (in Cantonese): Having a shelter is a basic need of every person. During the post-war period, the British Hong Kong Government faced a scenario where squatters were shooting up on hillsides and a lot of huts

were built by the roadsides, into which a large number of poor people cramped. After a major fire had broken out, the Government formulated a measure or policy under which the so-called resettlement estates were built in order to address the most basic housing need of the people. Given the poor economic conditions at the time, the people found it better to live in resettlement estates than sleeping in the hills or by the roadsides. The policy was devised in the difficult time of the post-war period of Hong Kong in response to the need of the population, particularly those who were unable to afford owning a property or renting a place. The policy keeps revolving to this day. In fact, from the '50s, '60s, '70s, '80s until the time when I first became a district board member, the Government had always described that as a kind of social welfare and an important policy aiming at taking care of the need of the grass-roots people. However, later on, the Government stealthily stopped calling it social welfare, but a service. I have argued with the Government in different tiers of councils, because I always believe that a person must have a place to live. If a person does not even have a place to live, how can he lead a stable life? As Mr WONG Kwok-hing said today, the stability enjoyed by society today is in a large part attributable to the Government's housing policy, which offers accommodation at an inexpensive rate of rent for the grass-roots people. People are given peace of mind and offered the opportunity to work their way through to an improved lot. Therefore, I hope Mr SUEN can think twice before trying to alter this government policy.

Madam President, tenants of public housing estates have demanded a rent reduction at times of deflation, a demand we have raised on several occasions. Mr SUEN also stated repeatedly that the law would have to be amended before rent reduction could be introduced for public housing estates. Originally, it was about rent reduction for tenants of public rental housing (PRH), but then he insisted on bundling up the amendment with rent. Maybe it is now fashionable to have things "bundled". I personally do not really understand why it is necessary for the Government to change a policy that has contributed to the stability of Hong Kong society. In comparing the current situation to that of the past, we are definitely facing a much more difficult time nowadays. In the past, people were able to improve their standard of living under the protection of public housing or low-cost housing. As they had a shelter and benefited from the inexpensive rent made possible under the Government's housing policy, people were able to work their way up the social ladder with their own efforts. Well, there used to be a Home Ownership Scheme (HOS), but it has been abolished now.

Therefore, it is clear that in the post-war period, the Government's housing policy aimed at taking care of the need of the grass-roots people. The stance of the Hong Kong Federation of Trade Unions (FTU) on the housing policy has always been clear: Public housing estates should be the framework, supplemented with HOS and private property flats. The fact that housing has become an investment and an economic activity is another matter. Still, the basic fact has remained unchanged, that public housing offers important protection for the grass-roots people who aspire to a stable life. I am reiterating our idea here now, that Mr SUEN already knows. We have discussed this repeatedly in this Council. The same point has been elucidated in meetings of this Council's Panel on Housing too.

Madam President, why are discussions being held on this Bill today? Members have recapitulated history. As a number of Members mentioned just now, prior to 1997, PRH rents had kept increasing. In those days, inflation was rampant, and the economy was exuberant. PRH rents had increased substantially. We used to argue with the Government: How much is a PRH flat worth? How much does it cost for the construction of a PRH flat, since rents had increased so substantially? We argued about the construction costs during the debates. As the Deputy Secretary may recall, we used to discuss this topic on a number of occasions. Later on, we figured out a way to put a "cap" on the level of rents, which, as is mentioned today, was introduced by Members of this Council by way of a private Member's Bill prior to 1997. Contents of the Bill, together with the amendments introduced, have been incorporated into the Ordinance as we know it today, including such provisions as extending the rent review cycle from two years to three years. In addition, a provision was introduced to govern that the median rent-to-income ratio (MRIR) be fixed at 10%, so as to impose a restriction on rent increases by the Government. Some people are saying that this particular measure is no longer necessary today, which we certainly disagree. With regard to this MRIR, it encompasses 50% of the people who keep enjoying pay rises, as well as the rest 50% who do not have any pay rises at all — a point I will elaborate further in a while. The point is, if we should discard this measure, will we be taking care of those 50% of people who do not have any pay rises at all? At a time when rents keep going up, have we ever taken this into consideration? Have we tackled this problem? The Government said it has not, so what are we going to do? How are we going to handle it? When we set the MRIR at this level in the past, we aimed at offering protection to the people's livelihood by setting a cap on rents. But the Bill put before us seeks to do away with this cap, that is, it is trying to remove this cap.

With regard to Mr WONG Kwok-hing's amendment — Madam President, I am not putting the blame on you — but in my opinion, Mr WONG could not propose his amendment probably because it conflicts with the long title of the Bill, and it conflicts with the policy of the Government. Madam President, I am not putting the blame on you. All I am saying is that Mr WONG could not propose his amendment, and we do not mean to blame any people for that. I am simply putting the core question to Mr SUEN. If the Government should take away the most important element, which is the amendment we made prior to 1997, it is most unreasonable in taking this course of action. The Government is asking the Legislative Council to deny our old selves, and I believe this is not going to be easy. If this part of the Government's amendments can be passed today, we would see it as a major retrogression in terms of government policy, and we hope the Government can think twice. As far as the overall stability of society is concerned, what does the Government think about this issue?

Madam President, the new legislation proposed by the Government seeks to revamp this provision. As I said just now, the Government has adopted a bundling approach and used it as a stake to hold Members to ransom. We certainly think that the Government is going too far. My personal opinion is that, with regard to PRH rents, if the public, or residents of private buildings..... of course I do not mean all the people from the middle class..... but if we have visited the public housing estates and came to know how tenants are leading their lives, I believe we may not unanimously support the Government. No, I do not think this will be the case. I attended a residents' meeting last night. I feel that there is a need to help the grass-roots people to address their basic needs. Since inexpensive rents offer protection to people's livelihood, we may hold further discussions on this issue in society. The public may not necessarily agree with the Government on what it is doing right now.

The position of the Government is that it agrees with some of our points, that there must be a cap on the rate of rent increase, and the cap is 10%. Initially, tenants failed to understand the matter. But after our explanation, they understand it now. That is to say, if the Government does not oppose having a "cap", then we will not oppose the amendments in this regard. However, the most important point is that, the Government is taking away the most important element of the deal, as we have said earlier on. In our opinion, the Government must not use this as a condition for exchange. I would like to say this to Mr SUEN. He is aware of my view, that these are two separate issues. The

Government proposed to review the level of rent every two years through introducing the current amendment, which seeks to alter the rent review cycle from a three-year interval to a two-year interval with a rent increase cap of no more than 10% in each subsequent review exercise. This takes the place of the original provision which stipulates that the rent review exercise be carried out at a three-year interval, and it takes away the most important safeguard for the people, namely the 10% MRIR cap. In my view, these are two separate issues. How can one say that they are equal?

I have stressed repeatedly that the Government is actually adopting the tactics of shifting the focuses. Tenants might get confused when they first heard of the argument. They told me, "Miss CHAN, since the Government has agreed to introduce a 10% cap, why should we still argue over this 10%?" However, every time after I had attended a residents' meeting, they would come to understand it. I would tell them: If they take away the 10% MRIR cap and substitute it with 18.5%, which rate of increase would you accept? Assuming that the median income is \$10,000, everybody would be paying a rent of \$1,000. But in future, after going through a host of procedures for making applications to the Rent Assistance Scheme (RAS), the amount of rent payable will be \$1,850. Once this point is made clear, PRH tenants would come to understand that the Government is forcing us to exchange conditions, and if we refuse to accede to it, rent reduction will not be offered to PRH tenants. The Government is bundling up the two issues. The tenants did not understand this initially, but after I had attended each resident's meeting, they would agree that they should not support this government proposal. It appears that the Government is employing a tactic which aims at creating confusion. At first, the people did not realize the problem, but upon detailed examination, they have now found out that it is not feasible. As a matter of fact, the practice of the Government is tantamount to stripping us of our most basic protection, and this does not protect the grass-roots people.

Madam President, I am a member of this Bills Committee. When the Government said we should stop insisting on using the 10% MRIR as a yardstick and offered protection to tenants through the RAS instead, we thought that was right. When the Government adjusted it from 20% to 18.5%, I found that acceptable. However, if the Government tries to swap this with the rent increase cap, which aims at protecting the tenants, we think this is totally unacceptable. Because the two things are different in nature. Even if the two things were of the same nature, if it means the rent will increase from \$1,000 to

\$1,850, how can I support that at all? Let us take an example. Assuming that a couple has a total monthly income of about \$12,000, working as a cleaning worker and a watchman, the rent payable by them under the old system is \$1,200. Now if the new system is adopted, meaning that the RAS is used instead of imposing a cap, the rent payable would be more than \$2,000. A simple calculation would enable one to realize that this is a problem. Therefore, if the Government was to replace it with this proposal, it would be unreasonable on the one hand, and it will distort the Government's original intent in formulating the policy on the other.

Besides, Madam President, I have also looked up some relevant information and found that the RAS is not particularly popular with the tenants, as demonstrated by the limited number of applications. As a matter of fact, when tenants apply for rent assistance in times of hardships, they will have to go through some exceptionally meticulous vetting procedures conducted by the Government, which are both troublesome and tedious. Well, we used to have a line, up to where any rent increase will have to stop, but now the Government is asking the people to apply for rent assistance, which is very troublesome. In saying all these, I am just trying to explain the issue to Members who do not understand the true implications of the issue, so that they can realize that the second measure proposed by the Government is to substitute the original 10% with 18.5%. But this cannot solve the problem.

Besides, the Government often said in meetings of the Bills Committee that this mechanism that provided for both upward and downward rent adjustments was better than the existing mechanism that used the MRIR to determine rents. In fact, more than half a year ago, I had discussed this issue with members of the HA. I asked them, "Is it true that the old policy no longer works?" Some academics said it no longer worked. But on the same day, in a meeting of the same committee, some other academics said the policy still worked. I feel that the situation should not be like that, right? Why did they say it no longer worked? When the Government sometimes said it worked and sometimes it said otherwise, then we should do some thinking about the flexibility of the mechanism, instead of abolishing the most significant safeguard in the existing policy. Therefore, the Government has been arguing against all reasons.

If colleagues believe that the Government's mechanism that provides for both upward and downward rent adjustments is feasible, I would like to invite

them to examine the issue more carefully. I have just said that, to those people who do not have the right conditions to demand pay rises, that is, those who do not have any bargaining power, this mechanism does not provide them with any protection. For example, many elderly people living in PRH flats rely on their children for the provision of financial means, how can they enjoy any pay rises? Also, how can the grassroots enjoy any pay rises? Although we enjoy rather prosperous economic conditions this year, the wages in the retail, restaurant, hotel and transport industries report zero growth. In other words, when our MRIR is like this, and when our economy is so good this year, suppose our salaries would generally increase by 5%, and we also assume that this group of people also enjoy a 5% pay rise, but actually they have to dig deeper into their own pockets in order to make an additional payment this year because in fact they have not enjoyed any pay rise at all. When we support this mechanism that provides for both upward and downward rent adjustments, have we taken this group of people into consideration? Has the Government taken this group of people into consideration? Does it want to force these people into opposing the Government? Personally I have been thinking that the grass-roots people have a lot of discontent during these few years when Hong Kong's economy has been improving. But can this mechanism that allows both upward and downward adjustments of rents help this group of people? I absolutely cannot see such a possibility.

Madam President, in the face of such a situation, I really hope that the Government can think twice. And I must also ask colleagues to think twice. Do not easily believe in the Government's mechanism that provides for both upward and downward rent adjustments, and please think deeper and consider factors with far-reaching implications. Madam President, in my opinion, as the wealth gap between the rich and the poor is widening, and the Chief Executive also mentioned the disparity between the rich and the poor, low-income persons and people in working poverty when he discussed the five most pressing problems of the Government, so this is one of the most pressing problems that the Government has to tackle. However, the present policy finds easy targets among people at the lowest stratum and those who have the greatest difficulties. Of course, the Government may say that they could apply for assistance under the RAS. But earlier on I already illustrated all the pros and cons of the RAS. As such, I called on colleagues to think twice. Mr WONG Kwok-hing suggested deleting the long title because he hopes that the relevant policy could be restored to its previous state. With regard to the mechanism that provides for both upward and downward rent adjustments, we may discuss it further, and

we will not oppose it. If all that is required is just some fine-tuning of the 10% cap, we will not raise any objection.

However, Madam President, most unfortunately, since day one of our deliberations on the Bill, whenever we raised some questions mentioned earlier, we would be refuted by Mary, a very hard-working official from the Housing, Planning and Works Bureau who is responsible for working with us in the scrutiny of the Bill. When we proposed to amend this, she said no way; and when we proposed to amend that, she said no way again. We really want to co-operate with the Government. In fact, we want to discuss with the Government not to delete the rent increase cap as a safeguard for the people, and we also want to hold some better discussions on the mechanism that provides for both upward and downward rent adjustments and some other issues. But whenever we raised any suggestions, she would invariably refute us. Therefore, when I come to this point, I cannot help becoming a bit angry. On the relationship between the executive authorities and the legislature, we do not oppose the idea of working hand in hand with the Government in enacting a piece of good legislation. However, if the Government would come to discuss with us only after it has adopted certain established policies, it would be very difficult for it to secure our support. Therefore, on the Second and Third Readings of the Bill, all the three Members from the FTU will abstain from voting. Thank you.

MR ALAN LEONG (in Cantonese): Madam President, the development of public housing in Hong Kong can be dated back to the '50s of the last century, when resettlement blocks were built by the Government to provide shelters to people affected by natural calamities and clearance of squatter areas. Low-cost housing with facilities better than those of the resettlement blocks were built at the same time. In the '70s, the then Governor, Murray MacLEHOSE, considered that the housing shortage was a primary source of conflicts between the Government and the people. He thus announced an enormous Ten-year Housing Programme and took on the task of providing housing for more than a million people. At present, approximately 30% of Hong Kong people are living in public rental housing (PRH) flats. These flats come complete with basic facilities at inexpensive rents. The inexpensive rents of such housing meant that many grass-roots people did not have to worry about their accommodation problem. I have always believed that this housing policy is a good policy of the Government, and we must carry on with this good policy, so that people who

cannot afford leasing or buying private properties can still have a proper dwelling place, thus enabling them to concentrate on their work.

According to a paper submitted by the Housing, Planning and Lands Bureau to this Council in early June this year, the Hong Kong Housing Authority (HA) will be building approximately 77 500 PRH flats over the next five years. With an average annual supply of 15 500 PRH flats, the HA believed that demand for public housing could be met, whereas the target of keeping the average waiting time for public housing at about three years could be reached. However, I am not only concerned about whether public housing supply can satisfy public demand. I am also concerned about if rents are set at reasonable levels, and whether these levels are beyond the affordability of tenants of public housing flats. These are issues that this Council should show concern about, in its capacity as a body supervising government policies and reflecting public opinions.

Madam President, today, while proclaiming to amend the Housing Ordinance, the Government is actually trying to repeal the provisions of the Housing Ordinance under which a cap on PRH rents is imposed. Although the Court of Final Appeal has ruled that the HA has no statutory responsibility to review and adjust PRH rents, so as to ensure that the median rent-to-income ratio (MRIR) for public housing shall not exceed 10% as a result of any rent increase, as a responsible government, it should really review the levels of PRH rents to see if they are affordable to the people at a time when the economy is in the doldrums, and when deflation, pay cuts and rampant redundancy persist. As Chief Justice Andrew LI pointed out in paragraph 12 of the relevant summary judgement, "The HA has the responsibility to review the rents and to consider from time to time if rent adjustments are necessary for the purposes of realizing its mission of providing affordable housing." However, instead of reducing rents, the Government only froze the rents or provided rent concessions. As a result, PRH rents exceeded the 10% MRIR for a prolonged period of time. Such a practice went against the original intent of the provisions introduced to the Housing Ordinance for regulating rent increases which were passed by Members of the former Legislative Council in the form of a private Members' Bill.

The Civic Party believes that public housing serves an important social function, and that it is not only an important social policy which helps stabilize society of Hong Kong, but also a key to Hong Kong's success. Imagine in the

'80s or the '90s when property prices skyrocketed, public housing was a cushion to stabilize society and the people. Irrespective of the fact that property prices had gone exorbitantly high, public housing provided affordable accommodation to tenants, making it possible for them to have peace of mind in working, spending, forming families, enhancing productivity, strengthening purchasing power and improving the standards of living, and ensuring that the economic growth of Hong Kong would not be stalled by the expensive costs of home ownership.

Madam President, being a safety net that offers protection to the right of housing of the grass-roots people, public housing has always served an important function in stabilizing society. Many citizens and families who now have their privately-owned properties were once beneficiaries of the public housing policy and the inexpensive rents, which allowed them to focus on developing their careers and nurturing their offspring. According to a survey published several years ago, 74.1% of the owners of Home Ownership Scheme flats were once tenants of PRH flats, whereas 35.6% of the owners of private property were once tenants of PRH flats. Public housing is like a revolving door for social mobility, playing a positive role in fostering social mobility. On the surface, it looks as if it only protects the right to housing of the grass-roots people; in fact, it also serves a social function of transcending class barriers to the benefit of society as a whole. I believe those who have lived in public housing will have a profound understanding of the "social function" served by public housing.

Madam President, at present, the economy is reviving, the stock market is prosperous, and property prices have soared considerably. A flat in the urban area with a floor area of approximately 600 sq ft will easily cost \$2 million to \$3 million. How can the grass-roots people afford it? Public housing is once again performing the important function of stabilizing society. In this regard, it is imperative to set PRH rents at reasonable levels. Public housing must be able to leave wealth with the people, so that it can function as a revolving door for fostering social mobility.

The Bill proposed by the Government seeks to repeal the provision which stipulates that the MRIR must not exceed 10% as a result of rent adjustment in general. This means repealing the protection mechanism of a rent increase cap. The Government always cites "in the absence of any mechanism" as the reason for "repealing the provision", but that is not correct. All we need to do is to

amend the existing Housing Ordinance to provide for a mechanism under which rents can be freely adjusted upwards or downwards. Of course, the Government will argue that the MRIR is not a good indicator for assessing the level of rents, as many external factors are in force which would boost the figure. However, according to the formula using the income index for rent determination as proposed by the Government in the Bill, there is no need to repeal the provision for a cap on PRH rents at all. All that is needed is the introduction of a mechanism under which rents can be freely adjusted upwards or downwards. The two of them are not necessarily mutually exclusive.

Madam President, regrettably, the Government has remained adamant, and it has insisted on repealing the provision for a rent cap for PRH flats, although it is willing to incorporate into the Bill a provision stipulating a rent increase cap of 10%. The Civic Party worries that this will pave the way for rent increases, which will significantly change the function of public housing in leaving wealth with the people.

The existing housing policy is flawed. The Government terminated the Home Starter Loan Scheme in 2002 and the Home Assistance Loan Scheme in 2003. It also stopped building and selling flats under the Home Ownership Scheme (HOS) in 2003. The HOS flats put to sale from last year onwards are unsold flats left over from previous HOS projects; once these flats are sold, no more HOS flats will be available. Evidently, the path that was previously available to PRH tenants in home ownership (be they HOS flats or private properties) by hard toil has been severed. Gone are the low-interest loans from the Government, or HOS flats which are sold at a discount to private property. If the purpose of introducing amendments to the Housing Ordinance is to pave the way for future rent increases, I am afraid this will completely defeat the original purpose of the public housing policy. If the public housing policy fails to leave wealth with the people, I am afraid it might turn out to be "leaving grievances with the people" instead.

Madam President, there are some people I know from the neighbourhood. In their cases, their children have already finished schooling and started working, but they are by no means making a lot of money. Still, they are required to pay 1.5 times of the rent or double rent. With the income they are earning, they simply cannot afford any private properties. If they want to go for HOS flats, those are only left-over flats, the supply of which will run out

after such left-over flats are sold out. In the end, in order not to pay double rent, their children have to detach themselves from the public housing register, and turn to live in rental accommodation in the private property market, leaving the old couple stay in the PRH flat all on their own. It is evident that the existing housing policy is flawed. On the surface, the Government is carrying out a PRH allocation policy for strengthening a family-based support network, but when this policy is enforced, it has become a policy sabotaging the family-based support network and sabotaging a closer and harmonious relationship among family members in a family-based support network. It risks reducing the public housing estates into ghettos of people who are poverty-stricken.

Madam President, finally, I would like to discuss the Rent Assistance Scheme (RAS). I certainly welcome the Government's indication of a willingness to relax the eligibility standard for applying for the RAS by reducing the relevant figure from 20% to 18.5%. However, I must point out that the RAS is just an administrative measure for alleviating the rent pressure of some of the PRH tenants. Yet, the Government should not deter tenants from applying for RAS by arbitrarily tightening the application criteria, or introducing some harsh additional requirements on applications. Of course, Madam President, you must also understand that if a tenant applies for the RAS but is asked to move out of the PRH flat two years later, this must be an arrangement that he or she is most unwilling to accept. Besides, it has come to my attention that many tenants do not know the existence of the RAS. When I went to meet the people in the districts, one of the tenants told me that his flat had been repossessed by the HA because he could not pay the rent after he became unemployed. Eventually, his appeal was also rejected by an appeal committee. When I mentioned the RAS, I asked him why he did not apply for assistance under the Scheme. I found that he did not know that such a Scheme had ever existed. Of course, by that time, it was already too late for any action because his flat had already been repossessed. In view of this, I hope the Government can actively launch a publicity campaign on the RAS. Finally, some tenants in the neighbourhood told me that when they applied for the RAS, the staff of the Housing Department or the management offices told them to apply for the CSSA, instead of the RAS. I would like to call on the officials to promote the RAS and provide greater convenience to the applicants so as to make it easier for them to make applications. Since they are eligible, so you should assist them in making the applications in order to help them solve their pressing problems.

Madam President, public housing does serve a social function of leaving wealth with the people, which is a very significant arrangement for the grass-roots people in their movement up the social ladder. Therefore, we think that the provisions in the Housing Ordinance specifying the cap on the rents should not be repealed. As such, the Civic Party will support Mr LEE Cheuk-yan's proposal, and oppose the incorporation of the provisions on repealing sections 16(1A), (1B), (1C), (1D) and (1E) of the Housing Ordinance. However, if clause 3 is successfully incorporated into the Ordinance, the Civic Party will support the Government's proposed amendment of introducing a rent increase cap not exceeding 10% of the original rent. Thank you, Madam President.

DR JOSEPH LEE (in Cantonese): Madam President, as a member of both the Bills Committee and the Panel on Housing, I would like to mention certain incidents that had happened during the past few months when we were scrutinizing the Bill and in the meetings of the Panel on Housing.

In fact, just as many Honourable colleagues have raised just now: What actually are the objectives of constructing public housing in Hong Kong? As far as I understand it, public housing in Hong Kong has all along served the function of, as what some colleagues said, catering to the needs arisen after the outbreak of certain major incidents in the history of Hong Kong such as the major fire in the racecourse, and so on; and then the Government went ahead to build low-cost housing. I do not wish to repeat all these. However, from my own observation, I think the prime overall objective of public housing is to enable those disadvantaged socially groups and those who cannot afford private housing to have dwellings. I believe it is not the Hong Kong Government's housing policy to enable all Hong Kong citizens to acquire their own properties. Instead, the Government has the responsibility of making each and every Hong Kong citizen to have a dwelling place. This is the most important point. That explains the emergence of public housing in Hong Kong, which provides all those who are in need with suitable accommodation.

I would like to quote an essay written by Dr Raymond SO, Associate Dean, Faculty of Business Administration, The Chinese University of Hong Kong. In it, he mentions the role played by the HA. Of course, with the introduction of public housing, the HA comes into existence. And what is the

role of the HA? Dr SO says, to this effect, "The role of the HA should be the provision of housing opportunities — to provide people in need with quality public housing flats at relatively inexpensive rents. Regarding the rents, they should be set at an acceptable level. But this does not mean that this rent should in effect imply social welfare. If someone does not have the means to pay rents, we should really provide them with assistance which should be administered by the Social Welfare Department. The HA should not have any confusion about the role it plays."

With regard to rents, I believe the HA or the Government would employ different administrative means. As mentioned by various Members just now, the Government would employ various administrative means to help those with difficulties in paying rents or those who do not have the means to pay rents, so as to alleviate their pressure in respect of rents. Certainly, Mr Alan LEONG was right in saying that we should not propose too many restrictions to the Government or make requests that are too harsh; otherwise, people who may need to apply for assistance under the Rent Assistance Scheme or CSSA may be deterred from doing so, thus making them face difficulties in housing.

From this, we can see that the most significant issue in our discussion on the problem is the rents. On the issue of rents, I believe one point is very important. Why does the HA have to collect rents? If we feel that public housing is a kind of social welfare, then I have a question. Why does the HA have to collect rents? Is it possible for it not to collect rents from the tenants? Or should it follow the example of the Hospital Authority: After collecting \$100 from patients upon their admission to hospitals, all the rest of the services are covered by subsidy.

However, I have a question for the Government. According to the Housing Ordinance, the rents collected by the HA must be set at a reasonable level, and cannot be set at a level that is either too high or too low, and the main objective in collecting the rents is to meet the recurrent expenditure of the housing estates. If my memory is correct, this is the objective of collecting rents. If so, we have another problem. In this case, can the HA tell me whether or not the rents set at the present level are adequate to meet the recurrent expenditure of public housing estates? Or has it been too cunning in charging rents that are too high in order to recover the costs? As far as I understand it, I think the former case should prevail.

Meanwhile, if the rents charged by the HA are all used on paying off recurrent expenditures of the housing estates, may I ask the Secretary: Can the Government work out how much in subsidy it has roughly given out to each flat? Can we have access to such information? Under such circumstances, with regard to the rents that we have been discussing, one of their objectives is to meet some of the recurrent expenditure of the housing estates.

The old law, regardless of whether it is considered a draconian law or a law that can protect the tenants, will make the HA face certain problems when it proposes rent adjustments or rent increases. As such, the HA put forward the mechanism which provides for both upward and downward adjustments in the rent review exercise in 2005. I personally think that such a mechanism can help the HA collect suitable rents to meet the recurrent expenditure of housing estates. However, when the HA determines the rents, it must set them at a reasonable level. In other words, if inflation emerges in society as a whole, the people may have pay rises, but other recurrent expenditures would probably rise as well. The HA would then be under pressure to introduce rent increases. On the contrary, when there is overall deflation, as in the case of what happened several years ago, the recurrent expenditures may shrink. In that case, the HA will be obliged to review the rents and make downward adjustments accordingly. This is a natural phenomenon.

However, it appears that the Government has adopted a certain practice, that is, during this rent review, since there were so many different proposals, though the Government feels that the mechanism which provides for both upward and downward adjustments can be implemented, it has to accept the requests made by people from different quarters by "capping" the rents, so a 10% cap is imposed. I find this phenomenon rather interesting. I have a personal viewpoint. When I heard of such a theory on different occasions, the following feeling would immediately come to my mind — it is like one day I was summoned into the office of my boss who told me, "Joseph LEE, I am now signing a new contract with you. You shall earn \$10,000 a month from your work here. If you demand a pay rise, you can get a maximum increase of 10%. But if I want to impose a pay cut on you, then I am sorry, I can cut your salary as much as I like. Please sign it." I found this rather weird. Why did my boss say this to me? Perhaps my boss would say, "Do not worry. In the past, pay cuts were seldom introduced. Drastic changes are not likely, and even for pay rises, the rate of increase would not be too large. You do not have to worry." And then I signed the contract. Is what has been happening now very much similar to this story?

In fact, the Government should have been able to put forward the mechanism which provides for both upward and downward adjustments, thus providing the HA with greater flexibility in the adjustment of rents. It would enable the HA to have better financial sustainability and strength. This is a very good intent. However, due to many other factors, the HA has to put forward such a viewpoint, which is very puzzling to me. I would like to once again quote another incident mentioned by Dr SO in his essay, "Nowadays, many policies are not considered purely on the merit of the rationality of the policies involved. The factors of consideration are not just limited to whether the policies are right, rational, or whether the concepts are explicit enough or whether the ideas are clear enough. Instead, it is all about compromises. This is fully understandable under the circumstances where different political groups are wrestling with one another." These remarks were also made by Dr SO.

Why do I have to quote these remarks? Because I know all too well that if we want to see this Bill passed today, undoubtedly there must be some kind of political compromises. However, I would also like to remind all Honourable colleagues and friends who attended the meeting that, in our discussion of rents today, we are in fact facing a mechanism which provides for both upward and downward adjustments. Do you accept this point? If we accept the spirit of allowing both upward and downward adjustments of rents, and if we feel that we are members of this society, as mentioned by Mr Alan LEONG, hence it is necessary to allow people to have upward mobility in society and make contribution to society, should we also allow the emergence of the spirit or the mechanism providing for both upward and downward adjustments of rents, thereby enabling the HA to use its rental income to help meet the expenditure of public housing estates?

Naturally, a most fundamental question is: Are the HA's present rent determination benchmarks reasonable? If the HA's present rent determination benchmarks are completely unreasonable, then this is exactly the area where we need to review, instead of discussing the HOS flats or any other factors or the issue of whether the law is a draconian law.

I believe that, as a member of both the Bills Committee and the HA, I feel that I am duty-bound to enable Members to consider this phenomenon clearly. Is the present mechanism reasonable? If this is a reasonable mechanism, why can we not pass it? On the one hand, I agree with the Secretary in saying that

we must learn to be schizophrenic because it is indeed very weird that while we agree to adopt the mechanism providing for both upward and downward adjustments of rents, we suddenly accept the "capping" of rents. On the other hand, it is understandable to have such a political compromise in this Chamber. I find the present proposal a feasible package.

Some Honourable colleagues also asked: What would happen if the previous 10% MRIR cap was proposed again and passed? If so, in my opinion, why did the HA need to conduct a rent review more than a year ago? It had better shut up, doing nothing at all.

With these remarks, Madam President, I support the Second Reading of the Bill. Thank you.

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

MR ALBERT CHAN (in Cantonese): President, today we are discussing the legislation that is known as an Amendment Bill — it suggests amendment, but actually it is an attempt to repeal a law. It repeals the original spirit and principles of the Ordinance at the time when it was enacted. Many Members have also pointed out that the underlying spirit of the Housing Ordinance was to cap the rents at 10% MRIR. However, the rents now charged by the HA have already exceeded the 10% ceiling.

Of course, the Ordinance was passed in a great hurry by the former Legislative Council in order to meet the deadline before the reunification in 1997. Mr Tommy CHEUNG was right in mentioning that several ordinances were passed in great haste. Of course, there were lots of incorrect arguments throughout his speech, but his description of the great haste was true. However, while passing the ordinance in great haste, we did only one thing not quite satisfactory, that is, we overlooked the possibility of deflation in which we should demand the Government to reduce rents. This was the part that overlooked by us. However, regarding the basic principle of safeguarding the rate of increase and capping the increase at 10%, it is commonly accepted and agreed by many Members in the Council at that time — such Members even include many colleagues who support repealing the legislation now. At that

time, many of them adopted a high profile in agreeing and supporting the 10% cap.

However, during the past 10-odd years in this Chamber, I have become accustomed to seeing them making a volte-face — it is commonplace for me to see them discredit what they stood for in the past. In short, as a Chinese idiom goes, "He who knows the time and circumstances is a wise man." Wearing the label of "pro-royalists", all they have to do is to vote for the Government. They cannot go wrong by taking this course of action because benefits will then follow, right? Political allegiance will always bring extremely great benefits in other aspects, be they appointments of some sort or some other benefits. We all know the rules of the game.

President, if it is the Government's intention to repeal the Ordinance, I think it should do it openly by repealing it direct and write a new law. It must be better than using the approach of making amendments. It is because while it is called an amendment, the spirit of the original Ordinance has been totally wiped away. The present approach leaves others with the impression that the action is taken in a less than open manner.

Several Members made reference to the housing policies of Hong Kong in the past. In the era of Murray MacLEHOSE, he put forward the building up of the community by the four major pillars; and the housing policy, the main element of the four major pillars, has contributed significantly to the stability of Hong Kong during the past few decades. I have mentioned the significance of these four major pillars on many different occasions in this Chamber. However, the Government is now gradually dismantling these four major pillars.

With reference to the essential changes made to the nature of the housing policy, the Bill we are discussing today is bringing about another new impact. The sale of The Link REIT was also a major impact. When the major pillars supporting the stability of our society are removed one after the other, it will essentially bring about factors of instability. But the Government simply couldn't care less about this.

As I had reminded several top government officials in 1998 when I led a group of negative equity assets owners in staging a demonstration: Be careful, or the fatal great waves would be coming our way. Among such top officials, one

of them has become the Chief Executive. At that time, they said that everything would be alright in six months. However, as testified by facts, it would lead to major disasters in society if we are not cautious enough in managing such crises. Such disasters in society may not so easily be detected by top officials who love to indulge themselves in glasses of red wine after dinner.

If the housing policy is gradually destroyed now, the hardship suffered by the lower class in their daily life will bring about some impact on their ways of thinking, and they may go further to deal blows to or challenge the authorities and those in power. This will definitely bring about substantial changes to stability in society.

Many changes have taken place in the housing policy, including the changes in the quantity of public housing construction, the changes in the residency rights policy and the changes in management, together with the changes in the rent policy now. It will definitely lead to substantial rent increases in future. Although the Government has stipulated a cap on rent increases in the present Amendment Bill, if we compare it with the 10% MRIR cap adopted 10 years ago, we would find that the new threshold imposed by the new cap has already been raised considerably.

According to an initial estimate made by the Meeting with the Grassroots Housing Rights Defense Alliance, even if the present cap is adopted to regulate the rents in future, some of the rents could have increased by more than 40% by 2020. The accumulated increase resulted from this sort of compound increases over the years may be negligible to Members of the Rich Party. The increases ranging from \$1,500 to \$2,000 are insignificant. For a bottle of red wine must cost more than this, right? However, the difference of several hundred dollars is already sufficient to pay for the exercise book expenses of one of their children for a full year.

As a Chinese idiom goes, "A worm that lives only in summer has no knowledge of ice." Perhaps rich persons can never understand the suffering of the grass-roots people or how significant this several hundred dollars is to their life. Considering the issue from the perspective of a free market, they may think that the rent for leasing an office in Central is already \$80 per sq ft. So they can never understand the financial pressure borne by these PRH tenants who earn \$8,000 or \$9,000 a month and who have to support the entire family with such an income.

Therefore, regarding the Bill we are dealing with today, the Government has made a lot of lobbying effort. They have done some special work for certain political parties, in particular, those "pro-royalist parties", and provided them with some graceful stepping stone for explaining what they will do. After the passage of this Bill, we shall see the display of some propaganda banners or boards on the streets saying that they have successfully fought for the capping of the rent increases. The "benevolent policies" of the Government, a result of their fighting efforts, will become the political tactics for them to deceive or mislead the people. Their moves could well be described as ugly because, when compared to the protection brought about by the previous legislation or the protection for the benefits of the grass-roots people, the differences and discrepancies are too great to be mentioned. However, it appears that these ugly politicians will make use of these political tactics to cheat not only their own conscience, but also the people.

President, in the papers presented to Members by the Meeting with the Grassroots Housing Rights Defense Alliance I am not sure whether Members have read them, but before casting your votes, regardless of whether you support or oppose the Bill, you should take a look at their papers they have highlighted several points, which I consider to be very important. I have already quoted a part of them, and I am not going to repeat it here. In general, their conclusion on the entire Housing (Amendment) Bill is: "The capping is false, the rent increases are real. Pretending to make concessions, they are actually repealing the legislation." These short sentences have explicitly highlighted the underlying spirit and principles of this Amendment Bill. Perhaps after the establishment of the SAR Government, the officials would like to repeal the laws moved by Members of the former Legislative Council by all means. Regarding those ordinances successfully enacted through the moving of private Members' Bills by Members, the Government must consider them as most vicious crimes, which must be eradicated. Perhaps the Housing Ordinance is one of those ordinances that must be eradicated, and the next one could be the Harbour Ordinance. The Government would take these actions step by step. Perhaps the public opinions are still very strong and the Government dares not take these actions now. But when the people are not fully aware of such moves, the Government would go ahead repealing all these laws enacted in the previous era. I think the Government would make such moves one after the other.

Personally, I do not think that this Council can successfully vote down the Government's amendments. However, regarding those Members who frequently discredit what they previously stood for in the past, their credibility as well as the dignity of the Council will be undermined. I can only implore Members to carefully examine and consider the spirit.

A point mentioned just now by Mr Tommy CHEUNG is very important, that is, even after the rent reduction, the overall rent still exceeds the 12% MRIR. I do not know whether this figure was provided to him by the Government or he had obtained the figure from the papers of the HA. Very obviously, what the Government is actually doing is to, through legislative amendments, enable it to legally make substantial upward adjustments to PRH rents, which will be even higher than the 10% MRIR cap stipulated by the previous legislation.

Of course, as I have said earlier, at the time of enacting the legislation then, the issue of deflation was overlooked, thus leaving us with no way of forcing the Government to implement rent reduction. However, after the passage of this Bill, the green light has been turned on and the Government can expeditiously catch up with the hidden concessions made in the past. So, the Government will be able to introduce substantial rent increases. Next, the grass-roots people, in particular, the PRH tenants and the low-income people, will be subject to this rate of increase. Their predicaments will come one after the other.

I would like to once again call on Members to take a careful look at this Bill, and we should oppose it at Second Reading as well as other government amendments. Thank you, President.

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

MS EMILY LAU (in Cantonese): President, several colleagues mentioned 28 June 1997 earlier on. That was a glorious day of Mr LEUNG Yiu-chung, though things seemed to be a bit rush. There was no time for consultation, because the whole thing would become spent upon the completion of consultation, if conducted. Almost 10 years have passed since the handover of sovereignty, and many people are reviewing the past.

President, I believe you may have noticed one point and that is, our legislature pales in comparison with that during the colonial era. Back in those years Mr LEUNG Yiu-chung could propose a private Members' Bill, and I also proposed in 1994 a private Members' Bill on the election of all Members of the Legislative Council by universal suffrage, but I lost by only one vote. Now, we cannot do it anymore; that will not happen ever again. So, I think the State President, in his next visit, must take a look at why, after the reunification, the powers of the legislature cannot even compare to that of the legislature of a colony. I think this is a regret to Hong Kong, and I think this is not very glorious to China either.

I agree with colleagues' comments about Mr CHAN Kam-lam earlier. The position of Mr CHAN Kam-lam is very important. He is in the middle and whichever side that he supports will succeed. Of course, he will not give you everything or say that he will support LEUNG Yiu-chung or anyone else for nothing. He will say that he supports you with strings attached and that if you do not accept the conditions, nobody will win. In fact, he acts in such a way not only today, for he acts in the same way all the time. President, I do not think I should recount what happened a long time ago, and I do not have the time to do so. Let me just recount what happened last week.

Last week, we discussed the rail merger. Mr LAU Kong-wah is staring hard at me; he can rise to speak again later. Last week, I said that since they in the DAB were so concerned about the residents of Tuen Mun in criticizing the Light Rail for not reducing its fares — I am not saying that they must oppose the Bill, but as long as they told Secretary Dr Sarah LIAO that they were prepared to oppose the Bill, the Secretary would immediately discuss the issue with them, just as what happened back in June 1997. But they refused to do so and the Bill was finally given the green light. Mr CHAN was willing to do so back then. The situation is the same now. There was no room for discussion at all in the beginning because LEUNG Yiu-chung said that if the cap would have to be removed, there would be no safeguard whatsoever. We were certainly very unhappy with it, but I must commend the residents who are sitting in the public gallery now, because they have worked very hard. But President, you are right that we should not shout or howl in this Chamber and we should only listen. But they have really been very hard-working; they have never given up their fight and they have had many meetings with us in the district.

Speaking of hard efforts, President, I have to make one point. Mr LEUNG Kwok-hung said earlier, "Secretary, you are here in this Chamber today, but I went to your residence the other day to see you." President, I very much respect the freedom of the people, say, freedom of demonstration. We will have a meeting on Saturday to discuss a Bill, the Bills Committee of which is chaired by Ms Margaret NG. The Bill serves to prohibit the taking away of the people's freedom of demonstration to express their views. But in any case, I think there should be a bottomline. He is a Director of Bureau. It is fine if you stage a demonstration to denounce him at the Legislative Council or the Government Secretariat. But should you do it at his residence? For Bureau Directors or the President of the Legislative Council or a Member of the Legislative Council or anyone else, they are only holders of a public office, and what he has done is not for Michael SUEN, but for the entire Administration. When we stage a demonstration, while I think we should protect the people's freedom of demonstration, it would cause nuisance to his family and also to his neighbour if the demonstration is staged at his residence, and I, Emily LAU, personally do not quite agree with this approach. However, I am just expressing my personal view and everyone has the freedom of expression. I think it is more appropriate to target a person's official position when we stage a demonstration or protest.

We do appreciate the concern of residents. I have taken part in demonstrations with them and I have had meetings with them and so, I appreciate their concern. I will support the various amendments to be proposed by colleagues later, because I think this is not a "deformed foetus" as described by government "sources", so to speak. President, the Secretary may wish to explain this to you a bit further later on, although he is a man, and perhaps only men would say such a thing. What does a "deformed foetus" mean? President, please do not frown. Some of them are frowning too, but this has actually been printed in newspapers and in big fonts too. The point is that you propose to give them double safeguards and this, I support, but I can sense this concern among the residents.

Some colleagues said earlier that one third of the people live in public rental housing (PRH) flats and so, this is very important and this, I absolutely agree. I am also very concerned about the disadvantaged groups but President, if we look at it the other way round, we will see that 70% of the people do not live in PRH flats. I, Emily LAU, have said over and over again that I am a Member of the Legislative Council representing New Territories East, and I am

also a Member of the Legislative Council representing Hong Kong. Some people who are not PRH tenants asked me, "What are you people doing here?" So, I have to listen to the views of various sectors of the community. We hope that protection will be given to the disadvantaged groups. So, you said that there is this cap proposed by LEUNG Yiu-chung, and what started to be CHAN Kam-lam's amendment has turned into Michael SUEN's amendment. And after all these years of efforts, is LEUNG Yiu-chung's proposal the best? But I have heard other voices, and apart from the authorities, there are other people questioning it too.

In fact, on such a controversial issue, I think we can never arrive at something that commands universal applause. But being Members returned by the people and Members of the Legislative Council of the Hong Kong Special Administrative Region, we hope that what we have done can protect the disadvantaged and also respond to those 70% of the people who do not live in PRH flats. We certainly hope that the amendments to be proposed by Members will be endorsed, but I really do not know whether they will be passed or not, because the votes are sometimes against the amendments, sometimes in abstention and sometimes in favour of them. The Secretary has exerted his utmost and done everything that he possibly can. President, the Legislative Council Building is crammed full of people everywhere. Dr David LI has just returned, which indicates that we are about to know the result. We still hope that the residents' effort will not be thrown down the drain. But we also hope that members of the public who do not live in PRH flats will appreciate why some Members of this Council, including myself, Emily LAU, will make these decisions.

Some colleagues said earlier that the rents should have been reduced a long time ago. This is certainly true. That we have to wait so long for the rent reduction is indeed infuriating, and the issue of rent reduction is also bundled up with the Bill. President, just as what happened last week, the fare reduction and the Bill were also bundled up together. Now that the Government has bundled up everything together and yet, it is outrageously saying that we pan-democrats are bundling things up together. The "kings of bundling" are Donald TSANG, Michael SUEN and Sarah LIAO. President, to put it plainly, what the authorities have done is actually telling us how incompetent and helpless they are. Honestly, I think it would be impossible for the Bill to pass if they do not resort to bundling the two things up together. In fact, many people have told us that they really hoped to see a rent reduction

soon, and residents sitting in the public gallery have also told us the same. The residents very much hope that the rents will be reduced, and they hope that there will be a mechanism and a cap. The point at issue now is that what the Secretary has proposed is not a cap and that only the existing one can be considered as a cap, and this is open to discussion. So, residents very much hope that the rents can be reduced but the authorities have bundled up things together. A government with credibility which knows what it is doing does not need to bundle things up in a way as if it is holding Members of the Legislative Council to ransom. I think this is disgraceful.

President, last week, they bundled up two things together, and I am against such bundling. At that time, I did not support the Bill as I found many problems with it, and I would still oppose it even if the fares would not be reduced when the Bill was not endorsed. Today, I have listened to the views of some colleagues, and I think I will support the Bill, although I do not think that it is good. I think it is not a deformed foetus. Even if the amendments to be proposed by Members are negated and even if things would really develop to such a sorry state, I would support the Bill proposed by the Administration. Certainly, we are aware of the concern expressed by many people about hefty rent increases in future. Frankly speaking, President, since one third of the people live in PRH flats, and if the Government would really increase the rents substantially, I think the people would take to the streets well before 1 July.

Speaking of 1 July, I certainly have to add one point. President, on 1 July this year, they must certainly come forth disregarding whether or not the rents will be increased. So, I hope the Secretary will understand this. Honestly speaking, President, the Secretary would remain in office only for one to two weeks more, as it is said that he will take over from Secretary Prof Arthur LI. I am really not sure whether I should wish him luck or what, for he may have to conduct a new inquiry once he takes office, and that would be most distressing. As many colleagues have said, our public housing policy is a good thing, whether we look at it as a legacy of the British or a continuation of policy. We hope that the authorities will appreciate the opinions of most Members of the Legislative Council and listen to the views of the residents. They should not proceed to do something hastily when they have obtained support from us, making us look stupid in the eyes of the people, for we should never support the SAR Government because once support is given to it, we would only find ourselves to be cheated. I do not wish to see this happen. Moreover, President, in respect of rent assistance, I share the view of Members, that

publicity should be stepped up, rather than telling the people to apply for the CSSA when they submit their applications. We should try our best to facilitate access to assistance by the disadvantaged.

With these remarks, I support the Second Reading of the Bill.

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

(No Member indicated a wish to speak)

PRESIDENT (in Cantonese): If not, I now call upon the Secretary for Housing, Planning and Lands to reply.

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): President, first of all, I wish to express my heartfelt thanks to Mrs Selina CHOW, Chairman of the Bills Committee on Housing (Amendment) Bill 2007 (Bills Committee) and other members of the Bills Committee for having thoroughly studied and scrutinized the new rent adjustment mechanism proposed by us and the Bill concerned in the 12 meetings held in the past six months. I thank also the organizations, people in the community and academics who have made representations at the public hearing sessions held by the Bills Committee during its scrutiny of the Bill.

In moving the Second Reading of the Bill, I already pointed out that the median rent-to-income ratio (MRIR) is affected by a host of extraneous factors unrelated to the level of income of the tenants and the rate of rent of public rental housing (PRH). At present, section 16(1A) of the Housing Ordinance (the Ordinance) provides that the MRIR of all PRH tenants shall not exceed 10% after any determination of variation of rent by the Housing Authority (HA) for any particular estate. This has brought serious problems.

First, the rise of the MRIR in recent years is largely attributable to extraneous factors, including a change in the distribution of household size triggered by a rising proportion of small households and elderly tenants, an upsurge in the number of tenants receiving Comprehensive Social Security Assistance (CSSA), an increase in the *per capita* living space, the replacement of

old estates by new ones, and so on. These factors render the MRIR unable to truly reflect the change in tenant's affordability.

Second, so long as the MRIR exceeds the cap, regardless of it being pushed up by extraneous factors or not, or despite the income and affordability of the tenants having increased, the rents still cannot be adjusted upward. Under the present statutory MRIR cap, any rent adjustment mechanisms based on tenants' affordability cannot operate fairly and rationally, neither can rents be adjusted upward or downward in accordance with tenants' affordability.

Third, in terms of the definition of MRIR itself, there will definitely be 50% of the tenants whose rent-to-income ratio will exceed the median; and any cap on the median only seeks to regulate that the post-adjustment MRIR cannot exceed that cap, without providing a clear guideline on the rate of adjustment.

In the light of the host of problems above, the HA has conducted a comprehensive and extensive public consultation on the rent policy of PRH and proposed a new rent adjustment mechanism. In place of the MRIR cap, this mechanism provides an income index which allows both upward and downward rent adjustments according to changes in tenants' household income.

Compared with the MRIR, the income index is less affected by extraneous factors. It can track the "pure income changes" of PRH tenants, such that the affordability of tenants can be better reflected, and that future rent adjustments can be more closely linked to the changes in tenants' affordability. Under the new mechanism, the HA has to adjust rents according to increases or decreases of the income index. Only when the overall household income of PRH tenants shows an increase will it be able to increase the rents. On the contrary, if the overall household income decreases, it will have to reduce the rents accordingly.

During the scrutiny of the Bill, the Bills Committee has held detailed discussions on the operation of the new rent adjustment mechanism as well as the computation of the income index. Having taken on board the views of the Bills Committee, we will table a number of amendments to the Bill to, among others, specify, in clause 16A(4), the definition of an "insignificant" rent adjustment, and that, in clause 16A(8), the Commissioner for Census and Statistics shall be appointed to compute the income index. I shall further elaborate on the details of individual amendments at the Committee stage later.

Individual members of the Bills Committee have sought to retain, under the new rent adjustment mechanism, the MRIR cap or any such similar cap on an average rent-to-income ratio. Mr Frederick FUNG will propose an amendment on this. As a matter of fact, the value of the rent-to-income ratio, be it calculated by the median or average, will be affected by extraneous factors, such that it cannot truly reflect the changes in tenants' affordability. Our purpose of proposing the Bill precisely is to replace the existing median mechanism, which is disconnected with tenants' affordability, with a new income index-based mechanism, to render PRH rent adjustment more rational and transparent and fairer. If the MRIR or the average rent-to-income ratio is retained, the new rent adjustment mechanism will be unable to operate normally because in the event of the MRIR, due to extraneous factors, exceeding the cap, even if the income index which tracks the "pure income changes" of PRH tenant increases, the rents can only remain unchanged or be adjusted downward. Hence, the MRIR or the average rent-to-income ratio and the new rent adjustment mechanism are incompatible and mutually exclusive. This differs from the arguments raised by several Members spoken just now.

I wish to put in plain words that if Members intend to retain the existing provision on the MRIR by vetoing clause 3 of the Bill at the Committee stage, thereby rendering the new rent adjustment mechanism a failure, I hold that this is not a responsible act. It will ignore every effort that the HA, the Legislative Council and members of the public have made in the past six years in establishing a new rent adjustment mechanism that is fair and rational to replace the MRIR. It will also waste the thorough discussion, study and outcome and consensus on the new rent adjustment mechanism reached by the Administration and the Bills Committee in the past six months.

In response to the views and aspirations of various sectors of society, the Government and the HA have made the sincerest overtures in making active and practical responses regarding four aspects, *viz* regulation by legislation, the new starting point for rent increase, improvement to the Rent Assistance Scheme (RAS) and the provision for a 10% cap on rent increase. I earnestly hope that Members will support the passage of clause 3 of the Bill at the Committee stage later to enable the establishment of a new rent adjustment mechanism.

Mr LEUNG Yiu-chung and Mr Frederick FUNG have proposed amendments to increase the two-year rent review cycle to three-year. The HA has prudently considered and reviewed the cycle issue. The rate of rent adjustment under a longer cycle of three years will be higher, to such an effect

that the tenants may find it hard to adapt. With a shorter cycle of two years, the rate of each rent adjustment will be milder. It will also allow the HA to adjust rents more timely and expeditiously in response to changes in the state of the economy and in tenants' income. In comparison, we hold that the two-year rent review cycle is more desirable.

Some members of the Bills Committee have also suggested to specify in the Bill that the additional rents payable by tenants whose incomes have exceeded the limits set by the HA be linked with the rents payable by other tenants in general. Under the existing Housing Subsidy Policy and Policy on Safeguarding Rational Allocation of Public Housing Resources of the HA, the rate of additional rents is calculated with reference to the rents payable by other tenants in general and there is no provision in the existing Ordinance on the calculation of additional rent. We thus hold that there is no need to include this arrangement in the Bill.

In the review of PRH rent and during the scrutiny of the Bill, the Government and the HA have been listening carefully to the views and aspirations of the Bills Committee, PRH tenants and different sectors of society. As I have said just now, we have made active and practical responses in four aspects.

First of all, we have used legislative means to strictly provide for the operation of the new rent adjustment mechanism with a view to providing rational statutory protection for PRH tenants.

Second, the HA has agreed that when the new rent adjustment mechanism takes effect, it will reduce across-the-board the existing PRH rents by 11.6% according to the extent of changes in the income index since 1997. After the rent reduction, the rental expenditure of some 70% of PRH tenants will be below \$1,500, while those of some 90% of the tenants will be below \$2,000. Upon passage of the Bill today, we expect the rent reduction will take effect on 1 August 2007.

Third, since 1992, the HA has been providing assistance through the RAS to tenants with short-term financial difficulties. We understand that quite some members of the Bills Committee worry that under the new rent adjustment mechanism, PRH households whose changes in household income are less than the average changes may require special assistance. Thus, the HA has agreed

to relax the eligibility criteria for RAS. Upon passage of the Bill in the Legislative Council today, the relaxation measure will be implemented together with the rent reduction on 1 August 2007.

Following the relaxation, households whose rent-to-income ratio exceeds 18.5% or whose monthly income is below 70% of the respective Waiting List income limit will be eligible for rent assistance. The HA will also revise the resident requirements and the requirement of moving RAS beneficiaries to cheaper accommodation after they have received rent assistance for three consecutive years. After relaxation of the eligibility criteria, the number of PRH households eligible for RAS is estimated to be nearly 190 000.

Some Members have suggested at different stages to prescribe the criteria of RAS in law. We hold that this suggestion will limit the flexibility of the HA to further improve the RAS as and when circumstances warrant. As a matter of fact, since the introduction of the RAS, the HA has reviewed and relaxed the eligibility criteria of the RAS for five times, *viz* in 1992, 1995, 2002, 2005 and this time (that is 2007). If the RAS is not implemented as a policy, the HA could not have reviewed and improved it so responsively.

Last but not least, during the scrutiny of the Bill, an overwhelming majority of members of the Bills Committee have sought to introduce in the Bill a specific cap on rent increase. As I have pointed out just now, under the new rent adjustment mechanism, the HA has to adjust rents in accordance with the rate of increase or decrease in the income index, and the rate of rent increase cannot exceed that of the income index. In other words, the new mechanism has provided a *de facto* cap on rent increase. We appreciate, however, the worry of tenants about the rate of rent increase, and that an explicit figure indicating the cap can help allay this worry. After considering the views of members and aspirations of tenants and consulting the HA, we will move an amendment to prescribe that PRH rents shall increase by the rate of increase of the income index or 10%, whichever is less. I have to emphasize that in the event of a reverse in the state of the economy, or a major change in tenants' income index from the trend in the past 10 years, we will need to consider whether a legislative amendment on the above cap has to be tabled to the Legislative Council.

Since the introduction of the provision on the MRIR in the Ordinance, in the past 10 years, much controversy or even legal proceedings have been

triggered in society regarding the provision. In order to allow for sustainable development of the PRH scheme and help low-income families with housing needs, we have to formulate a PRH rent adjustment mechanism that is fair, rational and affordable to the tenants and the community as a whole. The HA's proposal of a rent adjustment mechanism based on PRH tenants' income has been well-received by the general public since its inception. The Government and the HA have also made active responses in aspects like regulation by legislation, the new starting point for rent increase, improvement to the RAS and the provision for a specific cap on rent increase. I believe the present proposal have struck a balance between different aspirations and interests and laid a foundation for the sustainable development and forward development of PRH. I sincerely hope that Members will support the passage of the Bill and the amendments to be moved by the Government at the Committee stage so as to enable the early implementation of the new rent adjustment mechanism.

Thank you, President.

PRESIDENT (in Cantonese): I now put the question to you and that is: That the Housing (Amendment) Bill 2007 be read the Second time. Will those in favour please raise their hand?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(Members raised their hands)

Mr LEUNG Yiu-chung rose to claim a division.

PRESIDENT (in Cantonese): Mr LEUNG Yiu-chung has claimed a division. The division bell will ring for three minute, after which the division will begin.

PRESIDENT (in Cantonese): Will Members please proceed to vote.

PRESIDENT (in Cantonese): Will Members please check their votes. (*The sound of phone ringing came from the public gallery*) If there are no queries, voting shall now stop and the result will be displayed.

Mr James TIEN, Dr Raymond HO, Mr Martin LEE, Mr Fred LI, Ms Margaret NG, Mrs Selina CHOW, Mr James TO, Mr Bernard CHAN, Mr CHAN Kam-lam, Mrs Sophie LEUNG, Mr SIN Chung-kai, Dr Philip WONG, Mr WONG Yung-kan, Mr Jasper TSANG, Mr Howard YOUNG, Dr YEUNG Sum, Mr LAU Chin-shek, Mr LAU Kong-wah, Mr LAU Wong-fat, Ms Miriam LAU, Ms Emily LAU, Miss CHOY So-yuk, Mr Timothy FOK, Mr TAM Yiu-chung, Mr Abraham SHEK, Ms LI Fung-ying, Mr Tommy CHEUNG, Ms Audrey EU, Mr Vincent FANG, Mr LEE Wing-tat, Mr LI Kwok-ying, Dr Joseph LEE, Mr Daniel LAM, Mr Jeffrey LAM, Mr Andrew LEUNG, Mr Alan LEONG, Dr Fernando CHEUNG, Mr CHEUNG Hok-ming, Mr WONG Ting-kwong, Mr Ronny TONG, Prof Patrick LAU and Miss TAM Heung-man voted for the motion.

Mr LEE Cheuk-yan, Mr LEUNG Yiu-chung, Mr Albert CHAN, Mr Frederick FUNG, Mr LEUNG Kwok-hung and Dr KWOK Ka-ki voted against the motion.

Miss CHAN Yuen-han, Mr WONG Kwok-hing and Mr KWONG Chi-kin abstained.

THE PRESIDENT, Mrs Rita FAN, did not cast any vote.

THE PRESIDENT announced that there were 52 Members present, 42 were in favour of the motion, six against it and three abstained. Since the question was agreed by a majority of the Members present, she therefore declared that the motion was carried.

CLERK (in Cantonese): Housing (Amendment) Bill 2007.

(A phone rang again)

PRESIDENT (in Cantonese): There are many phones ringing today. *(Laughter)* People entering the Chamber to attend or view the meeting should turn off their mobiles. If there are urgent matters, one should not come here to attend or view the meeting.

Council went into Committee.

Committee Stage

CHAIRMAN (in Cantonese): Committee stage. Council is now in Committee.

HOUSING (AMENDMENT) BILL 2007

CHAIRMAN (in Cantonese): I now propose the question to you and that is: That the following clauses stand part of the Housing (Amendment) Bill 2007.

CLERK (in Cantonese): Clause 1.

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

(No Member indicated a wish to speak)

CHAIRMAN (in Cantonese): I now put the question to you and that is: That clause 1 stand part of the Bill. Will those in favour please raise their hands?

(Members raised their hands)

CHAIRMAN (in Cantonese): Those against please raise their hands.

(Members raised their hands)

CHAIRMAN (in Cantonese): I think the question is agreed by a majority of the Members present. I declare the motion passed.

CHAIRMAN (in Cantonese): Clause 3.

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

MR FREDERICK FUNG (in Cantonese): Chairman, in fact, clause 3 is the most important part of the Bill, because the Government proposes to remove the 10% median rent-to-income ratio (MRIR) cap as provided for in the Ordinance originally. This is the essence of the Ordinance, and the Government is going to perform a surgery on this very part and remove it.

According to what the Secretary has just said on this clause, I think the Government is actually trying to exchange things with us. In order to remove this rent increase cap, the Government has offered some concessions: First, a rent reduction of 11.6%; second, a rent remission for the month of February; and third, relaxing the eligibility for rent assistance.

I think these three policies relating to rents are proposed to facilitate the passage of the Bill. The Hong Kong Association for Democracy and People's Livelihood (ADPL) and I actually hold views that are different from those of the Government on each of these policies. Certainly, we do welcome the Government granting concessions in these three areas, but many of our views are different on the calculation method.

For example, on the rent reduction of 11.6%, the Government used 1997 as a starting point in its calculation. It is because in theory, the rents of the housing estates were increased in different stages starting from 1997 and so, 1997 is used as a starting point, and in the 2005 rent review, when comparing the income of public rental housing (PRH) tenants in these two years, it is found that the income of PRH tenants dropped 11.6% and a rent reduction of 11.6% is therefore proposed. But we consider it unreasonable to use 1997 as a starting point because the Housing Authority (HA) started to freeze the rents in 1998.

In other words, disregarding the reasons of the HA back then, be them political or financial reasons, that was the first time when it openly announced a rent freeze. That is, the HA considered it inappropriate to increase the rents in view of the rent level and the income of PRH tenants then. If we compare the income of PRH tenants in 1998 and in 2005 when the rent review was conducted, and if we use the 20% MRIR for calculation as compared to 15% if we use the new income index proposed by the Government, whether we use the latest method proposed by the Government or the MRIR as stipulated in the Ordinance before, the ratio is 15% and 20% respectively but the Government now proposes to reduce the rents by 11.6% only. There is this shortfall mainly because the Government chose 1997 rather than 1998 as a starting point for its calculation. So, I think if the Government intends to grant concessions, it should do so in a more reasonable and fairer manner, and if it takes back what it has already granted, I think that would be undesirable.

Second, a one-month rent remission. Concerning the one-month rent remission, I think the Secretary knows it only too well, because a lot of people are doing the calculation for him, and he must be well-versed in all the figures. If, between 2002 and 2005, the MRIR exceeded 10% every year, there should be a number of housing estates enjoying rent reduction in each of the years, and if we calculate the rate of rent reduction for the housing estates in accordance with the Ordinance, the HA had actually collected from PRH tenants more rents than it should.

Even if the authorities said that this calculation method should not be used and that other methods should be used instead, for instance, the HA had offered rent remission of as high as 30% to 50% to its commercial tenants during those few years; commercial and residential tenants in the private sector were actually able to enjoy rent reduction then, and during the outbreak of SARS, PRH tenants were the only group of people in the territory whose rent was not reduced and so, the proposed one-month rent remission serves only to offset their overpaid rent. Since you wish to really get down to calculation, I am more than happy to do the calculation with you. I think the one-month rent remission is much too mean.

If, based on what we have said earlier, the income of PRH tenants has dropped about 15% to 20% over the past eight years, as one month is equivalent to one twelfth and two months one sixth, a rent remission for two months will be close to 15% of the income index used by the Government. Therefore, a

two-month rent remission is more reasonable. We can see that the Government has again offered only half of the concession and withheld the other half.

Third, the rent assistance mentioned by the Government earlier. In this connection, I must admit that over the past year, the HA has — it is now proposed to be reduced to 18.5%, which is almost equivalent to 15 months — made improvements twice in a row by reducing the benchmark from the original 25% to 20% and then further reducing it to the present 18.5%. This, I very much appreciate, and the transfer requirement has also been relaxed and this, I also welcome.

However, these policies do not allow us in the Legislative Council to comment or to make decisions. Although the Secretary gave his consent today, he may become the Secretary for Education and Manpower or take up other posts in the future, and the new Secretary may have different views. There may even be a new Chief Executive who may also have different views because the Chief Executive, when elected, must act according to his platform, and everybody must act according to his platform. What if there will be a new Chief Executive and the next Chief Executive may have different views? I think legislation is the only guarantee. When we Members whose priorities are livelihood issues agree that legislation be made on this rent assistance policy proposed by the Government, I believe we can all accept it as a minimum or basic form of rent assistance policy.

So, we consider that there are some inadequacies in each of these three rent-related policies proposed by the authorities. Finally, I must point out that if these three policies are introduced in exchange for an overall cap, which means the original 10% MRIR cap as stipulated in the Ordinance that the Government is going to delete, there will be a huge difference indeed because with that 10% MRIR cap, the authorities do not have the means to increase rents under those circumstances; nor are they capable of doing so because they must at least wait until the MRIR has fallen from 14.6% or 14.8% to below 10% before they can increase rents. So, the proposed rent reduction of 11.6% is one-off; the rent assistance will benefit individual tenants only, and the rent freeze is also one-off. If this consideration is offered in exchange for an overall policy, I must say that this is comparatively too low a consideration.

Certainly, the Secretary also mentioned the problems with the median, and I agree that there are indeed problems. In this connection, I will point out later

on how my amendment will address the problems mentioned by the Secretary. Indeed, we have all along been discussing how we can identify a better option to deal with the problems concerning the cap. But much to our regret, Chairman, up to the present moment, the Government still has not considered how the legislation can be improved. The Government holds that no legislation is required and when no legislation is required, it means that no cap is required and if no cap is set, the problems mentioned by us at the beginning of the debate will arise. The rent policy is among the most important elements of the public housing policy and if this element is completely removed, we would think that the Government has given up too many things, or it might cause public housing to gradually develop towards marketization or deregulation, or it might result in domination by members of the HA in rental determination. But the HA is not returned by universal suffrage; its meetings are not open to the public; nor is it subject to the control of the Legislative Council. Therefore, many problems have to be resolved through the Secretary. As for the Chairman of the HA, I remember that he had come to the Legislative Council to attend our meetings on the substandard piling works incident, but he has not come again since.

Therefore, in our view, if the Government truly wishes to deal with the rent policy and remove the overall rent increase cap or the "big cap" — I would describe the rent adjustment mechanism proposed by the Secretary as the "small cap" — insofar as the "big cap" is concerned, we think that we are not convinced insofar as the Secretary's proposal is concerned. So, I hope that colleagues will not agree with the Government's proposal to completely remove this important part of the Ordinance, that is, the removal of the 10% MRIR cap, and I hope that colleagues will oppose the amendment proposed by the Government.

Thank you, Chairman.

MR LEE CHEUK-YAN (in Cantonese): We have now come to the crux of the entire Bill. When we oppose the incorporation of this clause, we are actually opposing the abolition of the original mechanism. Secretary Michael SUEN said earlier on that we would be irresponsible if we opposed the incorporation of this clause, for it would throw down the drain six years' of discussion of the Housing Authority (HA) and also the discussion of the Bills Committee over the past six months. This, I find most regrettable.

Chairman, firstly, I think the Government has power. The power rests with the Government. The Government has the power to reduce rent and yet, it has not done so. The Government is the first to be irresponsible. Secondly, the Government has the power to propose amendments after discussing with Members and yet, it has proposed no amendment. As I said at the outset, over the past six months in the Bills Committee, the Government had considered that there were problems with the old mechanism because many new tenants are singletons and this has resulted in a distortion of the mechanism. We proposed some solutions to address the distortion but the Government refused to listen to us and insisted on repealing the relevant provisions of the Ordinance. Since the Government insisted on repealing those provisions, there is no room for discussion between us and so, we must oppose the repeal of this part of the Ordinance by the Government and also the removal of the cap. What is wrong with this? Because we do not have the power to make amendments. In fact, we only have very little powers. Moreover, as far as we are concerned, even though some Members have proposed amendments, the amendments will eventually be put to separate voting, and under such a weird separate voting system, it is almost certain that the amendments proposed by Members will be negated.

Therefore, the power rests with the Government. If the Government genuinely wishes to improve the mechanism, we are more than willing to work in concert with the Government. But if the Government does not wish to improve the mechanism, we will have no choice but to choose the lesser evil and that is, to retain the original cap.

Besides, Chairman, some people have asked me to answer a question: If we oppose the removal of the cap, would it result in a deformed foetus? First of all, the entire executive is a deformed foetus. Frankly speaking, this Legislative Council of ours is also a deformed foetus. The executive is returned by an 800-member coterie, whereas half of the Legislative Council is made up of functional constituencies and the other half returned by direct elections, and it is a deformed foetus in itself. The two deformed foetuses are mixed together and this Bill is finally produced. Even if it is negated, no deformed foetus will be resulted, because it is entirely possible for both mechanisms to co-exist.

Why can they co-exist? Members must listen very clearly, as Mr Tommy CHEUNG said earlier that the two mechanisms could not possibly co-exist

because the old mechanism represents an adjustment method while the new mechanism represents another method. So how can two different adjustment methods co-exist? But their scopes of adjustment are different. The old mechanism is to trigger the rent increase or reduction. It serves only to trigger the process, without involving the rate of increase, whereas the new mechanism involves the rate of increase, and the income index is a reference for the rate of rent increase or reduction. Therefore, the new mechanism concerns the rate of rent increase while the old mechanism is about whether or not the rent will be increased. So, it is entirely possible for the old and new mechanisms to co-exist. If the old mechanism concludes that the rents should not be increased, the new mechanism could not take effect; if the old mechanism concludes that rents should be increased because the rent-to-income ratio is below 10%, the new mechanism could increase the rents at that rate. So, the old and new mechanisms govern two different things. The old mechanism serves to trigger a process whereas the new mechanism governs the rate of adjustment, and it is entirely possible for the two mechanisms to operate in tandem. That said, I must admit that the only difference between them is the three-year cycle for the old mechanism but the two-year cycle for the new mechanism. In fact, as proposed by a Member in his amendment earlier on, the new mechanism can be revised to three years and if both the old and new mechanisms are subject to a three-year review cycle, they would not be in conflict at all. This is why I hold that it is entirely possible for the old and new mechanisms to co-exist, and they together will not become a deformed foetus.

Therefore, Chairman, I hope that Members will support the exclusion of clause 3 from the Bill, that is, the clause about repealing some sections of the Ordinance, so that the old and new mechanisms can co-exist and perform their respective functions. To public rental housing (PRH) tenants, this can be regarded as double protection. While we considered the old safeguard important, as the Government is hell-bent on abolishing the old safeguard and providing a new one, we, therefore, propose their co-existence, because the Government is unwilling to retain the old safeguard despite our repeated calls for its retention. This is why we propose the co-existence of the old and new safeguards.

Chairman, I think the old and new mechanisms are not in conflict at all. Their co-existence is possible, and this will best safeguard the livelihood of PRH tenants and the future rent policy. For this reason, I urge Members to oppose the incorporation of clause 3 into the Bill. Thank you, Chairman.

MR WONG KWOK-HING (in Cantonese): Chairman, this clause under discussion now is precisely the crux of the Bill. If we look at the Blue Bill, the Government proposed that clause 3 be incorporated to repeal certain sections. What does clause 3 propose? Let me read it out here: "Leases of land in estates Section 16(1A), (1B), (1C), (1D) and (1E) of the Housing Ordinance (Cap. 283) is repealed". What does it mean? It means repealing the original 10% median rent-to-income ratio (MRIR) cap. This is what the Government seeks to repeal. In this connection, the three Members from the Hong Kong Federation of Trade Unions (FTU) will vote against it.

Chairman, I have to again put this "prop" which I borrowed from the petitioners in front of Mr CHAN Kam-lam.

CHAIRMAN (in Cantonese): Mr WONG Kwok-hing, you may exhibit the model. But please put it on the other side. Perhaps Miss CHAN Yuen-han would not mind you putting it in front of her instead.

MR WONG KWOK-HING (in Cantonese): Fine. No problem, no problem. I will use this space here for the time being.

Why should I again take out this model? It is precisely because if clause 3 is included and the sections are repealed, the rents would be like this model with a protruding top and worse still, the growth will never stop. So, we very much hope that Members who are concerned about people's livelihood will vote against it. Otherwise, how are we going to explain to PRH tenants in future?

Among the PRH tenants there are grassroots and also many middle-class people. The removal of the cap on PRH rents which the Government now seeks to do by repealing certain sections of the Ordinance has aroused opposition from many grassroots organizations and residents' groups. Alright, I can take this away from Miss CHAN now.

Chairman, in her speech earlier Miss CHAN Yuen-han mentioned that since the establishment of the social affairs committee of the FTU or since the '80s, we have constantly followed up and studied the public housing policy, and

we have all along advocated that the primary aim should be to provide public housing, while Home Ownership Scheme flats should be secondary. Why should it be a primary aim to provide public housing? Because PRH flats are provided at inexpensive rents. But the SAR Government now seeks to revise this major policy objective by removing the PRH rent increase cap and stipulating that rents will be adjusted every two years at a rate not more than 10% with reference to the results of surveys.

The Secretary's reply earlier on was lopsided. In colloquial terms, he is offering people "a mouthful of sugar first and then a mouthful of feces". The removal of the cap is "a mouthful of feces". How can "a mouthful of sugar" offset or make up for that "mouthful of feces"? That is impossible. So, what the Secretary has said is sheer sophistry and fallacy, and this, I consider most regrettable.

In fact, during civic education classes in schools, students must have come across how public housing has played a significant role and how it has ensured that the grassroots can have a sanctuary in the face of escalating rents, thus providing a cheap labour force for the economic development of Hong Kong and contributing to social stability and development, and this has facilitated the taking off of industries in the '70s and '80s. However, the SAR Government has outrageously sought to take away or even repeal a policy which has long been a success and which has taken forward the development of society. This, I think, is very, very regrettable.

Chairman, there is a saying that "Hong Kong people ruling Hong Kong will remain unchanged for 50 years". But now, it has only been a decade since the reunification and such a good policy is going to be thoroughly changed. This is indeed very disappointing to us.

It is entirely possible for the PRH rent increase cap to co-exist with the Government's proposal of adjusting rents every two years according to the income index at a rate of not more than 10%. In fact, from day one of the scrutiny of the Bill we already stressed this point very strongly, but the Government was unwilling to take it on board. The Government has, by way of the long title, imposed many restrictions to preclude us from proposing amendments. So, under such circumstances, we can only vote against the Government's proposal to remove the original rent increase cap.

I urge Members again to consider from Hong Kong's long-term peace and stability, from the protection of the livelihood of grassroots and from a caring perspective of ensuring that the grassroots who live in PRH flats can live peacefully and work in contentment. I hope Members will vote against the amendment.

Thank you, Chairman.

MR LEE WING-TAT (in Cantonese): Chairman, I speak in support of Mr LEE Cheuk-yan's proposal. I always consider that the big cap is not in any conflict with the Government's proposal of adjusting rents at 10% in a two-year cycle. The only thing I can say about it is that the Government will be more prudent in determining the rate of rent increase. I will be brief, for I do not wish to take up too much time.

In respect of rent assistance, I still hope that the Government will conduct a review after the enactment of the Bill because, as I mentioned briefly in my earlier speech, while the majority of the 140 000 tenants are low-income earners and the working poor, only 10% of them have applied for rent assistance, which is quite strange indeed. Certainly, according to our analysis, it is because the Government, when promoting the scheme, had said that tenants who applied for the assistance might have to move out three years later. This is far from encouraging and may have deterred many tenants from applying for rent assistance.

If the Government genuinely wishes to help these working-poor households whom I think well deserve our respect — as I have mentioned their situation earlier on, a four-member household with a monthly income of \$11,000 and a three-member household with a monthly income of some \$8,000 to \$9,000 still refrain from applying for rent assistance but choose to work, I hold that they should earn our respect. During the era of CLINTON in the United States, a new concept had emerged, namely, the workfare concept, not welfare, but workfare, which means welfare in work. It seeks to encourage people to work, rather than living on the dole. I think if the Housing Authority (HA) wishes to implement it, Mr LEE Cheuk-yan and I can give them some advice for their consideration.

First, measures should be taken by all means to obviate the need for tenants to move out. Second, an automatic mechanism should be put in place to facilitate tenants' application for rent assistance because at present, they must assess by themselves their eligibility for assistance before submitting an application. It is best that if the authorities can notify the tenants that they are eligible for rent assistance and ask them whether they would consider applying for it since they have yet submitted any application. I think if the authorities can take a positive attitude and the tenants do not have to move out, the tenants would not have to go through cumbersome procedures and coupled with enhanced publicity by the HA or the Housing Department (HD), more working-poor tenants would then apply for rent remission.

Certainly, some people said that this policy cannot benefit all the tenants. As I pointed out in my analysis earlier on, the general principle of the policy is to protect the interest of the majority of tenants, but we must always bear in mind that in any policy, disregarding whether it is the median or the mean as suggested by some colleagues, or the weighted average proposed by Mr Frederick FUNG, the normal distribution of income is hill-shaped, which means that most of the people are in the middle. No matter what index or figure we will look at, and even if we revert to the median, or even the CPI, that is, the Consumer Price Index, or the distribution of income adopted by the Government now, it will remain hill-shaped. In other words, no matter what approach is adopted, the rent paid by a certain percentage of people will be on the border line of rent assistance. For example, the previous threshold is 20%, and there were people reaching 5% or 10%, while some others were between 17% and 19.9%. If the benchmark is reduced to 18.5%, those in the range from 18.5% to 20% would be excluded, and the group of people on the border line of assistance would be those in the range from 16% or 17% to 18.5%. I am always of the view that the proportion of the rent payable by these people is comparatively higher.

As I have said repeatedly in the Panel on Housing, under this statistical pattern of distribution, the poorer a person, the worse treatment he will receive. This is not an outcome produced by the institution. Nor am I suggesting that Secretary Michael SUEN should be held responsible for it. He had studied Mathematics before and should know that this is always the pattern of distribution. To a family with a monthly income of \$20,000, a monthly rent of \$2,000 accounts for 10% of its income; in a family with a monthly income of \$12,000, a monthly rent of \$2,000 does not account for 10%, but 16% or 17% of

its income. In other words, the same amount of rent is reflected in different percentages as a share of the income of different households, and from these tenants whose rent accounts for the highest percentage of their income, we can see that disregarding whether the median, the CPI or the new proposal made by the Government is adopted, it is always these poorest people whose rent will account for the highest percentage of their income.

Certainly, the Government said that there is already a cap of 18.5%. When this cap is introduced, the rent-to-income ratio is 18.5% at most and any household with a ratio higher than that can apply for rent assistance. When I discussed this with Deputy Secretary Mary CHOW and Secretary Michael SUEN, I believe they were sincere in improving rent assistance and they were genuinely committed to putting the proposals into practice. But in order to put them into practice, it is best to take on board the views of Mr LEE Cheuk-yan and put in place an automatic mechanism whereby whoever meets the eligibility criteria will enjoy rent remission. If the Government does not consider it feasible, it can take on board my opinion by taking the initiative to inform the tenant in writing once he meets the eligibility criteria and saying, "CHAN Tai-man, your income has met the eligibility criteria for rent assistance but according to the records of the HD, you have not submitted an application. You are now eligible for applying for rent assistance and we ask you to consider submitting an application. If you are interested, please contact our office as follows.....". Indeed, this, I think, is a more positive approach and it is best to complement it with extensive publicity to put across to tenants the message that recipients of the assistance do not have to move out, and that they may be relocated in the same district if they live in housing estates built before 1992. I hope that a more comprehensive approach will be adopted, so that these working-poor households can be given more assistance. Thank you, Chairman.

MR LEUNG YIU-CHUNG (in Cantonese): Chairman, as a number of colleagues have said earlier, the crux of this Bill is to remove the most important spirit of the original Ordinance. In fact, the best person to speak in defence of the Ordinance should be Mr CHAN Kam-lam, because this is precisely the result of the amendment proposed by him back then. But perhaps Mr CHAN Kam-lam has been under a lot of criticisms over the years, such that he has changed his mind and so, he will not persist in upholding the spirit and essence of the Ordinance today.

In fact, I have not proposed any amendment in this respect. My proposals are about the Consumer Price Index (CPI). As I said at the resumed Second Reading debate on the Bill, my proposal is relatively moderate. It does not stop the Government from increasing rents; it only stops the Government from increasing the rents at too high a rate. This is why I propose the use of the CPI, which, I think, is better. As I have said, this median is in fact equivalent to a line in the middle. The poorest residents below this line will not benefit a lot from it. On the contrary, those above the line will benefit more from it. In spite of this, Chairman, I would still make the same remarks today as I did before the reunification and that is, I would support the original provisions of the Ordinance. Why? Because I can see one thing and that is, this is a "cap" on rent increase, and an ultimate "cap" as well, which shows the residents the limit of increase and this is most important. This is in line with the spirit of the Bill that I proposed in 1997 and that is, I hope that there will be a limit, and I do not wish to see the authorities increase the rents indefinitely. So, this limit is always necessary.

However, the Secretary refused to accept this. He does not consider this a mechanism. He only considers this as a cap and so, they do not know what to do if it is necessary to increase or reduce the rents. I agree with the Secretary. This is why I said during the resumed Second Reading debate on the Bill that we could further enrich its contents within the parameters of this cap. I think that would be most desirable. This is also the reason why I support the original Ordinance.

The Secretary said earlier that should we really oppose the incorporation of clause 3 into the Bill, it would mean wasting all the efforts made on studying the mechanism over such a long period of time. He said that he would find it most disappointing, and that we Members would be irresponsible in so doing. Chairman, I think the Secretary is really going too far in making this comment because firstly, it is normal that we have different views. Why must we see eye to eye with the Secretary and why can we not have our own opinions? If we are criticized as irresponsible for holding different views, that would be most distressing. Chairman, more often than not, we would criticize each other and this is certainly because we had different views. Could we simply criticize each other as being irresponsible all the time? I think this logic is unacceptable.

Second, the Secretary said that we are irresponsible, but I would think that the Secretary has been more irresponsible than we are. Why? The Secretary

has threatened us again earlier, saying that if clause 3 is not incorporated, the Bill would become a deformed foetus even if the Government's proposals were endorsed later, in which case it would be necessary to withdraw the Bill. I think the Secretary would be really irresponsible if he withdrew the Bill. It is because I think this cap and the mechanism proposed by the Government are complementary with each other and they would further improve the Bill. But the Secretary outrageously said that he would withdraw it. I think he is not only irresponsible, but also irrational and unwise, and it shows that he has no confidence in the new mechanism proposed in the Bill. Chairman, why do I say so? Because the Secretary said that under the rent adjustment mechanism, the rate of increase will be determined according to the income of residents and is subject to a 10% cap and this is already a limit, unless the Secretary tells me that the future income index will increase to a level beyond 10%. Will that be the case? The Secretary is shaking his head. Chairman, since the Secretary is shaking his head to indicate that it will not exceed 10%, why should he be so afraid of this cap? Does the Secretary have the confidence to tell us not to be worried, that the rents will not be increased by a large margin and that the rate of increase will be very low as the figures over the past decade were on the low side? Since the rate of increase will be low, why does he not allow this cap to exist? Since the increase will not exceed the cap, why should he be afraid? This cap only means that no adjustment can be made to rents when the ratio reaches this level. It does not prohibit adjustment when it is below this level. It is not true that rent adjustment is not allowed in that case.

Therefore, if the Secretary criticized us as irrational and irresponsible, I would think that the Secretary is most irresponsible. The authorities have spent so much time and colleagues have put in so much effort to study such an ideal adjustment mechanism, so to speak, but the Secretary said that if the cap would be retained, he would withdraw the Bill, writing off everything in one stroke and dealing a blow to both sides. What good will it do? This is *de facto* a threat to us, and it is like losing one's temper and saying that if you do not love me, you shall love no one else. Such a "take-it-or-leave-it" culture is horrifying. He seems to be suggesting that Members or this Council shall be led by the nose by him and that we must follow whatever the Government says. What does it mean? It means that the legislature is only a rubber-stamp, not having its own views, not having its own opinions. What are we people sitting here doing? We should not have taken all the trouble to hold a debate here and we can simply stamp a chop and then finish everything. Chairman, that should not happen.

We do not wish to see this happen to this Council. We would like it to have its own observations, its own opinions. If our opinions are consistent with the opinions of the public or the community, we should present such opinions and persistently uphold them. What is the point of we persisting in nothing but only listening to whatever the Government says? In that case, we would need no directly-elected Member, and it would do to have a fully-appointed Legislative Council, would it not? In fact, this is against the development trend of society. There must be a parliamentary assembly returned by the people, in order for different views to be reflected in it.

So, I hope that the Secretary will really be more solemn, more serious and more rational in considering this Bill. If he is truly confident that the rate of adjustment under this new adjustment mechanism will not be shockingly high, he should allow this cap to exist, so that it can put the mind of tenants at ease and when they feel at ease, they can live in peace and work in contentment.

Chairman, I so submit.

MR LEUNG KWOK-HUNG (in Cantonese): Chairman, now that we have come to the crux of the matter, that is, repealing the law. This Council has, in fact, repealed many laws. The first is repealing the right to collective bargaining and it was done in less than 10 days after the reunification. Then there was the scrapping of the two Municipal Councils and on that occasion, Secretary Michael SUEN had indeed made all Hong Kong people gasp with profound astonishment, because he had kept on beating about the bush before the vote was taken. So, Secretary Michael SUEN has actually been doing quite good insofar as his officialdom is concerned, for he gets all difficult jobs done for the Government, and this explains why he has been unshakable.

I went to the Secretary on 3 June and learnt that after he had refused to accept my form, he went to the Race Course to watch horse races and so, he certainly did not see my form. In fact, I had submitted an amendment but it was rejected. It was rejected because it would obstruct the Government in amending a piece of legislation previously enacted by the Legislative Council. This is really weird in logic, because this is a proper piece of legislation enacted by a legitimate legislature (the legislature before the reunification though) and yet, the Government wants to repeal it. I wish to defend it, but the Government has the power to repeal it because of the executive-led set-up, and what I wish to do is to

protect a piece of legislation that nobody would wish to protect. I have thought about whether what I am doing is superfluous and meaningless; in fact, I am not. No matter how hard the Secretary tried to sell his proposals or to confuse us, the key is that his purpose has been spelt out too conspicuously. The Government would not have done this if the original "cap" can remain unaffected.

As I said in my speech earlier, no matter how pleasing to the ear the Secretary sounded in making those remarks, a rent increase would be very easily triggered as long as the rent-to-income ratio is not calculated using the median income. Today, the Government only proposes to cap the increase or reduction of rent at 10%, and that is all. I do not know what are in the minds of those colleagues who will vote for the Secretary today. In supporting the Government, they are actually announcing to all public rental housing (PRH) tenants openly that they do not care about the burden of rent on the tenants or whether or not the Government can prevent the evils of rent increase. Many people said that since the wages have been increased, what is wrong with an increase in rents? Will the Hong Kong Government have the guts to increase rents after wages are cut? The Government would not be bold enough to do so, right? The problem is that these people are actually oblivious of the plights of the people. To people whose wages are below the median income, their wages have not been increased in real terms, which means zero growth, or even worse, considering the increase in prices as a result of inflation. There are loads of live examples in this regard, and this is also a point made by the Census and Statistics Department and the Social Welfare Department, as the number of working poor applying for CSSA has increased considerably as a result of working poverty. This is a fact cast in iron.

The Government once threatened this Council, saying that it would destroy everything or even remove the cap if the Bill is negated. Our colleagues were frightened and proposed one or double caps as a counter-measure. Mr Frederick FUNG was hoping to do this. But much to our regret, this cannot be done, because after the Government has counted the votes — it is like a Scrooge having counted the money in his pocket and found that he has enough to hire an assassin to kill someone, so why should he be worried? They can simply hire an assassin to kill someone since they have money to spare after all.

Today, we are confronted with a political problem and that is, under the provisions of the Basic Law, this Council has entirely lost its function as a

watchdog over the Government. When it comes to enacting legislation, no proposal can be made so long as it has a bearing on the Government's administration, policies and expenditure. Such being the case, what else can we do? We then sought to do it by way of Committee stage amendments but we finally lost the case in Court, which means that we lost the right hand. Then there is the separate voting system, which means that we lost even the left hand. This explains why the Government could divide and rule by forging an alliance sometimes with the Liberal Party, sometimes with the DAB, and sometimes with the Democratic Party. Under this policy of giving out "candies" separately, most political parties, for election's sake, and in order to be able to say during the election what they have done for their voters, have no choice at all. This is a political reality.

Today, we can see here that the Government has again employed the same tactic and that is, repealing the law. But what I consider most saddening is that when the several pieces of labour legislation on, among other things, the right to collective bargaining, were repealed in 1997, they were scrapped by a Provisional Legislative Council fully appointed by the Communist Party of China; it was different when the two Municipal Councils were scrapped as there were already one third of Members being returned by direct elections. Today, in the name of amendment, the Government seeks to repeal a piece of legislation which can spare millions of PRH tenants of the ordeal of rent increase and facing greater hardships in their living as a result of rent increase, when the composition of this Council is now equally shared by the two groups of Members.

What we have seen is how the Government tries to fleece the public instead when it has tided over the low ebbs in politics. I can assert that if Hong Kong people generally continue to take this attitude, they would be given a death sentence of dismembering the body and cutting off their flesh bit by bit. All the reforms which are beneficial to Hong Kong people, such as setting a minimum wage, had eventually failed to obtain a majority vote and were thus negated, right? Minimum wage and the capping of rent increase actually serve to provide safeguards to the same group of people, the poor people living in "partitioned cubicles" and PRH flats.

Why does this Government treat us in this way? Why do political parties in this Council side with the wicked? In a word, it is because Donald TSANG's government has adopted a policy which is premised on affinity, a policy which prefers to destroy everything, rather than giving way to the wish

of the people. Every time when a policy or a piece of legislation is tabled in the Legislative Council, it is always in the form of "all or nothing". Our colleagues have consistently yielded to the Government, only to fight for a little bit of rights and interest for Hong Kong people. This is actually condoning the evildoers. This is tantamount to forgoing the status as the eldest son only for a bowl of red bean soup. They have kept doing things which only worsen the situation despite the good intention, or acting for their personal gains, or with the purpose of showing their voters that they have done something. They would say that although the Government is doing badly, it has done something but Members like "Long Hair" is the worst, because they had achieved nothing for they are unwilling to make compromise with the Government. What a huge lie it is.

The Government will never make reluctant concession because of opposition from the public. In other words, the Government absolutely will not make concession not approved of by its master because of opposition from the public. Universal suffrage is a case in point. Minimum wage is another. Today, I must ask the Secretary this: The Mandatory Provident Fund (MPF), for which half of the contribution is made by employers, seems to be going down the drain in the process of hedging, and it has been 10 years now. It was the same case back then. He was asked to set up a central retirement pension scheme and he considered that unnecessary and proposed the MPF. It has been 10 years now. For bad things, he is not going to make any changes, and for good things, he is nevertheless reversing them. This is reality.

In fact, I would like to seek advice from colleagues who will support the Government. Do they know that when they vote in support of the Government, it means that they would do the same if they were the Chief Executive? Then why are they still taking Donald TSANG to task? They are no different from Donald TSANG, for they are throwing weight behind Donald TSANG's policy. In other words, they would speak at the Chief Executive forum that they would do the same were they Donald TSANG, and if Donald TSANG becomes the opposition party, they would still tell Donald TSANG to do the same. This is really a political problem.

I think it is alright to give a vote to the Government, but have we consulted our supporters before giving a vote to the Government? We always criticize the Government for not conducting consultations, but have we consulted our supporters? Have we paid a visit to them in the districts to consult their views

on whether or not they would support us if we are going to do this? No, we have not. So, I have repeatedly challenged Members on this point. All it needs is a simulated formula, and LEE Cheuk-yan or Frederick FUNG can work out a simulated formula which can then be posted in the main passageways in PRH estates. But has anyone done this? If nobody has done this, it is actually tantamount to cheating, and we would be like the Government as we have not told our supporters the truth. We are cheating them, telling them that we had no choice but to yield and compromise and that we were convinced by the Government. Buddy, if we can be convinced by the Government so easily, why should we still bother to oppose the Government? Some people may say that they are not opposing the Government for the sake of opposition. They are right. Today, I am standing here to oppose the Government for the 3 million-odd PRH tenants.

I would like to ask the Government's apologists this: For what are they supporting the Government? For science, mathematics or what? They owe us an explanation. I think they should come forth bravely and say: Foolish PRH tenants, you are too raw to understand that the Government is actually right. So, I have no choice and I have to fight for the truth and I have to support the Government. But they are not doing that.

So, I would save the trouble of accusing the Government today. I only wish to ask those colleagues who support the Government what they actually support.

MISS CHAN YUEN-HAN (in Cantonese): Madam Chairman, I think when I spoke earlier during the resumed Second Reading debate on the Bill, I did not cover all the details relating to this part, and I very much wish to discuss it with Secretary Michael SUEN because during the scrutiny of the Bill, as I pointed out in the last part of my speech earlier, all colleagues (including sponsors of the amendments today and those who disagree with clause 3 of the Bill) had long hoped to discuss with the Secretary in order to come up with a proposal.

We did consider a diversity of options, such as WONG Kwok-hing's proposal of reverting to the median, and Members may note that he proposed reversion to the median. It was originally 10% in the Ordinance in 1996 and in order to facilitate discussion, WONG Kwok-hing is willing to pitch it at 12%.

We have consulted community organizations and we visited public housing estates to consult the views of tenants. They considered that this figure can be adjusted and that the 10% cap, which the Government dislikes, is open to discussion. But the authorities said no, arguing that the median would only handicap adjustment. Then I further raised it with Mary, for I did not understand why they could propose their amendment but we were not allowed to do so. When Frederick FUNG proposed using the average, the authorities said no, because the average proposed by Frederick FUNG is not going to work. Then the Consumer Price Index was proposed, but they again rejected it.

I wish to emphasize that we Members already made it clear right from the first day of the scrutiny that we wished to examine the Ordinance in depth, hoping that the Government would not repeal the main spirit of the existing Ordinance and that it would retain the "cap" as well as the rent policy which safeguards the tenants. We had explored this issue in many different ways but honestly speaking, Secretary, I do not know why we could not really come down to discussion. I had once asked Mary directly not to be so agitated when she spoke, and her shrill voice had outdone that of CHAN Yuen-han, and it made us become very agitated too. I think the responsible officials had worked very hard to defend the Government's policy, for they adamantly refused to discuss it with us and so, I had made fun of her about this. But this government official was indeed very hard-working, although she did not see eye to eye with me, and we had often argued with each other.

However, I think during the entire scrutiny process, disregarding which figure colleagues had proposed, all that we wished to do is to find a better..... a bottomline for the protection of tenants. We absolutely do not agree to trade it off for an 18% rent assistance benchmark. No matter how hard the Government has tried to promote it, we will not agree to it, for these are two different matters. It is a matter of logic that they are completely different in nature, so how can a comparison be drawn between them? I wish to emphasize this point.

Besides, some people said that WONG Kwok-hing may have a good chance, because we are here today to discuss the incorporation of clause 3 about repealing some sections of the Ordinance and the Government had said that it would withdraw the Bill if its incorporation was negated, or Frederick FUNG's

amendment is said to have a good chance. In fact, if the Government was willing to discuss with us.....

(There came again the sound of a telephone ringing from the public gallery)

CHAIRMAN (in Cantonese): Excuse me, Miss CHAN Yuen-han. Security guard, this person shall be barred from returning to this Chamber, because it was the third time that his telephone rang.

(Security guards escorted the person away from the public gallery)

CHAIRMAN (in Cantonese): Miss CHAN Yuen-han, please go on.

MISS CHAN YUEN-HAN (in Cantonese): Madam Chairman, I must say that I take exception to the comment made by some colleagues, that this would result in a deformed foetus. I absolutely disagree with them. A cap is now retained and the Government also said that both increase and reduction of rent should be allowed — it is a trend to allow both increases and reductions. The original Ordinance does not allow both increases and reductions and this, I do not agree. This is why I do not oppose putting in place a new mechanism, so that we can discuss it, as long as the "cap" is not removed. This is our major premise, and coupled with a mechanism which allows both increase and reduction of rent, I think it will not be a deformed foetus. WONG Kwok-hing once said to me that it would actually be a pair of boy-and-girl twins, which is an auspicious sign. Secretary Michael SUEN is nodding, and I hope that he really means it in nodding.

With regard to our proposal of retaining the median, the authorities said that they disliked the 10% cap and considered it not plausible. This is open to discussion, just that the authorities are unwilling to come down to discussion, are they not? The authorities proposed to allow both increase and reduction of rent, and we are willing to discuss it with the authorities, so why are the authorities unwilling to come down to discussion? So, I must stress this point very strongly. I absolutely disagree with colleagues who said that combining the two would make a deformed foetus. I think it is most undesirable that we have not discussed it in detail. Even if the two are combined, I think the technicalities can be handled at an early stage. I think this can be sorted out.

But Madam Chairman, much to our regret, I repeatedly went to..... from the beginning till the completion of the scrutiny, we had always hoped that — I recall very clearly that on the last day of our scrutiny, that is, the day which the Chairman of the Bills Committee told us to be the last day of scrutiny, and we were always obedient, we still made this proposal in relation to this clause 3 of the Bill today, asking the Government whether it could go back and reconsider it. Mary was very responsive and she agreed to go back and discuss it with the Housing Authority (HA). But we had never expected them to eventually tell us after discussion that they would not accept our amendment and that they could only accept that both increases and reductions should be allowed and capped at 10%.

Do we consider it a progress? I think it is a progress, just that the very important "cap" is removed without any discussion at all. So, WONG Kwok-hing asked them how this was discussed at the time, but she did not give an answer to WONG Kwok-hing, and when WONG Kwok-hing asked about how members had voted, she did not give an answer either. We rang members of the HA later — I have many friends there — asking them how this had been discussed in the HA. If this could be discussed fairly and impartially, I do not think that there would be problems with their co-existence.

So, I wish to stress once again that on the surface, we appeared to be very rigid in our position from day one till the last day of the scrutiny of the Bill, but in fact, that is not true. We did try to explore the use of different figures, such as the weighted average, as well as various household size groups, such as three-person families or four-person families. We did discuss various options and in great detail too. But regrettably, our opinions were often not taken on board by the Government, because the Government had already drawn up a policy. So, this, I think, is already a reason strong enough for us not to support clause 3 today. We will oppose the amendment in this connection.

Thank you, Madam Chairman.

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

(No Member indicated a wish to speak)

CHAIRMAN (in Cantonese): If no other Member wishes to speak, I now call upon the Secretary for Housing, Planning and Lands to reply.

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): I have listened very carefully to Members' speeches and found that they have actually agreed unanimously that this issue has been considered carefully and discussed in detail. I therefore think that we have already dealt with various viewpoints, both during the scrutiny of the Bills Committee and on other occasions. However, it is a great pity that, from my angle, I find that I have failed to convince Members to support our view. On the contrary, Members might also find it regrettable that I cannot heed their views.

Chairman, I think this largely hinges on how we look at this provision, that is, our objective. As this issue has been discussed numerous times before, I will not add anything here. I have also mentioned earlier the inadequacies of the median. However, there is one point I have not mentioned, that is, the median is determined on the basis of the statistics supplied to the Government by PRH tenants. As we have not taken any initiative to verify the authenticity of the statistics, doubts have been cast in this area.

However, as what Members heard earlier, the new index we are talking about is formulated in a scientific and reliable manner by the Census and Statistics Department as commissioned by us upon Members' request. Therefore, there is a marked difference here.

Lastly, Chairman, here I would like to appeal to Members to cast a supporting vote so that clause 3 stands part of the Bill.

Thank you, Chairman, and Honourable Members.

CHAIRMAN (in Cantonese): I now put the question to you and that is: That clause 3 stand part of the Bill. Will those in favour please raise their hands?

(Members raised their hands)

CHAIRMAN (in Cantonese): Those against please raise their hands.

(Members raised their hands)

Mr CHAN Kam-lam rose to claim a division.

CHAIRMAN (in Cantonese): Mr CHAN Kam-lam has claimed a division. The division bell will ring for three minutes, after which the division will begin.

CHAIRMAN (in Cantonese): Will Members please proceed to vote.

CHAIRMAN (in Cantonese): Will Members please check their votes. If there are no queries, voting shall now stop and the result will be displayed.

Mr James TIEN, Dr Raymond HO, Dr David LI, Mrs Selina CHOW, Mr Bernard CHAN, Mr CHAN Kam-lam, Mrs Sophie LEUNG, Dr Philip WONG, Mr WONG Yung-kan, Mr Jasper TSANG, Mr Howard YOUNG, Mr LAU Kong-wah, Mr LAU Wong-fat, Ms Miriam LAU, Miss CHOY So-yuk, Mr Timothy FOK, Mr TAM Yiu-chung, Mr Abraham SHEK, Mr Tommy CHEUNG, Mr Vincent FANG, Mr LI Kwok-ying, Dr Joseph LEE, Mr Daniel LAM, Mr Jeffrey LAM, Mr Andrew LEUNG, Mr CHEUNG Hok-ming, Mr WONG Ting-kwong and Prof Patrick LAU voted for the motion.

Mr LEE Cheuk-yan, Mr Martin LEE, Mr Fred LI, Ms Margaret NG, Mr James TO, Mr CHEUNG Man-kwong, Miss CHAN Yuen-han, Mr LEUNG Yiu-chung, Mr SIN Chung-kai, Dr YEUNG Sum, Mr LAU Chin-shek, Ms Emily LAU, Ms LI Fung-ying, Mr Albert CHAN, Mr Frederick FUNG, Ms Audrey EU, Mr WONG Kwok-hing, Mr LEE Wing-tat, Mr Alan LEONG, Mr LEUNG Kwok-hung, Dr KWOK Ka-ki, Dr Fernando CHEUNG, Mr Ronny TONG, Mr KWONG Chi-kin and Miss TAM Heung-man voted against the motion.

THE CHAIRMAN, Mrs Rita FAN, did not cast any vote.

THE CHAIRMAN announced that there were 54 Members present, 28 were in favour of the motion and 25 against it. Since the question was agreed by a majority of the Members present, she therefore declared that the motion was carried.

MS MIRIAM LAU (in Cantonese): Madam Chairman, I move that in the event of further divisions being claimed in respect of the remaining clauses of the Housing (Amendment) Bill 2007 or any amendment thereto, this Council do proceed to each of such divisions immediately after the division bell has been rung for one minute.

CHAIRMAN (in Cantonese): I now propose the question to you and that is: That the motion moved by Ms Miriam LAU be passed.

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

(No Member indicated a wish to speak)

CHAIRMAN (in Cantonese): I now put the question to you as stated. Will those in favour please raise their hands?

(Members raised their hands)

CHAIRMAN (in Cantonese): Those against please raise their hands.

(No hands raised)

CHAIRMAN (in Cantonese): I think the question is agreed by a majority respectively of each of the two groups of Members who are present. I declare the motion passed.

I order that in the event of further divisions being claimed in respect of the remaining clauses of the Housing (Amendment) Bill 2007 or any amendment thereto, this Council do proceed to each of such divisions immediately after the division bell has been rung for one minute.

CLERK (in Cantonese): Clauses 2 and 4.

CHAIRMAN (in Cantonese): Committee will hold a joint debate on clauses 2 and 4, the Secretary for Housing, Planning and Land's amendments to clauses 2 and 4, as well as the amendments to clause 4 proposed by Mr LEUNG Yiu-chung and Mr Frederick FUNG respectively.

I will call upon the Secretary for Housing, Planning and Lands to speak first, to be followed by Mr LEUNG Yiu-chung and Mr Frederick FUNG.

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): I would like to take this opportunity to state clearly the content of the amendments to be moved by me later. The amendment to clause 2 aims to specify that the relevant Ordinance shall commence on 1 January 2008. The amendments to clauses 4(a), (g), (o), (p), (q), and (s) are consequential amendments to sections 16A(1), (5) and (9) in relation to the commencement date specified in clause 4 of the Bill.

Insofar as these consequential amendments are concerned, I would like to further make it clear that section 16A(1) in clause 4 requires that the Housing Authority (HA) shall review PRH rent once every two years. Insofar as the first review to be carried out two years after the commencement of the Ordinance is concerned, we have, on the suggestion of the Bills Committee, amended the provision to the second anniversary of the commencement date of the Bill for the purpose of reviewing the rent as soon as practicable after 1 January 2010. On the suggestion of the Bills Committee, through clause 4(a) the relevant section has been renumbered as section 16A(1) for enhanced clarity.

Section 16A(3) in clause 4 provides that section 16A is not applicable to certain tenants with respect to rent adjustment. Generally speaking, the rent adjustment proposed in the Bill is not applicable to tenants who are required to pay additional rent because their income has exceeded the threshold specified by the HA as well as tenants eligible for rent relief under the HA's Rent Assistance Scheme (RAS).

The addition of the income and assets value in clause 4(b) aims to maintain consistency between what is not applicable by section 16A and what is provided for under the deleted section 16(1C) of the Housing Ordinance.

Section 16A(4) in clause 4 requires that the HA shall adjust the rent in accordance with the rate of variation of the income index. Section 16A(6) requires that if the amount to be varied by the HA is insignificant, the HA is not required.....

(A dozen of men and women shouting in the public gallery rolled out a banner and threw it off the railing)

CHAIRMAN (in Cantonese): No shouting! Security guards, take them away!

(Several security guards approached the dozen of men and women in a bid to stop them from shouting, but they remained standing and shouting and scuffled with the security staff)

CHAIRMAN (in Cantonese): The meeting is suspended.

6.07 pm

Meeting suspended.

6.12 pm

Committee then resumed.

CHAIRMAN (in Cantonese): Clerk, please ring the bell.

(After the summoning bell had been rung, a number of Members returned to the Chamber)

CHAIRMAN (in Cantonese): A quorum is present. Secretary for Housing, Planning and Lands, please continue.

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Section 16A(6) provides that the HA is not required to vary the rent after a review if the amount of the variation is insignificant. We have taken on board the Bills Committee's proposal to give a clear definition of the word "insignificant" and, having regard to the proportion of the variation to individual households' rental payments and the impact on the HA's rental receipts, decided to adopt a rate of change of the income index of 0.1 % or below as "insignificant". This means that the HA is not required to vary the rent if the rate of change of the income index is 0.1 % or below. However, this rate of change would be carried forward to the next rent review cycle.

We propose to delete section 16A(6) from clauses 4(c), (d), (f) and (h), and clearly specify that the relevant rent will only be adjusted by the HA when there is a variation to the income index of 0.1 % or above.

As I stated clearly during the Second Reading debate, having regard to Members' proposal to introduce a specific rent increase cap and after consultation with the HA, we agree to introduce clause 4(e) to provide in section 16A(4a) that the HA can only increase the rent by the rate of the increase of the income index or 10%, whichever is less. While section 16A(5) in clause 4 provides for the frequency of rent variation by the HA, clause 4(g) aims to introduce consequential amendments in relation to the commencement date and provide more clearly that the HA must not vary PRH rent before the second anniversary of the date of the last variation.

Section 16A(8) in clause 4 empowers the HA to compile an income index for the purpose of the rent review. The Bills Committee is of the view that, in the compilation of the income index, the HA should commission an independent third party to compute the index. We have taken on board the proposal of the Bills Committee and, through the introduction of amendments, provided that the Commissioner for Census and Statistics should compute the income index for its compilation. Having regard to the amendments to section 16A(8), we also propose to amend the definition of the income index in section 16A(9) accordingly. The amendments involved are clauses 4(i) to (n) and clause 4(r).

Chairman, all these amendments have obtained the support of the Bills Committee. I hope Members will endorse these amendments. As for the

amendments proposed by Mr LEUNG Yiu-chung and Mr Frederick FUNG, I will give my response after their speeches.

Thank you, Chairman.

MR LEUNG YIU-CHUNG (in Cantonese): Chairman, my amendment today proposes to delete sections 16A(1), 16A(5) and 16A(9) in clause 4 proposed by the Government. It mainly seeks to amend the date of rent review and to change the review cycle from two years as proposed by the Government to three years as in the past.

Chairman, during the Second Reading debate earlier and in the beginning of our discussion on the incorporation of clause 3 into the Bill, I already said that in the original motion that I proposed back in 1997 that the previous practice of a two-year rent adjustment cycle be changed to a review cycle of three years mainly because too frequent rent increases would put pressure on the living of the tenants, making it difficult for them to cope with the increase. I hoped that the review cycle could be changed from two years to three years, so as to give tenants enough time to cope with the increase and hence enjoy more stability. In fact, Chairman, over the past decade, we can see that some positive results have really been achieved. During the period, the Government has reviewed the rent on a triennial basis, and although the rent has only been frozen with no particular adjustment, the tenants have been accustomed to the three-year review cycle which enables tenants to enjoy a sense of stability. As they are already used to a rather long interval between rent reviews, I think the three-year review cycle should be maintained. Furthermore, we have heard the Government continuously commenting that revising the cycle from two years to three years would make it impossible for the Government to address unexpected changes in the economic conditions and that once a high adjustment rate is proposed, PRH tenants might have to suffer from high rent payment over a period of three years.

Chairman, I think the Secretary's comment is a slap in his own face. Why? Because he kept telling us that if the rent is beyond the affordability of tenants, there is still section 17 to help address the problem. What is section 17 about? It provides that under special circumstances or when the economy undergoes great changes, the Government (or the HA) can, in fact, waive any

rent during that period of time. It means that the Government is capable of managing crises. It is not true that the Government can do nothing about it. From what we have seen over the years, has rent been increased as substantially as the Government has said? I think the increase has not been that substantial and so, it should not be putting too much pressure on PRH tenants. Let us take a look at this: PRH tenants very often cannot catch up with inflation despite an increase in income, and this is precisely the difficulty they face.

Therefore, we consider that a three-year review cycle will allow tenants to enjoy a period of stability. Meanwhile, it is most important to note that the 10% median proposed by me has been negatived, which must be pleasing to the Secretary, and the 10% cap proposed by the Secretary is set to be endorsed later. If rent is adjusted in a two-year cycle, the rate of increase will be 5% per annum on average. I think this will put great pressure on PRH tenants. Meanwhile, as we all know, the Secretary is so good in sums and he certainly understands that even if the 10% refers to the index, the calculation is still based on the average. But Chairman, if we look at the average, the difference or deviation may be enormous. What we consider most worrying is that families at risk will be in dire straits. While families receiving CSSA will not face too big a problem, for they have rent assistance, what about those families at risk not eligible for CSSA? If a three-year review cycle is adopted, Chairman, and if the rate of increase is capped at 10%, the increase would be about 3.3% each year on average over a period of three years. In other words, the rate of increase will be lowered and the pressure on tenants in living will also be alleviated accordingly.

In this connection, Secretary, if you are also nodding in agreement with what I have said, you should actually support my amendment and revise the review cycle to three years, so as to alleviate the pressure on families. This is what we wish to achieve. Chairman, as calculations will be made using the income index under the proposed new mechanism, I had constantly raised in the Bills Committee that while income would be factored into the calculation, the increase in income will only be nominal and the real wage is nevertheless not factored into the calculation. What do I mean, Chairman? In the case of a salary increase, for instance, the increase in the inflation rate has not been taken into account and this is where the bigger problem lies. From the past experiences over the years, the rate of wage increase of the general "wage earners" is often lower than inflation. For this reason, while their wages may seem to be increased on the surface, if we look at their real wages, their wages

may have been reduced instead, which means that there is no increase in their wages at all. But when the Government increases the rent, the increase is in real terms, not nominal. If the increase was \$2,000 before, it will be \$2,200 now, which is an increase in real terms, and this will put enormous pressure on them. For this reason, I think it is far better to revise the review cycle to three years and cap the increase at 10%.

Some academics or commentators have kept saying that our proposal is indicative of the spirit of populism, which means that we would champion for a rent reduction in any case with the objective of canvassing votes, and so on and so forth. But Chairman, there is one very important question. First of all, I must ask the Government this: What is the objective of rent adjustment? Does it increase the rent for the sake of increasing it, or is there an actual need for an increase? The Government has never told us that they increase the rent for the sake of increasing it because the Government does not have the guts to say that, and there have not been many arguments on this point. Then does it increase the rents just suddenly? The Government did not say that either. The reason may be related to the financial conditions, as the Government has said before. Chairman, when it said before that the rent increase was necessary for financial reasons, that could still be barely convincing because it was financially very difficult back then with the expenditure outgrowing revenue and the Government was very worried about what it should do. But does the Secretary admit that there has been significant improvement in the financial conditions recently?

From my observations, the surplus has been very encouraging in the past five years except 2003, as it seems that an overall operating surplus of \$16.7 billion has been recorded. As regards the leasing of flats, the HA's record shows a surplus of \$467 million. In other words, financial difficulties simply do not exist. Since financial difficulties do not exist, why should the rents be increased? Secretary, I hope you can give a response after listening to my speech. You may try to give me an answer as to why rent adjustment is necessary. In fact, while the needs of the daily operation, management, repairs and maintenance work must be handled, since these needs can be met by the previous rent level, why must rents be increased even though the wages of the tenants have increased? Why? I really do not understand it. I can understand it if it is because of a budget deficit, but there is no budget deficit now; nor do we need to work for a balanced budget. In addition to the surplus, the Government has also sold its assets to The Link REIT for a sum of money. It

means that the Government has amassed a certain amount of money and that will be quite enough. I can also see that the Government has reduced the production of PRH flats, which I oppose though, it is, therefore, not spending a lot on investment in this area. Such being the case, why must rents be increased?

(THE CHAIRMAN'S DEPUTY, MS MIRIAM LAU, took the Chair)

Even if a rent increase is necessary, can the rate of increase be lowered? I have mentioned the overall spirit earlier on, and I think the proposed 10% cap will be endorsed later on. If this 10% cap is implemented and a three-year cycle adopted, the rate of increase will be about 3.3% on average which, I think, is more appropriate and within the tenants' affordability. But if a two-year cycle is adopted, a cap of 10% will mean an increase of 5% per annum. This is a rather high rate which will add to the pressure on the tenants in living. So, I hope that in the vote to be taken later, Members will support my amendment, in order to revise the cycle from two years to three years.

Deputy Chairman, I so submit.

MR FREDERICK FUNG (in Cantonese): Deputy Chairman, I have five amendments to move. Before I speak, I hope you can advise me on whether or not I should discuss all these five amendments in one single speech now, because I note that according to the script, now is the only time for speaking on all the amendments, and the rest of the time is just for voting. That is why I want to seek a clarification first. If yes, then I shall speak on all the three different amendments in this speech.

DEPUTY CHAIRMAN (in Cantonese): We are handling amendments relating to clause 4.

MR FREDERICK FUNG (in Cantonese): This means that all amendments relating to clause 4 can be discussed now, right? I ask this question because I have proposed three different amendments relating to clause 4.

DEPUTY CHAIRMAN (in Cantonese): Your amendments seek to extend the cycle of rent review and rent increase from two years to three years. They should be discussed now.

MR FREDERICK FUNG (in Cantonese): On clause 4 of the Bill, I have also proposed other amendments to sections 16A(4)(a), 16A(4)(b), 16A(5)(b) and 16A(9).

DEPUTY CHAIRMAN (in Cantonese): They should all be discussed in this section.

MR FREDERICK FUNG (in Cantonese): All in one single speech?

DEPUTY CHAIRMAN (in Cantonese): Right.

MR FREDERICK FUNG (in Cantonese): Thank you, Deputy Chairman. I want to discuss three topics.

Deputy Chairman, my several amendments can be divided into three main topics. One of these topics is similar to the one raised by LEUNG Yiu-chung — extending the cycle of rent adjustment from two years to three years. The second topic is to cap the rate of adjustment at 10%. The thrust of the third amendment is about the so-called "big cap" removed by the Secretary just now. I actually want to add a rental ceiling again, namely, an "average rent to income ratio" cap of 15%. The aforesaid are the three topics of my amendments. I wish to speak on these topics one by one. I naturally hope to finish within 15 minutes. If I cannot, then I will try to seek permission from the Deputy Chairman for me to speak for a second time.

I first wish to speak on the "average rent to income ratio" of 15%. This was the last topic I mentioned just now, but it is in fact the most important one, so I want to discuss it first. By introducing this amendment, I hope to cap the average rent to income ratio at 15%. In other words, when rents are adjusted every two years or three years (three years in case the amendment is passed and two years if it is not), if the average ratio is 15% or below, adjustments can of

course be made according to the respective rate of increase or decrease in the income index computed by the Government, or precisely, the HA, as long as the average rent to income ratio does not exceed 15%. If, at the time of adjustment, the average ratio already exceeds 15%, what is to be done? The authorities should adjust the average ratio downward to 15% or below. This is the spirit of my amendment.

I wish to say a few words on why I have proposed this amendment. First, I think that there must be a ceiling on the average rent to income ratio because we are of the view that such a ceiling actually defines residents' affordability. When dealing with clause 3 just now, I already discussed my viewpoint, so I shall make no repetition here. But what is the reason for setting the ceiling at 15%? Let me explain it. The Government has already incorporated clause 3 into the Bill. In other words, it is most likely that the Bill would be passed. And, the Government will also reduce rents by 11.6% in August. According to the information provided to me by Housing Department (HD) staff, the average rent to income ratio for PRH residents was 17%. If rents are reduced by 11.6% in August, the average ratio will drop from 17% to 14.8%.

I think 14.8% is a very meaningful rate. The implication is that even the HA is willing to reduce rents, and after the reduction, the average ratio will drop to 14.8%. This means that even the HA agrees to reduce rents, and I believe that the Government is also in agreement. After the rent reduction in 2006, the average ratio dropped to this level. I hope that this level..... Since the Government and the HA both agree to make adjustment to this level, can we just maintain the *status quo* and make this level the ceiling? I am already very generous. The government rate is 14.8%, but the maximum rent to income ratio I propose for PRH rents is 15%, that is, 0.2% higher. This is the reason for my idea and method of computation.

This method of computation was also mentioned by the Secretary just now. He said that he would be greatly worried if the median was adopted. He feared that this might result in many problems. For example, he said, if the number of small families keeps on increasing, the median will tend to go in the direction of rent reduction — I am just trying to make things simple in order to illustrate his point. He is also worried about the allocation of bigger living areas to residents. According to him, when bigger living areas are allocated, rents will naturally go up. If residents' incomes remain unchanged, he explained, the rent

to income ratio will necessarily increase. This may also lead to problems. His third reason is based on the experience of many redevelopment projects in the past. In the past 10 years, many old PRH estates were redeveloped into new ones. The rents for old housing estates were usually lower. For this reason, when kaifongs moved into new housing estates after redevelopment, they usually had to pay higher rents. Such a change may also increase the rent to income ratio, leading to a higher rent to income ratio. According to him, incomes are actually not involved, but owing to all such changes, it will be necessary to reduce rents, which is not fair at all.

I think that the adoption of an average ratio will be able to address all these three problems. In addition, the HD's policy over the past two or three years has already addressed these three problems. Why do I say so? The reason is that I am now talking about the rent to income ratio, not the median. This actually means computing the ratio of a family's rent payment to its household income and then taking the average of all the ratios concerned. This will be the average level of rent payment for PRH residents, and it will not fluctuate downward or upward as a result of the number of members in individual families because the level..... In the case of single persons, if the rent to income ratio is really too high..... It is because the living area allocated to a single person is usually higher than the *per capita* area allocated to families with two or more members. Since a single person occupies a larger area, the rent to income ratio may be higher. The ratio is higher, but there must be a level, and we must ask whether the rents of PRH flats are too high relative to the income ceiling. If people think that this is reasonable, the level will remain at where it is. Therefore, when it comes to the number of members in a family, the adoption of a rent to income ratio will reduce the chances of the level being pushed up or down by any increase in the number of small families.

The second point, which was actually mentioned just now, is about the allocation of living area. The allocation of living area is controlled by the HD. This means that the HD is responsible for determining the living areas to be allocated to families of various sizes. The policy is actually formulated by the HA. The allocation of a larger area or a smaller area is entirely within the authority of the HD. They cannot possibly argue that when a larger living area is allocated, the rent will go up and the ratio will increase, so it is unfair for residents to force the HD to reduce the rent. The HD actually has all the say throughout because the allocation of living areas is determined by the Department itself. I must say that the HA should make assessment in the light

of its own policy. After the HD has put in place an allocation policy under which each person is to be allocated a certain number of sq m..... I can remember that when I was a member of the HA, it was 7 sq m, but it is already 11 sq m now. Is the level of 11 sq m acceptable? If yes, it should be adopted as the standard. If not, the level should be reduced to 10 sq m, 9 sq m or even the 7 sq m of a decade or so ago. If this is considered an acceptable *per capita* living area for PRH residents, then with such a level, I do not think that there will be any problem with rents. And the result thus arrived from the rent to income ratio should be a normal level in our view. This can actually highlight the problem of unusually large living areas..... But unless the Department relaxes its control, there should not be any allocation of unusually large living areas — whether the standard is 10 sq m, 9 sq m or 8 sq m, it will always be followed.

How about those residents who are currently allocated unusually large living areas? You have actually made two recent announcements. According to one of the announcements, some 30 000 to 40 000 households are currently allocated unusually large living areas. This is commonly called the problem of under-occupation among tenants. There are after all just several dozen thousand such households. Can the Department just freeze the number at this level, so as to prevent the emergence of any more under-occupation households? Besides, the policy regarding under-occupation households should also be tightened. Housing Managers or Housing Assistants should be required to transfer the households concerned from large flats to small flats or medium flats. In the end, this will bring us back to the entitlement per person, thus preventing rents from deviating too much from the normal levels. Therefore, I think that with the aforesaid policies, the external factors mentioned just now, such as under-occupation, will decrease and changes will lessen over time.

The third factor is about redevelopment, which the Secretary discussed just now. The Secretary should know the situation better than I do because he has the redevelopment programme. He has not made any announcement on it, so I do not know anything about it. Unless the Secretary suddenly tells me that what was said in the past has changed completely..... The Secretary once told us that they no longer followed the past practice of first formulating a redevelopment plan or maintenance plan for the demolition of certain buildings. He said that consideration would be given to some special factors — whether the buildings concerned were dangerous buildings, whether the facilities were still working, whether maintenance and repairs were more expensive than demolition and whether there were any places for the resettlement of kaifongs — before a

redevelopment plan would be formulated. He added that in situ redevelopment of PRH estates, as in the case of North Point Estate and So Uk Estate, would be very rare. We observe that the HD does not have any comprehensive redevelopment plan. Therefore the phenomenon 10 years ago — the demolition of many old housing estates coupled with the building of many new ones leading to a decrease in PRH estates charging lower rents, an increase in PRH estates charging high rents and the eventual change in the rent to income ratio — has become less significant as a factor. I therefore think that with the adoption of the average rent to income ratio as the ceiling, the effects of external factors will be lessened. For these reasons, it is feasible to take the average of PRH residents' rent to income ratios and treat it as the upper limit of their affordability.

On the basis of these two reasons, I can observe that first, it is possible to set 15% as the ceiling, for this is the level after the authorities' rent reduction; and, second, the adoption of the average ratio can tackle the problems arising from the median as mentioned by the Secretary just now. I hope that after listening to me, you..... This is the first time you discuss this issue with me directly. All the time in the past, Miss CHOW was the only one who came here to listen to our discussions. I hope you can realize that the median is not a..... The most important aim is to set a ceiling, but insofar as the ceiling is concerned, there are in fact many improvement measures because the median can rectify the deviation you mentioned and lead to a reasonable situation. This is one of my amendments and also the most important figure in all the three amendments.

As a matter of fact, the method of computation does not have to be included in the legislation. But I still wish to raise a point here. Some kaifongs living in PRH estates, such as elderly persons, do not have any income, and with their meagre savings of a dozen thousand dollars or so, they can only spend just a very little bit of money a month. According to the information supplied to us by the department, the computations leading to the 17% in question do not cover these people. In computing the average ratio, I have used the same method of computation as the department. This means that the method I use is the same as the one used by the department to reach the answer of 17%. Therefore, in theory, my proposal can improve the computation method related to the 10% median, the issue discussed just now.

My second amendment is about the 10% ceiling for rental increases and the extension of rent adjustment cycles to three years each. I wish to put

forward several justifications here. I agree to all the points mentioned by Mr LEUNG Yiu-chung just now. I only wish to add several points now. First, why should there be rent increases? The adoption of an income index and the linking of rent increases to it will in fact serve as a ceiling or an indicator for the computation of rent increases. But I must say that rents must never be increased in sole response to income increases. In other words, we simply must not increase rents by the same amounts of income increases. This means that we must not link rental increases to income rises. This is not the aim of rent increases, right? There are several usual causes of rent increases. Will there be a deficit? Will inflation lead to any decline in purchasing power? If rents are not increased, will there be any other problems? It is of course a separate issue if tenants are our targets and we want to increase the rents whenever their incomes increase. But even so, I must still say that when a tenant's wealth increases to a certain level, he or she should no longer live in PRH flats. The authorities have already put in place the "well-off tenants" policy, under which rents up to 150% or 200% of the usual amounts are charged to drive away well-off tenants. This can already tackle the problem of well-off tenants occupying PRH flats.

From this perspective, I would say that rent increases should not aim to catch up with tenants' income increases. If we adopt this perspective, it will not be necessary to increase rents unless there is a deficit or inflation emerges. I therefore think that the most satisfactory rent increase cycle should be one that causes the least inconvenience to the people. In particular, the financial conditions of the HA, which I talked about earlier on, must not be adversely affected. The HA is now in possession of \$50 billion, so it will not encounter any financial problems for the construction of PRH flats in the coming eight years. I therefore think that it is better to adjust the cycle to three years. This proposal was actually supported by most people, especially PRH residents, when the relevant legislation was amended in 1997. I therefore think that it should be considered.

There are only 20 or 30 seconds left. I am afraid I will be unable to discuss the 10% ceiling. I shall come back to it when I speak again later. Finally, I wish to stress that the two amendments I have discussed are both objective and reasonable. I hope Members can support them.

MR WONG KWOK-HING (in Cantonese): Deputy Chairman, at this stage of the examination of the Bill, I actually wish to strive for a pair of boy-and-girl

twins. But I have failed, and I can do nothing about it. The motion proposed by the Government aims to adjust rents according to the income index. I also support the amendments proposed by Mr LEUNG Yiu-chung and Mr Frederick FUNG at this stage.

If Members are concerned about people's livelihood, they should all support their amendments. Since the median, which can serve as a cap, has been removed, we think that we should really have regard to the interests of PRH residents at this stage. There is no doubt that owing to the removal of the median, there may be rent reduction in August under the Government's existing legislation. But in exchange for the rent reduction, residents may have to face rent increases with no cap according to the income index. We therefore think that at this very stage, we must protect the interests of PRH residents.

Deputy Chairman, during the scrutiny of the Bill by the Bills Committee, I raised two points on the Government's proposal. The Government had accepted them and written them into the Bill. First, the Government originally intended to give the HA the power of formulating the income index and conducting the surveys required. At that time, I pointed out that the HA was a government-appointed body with inadequate transparency, so public monitoring was very difficult. The Government has accepted my opinion. We requested the Government to give the task to the Commissioner for Census and Statistics. The Government has accepted our request.

Second, even if the rules of the game proposed by the Government are accepted and adjustments are made once every two years, should there still be any rent increases in case Hong Kong encounters a recession or other unforeseen problems such as SARS and a financial turmoil? The Government has also accepted our advice, and new clauses will be included in the Bill to provide that in case of necessity, the Chief Executive in Council may deal with the issue of rent remission in conjunction with the organizations concerned. The Government has accepted these two pieces of advice.

Had the Government accepted a greater number of reasonable requests from Members, requests that are also meant for the good of society, I believe Mr Frederick FUNG and Mr LEUNG Yiu-chung would not have found it necessary to propose their amendments. The amendments now proposed contain the requests of Members which the Government should have considered during the scrutiny of the Bill by the Bills Committee. I also support these two

amendments and consider them reasonable. For this reason, I very much hope that at the Committee stage today, Members can also support the amendments concerned.

To begin with, the "cap" proposed by Mr Frederick FUNG is the average of 15% after the upcoming reduction. This is actually a very good indicator, and a reasonable one as well. Why does the Government refuse to accept it and insist on removing the "cap"? We insisted on capping rent increases at the median income level of PRH residents, but since the median is not accepted, we have lowered the cap to this level. The Government should really consider this proposal, shouldn't it? Members should render their support, shouldn't they?

Furthermore, in regard to the proposal on maintaining the original three-year cycle of rent adjustment and review instead of shortening the cycle to two years as currently proposed..... The Government now proposes to adjust rents once every two years, but I think the proposal is both unrealistic and unreasonable. It will also cause inconvenience to the people. As for the two Members' proposal on maintaining the three-year cycle, I think there are at least four justifications which the Government and Members must consider.

The first justification is that the proposal represents a regression. Rents are currently adjusted once every three years, but the new clauses change the interval to two years. This will increase the frequency of rent adjustments, thus departing from the major principle of offering low-cost public housing. This is the first justification.

The second justification is that most PRH residents are wage earners and they do not necessarily receive pay rises every year. Their income increases often lag behind increases in productivity and inflation. For this reason, it will be much too frequent to increase rents once every two years. Wage increases often lag behind the profit increases of employers and enterprises. Why should PRH residents be forced to accept such an arrangement? This is the second justification.

The third justification is related to what we discussed in the Establishment Subcommittee meeting this morning. The Government itself follows a three-year cycle for surveys on civil service pay trends and adjustments. A survey is conducted once every three years. The Government itself reviews the pay for civil servants once every three years. But why does the Government

adopt a double-standard now? Why does it propose to follow a two-year cycle? I think the Secretary should provide us with a reasonable explanation. As the greatest employer, the Government reviews the pay for civil servants once every three years. Why does it now want to conduct a survey on PRH residents' incomes for the purpose of rental adjustments once every two years? Why does it adopt such a double-standard? I think the Secretary must give us a reasonable explanation. Why does the Government adopt such a double standard?

For the aforesaid reasons, I very much hope that Members can support the reasonable amendments put forward by Mr LEUNG Yiu-chung and Mr Frederick FUNG. I think the Government should consider the whole thing again instead of trying to force the legislation through. If the Government thinks that it can pass the legislation forcibly with enough votes, it will do no good to the maintenance of Hong Kong's social harmony and prosperity.

Our intention of expressing our views on and criticizing this unreasonable Bill of the Government is not so much to oppose the Government. Rather, we think that such an unreasonable policy is not good to the Government. We hope that Hong Kong can do well, so we must be frank in expressing our opinions. We must not follow and obey others blindly. I therefore very much hope that the Government can really consider whether it should be so "extreme" in setting PRH rents, whether it should give more thoughts to social harmony and stability.

With these remarks, Deputy Chairman, I support the two Members' amendments.

MR FREDERICK FUNG (in Cantonese): Deputy Chairman, I wish to add one point concerning the three-year cycle. Earlier on, the Secretary mentioned in his speech that the longer the interval of rent adjustments was, the higher the rates of increase would be. This may not be the case. This may be the case if there is a pay rise every year. What I mean is that after the introduction of the new mechanism, there is a pay rise every year, and not only this, the rate of increase must also get higher and higher year on year — 1% in the first year, 2% in the second year and 3% in the third year, for example. And, the 2% in the second year is actually relative to..... We must compare the first period and the second period. When we say that there is a 3% increase at the end of the second period, that is, 24 months later, we are actually making comparison with the zero percent in the first period. If, at the end of the third period, that is, 36 months later, the rate of pay rise is still 3%..... Whether we are talking about

the 3% in the second period or the 3% in the third period, we are still making comparison with the zero percent in the first period. This means that each comparison invariably reveals a 3% increase. But since the two rates of 3% will not add up to 6%, the interval of the review cycle will not affect the rate of rent increase. In other words, the lengthening of the cycle may not necessarily result in higher rates of rent increases. We are not talking about any cumulative rate and we are just comparing one certain year with another. The only difference is that we may be comparing two years in a two-year period, or we may be taking out two years from a three-year period for the purpose of comparison. We do not compare the rates in the first two years and then add them to the rate in the third year to make the rate in the third year the total of the rates in the first two years. Hence, the case is not like this.

For this reason, what I said just now, that is, the case of a longer cycle leading to a higher rate of rent increase, will not occur. Even the 11.6% we talk about is not a cumulative rate. In other words, the rate of 11.6% for rent reduction is not a cumulative rate. We are just comparing 2005 and 1997. What happened in the interim will not be taken into account. If the cycle is two years long, the rates in the two years concerned will be compared. If the cycle is three years long, the rates in the first year and the third year will be compared. What happened between the first and third years will not be taken into account. The rates are not cumulative, not the cumulative effects of inflation. If my understanding is correct, this should be how your mechanism works. This clarifies the point made by the Secretary just now. I have just added some comments on a two-year cycle and a three-year cycle.

Deputy Chairman, I now wish to say a few words on my third amendment, that is, the cap I propose. I propose that rent increases must not exceed 10%. This is slightly different from the maximum of 10% mentioned in the Secretary's amendment. The difference is of course not very great. It does not matter so much whether my amendment or the Secretary's is passed in the end. The reason is that "must not exceed 10%" may mean 9.999%, or, of course, 8% and even 7%. The Secretary, on the other hand, proposes that the maximum should be 10%, meaning that even 10.01% is not allowed. Therefore, the difference may just be a fraction of a percentage point. It does not matter whether my amendment or the Secretary's is passed. When we were writing the amendment, we thought that if the ceiling was 10%, rent increases must not reach 10%. We actually think that rent increases must not reach 10%. And, the Secretary proposes that it is alright to reach 10%. Therefore, the difference is not too great.

The Secretary and I also share one common viewpoint — a ceiling should be set only for rent increases, not rent reductions. I do not know whether this has anything to do with the lobbying efforts of Miss CHOW (that is, Mary), because at the very beginning when a two-way adjustment mechanism was discussed, the authorities were of the view that if there was to be a ceiling for rent increases, there must also be limit for rent reductions. It was quite some time later that they started to talk about doing away with any limit for rent reductions. I support and agree to this.

I wish to explain why there should be a limit on rent increases but not rent reductions. The main reason is that the income index to be adopted is a weighted average relating to incomes and rents. We are talking about an average, and, for this reason, if the income index is 3%, there must be those who have received a pay rise of more than 3% and those whose pay increases are lower than 3%. Besides, there must also be those who have received no pay rises and those who have taken pay cuts. However, since the index is 3%, the number of people with no pay rises or faced with pay cuts should be comparatively small. Maybe, these people may amount to just 20% or 30%, and those with pay rises of more than 3% may amount to 50% or more. The point is that if there is no ceiling on rent increases, if rents are increased strictly according to rises in the income index, people whose pay rises are lower than 3%, people with no pay rises and people faced with pay cuts will suffer immensely. The purpose of a ceiling is to relieve the plight of all these people.

A ceiling will, however, be beneficial to those with higher rates of pay increases. Despite their high rates of pay increases, the rates of rent increases will remain very low. However, under the "well-off tenant" policy, if a household has an income two times or even three times the income ceiling for PRH applicants, it will be required to pay a rent amounting to 150% or 200% of the normal rent. If its assets are more than 83 times the asset limit, it will even be asked to vacate the flat. When the income of a household reaches a certain level, it will be asked to leave and there is also a measure to increase the rent for it. Therefore, the unfair situation mentioned just now will not occur. I think that given the "well-off tenant" policy, it is possible to impose a ceiling on rent increases.

Why do I propose not to impose a limit on rent reductions? Deputy Chairman, the reason is that usually, rents will be reduced when the income index drops. A drop of the income index means that PRH residents' incomes

have declined. They may have been forced to work part-time instead of full-time, or they may even have been plunged into unemployment after losing their part-time jobs. In all these cases, their incomes will decline. If a majority or more than 50% of the PRH residents face such a situation, the income index will drop. In that case, if there is a limit, say, a 10% limit, for rent reductions, then no matter how heavy pay cuts have been, rents can only be reduced by up to 10%. Under extreme circumstances, such as the outbreak of SARS, even though the overall income level of PRH residents goes down by 12%, we can reduce rents only by 12%. In other words, even when they are in an extreme plight, we cannot help them by means of rent reductions. Actually, we do not wish to see any rent reductions either, because kaifongs will not face such immense difficulties unless there is a major incident. I therefore do not think that any limit should be set for rent reductions, because this will make it impossible for them to receive any assistance under the worst circumstances. It is therefore appropriate not to set any limit for rent reductions.

I think that when it comes to this issue, my amendment is actually the same as the Secretary's. I also think that the Bureau has made its decision after listening to views of the Bills Committee. Frankly speaking, I am basically agreeable to and supportive of this group of amendments. But the worst thing is that the system itself is marked by one great problem, Deputy Chairman. What I mean is that I can move my amendment only after the Secretary's amendment has been negated. If his amendment is passed, I will not be permitted to move my amendment. What am I going to do? The Secretary's amendment contains only two items, but mine contains more. If I support the Secretary's amendment, then, theoretically, I cannot do anything further. I may choose not to support his amendment, but his amendment is not very much different from mine. As I mentioned just now, the difference is just a fraction of a percentage point. And, my amendment also proposes a three-year cycle. But if the Secretary's amendment is passed, I cannot even move any amendment on the three-year cycle.

Faced with such a situation, we in the ADPL have actually held many discussions on how we should vote. Since we have put forward our own amendment, our support for the Secretary will actually mean that we want to oppose our own amendment. In that case, I cannot even move any amendment on the three-year cycle. My amendment on the three-year cycle is the same as the one proposed by Mr LEUNG Yiu-chung, but I hope that either of us can

eventually move the amendment. I hope we can at least have an opportunity to move the amendment. Therefore, although we are in agreement with the Bureau on the 10% ceiling and on setting a limit only for rent increases but not rent reductions, I have no alternative but to vote against the Secretary's amendment. My intention is not to object it. Rather, I only hope that Mr LEUNG Yiu-chung and I can have an opportunity to move our amendments.

Thank you, Deputy Chairman.

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

MR CHAN KAM-LAM (in Cantonese): Deputy Chairman, I wish to explain why we oppose the two amendments proposed respectively by Mr LEUNG Yiu-chung and Mr Frederick FUNG. The main reason is that they involve the 10% ceiling on rent increases and the adjustment of the rent review cycle from two years now to three years.

Regarding the 10% ceiling on rent increases, I believe Members all know that during the scrutiny of the Bill, we did repeatedly tell the Government that residents were extremely worried that there was no ceiling on rent increases irrespective of income increases. Members of course know that it is a linked system, but residents are still worried. We often see headlines about "no control for rental increases" in newspapers. But the truth is that there will be control, because rents will be adjusted according to income fluctuations. I therefore think that residents' worry is justified.

We also observe that the results of the survey covering some 600 000 PRH households may not necessarily reflect the real income changes of all residents. We therefore do have some worries and doubts. If rents are adjusted according to survey results, the rates of rent adjustments may not necessarily reflect actual income adjustments in some cases. For this reason, we propose to introduce a ceiling, so as to relieve the extra burden brought about by rent adjustments. We think that this is a reasonable approach.

Our proposal on a 10% ceiling is based on the assumption that the cycle of rent adjustments is two years. We are of the view that in the past decade or so,

there were indeed occasions on which our income adjustment attained the rate of 10%. The experience in the past 10 years may not very reliable because there was an economic downturn. Pay cuts were more common, so the experience may not be very reliable. But we can still observe from the past period that an adjustment of 10% over a two-year period was not very frequent. There were some such cases, but not too many.

Can we consider a further downward adjustment of the ceiling from 10%? One can always ask such a question. In fact, some think that 5% is the best, and even the Democratic Party proposed 8% at that time. But we are of the view that a ceiling which is too low is no ceiling at all. It may turn out to be a bar. Every time when we conduct an income survey, we may encounter a bar. The ceiling is originally meant as a buffer to provide protection, but it may thus turn out to be a mechanism that bars rent increases. Under such a mechanism, we may conflict with or even run counter to the actual adjustment benchmark.

Members are of course concerned about people's livelihood, and we also hope to provide some additional safeguards, so as to improve the life of the lower strata of society. But we must still be sensible and put forward reasonable proposals. The 10% has been discussed in great detail. All political parties and groupings now agree that it is a reasonable ceiling, and even the Democratic Party has withdrawn its proposal of 8%. I think 10% is a reasonable level, but the assumption must be that the cycle of rent adjustments is two years.

For this reason, we find it very difficult to accept Mr LEUNG Yiu-chung's and Mr Frederick FUNG's amendments, which propose to lengthen the cycle from two years to three years. The cycle is indeed three years under the existing law, but we must not forget this question: How can we convince everybody that a three-year cycle is better than a two-year one? If rents are really adjusted once every three years, the rate of adjustment each time may be very high. In case it is really necessary to increase rents and the annual rates of income increases are 3% or 4%, then the cumulative rate of rent increase will surely be rather high. But if rents are adjusted once every two years, the rates of adjustment will be comparatively mild, easier for everybody to accept. Another point is that with a two-year cycle, rents can be reduced much sooner in times of an economic downturn. But this will not be the case if the cycle is three years. In that case, rents should in fact be adjusted downward in the first one and half years or the first two years of economic downturn, but since there

can be a review only once every three years, there can be no downward adjustment. To sum up, I think we are just arguing over a numeral difference when it comes to whether the cycle should be two years or three years. There is nothing to do with any actual improvement of people's livelihood.

The Government has accepted the proposed 10% ceiling and it has already made a concession by stipulating the ceiling of adjustments or rent increases in the legislation. In theory, a mechanism agreed by all should not contain any ceiling or lower limit because this will reduce the neutrality of the mechanism. Therefore, since the Government is willing to make a concession in this regard, we should not place any undue emphasis on people's livelihood or turn the matter into a political issue, for this may make people think that those who support the Government are unreasonable and blind to people's livelihood, and that those who support the two Members' amendments are very noble. I do not think that we should do something like this.

I therefore hope that Members can refrain from arguing anymore over this issue. Instead, they should adopt a pragmatic approach and examine how they can protect residents and allay their anxieties, so as to remove their worries about the new legislation or new mechanism. To sum up, we think it is good to see that the Government has made a concession. We support it.

Thank you, Deputy Chairman.

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

(No Member indicated a wish to speak)

DEPUTY CHAIRMAN (in Cantonese): Mr LEUNG Yiu-chung, do you wish to speak again?

MR LEUNG YIU-CHUNG (in Cantonese): Deputy Chairman, I wish to explain clearly the concept underlying my proposal on changing the cycle of rent adjustment from two years to three years. As I mentioned just now, we are also pragmatic. We have not proposed our amendments for the mere sake of changing the Government's policy. I think the most important aim of

implementing a three-year cycle is to enable people to adapt to the change and enjoy more stability. This is most important. Both the Government and Mr CHAN Kam-lam expressed the worry that the rate of increase might be very high and exert heavy pressure on residents. They also said that in times of an economic downturn, a shorter cycle could make it possible to reduce rents at a sooner time, thus relieving the rent burden of residents.

Deputy Chairman, when the Government first put forward a new rent adjustment mechanism, people immediately started to wonder why the Government should have raised the issue at that particular juncture. They wondered why the matter was raised precisely when the economy was turning round the corner. Their answer was that the intention was surely to increase rents. This actually suggests that there is a greater chance of rent increase when the economy is booming. But how about the chances of downward adjustments? The chances are indeed very slim. Can Members notice any deflation in the past? There was of course deflation, but when did it occur? It occurred during the most difficult period for Hong Kong — the outbreak of SARS and the September 11 incident. Apart from this, deflation was rare.

Deputy Chairman, in 1997, before the reunification, when I put forward my proposals on this ordinance, many people criticized me for focusing only on upward adjustments and failing to consider the factor of downward adjustments. The reason was that when I looked back in 1997, I could not notice any deflation in the past. At that time, no one could have imagined the emergence of deflation. Therefore, the chances of downward adjustments are indeed very slim. The downward adjustments of rents are highly unlikely. This is the first point.

The second point is that, as I mentioned just now, even when we face incidents as unfortunate as the SARS outbreak and the September 11 incident, there is still another provision, namely, section 17 of the Ordinance. Under this section, the Government may waive rents if it thinks that the situation is critical. In the past, rents were once waived for one month. For this reason, there will not be any serious problem.

Since the Government did not mention any 10% ceiling in the past, I thought that even a three-year review cycle must still require further consideration. Frankly speaking, I do think that there is a need for further consideration, because in the absence of any ceiling, we simply do not know how

high the rates of increase will be. If the rates are as high as 15% or 16% for three consecutive years, people will suffer immensely. But this is no longer the case now because there will be a 10% ceiling. The maximum rate of increase will just be 10%. With such a "cap", we can rest assured. What is more, even if we adopt the less satisfactory computation approach, that is, the computation of an average, as I mentioned just now, the situation will still be acceptable because after dividing 10% by three, the rate is just 3.3% per annum at most. The average rate per annum will just be 3.3% at most. Why is it impossible to do so?

I therefore think that this is better than having a 10% increase over a period of two years, because the average rate of increase in that case will be 5%, which is higher than the rate I mentioned just now. Mr CHAN Kam-lam expressed the worry that the rate of increase after such a long interval may be very high. But the examples I cited just now can show that the situation may not be that worse. As I mentioned just now, I never thought about a three-year cycle? Why? Because the Government had never said that there would be a ceiling. I agree with the Government. If the rent review cycle is changed from two years to three years, I will certainly be worried. The reason, as I mentioned just now, is that once a 10% increase is implemented, residents will have to suffer for three years. Deputy Chairman, this is not easy, right? But there will be a ceiling, so I need not worry anymore. Therefore, please do not say that we want to curry favour with the people, and that our proposal is not supported by any statistics. That is not the case, Deputy Chairman. I have also looked at it from a very sensible perspective. And, I do think that a three-year cycle is better than a two-year one. I hope that Members can also look at the issue from this perspective. We are not disgruntled and arguing for the sake of arguing. I really think that a three-year cycle can give greater relief to everybody and is better than a two-year one. Deputy Chairman, I so submit.

DEPUTY CHAIRMAN (in Cantonese): Mr Frederick FUNG, do you wish to speak again?

MR FREDERICK FUNG (in Cantonese): Deputy Chairman, I just wish to sum up the remarks I made in my previous two speeches. I will not speak as long as I did just now, because I have already stated all my basic arguments and statistics. I only wish to reiterate that the voting result of 28 votes to 25 votes

just now can show that quite a number of Members hope that the cap can be as high as possible, so that it can reflect the rent to affordability ratio of PRH residents.

What I want to do is to work out a ceiling in a different way, based on the computation of an average. The computation of an average can address the problems arising from the adoption of a median as mentioned by the Secretary in his remarks just now. The proportions of these problems can be reduced greatly. I therefore hope that Members can support the formulation of a ceiling on the rent to income ratio of PRH residents, and agree that the ceiling should stay at the level in 2006.

Several Members mentioned that — I hope my computations are correct — concerning the department's method of computations and the difference between a three-year cycle and a two-year one, the key point is that we are all the time supposed to compare the first period and the last period chosen for comparison. In other words, we should compare the respective income levels of these two periods only. There may be some fluctuations between these two periods, but these fluctuations should not produce any cumulative effect on the last period. Therefore, if we are talking about a two-year cycle, we should compare 2000 and 2002. If we are talking about a three-year cycle, we should compare 2000 and 2003. The fluctuations between these two years will not affect the actual situation in 2003. The most important point is whether rent adjustments are to be made just because people have received pay rises — or pay cuts, to be fair. If rent adjustments are not to be made just because people have received pay rises or pay cuts, then other factors may have to be considered. For example, is the Housing Authority forced to make rent adjustments due to a deficit or serious inflation, or must it get more revenue from rents because of other commitments? If the mechanism is not based on monetary considerations, then anything that can give people stability should be considered most desirable.

(THE CHAIRMAN resumed the Chair)

Members all know that the wealth gap problem in Hong Kong is much more serious than how it was 10 years ago. And, most poor people live in PRH estates. Of course, we must not forget that some 90 000 families are still on the

Waiting List. Less frequent rent increases will cause less nuisance to the people and can thus help foster stability. Therefore, I remain convinced that a three-year cycle is better.

As for the 10% ceiling, since my views are similar to those of the Government, I shall not give any further elaboration here. I believe that later on, the Secretary will give many reasons for the 10% ceiling. Their points are similar to mine, so I shall make no repetition.

Thank you, Chairman.

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

(No Member indicated a wish to speak)

CHAIRMAN (in Cantonese): If not, I now call upon the Secretary for Housing, Planning and Lands to speak again.

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): The Administration opposes the amendments proposed by Mr LEUNG Yiu-chung and Mr Frederick FUNG to section 16A(1), (5) and (9) in clause 4 and the amendment proposed by Mr Frederick FUNG to section 16A(4).

The amendments proposed by Mr LEUNG Yiu-chung and Mr Frederick FUNG seek to extend the interval of the PRH rent review and variation cycle from two to three years. As I pointed out earlier, in the Review of Domestic Rent Policy, the HA has studied in detail the rent review and variation cycle and noted that the greater cumulative effects of the changes in the income index over a relatively longer period, say three years, may result in a larger degree of rent adjustments to which tenants may find more difficult to adapt. A shorter rent review cycle of two years would, however, help achieve a more moderate rent adjustment in every review and allow the HA to react more quickly to changes in socio-economic circumstances and tenants' living conditions in rent adjustment. Compared to a three-year cycle, we consider the two-year cycle more desirable.

Mr LEUNG Yiu-chung earlier pointed out that he felt comfortable with the three-year cycle because of the existence of the 10% cap. However, it must be

understood that the proposed 10% cap is introduced relative to the existing two-year cycle. Therefore, if the cycle is extended to three years, the cap might not be 10%, for 15% or a percentage of between 10% and 15% might be considered. As the two issues are interconnected, they cannot be viewed in isolation and have to be considered together.

As regards the rates of rent increase over a period of two and three years, the changes in the rates during the period are definitely unpredictable. However, if a rent increase is recorded in each of the three years, the rate of rent increase after two years will certainly not be the same as that after three years, for the latter will certainly be higher than the former.

As regards Mr Frederick FUNG's proposed amendment to provide for a rate of rent increase of less than 10%, Mr FUNG has also admitted that his amendment is very similar to the one proposed by the Administration in which a 10% cap is proposed. While Mr FUNG stresses the similarity between the two amendments, I would like to briefly explain the difference. Not only is the wording of our amendment very clear, its legislative intent is also distinct and specific for it clearly provides that the rate of the rent increase shall be the rate of the increase of the income index or 10%, whichever is less. In other words, even if the rate of increase of the income index exceeds 10%, the HA can only adjust the rent upward by 10% at the most.

Mr Frederick FUNG's proposed amendment to cap the rate of increase at less than 10% has failed to introduce a specific figure to cap the rate of rent increase. Conceptually, any figures close to or below 10%, be they 9.99%, 9.999% or 9.9999%, will still be caught by the amendment. As a result, when the rent adjustment mechanism is put into operation in the future, unnecessary disputes might arise between PRH tenants and the HA when the income index increase rate is equal to or more than 10% because of the ambiguity of the legal provision as a result of this amendment.

Mr Frederick FUNG has also introduced a new concept of an average rent to income ratio of 15% in respect of both increase and decrease in PRH rents. As I pointed out during the resumed Second Reading debate, all general values reflecting the rent-to-income ratio, even if computed in terms of the average, will still be influenced by changes in a wide range of extraneous factors, thus failing to truly reflect the changes in tenant's affordability.

Coupled with changes in these extraneous factors, including the rising number of small households, the increasing number of well-off tenants and CSSA recipients, the size of the living space, and so on, the average rent to income ratio of 15% will be introduced on top of the income-based rent adjustment mechanism. When the average rent to income ratio exceeds the cap because of extraneous factors, the rent can still not be varied even if there is a surge in the income index. In the event that the rent should be adjusted downward because of a drop in the income index, Mr Frederick FUNG's amendment requires that the rate of rent reduction shall be subject to the 15% average rent to income ratio limitation which is influenced by extraneous factors, instead of being determined in accordance with changes in the income index. Such limitations will seriously undermine the normal operation of the new rent adjustment mechanism.

Furthermore, Mr FUNG's amendment has not clearly provided for the computation of the average rent to income ratio. If the amendment is passed into law, the HA's ability to act in accordance with the law will be affected.

On the whole, the introduction of the ill-defined average rent to income ratio limitation which is influenced by a wide range of extraneous factors under the new rent adjustment mechanism can in no way remove the drawback resulting from the existing MRIR cap. Hence, the Administration cannot agree to the relevant amendments. I hope Honourable Members will oppose the amendments proposed by Mr LEUNG Yiu-chung and Mr Frederick FUNG and endorse the amendments proposed by the Administration with respect to various subsections under section 16A.

Thank you, Chairman.

MR FREDERICK FUNG (in Cantonese): Chairman, thank you for allowing me to speak again on the points raised by the Secretary regarding my amendment. I think my amendment is all very clear in terms of definition and practice. In the case of the 10% ceiling, for example, any rate which is lower than 10% — 9.9%, 9.8% or even 8% and 7% — will be in compliance with the legislation. As long as the rate is below 10%, there will be no contravention of the legislation.

Chairman, concerning extraneous factors, I have actually given an explanation twice. On the issue of small families and the living areas allocated

to them, the decision entirely rests with the department or the HA. There is actually a policy on the average area to which every PRH resident is entitled. There has always been such a policy, so I think if the HA can adhere closely to it, then, basically, it will be able to avoid the problem of "under-occupation", which we now all say must be tackled seriously. On the other hand, I think the extraneous factors mentioned by the Secretary are entirely the results of the department's inconsistency, having nothing to do with the policy itself or the 15% ceiling I mentioned just now.

When it comes to the definition of an average, I really fail to understand one thing. Even when we were in primary school, we already learnt the definition of an average. In the case under discussion, it is residents' incomes divided by the rents. The department has actually computed an average. The 17% I mentioned just now, that is, the average for PRH residents' incomes and rents, was provided to me by the department. The department has told me that it is 17%, but then, it says that the rate is not exact and may fluctuate. I think this is not quite so reasonable.

But I still want to ask one question. How is this 17% computed? It is said that people with no income are not counted. In other words, there is actually a method of computation for the rent to income ratio. And, the method of computing the income index is not stated in any legislation either. Under the existing legislation, the detailed computations regarding the first and last periods, such as a weighted average, are not set out. In the course of enforcement, the HA will adjust the formula and method of computation itself. There is already an international definition of the average I propose. I fail to see why the Government should say that it does not know its definition. Thank you, Chairman.

MR LEUNG YIU-CHUNG (in Cantonese): Chairman, I am very happy that the Secretary responded to some of my views just now. This is excellent, because in this way, everybody can talk things over. This is really excellent. I hope that such a practice can continue into the future. This will be even more wonderful.

Chairman, via you, I wish to tell Mr CHAN Kam-lam that the Secretary has made it very clear that if a three-year cycle is adopted, the cap will not be 10% but 15% or above. Why? As Members know, this actually means that

the rates of rent adjustment will be relatively low because they will not increase because of the cap. Mr CHAN Kam-lam expressed the worry that with a three-year cycle, the rates of increase might be high and people might face heavier pressure. But the case should be quite the opposite and it should not be necessary to worry so much. The Secretary's remarks can prove what I have said. Therefore, if possible, Mr CHAN Kam-lam should reconsider the whole thing. The three-year effect that we saw in 1997 is really very good. Comparatively speaking, there will not be too much impact on residents. I am not just talking about nuisance — the proposed practice is different from the past practice, and residents were greatly inconvenienced as the incomes of some residents were sampled for survey purpose. Residents will also understand that a longer cycle is important to maintaining rent stability.

What should be the aim of public housing provision? Chairman, besides enabling people to exercise their right to housing and providing them with a dwelling, public housing provision also serves as a form of social welfare that gives people assurance and stability. My worry is that if the cycle of rent increases is too short, if we suddenly start to increase rents once every two years, there will be instability and people may start to worry. Therefore, I think that a longer cycle will give rise to more stability, more social stability.

Through the Chairman, I wish to tell Mr CHAN Kam-lam that the Secretary has already addressed his worry, so he does not need to worry so much. Thank you, Chairman.

CHAIRMAN (in Cantonese): Does any other Member wish to speak.

(No Member indicated a wish to speak)

CHAIRMAN (in Cantonese): Committee now deals with the amendments to subsections (1), (5) and (9) of the proposed section 16A in clause 4 proposed by the Secretary for Housing, Planning and Lands, Mr LEUNG Yiu-chung and Mr Frederick FUNG respectively.

CHAIRMAN (in Cantonese): Secretary for Housing, Planning and Lands, you may move your amendments.

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Chairman, I move the amendments to subsections (1) and (5) of the proposed section 16A, as well as to the definitions of "first period" and "second period" in subsection (9) of the proposed section 16A in clause 4.

Proposed amendments

Clause 4 (see Annex I)

CHAIRMAN (in Cantonese): Before I put to you the question on the Secretary for Housing, Planning and Lands' amendments, I wish to remind Members that if the Secretary's amendments are agreed, Mr LEUNG Yiu-chung and Mr Frederick FUNG may not move their respective amendments to subsections (1), (5) and (9) of the proposed section 16A in clause 4. If the Secretary's amendments are negatived, Mr LEUNG Yiu-chung may move his amendments. If Mr LEUNG Yiu-chung's amendments are negatived, Mr Frederick FUNG may move his relevant amendments.

CHAIRMAN (in Cantonese): I now put the question to you and that is: That the amendments moved by the Secretary for Housing, Planning and Lands be passed. Will those in favour please raise their hands?

(Members raised their hands)

CHAIRMAN (in Cantonese): Those against please raise their hands.

(Members raised their hands)

Mr Frederick FUNG rose to claim a division.

CHAIRMAN (in Cantonese): Mr Frederick FUNG has claimed a division. The division bell will ring for one minute, after which the division will begin.

CHAIRMAN (in Cantonese): Will Members please proceed to vote.

CHAIRMAN (in Cantonese): Will Members please check their votes. If there are no queries, voting shall now stop and the result will be displayed.

Dr Raymond HO, Mr Fred LI, Ms Margaret NG, Mr James TO, Mr CHEUNG Man-kwong, Mr Bernard CHAN, Mr CHAN Kam-lam, Mrs Sophie LEUNG, Mr SIN Chung-kai, Dr Philip WONG, Mr WONG Yung-kan, Mr Jasper TSANG, Mr Howard YOUNG, Dr YEUNG Sum, Mr LAU Kong-wah, Mr LAU Wong-fat, Ms Miriam LAU, Miss CHOY So-yuk, Mr Andrew CHENG, Mr TAM Yiu-chung, Ms LI Fung-ying, Mr Tommy CHEUNG, Ms Audrey EU, Mr Vincent FANG, Mr LEE Wing-tat, Mr LI Kwok-ying, Dr Joseph LEE, Mr Daniel LAM, Mr Jeffrey LAM, Mr Andrew LEUNG, Mr Alan LEONG, Mr CHEUNG Hok-ming, Mr WONG Ting-kwong, Mr Ronny TONG, Prof Patrick LAU and Miss TAM Heung-man voted for the amendments.

Miss CHAN Yuen-han, Mr LEUNG Yiu-chung, Ms Emily LAU, Mr Albert CHAN, Mr Frederick FUNG, Mr WONG Kwok-hing, Dr KWOK Ka-ki and Mr KWONG Chi-kin voted against the amendments.

Mr LEE Cheuk-yan and Mrs Selina CHOW abstained.

THE CHAIRMAN, Mrs Rita FAN, did not cast any vote.

THE CHAIRMAN announced that there were 47 Members present, 36 were in favour of the amendments, eight against them and two abstained. Since the question was agreed by a majority of the Members present, she therefore declared that the amendments were carried.

CHAIRMAN (in Cantonese): As the amendments moved by the Secretary for Housing, Planning and Lands have been passed, Mr LEUNG Yiu-chung and Mr Frederick FUNG may not move their respective amendments to subsections (1), (5) and (9) of the proposed section 16A in clause 4, which is inconsistent with the decision already taken.

CHAIRMAN (in Cantonese): Secretary for Housing, Planning and Lands, you may move your amendments.

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Chairman, I move an amendment to clause 2 and the deletion of the definition of "commencement date" from subsection (9) of the proposed section 16A in clause 4.

Proposed amendments

Clause 2 (see Annex I)

Clause 4 (see Annex I)

CHAIRMAN (in Cantonese): I now put the question to you and that is: That the amendments moved by the Secretary for Housing, Planning and Lands be passed. Will those in favour please raise their hands?

(Members raised their hands)

CHAIRMAN (in Cantonese): Those against please raise their hands.

(No hands raised)

CHAIRMAN (in Cantonese): I think the question is agreed by a majority of the Members present. I declare the amendments passed.

CLERK (in Cantonese): Clause 2 as amended.

CHAIRMAN (in Cantonese): I now put the question to you and that is: That clause 2 as amended stand part of the Bill. Will those in favour please raise their hands?

(Members raised their hands)

CHAIRMAN (in Cantonese): Those against please raise their hands.

(No hands raised)

CHAIRMAN (in Cantonese): I think the question is agreed by a majority of the Members present. I declare the motion passed.

CHAIRMAN (in Cantonese): Committee now deals with the Secretary for Housing, Planning and Lands' amendment to subsection (3) of the proposed section 16A in clause 4.

CHAIRMAN (in Cantonese): Secretary for Housing, Planning and Lands, you may move your amendment.

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Chairman, I move the amendments to subsection (3)(a)(i) and (ii) and (b)(i) and (ii) of the proposed section 16A in clause 4.

Proposed amendment

Clause 4 (see Annex I)

CHAIRMAN (in Cantonese): I now put the question to you and that is: That the amendment moved by the Secretary for Housing, Planning and Lands be passed. Will those in favour please raise their hands?

(Members raised their hands)

CHAIRMAN (in Cantonese): Those against please raise their hands.

(No hands raised)

CHAIRMAN (in Cantonese): I think the question is agreed by a majority of the Members present. I declare the amendment passed.

CHAIRMAN (in Cantonese): Committee now deals with the Secretary for Housing, Planning and Lands' amendments to subsections (4), (4)(a) and (b) and (6) of the proposed section 16A in clause 4.

CHAIRMAN (in Cantonese): Secretary for Housing, Planning and Lands, you may move your amendment.

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Chairman, I move the amendments to subsection (4) of the proposed section 16A in clause 4, by amending that subsection, adding "by more than 0.1%" after "first period" in paragraphs (a) and (b), as well as deletion of subsection (6).

Proposed amendment

Clause 4 (see Annex I)

CHAIRMAN (in Cantonese): I now put the question to you and that is: That the amendment moved by the Secretary for Housing, Planning and Lands be passed. Will those in favour please raise their hands?

(Members raised their hands)

CHAIRMAN (in Cantonese): Those against please raise their hands.

(No hands raised)

CHAIRMAN (in Cantonese): I think the question is agreed by a majority of the Members present. I declare the amendment passed.

CHAIRMAN (in Cantonese): Committee now deals with the Secretary for Housing, Planning and Lands' amendment to subsection (4)(a) of the proposed section 16A in clause 4 as well as Mr Frederick FUNG's amendments to subsections (4)(a) and (4)(b).

CHAIRMAN (in Cantonese): Secretary for Housing, Planning and Lands, you may move your amendment.

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Chairman, I move the addition of "or 10%, whichever is less" after "of the income index" to subsection (4)(a) of the proposed section 16A in clause 4.

Proposed amendment

Clause 4 (see Annex I)

CHAIRMAN (in Cantonese): Before I put to you the question on the Secretary for Housing, Planning and Lands' amendment, I wish to remind Members that if the Secretary's amendment is agreed, I shall give permission for Mr Frederick FUNG to revise the terms of his amendment to subsection (4)(a) of the proposed section 16A in clause 4 and he may move his revised amendment thereto as well as his amendment to subsection (4)(b). If the Secretary's amendment is negated, Mr Frederick FUNG may move his original amendment.

CHAIRMAN (in Cantonese): I now put the question to you and that is: That the amendment moved by the Secretary for Housing, Planning and Lands be passed. Will those in favour please raise their hands?

(Members raised their hands)

CHAIRMAN (in Cantonese): Those against please raise their hands.

(Members raised their hands)

CHAIRMAN (in Cantonese): I think the question is agreed by a majority of the Members present. I declare the amendment passed.

CHAIRMAN (in Cantonese): As the Secretary for Housing, Planning and Lands' amendment has been passed, I have given permission for Mr Frederick

FUNG to revise the terms of his amendment to subsection (4)(a) of the proposed section 16A in clause 4.

CHAIRMAN (in Cantonese): Mr Frederick FUNG, you may move your amendment.

MR FREDERICK FUNG (in Cantonese): Chairman, I move my revised amendment to subsection (4)(a) of the proposed section 16A in clause 4 and my amendment to subsection (4)(b).

Proposed amendment

Clause 4 (see Annex I)

CHAIRMAN (in Cantonese): I now put the question to you and that is: That the amendment moved by Mr Frederick FUNG be passed. Will those in favour please raise their hands?

(Members raised their hands)

CHAIRMAN (in Cantonese): Those against please raise their hands.

(Members raised their hands)

Mr Frederick FUNG rose to claim a division.

CHAIRMAN (in Cantonese): Mr Frederick FUNG has claimed a division. The division bell will ring for one minute, after which the division will begin.

CHAIRMAN (in Cantonese): Will Members please proceed to vote.

CHAIRMAN (in Cantonese): Will Members please check their votes. If there are no queries, voting shall now stop and the result will be displayed.

Functional Constituencies:

Ms Margaret NG, Mr CHEUNG Man-kwong, Mr SIN Chung-kai, Ms LI Fung-ying, Mr WONG Kwok-hing, Dr KWOK Ka-ki, Mr KWONG Chi-kin and Miss TAM Heung-man voted for the amendment.

Dr Raymond HO, Mr Bernard CHAN, Mrs Sophie LEUNG, Dr Philip WONG, Mr WONG Yung-kan, Mr Howard YOUNG, Mr LAU Wong-fat, Ms Miriam LAU, Mr Tommy CHEUNG, Mr Vincent FANG, Dr Joseph LEE, Mr Daniel LAM, Mr Jeffrey LAM, Mr Andrew LEUNG, Mr WONG Ting-kwong and Prof Patrick LAU voted against the amendment.

Geographical Constituencies:

Mr LEE Cheuk-yan, Mr Martin LEE, Mr Fred LI, Mr James TO, Miss CHAN Yuen-han, Mr LEUNG Yiu-chung, Dr YEUNG Sum, Ms Emily LAU, Mr Andrew CHENG, Mr Albert CHAN, Mr Frederick FUNG, Ms Audrey EU, Mr LEE Wing-tat, Mr Alan LEONG and Mr Ronny TONG voted for the amendment.

Mrs Selina CHOW, Mr CHAN Kam-lam, Mr Jasper TSANG, Mr LAU Kong-wah, Miss CHOY So-yuk, Mr TAM Yiu-chung, Mr LI Kwok-ying and Mr CHEUNG Hok-ming voted against the amendment.

THE CHAIRMAN, Mrs Rita FAN, did not cast any vote.

THE CHAIRMAN announced that among the Members returned by functional constituencies, 24 were present, eight were in favour of the amendment and 16 against it; while among the Members returned by geographical constituencies through direct elections, 24 were present, 15 were in favour of the amendment and eight against it. Since the question was not agreed by a majority of each of the two groups of Members present, she therefore declared that the amendment was negated.

CHAIRMAN (in Cantonese): Committee now deals with the Secretary for Housing, Planning and Lands' amendments to subsections (8) and (9) of the proposed section 16A in clause 4.

CHAIRMAN (in Cantonese): Secretary for Housing, Planning and Lands, you may move your amendment.

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Chairman, I move the amendments to subsections (8), (8)(a) and (8)(a)(i) and (ii), (8)(b) of the proposed section 16A in clause 4, deletion of subsection (8)(c) from the proposed section 16A and amend the definition of "income index" in subsection (9).

Proposed amendment

Clause 4 (see Annex I)

CHAIRMAN (in Cantonese): I now put the question to you and that is: That the amendment moved by the Secretary for Housing, Planning and Lands be passed. Will those in favour please raise their hands?

(Members raised their hands)

CHAIRMAN (in Cantonese): Those against please raise their hands.

(No hands raised)

CHAIRMAN (in Cantonese): I think the question is agreed by a majority of the Members present. I declare the amendment passed.

CLERK (in Cantonese): Clause 4 as amended.

CHAIRMAN (in Cantonese): As the amendments to clause 4 have been passed by the Committee, I now put the question to you and that is: That clause 4 as amended stand part of the Bill. Will those in favour please raise their hands?

(Members raised their hands)

CHAIRMAN (in Cantonese): Those against please raise their hands.

(No hands raised)

CHAIRMAN (in Cantonese): I think the question is agreed by a majority of the Members present. I declare the motion passed.

CHAIRMAN (in Cantonese): Council now resumes.

Council then resumed.

Third Reading of Bills

PRESIDENT (in Cantonese): Bill: Third Reading.

HOUSING (AMENDMENT) BILL 2007

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese):
President, the

Housing (Amendment) Bill 2007

has passed through Committee with amendments. I move that this Bill be read the Third time and do pass.

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the Housing (Amendment) Bill 2007 be read the Third time and do pass.

PRESIDENT (in Cantonese): I now put the question to you as stated. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(Members raised their hands)

Mr LEUNG Yiu-chung rose to claim a division.

PRESIDENT (in Cantonese): Mr LEUNG Yiu-chung has claimed a division. The division bell will ring for three minutes, after which the division will begin.

PRESIDENT (in Cantonese): Will Members please proceed to vote.

PRESIDENT (in Cantonese): Will Members please check their votes. If there are no queries, voting shall now stop and the result will be displayed.

Dr Raymond HO, Mr Martin LEE, Mr Fred LI, Ms Margaret NG, Mrs Selina CHOW, Mr James TO, Mr CHEUNG Man-kwong, Mr Bernard CHAN, Mr CHAN Kam-lam, Mrs Sophie LEUNG, Mr SIN Chung-kai, Dr Philip WONG, Mr WONG Yung-kan, Mr Jasper TSANG, Mr Howard YOUNG, Dr YEUNG Sum, Mr LAU Kong-wah, Mr LAU Wong-fat, Ms Miriam LAU, Ms Emily LAU, Miss CHOY So-yuk, Mr Andrew CHENG, Mr TAM Yiu-chung, Ms LI Fung-ying, Mr Tommy CHEUNG, Ms Audrey EU, Mr Vincent FANG, Mr LEE Wing-tat, Mr LI Kwok-ying, Dr Joseph LEE, Mr Daniel LAM, Mr Jeffrey LAM, Mr Andrew LEUNG, Mr Alan LEONG, Dr Fernando CHEUNG, Mr CHEUNG Hok-ming, Mr WONG Ting-kwong, Mr Ronny TONG, Prof Patrick LAU and Miss TAM Heung-man voted for the motion.

Mr LEE Cheuk-yan, Mr LEUNG Yiu-chung, Mr Albert CHAN and Mr Frederick FUNG voted against the motion.

Miss CHAN Yuen-han, Mr WONG Kwok-hing, Dr KWOK Ka-ki and Mr KWONG Chi-kin abstained.

THE PRESIDENT, Mrs Rita FAN, did not cast any vote.

THE PRESIDENT announced that there were 49 Members present, 40 were in favour of the motion, four against it and four abstained. Since the question was agreed by a majority of the Members present, she therefore declared that the motion was carried.

CLERK (in Cantonese): Housing (Amendment) Bill 2007.

Resumption of Second Reading Debate on Bills

PRESIDENT (in Cantonese): We now resume the Second Reading debate on the Revenue Bill 2007.

REVENUE BILL 2007

Resumption of debate on Second Reading which was moved on 2 May 2007

PRESIDENT (in Cantonese): Mr CHAN Kam-lam, Chairman of the Bills Committee on the above Bill, will now address the Council on the Report.

MR CHAN KAM-LAM (in Cantonese): President, in my capacity as Chairman of the Bills Committee on Revenue Bill 2007 (Bills Committee), I shall address the Council on the report of the Bills Committee.

The Bills Committee has convened a total of three meetings and listened to the views of various deputations, including those of wine traders. The Revenue Bill 2007 seeks to amend the Dutiable Commodities Ordinance and the Stamp Duty Ordinance, in order to implement two of the concessionary revenue measures announced by the Financial Secretary in the 2007-2008 Budget.

The Bills Committee does not have any objection to the proposed reduction in stamp duty and its members generally support the reduction in duty rate charged on alcoholic beverages. However, they have expressed the concern about whether or not the wine trades have honoured their undertaking before the duty reduction by passing the savings in duty to consumers through reduction in retail prices. During the scrutiny process, the Bills Committee requested the authorities, the Consumer Council and the relevant trades to provide information on the retail prices of alcohol beverages prior to the duty reduction on 28 February this year and afterwards.

In response to the Bills Committee's concern about wine prices, the Hong Kong Wine and Spirits Industry Coalition (HKWSIC) has replied that most wine importers have been selling their products at reduced prices since 1 April this year. However, since retailers need to clear the duty-paid stock acquired before the duty reduction and owing to the appreciating value of the currencies of some wine-exporting countries, the duty savings on wine products may not have been fully translated into reduction in retail prices. On the basis of available information, members consider that by and large, the wine trade has made efforts to lower the retail prices of wine products to reflect the reduction in duty.

However, members still call on the HKWSIC to work in collaboration with other operators, including supermarket chains, chain stores, restaurants, hotels and bars, to continue their efforts in this regard. The HKWSIC has also undertaken to monitor and review the prices of wine and will continue to outreach to hotels, restaurants and bars to ensure that duty savings are passed onto consumers.

Regarding the retail prices of beer, the Hong Kong Beer Coalition, which is the main representative of beer importers in Hong Kong, has said that with the complicated and multi-layered nature of beer business, it has made a number of efforts, including issuing a new price list to the trade, and it is aware that fellow traders have passed on the benefits to consumers through more favourable and frequent price discounts and providing customers with more and bigger reward promotions and other means such as even sponsorship, so as to benefit the overall economy.

Members do not subscribe to the Hong Kong Beer Coalition's explanation. They hold that the duty concession should be translated into reduction in retail prices for the direct benefit of consumers, instead of being used in the context of

the marketing and promotional strategies of individual beer brand names. They point out that this has in effect broken the trust built up between the industry, the Government and the legislature.

Responding to the Bills Committee's concerns, the authorities have followed up the matter with the Hong Kong Beer Coalition. On 26 May, the Hong Kong Beer Coalition issued a statement, undertaking to pass on duty savings to consumers by reflecting all duty savings directly on the new price lists of beer products with effect from 1 June. The Hong Kong Beer Coalition has confirmed that this is an on-going commitment and it will also provide the relevant information to the Administration for monitoring. The Administration has assured members that it will continue to monitor the changes in retail prices of beer products through price lists provided by the Hong Kong Beer Coalition and with the assistance of the Consumer Council.

Noting that the wine/beer trades have made commitments to pass on the duty savings to consumers and that the Hong Kong Beer Coalition has agreed to provide relevant information to the Administration to facilitate the latter in monitoring its undertaking, the Bills Committee has agreed to invite the Panel on Commerce and Industry or other relevant panels to consider whether and how to follow up the matter in due course. The Bills Committee has also requested the Administration to confirm during the Second Reading debate on the Bill that having regard to the Bills Committee's concerns, it will continue to keep in view the retail prices of alcoholic beverages in conjunction with the wine/beer trades and the Consumer Council.

The Bills Committee has held discussions with the authorities on the policy considerations for the proposed reduction in duty on alcoholic beverages, as well as the anticipated benefits brought about by the reduction. Some members hold that the duty rates on wine are too high, pointing out that during the Budget consultation period, there was a proposal on abolishing the duty on alcoholic beverages. The authorities have replied that while the Financial Secretary has indicated willingness to consider this idea further if it enjoys broad community support, it is not a measure to be considered in the context of the current Bill. The Bills Committee has also held discussions on the Committee stage amendment to the Bill to be moved by Mr SIN Chung-kai in his personal capacity. The Bills Committee will not move any Committee stage amendments in its name and supports the resumption of Second Reading of the Bill.

President, I shall now say a few words on the Bill for the DAB. The economy of Hong Kong is facing very keen competition. We know that we must now create a free and liberal business environment. This is especially necessary because the duty rates in neighbouring places (particularly duty rates on alcoholic beverages) are rather low. Therefore, if Hong Kong can phase in some taxation measures to create a more liberal business environment and turn itself into a wine sales/re-export centre, the future economic development of Hong Kong will surely benefit.

After the commencement of the Financial Secretary's concessionary revenue measure, we observe that some traders have not fully passed on the duty savings to consumers. This defeats the original policy objective and we must express our deep regret. For this reason, we will continue to monitor wine traders, hotels, bars and other entertainment establishments in retail price changes. We hope the relevant trades can realize that the duty reduction is meant mainly to create a better business environment instead of simply allowing them to reap more profits in the process. The reason is that the benefits concerned should belong to society as a whole rather than operators in the wine trades. Therefore, the DAB supports the revenue measures put forward by the Financial Secretary.

Thank you, President.

MR TOMMY CHEUNG (in Cantonese): President, in our scrutiny of the Revenue Bill 2007 (the Bill), Members are more concerned about the reduction of duty on alcoholic beverages. I wish to take this opportunity to commend yet again the Financial Secretary for accepting the proposal of the relevant trades and reducing the duty rates on beer and wine by half. There have been some hiccups in the course of implementation, but I hope that this will not affect our evaluation of this benevolent measure of duty reduction.

I must also take this opportunity to advise beer traders that they must learn a lesson from their experience this time around and always bear in mind the expectations of society. Similarly, all segments of the sales chain of beer and wine, including importers, wholesalers, retailers, restaurants and hotels, must remember to honour their undertaking by passing on all duty savings to the public.

Some criticize that the actions of the Government and political parties in this incident are tantamount to interfering with commercial operation. I must emphasize that the Liberal Party and I, Tommy CHEUNG, both hold that no product prices should be subjected to the intervention of government officials or the Legislative Council. But the present case is different. We have not been interfering with market prices. We have just been reminding people to honour their undertaking.

Members must realize that the idea of passing on duty savings directly to consumers was a proposal which I marketed to wine traders last year. Wine traders knew that this was an innovative idea, and that there would be some difficulties in implementation. But following lengthy studies and discussions, they came to realize that the idea was constructive. They therefore accepted the proposal, and afterwards, they started to lobby the Financial Secretary and Legislative Council Members, undertaking to the Government that duty reduction would benefit only the general public, rather than any importers of alcoholic beverages, multinational corporations, supermarkets and restaurants.

The Financial Secretary once explained publicly that his acceptance of the proposal was based largely on this undertaking from the relevant trades, on the belief that the general public would benefit. Financial Secretary Henry TANG has openly asked wine traders to lower prices, but his intention is just to remind all those merchants who made the undertaking to him of their own accord, to remind them that they must honour their undertaking. In brief, he is just saying, "Don't forget what you've promised me." This is entirely different from any artificial price control.

Actually, the experience this time around is both rare and valuable. The various social sectors, Members belonging to different political parties and groupings, government officials, the Consumer Council and even the mass media have all joined hands to monitor the situation, protect the interests of consumers and exert pressure on wine traders.

However, I do not agree to the Democratic Party's amendment on limiting the duty reduction to one year in duration. This will bring more losses than gains to consumers, and this is also an unnecessary move. The reason is that with annual reviews of the duty reduction measure, wine trades will have to bear the risks of duty rate fluctuations. This will not only hinder their formulation of

long-term business plans but also restrict their commercial activities of acquiring massive stocks. It will then be difficult for them to reduce their operating costs to any substantial extent. In this way, it will be very difficult for wine prices to see any downward adjustments.

What is more, it will also be very difficult to satisfactorily monitor whether duty savings are passed on to consumers directly on a yearly basis. For a can of beer, for example, the duty savings is just \$0.3. The monitoring approach is certainly not as simple as checking whether the retail price in supermarkets or provision stores has really gone down by \$0.3.

Members must realize that the wine market is different from the diesel market. Diesel is sold by importers to consumers direct. And, there are just several oil companies in Hong Kong. As a result, just by visiting the gas stations operated by these several oil companies, we will be able to check whether the prices have already reflected the duty savings concerned. But the wine market is much more complicated. After import, alcoholic products must first pass through the many layers of wholesalers, marketing agents and retailers before they can eventually reach consumers. Hundreds and thousands of merchants are involved in the process. If we are to ensure that duty savings are reflected in prices, the Government must sample a substantial number of traders at each layer for thorough survey and examine all price changes. The manpower and resources required may be more than \$0.3. This does not make any economic sense at all.

What is more, the prices of alcoholic products are affected by rents, wages, transportation costs, exchange rates and inflation. Mere price changes may not necessarily reflect the real situation. It is impossible and even unreasonable to make any attempts to rigidly regulate the annual price adjustments of alcoholic products.

Actually, we need not fear that wine trades may kick down the ladder a year later. Our concerted efforts to exert pressure on beer traders this time around can show that the combined monitoring efforts of the Consumer Council, the Legislative Council, consumers and the mass media are much more effective than any annual reviews of duty reduction.

After all, doing business is all about credibility and reputation. For this reason, everybody must be a smart consumer. When buying any alcoholic

products, we must compare prices and exercise the right of a consumer. I believe that all segments of the wine sales chain will monitor one another because Hong Kong is faced with rising operating costs. Alcoholic beverages are common consumables. Even though alcohol duty accounts for just 3% to 25% of product prices, any slight changes will affect all segments of the chain and dampen people's consumption desire. It does no good to anyone who tries to pocket the duty savings secretly.

Precisely because the costs of living in Hong Kong are ever-rising, wine duty rates in Hong Kong must be reduced. Members must realize that the relevant trades are facing competition not only from within Hong Kong but also from other places. Many places in Asia are eyeing the ever-expanding wine market. They also hope to enhance their competitiveness, so as to attract visitors and increase business opportunities.

For example, Hong Kong's arch-rival, Singapore, has introduced a policy of low duty on alcoholic beverages in recent years. As a result, it has successfully attracted large numbers of up-market brand name wine and a huge variety of other brands to its market, thus boosting the local restaurant and catering industries. But the wine market in Hong Kong, despite its reputation as a Gourmets' Paradise, has remained stagnant due to its high duty on alcoholic beverages, in marked contrast to the booming development of the international wine market.

However, since the introduction of duty reduction, we have observed an encouraging change. According to the latest statistics of the Customs and Excise Department, the import volume of red wine has soared by 74% from 750 000 litres in February to 1.3 million litres in March this year. And, as a result of the duty reduction, tariff reduction has increased by 25%, from \$21 million to \$26 million. This can show that the duty reduction is tentatively successful and the import volume of more expensive red wine has increased.

I wish to reiterate that our logistics networks with the Mainland and other places in Asia, together with our highly developed corporate governance, can give Hong Kong an absolute advantage over other places in becoming a wine sales centre in the Asia-Pacific Region. Such development can in turn boost the commercial activities in our transportation, logistics, insurance, exhibition, tourism and hotel industries, thus creating large numbers of employment opportunities in related sectors. The beneficiaries will not be confined to a

handful of people. Rather, the broad masses of people will benefit. But we must act more quickly than our competitors to grasp the opportunity.

Besides, I also wish to emphasize once again that it is very disappointing that the duty reduction this time around does not cover liquor. Alcohol addiction is not a serious problem in Hong Kong. And, Hong Kong people are very rational. Most of them realize that excessive consumption of liquor is harmful to health. That is why they will usually have just a glass or two occasionally, or they will just mix liquor with other soft drinks for consumption.

However, the 100% liquor duty in Hong Kong is the highest in the whole world. A bottle of Johnnie Walker Black Label Scotch Whisky can be cited as an example. In the Mainland, even though the sales tax is included in wine prices, the unit price of this brand of whisky is still \$189, or almost 50%, lower than that in Hong Kong. The unit price in Macao is even lower than that in Hong Kong by \$247, or more than 60%. The unreasonably high liquor prices in Hong Kong have left a very bad impression among visitors, seriously undermining its competitiveness.

I am even more worried that while Hong Kong residents re-entering Hong Kong could each bring one bottle of duty-free alcoholic beverage in the past, they can now bring two bottles each under the new duty-free policy. Wine importers will not be affected because their duty-free networks in Asia have by now expanded very significantly. Therefore, their import volumes will not be changed to any substantial extent. There may even be some increases. But the liquor retail industry in Hong Kong will be worst-hit.

Consequently, I hope the next Financial Secretary can realize that the problem of alcohol duty in Hong Kong has not yet been satisfactorily resolved. We should not tackle the problem of high alcohol duty in Hong Kong solely from the perspective of public health. We must at the same time realize that the problem is directly related to our economy. A policy of high alcohol duty will only seriously reduce the competitiveness of Hong Kong's catering, retail and tourism industries.

As rightly pointed out by Financial Secretary Henry TANG, we should be more forward-looking. For this reason, we should reduce the duty rates on all alcoholic beverages as soon as possible, so as to bring our duty rates closer to those in our neighbouring regions. At the same time, we should implement the

policy of abolishing wine duty as early as possible, so as to turn Hong Kong into a wine sales centre in the Asia-Pacific Region and bring new opportunities to our economy.

With these remarks, President, I support the Bill.

MISS CHAN YUEN-HAN (in Cantonese): Madam President, we in the FTU have always had our own views on the Revenue Bill 2007. But about half a year ago, as a result of the lobbying of various sides, we decided that we might as well render our support. One thing was that a group of wine traders raised two points — duty reduction can make the Hong Kong market more competitive and give direct benefits to consumers. We were not completely sure about the validity of these points at that time because we always thought that to use duty savings to help the poor..... We thought that way sometimes, but in the end, we still agreed to render our support. However, it has turned out after the duty reduction that..... The media carried special reports on this the other day..... I believe all are taken aback because while there is a duty reduction of 40% to 80% for wine and a reduction of 20% to 40% for beer, consumers are unable to derive any benefit despite the duty reduction for beer. For this reason, everybody cannot understand why duty rates should be reduced. Everybody think that consumers can save some money, but it has turned out that they cannot derive any benefit.

Madam President, I was a member of the Bills Committee. When I was listening to the Hong Kong Beer Coalition at a meeting, I noticed that it actually thought that we were all ignorant. It said that there were promotion activities, such as the offering of instant noodles as gifts and advertisements. But then they have not passed on the duty savings to consumers. They have pocketed the duty savings themselves. Mr Tommy CHEUNG kept talking about the multi-layered nature of the industry. But as I mentioned when scrutinizing the Bill — I am the Chairman of the Hong Kong Department Stores and Commercial Staff General Union, I am very familiar with the whole sales chain, from factory production to wholesale and retail. We know very well that every segment of the chain is marked by many technical problems. We all know this only too well. But since they told us that there would be two big benefits, namely, greater market competitiveness and benefits for consumers, and that the market would be able to expand, we finally agreed to render support. But why has the industry talked about something else? That day, after hearing what the Hong

Kong Beer Coalition said, I really thought that they simply treated us like ignorant people totally susceptible to lies.

Had there not been such loud public outcry, had there not been such strong reactions from different political parties and groupings, they would not have acted so quickly to urge the Government to take actions, real actions, after the Bills Committee meeting concerned. Frankly speaking, we have made efforts to achieve something. And, frankly speaking, we are now talking about a commercial act. It is very difficult to ask them not to make any profits. But if there is no monitoring, there will be some other difficulties. That is why I have been questioning government officials what effective measure the Government can adopt to stop all those people from behaving like this. The government official present at the meeting replied that the Government would do something. First, he said, they would bring the matter to the attention of the Consumer Council. We agreed with him on this. Second, he said that since there were at present several supermarket chains, the Government could approach them, so that in the market..... If the government official did not raise this point..... We agreed that the matter should be referred to the Consumer Council. But once he mentioned the supermarket chains, I immediately could not help my outburst. Frankly speaking, supermarkets are also commercial organizations. In the past, some practices of supermarkets also outraged the market. For example, their practices did lead to many grievances among small shop operators, their affiliated companies, newspaper retailers, and so on. All these grievances were about those commercial syndicates. The Government wants to rely on supermarkets, but very often, because of price cartel and many other problems (such as the sale of expired foodstuffs), they themselves are the targets of many complaints from the public. Therefore, I do not agree that the Government should rely wholly on supermarkets and then sit there with folded arms.

Therefore, regarding the tabling of the Bill today, I have questioned the Secretary for Financial Services and the Treasury repeatedly. The voting decision of the three of us today will depend on how the Secretary replies to our queries. I actually want to render our support. But we hope that our support today will not..... All is because something happened in the past. In particular, we cannot accept what the Hong Kong Beer Coalition has done. Since the Government claims that the duty reduction will lead to benefits in several ways, we are prepared to render our support. But if the objective cannot be achieved in the end, especially if the Government breaks its promise, I will raise objection.

Madam President, some workers from the hotel industry have told me that sometimes their wine prices must remain high because there are existing stocks and it is very difficult to reduce prices. I think if they can offer reasonable explanations, I will certainly listen to them. But we were totally outraged by what the Hong Kong Beer Coalition said that day.

Therefore, Madam President, I wish to talk about our stance again. We support the Bill, but our support is based on the assumption that the duty reduction will do good to Hong Kong's competitiveness and consumers. If these two objectives cannot be achieved in the end, I will raise very big questions. We really wish to hear what the Secretary is going to say later on at this meeting.

Madam President, I so submit.

MISS TAM HEUNG-MAN (in Cantonese): Madam President, when lobbying for Members' support at the end of last year, traders said that if the Government could considerably lower the duty on wine and beer, they could return all the savings to consumers, which means that the wholesale and retail prices of alcoholic beverages will at the same time be reduced significantly to the benefit of consumers, and this can also enhance the competitiveness of the catering and tourism industries of Hong Kong.

However, after the Financial Secretary announced in the Budget in March this year a reduction in the duty on wine and beer with immediate effect, the wholesale and retail prices of alcoholic beverages have not come down substantially. The report of a survey by the Consumer Council has even found upward price adjustments in respect of some alcoholic beverages. In other words, the reduction in the duty on alcoholic beverages has not in the least benefited the public and the consumers. On the contrary, it serves only to enable traders and retailers to line their pockets with public funds.

The Bills Committee on this Bill of the Legislative Council met with the traders in end May this year and when the traders were asked why they had not honoured their undertaking of substantially reducing the price of alcoholic beverages, they used a myriad of excuses to point out that a price reduction would be difficult, such as the need to clear their wine stock, considerable Euro appreciation, and complexities in the entire supply chain have made it difficult

for traders to control the selling price set by the retailers, and so on, in an attempt to reject calls for a price reduction.

I remember that at a Bills Committee meeting of the Legislative Council in end May, the beer traders even said that they had given out free gifts, and a complimentary bottle of beer for buying a certain quantity, and also sponsored the Cheung Chau Bun Festival, and so on, which they said were *de facto* price reduction. These pretexts were indeed unacceptable.

Finally, it was only when Financial Secretary Henry TANG openly expressed his dissatisfaction with the fact that the wholesale and retail prices of alcoholic beverages had not been reduced at all that the traders reluctantly took steps to lower prices.

Madam President, this incident has shattered our trust in the traders to such extent that we have almost no trust in them. It is indeed very difficult for us to believe the traders anymore.

The Government proposes to reduce the duty on wine from 80% to 40%, and that on beer from 40% to 20%. The reduction in the duty on alcoholic beverages will cost the Government \$350 million a year. If the revenue from this duty will be reduced but consumers cannot obtain any substantive benefits from it, we will certainly vote against the reduction of duty on alcoholic beverages. Under the Government's proposal, the duty on each 750 ml bottle of wine will be reduced by \$12.2, while that on each 330 ml can of beer will be reduced by \$0.29. These reductions should be fully reflected in the prices.

Therefore, in order to protect consumers' rights and keep a watch on the traders to ensure ongoing price reduction by traders, the Civic Party supports the amendment proposed by Mr SIN Chung-kai of the Democratic Party to the effect that the reduction of duty on alcoholic beverages will be valid for one year only and a decision on the continuity of such reduction next year will be made depending on whether or not the traders genuinely have the sincerity to reduce prices as well as their performance this year.

We think that only in so doing can the decision be a wise one, for it can protect the revenue and the rights of consumers at the same time.

I so submit. Thank you, Madam President.

MR SIN CHUNG-KAI (in Cantonese): President, first, I will make a declaration of interest. I also drink red wine and beer. In fact, when the meetings of the Legislative Council are in progress, I rarely drink any wine over dinner, however, due to this debate, I had a beer at dinner before the meeting.

President, originally, the prices of red wine and beer should not be subjected to the monitoring of the Legislative Council, moreover, the prices of liquor are affected by many factors. Whether the prices of alcoholic beverages are too high or too low is in fact a moot point and can be the subject of interminable debate. Moreover, the effect of an increase or decrease of duty on prices is really difficult to quantify, so the Government had better not intervene. This is particularly so because a bottle of Lafite '82, which Mr James TIEN likes, is actually regarded as a piece of art and its price has been pushed sky-high. Even if the Government cuts the duty, its price would still rise because it has probably become the red wine hotly coveted by tycoons.

Some commentaries point out that asking the alcoholic beverage trade to reduce prices is to interfere with the market. If this holds true, the Government, in requesting that the trade reduce prices, is all the more guilty. However, the Democratic Party does not agree with such opinions because the people voicing them do not understand the background of the whole matter.

In fact, a reduction in duty by the Government may not necessarily lead to a corresponding decrease in the prices of goods. For example, after the property tax is reduced, it may not necessarily be the case that property prices will decrease proportionately. It is possible that after a reduction in stamp duty, more people will buy properties and property prices will go up, so consumers have more to lose than to gain. Therefore, property prices may not necessarily go down and this is basic knowledge. Moreover, the Legislative Council should not just target the alcoholic beverage trade, interfering only with the prices of wine and beer and nothing else. In fact, what the Legislative Council wants to interfere with is the failure of the alcoholic beverage trade in keeping its promise.

As a number of Honourable colleagues have pointed out, last year, the alcoholic beverage trade lobbied political parties and the Government persistently and cited figures to show that the prices of alcoholic beverages in

Hong Kong were more expensive than those in Macao and the Mainland, saying that the high duty on alcoholic beverages in Hong Kong is the cause leading to the high prices of enjoying wine in restaurants in Hong Kong. The trade even said that reducing the duty on alcoholic beverages could stimulate the development of tourism and the catering industry, increase jobs in the relevant retail and wholesale trades, as well as increasing the Government's revenue. The trade even said that after the duty reduction, the public could drink red wine of an even higher quality and this move would be conducive to turning Hong Kong into a quality dining and wining centre. It looked as though all it would take for the Hong Kong economy to take off were a reduction in the duty alcoholic beverages.

After listening to the remarks of wine merchants, ordinary members of the public would surely think that the high prices of alcoholic beverages in Hong Kong are due to the excessively high duty on alcoholic beverages. In order to prove that the alcoholic beverage trade had the interests of consumers and the overall interests of Hong Kong in mind in calling for a reduction in duty on alcoholic beverages, in a high-profile gesture, the trade even called a press conference on 18 December last year, in which they claimed that the benefits of a reduction in the duty on alcoholic beverages would all be passed onto society or the public. Unfortunately, the ideas of the alcoholic beverage trade failed to convince us, or me at least.

I remember that when I met the representatives of the alcoholic beverage trade, I had a debate with them and pointed out that the cause leading to the high prices of alcoholic products in restaurants and bars was not the high duty on alcoholic beverages. Even if the duty was reduced, the decrease in the prices of alcoholic beverages would still be very small. However, the trade pointed out that the sale prices of alcoholic products were about three times the cost, therefore, if the duty on alcoholic beverages was reduced by \$1, the retail price would be proportionately reduced by \$3, so on and so forth, and consumers would consequently be benefited. What I called into doubt even more was that the trade had no way at all of ensuring that retailers would also reduce their prices after the duty reduction.

After the Government had really reduced the duty, my initial doubts were all confirmed. We heard all sorts of explanations on why prices of alcoholic beverages were not adjusted downwards, such as the existing stock not having

been sold out, increases in the prices of new stocks and even changes in exchange rates and increases in other costs. What I found most laughable was that the trade said that the duty on alcoholic beverages accounted for only a fraction of the retail price, for example, the duty of a beer selling at a retail price of \$10 was only about \$0.3.

Firstly, the alcoholic beverage trade cannot possibly be unaware of how much the duty on alcoholic beverages is. If the duty on alcoholic beverages for a can of beer is just \$0.6, this amount of duty is not large enough to affect the retail price. Even though the prices of red wine are higher, according to the information from the Customs and Excise Department, the duty accounts for only about 10% to 20% of the retail price, so the effect on prices, particularly on the prices of products sold in restaurants, is insignificant.

Wine merchants know full well that the duty on alcoholic beverages only accounts for a small proportion of the retail price, however, when they were lobbying the Government and Members, they exaggerated the benefits of a reduction of duty on alcoholic beverages. That was obviously intended to achieve an end with no regard to the facts. It was only after the duty on alcoholic beverages had been reduced that the trade began to tell the truth, saying that alcoholic beverage duty only accounted for a small proportion of the cost. This gives one the impression that the trade has been dishonest.

In fact, even if the alcoholic beverage trade is willing to reduce prices as promised, it would be difficult to turn into reality the merits claimed by the trade, that is, stimulating tourism, increasing job opportunities, enabling the public to enjoy better-quality red wine and increasing the Government's revenue because in order to attain these goals, the prices of alcoholic beverages have to be adjusted downwards substantially. In fact, it would not be possible to achieve these results by reducing the duty on alcoholic beverages. The attractive spin of the trade has in fact exaggerated the effects of a reduction in duty on alcoholic beverages.

Even so, originally, the alcoholic beverage trade only had to keep its promise of reducing prices in order to be spared criticism. However, the beer trade was even reluctant to cut \$0.3 from the unit cost, and as a result, they attracted a barrage of criticism from society, so they have reaped what they sowed.

The Financial Secretary, Mr Henry TANG, said when delivering his Budget this year, "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". The Financial Secretary also made it known that when members of the alcoholic beverage trade met him, they promised that the benefits of a duty reduction would be passed onto the public.

Initially, the promise of the alcoholic beverage trade was to pass all — and I stress "all" — the savings on alcoholic beverage duty to the public. This should be regarded as a condition on which the Government will reduce the duty. If this condition has not been met, it would not be possible for the Government to reduce the duty and it would also be impossible for political parties to support a duty reduction. However, since the alcoholic beverage trade could not convince the public that they have kept their promise, the Legislative Council and we should not let a few members of the trade pocket the resources that were originally part of public coffers.

Therefore, today, the Democratic Party urges Honourable colleagues in the Legislative Council to consider several points before passing the Revenue Bill 2007:

Firstly, has the beer trade reduced its prices and is the price reduction sufficient to pass all the benefits of the duty reduction onto the public?

Secondly, have the prices of wine been reduced and is the price reduction sufficient to pass all the benefits of the duty reduction onto the public?

Although the Financial Secretary said that the prices of red wine had been reduced, according to the information provided by the red wine trade, the decrease for various brands is about 16% on average and the median is only about 15%. They are far below the 22% that was initially promised. In fact, since many Honourable colleagues were present at the meetings with members of the alcoholic beverage trade, Members all know that the red wine trade stated very clearly at that time that wine prices could be reduced by 22%. Our query is: How can 16% or 15% be equated with 22%? If it cannot be, how can we make the alcoholic beverage trade fulfil its promise?

Thirdly, after the Legislative Council has passed this Bill today, if the alcoholic beverage trade increases prices, citing such excuses as the appreciation of foreign currencies and inflation, what other recourse do the Legislative Council and the Government have to make the alcoholic beverage trade keep its promise or to penalize it for failing to do so? If not, is the Legislative Council being too generous in allowing the trade to pocket the money even though it knows full well that wine merchants will "kick the ladder"?

The Democratic Party finds it most disappointing that the alcoholic beverage trade has so far failed to convince people that it has fulfilled its promise. In view of this, the Democratic Party will propose an amendment today.

President, I wish to make one more point. I remember that in 1998, our Chief Executive, Donald TSANG, who was then the Financial Secretary, reduced the duty on alcoholic beverages. At that time, the alcoholic beverage trade did not carry out any lobbying, the main reason being that the Government had a huge surplus. Nor did the Legislative Council at that time criticize the alcoholic beverage trade for not reducing the prices of alcoholic beverages after the duty reduction, purely on the ground that this matter was considered a matter for the free market. However, today, various political parties and groupings have pointed out that the alcoholic beverage trade had told Honourable colleagues that they would keep their promise. Therefore, our aim in proposing the amendment today is not to interfere with the market but to make the trade keep its promise.

President, later on, when it comes to the next stage, I will elaborate further why I want to impose a one-year limit on the period of duty reduction this time around. The Democratic Party supports a duty reduction and also agrees with the Financial Secretary's comment that a tax reduction will bring social benefits. Of course, the social benefits may not be as significant as the alcoholic beverage trade claims, however, we agree that this is helpful to the general public, to the creation of employment opportunities and to the development of a number of trades. However, we think that there should be a monitoring period, for example, an observation period of one year. Later on, I will explain this in detail when moving my amendment. With these remarks, I support the original motion.

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

MR HOWARD YOUNG (in Cantonese): President, several Members have talked about why we support a duty reduction. I wish to raise one point in particular. Of course, the Liberal Party has all along lobbied for a reduction in duty on alcoholic beverages and it would be best if the duty on alcoholic beverages is reduced to nil. However, I wish to raise one point in particular from the tourism perspective.

At present, the market of Hong Kong-bound tours is made up primarily of mainland tourists. They are not aficionados of red wine, but the tourism sector is concerned that our market may have neglected long-haul tourists. Long-haul tourists hail from Europe, the Americas and Australia and these three regions are famous for red wine production and wine production. Therefore, when these tourists stay in hotels in Hong Kong — moreover, they are tourists with high spending power — and when they come across familiar brands of wine, they will compare their prices to those in their home countries and find that there are big differences. Therefore, people in the tourism and hospitality sectors often say that tourists always have the impression that Hong Kong is a free port and even Europeans come here to buy European goods and goods of French marques, however, they will not come here to buy red wine and they even seldom drink red wine because the sight of the wine list will already put them off.

In addition, when these tourists visit Asia for pleasure, apart from Hong Kong, they will also go to Singapore. The duty on alcoholic beverages in Singapore is lower than that in Hong Kong, so in comparison, they will think that although they originally thought that everything in Hong Kong would be cheaper than at other places, this is in fact not the case. Therefore, we welcome a reduction in duty on alcoholic beverages and I believe that this is desirable in preventing the whole market from skewing towards mainland tourists and in attracting long-haul tourists.

As regards Mr SIN Chung-kai's amendment, we do not support it. Of course, we also agree that the wine trade, hoteliers and retailers should let consumers benefit directly from the duty reduction and should not resort to all sorts of gimmicks such as giving away this or that. However, if it is said that they should be monitored for a year, this may lead to a certain situation, that is, when the one-year period is coming to an end but no final decision has yet been

made, the wine trade would not dare take delivery of their goods and put them on sale. This is because, as far as I understand it, the wine trade pays duty to the Government not according to how much wine has been sold, rather, duty is payable when the wine comes out of the warehouse. Therefore, traders may be concerned that if the duty goes up, heavy duty will have to be paid when the wine comes out of the warehouse and consequently, it would not be possible to keep prices low.

I so submit.

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

(No Member indicated a wish to speak)

PRESIDENT (in Cantonese): If no other Member wishes to speak, I now call on the Secretary for Financial Services and the Treasury to reply.

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): Madam President, I would like to thank Mr CHAN Kam-lam, Chairman of the Bills Committee, and members of the Bills Committee for their detailed and speedy scrutiny of the Revenue Bill 2007 (the Bill) and their valuable opinions. I would also to thank Members here for their support of the resumption of the Second Reading debate today.

The first proposal in the Bill seeks to reduce the duty on alcoholic beverages with an alcoholic strength not more than 30% (other than wine) from the existing *ad valorem* rate of 40% to 20%, and that on wine from the current 80% to 40%.

The second proposal in the Bill seeks to lower the stamp duty. To allow more people to become home owners, we propose to reduce the stamp duty rate on transactions of properties valued between \$1 million and \$2 million from 0.75% to a fixed amount of \$100.

The two proposals stated in the Bill have taken effect since 28 February under the Public Revenue Protection (Revenue) Order 2007 which gives legal

effect to the proposals for a maximum of four months. In other words, if the Bill cannot be passed by the Legislative Council before 28 June, the two duty reduction proposals will cease to be effective.

During the scrutiny of the Bill by the Bills Committee, Members expressed no opinion about the proposal to reduce the stamp duty on properties. However, there was concern about whether the trade had, following the lowering of the duty on alcoholic beverages, honoured its undertaking to pass onto consumers the savings in duty. Hence, I will spend the rest of the time discussing this point.

During the formulation of the Budget in the past years, the Government received proposals from the trade to lower the duty on alcoholic beverages. This year, the trade has even undertaken, as mentioned by Members earlier, to pass on their duty savings to consumers. Having regard to various factors, the Government considers that reducing the duty on alcoholic beverages will not only benefit consumers, but also help promote the development of Hong Kong's catering industry, tourism and even wholesale and retail alcoholic beverage trade, thereby benefiting the economy as a whole. In the long run, the Government has the intention to promote the development of Hong Kong as the region's wine exhibition, trading and logistics centre. During the meetings held by the Bills Committee, we were very pleased to see that members were generally supportive of this policy objective.

Generally speaking, there have been positive responses from the trade after the implementation of the proposal to reduce the duty on alcoholic beverages. Some wine outlets, supermarkets, restaurants and bars have also immediately lowered the prices of wine products as a rebate to customers. The findings of a price comparison conducted by the Customs and Excise Department (C&ED) on 10 more popular brands of wine products show that their retail prices have all been reduced after the duty reduction, and the reduction in price is even greater than the amount of saving in duty. Furthermore, the outcome of a survey on more than 90 brands of wine conducted by an independent consultancy in a market research on wine and liquor has also shown an average drop of around 15% in retail price after the reduction on duty.

Despite the drop in the prices of beer over the past three months, beer importers have not yet fully reflected their saving in duty on the price lists of beer. As stated by Miss CHAN Yuen-han just now, it was only after the

negotiation between the Government and the beer trade that the importers formally undertook at the end of last month that all the savings in duty would be fully reflected on the new price lists which took effect on 1 June. The submission of the relevant price lists to the C&ED for verification illustrates that the reduction in price is consistent with the saving in duty. The Hong Kong Beer Coalition has also made it clear in its statement to the Bills Committee that passing the full amount of the savings in duty on to customers will be an ongoing measure. We welcome the prompt action taken by the trade in response to the aspiration of the community. Both the survey conducted by the Consumer Council in early June and the information recently provided by the trade show that major supermarkets and convenience stores have lowered the retail prices of the relevant products accordingly after the new price lists of beer trades took effect.

I have specially bought this bottle of beer from a supermarket today to examine if its price has gone down. This brand of beer (I will not disclose the brand to avoid being suspected of promoting it), used to be sold for \$18.4, is sold for \$14.2 today, representing an impressive drop in price of more than 20%. The research conducted by me today does show that the pressure exerted on the trade by Members, the Government and the public has fully paid off.

The amendment proposed by Mr SIN Chung-kai seeks to impose a one-year deadline on the Government's initiative to reduce duty on alcoholic beverages. Without the approval of the Legislative Council for further extension, the duty on alcoholic beverages will revert to its previous level starting 1 July 2008. This is unacceptable to the Government because the proposal to reduce duty on alcoholic beverages is not meant to be a one-off relief measure. Instead, it is a long-term initiative that seeks to promote the long-term development of the relevant trade and enhance employment through increased economic activities. In our opinion, Mr SIN Chung-kai's amendment might be detrimental to the long-term investment and development of the trade for the stability of the duty on alcoholic beverages might be affected. Therefore, the amendment is not consistent with the policy objective of the Government to reduce duty on alcoholic beverages.

Actually, it is evident that the response made by the traders has reflected the capability of the Government, Members, the media and consumers to effectively monitor retail prices. In the long run, we believe the market force will enable consumers to continue to benefit from the duty reduction measures. Furthermore, the Government will work with the trade and the Consumer

Council to keep in view the prices of alcoholic beverages. The implementation of the duty reduction measures will also be reviewed from time to time.

With these remarks, I implore Members to support the Bill and oppose Mr SIN Chung-kai's amendment.

Thank you, Madam President.

PRESIDENT (in Cantonese): I now put the question to you and that is: That the Revenue Bill 2007 be read the Second time. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(No hands raised)

PRESIDENT (in Cantonese): I think the question is agreed by a majority of the Members present. I declare the motion passed.

CLERK (in Cantonese): Revenue Bill 2007.

Council went into Committee.

Committee Stage

CHAIRMAN (in Cantonese): Committee stage. Council is now in Committee.

REVENUE BILL 2007

CHAIRMAN (in Cantonese): I now propose the question to you and that is: That the following clauses stand part of the Revenue Bill 2007.

CLERK (in Cantonese): Clauses 1 and 3.

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

(No Member indicated a wish to speak)

CHAIRMAN (in Cantonese): I now put the question to you and that is: That clauses 1 and 3 stand part of the Bill. Will those in favour please raise their hands?

(Members raised their hands)

CHAIRMAN (in Cantonese): Those against please raise their hands.

(No hands raised)

CHAIRMAN (in Cantonese): I think the question is agreed by a majority of the Members present. I declare the motion passed.

CLERK (in Cantonese): Clause 2.

MR SIN CHUNG-KAI (in Cantonese): Chairman, I move the amendment to clause 2, as set out in our paper.

Chairman, I wish to stress that our aim in moving this amendment is not to penalize the alcoholic beverage trade because it has already made an undertaking in response. At least, it has said that a price list will be available on 1 June. What the Secretary said just now was over-generalization and with just one sample, he claimed that the duty had been reduced. I hope the Government would not be so simplistic in doing its work. The sample size cannot be that small.

Chairman, my amendment is in fact very simple. I agree with reducing the duty, however, a one-year limit will be imposed on the duty reduction.

Within this year, the Government and the general public can observe whether or not the wine trade has honoured its promise by passing all the savings in duty on alcoholic beverages onto the public.

However, just now, the Secretary expressed opposition to this amendment on the ground that the policy is a long-term one. We may as well examine whether there is any long-term policy on the duty on alcoholic beverages. In the past decade, that is, in the decade after the reunification, this is already the third time that the duty on alcoholic beverages is changed. As I said just now, when the incumbent Chief Executive, Donald TSANG, was the Financial Secretary back in those years, he reduced the duty on wine from 90% to 60% in 1998. Subsequently, due to the fiscal deficit, the former Financial Secretary, Antony LEUNG, increased the duty on wine from 60% to 80%. This time around, it is already the third time in a decade that the duty on wine is changed by reducing it from 80% to 40% and this is the third change in a decade. If it is said that this is a long-term policy, then three years can already be considered long term.

Second, I wish to stress that the Legislative Council has no intention of interfering with the free market and I have already made this point earlier on. We only hope to monitor if the wine trade is keeping its promise. Just as on the last two occasions when the duty was reduced or increased, we did not check to see if the wine trade had lowered prices immediately, nor did we criticize or praise them in any particular way. However, I believe that on that occasion when Antony LEUNG increased the duty in 2003 or 2002, it should be the case that they raised their prices immediately. I trust this is still fresh in Members' memory.

Chairman, the Government has succeeded in persuading everyone. In contrast, my amendment probably will not be passed today. However, I hope Honourable colleagues can consider one question and I also hope the Government can give me an answer later. I have said a number of times through the mass media that the permanent measure to reduce the duty would be passed only in June and reminded the relevant parties not to burn the bridge before they had crossed it. However, after the passage of the Bill today, they really will have crossed the bridge. My question is: Can the Government reply as to what counter-measures it will have if the wine trade really burns the bridge after them? Will it increase the duty? Is this a permanent measure?

I also hope that Honourable colleagues opposed to my amendment can explain to the public what action they would take if the wine trade raises prices in future. Today, I have done my utmost, however, if the wine trade raises prices in future, what would Members do? I think what can be done may not be passed by the Legislative Council today, still, I hope I can do something for consumers and the general public.

With these remarks, I beg to move.

Proposed amendment

Clause 2 (see Annex II)

CHAIRMAN (in Cantonese): Members may now debate the original clause and the amendment jointly.

MR LEE CHEUK-YAN (in Cantonese): Chairman, on behalf of the Hong Kong Confederation of Trade Unions, I support the amendment moved by Mr SIN Chung-kai today. I think this amendment can be described as a "bound over" arrangement and it seeks to bind the alcoholic beverage trade over for one year. Why is it necessary to do so? Members will recall that when we initially endorsed the measure to reduce the duty, everyone was very happy and hoped that there would be a reduction in wine prices. I also remember that while lobbying us, the alcoholic beverage trade vowed adamantly to us that prices would definitely be reduced after the duty reduction.

What did I promise at that time? I promised at that time that as long as this move was beneficial to consumers, we would not talk about anything else. We would not talk about the problem of "poor people frozen to death at the roadside" or the wealth disparity. I also said that as long as they enabled consumers to get the benefits, I was not going to talk about anything else. We were not going to criticize the Government on the premise that red wine is a luxury item or say that reducing the duty on red wine would only benefit the rich. We refrained from talking about all this because nowadays, many members of the public also drink red wine, so all of us do not want to talk about that aspect. The undertaking that we asked the trade to make was just to pass the benefits

onto consumers so that they could be benefited and we would let the matter rest there.

As it turned out, everyone kept their promises, so Members supported the duty reduction as proposed in the Budget. However, Chairman, we soon found out that the alcoholic beverage trade had only kept its promise in respect of red wine but not beer. Then the Government said, as the Secretary did just now, that it was only necessary for consumers, Members and the Government to act together to force the beer trade to reduce prices. That was very well and all of us can see the desired outcome. Just now, the Secretary even bought a beer purposely to prove that the good outcome. However, as Mr SIN Chung-kai said just now, how do the authorities know that they would not burn the bridge after them? The Secretary said just now that all of us could keep a close eye on them and monitor them closely, however, honestly, it will not be possible to monitor them after today. Why is it that two weeks earlier, we could still monitor them at the stage of the Bills Committee? Because if they were to refuse to reduce prices at the stage of the Bills Committee, we would voice our opposition today and we would still be able to press the "No" button. At that time, I made it known that we should not give the beer trade a duty reduction if they could not do such a thing. Alternatively, if their reduction was small, they should be given just half the duty reduction, not the full extent of duty reduction. Therefore, at that time, we had the tool to monitor beer merchants and make sure that they reduce prices.

However, if the Bill is passed today, what tool will still be at our disposal? In that event, this will be a matter for the free market and Members can really say nothing. If those people increase prices again, what can the authorities do? Do you mean the Secretary can give them a dressing down? They would say that it is a free market, that they increase prices again because they are facing competition and because the prices of imports have risen, or for a host of reasons. In that event, the authorities could do nothing because it is a free market. However, if we support the amendment moved by Mr SIN Chung-kai today and require them to be bound over for one year, we can look at their performance in this year. If it is not good, it will not be necessary to continue with the duty reduction in the following year. In order to get this concession of a duty reduction again in the following year, they will continue to reduce prices. This will be very clear and we must have the tool to carry out monitoring, so as to ensure that they will respect consumers' rights and reduce prices continuously,

otherwise, the situation of burning the bridge after crossing it or caring for nothing after clearing the hurdles will definitely occur.

At the same time, I am disappointed by the beer trade. On that occasion, I also told them, "Once cheater, always cheater." We do not know how we can believe them again in future. In future, if they lobby us again for a duty reduction, vowing adamantly that consumers would be benefited, it would be very difficult for us to believe them again. For this reason, today's amendment will in fact provide a tool for monitoring whether the price reduction this year will be continuous and ensuring that their price reduction will be long-term.

Thank you, Chairman.

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

MR ALBERT CHAN (in Cantonese): Chairman, this controversy over the duty on alcoholic beverages reflects two fundamental phenomena. Firstly, the Government's handling of matters relating to taxation has reflected on its inept administrative measures; and secondly, it can be said that the great importance attached by the alcoholic beverage trade to profit and their untrustworthiness have been exposed.

Members all know full well that it was not just in this year that the alcoholic beverage trade lobbied Members to ask the Government to reduce the alcoholic beverage duty. For a number of years in the past, the trade had carried out lobbying incessantly and even in the years before and after 1997, they also carried out lobbying a number of times. Moreover, this is not a proposal raised by a certain Member or a couple of Members, so that they can claim it to be their own view or unique idea.

For many years, I have opposed the Government's proposals to increase the duty on beer or beverages with low alcoholic content. The reason is very simple. To many members of the public, particularly to avid football players like us, beer is a kind of everyday beverage. Often, I would have late night snacks with my football-playing pals after a game. Although in recent years, I had late night snacks with my team members less often, still, it is very usual for each of them to drink five to six bottles of beer. This is just ordinary, because

they regard beer drinking as one of their usual pastimes. To many toiling or ordinary members of the public, beer is in fact just a kind of everyday beverage, not a luxury. Therefore, the duty on alcoholic beverages, particularly the levy of high rates of duty on beverages with low alcoholic content, is a draconian measure. Why do we not levy higher profits tax on large corporations? One can say that the beer duty "snatches rice from a beggar's bowl" and this is by no means a reasonable public tax. Therefore, when it comes to the request to lower the duty on beverages with low alcoholic content, I am all for it.

I think that the present rate of duty is still on the high side because as I have said, this is a kind of everyday beverage for the general public, not a beverage for a special class of people. Certainly, many Members have raised the issue of competition with other regions, but this is a commercial consideration with its own background.

On the issue of duty on alcoholic beverages, as a number of Members have said, when the representatives of the alcoholic beverage trade lobbied us, I tried to be strict before being generous by questioning them personally if, should the Government reduce the duty, they would lower the sale prices accordingly. At that time, they said resolutely, as though making an oath to God's witness, that they would definitely do so. However, as I said just now, the facts have proven that they care very much about profits but are untrustworthy. This attitude of theirs has been fully exposed. I really have to borrow a remark made by President JIANG when giving others a dressing down to describe ourselves, that is, "too naive". It never crossed our mind that it was necessary to establish a mechanism to ensure that such lowly tactics employed by these unscrupulous or untrustworthy businessmen, or such an attitude of "forgetting even one's father's name at the sight of money" will get nowhere.

No matter if we were misled or so naive that we believed in others on the last occasion, this time, if we believe them again without establishing any mechanism or contriving ways to address the problem, we are no longer naive or ignorant but are condoning and colluding with those people. We know full well that they will do so and have seen them do so before, yet we still condone them instead of taking any measure to step up monitoring. This can be described as a totally irresponsible attitude in public administration.

The amendment moved by Mr SIN Chung-kai is in fact intended to give an advance notice or warning with little consequence or bite to the alcoholic

beverage trade. We may as well regard ourselves as having just woken up or not knowing what has happened because we have dozed off. However, if we have still not awoken from the dream and if we still let the trade have its way, this is an utterly irresponsible attitude towards public finance and this is also totally unfair to members of the public who drink beer or beverages with low alcoholic content. Therefore, I support Mr SIN Chung-kai's proposal. I further hope that everyone will wake up, stop being ignorant and inept or behaving irresponsibly by condoning the trade in doing whatever they wish.

MR JAMES TIEN (in Cantonese): Chairman, on the issue of the duty on red wine and beer, the Liberal Party has always been of the view that from the viewpoint of health, if red wine and beer are not hazardous to health as smoking is, the relevant duty should not be set at too high a level.

In the past few years, basically, the Government was in a position to take the initiative to adjust the relevant duty upwards or downwards. I have considered whether I can give my support to this amendment moved by Mr SIN Chung-kai. However, the several Members who spoke in support of Mr SIN Chung-kai's proposal just now all said in their arguments that if the trade did not reduce prices this year, the duty should be restored to the original rate next year. If members of the trade hear such comments, they will think that the monitoring will last only one year and they can wait until next year to increase the prices. In that event, the public would only be benefited for a year because the aim of Mr SIN Chung-kai's amendment is not to seek a permanent increase in duty.

Furthermore, we have also considered the duty on alcoholic beverages in recent years. The Government can make an upward or downward adjustment whenever it likes and it is monitoring the situation all the time. If the Government finds next year that the prices of beer are raised for no reason, I absolutely support the Government in taking the initiative to table legislation before the Legislative Council to request that the duty be increased from 20% to 40%. The Liberal Party will absolutely support such a move.

As regards red wine, we noted that the wine trade has lowered the sale prices immediately on this occasion, therefore, both Mr LEE Cheuk-yan and Mr Albert CHAN did not criticize the wine trade in any way and they only said that

the beer trade had not done the right thing. If it is the beer trade that has not done the right thing, if they have lowered prices but will revert to the original prices at year-end or early next year, I believe the Government can also raise the duty on beer from 20% to 40%.

I believe that insofar as the duty on red wine is concerned, tourism and the Hong Kong public will both reap the benefits. As Mr LEE Cheuk-yan pointed out, red wine is no longer a drink of the rich, and since wine duty has been reduced from 80% to 40%, many members of the general public has also benefited from this.

Chairman, I also wish to raise another point. At present, many members of the alcoholic beverage trade are still trying very hard to reduce prices after the reduction in the duty on alcoholic beverages, so as to pass the benefits onto the public. In fact, they also have some expectations. They hope that next year, the wine duty, which stands at 40%, will be further reduced. Why do they not consider such a hope excessive? Because the rate of wine duty on the Mainland is between 14% to 20% at present and it is levied on the CIF. The duty rate in Macao is also 15% of the CIF. The rate is 5% in the Philippines but a VAT of 12% is levied there. In Singapore, it is S\$9.5 to S\$70 per litre, with an additional 5% depending on the price of the wine. In Japan, it is ¥67 to ¥125 per litre, plus 5% of sales tax.

All these figures are lower than the wine duty of 40% in Hong Kong. In view of this, we also hope that next year, when the Government finds that the wine trade has been really trying to sell their existing stock quickly and that even though their existing stock has not been sold out, it still reduces prices according to the wine duty rate of 40%, the Government will consider if there is room to secure Members' support and reduce the wine duty further, so that Hong Kong can become a marketing centre for wine, the general public can also enjoy wine at a cost of tens of dollars a bottle and everyone can see the difference between a wine duty of 80% and 40%. We believe that it would be an appropriate move to bring ourselves on par with neighbouring countries.

Concerning Mr SIN Chung-kai's proposal, many Honourable colleagues said that it could increase government revenue, however, such a claim is in fact untenable. In any event, the amount of wine duty in question is limited and it only amounts to tens of million dollars or \$100 million to \$200 million. If the

sale volume increases and more people drink wine, I believe the overall social benefits would not be less. Hence the Government can take the initiative and monitor the situation. If the wine trade really plays according to the rules and reduces prices, we hope the Government can lower the alcoholic beverage duty further next year, or at least lower the wine duty because the duty rate of 40% is still very high. Is there any room for further downward adjustment in this regard?

As regards beer, the Liberal Party does not have any strong view. This is because the duty on alcoholic beverages has been reduced from 40% to 20% on this occasion. If a bottle of beer costs \$10 and if those people are willing to cut 10-odd cents from the price only under these circumstances, I agree with other Members' comments that we should urge the Government to keep an eye on the alcoholic beverage trade. Instead of reducing prices only early next year, if from now to early next year, they cite various reasons to increase prices and if the Government considers the price increases to be unreasonable, it can take the initiative to propose that the duty on alcoholic beverages be increased from 20% to 40%. In that event, we can give this proposal further consideration, however, there is no need to stipulate that the rates will revert from 40% to the original 80%, as stipulated in this amendment. Besides, it will only be effective for one year.

Thank you, Chairman.

MR ALAN LEONG (in Cantonese): Chairman, we certainly understand the nature of indirect taxes. The tax foregone will be shared between members of the trade and consumers, however, the proportion of their shares must be reasonable, particularly when interested groups in the trade have stated specifically the share of benefit that consumers would get. How much of the sum of \$350 million will go into the pockets of the alcoholic beverage trade and how much of it will go into the wallets of members of the public is definitely a crucial factor when we consider whether or not the duty reduction should be approved. If consumers cannot be benefited significantly, we cannot see why the Government has to forego this sum of \$350 million.

Between February and May this year, the Consumer Council surveyed the prices of 29 brands of beer and wine and the results showed that there had been on the whole no significant change in prices and for some brands, the prices had

not gone down but up. Generally speaking, the wine trade was more positive in its response to the duty reduction when setting prices and the retail prices on the whole reflected the duty reduction. However, insofar as beer is concerned, the price adjustments have obviously fallen short of the duty reduction. In this connection, the Government has had discussions with the Hong Kong Beer Coalition for a number of times and the Financial Secretary even publicly urged the trade to fulfill their promise. Eventually, the Hong Kong Beer Coalition undertook in writing that the prices of beer produced after 1 June would directly reflect the rate of duty reduction.

Chairman, in fact, alcoholic beverages, and beer in particular, are commodities with less price flexibility. The preferences of consumers for certain brands and flavours may not change due to price changes, therefore, the alcoholic beverage trade usually does not, nor is there any need to, slash prices to attract customers. For this reason, some academics in economics have spoken up for the alcoholic beverage trade, believing that it is not fair to criticize the trade merely because it does not reduce prices in tandem with the duty reduction.

However, we must not forget that the party who said that prices could be reduced after a duty reduction was neither the Government, political parties nor consumers but the alcoholic beverage trade itself. They could even state specifically the rate of price reduction after a duty reduction. No one is asking the trade not to make money, however, if it could suggest a rate of price reduction, it has in all probability evaluated the effect of a price reduction on its profits at an early stage. This is its own responsibility. After it had weighed all factors and came up with a figure on price reduction, the price reduction would be regarded as the rate that the trade finds acceptable. No major change has occurred in the economic situation before and after the duty reduction, so how come some factors have popped up all of a sudden after the duty reduction, thus making it impossible for consumers to get all the benefits? The trade could not give us a satisfactory reply in this regard.

Chairman, the inconsistent claims of the alcoholic beverage trade have certainly aroused public discontent, however, the approach of the Government in handling this issue also gives one the impression that it lacks a game plan. Hong Kong has all along prided itself in being a free market economy. This does not mean that a free rein can be given to the business sector, however, the regulation of business practices must follow clear, consistent and

institutionalized principles. It cannot impose new control on business people when they are oblivious of it.

Chairman, from the viewpoint of the alcoholic beverage trade, as long as they pay all the taxes and avoid brushes with the law, we should leave it to the operators to decide how the prices should be set. At the most, one can only let members of the trade negotiate the prices among themselves. All that the Government should do is to make timely adjustments to the duty rate and regulations after evaluating the business environment of the trade and public interest. This controversy over the prices of alcoholic beverages is obviously attributable to the inadequate evaluation made by the Government on the market for alcoholic beverages beforehand and the lack of any attempt to improve the regime of indirect taxes afterwards. However, the Government has no qualms about using verbal coercion to interfere with the prices of alcoholic commodities, thus setting a rather unhealthy example.

Indirect taxes such as the duty on alcoholic beverages are levied upon the sale of commodities. This levy is a direct factor that determines the market prices of commodities and it also has a great bearing on economic development. The market economy is ever-changing and the levy of indirect taxes must also adapt to market development flexibly and adjustments must also be made accordingly, meanwhile catering to the greatest possible public interest. However, if we look at this controversy over the prices of alcoholic beverages, we can find that since the Government still regards the rate of alcoholic beverage duty after adjustment as a constant and long-term measure for a specific period of time, it can only choose between reducing the duty and not reducing it. The levy of indirect taxes is not regarded as a means of adjusting the benefits that consumers can get in the market. With such an ossified attitude, when consumer interests in the market are injured, the Government has no trick up its sleeves and the only recourse is to resort to verbal coercion, as the Financial Secretary has done.

Chairman, in contrast, the Committee stage amendment moved by Mr SIN Chung-kai today will put in place a better regulatory measure to address this issue of duty on alcoholic beverages. On the one hand, this "sunset clause" on reducing alcoholic beverage duty will still retain the effect of passing the benefits of a duty reduction onto society; and on the other, it will give the Government one year's time to observe the economic and social effects created by a duty

reduction, so as to decide whether to adjust the duty or how to adjust the duty next year. If the business process of the alcoholic beverage trade is indeed so complex and fluid, as the alcoholic beverage trade has claimed, and it is difficult to explain the price issue clearly within a short time, then this kind of measures tailored to the circumstances and adjusted regularly is all the more necessary.

Chairman, the reduction of indirect taxes, as a policy, must benefit various segments of society. Business people, as one of the direct beneficiaries of this policy, have the duty to honour by all means their promise of sharing the benefits with the public, which they made when lobbying for policy concessions, and they must not talk off the top of their heads. As to how the share of benefit between business people and consumers should be determined, it is necessary for the Government to carry out monitoring and impose checks and balances by means of various regimes, including open and transparent taxation and rules and policies, instead of relying solely on the transient instructions and dictates of officials.

With these remarks, Chairman, on behalf of the Civic Party, I support Mr SIN Chung-kai's amendment.

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

(No Member indicated a wish to speak)

CHAIRMAN (in Cantonese): If no other Member wishes to speak, Secretary for Financial Services and the Treasury, do you wish to speak?

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): Madam Chairman, Mr SIN Chung-kai said that he had a beer over meal just now, so I am not going to blame him too much because he probably had not listened clearly to my speech. I pointed out that the survey conducted by the Consumer Council in early June and the latest information provided by the trade both indicate that the beer trade has lowered the retail prices of the relevant products accordingly in the new price lists for major supermarkets and convenience stores.

I also said that I had gone to a supermarket to buy a bottle of beer, but I just wanted to let Members know that we officials had also done some work instead of merely listening to the words of the trade. We really did carry out on-site inspections to verify that the prices of relevant products had been reduced. Of course, I could not buy all brands of beer, so I bought the brand of beer with the greatest price reduction and the decrease was more than 20%. I only wish to clarify this point here.

When I spoke just now, I explained why the Government was opposed to the amendment moved by Mr SIN Chung-kai. I wish to stress that the Government's proposal to cut the duty on alcoholic beverages is not a short-term concessionary measure, rather, it has considered the long-term development of the entire trade and the overall economic benefits it will bring to Hong Kong. Mr James TIEN and other Members also pointed out just now that this move was beneficial to the economy, the catering industry and tourism, whereas Mr Tommy CHEUNG also cited some figures to substantiate the benefits in this regard.

If the continuity or otherwise of the relevant measure has to be decided by tabling a Resolution before the Legislative Council each year, we are concerned that this will introduce an uncertain and unstable factor into the operating environment of the trade. It will have an adverse effect on the decisions of the trade to make longer-term investments and may also arouse unnecessary concern in the business sector and among overseas investors about the consistency of the overall taxation policy in Hong Kong.

A number of Members also expressed concern about whether or not the wine and beer trades would "burn the bridge after them" and Mr LEE Cheuk-yan suggested that this amendment could be a way to bind them over. However, I wish to remind Members that each year, when the Financial Secretary prepares the budget, he will examine all tax items, including the duty on alcoholic beverages, and listen to Members' views in the process. If necessary, the Financial Secretary can certainly raise the duty on alcoholic beverages again, so there is no need at all for the Legislative Council to pass a resolution on this each year. We believe that the present duty review mechanism is already very good.

Apart from this, I also do not agree with Mr Alan LEONG's comment made just now that the Government has resorted to verbal coercion because, as

many Members have said, the reason that the Government raised this matter was that the alcoholic beverage trade had made promises prior to the duty reduction and what we did was just to remind it of the same. We have the public's full support in this regard.

I believe that after this incident, members of the trade will also know very well that if they do not fulfil the promise they have made to the Government, the Legislative Council and consumers, it will be very difficult for them to lobby for any further reduction in duty. Even if they want to stimulate the development of their trade through duty reductions again, this will be practically impossible. This is because if everyone finds that they do not fulfil their promises on each occasion, when the relevant Bill is tabled before the Legislative Council — or not to mention the tabling of any Bill, rather, when Members express their views to the Financial Secretary — no one would propose any duty reduction because the waived duty will not be returned to consumers and only business people will be benefited. Our original legislative intent is to benefit the economy and consumers. Therefore, I believe that under social pressure, the alcoholic beverage trade will surely get the feedback in this regard, moreover, they do not want to damage their image either. Since the price of a bottle of beer has been reduced by about 20%, Members can see the effect and it was immediate.

Just now, I talked about the actions that the Consumer Council will take in the future and said that the Government would also monitor the situation closely, so I am not going to repeat this. In view of this, we think that Mr SIN Chung-kai's amendment is perhaps well-intentioned, however, since it is not in line with the policy objective in reducing the duty on alcoholic beverages, nor is there any actual need to take such an action, I hope Members will oppose the relevant amendment and support the original provision in clause 2 of the Bill.

Thank you, Madam Chairman.

CHAIRMAN (in Cantonese): Mr SIN Chung-kai, do you wish to speak again?

MR SIN CHUNG-KAI (in Cantonese): Chairman, thank you for allowing me to speak again.

First, I wish to respond to Mr Albert CHAN's comments. The Democratic Party and I both support Mr Albert CHAN's position on beer, which he said was a drink of the toiling public. We hope that consumers, in particular, members of the public at the grass-roots level, can afford to drink beer that costs a few dollars a can.

As regards Mr James TIEN's comments on further reducing the duty on red wine, in fact, when Mr James TIEN initially told me the story of Hong Kong being a bond house for red wine, I found that it sounded very appealing. However, I am really worried because although one can tell a story this way, how can it be transformed into reality? How would be the outcome? The duty will probably be reduced and the wine trade will earn more, however, the general public may not necessarily get more benefits.

I will try and give an example. Just now, the Secretary said that supermarkets had really reduced prices. I believe that at least, in the coming fortnight, the wine trade and supermarkets will put up a good show for everyone. Just now, I asked the Secretary what would be done if they raised the prices again after we had passed the Resolution. I find this really unfair to other sectors. The duty on ultra-low sulphur diesel was reviewed every two years and sometimes, the interval was even shorter than two years. The authorities would rather propose a Resolution every two years to extend the concession and in fact, it is all the more worthwhile to make this concession a permanent measure. Why? Because at least, public interest is at stake as doing so can make air pollution less serious. However, this is not so with regard to a reduction of the duty on alcoholic beverages because only the alcoholic beverage trade would be benefited. If they raise prices again, what can be done? Secretary, please answer me. You did not answer me just now. If they raise prices again, Members can just go on sitting here helplessly.

Therefore, on further reducing the duty on red wine from 40% to 20%, in fact, before the Financial Secretary announced a reduction of the duty on red wine, we had already heard this kind of stories about being a so-called bond house for red wines and they all sounded very appealing. At that time, I had an impulse to suggest waiving all wine duty once and for all, so that Hong Kong would be more attractive as a bond house for expensive red wines and people from various parts of the world or from Southeast Asia would come here to make purchases. The Financial Secretary told me that 20% of the transactions on Bordeaux were carried out in the United Kingdom because the United Kingdom

has had great success in being a bond house, so it was also possible for Hong Kong to develop such a market. The story is most appealing and it is worthwhile to consider developing this area. The question is how we can ensure that after the duty reduction, all those benefits, objective results or merits can be translated into reality.

Therefore, my aim in moving the amendment today is very simple. Just as Mr LEE Cheuk-yan and Mr Albert CHAN said, there must be an observation period of one year in order to monitor those people. If they do a good job, there can be room for further duty reduction, just as Mr James TIEN said. I hope Honourable colleagues and the Secretary can give me a reply on what you would do if they raise prices again.

MR LEE CHEUK-YAN (in Cantonese): I heard the Secretary say that if necessary, the Financial Secretary could consider raising the duty again.

The question is how to judge when it is necessary. I wonder if the Secretary could promise one thing. If the beer you buy today costs about \$14 and a year later, it no longer costs about \$14, will you raise the duty again? Or if you compare the present prices with those in January or February next year by making reference to the information of the Consumer Council or the recent survey and find that the price next year has increased, would you raise the duty again? You got to have a clear and quantifiable measurement instead of generally saying vaguely that the Financial Secretary will monitor the situation. If you promise today that thing will be clearly quantifiable, we will feel at ease as the Government will monitor the situation.

Thank you, Chairman.

MR ALBERT CHAN (in Cantonese): I wish to call on Secretary Frederick MA to clarify at what time the Government found out that the alcoholic beverage trade, in particular, the beer trade, did not reduce prices after the duty reduction.

In the chain of events, some groups, particularly, the Consumer Council, have conducted fairly comprehensive surveys which were reported by the press. After the disclosure of reports, the public had a very strong impression that our Government had woken up only then and felt that it had been deceived or it had

overlooked something. The Government woke up only all of a sudden. You have now taken such a hard stance, saying that any monitoring mechanism is unnecessary and would have us believe this. In the ensuing days, what mechanism does the Government have to carry out continuous monitoring, instead of detecting problems only after the Consumer Council has conducted surveys? The monitoring of matters relating to taxation is the responsibility of the relevant departments. If Mr SIN Chung-kai's amendment is negated, what will the Government do next? I hope the Secretary can elaborate further.

Thank you, Chairman.

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

DR YEUNG SUM (in Cantonese): Madam Chairman, I demand that Secretary MA respond directly to the query raised by Mr SIN Chung-kai just now. If wine merchants go on to raise prices, what can the Government do? The Democratic Party supported the reduction of the duty on alcoholic beverages at that time mainly because it hoped that the general public could be benefited as beer is really a very common beverage of the public. However, if members of the alcoholic beverage trade continue to pocket the savings from duty, basically they are only serving their own interests and ordinary members of the public cannot be benefited. Are we being generous at the expense of the coffers? Thank you, Madam Chairman.

MR TOMMY CHEUNG (in Cantonese): I wish to respond to some Honourable colleagues' comments, in particular, to Mr Albert CHAN's query about when the Government became aware of this matter. I can say that in fact, after the Government had reduced the duty in March, the Financial Secretary and Secretary Frederick MA had discussions with me from time to time and at those places that they visited, they found that the prices had not been reduced. I also responded to this actively.

I also wish to respond to the report of the Consumer Council mentioned by some Honourable colleagues. I was all along involved in the scrutiny of this Bill. At that time, queries were also directed at the Consumer Council because

when it compared the prices in supermarkets, they only went to upmarket ones but did not go to those patronized by the general public. In fact, in the period between March and May, the Government compared 29 types of alcoholic beverages and found that the prices had indeed gone down, however, the prices of beer had not been reduced and the Government has all along been aware of this. The Government also pestered me with this issue all the time because I had also made such a promise. Therefore, I also pestered members of the wine trade with this issue and had a number of meetings with them. Even two days prior to the deliberation on this Bill, when they came here, Mr Vincent FANG and I also had discussions with them until it was dark and we told them about all the issues. However, I wish to tell Honourable colleagues that..... I ask the Chairman to allow me to repeat what I said just now because while I was speaking, perhaps some Honourable colleagues were not present. In fact, I said just now that from February onwards, the quantity of red wine imported was 750 000 litres in February but once the duty had been reduced in March, it shot up 74% to 1.3 million litres. In fact, we have not been generous to the beer trade at the expense taxpayers. Although the duty was reduced, our revenue has increased from \$21 million in February to \$26 million, an increase of 25%. Therefore, I often said to my Honourable colleagues that sometimes, in reducing the duty on alcoholic beverages, we can actually see an increase by virtue of the reduction. If the duty on alcoholic beverages is increased, this will have the adverse effect of reducing the revenue. I hope Honourable colleagues will understand this.

At the same time, I was pleased to hear the Government say on this occasion that this was going to be long-term and it hoped to reduce wine duty to nil long term. Some Honourable colleagues talked about the alcoholic beverage trade all the time, but I think the wine trade and the beer trade should be differentiated. They are two different trades. Initially, the beer trade did not reduce prices but it now has. I am very pleased that the price of beer has been reduced from \$18 to \$14, which is a very substantial decrease. As regards wines, everyone can see that their prices have been decreasing since March. Although I know that Mr SIN Chung-kai's motive is to protect consumers, the Liberal Party and I also want to protect consumers and we believe that this move will give consumers more choices. Besides, Members can also see that the duty reduction on this occasion can also benefit members of the public extensively.

Thank you, Chairman.

MR JAMES TIEN (in Cantonese): Chairman, I will speak very briefly. I agree with the view expressed by the other Members and the Government, that the savings in duty should be passed onto the public and not onto the alcoholic beverage trade. Therefore, I absolutely agree with the view that if we find from the sale prices of alcoholic beverages next year that the savings in duty have not been passed onto the public and quite the contrary, the prices have risen, we will support the Government in raising the duty again.

However, the only thing that I wish to clarify is that the situation may not be as simple as Mr LEE Cheuk-yan put it, who said that it was only necessary to compare the sale prices in January. If we do so, it will be unfair to the alcoholic beverage trade. For example, on some beer from Europe, has the exchange rate of Euro gone up or down? Mr LEE Cheuk-yan cares a lot about issues relating to the labour sector, so if their wages have been raised, will the cost rise? However, I believe the Government will be able to consider all these figures, then see if it has made more money. Did it make profits from the savings in government duty but have not passed them onto the public, so that only their companies profits have risen? If this is the case and the Government wants to raise the duty on alcoholic beverages again, I definitely will not voice any disagreement.

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

(No Member indicated a wish to speak)

CHAIRMAN (in Cantonese): If no other Member wishes to speak, Secretary for Financial Services and the Treasury, do you wish to speak again?

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): I wish to respond in brief. Firstly, the situation described by Mr LEE Cheuk-yan is really over-simplified. As I explained just now, the Consumer Council and the Customs and Excise Department will pay close attention to the rise and fall in import prices and market prices. We can ask them why they raise prices and they have to explain this to us. In this process, we can carry out rational analyses to obtain results.

The Hong Kong Beer Coalition issued a statement to the Bills Committee, stating clearly that it will pass all the savings in duty onto their customers and it will be a continuous measure. If they break this promise, we can deal with this easily. For example, if it is found that the prices of beer have risen a year later for no particular reason, as Mr James TIEN put it just now there was no appreciation of Euro, nor an increase in wages or an increase in anything, we can query why the prices of beer have increased. If the explanation is not reasonable, as I said, not only would the Financial Secretary require that they be bound over, he would even arrest them and put them in jail.

In that event, the Government would raise the duty immediately. This is very simple and it will not be difficult. As I have explained, our taxes can be increased, can they not? Therefore, I think Members do not have to be too worried. In addition, the companies in question are mostly very large-scale corporations and the beer companies are large-scale corporations. I think most of the places selling beer are supermarkets or chain convenience stores. They all have to care about their reputation and image. Therefore, I think Members do not have to be worried. The Consumer Council and the Customs and Excise Department will pay close attention to the prices.

Frankly speaking, there are only about nine months' time from now to the delivery of the Budget next year, so we can surely see if there is any rise or fall in prices and whether the alcoholic beverage trade has ever adjusted the prices upwards for no particular reason. We will be able to see all these and in fact, there is high transparency. Of course, there are many tiers in the retailing process, however, I believe I have the ability to monitor the situation.

As we all know, the Financial Secretary will begin to consult Members in around November each year and there is only half a year to go before that. By then, we will again have the opportunity to convey our views to the Financial Secretary having regard to the situation. I totally agree that Mr SIN Chung-kai's amendment is well-intentioned and the Government's wish is in fact just the same as his. We hope that the duty reduction will benefit consumers and promote the Hong Kong economy. Therefore, our goals are in fact the same. Although our approaches and ways of thinking are somewhat different, I still hope that Members can support the Government's proposal today.

Thank you, Chairman.

MR ALBERT CHENG (in Cantonese): Chairman, in fact, there is no need for Mr SIN Chung-kai to move this amendment today. However, why is it necessary for me to support it? I think that we have to tell the alcoholic beverage trade or other people who come to the Legislative Council to carry out lobbying in relation to any indirect tax that after the Government has approved a duty reduction, if these people pocket the savings in duty that should have been passed onto consumers, there will definitely be some sort of deterrent for such crooked businesses. Therefore, the significance of my support for Mr SIN Chung-kai's amendment does not lie in whether this amendment or so-called "sunset clause" will be effective or whether I will lend my support, rather, the significance lies in the delivery of a very clear signal to crooked businessmen, telling them that they must not think that they can do as they wish after the duty has been reduced and line their own pockets. Today, our aim in passing Mr SIN Chung-kai's amendment is to set an example for them. In future, if there is any tax reduction of this sort, they should at least put up a show from the beginning to the end. If the duty has been reduced, they should reduce prices immediately. If they deceive people after the passage of the Bill, there is nothing we can say.

Chairman, these people are outright unscrupulous and they just do whatever they wish, treating the Legislative Council with blatant disregard, treating the Government with blatant disregard and treating the Secretary for Financial Services and the Treasury with blatant disregard. They just do not want to reduce prices and have pocketed the savings in duty, so what can you do? Therefore, the amendment moved by Mr SIN Chung-kai is timely and can set an example on what respect for the Legislative Council is and what respect for a strong Government is. The present Government is not a strong one. The alcoholic beverage trade came to the Legislative Council to request a duty reduction, however, after the passage of the Bill, they could not care less and pocketed the savings in duty themselves, yet there is nothing others can do.

Therefore, we have to tell them that they cannot behave like this. If we pass Mr SIN Chung-kai's amendment today, we can set an example and tell them they must not employ such tactics in future. Even if they want to, they have to do it slowly and increase prices only three months later, then claim that this is due to the appreciation of Euro or other reasons. I believe that their attitude now is really outrageous, therefore, I support Mr SIN Chung-kai's amendment. Thank you, Chairman.

CHAIRMAN (in Cantonese): Mr LEE Cheuk-yan, speaking for the third time.

MR LEE CHEUK-YAN (in Cantonese): I wish to clarify that I also request that wine merchants be bound over — bound over to the good behaviour of reducing prices. I think Secretary MA has to clarify why he made things sound even more serious and said that he wanted to arrest them and put them in jail. According to which law can he arrest them and put them in jail? I did not say anything like that, nor do I dare arrest anyone and send him to jail. Thank you, Chairman.

(The Secretary for Financial Services and the Treasury raised his hand to indicate his wish to speak)

CHAIRMAN (in Cantonese): You can speak.

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): Chairman, what I mean by putting them in jail is that our penalty can be even more severe than reverting to the previous rate of duty as proposed by Members because we can increase the duty. Not only can we revert to the previous rate of duty, we can even increase the duty. I do not mean that I want to arrest them and put them in jail. I thank Mr LEE Cheuk-yan for giving me this opportunity to clarify because this is definitely not what I meant. However, concerning the comments made by Mr Albert CHENG just now, perhaps due to the fact that he had just come in, he had not heard some of the comments made by me just now.....

MR ALBERT CHENG (in Cantonese): I did hear them.

CHAIRMAN (in Cantonese): This is not elucidation. Secretary, please go on.

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): Chairman, I only wish to point out that some Members said that this was a controversy, however, I think that to the alcoholic beverage trade, in

particular, to the beer trade, this is already a very good reminder, that is, all public opinions in Hong Kong, the public and the Legislative Council have put forward their arguments. We have discussed this point for more than an hour. If the beer trade had not displayed such behaviour this time around, frankly speaking, this Bill would have been passed in 10 minutes. As it is, the discussion has lasted more than an hour or close to two hours. Why? Because our concern, the reports of the mass media and society have exerted pressure on the trade. If I were a member of the trade, I too would be more cautious. Therefore, no matter if Mr SIN Chung-kai's amendment can be passed or not, I believe the trade certainly know what they should do now. Hence, I am not too worried, rather, we have to look at the whole picture. Therefore, I once again call on Members to oppose Mr SIN Chung-kai's amendment. Thank you, Chairman.

(Mr LEUNG Kwok-hung raised his hand in indication)

CHAIRMAN (in Cantonese): Mr LEUNG Kwok-hung, you can speak at this stage. Do you wish to speak? *(Laughter)*

MR LEUNG KWOK-HUNG (in Cantonese): Chairman, I often go to a spot not far from here to buy drinks or take a drag. The vendor there told me that ever since reports of beer merchants not reducing sale prices after the Government had reduced the duty had come out, people indeed reduced prices and now a 24-can pack of beer costs \$2 less. However, in the past, it was guaranteed that the goods would be replaced if they were defective, but after the mass media criticized them, it is no longer guaranteed that the goods will be replaced if they are defective. I am not saying what the Government did was wrong, however, it is obvious that the alcoholic beverage trade is not subjected to any monitoring. That means that in the past, they used to offer concessions to vendors, however, when they wanted to reap some benefit from the duty reduction but were criticized by the public, they cancelled the guarantee to replace goods in order to get some profits from this area instead.

Just think about this: If the price for 24 cans of beer is only \$2 cheaper, how much cheaper is each can of beer? Moreover, in the past, if there were defects, that is, if there was wear and tear of the beer cans, the goods could be

returned to the beer company and they would be replaced, however, this is no longer the case now. For this reason, I often say that if one thinks that the trickling down effect will work and after the duty has been reduced, those people will follow suit, such thinking is wrong. In fact, what can benefit the public the most are, firstly, a direct tax reduction by the Government, however, I will definitely oppose this because I think the tax rate in Hong Kong is really too low; and secondly, levying more taxes on the rich, then pass the benefits onto all members of the public. If an ordinary member of the proletariat who likes to drink beer can have his wages raised or the Government can enable him to earn \$2 more, there is no need for him to demand that the authorities reduce the duty on alcoholic beverages so that he can drink beer at all.

As regards someone's claim that reducing the duty on alcoholic beverages can invigorate tourism and make more people drink red wine, this is really mind-boggling. It is likely that people who drink red wine do not care about the amount of money involved. Therefore, in sum, I believe that the Financial Secretary, Henry TANG, has won the applause from all people. The typical bureaucratic culture in Hong Kong is that, after winning applauses — just like the French king who died after winning applauses — they could not care less about what the dire consequences are. This is absolutely a scandal. I wonder what Members are laughing at? We have given him our votes but it turned out that the Government is incapable of monitoring those businessmen who were given the concessions. Why should we do?

He has won all the so-called applauses and all people in Hong Kong have credited Secretary TANG with the merit, saying that he is astute. If you do not believe this, please go to a provisions store to have a look. In fact, such stores have been driven to their last stand — but I can tell you the one owned by LI Ka-shing definitely will not be. Secretary Frederick MA, if you do not believe it, please go to the several vendors in the stalls selling cold drinks opposite the MTR entrance in Central and ask them. I think that in doing so, the Government has in fact failed to keep its promise, has it not?

I do not know how Members will vote later, however, how can the Government do such a thing? Can the Government guarantee that after the reduction in duty on alcoholic beverages, consumers will be benefited? If it cannot guarantee this, who will benefit from the reduction in duty on alcoholic beverages? I know that the alcoholic beverage trade may criticize me for

saying this. I often drink alcoholic beverages and some people have also lobbied me, however, I feel that I am obliged to say this. If it turns out that the trade has lined its own pockets by means of this concession offered by the Government to the general public, then firstly, their business ethic is questionable and secondly, the Government did not expect things to turn out this way beforehand.

What I want to ask now is: How can the Government guarantee that the small amounts of savings in alcoholic beverage duty will be passed onto consumers? Is there any penalty? If the alcoholic beverage trade has not passed the savings in duty onto consumers, will the Government penalize them? If it is not going to penalize them, why should we give them the money? I believe this is a very solemn question. This is just like an organization refusing to give a pay rise using a lump sum grant earmarked for this purpose. The other day, I asked the Government about this but the Government said that under the lump sum grant arrangement, there was neither ground nor legal basis on which it could monitor whether organizations had used the allocated funds for pay rises. May I ask what sort of system is this? These practices are in fact the same in nature.

That day, that government official told me that this would not do and Mr CHEUNG Man-kwong can bear witness to this. He berated him vociferously. Therefore, the problem is: After the applause, what do we get? If ordinary members of the public cannot voice their opinions here like me, where can they lodge their complaints? Where can they voice their views? Therefore, I think that..... I had better stop here. I will just leave off here. *(Laughter)*

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

(No Member indicated a wish to speak)

CHAIRMAN (in Cantonese): Secretary for Financial Services and the Treasury, do you wish to speak again?

(The Secretary for Financial Services and the Treasury shook his head to indicate that he did not wish to speak again)

CHAIRMAN (in Cantonese): I now put the question to you and that is: That the amendment moved by Mr SIN Chung-kai be passed. Will those in favour please raise their hands?

(Members raised their hands)

CHAIRMAN (in Cantonese): Those against please raise their hands.

(Members raised their hands)

Mr SIN Chung-kai rose to claim a division.

CHAIRMAN (in Cantonese): Mr SIN Chung-kai has claimed a division. The division bell will ring for three minutes, after which the division will begin.

CHAIRMAN (in Cantonese): Will Members please proceed to vote.

CHAIRMAN (in Cantonese): Will Members please check their votes. If there are no queries, voting shall now stop and the result will be displayed.

Functional Constituencies:

Ms Margaret NG, Mr CHEUNG Man-kwong, Mr SIN Chung-kai, Ms LI Fung-ying, Dr KWOK Ka-ki, Dr Fernando CHEUNG and Miss TAM Heung-man voted for the amendment.

Dr Raymond HO, Mrs Sophie LEUNG, Dr Philip WONG, Mr WONG Yung-kan, Mr Howard YOUNG, Mr LAU Wong-fat, Ms Miriam LAU, Mr Abraham SHEK, Mr Tommy CHEUNG, Mr Vincent FANG, Mr WONG Kwok-hing, Dr Joseph LEE, Mr Daniel LAM, Mr Jeffrey LAM, Mr Andrew LEUNG, Mr WONG Ting-kwong and Mr KWONG Chi-kin voted against the amendment.

Geographical Constituencies:

Mr LEE Cheuk-yan, Mr Martin LEE, Mr Fred LI, Mr James TO, Dr YEUNG Sum, Ms Emily LAU, Mr Andrew CHENG, Mr Albert CHAN, Ms Audrey EU, Mr LEE Wing-tat, Mr Alan LEONG, Mr LEUNG Kwok-hung and Mr Albert CHENG voted for the amendment.

Mr James TIEN, Mrs Selina CHOW, Mr CHAN Kam-lam, Mr Jasper TSANG, Mr LAU Kong-wah, Miss CHOY So-yuk, Mr TAM Yiu-chung, Mr LI Kwok-ying and Mr CHEUNG Hok-ming voted against the amendment.

THE CHAIRMAN, Mrs Rita FAN, did not cast any vote.

THE CHAIRMAN announced that among the Members returned by functional constituencies, 24 were present, seven were in favour of the amendment and 17 against it; while among the Members returned by geographical constituencies through direct elections, 23 were present, 13 were in favour of the amendment and nine against it. Since the question was not agreed by a majority of each of the two groups of Members present, she therefore declared that the amendment was negatived.

CHAIRMAN (in Cantonese): I now put the question to you and that is: That clause 2 stand part of the Bill. Will those in favour please raise their hands?

(Members raised their hands)

CHAIRMAN (in Cantonese): Those against please raise their hands.

(No hands raised)

CHAIRMAN (in Cantonese): I think the question is agreed by a majority of the Members present. I declare the motion passed.

CHAIRMAN (in Cantonese): Council now resumes.

Council then resumed.

Third Reading of Bills

PRESIDENT (in Cantonese): Bill: Third Reading.

REVENUE BILL 2007

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

Revenue Bill 2007

has passed through Committee without amendment. I move that this Bill be read the Third time and do pass.

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the Revenue Bill 2007 be read the Third time and do pass.

PRESIDENT (in Cantonese): I now put the question to you as stated. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(No hands raised)

PRESIDENT (in Cantonese): I think the question is agreed by a majority of the Members present. I declare the motion passed.

CLERK (in Cantonese): Revenue Bill 2007.

SUSPENSION OF MEETING

PRESIDENT (in Cantonese): It is now 9.40 pm. I think it is now the appropriate time to suspend the meeting. Meeting will resume at 9 am tomorrow.

Suspended accordingly at twenty minutes to Ten o'clock.

Annex I

HOUSING (AMENDMENT) BILL 2007

COMMITTEE STAGE

Amendments to be moved by the Secretary for
Housing, Planning and Lands

<u>Clause</u>	<u>Amendment Proposed</u>
2	By deleting everything after "on" and substituting "1 January 2008."
4	<p>(a) By deleting the proposed section 16A(1) and substituting -</p> <p>"(1) The Authority shall review the relevant rent -</p> <p>(a) as soon as practicable after 1 January 2010; and</p> <p>(b) as soon as practicable after the second anniversary of the expiry date of the second period for the last review under this subsection."</p> <p>(b) In the proposed section 16A(3)(a)(i) and (ii) and (b)(i) and (ii), by adding "or a combination of that income and that value," after "assets,".</p>

Annex I

HOUSING (AMENDMENT) BILL 2007

COMMITTEE STAGE

Amendments to be moved by the Secretary for
Housing, Planning and Lands

<u>Clause</u>	<u>Amendment Proposed</u>
2	By deleting everything after "on" and substituting "1 January 2008."
4	(a) By deleting the proposed section 16A(1) and substituting - "(1) The Authority shall review the relevant rent - (a) as soon as practicable after 1 January 2010; and (b) as soon as practicable after the second anniversary of the expiry date of the second period for the last review under this subsection." (b) In the proposed section 16A(3)(a)(i) and (ii) and (b)(i) and (ii), by adding "or a combination of that income and that value," after "assets,".

- (c) In the proposed section 16A(4), by deleting "subsections (5) and (6)" and substituting "subsection (5)".
- (d) In the proposed section 16A(4)(a), by adding "by more than 0.1%" after "first period".
- (e) In the proposed section 16A(4)(a), by adding "or 10%, whichever is less" after "of the income index".
- (f) In the proposed section 16A(4)(b), by adding "by more than 0.1%" after "first period".
- (g) By deleting the proposed section 16A(5) and substituting -
 - "(5) The Authority shall not vary the relevant rent -
 - (a) on or before 1 January 2010;
or
 - (b) where the relevant rent is varied under subsection (4), before the second anniversary of the date of the last variation."
- (h) By deleting the proposed section 16A(6).
- (i) In the proposed section 16A(8), by deleting ", the Authority".

- (j) In the proposed section 16A(8) (a), by deleting "may determine that" and substituting "the Authority may compile".
- (k) In the proposed section 16A(8) (a) (i) and (ii), by deleting "is to be compiled to reflect" and substituting "that reflects".
- (l) In the proposed section 16A(8) (a) (ii), by adding "and" after the semicolon.
- (m) By deleting the proposed section 16A(8) (b) and substituting -
 - "(b) the Commissioner for Census and Statistics shall, in relation to the compilation of such an index, compute the index."
- (n) By deleting the proposed section 16A(8) (c).
- (o) In the proposed section 16A(9), by deleting the definition of "commencement date".
- (p) In the proposed section 16A(9), in the definition of "first period", by deleting paragraph (a) and substituting -
 - "(a) in relation to the first review of the relevant rent after 1 January 2010, means a period of 12 months expiring on 31 December 2007;"
- (q) In the proposed section 16A(9), in the definition of "first period", in paragraph

(b)(ii), by deleting "the first period for the first review of the relevant rent after the commencement date" and substituting "a period of 12 months expiring on 31 December 2007".

- (r) In the proposed section 16A(9), by deleting the definition of "income index" and substituting -

"“income index” (收入指數) means an index
computed under subsection (8)(b);”.

- (s) In the proposed section 16A(9), in the definition of "second period", by deleting paragraph (a) and substituting -

"(a) in relation to the first review of the relevant rent after 1 January 2010,
means a period of 12 months expiring on 31 December 2009;”.

HOUSING (AMENDMENT) BILL 2007

COMMITTEE STAGE

Amendments to be moved by the Honourable FUNG Kin-kee

<u>Clause</u>	<u>Amendment Proposed</u>
4	(a) In the proposed section 16A(1), by deleting “the second anniversary” where it twice appears and substituting “the third anniversary”.
<div>NOT PROCEEDED WITH</div>	(b) In the proposed section 16A(4)(a), by deleting the semicolon and substituting “, provided that such increase shall be less than 10%, and such increase shall not lead to the average rent-to-income ratio exceeding 15% ;”.
<div>NEGATIVED</div>	(c) In the proposed section 16A(4)(b), by deleting the full stop and substituting “, provided that such decrease shall lead to the average rent-to-income ratio equal to or less than 15%.”.
<div>NOT PROCEEDED WITH</div>	(d) In the proposed section 16A(5)(b), by deleting “2 years” and substituting “3 years”.
<div>NOT PROCEEDED WITH</div>	(e) In the proposed section 16A(9), in the definition of “second period”, in paragraphs (a) and (b), by deleting “the second anniversary” and substituting “the third anniversary”.

Annex II

REVENUE BILL 2007

COMMITTEE STAGE

Amendments to be moved by the Honourable SIN Chung-kai, JPClauseAmendment Proposed

2 By deleting the clause and substituting—

NEGATIVED

“2. Schedule 1 amended

Schedule 1 to the Dutiable Commodities Ordinance (Cap. 109) is amended in paragraph 1 of Part I, under the column headed "Rate"—

- (a) by repealing "40%" and substituting "from 28 June 2007 to 30 June 2008 (both dates inclusive), at 20%; and from 1 July 2008, at 40%";
- (b) by repealing "80%" and substituting "from 28 June 2007 to 30 June 2008 (both dates inclusive), at 40%; and from 1 July 2008, at 80%".

Appendix 1**REQUEST FOR POST-MEETING AMENDMENT**

The Secretary for Health, Welfare and Food requested the following post-meeting amendment in respect of a supplementary question to Question 1

Line 2, fifth paragraph, page 14 of the Confirmed version

To amend "..... we should note that there are currently 17 000 registered doctors in Hong Kong" as "..... we should note that there are currently 11 761 registered doctors in Hong Kong" (Translation)

(Please refer to line 3, second paragraph, page 8565 of this Translated version)

Appendix I**WRITTEN ANSWER****Written answer by the Secretary for Financial Services and the Treasury to Ms Miriam LAU's supplementary question to Question 5**

The Code on Disclosure for MPF Investment Fund (the Code) requires that all fees and charges of a registered scheme should be disclosed in a standardized table format using common terminology within the offering document of the registered scheme. Relevant approval by the Mandatory Provident Fund Schemes Authority (MPFA) is required in order to ensure that the standardized fee tables of all registered schemes are in full compliance with the Code.

In addition to the fee tables, trustees are required to disclose fund expense ratio (FER), issue fund sheets (FFS) and provide ongoing cost illustrations (OCI) to members. The calculation of the FER is checked by external auditor, and the MPFA reviews the FFS, OCI and the audit reports of FER on a sampling basis.

The MPFA periodically carries out on-site visits to approved trustees to review their compliance with the legislation, including the Code, using a risk-based approach. In the event of non-compliance with the Code, the MPFA may issue warning letters to trustees. In case of serious non-compliance, the MPFA has the general power to suspend or terminate the trustee's administration of schemes. No major issues are identified so far in respect of compliance with the Code.