

# **OFFICIAL RECORD OF PROCEEDINGS**

**Wednesday, 1 February 2012**

**The Council met at Eleven o'clock**

## **MEMBERS PRESENT:**

THE PRESIDENT

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

THE HONOURABLE ALBERT HO CHUN-YAN

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

THE HONOURABLE LEE CHEUK-YAN

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

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

DR THE HONOURABLE MARGARET NG

THE HONOURABLE JAMES TO KUN-SUN

THE HONOURABLE CHEUNG MAN-KWONG

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

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

THE HONOURABLE LEUNG YIU-CHUNG

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

THE HONOURABLE WONG YUNG-KAN, S.B.S., 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 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, S.B.S., J.P.

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

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

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

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

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

THE HONOURABLE WONG KWOK-HING, M.H.

THE HONOURABLE LEE WING-TAT

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

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

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

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

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 KAM NAI-WAI, M.H.

THE HONOURABLE CYD HO SAU-LAN

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

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

THE HONOURABLE CHAN HAK-KAN

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

THE HONOURABLE CHAN KIN-POR, J.P.

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

DR THE HONOURABLE LEUNG KA-LAU

THE HONOURABLE CHEUNG KWOK-CHE

THE HONOURABLE WONG SING-CHI

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

THE HONOURABLE IP WAI-MING, M.H.

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

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

DR THE HONOURABLE PAN PEY-CHYOU

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

DR THE HONOURABLE SAMSON TAM WAI-HO, J.P.

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

THE HONOURABLE LEUNG KWOK-HUNG

THE HONOURABLE TANYA CHAN

THE HONOURABLE ALBERT CHAN WAI-YIP

**MEMBERS ABSENT:**

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

THE HONOURABLE WONG YUK-MAN

**PUBLIC OFFICERS ATTENDING:**

THE HONOURABLE STEPHEN LAM SUI-LUNG, G.B.S., J.P.

THE CHIEF SECRETARY FOR ADMINISTRATION

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

THE FINANCIAL SECRETARY

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

THE SECRETARY FOR JUSTICE

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

SECRETARY FOR EDUCATION

THE HONOURABLE AMBROSE LEE SIU-KWONG, G.B.S., I.D.S.M., J.P.

SECRETARY FOR SECURITY

DR THE HONOURABLE YORK CHOW YAT-NGOK, G.B.S., J.P.

SECRETARY FOR FOOD AND HEALTH

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

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

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

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

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

THE HONOURABLE EDWARD YAU TANG-WAH, G.B.S., J.P.  
SECRETARY FOR THE ENVIRONMENT

THE HONOURABLE EVA CHENG, G.B.S., J.P.  
SECRETARY FOR TRANSPORT AND HOUSING

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

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

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

MS JULIA LEUNG FUNG-YEE, J.P.  
UNDER SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY

**CLERK IN ATTENDANCE:**

MS PAULINE NG MAN-WAH, SECRETARY GENERAL

**TABLING OF PAPERS**

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

Subsidiary Legislation/Instruments	<i>L.N. No.</i>
Schedule of Routes (Citybus Limited) Order 2012 .....	4/2012
Schedule of Routes (Citybus Limited) (North Lantau and Chek Lap Kok Airport) Order 2012 .....	5/2012
Schedule of Routes (Kowloon Motor Bus Company (1933) Limited) Order 2012 .....	6/2012
Schedule of Routes (Long Win Bus Company Limited) Order 2012 .....	7/2012
Schedule of Routes (New Lantau Bus Company (1973) Limited) Order 2012 .....	8/2012
Schedule of Routes (New World First Bus Services Limited) Order 2012 .....	9/2012
Public Health and Municipal Services (Designation of Public Swimming Pool) Order 2012 .....	10/2012
Public Health and Municipal Services Ordinance (Amendment of Fourteenth Schedule) Order 2012 .....	11/2012
Public Health and Municipal Services (Setting Aside Places for Use as Public Pleasure Grounds) Order 2012 ...	12/2012
Public Health and Municipal Services Ordinance (Amendment of Fourth Schedule) Order 2012 .....	13/2012

## Other Papers

- No. 61 — Legal Aid Services Council Annual Report 2010-2011
- No. 62 — Estimates  
for the year ending 31 March 2013  
Volume I — General Revenue Account (Page 1 to 524)  
Volume I — General Revenue Account (Page 525 to 964)
- No. 63 — Estimates  
for the year ending 31 March 2013  
Volume II — Fund Accounts

Report No. 10/11-12 of the House Committee on Consideration of  
Subsidiary Legislation and Other Instruments

## WRITTEN ANSWERS TO QUESTIONS

### Monitoring Safety of Infant Products

1. **MR LEUNG YIU-CHUNG** (in Chinese): *President, I have received complaints from a member of the public pointing out that a foreign object, which was suspected to be an insect wing, was found in a newborn baby diaper of a baby diaper brand which is very popular among parents in Hong Kong. The member of the public had reflected the situation to various government departments (including the Department of Health and the Customs and Excise Department (C&ED)), hoping that the authorities would take follow-up actions, but such departments only asked him to approach the Consumer Council to lodge a complaint through the channels for lodging complaints on commercial products in general. In this connection, will the Government inform this Council:*

- (a) *whether the relevant government departments at present proactively monitor and inspect the quality and safety of infant products, rather than handling complaints in accordance with the arrangement for dealing with complaints on products in general after receiving the complaints; if they have, of a breakdown of the details by government department; if not, the reasons for that; and*

- (b) *whether the authorities will enhance inspection and safety assessment of infant products, so as to safeguard the health of infants?*

**SECRETARY FOR COMMERCE AND ECONOMIC DEVELOPMENT** (in Chinese): President, my reply to the various parts of the question is as follows:

- (a) Under the Consumer Goods Safety Ordinance (Cap. 456) (the Ordinance), general consumer goods (including baby products and disposable baby diapers) manufactured or supplied in Hong Kong, or imported into Hong Kong, must comply with the safety requirement specified by the Ordinance.

Under the Ordinance, consumer goods must be reasonably safe, and in determining whether the goods are reasonably safe, account must be taken of all of the circumstances, including:

- (i) the manner in which, and the purpose for which, the consumer goods are presented, promoted or marketed;
- (ii) the use of any mark in relation to the consumer goods and instructions or warnings given for the keeping, use or consumption of the consumer goods;
- (iii) reasonable safety standards published by a standards institute or similar body for consumer goods of the description which applies to the consumer goods or for matters relating to consumer goods of that description; and
- (iv) the existence of any reasonable means (taking into account the cost, likelihood and extent of any improvement) to make the consumer goods safer.

The C&ED is responsible for enforcing the Ordinance. In addition to investigating complaints lodged by the public, the C&ED has been taking the initiative to carry out spot checks at shops in Hong Kong. It will take appropriate action (including purchasing specimens for safety tests) when it comes to its attention that products available in

Hong Kong are suspected to be unsafe. If any products fail to meet the safety requirement specified by the Ordinance, the C&ED will warn or prosecute suppliers.

- (b) The Administration is committed to ensuring that goods (in particular baby and children products) supplied in the local market are safe. In the past three years (from 2009 to 2011), the C&ED carried out 2 235 spot checks and purchased 40 specimens of various kinds of disposable diapers for safety tests. At the same period, the C&ED received seven complaints about suspected unsafe baby diapers and drew specimen in relation to each case for testing. All specimens were found to comply with relevant safety requirements including hygiene requirements such as total bacterial count and total fungal count. The C&ED will continue to conduct spot checks and safety tests in accordance with its risk profiling.

## International School Places

2. **MS MIRIAM LAU** (in Chinese): *President, the authorities have indicated that the Government supports the development of a vibrant international school sector in addressing the demand for international school places of overseas families living in Hong Kong and families coming to Hong Kong for work or investment. It has been learnt that quite a number of foreign chambers of commerce have recently warned that international school places in Hong Kong are in severe shortage, and they have even pointed out that the situation has already reached crisis level, threatening Hong Kong's status as a world-class city. In this connection, will the Government inform this Council:*

- (a) *whether it knows the respective numbers of students on the waiting list for admission to various international schools in Hong Kong in the past five years and the longest waiting time; among those on the waiting list, of the ratio between local and non-local students;*
- (b) *whether the authorities have received complaints about the severe shortage of international school places from the chambers of commerce concerned; if they have, whether they have assessed if the shortage of such school places has reached crisis level; if the assessment result is in the affirmative, of the policy to alleviate the*

*situation; if the assessment result is in the negative, whether they will follow up the relevant complaints; and*

- (c) *given that it has been reported that the authorities intend to adopt a new policy that requires those international schools which are newly allocated vacant school premises or sites for development to reduce the maximum percentage of their intake of local students from 50% to 30%, so that the additional international school places to be provided in the coming few years can meet the ever-increasing demand for such school places from non-local students, of the specific details of such policy and its impact on alleviating the demand of non-local students; whether this policy will be extended to existing international schools?*

**SECRETARY FOR EDUCATION** (in Chinese): President, to address the demand for international school places from overseas families living in Hong Kong, and families coming to Hong Kong for work or investment, the Administration has implemented various facilitation measures including allocating vacant school premises and greenfield sites for development of international schools, as well as facilitating *in situ* expansion of existing international schools, in supporting the development of the international school sector. Our response to the three parts of the question raised by Ms Miriam LAU is as follows:

- (a) We have been collecting data on the number of students on the waiting list of international schools through the annual Student Enrolment Survey. We are at the moment unable to provide a complete picture in relation to the number of students on the waiting list and the ratio of local students to non-local students as majority of the international schools have not provided their returns. We are conducting a Thematic Household Survey through the Census and Statistics Department and have commissioned a consultancy study to stocktake the existing provision of international school places and project future demand and supply, including collecting data from households interviewed on the waiting time in admitting to international schools. We are gathering and collating relevant data and are compiling the survey results.

- (b) We have been maintaining dialogues with chambers of commerce, international schools and other concerned parties to keep track of the supply and demand of international school places and to support the development of the international school sector. We note that demand from the community for international school places has been increasing. Some popular and well-established international schools have longer waiting lists in recent years. We note that some consider that difficulties in securing international school places may discourage overseas investors from coming to Hong Kong. On the other hand, we are aware that some parents have placed their children on the waiting list of more than one (as many as four or five) international school. Most of these parents seek after international school places on the Hong Kong Island.

As mentioned above, we have commissioned a consultancy study which aims to stocktake the existing provision of international school places and project future demand and supply. We will review the demand and supply of international school places taking into account views gauged from various channels and the outcome of the consultancy study. We will consider any further allocation of school premises and greenfield sites for international school development should such need arise and when suitable premises and sites are available for permanent international school use. Moreover, we will continue to actively support *in situ* expansion of existing international schools, including giving policy support for their redevelopment plans and for their use of vacant school premises as temporary campuses, or referring interested international school operators to school sponsoring bodies with privately owned sites to explore the feasibility of utilizing vacant school premises at these sites.

In response to the demand from the community for international school places, we have allocated four vacant school premises and four greenfield sites between 2007 and 2009 for the expansion or development of international schools. Over the past two years, we have approved applications from seven international schools for using vacant school premises as temporary campuses. Furthermore, we have given in-principle support for the Hong Kong

International School to expand its High and Middle School in Tai Tam and to redevelop its Lower Primary School in Repulse Bay, and provided other related support and assistance to the school on the redevelopment project. The above measures will provide a total of over 4 500 international school places from 2011-2012 and 2012-2013 school years onwards.

- (c) In line with the prevailing policy requirement applicable to international schools which have been allocated greenfield sites or vacant school premises, at least 50% of the overall student population of these schools should be its target students, that is, non-local children. In order to ensure that the increase in international school places in the schools mentioned above could catch up with the increasing demand from non-local families, we have imposed a new requirement for successful operators being allocated greenfield sites and vacant premises to admit non-local students at no less than 70% of their overall student population. This requirement has been applicable to international schools that have been allocated greenfield sites in 2009 (excluding international boarding school).

### **Environmental Hygiene of Tourist Attractions Famous for Seafood**

3. **DR RAYMOND HO** (in Chinese): *President, there are many restaurants at the tourist attractions (for example, Lei Yue Mun and Cheung Chau, and so on) which are famous for seafood in Hong Kong, and foul odour can be smelled from time to time at the seashore near these restaurants. Such a situation has persisted for many years and it is not hard to notice the situation, but the authorities still have not properly tackled the problem. In this connection, will the Government inform this Council:*

- (a) *whether the reason for not properly tackling the aforesaid problem over the past years by the authorities is that tourists' interest in the aforesaid attractions has not dropped, and that the authorities are pleased with the present situation; if not, whether the authorities are not fully aware of the problem;*

- (b) *whether the authorities know the source of the odour; if so, whether they have adopted any corresponding improvement measure; if they have, of the details and effectiveness of the measure; and*
- (c) *whether the authorities have any specific plan to improve the environmental hygiene of the tourist attractions which offer culinary delights as a selling point, so as to avoid tourists having a negative impression on Hong Kong's environmental hygiene and to reinforce the image of Hong Kong as a culinary paradise?*

**SECRETARY FOR THE ENVIRONMENT** (in Chinese): President, the Administration has always attached great importance to maintaining the advantage of famous tourist attractions in Hong Kong. The question mentions that the many seafood restaurants at the seafront of Lei Yue Mun and Cheung Chau have been popular with local citizens and tourists alike. While the departments concerned, including the Environmental Protection Department (EPD), the Drainage Services Department (DSD) and the Food and Environmental Hygiene Department (FEHD) have not received any odour complaints associated with sea water in the waterfront areas over the past three years (2009-2011), the Tourism Commission (TC) did receive an expression of concern by an organization in October 2009 over the sewage disposal arrangements in Lei Yue Mun. Subsequently, the District Management Committee of the Kwun Tong District Office discussed the issue and closely monitored the progress of the implementation of improvement measures by concerned departments at its meetings in April and June 2010.

We would reply to the question in detail as follows:

- (a) The sources of odour at waterfront areas vary according to the actual conditions at different locations. These would generally include rubbish piles on waterfront streets and decomposing organic matters (such as residual food or drinks) that accumulated inside stormwater drains or catch pits in the vicinity of waterfront shops and food premises. Other sources include decomposing organic matters, such as dead fish and algae, accumulated in waters near piers, shallow banks and places with slow water flow. These may also give off odour if they are not removed promptly. The odour may be aggravated by hot weather or under strong sun light. Depending on the actual circumstances, the departments concerned, including

the EPD, the DSD and the FEHD, will work closely to identify the causes of odour and take follow-up actions.

The Government has always adopted measures to prevent pollutants originating from their land-based sources from affecting marine water quality. The EPD diligently inspects the Lei Yue Mun (Sam Ka Tsuen) and Cheung Chau areas to check whether the food premises in these areas have caused pollution to the surrounding areas or illegally discharged effluent into storm water drains. As for the regulation of food premises, the FEHD conducts regular inspection of the food premises in Lei Yue Mun and Cheung Chau to ensure their compliance with the hygiene standards as stipulated under the law and in the relevant licensing conditions. In case of breaches, the departments concerned will take enforcement action, such as issuing verbal or written warnings and instituting prosecution. According to the EPD, all the food premises in Cheung Chau and Lei Yue Mun are required to install grease traps to remove oil and grease from effluent to minimize pollution. The staff of the EPD and the FEHD also conduct inspection from time to time and remind operators of these food premises to regularly remove waste from their sewage treatment facilities (grease traps/septic tanks) and conduct checks to ensure that their treatment facilities function properly to prevent discharge of untreated or excessively greasy effluent. The EPD's records also show that the sewage treatment facilities of the food premises in Cheung Chau and Lei Yue Mun are in good order. Moreover, the FEHD always keeps a close watch on the provision of street cleansing services at tourist attractions and, when necessary, increases the frequency of street sweeping and washing. The DSD meanwhile is responsible for regular desilting of contaminated sediments at public storm water outfalls to prevent their discharge into the waterfront and, when appropriate, will increase the frequency of desilting works.

In addition, to improve the marine water quality of Lei Yue Mun (Sam Ka Tsuen) Typhoon Shelter, the Government had begun diverting trunk storm water drains from the typhoon shelter to reduce direct pollutant discharge into the typhoon shelter in the early years. Bio-remediation works for facilitating decomposition of organic

pollutants in sediments were also carried out in the typhoon shelter at the end of 2004.

- (b) As mentioned above, we have not received any complaints concerning odour in the typhoon shelters at Cheung Chau and Lei Yue Mun over the past three years. In fact, the marine water quality in the Cheung Chau and Lei Yue Mun Typhoon Shelter areas continues to improve with the conduct of enforcement, educational promotion and improvement works. Monitoring results show that the water quality of Cheung Chau Typhoon Shelter was good over the past three years (2009-2011) and the 1986 to 2011 results of Sam Ka Tsuen Typhoon Shelter showed that the level of dissolved oxygen has steadily risen while the E. coli counts dropped.
- (c) Renowned as the culinary capital of Asia, Hong Kong offers a wide selection of cuisine, which has attracted many visitors to come to enjoy. The Government has all along closely monitored the environment and supporting facilities of the city's dining districts. Whenever necessary, the TC would co-ordinate the relevant departments including the FEHD, the EPD, the District Offices of the Home Affairs Department, and so on, for suitable improvement, so as to maintain Hong Kong's reputation as Asia's culinary capital.

Overall speaking, the environmental hygiene conditions of tourist attractions which offer culinary delights as a selling point are satisfactory. Nevertheless, the hygiene conditions of some individual attractions have been a subject of concern as a result of various factors such as their geographic environment, the mode of operations of the food establishments, local culture, and pedestrian flows in the vicinity, and so on.

For example, the SoHo in Central District of Hong Kong Island is located in an old residential area where the streets are narrow and steep, and many pubs and restaurants there are opening into the streets. As a result, the area has a greater demand for regular street cleansing and refuse management, as compared to other dining areas in Hong Kong. To address the situation, the TC, in conjunction with the Hong Kong Tourism Board, the FEHD and other relevant departments, have liaised with the operators of food establishments

in SoHo earlier on to explore environmental hygiene improvement measures. The FEHD has since enhanced street cleansing and street washing for the area, and stepped up warning and enforcement against illegal littering by business operators and other parties.

As another example, to further enhance the attractiveness of Lei Yue Mun as a popular tourist spot, the TC is planning to take forth the Lei Yue Mun Waterfront Enhancement Project. The scope of works includes the construction of a public landing facility and a waterfront promenade, as well as other streetscape improvement works. The relevant works departments are currently arranging for the gazettal of works for the project. We expect that upon completion of the project works, the number of visitors to Lei Yue Mun would increase significantly. To address the demand for improved sewerage facilities arising from the acute increase in visitors, the EPD commissioned a study in November 2010 to examine the feasibility of providing interim and long-term sewerage improvement works for the whole Lei Yue Mun area. Taking into account the topographical constraints and narrow alleys in Lei Yue Mun Village, the Administration needs to conduct further detailed investigation on the preferred options. The local communities will be consulted on the feasible options in due course to expedite the sewerage improvement works in the area.

The TC will continue to monitor and review the environment and supporting facilities of individual tourist attractions from time to time, and co-ordinate with relevant departments for improvement where necessary.

### **Accidents Inside Bus Compartments**

4. **MR IP WAI-MING** (in Chinese): *President, in recent years, quite a number of accidents occurred inside the compartments of public buses. Recently, a passenger even died from falling down the stairs from the upper deck to the lower deck of a bus. Some passengers who had sustained injuries from falling down bus stairs sought my assistance, pointing out that they had difficulty in claiming compensation from the bus companies involved after the accidents. In this connection, will the Government inform this Council:*

- (a) *whether it knows the numbers of accidents occurred inside the compartments of buses of various franchised bus companies (on-board accidents) in the past five years; among them, the numbers of those accidents involving bus passengers who tripped and fell while ascending or descending bus stairs; the casualties and the types of design of the bus stairs involved in such accidents;*
- (b) *whether it knows the number of injured passengers in the on-board accidents in part (a) who have claimed compensation from the franchised bus companies involved, and among them, the number of those who have received compensation and the total amount of compensation;*
- (c) *given that some injured passengers have relayed to me that, at present, when injured passengers claim compensation from the franchised bus companies, the burden of proof very often falls on them, and they have to prove that the bus companies concerned should be held responsible for negligence in the accident cases, but such arrangement very often impedes them from striving for reasonable compensation from the bus companies, whether the authorities have put in place any measure to assist injured passengers in claiming compensation from the bus companies or whether there is any government department to provide assistance to them in this regard; whether the authorities will request the franchised bus companies to co-operate by handing over to the injured passengers the records and data of the bus journeys during which the accidents occurred to facilitate the passengers to provide evidence; and*
- (d) *how the authorities will instruct the various franchised bus companies to prevent on-board accidents; whether it knows the efforts made by the bus companies in the past five years to improve the safety of bus compartments and bus stairs and to reduce on-board accidents, as well as the amount of money involved and the effectiveness of such efforts?*

**SECRETARY FOR TRANSPORT AND HOUSING** (in Chinese): President,

- (a) The number of non-collision franchised bus accidents involving passengers injured inside bus compartments in the past five years, the number of such accidents involving passengers injured on the staircase, and the types of staircase involved are tabulated below:

<i>Year</i>	<i>(i)</i> <i>Number of non-collision franchised bus accidents involving passengers injured inside bus compartments<sup>@</sup> (casualty)</i>	<i>(ii)</i> <i>Number of accidents in (i) involving passengers injured on staircase (casualty)</i>	<i>(iii)</i> <i>Number of accidents in (ii) involving</i>	
			<i>straight staircase</i>	<i>spiral staircase</i>
2007	572 (588*)	158 (161)	21	137
2008	512 (530*)	132 (135)	14	118
2009	465 (488*)	148 (153)	23	125
2010	476 (496)	120 (122)	12	108
2011 (provisional figures)	512 (532**)	149 (151*)	22	127

Notes:

@ Non-collision franchised bus accidents involving passengers injured inside bus compartments were mainly caused by passengers not holding the handrail or emergency braking by drivers.

\* Amongst one passenger died.

\*\* Amongst two passengers died.

(b) and (c)

According to the information provided by the franchised bus companies, when passengers or other road users injured in a franchised bus accident claim compensation, the franchised bus company concerned or its insurer will refer the case to a loss adjuster firm for investigation based on evidence provided by both parties. The loss adjuster firm will then make assessment, making reference to the relevant ordinances and court cases. Taking into account the investigation results and assessment made by the loss adjuster firm and the relevant ordinances, the franchised bus company concerned

or its insurer will decide on whether compensation is made to the claimant and the amount of compensation involved. Claimants who are not satisfied with the compensation may negotiate direct with the franchised bus company concerned or its insurer, or lodge a claim with the Court. Generally speaking, compensation claims lodged by injured passengers or other road users against franchised bus companies are civil claims in which the burden of proof is usually on the claimant, and the defendant may make his or her defence.

The total number of all third party claims (including cases involving accidents that took place inside and outside franchised bus compartments) handled by the franchised bus companies in each of the past five years is given below. The franchised bus companies are unable to provide detailed breakdown of the number of compensation claim cases involving accidents that took place inside franchised bus compartments.

	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
Number of claims	1 260	1 114	1 094	1 107	961

- (d) The Government and franchised bus companies attach great importance to passenger safety. The Transport Department and the franchised bus companies review and examine from time to time the design and facilities of franchised buses, so as to keep pace with times by making improvements to passenger safety and comfort level.

Currently, non-slippery bus floor material is installed inside franchised buses. There is also high contrast step-edge to alert passengers to mind their steps. To minimize the incidents in which passengers fall on board due to loss of balance, all major franchised bus companies have included continuous railing that guides passengers to the seats as one of the specifications for purchasing buses since late 2010. This has therefore become a standard feature on new buses. This new design allows passengers to hold on to the handrail as they move with steady steps towards the seats or other parts of the bus. To further enhance the safety of passengers when

ascending or descending the stairs, extra handrails have been installed for straight staircases by all franchised bus companies.

To facilitate needy passengers (including the elderly, pregnant women, passengers carrying babies and the disabled), at least four priority seats are designated near the exit door in the lower deck of every double-deck bus. Stickers are put up on nearby windows to remind passengers to offer these seats to the needy. The franchised bus companies are also making improvements to the design of the priority seats to make them more visible. The Kowloon Motor Bus Company (1933) Limited (KMB) and Long Win Bus Company Limited (LW) have started a renovation programme by installing eye-catching bright colour headrest on the priority seats of some of their double-deck buses since June 2011 for easy recognition by passengers. Subject to the feedback of passengers, KMB and the LW will extend their renovation programme to their whole bus fleets gradually. In parallel, Citybus Limited, New World First Bus Services Limited and New Lantao Bus Company (1973) Limited are considering similar renovation programmes to replace the cushions of their priority seats with different colours.

Apart from improving the design of bus compartments, the franchised bus companies broadcast messages on bus travel safety via the bus stop announcement system from time to time. Such messages include "Please hold the handrail", "For your safety, please do not stand on the upper deck or the stairway", "Please take care of the children and the elderly, and offer your seats to those in need" and "Please stand behind the yellow line". In addition, signs and posters are put up inside bus compartments, and Announcements in the Public Interest are broadcast on board to remind passengers of safety when travelling on buses.

The abovementioned improvements to the design of bus compartments and efforts of reminding passengers of safety during their bus rides are long-term and persistent goals pursued by the franchised bus companies for providing passengers with a safe and comfortable travelling environment. Passengers in general welcome these enhanced design and improvement measures. The franchised bus companies are unable to provide a breakdown of the

expenditure for such design and improvements as they are usually implemented together with the upgrading of other facilities in the bus compartment.

**Incident of a Fishing Vessel Being Intercepted by Hong Kong Marine Department While Departing from Hong Kong Waters**

5. **MR LEUNG KWOK-HUNG** (in Chinese): *President, regarding the incident of Kai Fung No. 2 being intercepted by the Marine Department of Hong Kong (the Department) while departing from Hong Kong waters on 3 January this year, will the Government inform this Council:*

- (a) *given that according to the letter issued by the Department to the owner of Kai Fung No. 2 as well as some press reports, the Department indicated that it had learned from press reports that Kai Fung No. 2 was heading towards Diaoyu Islands to proclaim territorial rights, and on the ground of the safety of its crews, it refused permission for Kai Fung No. 2 to leave Hong Kong waters, whether it has assessed if it is reasonable for the Department to take enforcement actions solely on the basis of press reports; if the assessment result is in the affirmative, of the justifications for that;*
- (b) *given that the captain of Kai Fung No. 2 needs to go fishing in the sea to earn his living, but the Government obstructed the vessel from leaving Hong Kong waters, how the captain can exercise his rights to leave Hong Kong waters for fishing purposes without being intervened by the Department; and*
- (c) *given that the freedom to enter or leave Hong Kong and the freedom of speech of citizens are safeguarded under both the Basic Law and the Hong Kong Bill of Rights Ordinance (Cap. 383) (HKBORO), whether it has assessed if the Department has contravened the Basic Law and HKBORO in prohibiting Kai Fung No. 2 from leaving Hong Kong on the basis of press reports in this case; if the assessment result is that it has contravened such laws, how the Government will make compensation; if the assessment result is that it has not contravened such laws, of the justifications for that?*

**SECRETARY FOR TRANSPORT AND HOUSING** (in Chinese): President, under the Merchant Shipping (Local Vessels) (Certification and Licensing) Regulation (Cap. 548D) (the Regulation), Kai Fung No. 2 is issued with a full licence for a Class III vessel. In accordance with section 5(3) of the Regulation, Kai Fung No. 2 shall be used exclusively for fishing and related purposes. Given that it was reported in the local newspaper and on the radio on 3 January 2012 that Kai Fung No. 2 would travel to the Diaoyu Islands to symbolize sovereignty, rather than for fishing and related purposes exclusively, the Marine Department (the Department) had the reason to believe that the owner of the vessel would contravene the provision of section 5(3) of the Regulation. The Director of Marine (the Director) therefore gave a direction under section 64(1)(a)<sup>(1)</sup> of the Merchant Shipping (Local Vessels) Ordinance (Cap. 548) refusing permission for Kai Fung No. 2 to leave the waters of Hong Kong.

After the Director had given a direction to the owner of Kai Fung No. 2 vide a letter dated 3 January 2012, the Department had a meeting with the owner of the vessel and the members of the Action Committee for Defending the Diaoyu Islands, and advised them that the owner of the vessel might provide relevant information or make representation to the Department if there were any changes in the circumstances set out in the letter giving the direction so that the Director could consider withdrawing or revising the direction.

On 1 May 2009, the Director gave Kai Fung No. 2 a similar direction under similar circumstances and considerations. The owner of the vessel filed an application for judicial review with the Court of First Instance of the High Court then. The Court held that the Director's direction and the considerations behind it were lawful and valid. The Court also refused to allow the application of a putative interested party, which was made on the basis of the freedom to travel or leave Hong Kong and the freedom of expression, to be heard at the hearing of the application for judicial review. It was stated in the Court's decision that the Director's direction did not in any way restrict the said party's freedom and right to depart Hong Kong by lawful means or to join any protest demonstration outside Hong Kong. Neither the owner of the vessel nor the putative interested party appealed against the Court's decision.

(1) Section 64(1)(a) — "The Director of Marine may, if he is satisfied that there is reason for doing so, give directions refusing permission for a local vessel or class, type or description of local vessel to enter or leave the waters of Hong Kong."

**Enforcement of Employees' Compensation Ordinance**

6. **MR CHAN KIN-POR** (in Chinese): *President, under the Employees' Compensation Ordinance (Cap. 282) (ECO), all employers must at present take out employees' compensation insurance policies (EC policies) for their employees and in 2010, the Labour Department (LD) instituted 1 294 prosecutions against employers who had not taken out EC policies for their employees, which is a record high in the recent six years. In addition, it has been reported that in recent years the Court imposes increasingly heavy penalties on persons who contravene the ECO, and in the past few years, two employers were sentenced to seven days' and 14 days' imprisonment respectively for contravening the ECO, and a few employers were given suspended sentences of imprisonment. In this connection, will the Government inform this Council:*

- (a) *given that it has been reported that as the risk of claims for compensation under EC policies for a number of high-risk types of jobs is already higher than that for the other industries plus the fact that some employers, who hold the view that their employees will not all have accidents at the same time, only take out EC policies for a small number of their employees, resulting in insurers receiving far lower premiums than what should be payable by the employers in accordance with the associated risk, and paying massive amounts of compensation whenever there are accidents; and that since the level of premium is adjusted according to the overall situation in the industry, there has been a substantial increase in the level of premium in general for such types of jobs recently, which is unfair to those law-abiding employers as well as members of the public who ultimately bear the costs of services or products, whether the authorities will persuade and advise employers to provide true salary information when taking out EC policies and study requiring auditors to state in their reports whether the company's expenditure on salaries matches the salaries of employees which were declared when EC policies were taken out;*
- (b) *given that it has been reported that the acts of making fraudulent insurance claims through recovery agents and champerty have become increasingly rampant in recent years, resulting in the insurance industry suffering tremendous losses in operating*

*employees' compensation insurance business, and relevant industries having difficulties in taking out EC policies; and statistics show that among the occupational injury claims received by the insurance industry, in 2006, only 1 400-odd cases involved sick leave certificates covering periods of more than half a year, but the number of such cases increased by 60% within five years to over 2 200 cases in 2010, whether the authorities have examined the reasons for the increasing trend in the number of sick leave certificates covering prolonged periods issued by public hospitals in recent years and the solution; and*

- (c) *given that it has been reported that some employers forced their employees to become self-employed persons (hereinafter referred as "false self-employment") or to be upgraded as the companies' directors (hereinafter referred as "false directorate") so as to evade the responsibility of taking out EC policies, and while the salaries and benefits are the same as before when they were employees, yet as the relationship between the two parties is no longer that between employers and employees, the employees will not be given any protection or compensation to which they are entitled in the event that they sustain injuries at work, not to mention mandatory provident fund contributions by the employers, of the total number of complaints involving "false self-employment" and "false directorate" received by the authorities last year, and the number of cases in which the persons involved were prosecuted?*

**SECRETARY FOR LABOUR AND WELFARE** (in Chinese): President, my reply to Mr CHAN Kin-por's question is as follows:

- (a) According to the ECO, all employers are required to take out EC policies to cover their liabilities both under the ECO and at common law. An employer failing to comply with this requirement is liable on conviction to a maximum fine of HK\$100,000 and imprisonment for two years. Labour Inspectors of the LD conduct workplace inspections to establishments of various trades and mount targeted enforcement campaigns to inspect whether the employers have complied with the requirement of the ECO.

In addition to active inspection and stringent enforcement, through mass media and promotional activities, the LD all along reminds employers to take out EC policies in accordance with the law. The LD also requires employers, when taking out EC policies, to ensure that all employees are covered by the insurance policies and provide to the insurer detailed declarations on the earnings and job duties of their employees.

The LD has also set up a complaint hotline for employees to report suspected cases where employers fail to comply with the requirement of taking out EC policies. Upon receipt of a complaint, the LD would make investigation promptly.

- (b) The Hospital Authority (HA) is a statutory body providing public hospital service. As a public organization, the HA has been providing necessary medical service and treatment to patients. The HA's doctors conduct medical assessment and issue leave certificates based on their professional judgment and clinical conditions of individual patients.
- (c) An employer cannot evade his liabilities under the ECO by labelling his employees as self-employed persons. Even if an employer makes a "sub-contractor contract" with his employee with a view to changing the latter's identity to be a "self-employed person", if in essence there exists an employer-employee relationship, the employer is still required to pay compensation to an employee who sustains an injury or dies arising out of employment, and to take out an EC policy according to the law. If an employer fails to take out an EC policy as required by the ECO, he is still liable to pay compensation by himself where his employees are injured or die arising out of employment.

In 2011, the Employees' Compensation Division of the LD received a total of 35 cases involving dispute about self-employed identities, but did not receive any complaint about "faked directors". Among these cases, the LD had initiated prosecution against five employers who were suspected of not taking out EC policies as required by the ECO. Of these cases, three were convicted, one acquitted and the hearing of one is in progress.

**Road Safety of Cheung Tung Road**

7. **DR DAVID LI:** *President, I have been informed by a member of the public that the number of persons using Cheung Tung Road on Lantau Island for recreational cycling is growing and, at the same time, vehicular traffic, in particular heavy vehicle traffic, along Cheung Tung Road is also on the rise. Furthermore, the member of the public also reflected that the Government has announced plans for the development of an organic waste treatment facility, as well as concrete and asphalt batching plants, and so on, which may lead to an increase in the number of heavy vehicles using Cheung Tung Road in future. In this connection, will the Government inform this Council:*

- (a) of the total number of traffic accidents that occurred on Cheung Tung Road in each of the past five years, and among them, the number of those which involved cyclists;*
- (b) in each of the past five years, of the number of speed control enforcement operations carried out on Cheung Tung Road; and the number of persons who had been prosecuted for speeding on Cheung Tung Road;*
- (c) given that the speed limit along Cheung Tung Road is 50 km per hour, whether it has assessed if there was evidence that excessive speeding was one of the causes of the traffic accidents that occurred on Cheung Tung Road in the past five years, and whether it has reviewed the current speed limit set for the road;*
- (d) of the Government's projection of the growth in vehicular traffic along Cheung Tung Road in the next five years, and the source of such increase;*
- (e) since Cheung Tung Road was opened to traffic, whether the Government has conducted any review of the visibility along the road, in particular along those sections with slight bends and slight slopes when driving behind heavy vehicles; if it has, whether improvement works had been carried out after the reviews; if so, of the details;*

- (f) *of the number of road signs erected along Cheung Tung Road to alert drivers that there are cyclists on the road; and*
- (g) *whether the police have provided any advice to frequent users of Cheung Tung Road (including the drivers using Cheung Tung Road for accessing the private or government establishments nearby) on safe driving practices on roads which are also used by cyclists; if not, of the reasons for that?*

**SECRETARY FOR TRANSPORT AND HOUSING:** President, my reply to the various parts of the question is as follows:

- (a) The breakdown on the number of traffic accidents that occurred on Cheung Tung Road in the past five years and the number of those involving bicycles and other vehicles is at Annex 1.
- (b) The number of laser gun speed check enforcement operations carried out on Cheung Tung Road by the police in the past five years and the prosecution figures on speeding are at Annex 2.
- (c) According to the relevant information of the traffic accidents, most accidents that occurred on Cheung Tung Road involved such factors as driving inattentively by vehicle drivers, losing control of the bicycles and collision of bicycles with other vehicles. Speeding is not a cause for traffic accidents on Cheung Tung Road. The Transport Department (TD) reviews regularly the speed limits set for various roads. The TD considers the current speed limit set for Cheung Tung Road appropriate.
- (d) It is estimated in the TD's traffic assessment that the total vehicular flow on Cheung Tung Road at peak hours in 2016 will be 940 vehicles per hour, that is, about 45% of the design capacity of the road, upon completion and operation of various planned development projects such as the organic waste treatment facility, concrete batching plant and chlorine transshipment dock.
- (e) The TD has been monitoring the traffic situation of Cheung Tung Road. Its design, including visibility and road bends, is in

compliance with relevant international standards. At individual locations along the road, the TD has put in place some measures, such as adding appropriate traffic signs and road markings near the road tunnel in the vicinity of Tung Chung Eastern Interchange, to alert motorists of the road bends ahead. Trees on the roadside are pruned regularly by the relevant department to avoid obstructing the sightline of motorists.

- (f) The TD has erected 12 traffic signs along the section of Cheung Tung Road between Tung Chung Eastern Interchange and the western end of the road, to alert motorists of nearby cycle tracks and cyclists. Given the increasing cycling activities, the TD is considering putting up appropriate traffic signs along the section of Cheung Tung Road where there is no cycle track to remind other road users to take heed of cyclists on the road.
- (g) On a regular basis in the Lantau area, the police issue verbal advice to road users who have violated traffic ordinances and conduct educational activities to promote road safety. Such activities include distributing promotional leaflets on road safety to road users and cyclists as well as conducting talks. For example, the police organize road safety talks in collaboration with the TD, various bus companies within the Lantau area, large housing estates in Discovery Bay and organizations such as the Disneyland theme park to instill among professional drivers an awareness of proper and safe driving. The drivers are reminded to drive carefully and pay attention to road condition, including cyclists on the road, so as to prevent traffic accidents. The number of the activities held is at Annex 3.

Annex 1

#### Number of accidents on Cheung Tung Road

<i>Category of traffic accidents</i>	<i>Year</i>				
	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
Involving bicycles	5	4	3	11	22
Involving other vehicles	11	4	11	6	8
Total	16	8	14	17	30

## Annex 2

Number of speed check operations on Cheung Tung Road and  
prosecution figures on speeding

	<i>Year</i>				
	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
Laser gun speed check operations	24	20	13	9	14
Prosecution figures on speeding	117	90	23	21	25

## Annex 3

Statistics of verbal advice and education/publicity activities  
on road safety in the Lantau area

	<i>Year</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
Number of verbal advice given to road users and cyclists	12	43	76
Number of promotional leaflets distributed	250	86	856
Number of talks held (attendance in brackets)	2(90)	2(110)	5(290)

### Pressure on Services of Maternal and Child Health Centres

8. **DR PAN PEY-CHYOU** (in Chinese): *President, it has been reported that the problem of Mainland pregnant women giving birth in Hong Kong is worsening with no improvement over the years, causing serious impact on the provision of obstetrics and gynaecology services in public and private hospitals, and the problem has already extended to Maternal and Child Health Centres (MCHCs), exerting heavy pressure on the services of MCHCs as well as affecting the use of such services by local babies. In this connection, will the Government inform this Council:*

- (a) *of the respective numbers of new-born babies receiving services in various MCHCs in Hong Kong in the past five years, together with a breakdown by baby born to parents who are both Hong Kong permanent residents, only one of whom is a Hong Kong permanent resident and who are both not Hong Kong permanent resident;*
- (b) *given that it has been reported that recently there are agencies which bring a large number of Mainland women and their new-born babies to MCHCs every time to use the services, but quite a number of them have not made appointments in advance, and some of them even behave in an unhygienic and inconsiderate manner in MCHCs, which adversely and seriously affects the hygienic conditions in MCHCs and substantially increases the workload of healthcare staff in MCHCs, whether the authorities have any targeted measure in place to rectify the problem; if they have, of the specific details and time of implementation; if not, the reasons for that; and*
- (c) *whether the authorities have any formulated administrative measure to ensure that the use of child care services of MCHCs by new-born babies of parents who are both Hong Kong permanent residents or those born to parents one of whom is a Hong Kong permanent resident will not be affected by the aforesaid situation; if they have, of the details; if not, the reasons for that?*

**SECRETARY FOR FOOD AND HEALTH** (in Chinese): President, it is the Government's policy to ensure that Hong Kong residents (both pregnant women and infants) are given priority for services and care. The Government is very concerned about the surge of demand for obstetric services in Hong Kong by non-local women (including Mainland women) in recent years, which have caused tremendous pressure on the overall obstetric and neonatal care services. Since mid-2011, we have launched further measures to ensure that adequate obstetric and neonatal care services are available in Hong Kong, and local pregnant women are given priority for obstetric services. The number of non-local pregnant women giving birth in Hong Kong in 2012 will be limited to 35 000 (including 3 400 delivery places for non-local women in the Hospital Authority and around 31 000 planned number of deliveries in private hospitals), representing a decrease of nearly 20% as compared with the number of deliveries by non-local women in 2011 (that is, some 43 000). We will carefully plan the

number of deliveries by non-local women for next year to ensure that obstetric services for local pregnant women will not be affected.

With an increase in the number of new-born babies, there has been a surge of demand for maternal and child health services. We will continue to monitor the situation closely and adopt appropriate measures to ensure that children born in Hong Kong will continue to enjoy quality and professional services.

- (a) The numbers of new-born babies receiving services in various MCHCs in Hong Kong with the breakdown of their parents' residential status in the past five years are set out in the Annex.
- (b) MCHCs under the Department of Health (DH) are always committed to serving the community and maintaining their service quality. To provide quality services, reduce waiting time and maintain good order at MCHCs, we require all users to make prior appointments. Information hotlines have been set up for users to make appointments and enquire the opening hours of various MCHCs. In addition, we require users to wait in an orderly manner and keep quiet in MCHCs. Posters have also been put up at MCHCs to remind users to pay attention to their personal hygiene and keep the environment clean. The DH will continue to monitor the situation and adopt appropriate measures to maintain the service quality.
- (c) We must ensure that children born in Hong Kong will continue to receive quality and professional services. MCHCs will strive to maintain the current arrangement for new-born babies to be seen within one to two working days after registration to ensure that they receive appropriate health assessment and neonatal services.

In the wake of a continuous growth in the number of new-born babies in recent years, we are exploring allocating more resources for MCHCs to cope with the service demand, including expansion of the Fan Ling and Hung Hom MCHCs. We will continue to monitor the demand for the services of MCHCs and deploy resources according to the utilization of individual MCHCs to ensure that the standard of services provided to babies in Hong Kong will not be affected.

Maternal and Child Health Centre	2007					2008					2009					2010					2011				
	Newly-registered babies (under 1 year old)					Newly-registered babies (under 1 year old)					Newly-registered babies (under 1 year old)					Newly-registered babies (under 1 year old)					Newly-registered babies (under 1 year old)				
	Grand total	Total no. of babies born to local mothers	Total	Both parents being non-local people	Babies born to non-local mothers	Grand total	Total no. of babies born to local mothers	Total	Both parents being non-local people	Babies born to non-local mothers	Grand total	Total no. of babies born to local mothers	Total	Both parents being non-local people	Babies born to non-local mothers	Grand total	Total no. of babies born to local mothers	Total	Both parents being non-local people	Babies born to non-local mothers	Grand total	Total no. of babies born to local mothers	Total	Both parents being non-local people	Babies born to non-local mothers
Anne Black	2034	1043	991	815	801	1942	997	945	801	1817	1016	801	671	1845	1113	732	612	1844	1112	732	626	1844	1112	732	626
Ap Lei Chau	1337	1096	241	88	84	1333	1122	231	84	1311	1095	216	76	1361	1157	204	77	1365	1193	172	70	1365	1193	172	70
Chat Wan	1399	1048	351	185	168	1345	1031	314	168	1265	973	292	172	1325	1032	293	161	1299	1047	252	134	1299	1047	252	134
Cheung Chau	133	122	11	1	2	134	137	13	2	134	120	14	7	151	129	22	11	143	131	12	1	143	131	12	1
Mai Wo	58	47	11	1	4	59	52	7	4	40	35	5	2	34	29	5	2	49	44	5	1	49	44	5	1
Sai Wan Lo	1808	1441	367	202	186	1962	1614	348	186	1837	1526	311	182	1799	1533	266	139	1800	1541	259	123	1800	1541	259	123
Sai Ying Pun	1723	1397	326	152	184	1711	1381	330	184	1722	1410	312	181	1787	1487	300	166	1809	1499	310	188	1809	1499	310	188
Tung Chi Ngong	1026	825	201	129	125	1152	946	206	125	1188	973	215	145	1448	1038	410	339	1676	1100	576	489	1676	1100	576	489
East Kowloon	736	549	187	79	92	751	575	176	92	648	505	143	76	745	608	137	70	745	601	144	78	745	601	144	78
Hung Hom	2350	1593	757	505	609	2556	1702	854	609	2575	1722	853	632	3119	1940	913	3343	1992	1351	1128	3343	1992	1351	1128	
Lam Tin	2612	1900	712	377	461	2626	1902	789	461	2626	1873	753	450	2755	1986	769	464	2846	2098	748	435	2846	2098	748	435
Ngau Tau Kok	2122	1487	635	352	415	2168	1448	720	415	2124	1438	686	419	2213	1496	717	438	2436	1709	727	438	2436	1709	727	438
Robert Black	1214	855	359	192	204	1269	914	355	204	1235	881	354	216	1278	895	383	261	1400	1003	397	275	1400	1003	397	275
Wong Tau Hom	614	458	156	59	69	637	476	161	69	610	498	112	57	618	489	129	66	683	552	131	72	683	552	131	72
West Kowloon	4236	2834	1402	927	887	4217	2888	1329	942	4445	3094	1351	916	4794	3344	1450	1038	4794	3344	1450	1038	4794	3344	1450	1038
Wu Yau Yu	1173	816	357	205	186	1192	824	368	186	1283	865	418	242	1354	905	449	279	1454	1025	429	261	1454	1025	429	261
Yaumatei	3271	2010	1261	958	1366	3772	2115	1657	1366	3829	2144	1685	1416	4093	2285	1808	1538	4678	2355	2323	2097	4678	2355	2323	2097
Fanning	4001	1875	2126	1576	2180	4867	2101	2766	2180	5109	2118	2991	2445	6025	2351	3674	3106	6727	2467	4260	3698	6727	2467	4260	3698
Lek Yuen	3025	2131	894	509	600	3270	2309	961	600	3419	2451	968	650	3593	2500	1093	758	4200	2863	1337	996	4200	2863	1337	996
Ma On Shan	1673	1349	324	160	137	1754	1442	312	137	1722	1451	271	130	1840	1560	280	129	2089	1779	310	148	2089	1779	310	148
Isleung Kwan O Po Ning Road	3808	3127	681	353	352	3830	3171	659	352	3703	3108	595	325	3763	3179	584	311	3953	3399	554	282	3953	3399	554	282
Wong Siu Ching	2084	1440	644	337	391	2298	1627	671	391	2194	1603	591	381	2442	1761	681	392	2635	2002	633	392	2635	2002	633	392
Madam Yung Fung Shue	2802	2072	730	388	449	2979	2188	791	449	2936	2206	730	424	3074	2304	770	471	3492	2585	907	561	3492	2585	907	561
Maureen Grantham	3448	2683	765	382	478	3703	2892	811	478	3626	2832	794	437	3741	2983	758	432	3939	3139	800	478	3939	3139	800	478
North Kwai Chung	993	682	311	168	206	1133	774	359	206	1180	795	385	226	1197	834	363	207	1221	858	363	218	1221	858	363	218
South Kwai Chung	676	463	213	133	96	633	436	197	96	599	416	183	93	575	418	157	79	582	422	160	90	582	422	160	90
Tin Shui Wai	2299	1606	693	444	548	2398	1591	807	548	2526	1603	923	656	2877	1795	1082	780	3091	1892	1199	916	3091	1892	1199	916
Tsing Yi	1631	1266	365	193	157	1656	1351	333	157	1656	1353	303	150	1626	1369	257	123	1728	1427	301	132	1728	1427	301	132
Tuen Mun Wu Hong	1176	948	228	103	140	1280	1029	251	140	1398	1155	243	123	1365	1122	243	137	1551	1284	267	138	1551	1284	267	138
Tung Chung	820	708	112	62	58	849	724	125	58	865	761	104	56	944	802	142	75	897	792	105	60	897	792	105	60
Yan Oi	2610	1942	668	353	336	2692	1887	805	336	2867	1959	908	632	3316	2110	1206	992	3705	2377	1328	1047	3705	2377	1328	1047
Total (to the nearest hundred)	58900	41800	17100	10400	12100	62300	43600	18700	12100	62300	43800	18500	12600	66700	46300	20400	14400	72200	49700	22500	16600	72200	49700	22500	16600

**Recovery and Recycling of Municipal Solid Waste**

9. **MR LEE WING-TAT** (in Chinese): *President, at present, Hong Kong mainly relies on landfills to treat its waste. Of the 18 000 tonnes of solid waste generated every day, 13 300 tonnes are disposed of at landfills. According to the progress of the key initiatives in the "Policy Framework for the Management of Municipal Solid Waste (2005-2014)", the Government has made a series of recommendations in respect of waste treatment, reduction and recycling, including the measures of developing an integrated waste management facility (IWMF) with a daily treatment capacity (including sorting and incinerating) of 3 000 tonnes of waste, raising the target of waste recovery rate from the present 49% to 55% by 2015, developing two organic waste treatment facilities (OWTFs) with daily treatment capacity of 200 and 300 tonnes respectively at Siu Ho Wan on North Lantau and Sha Ling in the North District, as well as reducing waste at source through direct economic incentives (for example, introducing municipal solid waste (MSW) charging and funding project of on-site food waste treatment), and so on. In this connection, will the Government inform this Council:*

- (a) *of the breakdown of the volume of solid waste generated, the overall waste disposal rate at landfills and the waste recovery rate in Hong Kong in each of the past five years by type of waste, including glass, metal, plastics, paper, food waste, construction waste, sludge, electronic waste (including old computer and electrical appliance) and other waste (please specify the types);*
- (b) *of the computation methods, standards and criteria for determining the aforesaid respective treatment capacity and target (including the daily capacity of IWMF to treat 3 000 tonnes of waste, the 55% target rate of waste recovery by 2015, as well as the daily treatment capacity of 200 and 300 tonnes of the two OWTFs);*
- (c) *whether it has studied and assessed the amount of waste required to be reduced and the extent to which the waste recovery rate is required to be raised in Hong Kong in order to downsize the scale of the aforesaid IWMF and hence reduce its impacts on the environment with the adoption of waste reduction and recycling approaches for waste treatment; and*

- (d) *given that at present, the Government has indicated that according to the medium to long-term planning strategy for waste management facilities, the construction of the IWMF on the artificial island near Shek Kwu Chau (SKC) as compared to Tsang Tsui in Tuen Mun will achieve a more well-balanced spatial distribution for waste management facilities in Hong Kong as a whole, yet the Government pointed out in the "Integrated Waste Management Facilities Site Selection Report" in 2008 (the 2008 Report) that compared to SKC and other potential sites, Tsang Tsui in Tuen Mun had achieved the highest overall score because of "the ease of integration with the existing landfill and waste reception facilities, much less impact on local ecology, shorter construction time, lower construction cost",*
- (i) *whether the Government had referred to the 2008 Report in making the present proposal for the site; why the present proposal differs from the results in the 2008 Report;*
- (ii) *of the respective overall costs for constructing the IWMF on the artificial island near SKC and Tsang Tsui in Tuen Mun, with a breakdown by cost item (for example, construction cost, operating cost and transportation cost, and so on); and*
- (iii) *whether it had assessed the respective economic benefits to be brought to the two districts by constructing the IWMF at the two aforesaid sites, with specific figures to illustrate such benefits?*

**SECRETARY FOR THE ENVIRONMENT** (in Chinese): President, treatment of MSW is an unavoidable problem for every city. Our policy objective is to implement sustainable waste management strategies. Hong Kong generates about 18 000 tonnes of MSW daily. After discounting 52% of recovered materials from this generated quantity and adding other solid wastes (such as non-inert construction waste), we have to handle about 13 500 tonnes of waste daily, which are mostly disposed of at landfills before the introduction of large-scale modern waste treatment facilities. For a small and

densely-populated city like Hong Kong, the practice of disposing a large quantity of waste generated daily in landfills is not sustainable.

To provide a more comprehensive and timely solution to the imminent waste problem in Hong Kong, the Government announced on 4 January 2011 a long-term action agenda to tackle the waste management problem of Hong Kong after reviewing the 2005-2014 Policy Framework for the Management of Municipal Solid Waste (the Policy Framework). With "reduce, recycle and proper waste management" as the objective, the action agenda put forward the following three core strategies and the specific implementation timetable:

- (i) strengthening efforts in promoting waste reduction at source and recycling at source;
- (ii) introducing modern facilities for waste treatment; and
- (iii) extending the existing landfills in a timely manner.

It should be noted that all these three strategies are essential to effectively resolve our waste management problem.

The Government has proposed a series of measures on waste treatment, reduction and recycling, which include raising the recovery target of MSW to 55% by 2015 through stepping up publicity and promotional efforts on waste reduction and recycling; expediting the legislative process for introducing new Producer Responsibility Schemes and extending the existing programmes to encourage waste reduction at source; consulting the public on possible options to introduce MSW charging as a direct economic disincentive to reduce waste at source. We will apply for funding from the Finance Committee of the Legislative Council in early 2012 to expedite the development of advanced waste treatment facilities, including the integrated waste treatment facilities (IWTF) that can reduce the waste volume by 90% and turn waste into energy. In the meantime, we have to push ahead with the extension plans of existing landfills in order to maintain proper management of solid waste in compliance with the green requirements.

My reply to the question of Mr LEE is as follows:

- (a) A breakdown by quantities and major types of solid waste disposed of at landfills in the past five years is shown below:

	2006	2007	2008	2009	2010
	<i>Unit: 10 000 tonnes</i>				
Overall solid waste	549	507	494	486	504
MSW (food waste component)	339 (117)	335 (119)	330 (110)	327 (120)	333 (118)
Construction waste	151	115	113	114	131
Dewatered sludge	33	32	32	30	34
Other waste <sup>(1)</sup>	27	25	19	15	7

Remarks:

The figures may not add up to total due to rounding off.

Note:

- (1) For example, animal carcasses, livestock waste, and so on.

As regards waste recovery, a breakdown by the quantities generated and recovery rates of the major components of MSW in the past five years is shown below:

	2006	2007	2008	2009	2010
	<i>Unit: 10 000 tonnes</i>				
Total quantity of MSW generated	623	616	644	645	693
Recovery rate of MSW	45%	46%	49%	49%	52%
Quantity of metals generated	114.2	85.0	101.3	89.6	78.5
Recovery rate of metals	93.1%	91.9%	92.1%	93.1%	91.8%
Quantity of waste electrical and electronic equipment generated	6.88	7.01	7.14	7.20	7.40
Recovery rate of waste electrical and electronic equipment	84%	84%	82%	89%	82%
Quantity of plastics generated	117.0	135.6	153.7	171.6	216.6
Recovery rate of plastics	55.2%	60.5%	66.6%	70.5%	72.8%

	2006	2007	2008	2009	2010
	<i>Unit: 10 000 tonnes</i>				
Quantity of paper generated	180.1	189.8	181.6	169.7	185.5
Recovery rate of paper	55.7%	58.1%	60.1%	60.5%	64.4%
Quantity of glass generated	11.5	13.4	14.2	12.0	14.1
Recovery rate of glass <sup>(1)</sup>	2.2%	0.9%	1.0%	2.3%	3.2%

Note:

- (1) Waste glass recovery in Hong Kong is severely constrained by the lack of local glass manufacturing plants that can process a large quantity of waste glass for recycling and high transport costs for export. But the recovery rate has steadily risen in recent years as the trade and non-governmental organizations have launched several glass recovery programmes in housing estates with the assistance of the Government.

- (b) The Government has made reference to the historical trend of waste generation and recovery and the projections of social and economic activities in Hong Kong in assessing the future requirements for waste treatment. The assessments provided the basis for determining the demand and scale of the related waste treatment facilities. Waste reduction at source is a key component of our waste management strategy. As such, we will endeavour to forge a broad consensus within the community for the implementation of various waste reduction initiatives to complement the provision of facilities and upgrading of ancillary hardware.

Currently, the MSW recovery rate of Hong Kong stands at 52%, which compares favourably with many other cities at a similar level of development. Indeed, we have also exceeded the targets set in the 2005 Policy Framework (that is, which aimed for 45% by 2009 and 50% by 2014). But we need to boost the recovery rate further. To this end, we will introduce a series of complementary measures and engage the relevant government departments, district councils, community organizations, the property management trade, restaurant operators and social services groups in order to raise the environmental awareness of the people in all walks of life and broaden their participation in waste reduction and recycling. Our objective is to raise the waste recovery rate to 55% by 2015.

The treatment capacity of waste treatment facilities was determined after a detailed analysis of various relevant factors. For instance, in planning the development of the local IWTF, we have reviewed the treatment capacities of similar facilities in other densely populated cities (such as Singapore which features similar demographic and geographical characteristics as Hong Kong) as well as our overall strategy on waste transfer and treatment (that is, sending most of our local waste for compaction and containerization at refuse transfer stations before transfer to landfills by marine transport). The final recommendation was phased development of IWTF in an appropriate scale with the daily capacity of the first phase IWTF set at 3 000 tonnes.

Currently, Hong Kong disposes of about 3 240 tonnes of food waste a day, of which about 840 tonnes are generated by the commercial and industrial (C&I) sector. Most of these food wastes end up in landfills. To address the problem of dumping food waste at landfills, the Government has adopted a multi-pronged approach. The key strategy is to prevent and minimize food waste generation and promote recovery and recycling to cope with unavoidable food waste through publicity, education and public participation. As storage of a large amount of food waste will give rise to odour nuisance and hygiene problems, it is not desirable to compact and containerize food waste at existing refuse transfer stations prior to long distance delivery. Instead, the food waste should be directly delivered to separate purpose-built facilities for special treatment. To this end, the Government plans to develop two OWTFs with a daily capacity of 200 tonnes to 300 tonnes to treat source-separated biodegradable food waste from C&I establishments. A working group comprising representatives from the restaurant, hotel, property management and food manufacturing trades has been set up to draw up guidelines on ways to minimize, separate and recover food waste. Through our site search study in 2007, we have identified possible sites at Siu Ho Wan of North Lantau and Sha Ling of North District for development of the first and second phases of the OWTF to treat food waste generated by the C&I sector in North Lantau, West Kowloon and Northern New Territories. We will also conduct site search studies for developing OWTF in other districts.

- (c) We are committed to stepping up our efforts in reducing waste at source and recycling, as this is the only permanent solution to relieve the pressure for waste treatment. However, waste reduction at source and recycling cannot completely resolve waste problems in Hong Kong. The experience in Europe and other advanced cities shows that, even after the implementation of various measures on waste reduction at source, there is still a substantial amount of waste that cannot be recovered which requires treatment. As in Hong Kong, these cities handle their wastes by incineration in modern waste treatment facilities and landfilling the resultant ash.

For Hong Kong, there will still be a huge amount of MSW that cannot be recovered or recycled, amounting to about 8 000 tonnes per day, which requires treatment even after the target recovery rate of 55% is achieved. Given that our three landfills will become saturated in the next few years, we must plan for waste treatment by modern waste treatment facilities at the earliest opportunity to bring about a substantial reduction in landfilled waste. In view of the lead time required for planning and construction of waste treatment facilities, we must immediately commence the preparatory work for the first IWMF with a treatment capacity of 3 000 tonnes per day and the two OWTFs (at Siu Ho Wan and Sha Ling respectively).

- (d) (i) The proposed site for the IWMF was chosen on the basis of substantial scientific studies and analyses and has taken into account the territory-wide spatial distribution of waste treatment facilities. We first conducted an initial territory-wide site selection study to examine the preliminary data of all possible sites in 2007-2008 before identifying the sites at Tsang Tsui Ash Lagoons (TTAL) in Tuen Mun and the artificial island near SKC for further consideration in 2008.

As required under the Environmental Impact Assessment Ordinance and the Technical Memorandum on the Environment Impact Assessment, we have conducted detailed environmental impact assessments (EIA) for the development of IWMF at these two sites to evaluate the cumulative impact of the project and other projects in respect of noise, air, water

quality, waste, ecology, landscape and cultural heritage. The EIA report also recommended suitable mitigation measures to be adopted for ensuring that the environmental impact was limited to an acceptable level. It also recommended an environmental monitoring and audit programme for ensuring the effectiveness of these measures.

The EIA findings indicated that both phased and simultaneous development of IW MF at the two sites would meet the EIA requirements. Having considered the spatial distribution of our waste management facilities, environmental factors and transport efficiency, the Government selected the artificial island next to SKC as the site for the first IW MF on the following grounds:

- The proposed choice ensures a more balanced spatial distribution of waste facilities. For the Western New Territories, there is West New Territories Landfill and the proposed West New Territories Landfill extension. There is also a sludge treatment facility with a capacity of 2 000 tonnes per day under construction at TTAL. For the North New Territories, there is North East New Territories Landfill and the proposed landfill extension. For the East New Territories, there is South East New Territories Landfill and proposed landfill extension. For the urban area, there is Tsing Yi Chemical Waste Treatment Centre. The development of the IW MF at the southern tip of Hong Kong will help achieve a more balanced spatial distribution of facilities;
- The artificial island next to SKC is closer to the Island East, Island West and Kowloon refuse transfer stations, the catchment area for the IW MF. The sea route for delivering solid waste from these stations to the artificial island next to SKC is shorter by 25% when compared with the route to TTAL in West New Territories. Moreover, the choice would not cause significant impact on the marine traffic in the area.

Instead, it can help reduce the marine traffic in Ma Wan;

- The SKC site is far away from the densely populated areas. It is located at about 3.5 km to 5 km from Cheung Chau, which is not in the direction of prevailing wind (northeasterly wind towards southwest in the sea). The IWMF will have advanced incineration technology and air cleansing systems on site to further minimize impact caused by gas emission on ambient air quality and, hence, the residents nearby; and
  - The IWMF and its on-site educational and community facilities under planning would bring considerable economic benefits to the nearby islands (especially Cheung Chau). Apart from more jobs and ferry services, the development will also bring in streams of workers and visitors that will, in turn, generate other economic activities and benefits.
- (ii) Regarding the overall costs, we are working on the estimates for the construction and operation costs of the integrated facilities, the necessary equipment and ancillary facilities. We will seek funding from the Legislative Council after completing the estimates.
- (iii) Regarding the economic benefits generated during the construction and operation of the IWMF, there will be about 1 000 workers working on the island and in the surrounding waters during the peak construction period. When it commences operation, there will be about 200 workers working every day in the facility. Besides, the education centre and associated facilities for visitors at the IWMF under planning will also draw in students as well as other visitors. As the site on SKC is far from the urban areas, Cheung Chau will serve as its key back-up area, both during the construction and operation of the IWMF. This will provide a great boost to the economic activities related to accommodation, retail and catering trades in Cheung Chau. As for the TTAL site, it

would also draw in comparable number of engineering staff, workers and visitors. But given its more convenient land transport, they are expected to spend less time at the nearby communities. As such, this option would generate less economic benefits for the local communities.

### **Combating Sex Crimes in Railway Premises**

10. **MR WONG SING-CHI** (in Chinese): *President, the information provided by the authorities to this Council on 6 April and 19 October 2011 indicated a rising trend in both indecent assault and "under skirt photo-taking" cases which had occurred in the railway premises each year since 2006. Moreover, a Member of this Council raised a question on 6 April 2011 enquiring whether the Government or the MTR Corporation Limited (MTRCL) would consider setting up a dedicated team to handle the sex crimes which occurred in the railway premises (sex crimes). The authorities responded that "the Railway Police District adopts a flexible deployment of manpower. In addition to high profile anti-crime patrols at various crime blackspots, uniformed and plain-clothes officers carry out special joint operations targeting at sex crimes". In this connection, will the Government inform this Council:*

- (a) focusing on the rising trend in sex crimes, whether the authorities will seriously reconsider setting up a dedicated team by the Government or the MTRCL to handle sex crimes, and providing training for MTRCL staff to enable them to have sufficient knowledge and sensitivity to handle sex crimes; if they will, of the details; if not, the reasons for that;*
- (b) of the number of sex crimes which occurred last year; the respective numbers of reported cases involved and people arrested, with a breakdown by type of offences;*
- (c) of the details of the aforesaid special joint operations carried out by uniformed and plain-clothes officers; whether it knows if the police and the MTRCL have since 2006 separately or jointly conducted regular reviews of the work of combating sex crimes; if they have, of the details; if not, the reasons for that; given the rising trend in sex crimes, whether the authorities have assessed if there is still much*

*room for improvement in the work of the police and the MTRCL; if the assessment result is in the affirmative, of the specific timetable for introducing improvement;*

- (d) given that the authorities indicated in their reply to my question on 19 October 2011 that two sets of posters and notices on sex crimes ("Don't be a Silent Victim, Report Indecent Assault" and "Don't be silent. Cry out immediately to report indecent assault, when considered safe") had been put up at different MTR stations at alternate intervals, and the newly-designed anti-crime posters "Stay alert, watch out" had been put up at stations and in some train compartments, whether it knows if the aforesaid two sets of posters and notices on sex crimes have been put up in MTR train compartments; if the posters and notices have not been put up, the reasons for that; the details (including the numbers and their percentages in the total numbers of MTR trains and train compartments respectively) of those train compartments in which the "Stay alert, watch out" posters have been put up, broken down by MTR railway line;*
- (e) given that a concern group on women's right has pointed out earlier that as the balustrades on both sides of the escalators at certain MTR stations (including Central Station, Hung Hom Station, Austin Station, Kowloon Tong Station and Hang Hau Station) are made of transparent glass or coated with highly-translucent frosted materials, those stations have become "blackspots" for women being peeped on and taken sneak shots, if it knows whether the MTRCL has taken follow-up actions with regard to the design problems of the escalators at the aforesaid five stations; if it has, of the details and progress of the improvement measures; if not, whether it will immediately introduce improvement measures focusing on these problems; moreover, apart from the aforesaid five stations, whether the MTRCL has reviewed the design of the escalators at other stations and introduced improvement measures immediately to target at these problems; and*
- (f) how the authorities follow up the specific recommendations made by the concern group in part (e) to the MTRCL including taking the initiative to publish crime-related information (the time and places*

*of occurrence as well as the types of cases, and so on), improving the spatial design in the railway premises, as well as setting prevention and combating sexual violence crimes as a corporate responsibility, and list the follow-up actions to each recommendation?*

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

- (a) In addition to having regular anti-crime meetings with the MTRCL, the Railway Police District exchanges information with the MTRCL concerning the latest crime trend in their day-to-day work and gives suggestions on how to prevent and combat crimes in MTRCL premises. Furthermore, officers from the Railway Police District conduct seminars for MTRCL staff and other stakeholders on preventing and combating crime, and provide them with updates of the crime situation and make recommendations on crime prevention.

Uniformed officers from the Railway Police District are dispatched to conduct targeted patrols, having regard to crime trends. MTRCL staff are also actively on guard in railway stations, rendering assistance in curbing crimes in railway areas. In addition, a Task Force of plain-clothes officers, formed by the Railway Police District, carry out joint operations with relevant police districts in the light of the prevailing crime trend, focusing on the combat of major crimes in the Railway Police District, including sex crimes.

- (b) Figures of sex crimes that occurred in railway premises and the number of persons arrested in 2011 are at Annex.
- (c) The Railway Police District flexibly deploys the manpower. In addition to high profile anti-crime patrols at various spots, uniformed and plain-clothes officers carry out special joint operations targeting at sex crimes. To combat crimes, these joint operations are strategic manoeuvres conducted by the Railway Police District at different locations in MTR stations upon analysis of the intelligence collected.

The Railway Police District and the MTRCL hold regular anti-crime meetings to share information about the latest crime trend and

intelligence and to deliberate on specific strategies to combat crimes. They also organize regular anti-crime publicity activities with surface Districts and the Fight Crime Committee.

The Railway Police District and the MTRCL have collaborated to produce posters on anti-sex crime. A featured programme was also broadcast in the Police Magazine in 2011, in which the public were advised to be mindful of the latest *modus operandi* of major crimes in the railway system with a view to raising commuters' crime awareness and vigilance. It is believed that it is the reason for an increase in the number of reported cases in recent years.

The police and the MTRCL will continue to review the trend and situation of the above crimes and actively join hands to combat crimes.

- (d) According to the information provided by the Transport and Housing Bureau, the MTRCL collaborates with the Railway Police District to organize annual anti-crime campaigns to promote prevention of crimes in recent years. To cite the years of 2010 and 2011 as examples, the theme of the campaigns was "Stay alert, watch out". During the one-month campaign period, the MTRCL promoted the message by putting up "Stay alert, watch out" stickers in all MTR stations and in some trains on the Kwun Tong Line, Tsuen Wan Line, Island Line and Tseung Kwan O Line. Besides, a special squad of "Senior Crime Fighters" comprising senior citizens visited different MTR stations to remind passengers to stay alert to prevent crime.

Moreover, the poster produced by the MTRCL and the police titled "Don't be a Silent Victim, Report Indecent Assault" was displayed in all MTR stations in rotation in mid-2011 to encourage victims of indecent assault to report offences. The locations and the quantity of posters put up at individual stations are determined in a co-ordinated manner taking into account the need to provide other information to passengers such as safety and passenger information by the MTRCL.

Starting 2009, the MTRCL put up another set of poster titled "Don't be silent. Cry out immediately to report indecent assault, when considered safe" in front of entry gates in different MTR stations to remind passengers to stay alert to prevent crime. The same message is also being disseminated through passenger information displays.

The MTRCL will continue to work with the police to proactively review the effectiveness of the measures from time to time to curb crime in the railway network.

(e) and (f)

The MTRCL has a plan to carry out improvements to the glass panels of the relevant lifts, escalators, staircases, and both sides of the handrails at Central, Hung Hom, Austin, Kowloon Tong and Hang Hau stations. Non-transparent stickers will be installed on the glass panels. The improvement works have started in January this year and are expected to be completed by the second quarter of this year. In addition, the MTRCL reviews its station facilities regularly to ensure they are in good condition. The MTRCL will continue to closely work with the Railway Police District to provide safe, reliable and comfortable railway service for the people of Hong Kong and to ensure law and order on the railway premises.

Annex

Figures of Sex Crimes that Occurred in the Railway Police District  
and the Number of Persons Arrested in 2011

Indecent assault	167 (111)
Under-skirt photo-taking	78 (75)
Total	245 (186)

Note:

( ) denotes number of persons arrested

**Construction Costs of New Central Government Complex and Legislative Council Complex and Electricity Consumption**

11. **MS AUDREY EU** (in Chinese): *President, the Government Headquarters and the Legislative Council have been relocated to the new site at Tamar. In this connection, will the Government inform this Council of:*

- (a) *the total expenditure on the construction of the new Central Government Complex;*
- (b) *the total expenditure on the construction of the Legislative Council Complex; and*
- (c) *the respective expenditures on electricity and data on carbon emissions of the Legislative Council from October to December 2010 and from October to December 2011?*

**CHIEF SECRETARY FOR ADMINISTRATION** (in Chinese): President,

- (a) and (b)

The Tamar Development Project (the Project) includes the design and construction of the Chief Executive's Office, Central Government Offices, Legislative Council Complex, open space, two elevated walkways and associated facilities. The approved project estimate is \$5,528.7 million. The amount of total expenditure is yet to be finalized. Since the design and construction of the Project was awarded through one contract, there is no breakdown on the expenditure for the respective items in the contract.

- (c) This part of the question touches on information of the Legislative Council. The reply as obtained from the Legislative Council Secretariat is as follows:

During the period from October to December 2010, the Legislative Council operated respectively in the Legislative Council Building, the Central Government Offices (West Wing), the Citibank Tower and the Murray Road Multi-storey Carpark Building. The

electricity tariff in relation to the Legislative Council during this period was \$165,240 per month on average. This did not include the electricity tariffs for the Central Government Offices (West Wing) and the Murray Road Multi-storey Carpark Building, as well as the air-conditioning charges for the Citibank Tower which were paid directly by the Government.

The electricity tariff in relation to the Legislative Council Complex during the period from 20 September to 21 November 2011<sup>(1)</sup> amounted to \$1.46 million per month on average. This amount had included the tariff chargeable to the contractor due to the remedial works undertaken during this period. With the completion of major remedial works in the Legislative Council Complex, the Legislative Council Secretariat has put in place a series of administrative arrangements for reducing electricity consumption since December 2011, including an itemized review of the electricity consumption of various facilities.

This itemized review of electricity consumption is considered necessary as apart from a significant increase in conference and office space, the Legislative Council is providing new and enhanced facilities and services to enhance public engagement and public understanding of the work of the legislature, such as guided educational tours, mock Council debates, and so on, in its education galleries, activity rooms and exhibition halls which need to be open seven days a week throughout the year. It is expected that through the itemized review of electricity consumption, the Secretariat will be in a better position to exercise more effective use of electricity to carry out these activities.

Regarding carbon emission data, as tentatively estimated by the Architectural Services Department based on the electricity consumption of the Legislative Council Complex during the period from 20 September to 21 November 2011, the volume of carbon emission was some 1 527 tonnes<sup>(2)</sup>.

- (1) The meter-reading period of The Hongkong Electric Company Limited does not start on the first of every month.
- (2) This is the volume of carbon emission indirectly generated by the purchase of electricity.

The Legislative Council Secretariat is always committed to conducting all its activities and operations in an environmentally responsible manner. In the Report on the Activities of the Legislative Council Commission every year, there is a report covering the environmental goal, policy and management adopted by the Secretariat. All staff are required to make efforts to protect the environment through the green measures set out in the report. Such measures include the reduction of electricity consumption and paper consumption for achieving environmental protection and reduction of carbon emission. The Secretariat is currently holding discussions with the Administration and considering the engagement of experts to conduct a comprehensive carbon audit for the Legislative Council Complex, with a view to continuing to implement carbon emission reduction measures based on the recommendations arising from the audit.

### **Employment Support for Persons with Disabilities**

12. **MR ABRAHAM SHEK:** *President, according to the statistics of the Government, the seasonally adjusted unemployment rate between June and August last year was 3.2%, representing a decrease of 0.2% as compared with that in the previous season. It has been reported that amongst the 360 000 persons with disabilities in Hong Kong, only 13% of them are economically active, which is much lower than the rate of over 60% economically active people in Hong Kong in general. It has also been reported that a graduate of a university in Hong Kong, who is visually impaired, was even denied a job the main duty of which was to make telephone calls to clients at an insurance company. On the other hand, it has been reported that there is a special unit under the Labour Department (LD) helping persons with disabilities to find jobs. In this connection, will the Government inform the Council:*

- (a) *of the details of the aforesaid special unit under the LD, including, in the past five years, the number of cases it had processed in assisting unemployed persons with disabilities in finding jobs, and among these persons with disabilities, the percentage of those who had secured employment through the unit; whether any review has so far been conducted to evaluate the unit's performance in fulfilling the*

*relevant policy targets; if so, of the details of the review; if not, the reasons for that;*

- (b) on top of the measures currently in place, whether it has considered any additional measure to lower the unemployment rate of persons with disabilities, and facilitate better integration of them into society; if it has, of the details;*
- (c) given that there is not any provision under the existing Disability Discrimination Ordinance (Cap. 487) (the Ordinance) to require employers to provide the reasons for rejecting the job applications from those persons with disabilities who fulfil the stated recruitment criteria, whether it has considered reviewing the Ordinance in the coming year to enhance the transparency of the recruitment procedures of companies by including such a requirement in the Ordinance; if it has, of the details; if not, the reasons for that; and*
- (d) whether it will reconsider introducing an employment quota for persons with disabilities, making reference to similar overseas practices; if it will, of the details (including the details of the various employment quota systems adopted by the respective countries to which it has made reference); if not, the reasons for not doing so including any difficulty it faces?*

**SECRETARY FOR LABOUR AND WELFARE:** President, the policy objective of the Government in assisting persons with disabilities in attaining employment is to ensure that they have equal access to participation in productive and gainful employment in the open market. To this end, we have in place suitable legislative measures against disability discrimination at the workplace and in employment. We also provide a wide range of employment support and vocational training services for persons with disabilities so as to equip them with job skills that meet market requirements and assist them in securing suitable employment commensurate with their abilities. These services include selective placement services provided by the LD to assist persons with disabilities in securing open employment; vocational rehabilitation training provided by the Social Welfare Department (SWD) and the Vocational Training Council Shine Skills Centres; and re-training programmes provided by the Employees

Retraining Board. My reply to different parts of Mr Abraham SHEK's question is as follows:

- (a) The Selective Placement Division (SPD) of the LD provides free and personalized employment services to job seekers with disabilities for open employment. The placement officers of SPD will conduct in-depth interviews with job seekers to understand their job aspirations, provide them with the latest information on the labour market, match the job seekers to vacancies offered by employers and refer suitable candidates to job interviews where appropriate. After job seekers have successfully secured employment, the placement officers will keep in view their progress and provide assistance where necessary to ensure harmonious working relationship. In the five years from 2007 to 2011, a total of 3 666, 3 327, 3 185, 3 051 and 2 672 job seekers with disabilities registered for employment service with SPD respectively. The corresponding numbers of placements achieved were 2 619, 2 490, 2 436, 2 405 and 2 403.

Moreover, SPD administers the Work Orientation and Placement Scheme (WOPS) which encourages employers to provide work trial opportunities and support to job seekers with disabilities through the provision of subsidies. To assess the effectiveness of WOPS, SPD collected feedback by means of questionnaires from participants in 2010 and 2011. Over 80% of the respondents considered that WOPS could encourage employers to employ persons with disabilities and facilitate employers to better understand their work abilities. SPD will continue to actively approach employers of various industries to promote the working capacity of persons with disabilities and to canvass more suitable vacancies for them.

- (b) In addition to existing measures, the Chief Executive has announced in the 2011-2012 Policy Address a host of new initiatives to enhance employment support and create job opportunities for persons with disabilities.

Through granting seed money to non-governmental organizations (NGOs) for the setting up of small enterprises, the "Enhancing Employment of People with Disabilities through Small Enterprise Project" (3E's Project) creates job opportunities for persons with

disabilities. Under the 3E's Project, the SWD provides NGOs with a maximum funding support of \$2 million per business to meet the set-up capital cost and operating expenses incurred in the initial period of business operation. A funded business needs to fulfil the requirement that the number of employees with disabilities should not be less than 50% of the number of employees on the payroll of the business. As at December 2011, over 70 businesses were set up under the 3E's Project, creating over 550 job positions specifically for persons with disabilities. To sustain the momentum in enhancing employment opportunities for persons with disabilities, the Administration has already obtained the approval of the Legislative Council Finance Committee to inject \$100 million into the 3E's Project and extend its funding period for each project from a maximum of two years to three years.

As an incentive for employers in offering more job opportunities for persons with disabilities, the Administration will also provide subsidies to employers of persons with disabilities for procuring assistive devices and carrying out workplace modification works, thereby enabling employees with disabilities to work more efficiently.

Besides, we will provide a \$500 mentorship award as financial incentive, thereby encouraging employers to render workplace guidance to employees with disabilities and help them adapt to new jobs.

To reinforce the efforts in promoting employment for persons with disabilities, the Labour and Welfare Bureau, the LD and the SWD will continue to strengthen cross-sectoral collaboration among the business sector, local communities, NGOs and government departments; launch a series of publicity programmes to enhance public understanding of the work abilities of persons with disabilities and support services provided by various government departments and rehabilitation agencies for the employment of persons with disabilities; and give due recognition to employers of persons with disabilities.

- (c) The Disability Discrimination Ordinance (DDO) gives persons with disabilities the legal safeguard for equal opportunities and protects them against discrimination, harassment and vilification in employment and other areas. The Equal Opportunities Commission — the enforcement authority for anti-discrimination legislation — is also vested with the authority to issue codes of practice to provide recommendations for good procedures and practices. Following public consultation and passage by the Legislative Council, a revised Code of Practice on Employment under the Disability Discrimination Ordinance (Code) was issued in July 2011 for reference by employees and employers. The Code elaborates the application of DDO in the employment context and sets out employment guidelines on the proper handling of recruitment, disability-related workplace absence and dismissal. Under the recruitment chapter of the Code, practical guidances on how DDO may apply in specific situations, how to assess all job applicants on merits, employees' rights under the legislation in different stages of recruitment, and so on, are provided to ensure that the principle of equal opportunities would be upheld in the recruitment process. We consider that DDO and the revised Code have afforded the intended protection to guard against disability discrimination in the recruitment process. Hence we have no intention of reviewing DDO at this stage.
- (d) According to studies by the European Commission in 2000 and the International Labour Organisation in 2003 on measures to promote the employment of persons with disabilities, a mandatory employment quota system has not been proven successful overseas in helping persons with disabilities secure employment, and some countries have abolished their quota system. The international trend has in fact moved away from employment quota system to anti-discrimination legislation, the provision of incentives for employers and enhanced support measures for persons with disabilities.

Indeed, under a mandatory employment quota system, persons with disabilities would be perceived as a liability, making them difficult to be accepted by their peers at work. This is not conducive to their

integration into the community. We consider that persons with disabilities should be assisted to find appropriate jobs on the basis of their abilities rather than disabilities. In this regard, apart from providing the abovementioned vocational training and employment support for persons with disabilities, we will continue to adopt positive encouragement measures to enhance job opportunities for persons with disabilities, such as giving due recognition to good employers, sharing good practices and providing incentive and assistance to employers, and so on.

### **Bullying and Discrimination Faced by Homosexuals in Schools**

13. **MS EMILY LAU** (in Chinese): *President, recently, some members of the public have approached me for assistance, pointing out that some homosexual students were bullied by others in schools. According to a survey conducted by the Boys' and Girls' Clubs Association of Hong Kong in 2009, among some 500 homosexual youngsters interviewed, over 50% indicated that they had been subject to different degrees of ostracization and bullying by their classmates, 13% had even been subject to physical violence or sexual harassment, and about 22% had contemplated suicide because of this. The survey also found that about 90% of the students had not sought assistance from schools, as they were afraid of being discriminated by their teachers. Meanwhile, another survey revealed that teachers of different sexual orientation similarly faced serious discrimination. The Education Bureau has issued general guidelines on handling violence and ensuring equal opportunities in schools, yet sex minority groups consider that they are inadequate to address the discrimination and bullying faced by homosexuals in schools. In this connection, will the executive authorities inform this Council:*

- (a) *whether the Education Bureau has statistics on bullying on the basis of sexual orientation in schools; if it has, of the current situation; if not, whether it will study and assess the current situation and draw up guidelines to require schools to compile and report such statistics;*
- (b) *of the number of training sessions provided by the Education Bureau in the past three years to assist teachers in handling cases of*

*homosexual students seeking assistance because they were bullied by others; the number of teachers who participated in such training sessions; and the organizations and instructors offering such sessions;*

- (c) whether the Education Bureau will consider modelling on places such as Taiwan, the United States and the United Kingdom, and so on, to formulate guidelines for schools to prevent homosexual students from being discriminated against, so as to assist schools in handling relevant cases and creating a discrimination-free campus;*
- (d) whether the Code of Practice against Discrimination in Employment on the Ground of Sexual Orientation (Code of Practice) compiled by the authorities is applicable to all government departments as well as universities, secondary schools and primary schools receiving government funding; whether they know, among the government-funded organizations, the number of those which have formulated guidelines and measures to eradicate discrimination on the ground of sexual orientation, so as to ensure that their staff (including teachers) will not be discriminated against in employment on the ground of sexual orientation; and*
- (e) given that it is stated in the Code for the Education Profession of Hong Kong (the Code) that teachers "shall not discriminate against any student on the basis of race, colour, religious belief, creed, sex, family background, or any form of handicap", whether the authorities will request the organization concerned to amend the Code to include the guideline that students should not be discriminated against on the ground of sexual orientation, so as to ensure that teachers can properly handle problems of bullying on the basis of sexual orientation in schools?*

**SECRETARY FOR EDUCATION** (in Chinese): President,

- (a) Bullying in schools is a kind of unruly behaviour of students. When handling incidents of students' unruly behaviour, schools will follow the guidelines issued by the Education Bureau, and take*

follow-up action in accordance with their own guidance and discipline policies and procedures. For more serious cases, schools may seek assistance from the Education Bureau. The Education Bureau conducts an annual survey on guidance and discipline cases (including bullying cases) and schools will submit relevant information through an electronic reporting mechanism. Based on the information, the Education Bureau can get a clearer picture of the major types of unruly behaviour of students, and plan and provide more focused support services for schools to facilitate their guidance and discipline work. Bullying in schools may take different forms and their causes are complex, involving personal factors such as the students' cognitive development, values, emotion management, problem solving abilities and social skills, as well as environmental factors relating to the students' schools and families. As these factors interact with one another, it is difficult to attribute the cause of bullying to any single factor (for example, sexual orientation). Hence, we do not have statistics on this subject.

- (b) In the past three years (that is, 2008-2009, 2009-2010 and 2010-2011 school years), the Education Bureau organized over 40 workshops, seminars and sharing sessions relating to anti-bullying and sex education, with the participation of over 3 000 teachers. Topics covered building empathy, handling conflicts, sex education (including gender awareness, sexual orientation, and understanding and paying attention to the concerns of homosexual students, and so on), cyber bullying, and how to launch anti-bullying campaigns in schools, and so on. We invited tertiary institutions, relevant government departments and voluntary agencies/organizations to help organize these training activities. Speakers included not only professionals from the Education Bureau, but also university lecturers, social workers, school principals and teachers. Furthermore, topics on understanding and handling bullying have been included in the certificate courses on guidance and discipline for primary and secondary school teachers provided by tertiary institutions commissioned by the Education Bureau.

Starting from the 2002-2003 school year, the Education Bureau requires all newly-appointed principals to undergo in the first two

years of their principalship a designated professional development programme, which includes a topic on "Equal Opportunities and Education" delivered by the staff of the Equal Opportunities Commission. The topic covers information about different types of discrimination to help newly-appointed principals familiarize themselves with the relevant issues and handle them properly.

We will continue to enhance schools' understanding of students with different sexual orientation and provide relevant training for teachers to help them prevent and handle different forms of bullying.

- (c) The Education Bureau has always reminded schools that in formulating school-based policies and procedures, they should observe the principle of equal opportunities to avoid any form of discrimination. By the same token, we will not tolerate bullying in schools in any form (including verbal, physical and cyber bullying) on any grounds (including physical build, ability, religion, race and sexual orientation). The Education Bureau has issued circulars and guidelines to schools on student discipline and anti-bullying, urging them to formulate policies and measures to prevent behavioural problems among students, such as bullying, discrimination and sexual harassment. We have also compiled relevant resource packages to provide guidelines and advice for schools. Such packages aim to enhance teachers' awareness about bullying and help schools draw up strategies to handle, follow up and prevent bullying through a Whole School Approach, having regard to their individual circumstances, so as to create a harmonious and inclusive school culture and ensure the safety of all the students in school.

In addition, various key learning areas and subjects of the primary and secondary curricula, including "Personal, Social and Humanities Education", "Life and Society" and "Liberal Studies", already cover topics on sexual orientation and/or bullying in schools. These topics include influences on the development and attitudes of sexuality, respecting different values and ways of life, relationships with the opposite sex and the same sex, strategies to tackle bullying, ways to handle conflicts and build relationships, and inquiry studies on "how to address the concerns of different communities", "human

rights", and so on. Through the curricula, which cover knowledge, skills and attitudes, schools can help students understand sex-related issues and build up important concepts and values in the course of their development, including anti-discrimination, anti-bullying, respecting other people (and their different ways of life), equality (such as sexual equality) and responsibility, and so on, thereby creating a harmonious school culture under which all students are equal.

To assist schools in disseminating anti-bullying messages and to enhance students' awareness about and ability to handle bullying behaviour, the Education Bureau has organized a series of anti-bullying activities and launched an "Anti-bullying Day/Week" event in the 2011-2012 school year. Participating schools have been provided with promotion materials and a "Harmonious School — Anti-bullying Day/Week" Resource Package, which bring out the message that bullying in any form (including verbal, physical and cyber bullying) on any grounds (including physical build, ability, religion, race and sexual orientation) is unacceptable.

- (d) As regards the Code of Practice issued by the Government, the Government is committed to following the best practices set out therein. Though the Government does not have the number of government-funded organizations which have formulated guidelines and measures related to this, it encourages, through publicity and promotion, employers and employees of different sectors (including the education sector) to do their best in following the measures set out in the Code of Practice. The Code of Practice recommends, among others, that organizations should develop consistent selection criteria in all aspects of employment and monitor regularly the implementation of the policy of equal opportunities.
- (e) The Code was compiled after extensive consultation. Consisting of a set of principle-oriented clauses, the Code cannot spell out every applicable scenario and every detail. The part of the Code quoted in the question mainly points out that teachers should "give all students fair learning opportunities" and "show consistent justice and consideration in his/her relations with students at all times", and

should not discriminate against any student on any grounds. The grounds for discrimination stated in the Code are just some examples while others cannot be ruled out. It is not necessary to provide an exhaustive list of all possible grounds or special circumstances in the Code. In any case, teachers should observe the principle of the Code.

### **Curbing Proliferation of Mikania Micrantha**

14. **MR ALBERT CHAN** (in Chinese): *President, in reply to my question in November 2004, as well as the questions from other Members of this Council in March 2006 and March 2011, the authorities indicated that they had adopted a number of measures to curb the proliferation of a climbing plant Mikania micrantha in rural areas. However, I have learnt that the proliferation of Mikania micrantha has become far more serious in recent years than in 2004, and quite a number of plants withered because they were strangled by Mikania micrantha. In this connection, will the Government inform this Council:*

- (a) of the locations and total areas where Mikania micrantha proliferated in each year since 2004;*
- (b) of the new measures adopted by the authorities since 2004 to prevent Mikania micrantha from harming trees; and*
- (c) whether the authorities will formulate more effective measures to curb the proliferation of Mikania micrantha; if they will, of the details of the measures; if not, the reasons for that?*

**SECRETARY FOR THE ENVIRONMENT** (in Chinese): President, on the different parts of the question raised by Mr CHAN, our reply is as follows:

- (a) and (b)

Mikania micrantha mainly grows on derelict fields, roadsides, hillsides and woodland fringes where there is ample sunlight. Currently, government departments have regularly inspected and

conducted vegetation maintenance works at sites under their management. Once *Mikania micrantha* is found, immediate weeding will be carried out to prevent its proliferation.

Last year (2011), government departments, including the Agriculture, Fisheries and Conservation Department, Highways Department, Leisure and Cultural Services Department, Water Supplies Department, Drainage Services Department and Lands Department cleared 8.5 hectares of land being affected by *Mikania micrantha*.

- (c) Government departments carry out inspections and maintenance works for the plants within their facilities and on slopes under their management, including monitoring the growth of *Mikania micrantha*. For instance, the Agriculture, Fisheries and Conservation Department regularly inspects country parks, special areas and sites of special scientific interest. Leisure and Cultural Services Department, Highways Department and Water Supplies Department will inspect parks, highways and waterworks facilities respectively. The departments concerned will remove *Mikania micrantha* promptly once it is found. In fact, the most effective measure to control proliferation of *Mikania micrantha* is to conduct regular inspections and to remove the weed immediately once it is found.

### **Government's Proposal on Increasing Land Supply by Reclamation Outside Victoria Harbour**

15. **MISS TANYA CHAN** (in Chinese): *President, the Development Bureau has recently proposed 25 sites for reclamation outside Victoria Harbour and conducted public consultation which has triggered much discussion in the community. It has been learnt that some members of the public are of the view that given the possible environmental impact of reclamation outside Victoria Harbour as well as its high costs, the Government should consider developing the brownfield sites in the New Territories. In this connection, will the Government inform this Council:*

- (a) *of the areas of brownfield sites currently available for development in various District Council districts in Hong Kong; and*
- (b) *of the areas of the various types of land listed below, and list the breakdown by District Council district in the following table:*
- (i) *land for open storage and not for agricultural use before the Town Planning (Amendment) Ordinance 1991 was enacted on 25 January 1991 to extend statutory planning control to cover the rural areas in the New Territories;*
- (ii) *land which has been granted by the Government for temporary uses (including open storage, car parks and container yards) at present;*
- (iii) *land, apart from those in parts (b)(i) and (ii), which has been granted by the Government under short-term tenancies as vehicle repair workshops, resource recovery parks and for other uses at present; and*
- (iv) *land which is being occupied temporarily by the Government for developing infrastructure and other uses?*

District Council districts	Land area (hectares)				
	Brownfield sites	Land in (b)(i)	Land in (b)(ii)	Land in (b)(iii)	Land in (b)(iv)
(for example, Yuen Long District)					

**SECRETARY FOR DEVELOPMENT** (in Chinese): President, committed to supplying sufficient land to meet housing, social and economic needs, the Administration has been closely monitoring land uses in the New Territories. Apart from new town developments already completed and large-scale developments in northeast and northwest New Territories currently under planning, we are also making continuous efforts to identify other sites available for development. These include exploring the use of abandoned or

under-utilized rural land for residential development. We have now identified four sites in Kwu Tung South, Yuen Long South, Fan Ling/Sheung Shui and Kong Nga Po. Planning and engineering studies will be carried out to determine the feasibility and possible scale of residential development on these sites. However, to meet the demand for land arising from our economic development and population growth, we have to explore alternative means of land supply and further enhance our land supply strategy. In this connection, the Administration is conducting studies and consultation on reclamation on an appropriate scale outside the Victoria Harbour and rock cavern development, so as to devise a more comprehensive mix of supply options to build up land reserve to support the long-term development of Hong Kong. Apart from increasing land supply, reclamation outside the Victoria Harbour will make it possible to re-use surplus public fill and handle contaminated sediments in an environmentally-friendly manner. We will also advocate the use of cutting-edge technologies, including reclamation without dredging of marine mud and re-establishing natural marine habitats by eco-shoreline, and so on.

Stage 1 Public Engagement on Enhancing Land Supply Strategy was launched in November 2011 to seek public views on reclamation on an appropriate scale outside the Victoria Harbour and rock cavern development as well as to establish the site selection criteria. After surveying the coastlines throughout the territory and excluding those areas that are subject to serious constraints and thus not suitable for reclamation, we have come up with a list of 25 potential reclamation sites as examples to facilitate the community's examination and discussion of the site selection criteria. I have to point out that reclamation outside Victoria Harbour will have to comply with the principles of sustainability and requirements under the Environmental Impact Assessment Ordinance. From a cost perspective, reclaiming land from the sea normally does not require resumption of private land and the average cost will be lower than that for developing rural areas in the New Territories.

Up to now, the Government has yet to decide whether to carry out reclamation outside the Victoria Harbour and the criteria to be adopted in selecting sites for reclamation. The potential types and locations of reclamation can also be revised in light of public views. Our next step is to gauge the community's acceptance of reclamation, review the list of potential sites, draw up site selection criteria and identify feasible sites for discussion at Stage 2 Public Engagement. We hope to identify about 10 reclamation sites by mid-2012 for detailed feasibility study and further public consultation. It would be

detrimental to our goal of building up a land reserve to cope with Hong Kong's long-term development if we already rule out at this stage the feasibility of reclamation outside the Victoria Harbour and completely discard this option.

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

- (a) The total land area of Hong Kong is about 1 108 sq km, of which about 24% (around 263 sq km) are developed sites, including residential, commercial, industrial and community facilities, as well as transport and other infrastructures. The "brownfield sites available for development" mentioned in the question could be interpreted to mean sites which have been formed but yet to be developed, such as the some 40 hectares of reclaimed land for the West Kowloon Cultural District or old areas available for redevelopment, such as the some 320 hectares of land from the former Kai Tak Airport in the Kai Tak Development Area. The Administration does not have comprehensive statistics of such "brownfield sites available for development" and is unable to provide breakdown by District Council district in this regard.
- (b) (i) Before the applicability of the Town Planning Ordinance was extended to the New Territories in 1991, rural areas in the New Territories were not covered by any statutory land use plans. Thus, it could not be established whether the land in those areas were planned for agricultural use. Before the commencement of that ordinance, there were approximately 386 hectares of land in the New Territories used for open storage, among which 45% were used for storage of building materials and equipment, 23% for storage of vehicles and 13% for storage of containers, with regional distribution as follows (the Administration does not have a breakdown by District Council district):

<i>District</i>	<i>Area</i>
Northwest New Territories	approximately 229 hectares
Northeast New Territories	approximately 138 hectares
Southwest New Territories	approximately 4 hectares
Southeast New Territories	approximately 15 hectares

(ii) and (iii)

Data on land granted by the Government for temporary uses (including open storage, car parks and container yards) and land granted under short-term tenancies for use as vehicle repair workshops and resource recovery parks as at December 2011 are provided below (breakdown by District Lands Offices):

<i>District</i>	<i>Open storage, car parks and container yards (sq m)</i>	<i>Vehicle repair workshops and resource recovery parks (sq m)</i>
Hong Kong East	61 650	4 950
Hong Kong West and South	28 450	130
Kowloon East	229 450	8 950
Kowloon West	161 650	5 290
Islands	61 210	340
North	178 810	18 130
Sai Kung	163 250	2 940
Sha Tin	122 360	3 040
Tai Po	54 150	13 710
Tsuen Wan and Kwai Tsing	1 077 030	4 570
Tuen Mun	200 390	1 390
Yuen Long	224 410	3 440

The leasing of sites which are temporarily not required for long-term purposes under short-term tenancies is consistent with the principle of optimal utilization of land. As there are numerous uses for land under short-term tenancies, including gardens in rural areas, golf courses, cargo handling sites, ship repair yards, electricity sub-stations, MTR work sites, and so on, we are currently unable to provide details.

(iv) As at December 2011, there were approximately 866 hectares of land under temporary government land allocation for

infrastructure development and other uses, including those in the Kai Tak Development Area, West Kowloon Cultural District, Liantang/Heung Yuen Wai Boundary Control Point, Whitehead Development Area, works areas for widening of Tuen Mun Road, Guangzhou-Shenzhen-Hong Kong Express Rail Link and other government projects. Upon completion of works, some of the land will be permanently used for infrastructure purpose.

### **Small Class Teaching in Hong Kong**

16. **DR LAM TAI-FAI** (in Chinese): *President, quite a number of education workers, students and parents have relayed to me that they hope that small class teaching (SCT) could be fully implemented in Hong Kong's primary and secondary schools as early as possible, so as to enhance the quality of teaching and improve the learning environment in schools. In this connection, will the Government inform this Council:*

- (a) *given that in reply to a question raised by a Member of this Council on 29 June 2011 (the Member's question), the Education Bureau advised that "international studies have suggested that it is more effective when students are small and its effectiveness tends to wane according to students' age", which studies are included in the "international studies" referred to by the authorities as well as their relevant contents;*
- (b) *why the authorities are satisfied that the findings of the "international studies" in part (a) are applicable to Hong Kong;*
- (c) *whether it knows if there are other international studies which have arrived at conclusions that are different from the study findings cited by the Government; if it knows, of the details; if not, why it cited the aforesaid study findings before it fully understands the matter;*
- (d) *whether the Government has conducted any study on the implementation of SCT in secondary schools in Hong Kong; if it has, of the details; whether it has assessed if the implementation of SCT*

*can enhance the effectiveness of learning and teaching in secondary schools; if it has, of the details; if not, why it queries the effectiveness of implementing SCT in secondary schools before it has studied and assessed the local situation;*

- (e) whether it knows if any local or overseas organization has conducted studies on the implementation of SCT in secondary schools in Hong Kong; if it knows, of the details; if not, why it queries the effectiveness of implementing SCT in secondary schools before it fully understands the matter;*
- (f) whether it knows how the average class sizes of primary and secondary schools in Hong Kong at present compare with the relevant class sizes in other developed economies;*
- (g) whether it has assessed the amount of government expenditure to be incurred each year after SCT has been fully implemented in primary schools in Hong Kong; if it has assessed, of the amount of such expenditure;*
- (h) whether it has assessed the amount of additional government expenditure to be incurred each year for the full implementation of SCT in secondary schools in Hong Kong; if it has assessed, of the details; if not, the reasons for that;*
- (i) given that in reply to the Member's question, the Education Bureau indicated that "when the situation in schools stabilizes and more accurate data on student population are available, we will be happy to continue to explore with the school sector appropriate measures to enhance the quality of teaching and learning in secondary schools", of the concrete timetable for the authorities to continue to explore appropriate measures with the school sector and for completing the study;*
- (j) whether it has assessed how secondary schools, which do not implement SCT, articulate with primary schools implementing SCT, and whether problems will emerge as a result; if it has assessed, of the details; if not, the reasons for that; and*

- (k) *whether it will consider implementing SCT in secondary schools in phases, and allowing schools to participate on a voluntary basis; if it will, of the details; if not, the reasons for that?*

**SECRETARY FOR EDUCATION** (in Chinese): President, regarding the question raised by Dr LAM, my consolidated reply is as follows:

- (a), (b) and (c)

For the findings of international studies on SCT, please refer to LC Paper No. CB(2)2844/03-04(01) (Annex 1). In gist, SCT is a teaching method. International studies have suggested that SCT is more effective when students are small but its effectiveness tends to wane as students age. As for the Study on Small Class Teaching in Primary Schools in Hong Kong, the report has been uploaded onto the Education Bureau's website for public's reference. Details of the report are also set out in LC Paper No. CB(2)1484/09-10(06) (Annex 2). As revealed in the study, a small class setting alone would not necessarily bring about improvement in learning and teaching. It is crucial for schools and teachers to consider how to better utilize a small class setting and this involves a paradigm shift in pedagogy.

- (d), (e) and (h)

In considering whether to implement SCT in secondary schools, we must take into account the following four aspects, that is, the existing conditions of secondary schools, the teaching and learning environment as well as provision of support to secondary schools, overseas experience and resource allocation. We should also learn from the experience of SCT in primary schools and analyse whether secondary schools should reduce the class size, as in primary schools, to 25 students across the board. We cannot commit ourselves to implementation of SCT in secondary schools simply for the sake of meeting the community's demand. Hence, we do not have any plan to implement SCT in secondary schools at the

moment, including conducting relevant studies and making an estimation of additional expenditure.

- (f) The student-to-teacher ratio in public sector secondary schools has improved from 18.5:1 in the 2000-2001 school year to the estimated 15.3:1 in the 2011-2012 school year; the student-teacher ratio of public sector primary schools also improved to 14.9:1 in the same year. Broadly speaking, the average class size of primary and secondary schools in Hong Kong is generally not on the high side when compared with other developed economies in Asia. Details are set out at Annex 3.
- (g) On the basis of 65% public sector primary schools implementing SCT progressively starting from Primary One (P1) in the 2009-2010 school year and extending year by year to cover all levels by the 2014-2015 school year, the total estimated additional recurrent expenditure to be incurred annually would be about \$2.1 billion.
- (i), (j) and (k)

I have to point out that the situations as well as the teaching and learning environments of secondary and primary schools are different. We cannot simply draw a direct comparison between their class sizes. Like other educationally advanced regions, Hong Kong supports secondary school students, in particular those academically low achievers, through "a whole-school approach and targeted guidance". The measures include provision of additional teachers for secondary schools to arrange subject-based group teaching so as to enhance students' learning effectiveness. At senior secondary levels, schools in general have adopted flexible timetables for the implementation of group teaching. According to a survey conducted in late 2010, each group normally consisted of about 20 to 30 students. We do not find it imminent to assess the bridging between secondary and primary schools in this regard nor do we have to consider implementing SCT in secondary schools by phases for the moment.

According to the latest Hong Kong Population Projections released by the Census and Statistics Department, the number of Secondary

One students in Hong Kong will drop in the next few years, but a rebound is expected starting from the 2016-2017 school year. To tie in with the launching of the New Senior Secondary Academic Structure and to tap the opportunities brought by the Voluntary Optimization of Class Structure Scheme, the Government will work with the school sector to fully explore a set of flexible measures which cater for students' needs as well with a view to stabilizing the development of secondary schools and enhancing teaching and learning in schools in the long run. The precise situation will only come to light with further assessment based on the latest population projections to be released. As mentioned above, if SCT for secondary schools is to be implemented in a hasty manner to meet the demand of the community, we should consider seriously the difficulties of such doing when student population starts to rebound a few years later, hence the need for provision of more Secondary One places.

Annex 1

LC Paper No. CB(2)2844/03-04(01)

Information Note  
Legislative Council Panel on Education  
Study on SCT

Purpose

This information note summarizes the references we have drawn on in considering the Study on SCT.

Background

2. In the discussion on the Study on Effective Strategies of Class and Group Teaching in Primary Schools (the Study) at the Panel meeting on 16 February 2004, Members requested the Administration to provide references of the research studies to which we have made when considering the Study.

### Class Size Reduction Initiatives and Experimental Studies

3. The Administration has made reference to the following major CSR initiatives and experimental studies:

(A) SCT in Shanghai (上海小班化教育)

- (a) It started in 1996 as a pilot scheme in 12 primary schools, involving 40 classes. Now, 39% of Shanghai's primary students are learning in small classes of about 30.
- (b) As resource allocation in Shanghai is district-based, the amount of additional resources for SCT and the time of provision of the additional resources, if any, vary by district.
- (c) The emphasis is on curriculum and pedagogical adaptation to maximize the benefits of small class size. Teachers of small classes are expected to:
  - prepare lessons with individual students' abilities and needs in mind;
  - mark individual students' classwork in their presence so as to give them immediate feedback;
  - adopt collaborative learning, group learning, peer discussion, and so on; and
  - design individualized learning targets, assignments and assessments for students.

(B) SCT in Taiwan (台灣小班教學精神計劃)

- (a) It forms part of Taiwan's Education Reform Plan of the Ministry of Education (教育部). The policy target is to reduce class size to 35 students, starting from P1 in 1998 to Secondary Three by 2007.

- (b) The emphasis is on the spirit of SCT, *viz.* student-centred teaching and catering for individual students' needs.
  - (c) The effectiveness of a school's implementation of SCT is evaluated externally by an inspection team comprising representatives from the Ministry of Education and district education administration, academics, school heads and teachers.
- (C) Student/Teacher Achievement Ratio (Project STAR) (1985-1990, conducted in Tennessee, USA)
- (a) It was a four-year longitudinal and experimental study of reduced class size from Kindergarten to Grade Three (K-3).
  - (b) Each participating school should have at least one of each of the three class types: small (13 to 17 students), regular (22 to 25 students) and regular with a full-time teacher aide (22 to 25 students).
  - (c) Students and teachers were randomly assigned to the three class types.
  - (d) Findings, which are subject to views and interpretations by other researchers, broadly include:
    - Students in small classes had higher performance than regular and regular/aide classes in all locations and at every grade level;
    - Small-class effects diminished after first grade;
    - The provision of 'teaching aides' (that is, teaching assistants) was less effective than 'small class' in enhancing student performance at each grade level;
    - Mathematics and reading effects were similar; and
    - According to the Final Summary Report prepared by the STAR Project Team, overall, small classes helped raise

achievement of both low socio-economic students and high SES students to comparable extent.

- (e) Follow-up studies on students' performance after they returned to regular classes showed that small classes in the early grades (K-3) produced significant long-term benefits throughout the high school stage. As compared to students from regular or regular plus aide classes, students from small classes:
  - completed more advanced courses;
  - were more likely to graduate in the top 25% of their classes; and
  - were less likely to repeat the same grade or to drop out of high school.
- (D) Student Achievement Guarantee in Education (SAGE) (started in 1996 in Wisconsin, USA)
  - (a) It is designed to increase the academic achievement of low-income children in Grades K-3 by reducing class size to 15 students, reforming the curriculum, providing professional development for teachers and opening schools to morning and evening activities.
  - (b) Findings included:
    - significant gains in reading and mathematics;
    - greatest gains in first grade, which persist through third grade; and
    - most beneficial to African-American students.
- (E) CSR Programme (started in 1996 in California, USA)
  - (a) It was a state-wide initiative to reduce the class size to a maximum of 20 students at Grades K-3.

- (b) A CSR Research Consortium conducted a state-wide evaluation of the Programme. Findings included:
- implementation lagged in schools serving minority and low-income students;
  - relationship of CSR to student achievement was inconclusive;
  - CSR was associated with declines in teacher qualifications and a more inequitable distribution of credentialed teachers;
  - students in small third-grade classes received more individual attention, but similar instruction and curriculum; and
  - classroom space and funds were taken from other education programmes to support CSR.

The references materials are listed in Appendix I.

#### Literature Review

4. The literature at Appendix II addresses the following questions related to class size: (i) whether "smaller" is better; (ii) what should be the optimum class size; (iii) who benefits most; (iv) what makes the gains; and (v) how to maximize the benefits.

The smaller, the better?

5. Notwithstanding the evidences from Project STAR and SAGE, the benefits and cost-effectiveness of smaller classes have been challenged by the following studies:

- (a) Eric A Hanushek (1) re-analysed evidences from Project STAR and argued that class size effects occurred primarily in kindergarten. He opined that rather than class size, it was teachers' quality that made the biggest difference.

- (b) Caroline M Moxby (2) studied data from 649 elementary schools with small classes. She found that class size did not have a statistically significant effect on student achievement.
- (c) Ludger WoBmann and Martin R West (3) analysed the class size and scores of TIMSS in 18 countries. Findings suggested that capable teachers were able to promote student learning equally well regardless of class size.
- (d) Rob Greenwald, Larry V Hedges, and Richard D Laine (4) studied the effects of spending the same amount of money on various education initiatives. They found that investment in teacher development led to the highest improvement in student learning outcome, whereas improving teacher/pupil ratio was the least cost-effective.

#### The optimum class size

6. There is no consensus on the optimum class size. Peter Blatchford (5) conducted a longitudinal study of authentic classes at various sizes in England. The study suggested that, in mathematics, there were benefits resulting from decreases in class size across the full range of class sizes. In literacy, the size of class below which benefits were most marked varied according to the child's level of attainment prior to school entry. For the lowest attainers, there was a tendency for CSRs to be most marked when the class size was reduced to 25 and less.

7. The American Educational Research Association (6) pointed out that for maximum effect, the number of students in a small class should be from 13 to 17. Literature reviews ((7), (8) and (9)) generally showed that CSR should be down to 20 or below to produce significant effects. In practice, however, class size varies significantly among states in America. For example, at early primary years, the range is roughly from 18 to 25.

8. Some educators/researchers held that SCT might be implemented for some subjects or areas of learning ((7) (9) and (10)) instead of all lessons. For example, Maurice Galton (11) pointed out that while small class was preferred for

learning activities involving more thinking skills and "learning through doing", students might not need so much attention from teachers during direct instruction on procedural knowledge. However, AERA (6) held the view that students should experience small class throughout the timetable.

9. In actual practice, different places define small classes differently, but in most cases, the reduction is a significant cut in class size. Under the CSR Programme in California, the class size has been reduced from an average of 29 students per class to a maximum of 20 students per class. In Shanghai, "small class" refers to a class of about 30. In Taiwan, "small class" refers to 35 students per class. In both cases, the reduction is a significant drop from large classes of some 40 to 50 students.

Who benefits most?

10. Project STAR and SAGE clearly showed the benefits of small classes in the early years of education (K-3). Follow-up studies of STAR showed that the benefits could be sustained to higher levels when students studied in regular classes. SAGE showed that children from the socially disadvantaged families and minorities benefited most. Many other research studies and literature review conducted overseas in the past decades generally came up with similar conclusions. Some examples include:

- (a) Peter Blatchford (5) found that class size effects were most obvious in the Reception Year.
- (b) AERA (6) pointed out that to maximize the benefits of small classes, early intervention, *viz.* starting right from the kindergarten or first grade, was required. Besides, if resources were scarce, the focus should be on at-risk students.
- (c) Peter Cuttance & Shirley A Stokes (7), Jeremy D Finn (8) and David C Illig (12) suggested small classes in the early years of education and for low-achieving or socially disadvantaged students.
- (d) Other literature reviews also came up with similar conclusions ((9), (13) and (14)).

What makes the gains?

11. It is generally held that smaller classes allow more variety, breadth, depth, richness in learning and individualized attention, as well as fewer students to distract each other, easier classroom management and greater sense of achievement for teachers ((9) and (14)).

12. The study conducted by Linda Hargreaves, Maurice Galton and Anthony Pell (15), focusing more on classroom processes in small classes, showed that students were asked more often, challenged with open-ended questions and got longer period of teachers' attention. In his recent study, Peter Blatchford (5) found, through systematic lesson observations, that in smaller classes there was more likelihood of teacher support for learning, more active student involvement with teachers, less off-task behaviours but worse peer relation.

To maximize the benefits — teachers' professional development

13. It is generally concluded that without corresponding changes in teaching and learning, reduced class size would have little impact on learning. However, teachers do not necessarily change their way of teaching when teaching in a small class ((7), (9), (13), (14) and (16)). The Research Consortium undertaking the evaluation of California's CSR Programme found that students in smaller classes received more individual attention, but similar instruction and curriculum.

14. Peter Blatchford (5) pointed out that the benefits of smaller class would not flow in naturally. For example, small classes allowed more immediate feedback which, if not effectively managed, could become interruptions. He pointed out the importance of professional training to help teachers maximize the opportunities for individualized support and make productive use of other contexts for learning, particularly group work.

15. Many programmes that showed the positive value of small classes were launched in conjunction with teachers' professional development. SAGE and Texas's experiences are two of these examples. In Shanghai and Taiwan, the emphasis is not so much on the physical size of a class, but the spirit of

small-class teaching (called "小班化教育" and "小班教學精神" respectively) where teachers' professional development and exchange of experience in SCT are strongly encouraged. In Texas, out of the 15 schools which had reduced class size to improve student achievement and attendance, only two were successful. These two adopted other strategies, including professional development of teachers and curriculum changes, alongside with CSR.

#### Final Remarks

16. Members are invited to note the references we have drawn on in designing our Study on Effective Strategies of Class and Group Teaching in Primary Schools.

Education and Manpower Bureau  
June 2004

#### Appendix I

#### Key References:

##### On SCT in Shanghai —

- (a) 上海市教育委員會基礎教育辦公室，上海市教育科學研究院普通教育研究所編著"小學小班化教育教學指南"
- (b) <<http://www.shed.edu.cn>>
- (c) <<http://xbh.yp.edu.sh.cn>>

##### On SCT in Taiwan —

- (d) 台灣教育部"教育部中程施政計畫" (2000)
- (e) <<http://class.eje.isst.edu.tw>>

## On Tennessee's STAR —

- (f) Elizabeth Word, John Johnston, Helen Pate Bain, B DeWayne Fulton, Jayne Boyd Zaharias, Charles M Achilles, Martha Nannette Lintz, John Floger and Carolyn Breda (1985-1990) "Final Summary Report on The State of Tennessee's Student/Teacher Achievement Ratio (STAR) Project"
- (g) Helen Pate-Bain, B. DeWayne Fulton, and Jayne Boyd-Zaharias (1999) "Effects of Class-Size Reduction in the Early Grades (K-3) on High School Performance"

## On Wisconsin's SAGE —

- (h) "Smaller Class Size Raises Achievement, Study Finds" from website of National Education Association (NEA)
- (i) Phil Smith, Alex Molnar and John Zahorik (2003) "Class Size Reduction in Wisconsin: A Fresh Look at the Data"

## On California's CSR —

- (j) "What We Have Learned About Class Size Reduction in California" (2002) prepared by CSR Research Consortium comprising American Institutes for Research (AIR), RAND, WestEd, Policy Analysis for California Education (PACE) and EdSource
- (k) Joan McRobbie (1996) "Smaller Classes Aim to Launch Early Literacy"

## Appendix II

## Research Studies and Literature Reviews

- (1) Eric A Hanushek (1998). The Evidence on Class Size
- (2) Caroline M Moxby (2000). The Effects of Class Size on Student Achievement: New Evidence From Population Variation, The Quarterly Journal of Economics

- (3) Ludger WoBmann and Martin R. West (2002). Class-Size Effects in School Systems Around the World: Evidence from Between-Grade Variation in TIMSS
- (4) Rob Greenwald, Larry V Hedges, and Richard D Laine (1996). The Effect of School Resources on Student Achievement, Review of Education Research
- (5) Peter Blatchford (2003). The Class Size Debate: Is Small Better?
- (6) American Educational Research Association (AERA) (2003). Class Size: Counting Students Can Count
- (7) Peter Cuttance & Shirley A Stokes (2003). The Effect of Class Size on Teaching and Learning — A Review of the Literature
- (8) Jeremy D. Finn (2002). Small Classes in American Schools: Research, Practice, and Politics
- (9) Reducing Class Size, What Do We Know? (1999) downloaded from <[www.ed.gov/pubs/ReducingClass/Class\\_size.html](http://www.ed.gov/pubs/ReducingClass/Class_size.html)>
- (10) The Debate Over Class Size Part 2: The Critics Have Their Say (1998), downloaded from <[http://www.education-world.com/a\\_issues](http://www.education-world.com/a_issues)>
- (11) Maurice Galton (1998). Class size: a critical comment on the research, Class Size and Pupil Achievement, International Journal of Educational Research
- (12) David C. Illig (1996). Reducing Class Size: A Review of the Literature and Options for Consideration
- (13) School of Education, University of Nottingham (1996). Class Size Research and the Quality of Education" (Executive summary of a project commissioned by the National Association of Head Teachers)
- (14) Education Resources Information Centre (ERIC) Policy Report on Class Size, downloaded in 2002 from <[http://eric.uoregon.edu/publications/policy\\_reports/class\\_size](http://eric.uoregon.edu/publications/policy_reports/class_size)>

- (15) Linda Hargreaves, Maurice Galton and Anthony Pell (1997). The effects of major changes in class size on teacher-pupil interaction in elementary school classes in England
- (16) Ronald G. Ehrenberg, Dominic J. Brewer, Adam Gamoran and J. Douglas Willms (2001). Does Class Size Matter?
- (17) The Debate Over Class Size Part 1: Class Size Does Matter! (1998), downloaded from <[http://www.education-world.com/a\\_issues](http://www.education-world.com/a_issues)>
- (18) Harold Wenglinsky (1998). The effect of Class Size on Achievement: What the Research Says, downloaded from <<http://www.ets.org/research/pic/memorandum.html>>
- (19) Lance Izumi (1998). New Study Questions Effectiveness of Reducing Class Size, Pacific Research Institute
- (20) Peter Blatchford, Harvey Goldstein & Peter Mortimore (1998). Research on Class Size Effects: A Critique of Methods And a Way Forward, Class Size and Pupil Achievement, International Journal of Educational Research

Annex 2

LC Paper No. CB(2)1484/09-10(06)

For discussion on 13 May 2010

Legislative Council Panel on Education  
Report of the Study on SCT

Purpose

This paper reports the findings of the Study on SCT (the Study) and its recommendations on the support for teachers in the implementation of SCT in public-sector primary schools starting from P1 in the 2009-2010 school year.

## Background

2. We last reported to this Panel in 2007 the interim findings of the Study, which started in the 2004-2005 school year and was completed in the 2008-2009 school year. Upon completion of the Report of the Study, we provided Members with copies of the Executive Summary of the Report and uploaded the full Report onto the Education Bureau homepage in December 2009 for public consumption.

3. The objectives of the Study are to assess the benefits of SCT in the local context in terms of both academic and affective outcomes, with a view to identifying the teaching strategies and modes of support necessary for maximizing the benefits of SCT.

4. The Study has covered 37 primary schools. The first cohort (Cohort 1) of pupils studied in small classes from P1 to P3 and returned to regular classes in P4, while the second cohort (Cohort 2) studied in small classes from P1 to P2 and returned to regular classes in P3. Such design enabled us to assess the sustainability of the effects of SCT in the early years of primary schooling when these two experimental cohorts returned to regular classes in P4 and P3 respectively and to compare the small class effect between the two-year and three-year periods. In order to explore in greater depth the factors which either help or hinder teachers in their attempt to modify existing classroom practice in ways that maximize the advantages of SCT, six out of the 37 participating schools were chosen for case study. Apart from using data collected from the regular classes of the 37 participating schools, the Study has included a further control by studying 15 additional schools which were selected from the same districts of the 37 participating schools and had comparable pupil academic performance but with class sizes bigger than 30.

5. Having taken into account overseas research studies which indicate that SCT has more significant effects on pupils with weak family support and in their early years of schooling, the Study has also included the evaluation of two cohorts of P1 pupils admitted to 29 schools participating in the SCT Scheme for primary schools with a high concentration of disadvantaged pupils in the 2005-2006 and 2006-2007 school years so as to supplement the findings of the SCT Study.

6. To employ both qualitative and quantitative data to assess the learning process and learning outcomes, various instruments with different objectives have been adopted at different intervals. For instance, the pupil and parent questionnaires have obtained a comprehensive picture of the background and disposition of the experimental pupils. The teacher questionnaires have been used to collect teachers' views on the advantages of a small class setting and to identify problems that may have arisen during the implementation of SCT under the Study. The systematic classroom observations of about 400 lessons and the administration of the standardized tests in Chinese, English and Mathematics have served to measure pupils' classroom activities and to link these with academic performance. In sum, in most years of the Study, some 700 classes were tested in Chinese, English and Mathematics. About 20 000 pupils took part in P1, 23 500 in P2, 20 500 in P3 and 11 000 in P4. Of the total sample, 53.9% of the initial P1 sample was in small classes, 27.2% from the regular classes in the same schools and 18.9% from the reference schools.

#### Findings of the Study

7. The findings of the Study have broadly covered three areas, namely teaching approaches in a small class setting, success factors of maximizing the benefits of small class setting in schools, and pupil performance in relation to the teaching approaches as experimented.

#### Teaching approaches

8. Notwithstanding their lack of experience in SCT, teachers in the 37 experimental schools with a small class setting provided in accordance with the design of the Study were found to experiment more in their choice of teaching approaches, indicating that teachers were more willing to adapt their teaching modes to meet the needs of the pupils. A cluster analysis of the teacher observation data in the Study yielded four distinct teaching approaches. The first of these, named sustained individual and pair enquiry, involving teachers who asked the highest number of open, challenging questions, made more statements of idea and offered greater amounts of informing feedback. Their interactions with pupils took place either individually or in pairs and were more often sustained into the next 30 second time unit. Another common approach adopted by teachers in the experimental schools was the whole class instruction, which represented a more traditional form of teaching, with teachers spending nearly two thirds of the time talking to the whole class without any particular

child in focus. A large proportion of this time was spent making statements of fact, giving directions and listening to pupils read or sing in unison. There was also another approach employing a high proportion of whole class teaching, but the focus was on questioning of all kinds rather than statements. Teachers in this cluster were labeled whole class questioners. The last approach, categorized as group task monitoring, was characterized by teachers spending much time listening or watching pupils when they were working in pairs or groups. These teachers gave the highest number of task directions which often involved setting up and organizing work in groups. Compared with teachers in regular classes where whole class instruction was typically used, those in small classes as indicated by the above descriptions asked more challenging questions, more often used pair and group work, and had more sustained engagement with individual pupils. The overall results as evidenced by lesson observations, questionnaire surveys and case study were encouraging as pupils' performances were more even across the ability range in a small class setting whereas in regular classes it was the more able groups who tended to show most improvement.

9. Although these four distinct teaching approaches in a small class setting were identified, none appeared to offer an outright advantage in terms of attainment as revealed from the tracking of the academic performance of the pupils involved through the standardized tests in Chinese, English and Mathematics administered at the beginning and end of each school year during the period from 2004-2005 to 2007-2008. That said, the paradigm shift demonstrated by teachers of experimental schools suggested more frequent use of those teaching practices that encouraged more thoughtful discourse and greater pupil participation through extended questioning and a mix of individual and pair or group work, designed to promote enquiry, could improve pupil's orientation to learning and would serve as a good start to optimize the benefits of small classes.

#### School success factors

10. While it was found that teachers felt more relaxed and enthusiastic when teaching a smaller class, it was worth-noting that in schools with the most successful combined attitude and attainment profiles, principals were more experienced, held firmer beliefs in the value of SCT for improving pupil attainment and took a more active role in curriculum planning and teacher learning development. They also supported teachers by freeing them from lessons/duties for professional development.

### Pupil performance

11. The types of pupils identified in the Study bore close similarity to the pattern of behavior exhibited by pupils in other relevant overseas studies. 43.8% of experimental pupils were solitary workers, that is, being on task for almost 95% of the lesson by rarely interacting with the teacher or their peers. 22.4% were intermittent workers who largely worked on their own but tended to become distracted when the teacher was engaged elsewhere in the classroom. The industrious workers, constituting 23.3% of the experimental pupils, were active collaborators since they were more often part of a group. These pupils also concentrated on the task for 90% of the lesson. The remaining pupils, amounting to 10.5%, were attention grabbers with the lowest level of on-task behaviour. They either sought or received more of the teachers' undivided attention than other pupils in the class and were more often moving around the classroom and receiving more praise than other pupils, mostly on those occasions when they were seen to be applying themselves to their tasks. When the above distribution of pupil types was examined, few differences were found between the size of the class or the year. Correspondingly, the gains in any year fluctuated randomly between the experimental class, the controls and the reference group. Cohort 1 pupils showed no positive effect in either P1 or P2 but these pupils did better in P3. This advantage, however, was lost when they returned to normal classes in P4. Pupils in Cohort 2 out-performed those in normal classes in P1. This advantage, however, was lost in P2 although these pupils regained lost ground in P3 when they returned to normal classes. In other words, it was suggested that over time, the cumulative effect of SCT on pupils when progressing to higher levels and the sustainability of the effects of SCT on pupils would be realized, provided that the encouraging features as mentioned in paragraphs 8 to 9 continued to be developed.

12. The evidences of SCT in terms of improvement in the affective domain such as motivation, self esteem and attitudes towards the three core subjects (that is, Chinese, English and Mathematics) were minimal in both experimental schools in the Study and in the SCT Scheme for schools with a high concentration of disadvantaged pupils. That said, there was evidence to suggest that a small class setting might be beneficial to boys rather than girls of disadvantaged backgrounds, particularly in Chinese and Mathematics initially. However, a condition for making progress is that the pupils must not be too far behind on entry to primary school.

## Recommendations of the Study

13. Given the fact that different forms of professional support had to be provided, because teachers' requirements changed as their involvement in the Study increased over time, particularly at the point where teachers began to take ownership for changing their classroom practice, it was generally realized that a small class setting alone would not necessarily bring about improvement in academic performance. It was crucial for schools and teachers to consider how to better utilize a small class setting to promote teaching for understanding by increased pupil participation through extended whole class discussion, together with the increased use of pair and group work, thus facilitating the transition from the current emphasis on whole class instruction.

14. Premised on the above, the professional development of teachers should be framed around six broad principles aimed at developing pupils' understanding, *viz.* (i) communicating learning goals to the class in terms of the learning process; (ii) providing more thinking time during questioning; (iii) boosting participation during class discussions; (iv) developing co-operation between pupils by pair/group work; (v) giving feedback which helps pupils sort out their own mistakes; and (vi) using assessment to inform future instruction.

15. To facilitate teachers' paradigm shift in pedagogy, the approach of "Learning Circles" should be promoted for both inter-school sharing across subjects and intra-school sharing of pedagogical issues, which focuses at any one time on a specific aspects of pedagogy, allows teachers to observe and evaluate each other's classroom practice and thereby enhances the participants' professionalism. In fact, "Learning Circles" have been well received with the number of participants increasing during the period of the Study.

16. Refinement to school administration in individual schools such as allocating teachers to a limited number of year groups may enable teachers to have more opportunities to teach more than one class in any particular year group. This would facilitate teachers' consolidation of experiences in deploying effective teaching strategies to cater for learners' diversity. More flexi-timetables would enable teachers to plan and implement lessons to allow more pupil activities and communication in class.

## Way Forward

17. We are committed to the implementation of SCT in primary schools and have undertaken to invest significant resources for sustaining its implementation in future years to come. Based on the findings and recommendations of the Study as reported above, the Education Bureau has framed the professional development programmes including "Learning Circles" for collaborative lesson planning, workshops on effective strategies such as extended whole class instruction and increased use of pair and group work and so on, in order to support teachers for the implementation of SCT in public-sector primary schools starting from P1 in the 2009-2010 school year. The in-service training courses for teachers have been rolled out in 2009 with provision of supply teachers as appropriate and will spread over a period of six years. Details of the professional development programmes have been set out at the Annex. At the recent professional exchange forum to support schools and teachers, the primary schools implementing SCT have indicated that in the light of the recommendations of the Study, they will focus their efforts in the 2010-2011 school year on putting in place enhanced teaching plans and related materials on one of the six broad principles mentioned in paragraph 14 above and compiling relevant materials for reference of other schools.

## Conclusion

18. Members are invited to note the findings and recommendations of the Study and our professional development and support measures for teachers to implement SCT in primary schools.

Education Bureau  
May 2010

Annex

### Focuses of the Annual SCT Professional Development Programmes

The annual professional development programmes spreading over a period of six years as from 2009-2010 will cover the following areas:

1. Diversified modes of in-service teacher professional development courses on Chinese Language, English Language, Mathematics and General Studies commissioned to tertiary institutions
2. Learning Circles for teachers of Chinese Language, English Language, Mathematics and General Studies to attend periodical workshops as well as to meet regularly to observe lessons at one another's schools, followed by review discussions
3. School networking under the Professional Development Schools Scheme for professional support as well as sharing of experiences and resources at monthly intervals
4. Study tours for teachers to share views and experience with front-line education workers in the Mainland or overseas on implementation strategies and support measures as well as other contextual factors contributing to the smooth implementation of SCT, and to conduct school visits to observe effective teaching pedagogies in small classes through lesson observations
5. Workshops on effective strategies to maximize the benefits of SCT for Chinese Language, English Language, Mathematics and General Studies
6. Seminars for school heads and teachers overseeing the implementation of SCT in individual schools to help them realize leadership for learning with a view to optimizing the benefits of a small class context to enhance the effectiveness of learning and teaching

## Annex 3

A comparison of the average class size of public sector secondary and primary schools in Hong Kong with that of other developed economies in Asia

<i>Country/Region</i>	<i>Average Class Size<sup>(Note)</sup></i>	
	<i>Primary Schools</i>	<i>Secondary Schools</i>
Hong Kong	28.1	33.4
Taiwan	25.9	32.7

<i>Country/Region</i>	<i>Average Class Size<sup>(Note)</sup></i>	
	<i>Primary Schools</i>	<i>Secondary Schools</i>
Singapore	34.3	36.6
South Korea	28.6	35.3
Japan	28.0	32.9

Note (1): Sources of the above information

- Hong Kong: Education Bureau  
 Figures reflect the position of secondary and primary schools in Hong Kong in the 2011-2012 school year. It is worth noting that SCT has been implemented progressively starting from P1 in the 2009-2010 school year. In the 2011-2012 school year, SCT has been implemented in P1, P2 and P3 only.
- Taiwan: "2011 Educational Statistical Indicators" issued by the Ministry of Education, Republic of China (Taiwan)  
 Figures reflect the position of primary and junior secondary schools in Taiwan in 2010.
- Singapore: Ministry of Education, Singapore — Education Statistics Digest 2011  
 Figures reflect the position of secondary and primary schools in Singapore in 2010.
- South Korea: Education at a glance 2011, Organization for Economic Co-operation and Development Indicators  
 Figures reflect the position of primary and junior secondary schools in South Korea in 2009.
- Japan: Education at a glance 2011, Organization for Economic Co-operation and Development Indicators  
 Figures reflect the position of primary and junior secondary schools in Japan in 2009.

Note (2): For details of other regions, please refer to Education at a glance 2011 at the webpage of Organization for Economic Co-operation and Development Indicators  
 <[http://www.oecd.org/document/0,3746,en\\_2649\\_39263238\\_48634114\\_1\\_1\\_1\\_1,00.html#Data](http://www.oecd.org/document/0,3746,en_2649_39263238_48634114_1_1_1_1,00.html#Data)>

### **Fingerprint Verification Problem of Automated Passenger Clearance System**

17. **MR PAUL TSE** (in Chinese): *President, it has been reported that a journalist used a fingerprint film-making tool kit purchased from a Mainland shopping website for around a hundred dollars to copy his fingerprint, and successfully used the copied fingerprint film to twice pass through the clearance*

*of the Automated Passenger Clearance System (e-Channels) which costs HK\$400 million. In this connection, will the Government inform this Council:*

- (a) of the reasons for the failure of the fingerprint anti-counterfeiting technology of e-Channels to identify the copied fingerprints;*
- (b) whether it has investigated and assessed the number of people who have successfully passed through the control points in Hong Kong via e-Channels by copying the fingerprints of other people with the aforesaid method or other methods since the launch of e-Channels in 2004;*
- (c) whether it investigated how many sets of the aforesaid fingerprint copying tools were sold through the shopping website referred to in the media report or other selling channels;*
- (d) of the policies and measures to prevent such fingerprint copying tools from being sold rampantly and proliferating in the market, and to enhance the effectiveness of the fingerprint anti-counterfeiting function of e-Channels; and*
- (e) whether it has assessed if e-Channels, which were purchased using HK\$400 million of public money, are still an effective gate-keeping system of immigration clearance; whether an overall assessment is needed?*

**SECRETARY FOR SECURITY** (in Chinese): President, currently, the Immigration Department (ImmD) deploys a total of 391 e-Channels at various control points. Each e-Channel is equipped with a fingerprint reader with biometrics identification function. Following the relevant media report, the ImmD has immediately liaised with the system contractor to follow up. I would reply to the subsections of the question as follows:

- (a) Upon investigation, the ImmD has ascertained that only one e-Channel was involved in the report by the journalist. The ImmD has immediately arranged to repair the e-Channel, which had

encountered technical problems. The ImmD has, with the assistance from the system contractor, also conducted thorough testing of all e-Channels and confirmed the overall reliability of the system.

- (b) In the past, there were no cases whereby immigration clearance was successfully gained by means of duplicated fingerprints from another person.
- (c) The ImmD is aware that there were Mainland websites that sell fingerprint spoofing tools. The ImmD does not have information on the transaction or sales figures of the spoofs. We understand that the relevant websites has ceased the sales of such products.
- (d) and (e)

The technology adopted by the e-Channel system is reliable and advance and is widely recognized and adopted internationally. To further enhance its immigration service, the ImmD is conducting feasibility studies on the next generation information system, which includes the use of up-to-date facial recognition technology.

Under section 42 of the Immigration Ordinance, making a false statement to the ImmD personnel is liable to a maximum penalty of 14 years' imprisonment and a fine of \$150,000. This provision is applicable to the use of another person's identity cards. Besides, under sections 7A and 7AA of the Registration of Persons Ordinance, any person who, without lawful authority or reasonable excuse, uses or has in his custody a forged or another person's identity card or transfers to another person an identity card, is liable to a maximum penalty of 10 years' imprisonment and a fine of \$100,000.

### **Review of Arrangement for Tax Deductions for Home Loan Interest**

18. **MR FREDERICK FUNG** (in Chinese): *President, regarding the existing arrangement under which home loan interest (HLI) paid is deductible from a*

*taxpayer's assessable income under Salaries Tax or from a taxpayer's total income under Personal Assessment, will the Government inform this Council:*

- (a) of the number of taxpayers who have benefited from the aforesaid tax deduction arrangement and the amount of deductions in respect of their expenses on HLI in each year of assessment since the implementation of the arrangement in the year of assessment 1998-1999; the amount of tax revenue thus foregone in each year of assessment; whether the authorities had conducted any review of the arrangement in the past (including its effectiveness in alleviating the financial burden of the middle class, as well as its impact on the local property market and government revenue, and so on); and*
- (b) given that there are suggestions in the community requesting that the Government should further extend the entitlement period for HLI deduction, increase the maximum limit of the amount of deduction and introduce a home rental deduction, and so on, whether the authorities have conducted any study on these suggestions (including the level of difficulty in implementing these suggestions, as well as their positive and negative effects on the middle class and the Government's financial position, and so on); if they have, of the outcome; whether they will consider adopting such suggestions and putting forward corresponding measures in the 2012-2013 Budget; if not, of the reasons for that?*

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

- (a) To alleviate the burden of tax-paying families arising from home mortgage payments, the Government introduced in the year of assessment 1998-1999 a tax deduction for HLI of up to \$100,000 a year for an aggregate period of five years. The computer system of the Inland Revenue Department (IRD) started to collect data of HLI deductions since the year of assessment 2001-2002. The number of persons who have been granted HLI deductions under salaries tax and tax under personal assessment as well as the amount of such

deductions for the years of assessment 2001-2002 to 2009-2010 are set out below:

<i>Year of Assessment</i> <sup>(Note)</sup>	<i>Number of persons who have been granted HLI deductions</i>	<i>Total HLI deductions granted (\$ million)</i>
2001-2002	350 000	13,800
2002-2003	340 000	10,300
2003-2004	360 000	9,000
2004-2005	350 000	8,100
2005-2006	380 000	11,500
2006-2007	370 000	12,800
2007-2008	330 000	10,600
2008-2009	270 000	6,000
2009-2010	240 000	4,900

Note:

As the assessing work for the year of assessment 2010-2011 has not yet completed, the statistics for the said year are not available.

Since the IRD has not collected breakdown figures on revenue forgone by deduction types, we could not provide statistical data on revenue forgone as a result of HLI deductions.

Since the introduction of HLI deduction in the year of assessment 1998-1999, the Government has reviewed the arrangement from time to time. Having considered factors such as people's burden arising from home mortgage payments and the Government's fiscal position, we have made the following adjustments to the arrangement previously:

- (i) raising the annual deduction ceiling from \$100,000 to \$150,000 for a period of two years for the years of assessment 2001-2002 and 2002-2003;
- (ii) extending the maximum deduction period from five years to seven years from the year of assessment 2003-2004 and onwards; and

- (iii) extending the maximum deduction period for three more years to the present 10 years from the year of assessment 2005-2006 and onwards, with the annual deduction ceiling remaining at \$100,000.
- (b) During the Budget consultation, members of the public have raised various tax-related suggestions, hoping that the Government would be sympathetic to their livelihood burden. We fully understand their requests and have carefully considered the suggestions. The outcome of our deliberations will be reflected in the 2012-2013 Budget to be delivered by the Financial Secretary on 1 February 2012.

### **Odour Management and Traffic Control for Landfill at Tseung Kwan O**

19. **MR IP WAI-MING** (in Chinese): *President, the South East New Territories (SENT) Landfill, which is located in Area 101 at Tseung Kwan O and was commissioned in 1994, was originally expected to be exhausted by around 2013. The Government earlier pointed out that as the Integrated Waste Management Facilities which could effectively reduce the volume of waste requiring disposal at landfills would only be commissioned in mid-2010s, extension of the SENT Landfill in early to mid-2010s was therefore necessary. Apart from the odour from the SENT Landfill which affects the nearby residents, quite a number of drivers have recently complained to me that many dump trucks going in and out of the SENT Landfill via Wan Po Road are not properly covered with canvas, causing environmental pollution in the vicinity of Wan Po Road, and traffic accidents frequently occur there because stones and sand dropping from the cargo compartments of those dump trucks hit and break the windows of other vehicles on the road. In this connection, will the Government inform this Council:*

- (a) *of the number of complaints about odour from the SENT Landfill received each month by the authorities in the past three years; whether the authorities have any new measure in place to alleviate the odour nuisance from the landfill; if they have, of the details and the implementation timetable; if not, the reasons for that;*

- (b) *whether the authorities had received any complaint in the past three years about environmental pollution in the vicinity of Wan Po Road; if they had, of the number and contents of such complaints;*
- (c) *among the traffic accidents which occurred on Wan Po Road in the past three years, of the number of those involving dump trucks; whether the authorities have analysed the causes of such traffic accidents; if they have, of the details; if not, the reasons for that;*
- (d) *whether the authorities had prosecuted dump truck drivers in the past three years for overloading or non-compliance with environmental protection measures; if they had, of the number of such prosecutions and the offences involved in general; if not, the reasons for that; whether the authorities have provided guidelines to advise vehicles entering the SENT Landfill to enhance their protective facilities; if they have, of the details; if not, whether they will consider formulating such guidelines; and*
- (e) *whether the authorities have conducted any environmental pollution survey in Tseung Kwan O District since the commissioning of the SENT Landfill; if they have, of the details; if not, whether the authorities have any plan to conduct a comprehensive environmental pollution survey in the district?*

**SECRETARY FOR THE ENVIRONMENT** (in Chinese): President, Hong Kong is now facing an imminent waste management problem. At present, about 13 500 tonnes of waste are disposed of daily at the three strategic landfills, namely SENT Landfill, North East New Territories Landfill and West New Territories Landfill and these three landfills are estimated to be exhausted in 2014, 2016 and 2018 respectively. To resolve the imminent waste management problem in a comprehensive and timely manner, the Government announced on 4 January 2011 a revised waste management strategy and its updated action plan to tackle the waste management problem in Hong Kong in the long run. With the initiatives of "Reduce, Recycle and Proper Waste Management", the Government brings up three strategies which include promoting waste reduction and recycling at source, introducing modern waste treatment facilities and timely extension of landfills.

Since early 2004 when the SENT Landfill extension project was at its conceptual and feasibility study stage, the Environmental Protection Department (EPD) has already started the consultation with all stakeholders. After prolonged discussion, the Government understands the views of the residents of Tseung Kwan O town on the SENT Landfill extension, and has positively addressed their concerns by scaling down the extension scheme. This means the reduced scheme will not occupy 5 hectares of the Clear Water Bay Country Park, the area of landfill extension in Tseung Kwan O Area 137 will be reduced to 13 hectares (as against the original 15.6 hectares), and the proposed SENT Landfill extension will only receive odourless waste (namely construction waste), in order to solve the odour problem of the landfill. We believe that if the revised SENT Landfill extension scheme could be implemented, the future SENT Landfill extension will only receive construction waste which is odourless, and the concerns from the residents will then be fully addressed.

Regarding the question raised by Mr IP, our replies are as follows:

- (a) The number of odour complaints in Tseung Kwan O received by the EPD relating to the landfill in the past three years is as follows:

	<i>2009</i>	<i>2010</i>	<i>2011</i>
January	4	0	5
February	2	9	14
March	4	32	12
April	9	14	23
May	27	22	74
June	170	91	194
July	130	108	299
August	137	256	320
September	42	121	81
October	9	29	20
November	12	32	73
December	2	39	5
Total	548	753	1 120

To minimize the environmental impacts of the landfill on the surrounding areas, the landfill was designed and constructed to a

high standard as a secure containment facility incorporating composite impermeable liner systems and proper systems for the collection and treatment of landfill gas and leachate. To address the concerns from the Tseung Kwan O residents on odour nuisance, the EPD has stepped up odour management and control measures over the past five years to further abate the potential odour impact of the landfill. These measures include covering the tipping areas with a layer of soil and then Posi-Shell Cover, a cement-based cover material, at the end of the daily waste reception process; covering the non-active tipping areas with temporary impermeable liners; setting up fixed deodorizers at the landfill boundary; providing additional mobile deodorizers at the tipping area; putting a mobile cover on the special waste trench; and installing additional landfill gas extraction pipes and mobile landfill gas flaring units. The EPD will continue to implement the above measures and ensure that the completed waste disposal areas are capped and restored promptly.

Refuse collection vehicles are one of the potential odour sources. To improve the cleanliness of these vehicles leaving the landfill, the EPD has upgraded the existing wheel washing facility into a full-body vehicle washing facility to ensure that the entire body of every refuse collection vehicle is washed before leaving the landfill to minimize the odour nuisance caused by such vehicles. To mitigate the potential odour problem caused by dripping leachate from refuse collection vehicles, the EPD will continue to step up the cleansing work for the section of Wan Po Road between the SENT Landfill and the roundabout at Hang Hau and review the effectiveness of this measure regularly.

- (b) Between 2009 and 2011, the EPD received three odour emission complaints and seven dust emission cases against vehicles passing Wan Po Road.
- (c) The traffic accident database does not have a separate category for dump trucks in its vehicle records. We have been informed that there were about 10 traffic accidents on Wan Po Road per year involving medium and heavy goods vehicles in the past three years,

but there is no information on whether the accidents were related to conveying fill debris.

- (d) The database on prosecution does not have a separate category for dump trucks in its vehicle records. As for vehicles entering the SENT Landfill, the EPD will remind the trade to cover properly the construction waste during conveyance to prevent dust emission or materials from falling off on the road at its regular meetings with the trade and through distribution of leaflets at the landfill.
- (e) In response to the concerns from the Sai Kung District Council and residents, the EPD closely monitors and takes follow-up actions on the environmental problems in Tseung Kwan O including individual issues of concern such as odour. For example, electronic odour detection systems (that is, electronic nose) were installed at Ocean Shores and SENT Landfill to help identify the nature and source of odour. For odour complaint cases, the EPD will promptly investigate and follow up. For instance, it will understand the odour situation at complaint location, identify the odour source and provide timely assistance. The EPD even extends the work shift of its staff to 11 pm to handle odour complaints received outside office hours for the period between June and October when there are more odour complaints.

In addition, the Sai Kung District Officer has established an inter-departmental working group comprising representatives from the Sai Kung District Office, the EPD, Hong Kong Police Force, Transport Department, Civil Engineering and Development Department, Food and Environmental Hygiene Department, Drainage Services Department, Sai Kung District Lands Office and Highways Department, to strengthen the co-ordination of investigation and follow-up actions among government departments to tackle environmental nuisances in Tseung Kwan O, including Wan Po Road. Since its establishment in 2005, the Group has held many meetings, implemented improvement measures at Wan Po Road and its vicinity, and conducted joint enforcement and prosecution operations.

**Unauthorized Extension Works of Stanley Plaza**

20. **MR LEE WING-TAT** (in Chinese): *President, it has been reported earlier that the extension works of the Stanley Plaza (the Plaza) managed by The Link Management Limited (The Link) is suspected to involve "construction before approval is granted", and in addition to arousing the concerns of government departments, the case has also given rise to the public queries that after the plans of the alteration works have been vetted and approved by the Buildings Department (BD) under the Buildings Ordinance (BO) (Cap. 123), the applicants may, without obtaining prior consent from the Lands Department (LandsD) on the modification of the lease conditions, proceed with the alteration works based on the plans approved by the BD. In this connection, will the Government inform this Council:*

- (a) *of the gross floor area (GFA) and other types of areas of the Plaza (for example, the total commercial GFA and total area of public open space, as well as the internal GFA, total lettable area and area of public open space inside the Plaza) respectively before and after the divestment of commercial properties by the Hong Kong Housing Authority (HA); after the completion of the aforesaid extension works, how the commercial GFA, total lettable area and total area of public open space of the Plaza differ from the corresponding areas before the extension; how the LandsD calculates the land premium of the Plaza after its extension, and of the areas used for the calculations;*
- (b) *whether it knows if in the past five years there were other projects managed by The Link or other private development projects which had commenced after obtaining approval from the BD for the alteration plans but before consent was given by the LandsD for the modification of the lease conditions (that is, involving "construction before approval is granted"); if there were, of the details, and whether such projects included the construction project of a betting centre and a support centre in Sha Tin proposed by the Hong Kong Jockey Club (HKJC); if the project was included, of the details (including when its alteration plan was approved by the BD and when the construction works commenced, as well as the progress of the vetting and approval of its application for lease modification or*

*extension by the LandsD at the time when the construction works commenced, and so on); whether the practice of "construction before approval is granted" is a general, usual or acceptable practice;*

- (c) how the LandsD handles projects which involve "construction before approval is granted" (for example, whether it has any mechanism in place for making a request of reinstatement according to the lease conditions, or whether it usually gives consent to the modification of lease conditions according to the works which have already commenced); whether there is any mechanism of punishment in respect of construction projects which violate the lease conditions; of the cases in which such handling and punishment mechanisms had been applied in the past five years, and the details of such cases; and*
- (d) how the BD and the LandsD at present co-ordinate with each other to facilitate the two departments to note which applications have been submitted to them respectively as well as the approval results in the course of their vetting such applications, and to give timely notifications to the applicants regarding the need to submit applications to the relevant government departments, as well as to ensure that the consent of all relevant departments has been given before granting the Certificate of Compliance (also known as "Letter of Satisfaction") to a project; how the BD and the LandsD monitor and prevent the aforesaid practice of "construction before approval is granted" or "commencing construction in advance of approval"?*

**SECRETARY FOR DEVELOPMENT** (in Chinese): President, the BO aims to regulate the planning, design and construction of buildings and associated works on private land, and for this purpose, to prescribe building design and construction standards regarding building structure, fire safety and sanitation. The BD shall approve building plans and applications for commencement of works according to the BO. If the applications comply with the relevant requirements under the BO, the BD is obliged to approve the plans and give its consent in writing for the commencement of works. It is not provided amongst these provisions that the lease conditions shall be met. The BO also stipulates that the approval of building plans or consent for commencement of works

granted by the BD shall not be deemed to act as a waiver of any term in any land lease.

A land lease is a contract signed by the Government, through the LandsD in the capacity of a landlord, with a lessee (commonly known as "land owner") for the use of a piece of land. Different land leases are executed at different times having regard to different land conditions. Where the building plans approved by the BD deviate from the lease conditions, the land owner may apply to the LandsD for modification of lease conditions or seek necessary approval. The LandsD will consider the application in the capacity of a landlord and may decide to approve or reject it. In the case of approval, the LandsD may impose conditions such as payment of premium (if applicable).

The Plaza in Ma Hang Estate, Stanley, was originally owned by the HA and thus exempted from the provisions of the BO. In 2005, the HA divested the Plaza, among certain commercial and car park properties, to the Link Real Estate Investment Trust (The Link). Upon divestment, these properties are subject to the BO, and The Link as the owner of these properties is required to obtain approval and consent from the BD in accordance with the BO before commencing works for the property concerned. According to information from the BD, the building plans of the alterations and additions works for the Plaza were first approved by the BD in February 2010, and the BD gave written consent in September 2010 to the commencement of the building works.

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

- (a) According to the lease, the GFA of the commercial facilities in Ma Hang Estate (including the Plaza) shall not exceed 15 528 sq m.

Under the BO, apart from the total GFA of a building, an applicant is not required to provide such information as the total commercial GFA, total area of common area, total internal lettable area and total area of internal common area of the building, when submitting the building plans for approval. In connection with the alterations and additions works for the Plaza, the applicant did not provide such information in the building plans. According to the practice note of the BD regarding the inspection and copying of building plans and related documents, and under the obligation to confidentiality, the

BD will permit public inspection or issue copies of the building plans or documents submitted to it for the purpose of the BO, after the subject works have been fully completed. As the building works for the Plaza approved by the BD have not yet fully completed, based on the above principle, the BD is unable at this stage to provide information on the approved GFA of the Plaza as shown in the relevant building plans.

Following the procedures outlined in part (d) below, the District Lands Office/Hong Kong West and South (District Lands Office) received the referral from the BD the building plans submitted by The Link for the alterations and additions works of the Plaza, and liaised with The Link regarding the building plans, asking it to provide further information in accordance with the lease conditions, and convening a meeting whereby The Link was requested to make its representation. As mentioned above, the BD granted approval and written consent for the building works in February and September 2010 respectively; and in its letters to that effect, the BD explained clearly to The Link that the building plans were vetted and approved under the BO, and that the BD's approval did not exempt The Link from the duty of fulfilling the lease conditions.

According to information from the LandsD, the latest situation is that in January this year, the District Lands Office received further information submitted by The Link in response to the District Lands Office's enquiry. The District Lands Office is now considering such information together with information received earlier from The Link. Legal advice is also being sought. Open discussion of the details at this stage would be inappropriate, as it may affect the position and actions to be taken by the District Lands Office in future.

- (b) As mentioned above, the statutory vetting and approval mechanism under the BO is independent of the land lease administration mechanism. To implement building plans as approved by the BD which deviate from the lease conditions, a land owner has to apply to the LandsD for modification of lease conditions or seek necessary

approval. Regarding the alterations and additions works of the Plaza, the District Lands Office is now seeking legal advice. Open discussion of the details at this stage would be inappropriate, as it may affect the position and actions to be taken by the District Lands Office in future.

As regards the construction project of a betting centre-cum-support centre in Sha Tin proposed by the HKJC as mentioned in the question, presumably it refers to a new nine-storey building in the Shatin Racecourse. The building plans concerned were approved by the BD in July last year. The District Lands Office/Shatin advised the HKJC in December last year that it had no objection to the building plans (that is, the building plans already approved by the BD). Before that, the HKJC had informed the District Lands Office/Shatin that works for the building had not yet commenced. In fact, according to the BD, the concerned construction works have not yet started.

A land lease is a contract signed by the Government, through the LandsD in the capacity of a landlord, with a land owner for the use of a piece of land. The land owner is obliged to comply with the lease conditions. A land owner who commences "construction before approval is granted" runs the risks associated with the violation of lease conditions. As lease conditions vary with individual cases and the actual circumstances (including the extent of violation of lease conditions) are different, the LandsD will take appropriate lease enforcement actions in the capacity as the landlord when breaches of lease conditions are established. The LandsD does not have statistics on cases of "construction before approval is granted".

- (c) As mentioned above, where the building plans approved by the BD deviate from the lease conditions, the land owner may apply to the LandsD for modification of lease conditions or seek necessary approval. The LandsD will consider the application in the capacity of a landlord and may decide to approve or reject it. In the case of approval, the LandsD may impose conditions such as payment of

premium (if applicable). As different land leases are executed at different times having regard to different land conditions, and the lease terms vary, it is not possible to generalize the situation. As regards how the LandsD handles cases of "construction before approval is granted", reference can perhaps be made to my written reply to Mr Paul TSE in the Legislative Council on 16 November 2011 concerning a case involving a shopping centre at Repulse Bay.

- (d) We reiterate that the statutory vetting and approval mechanism under the BO is independent of the land lease administration mechanism, and the BD shall vet and approve building plans and applications for commencement of works according to the BO. If the plans and applications comply with the relevant requirements under the BO, the BD is obliged to approve the plans and give its consent in writing for the commencement of works. Under the BD's existing centralized processing system for building plans, upon receipt of building plans submitted by authorized persons for approval, the BD will refer the plans to the relevant government departments (including the LandsD) for advice within their respective purviews related to the BO. The aforesaid arrangement is applicable to the proposed building works of all private buildings (including those owned by The Link). Moreover, the BD will send copies of letters notifying the authorized persons of the vetting results to all the relevant government departments, so that the authorized persons can follow up directly with those departments. The BD will carry out site inspection in the course of plan vetting to monitor if any building works have been commenced before the building plans are approved.

On the other hand, land leases are executed at different times, and the LandsD will consider the building plans and take follow-up actions (if applicable) in the capacity of a landlord according to the relevant lease conditions. For example, the maximum floor area stipulated in some land leases may be lower than that permitted under the BO when the building plans are vetted by the BD. If the land owner would like to achieve the maximum limit permitted under the BO, the land owner should first apply to the LandsD for

modification of lease conditions or for approval. When approving the modification or granting the approval, the LandsD may impose conditions as appropriate, including payment of premium (if applicable).

(Mr LEUNG Kwok-hung released the balloon in his hand)

**PRESIDENT** (in Cantonese): Mr LEUNG Kwok-hung, you have violated the rules that Members have been notified to observe. We have informed Members that they must not bring balloons into the Chamber.

**MR LEUNG KWOK-HUNG** (in Cantonese): When did you inform me?

**PRESIDENT** (in Cantonese): We have informed all Members by notice.

**MR LEUNG KWOK-HUNG** (in Cantonese): I really have no idea. Do you .....

**PRESIDENT** (in Cantonese): We have been advised by the technicians that balloons brought into the Chamber pose potential dangers. Mr LEUNG, I now order you to leave the Chamber immediately.

**MR LEUNG KWOK-HUNG** (in Cantonese): In what way am I impeding the conduct of the meeting?

**PRESIDENT** (in Cantonese): Mr LEUNG, you must leave the Chamber immediately.

(The Clerk and security officers helped Mr LEUNG Kwok-hung leave the Chamber)

**MR LEUNG KWOK-HUNG** (in Cantonese): John TSANG, you must set aside \$50 billion for the introduction of universal retirement protection.

**PRESIDENT** (in Cantonese): Mr LEUNG, leave immediately.

**MR LEUNG KWOK-HUNG** (in Cantonese): \$70 billion in surplus. Return the money immediately! John TSANG!

**PRESIDENT** (in Cantonese): Mr LEUNG, you must stop shouting and leave immediately.

(The security officers continued to help Mr LEUNG Kwok-hung leave the Chamber)

**MR LEUNG KWOK-HUNG** (in Cantonese): Inject \$50 billion for the introduction of universal retirement protection! Return the \$70 billion in surplus immediately! Rob the poor to help the rich! Introduce universal retirement protection! John TSANG, you must bear this in mind!

(Mr LEUNG Kwok-hung left the Chamber with the assistance of security officers)

**PRESIDENT** (in Cantonese): Mr LEE Cheuk-yan, please move the placard on your table a little bit because it blocks my view. I cannot see the Members beside you.

**MR LEE CHEUK-YAN** (in Cantonese): You need not look at them.

**BILLS****First Reading of Bills**

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

**APPROPRIATION BILL 2012**

**CLERK** (in Cantonese): Appropriation Bill 2012.

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

**Second Reading of Bills**

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

**APPROPRIATION BILL 2012**

**FINANCIAL SECRETARY** (in Cantonese): President, today is the 10th day of the First month of the Lunar New Year. Before delivering my speech, first of all, let me wish everyone good health and vigour, all trades in Hong Kong thriving business, all members of the public a life of peace and plenty and everyone smooth and happy headway in the Year of the Dragon.

President, I move the Second Reading of the Appropriation Bill 2012.

**Introduction**

This is my fifth Budget, and the last of the current-term Government. In his Policy Address "From Strength to Strength" last October, the Chief Executive announced measures to relieve people's hardship, improve quality of life and promote social and economic development. In this Budget, I shall provide the financial resources for the implementation of these measures.

Maintaining Hong Kong's steady economic growth is a major task of the current Government and also the overall aspiration of our society. In this term of office, we have faced many ups and downs in the global economy. The global financial tsunami in 2008 has brought about the most severe recession since the Great Depression in the 1930s, driving the global financial system to the brink of collapse. Hong Kong was not exempt from this economic predicament.

Despite the hard hit, Hong Kong's economy has remained resilient and made an earlier recovery from the economic downturn than other advanced economies. Our economy has achieved a cumulative growth of 19% in real terms over the past five years of extreme volatility, and per capita Gross Domestic Product (GDP) reached an all-time high of US\$34,200. (Chart 1)

What is most encouraging is that the unemployment rate has fallen from its peak of 5.5% in mid-2009 to 3.3% recently, a level which signifies full employment. Total employment in the local economy has increased by over 180 000 from its trough in 2009. Income from employment for the lower-income groups registered a growth of 12.5% over the past year. After making adjustments for inflation, there was still an increase of 7% in real terms. Median household income has risen by 11.1% from \$18,000 to \$20,000, an increase of 5.1% in real terms, reflecting an improvement in the livelihood of grassroots in the past year. (Chart 2)

Hong Kong's swift economic recovery has much to do with our flexible economic system and overall competitiveness. For 18 years in a row, Hong Kong has been ranked the world's freest economy by the Heritage Foundation. Last year, Hong Kong was ranked the world's most competitive economy by the International Institute for Management Development in Lausanne, Switzerland. Recently, the International Chamber of Commerce has rated Hong Kong as the world's most open market while the World Bank has ranked Hong Kong the second easiest place to do business. In its 2011 report, the International Monetary Fund concluded that our policies and strategies to counter the financial turmoil contributed to Hong Kong's vigorous rebound from the crisis. Hong Kong has also received the top triple-A credit rating from the international rating agency Standard & Poor's.

These assessments reflect the international acceptance of the sound economic fundamentals and effective economic policy framework of Hong Kong,

and clearly illustrate that our socio-economic system is on par with international standards. This is due recognition of Hong Kong's status in the international community. Good credit ratings have also brought us concrete benefits. The financing costs for enterprises have come down, making Hong Kong a preferred place for investors to do business, thereby creating more jobs.

Despite our resilience, we will not lower our sense of crisis. The international financial markets are still in turmoil. This, compounded by the unresolved economic troubles and the intricate problems of fiscal deficit and debt crisis in Europe and the United States, could deal a more serious blow to the global economy than the 2008 financial tsunami. We must, therefore, stay alert to unexpected crises and take precautions against any impact on our society. Whether as individuals, as enterprises or as the community as a whole, we must strengthen our resilience to adversity and prepare ourselves for the challenges ahead.

To prepare for a potential external economic crisis this year, I shall propose in this Budget a series of measures to counter the risk of economic slowdown. Underpinned by the strategy of "supporting enterprises to preserve employment and promoting economic development to protect people's livelihood", these measures will tide enterprises over difficult times, preserve employment and increase people's disposable cash at hand. Apart from the cushion rendered to the economy, these measures will also help reduce the pressure of inflation on people in need, enabling our community to move on steadily.

I shall devote resources to all major aspects of our society, including education, medical services, social welfare, housing, infrastructure and various livelihood policy areas while promoting economic development. These investments can help the coming generation to face new challenges.

## **Economic Performance and Prospects**

I shall now detail our economic performance since 2007 and give an account of our future prospects.

### **Economic Performance**

The Hong Kong economy has in the past several years weathered an extraordinary period. At the start of the current term of Government in 2007,

Hong Kong boasted a vibrant economy. Consumer sentiment and investor confidence were strong. Then came the unprecedented financial tsunami of 2008 triggered by the sub-prime mortgage problem in the United States. Hong Kong was inevitably hit hard. Not only was there an across-the-board slowdown in external trade and domestic demand, GDP also fell for four consecutive quarters since the second quarter of 2008. This was coupled with a substantial drop in our exports of goods and a rise in unemployment rate.

As the Mainland economy picked up its growth and the European and the United States economies began to stabilize, our economy started to improve in the second quarter of 2009 and then embarked on a full-fledged recovery in 2010. In the second quarter of 2010, the size of our real economy surpassed its pre-tsunami peak. This was followed by a couple of quarters of above-trend year-on-year growth.

The first quarter of 2011 still saw a year-on-year growth of 7.6%. Since then, however, as the external environment deteriorated rapidly, our exports plunged, affecting the overall economy. Economic growth slowed from 5.3% in the second quarter to 4.3% in the third quarter and further to 3% in the fourth. For 2011 as a whole, GDP grew by 5% in real terms, the lower range of the forecast that I made last August.

On the trade front, in 2010 with a growth of 17.3% in total exports of goods, we swiftly regained all ground lost in 2009 when total exports of goods plunged by 12.7%, the biggest annual drop on record. However, exports of goods went down sharply in mid-2011 due to slackening demand as a result of the unstable economic recovery in Europe and the United States and the worsening sovereign debt crisis in the Eurozone. The third quarter even saw negative year-on-year growth, the first since the fourth quarter of 2009. Exports steadied somewhat in the fourth quarter, and the growth for 2011 as a whole was 3.6% in real terms.

Domestic demand was also severely hit during the financial tsunami, but began to rebound in the second half of 2009 as the external environment stabilized and the Government's measures to counter the crisis took effect. Domestic demand gathered pace in 2010 and remained resilient in 2011, thereby rendering a key driving force of overall economic growth. Riding on an improving employment situation and rising incomes, private consumption

expenditure maintained our growth momentum in all four quarters of last year. Overall investment also continued to expand last year. Nevertheless, the highly uncertain external environment has weighed on business confidence. Enterprises have become more cautious recently.

Turning to inflation. The economy slowed down in 2009, and we experienced a few months of deflation. To tackle the financial crisis, major advanced economies introduced quantitative easing. They reduced interest rates to a super-low level near zero, leading to a surge in the prices of food and commodities in the international market. The ultra-loose monetary environment brought large inflows of funds into Asia and Hong Kong in 2009, further fuelling inflation and increasing the risk of asset-price bubbles in the region. Inflationary pressure on Hong Kong rose gradually in 2010.

Inflation became more evident in 2011. The underlying inflation rate for the year averaged 5.3%, a marked rise from the 1.7% in 2010. With the slowdown in local economic growth and the gradual decline in food inflation in the Mainland, the rising trend in Hong Kong's inflation tapered in the fourth quarter of 2011.

There have been marked fluctuations in the property market in the past few years. Triggered by the financial tsunami, property prices experienced a sharp drop in late 2008, but began to surge since early 2009 surpassing the peak in 1997. This is attributed to the economic recovery and the exceptionally low interest rates, coupled with the relatively tight supply of residential flats. To ensure a healthy and stable development of the property market, we introduced measures in four areas, namely (1) increasing flat supply; (2) curbing property speculation; (3) preventing expansion in mortgage lending; and (4) ensuring transparency in the property market. Our aim is to prevent the risk of asset-price bubbles from worsening, and ensure the stability of our property market, financial system and macro economy.

I am pleased to see that these measures have achieved some results. Speculative activities have abated, the average loan-to-value ratio of new residential mortgages has been falling gradually, and flat prices have started to come down since last June. Despite the recent stabilization of the property market, the low-interest environment persists, and the developed countries may again resort to quantitative easing policies to boost their sluggish economies. I

shall, therefore, continue the strategy that has proven to be effective in facilitating the healthy and stable development of the property market.

Despite the sharp swings in the global economic and financial environment over the past few years, we withstood the severe blow dealt by the financial tsunami in 2008 and 2009, and achieved an above-trend growth in 2010 and 2011. In the third quarter of 2011, however, the economic situation in Europe and the United States became unstable again due to the worsening sovereign debt crisis in Europe. This threatened the entire European banking industry and several larger European economies, including Italy and Spain. Worse still, the unprecedented downgrade of the United States' sovereign rating has caused wild gyrations in the financial markets. Yet, European countries and the United States are set to step up their fiscal austerity measures, raising concern about a possible double-dip recession in the global economy.

We implemented a package of fiscal stimulus, job creation and relief measures worth nearly \$110 billion in the three fiscal years from 2008-2009 to 2010-2011. On the back of our strategy of "stabilizing the financial system, supporting enterprises and preserving employment", the downward pressure brought by the financial tsunami on Hong Kong's economy eased significantly, and the pace of worsening in the job market also slowed down.

The relief measures adopted by the Government have increased people's cash in hand and provided timely assistance to those in need. Short-term jobs, temporary posts and internship opportunities have been offered to help people in need change jobs and better equip themselves for returning to the labour market in better times. Furthermore, the Government's years of heavy investment in infrastructure has laid a solid foundation for the future and created ample job opportunities.

To tackle the credit crunch triggered by the global financial crisis, we also introduced a series of countermeasures, including the Special Loan Guarantee Scheme and the enhanced Small and Medium Enterprises Loan Guarantee Scheme. Since 2008, loans worth more than \$100 billion have been approved, benefiting over 20 000 enterprises and indirectly preserving 350 000 jobs.

During the economic recession in the wake of the financial tsunami, we lost only 62 000 jobs, less than half the number lost during the Asian financial

turmoil. This reflects that our measures have brought about the positive effect of preserving social and economic stability through supporting employment. The unemployment rate even dropped to a 13-year low of 3.2% in mid-2011. However, as the external environment worsened in the second half of the year, the unemployment rate rebounded slightly to 3.3% towards the end of 2011, which still represented full employment.

In 2011-2012, Hong Kong was under the threat of inflation. We introduced an array of measures worth over \$60 billion with a view to combating inflation and leaving wealth with our people. Some of the measures are still working effectively. With appropriate measures in place, we have alleviated the impact of economic cycles on the public.

The financial tsunami that broke out at the end of 2008 is far from over and is still battering the global economy. In the face of adversity, our people have demonstrated perseverance and wisdom. Drawing on our resources, the Government has introduced a series of strategic measures to stabilize our economy and help those in need for the sustained development of our society. These joint efforts have helped us come through crisis after crisis.

## **Economic Outlook for 2012**

Given the bleak economic prospects in Europe and the United States, the risk of a sharp deterioration of the external environment is increasing. Despite their relatively strong economic fundamentals, Asian and emerging market economies have seen a noticeable slowdown in their growth momentum recently. As a result, our external demand has been faltering. I am not optimistic about Hong Kong's export performance in the first half of this year, and if exports of goods were to plunge in the first quarter, the overall economy might take a downturn in that quarter.

Fortunately, many Asian economies have started to ease their monetary policies, and there is also much policy room for the Mainland to bolster economic growth. So long as the European debt crisis does not escalate into a full blown crisis, the Asian region should be able to serve as an anchor for the global economy. Hong Kong's external trade may also see some improvement in the second half of this year.

I shall introduce measures worth nearly \$80 billion in this year's Budget to better prepare our people for the difficult time ahead. Besides supporting enterprises and people in meeting challenges, these measures will help ease the burden of inflation on people. This is a strong package of measures and would help stimulate the economy 1.5 percentage points in 2012. The measures, coupled with other positive factors including our strong economic fundamentals, the robust performance of the tourism industry and a wealth of infrastructure projects being rolled out, will help tide us over a difficult and thorny year. Even so, economic growth will inevitably be lower than the average growth rate over the past decade. I forecast GDP growth of 1% to 3% in real terms for 2012. (Chart 3)

The range between the upper and lower boundaries of this forecast is larger than the usual one percentage point. This reflects the unusually large degree of uncertainties in the external environment this year, especially when the European debt crisis is still twisting and turning. It is difficult to predict with any certainty the possibility of a severe recession in Europe and, if so, the precise ramifications on Asia.

As regards inflation, with global food and commodity prices retreating from peaks and local costs easing off as a result of economic slowdown, I believe the inflation rate would ease quite visibly in the second half of 2012. The average underlying inflation rate for the year is expected to drop from 5.3% in 2011 to 4% this year. The headline inflation rate for 2012 is estimated at 3.5% after taking account of the effects of the one-off measures I am about to propose. (Chart 4)

### **Getting Hong Kong Well Prepared**

Faced with so many uncertainties, we must get well prepared for our future. While short-term relief measures are essential to stabilizing our economy and tiding our community over difficult times, we must also seize this moment when our financial position is sound to invest in our future. I shall propose measures to address this issue in six respects, namely supporting enterprises, preserving employment, caring for people, stabilizing our financial system, increasing land supply and strengthening our social capital.

## Supporting Enterprises

First of all, lending support to enterprises. I am deeply concerned about the possible hardship small and medium enterprises (SMEs) may suffer in times of economic downturn. Making up the vast majority of the enterprises in Hong Kong, SMEs employ over 1.2 million staff, representing half of the total number of employees in the private sector. We must do our utmost to help SMEs get through difficult times in order to minimize unemployment. I shall now propose a series of supportive measures for them.

To address the financing difficulties faced by SMEs, the Government introduced the Special Loan Guarantee Scheme in 2008. With the recovery of the economy, the Scheme ceased to accept applications on 1 January 2011. It was replaced by a market-oriented sustainable SME Financing Guarantee Scheme launched by the Hong Kong Mortgage Corporation Limited (HKMC). The new Scheme offers financing guarantee services catered for SMEs and helps reduce banks' lending risks, thereby contributing to maintaining the stability of our banking system.

Given the fluctuations in the external economic environment in the coming year, SMEs may have to face financing difficulties once again as a result of the credit crunch. After taking into account suggestions by SMEs and the banking sector, we propose to substantially enhance the existing SME Financing Guarantee Scheme by introducing a number of concessionary measures.

Under the SME Financing Guarantee Scheme, the maximum loan guarantee ratio is 70%. The concessionary measures will include a new loan guarantee product with a higher ratio of 80% for which the Government will provide a total guarantee commitment of \$100 billion. While the annual guarantee fee for a loan with a guarantee ratio of 70% currently stands at 32% to 35% of the loan facility's interest rate, that for a loan with a guarantee ratio of 80% under the new concessionary measures will be lowered to 10% to 12%. Take a \$1 million loan at an interest rate of 5% per annum as an example. The annual guarantee fee for a loan with a guarantee ratio of 70% is \$16,000 under the current Scheme. The annual guarantee fee for a loan with a guarantee ratio of 80% under the concessionary measures will only be \$5,000, 70% less when compared to the current rate. The concessionary scheme will be open for

application for nine months. Taking into account the anticipated default rate, the estimated government expenditure will be about \$11 billion.

The increase in loan guarantee ratio under the SME Financing Guarantee Scheme will enhance lending institutions' confidence in offering loans to SMEs to meet their financing needs. The significant reduction in guarantee fee will also reduce the burden on SMEs. We consider that a limited guarantee fee will ensure appropriate risk sharing among lending institutions, enterprises and Government, and hence the proper use of public money. To tide enterprises over difficult times, the HKMC will launch the concessionary measures as soon as possible, and discuss with lending institutions and enterprises ways to simplify the Scheme's existing procedures.

In times of economic downturn, exporters will face a shrinking overseas market as well as increasing risks of default in payment by buyers. In December 2011, the Hong Kong Export Credit Insurance Corporation (ECIC), with the full support of the Government, introduced three enhanced measures, namely (1) waiving its annual policy fee for one year; (2) providing exporters with free buyer credit assessment service; and (3) expediting the assessment of small credit limit applications.

To further assist SMEs, the ECIC will introduce new terms in their insurance policy, which will include special concessions for SMEs, on 6 February. For example, SME policyholders will be allowed to insure their exports only for places and buyers of their choice under specified circumstances, and will be offered various premium discounts. Moreover, the ECIC will extend the sales-by policy launched in March last year to contracts between Hong Kong exporters' overseas or Mainland subsidiaries of which the Hong Kong policyholders have control, and their buyers. I believe that these new initiatives will further help SMEs maintain their competitiveness, tap into emerging markets and ease their financial pressure.

In the face of the worsening external economic environment, we need to help our enterprises by reducing their operating costs and enhancing our competitiveness so as to protect employment. To this end, I propose four measures as follows:

- (1) Waiving the business registration fees for 2012-2013 to benefit all business operators. This proposal will cost the Government \$1.9 billion;
- (2) Reducing profits tax for 2011-2012 by 75%, subject to a ceiling of \$12,000. The reduction will be reflected in the taxpayers' final tax payable for 2011-2012. The proposal will benefit all taxpayers who are liable to profits tax, the number of which is near 120 000. This proposal will cost the Government \$1.12 billion;
- (3) Halving the charges for import and export declarations. We estimate that each enterprise engaging in import and export businesses will save \$9,000 a year on average. This will cost the Government \$750 million a year; and
- (4) Abolishing capital duty levied on local companies. This is to encourage investors to set up companies in Hong Kong to raise capital and expand their business, thereby enhancing Hong Kong's competitiveness as a corporate domicile. This proposal will cost the Government \$90 million a year.

### Preserving Employment

Second, we will strive to preserve employment. Overall employment in Hong Kong is largely stable with the unemployment rate standing at a relatively low level. However, I expect the unemployment rate to reverse its downtrend as the economy slows down. We should therefore be well prepared so that timely measures can be taken to lessen any impact on the community when there is an upward pressure on the unemployment rate.

We shall continue with the strategy which helped us tackle the 2008 financial tsunami. We shall, on the one hand, stabilize the employment market through the supportive measures for enterprises I have just mentioned, and provide suitable employment support and training directly for our working population on the other.

Take the construction industry as an example. Heavy investment in infrastructure projects by this Government has brought about a substantial

increase in demand for construction workers, and the employment situation has been improving in the industry. The unemployment rate for the industry in the latest quarter is 5.2%, far below the post-tsunami peak of 12.8% in 2008.

In 2010, I earmarked \$100 million to implement various initiatives to attract more people to join the construction industry. These measures have started to deliver results. The construction workforce has grown to its present strength of more than 300 000, easing the problem of an ageing workforce and succession gap faced by the industry in recent years. To ride the wave, I propose to earmark another \$220 million to support the Construction Industry Council in enhancing manpower training. The aim is to bring fresh blood into the industry to meet the demand of future infrastructure developments.

The catering and retail industries have been providing employment opportunities for the grassroots. The Labour Department's Recruitment Centre for the Catering Industry and Recruitment Centre for the Retail Industry will strengthen liaison with employers in both industries to better serve their recruitment needs, and disseminate up-to-date information on the employment market to job seekers. In addition, the Employees Retraining Board (ERB) will continue to provide courses to help people who are seeking employment or changing jobs to join the catering and retail trades. Courses are also offered to employees of both trades to upgrade their skills.

The Vocational Training Council will set up an International Cuisine College for people aspiring to become professional chefs in international cuisines. Apart from providing vocational training to those who wish to pursue a career in the catering industry, the College will offer multiple study pathways for youngsters. The College, to be established with a capital expenditure of \$500 million, is expected to admit its first cohort of students in the 2014-2015 academic year. It will provide more than 2 000 places a year.

With the economy slowing down and the unemployment rate reversing its downtrend, certain groups of people in society will be the first to bear the brunt. We shall soon inject \$100 million into the Enhancing Employment of People with Disabilities through Small Enterprises Project, under which funding is granted to non-government organizations to set up small enterprises employing people with disabilities. We shall continue the Youth Pre-employment Training Programme and Youth Work Experience and Training Scheme, Employment Programme for

the Middle-aged, and Work Orientation and Placement Scheme to facilitate the employment of young people, the middle-aged and the disabled. These special employment programmes, which involve an annual expenditure of \$175 million, benefit 20 000 job seekers with employment difficulties each year.

The ERB will offer 130 000 training places in 2012-2013, and allocate additional resources for the provision of placement-tied courses for the unemployed and people seeking employment. Adequate resources have also been reserved for providing an additional 30 000 training places. This will enable the ERB to respond promptly to the demand from training providers for increasing or redeploying the places to meet contingencies.

The Government will remain vigilant against any serious deterioration in the economic situation and its impact on employment. When necessary, we shall provide further funding to adjust and enhance the relevant employment programmes.

### Caring for People's Livelihood

Third, we need to care for people's livelihood. The downside risks to the economy will inevitably affect people from all sectors of society. Despite the downturn, we do not intend to reduce government expenditure because this will affect the quality of our service to the public. On the contrary, we shall continue to allocate resources to recurrent items relating to people's livelihood. We shall, as in the past, adopt fiscal stimulus measures to help those in need by providing them with appropriate services and facilities.

Education, health and social welfare are the three policy areas of wide public concern that currently take up the largest share of government expenditure. I would like to give a brief description of our initiatives before explaining the expenditure of the current-term Government in these areas.

First, let us look at education. Our total expenditure is over \$79 billion in 2012-2013, out of which nearly \$60 billion is recurrent expenditure. This represents an increase of 7% over the recurrent expenditure in 2011-2012. In the coming year, I propose to launch the following new measures:

- (1) Earmarking \$1 billion to implement a new programme under the new senior secondary academic structure modelled on Project Yi Jin. The aim is to provide an alternative pathway for students to acquire a formal qualification other than the Hong Kong Diploma of Secondary Education examinations to be held for the first time this year. Students are encouraged to choose among different pathways in accordance with interests and aptitudes. With the parallel development of the publicly-funded sector and the self-financing sector, we estimate that over 75 000 places will be provided at post-secondary level and 35 000 continuing education and vocational education and training places will be offered this year. There will be adequate places to accommodate 100 000 school graduates in the double cohort year;
- (2) Allocating \$2.5 billion to launch the sixth Matching Grant Scheme (MGS) in the post-secondary education sector to help institutions tap more funding sources, improve the quality of education and foster a philanthropic culture. The five rounds of the MGS launched since 2003 have helped institutions secure additional resources of \$14.1 billion, comprising \$9.2 billion private donations and \$4.9 billion government matching grants. For the first time, the proposed sixth MGS will cover all statutory and approved post-secondary institutions to further consolidate their development; and
- (3) Making two separate injections of \$1 billion each, bringing the total to \$2 billion, into the HKSAR Government Scholarship Fund and Self-financing Post-secondary Education Fund to establish more scholarships or award schemes for outstanding students. In the 2011-2012 academic year, 2 000 tertiary students with excellent academic performance were awarded scholarships. Injecting \$2 billion into the two funds will give recognition to more students with outstanding academic performance or remarkable achievements in other areas such as sports, fine art, science and technology and community services. This will encourage their all-rounded development and pursuit of excellence. We estimate that a total of 10 000 students will benefit each year from the scholarships and

award schemes to be established subject to the details of the schemes.

As for health, we shall increase our recurrent expenditure for the coming year by 8% to nearly \$45 billion to provide medical services of a higher quality for the public while the total expenditure in 2012-2013 is over \$59 billion. On capital investment, North Lantau Hospital and the expansion of Tseung Kwan O Hospital will be completed this year and next year. We shall continue to pursue the construction of a number of new public hospitals including Tin Shui Wai Hospital and the Centre of Excellence in Paediatrics at Kai Tak, and the expansion of the United Christian Hospital. We shall also redevelop Queen Mary Hospital (QMH) and Kwong Wah Hospital (KWH) in the coming year. The redeveloped QMH will provide upgraded accident and emergency services and cardiology services. For KWH, redevelopment will involve revamping existing medical facilities, and strengthening the hospital's Chinese and Western medicines shared care services, including Chinese medicine in-patient service.

The Samaritan Fund assists patients in need by providing full or partial subsidies for self-financed drugs and medical items required in the course of medical treatment. The subsidies will be provided according to the applicants' financial conditions. To make better use of the Fund, I propose to provide allowances when calculating the total value of disposable assets in the means test. I also propose to simplify the tiers of patients' contribution ratio for drug expenses so that more people will benefit from the subsidy, and patients already receiving partial subsidies will have the burden of drug expenses further eased. Take a four-member family with an annual disposable income of \$100,000 and disposable capital of \$400,000 as an example. If the drug expenses required by the sick family member are \$100,000 per year, no financial assistance will be provided under the current scheme. Upon introduction of the new measures, the family member will receive a subsidy of \$90,000. This will help reduce much of the financial burden on the family.

It is hard to estimate accurately the future financial needs of the Samaritan Fund. However, taking into account its escalating expenditure over recent years, and the potential increase in expenditure arising from the implementation of the new measures, I propose to inject \$10 billion into the Fund to provide adequate provisions for its operation in the next 10 years or so. The injection will also give the Fund more headroom to increase the types of subsidized drugs in

accordance with clinical protocols and scientific evidence, benefiting more people in need.

As for social welfare, total expenditure for 2012-2013 is over \$48 billion, out of which \$44 billion is recurrent expenditure. This represents an increase of 9% over recurrent expenditure in 2011-2012. For the coming year, I propose two measures to enhance elderly care. First, we shall increase the recurrent funding for Dementia Supplement by \$137 million. This will allow eligible residential care homes and day care centres or units for the elderly to have more resources for engaging professional staff (including occupational therapists, nurses and social workers) or procuring related professional services for the provision of proper care to every demented service user.

Second, we shall allocate \$900 million under the Lotteries Fund to improve the physical setting and facilities of as many as 250 district elderly community centres, neighbourhood elderly centres and social centres for the elderly across the territory. This will enhance the community support services for elderly people and their carers.

To help ease the pressure of the economic downturn on our community and including the measures the Chief Executive proposed in his Policy Address, I shall introduce the following seven one-off measures:

- (1) Waiving rates for 2012-2013<sup>1</sup>, subject to a ceiling of \$2,500 per quarter for each rateable property. It is estimated that almost 90% of properties, or 2.7 million properties, will be subject to no rates in the year. This proposal will cost the Government \$11.7 billion;
- (2) Reducing salaries tax and tax under personal assessment for 2011-2012 by 75%, subject to a ceiling of \$12,000. The reduction, benefiting the 1.5 million taxpayers in the territory, will be reflected in the taxpayers' final tax payable for 2011-2012. This proposal will cost the Government \$8.9 billion;

---

<sup>1</sup> Comprehensive Social Security Assistance recipients who do not have to bear rates and public housing rents will not obtain any pecuniary advantage from the two measures of waiving rates and paying rents for public housing tenants.

- (3) Granting each residential electricity account a subsidy of \$1,800. This will cost the Government \$4.5 billion. We expect that 2.5 million households will benefit from the subsidy. Currently about 20% of households pay an average of not more than \$150 a month for electricity charges. The subsidy will enable these households to cover their electricity charges for at least one year;
- (4) Providing an extra allowance to Comprehensive Social Security Assistance (CSSA) recipients, equal to one month of the standard rate CSSA payments; and an extra allowance to Old Age Allowance and Disability Allowance recipients, equal to one month of the allowances. This proposal will involve an expenditure of \$2.1 billion;
- (5) Paying two months' rent for public housing tenants<sup>2</sup>. The Government will pay two months' base rent for tenants who are required to pay extra rent to the Hong Kong Housing Authority. For non-elderly tenants of the Hong Kong Housing Society's Group B estates, the Government will pay two thirds of their rent for two months. This measure will involve an expenditure of \$1.9 billion;
- (6) We extended and improved short-term food assistance services through the additional funding of \$100 million made at the end of last year. Enhancements include providing a wider variety of foods along with fresh foods. The Government will allocate another \$100 million to the services when necessary; and
- (7) Giving all student loan borrowers who complete their studies in 2012 the option to start repaying their student loans one year after completion of studies. This will alleviate the financial burden of fresh graduates and allow them more time to secure a stable job.

During the consultation period, many middle class expressed to me their wish for the Government to understand their hardship and to ease their tax burden. Their voices are heard loud and clear. After taking into account our

---

<sup>2</sup> Same as Note 1.

long-term financial position, I propose seven tax measures starting from the 2012-2013 year of assessment:

- (1) Raising the basic allowance and the single parent allowance from \$108,000 to \$120,000; and increasing the married person's allowance from \$216,000 to \$240,000. These proposals will benefit 1.38 million taxpayers, costing the Government \$2.2 billion a year;
- (2) Increasing the allowance for maintaining a dependent parent or grandparent aged 60 or above from \$36,000 to \$38,000. At the same time, the additional allowance for a taxpayer residing with his/her parent or grandparent continuously throughout the year will increase from the current \$36,000 to \$38,000. The allowance for maintaining a dependent parent or grandparent aged between 55 and 59 will increase from the current \$18,000 to \$19,000. The same increase applies to the additional allowance for taxpayers residing with these parents or grandparents continuously throughout the year. For taxpayers whose parents or grandparents are admitted to residential care homes, the deduction ceiling for elderly residential care expenses will be raised from the current \$72,000 to \$76,000. This measure will benefit 460 000 taxpayers, costing the Government \$220 million a year;
- (3) Raising the child allowance from the current \$60,000 to \$63,000 for each child; and increasing the additional one-off child allowance in the year of birth from \$60,000 to \$63,000 for each child. This measure will benefit 280 000 taxpayers, costing the Government \$170 million a year;
- (4) Raising the dependent brother/sister allowance from the current \$30,000 to \$33,000. This measure will benefit 25 000 taxpayers and cost the Government \$10 million a year;
- (5) Raising the disabled dependant allowance from the current \$60,000 to \$66,000. This measure will benefit 30 000 taxpayers and cost the Government \$20 million a year;

- (6) Extending the entitlement period for the tax deduction for home loan interest from 10 years of assessment to 15 while maintaining the current deduction ceiling of \$100,000 a year. This proposal will cost the Government \$540 million a year in the coming five years of assessment; and
- (7) Increasing the maximum annual tax deduction for mandatory contributions to Mandatory Provident Fund schemes from \$12,000 to \$15,000. This proposal will cost the Government \$360 million a year. This is a consequential amendment in light of the increase of the maximum relevant income level under the Mandatory Provident Fund Schemes Ordinance to \$25,000, which will take effect from June 2012.

I believe that the above adjustments to tax allowances and deductions are adequate to take care of taxpayers' basic needs and additional financial burden arising from family responsibilities.

### Stabilizing the Financial System

Fourth, we shall seek to maintain the stability of our financial system. Despite the wild fluctuations in the international financial markets over the past year, Hong Kong's financial markets managed to operate in an orderly manner, and financial institutions remained strong and sound. Banks' capital adequacy ratios have been maintained well above international requirements, and liquidity ratios at relatively high levels.

But with the global economy facing ever-increasing downside risks, any deterioration in the European sovereign debt crisis will dampen market sentiment, which may set off massive repatriation of funds from emerging markets. Hong Kong can hardly be immune from the impact and may suffer from an outflow of funds from the Hong Kong dollar.

The Hong Kong Monetary Authority (HKMA) and other regulators have introduced a number of regulatory measures to enhance the resilience of the financial system. Such measures include strengthening banks' credit and liquidity risk management, increasing the level of banks' regulatory reserve, and introducing four rounds of prudential regulatory requirements on mortgage loans.

The regulators will continue to ask banks, securities brokers and insurance companies to strengthen their risk management. The foreign currency reserves the HKMA accumulated from capital inflows two years ago will serve as a buffer against the risk of an abrupt reversal in capital flows, and help maintain the stability of the Hong Kong dollar exchange rate and avoid excessive interest rate volatility.

I shall work jointly with our regulators to keep a close watch on the development of the global financial markets. Where necessary, appropriate measures will be taken to ease any possible strain on Hong Kong's financial system and maintain the stability of our monetary and overall financial system.

### Increasing Land Supply

Fifth, we shall continue to increase land supply. I shall now elaborate on the latest developments in the supply of private housing, public housing and commercial sites as well as urban renewal.

#### Land Supply

Our resolve to increase land supply and create a land reserve is beyond question. To ensure that land supply will not be affected by economic cycles or fluctuations of the property market, the Steering Committee on Housing Land Supply that I chair will continue to expand land resources in a multi-pronged manner. This will facilitate the stable development of our property market and meet the needs for our social and economic development.

From our rough estimates, the land use studies and reviews being conducted by the Planning Department cover 2 500 hectares of land, equivalent to one tenth of the developed land in Hong Kong. We have started public engagement exercises on the planning for new development areas in north east New Territories, Hung Shui Kiu, Tung Chung and various quarry sites, reclamation on an appropriate scale outside the Victoria Harbour, and development of caverns. In the long-term interest of Hong Kong, we look forward to an early consensus in the community on these issues.

Appropriately increasing the development intensity of land will help increase the supply of residential flats within a relatively short span of time.

While doing so, we should take into account the public's aspirations for a quality city environment. We should make optimal use of the development potential of railway-property projects. After discussing with the MTR Corporation Limited (MTRCL), we have identified the West Rail Kam Sheung Road Station and Pat Heung Depot and the adjacent rural area as having enormous potential for providing more housing land. The Development Bureau, in collaboration with the MTRCL, will soon launch public consultation on two property projects above the West Rail Kam Sheung Road Station and Pat Heung Depot. It is estimated that these projects will provide about 8 700 flats, giving impetus to the development of the southern part of Kam Tin. We shall also invite the MTRCL to explore other opportunities for development along railways.

### Private Housing

I shall now turn to private properties. Since last year, apart from retaining the Application List system, we have initiated land sale in a proactive manner and announced our land sale programme in advance on a quarterly basis in response to the market's keen demand for residential sites. In this financial year, the number of residential sites sold and to be sold by the Government, including those in the land sale programme for the fourth quarter already announced, amounts to 27. The sites will provide about 7 900 flats in total. We have stipulated flat size restrictions for three of those sites for the provision of 2 300 small and medium-sized flats, and flat number restrictions for five other sites, which will provide at least 3 800 flats. These arrangements will help increase the supply of small and medium-sized flats and ensure an adequate supply of residential flats.

Turning to West Rail property projects. The developments at the three sites at Nam Cheong, Tsuen Wan West TW5 (Cityside) and Tsuen Wan West TW5 (Bayside) will provide not less than 6 600 flats in total, of which 65% are small and medium-sized flats with a saleable floor area of 50 sq m or below. The first two sites have already been sold. The last will be re-tendered in due course.

In 2011-2012, through quarterly land sale programmes, the three West Rail property projects I have just mentioned, urban renewal projects, lease modifications or land exchanges by private developers, and private redevelopment projects not subject to lease modifications or land exchanges, sites

on which over 20 000 private residential units can be built were provided. This met the target set by the Chief Executive.

The Government will continue to increase land supply in the coming year. In the Land Sale Programme for 2012-2013 to be announced tomorrow, we shall include in the Application List 47 residential sites, of which half are new sites. They will provide some 13 500 units. We shall follow the practice of announcing land sale programmes in advance on a quarterly basis, and stipulate flat number or flat size restrictions in land sale in the light of market conditions and the characteristics of individual sites.

The major sources of land supply for private residential housing in the coming year include the Government's Land Sale Programme for the coming year, four property projects along the West Rail, three property projects owned by the MTRCL, redevelopment projects of the Urban Renewal Authority (URA), lease modifications or land exchanges, and private redevelopments not subject to lease modifications or land exchanges. It is estimated that the housing land supply in aggregate in the coming year will provide some 30 000 private residential flats.

### Public Housing

Turning to public housing. The Government's public housing policy is to provide public rental housing (PRH) for low-income families who cannot afford private rental accommodation. According to the latest Public Housing Construction Programme of the Housing Authority, the total production of PRH flats will be 75 000 in the five-year period starting from 2011-2012. Our aim is to maintain the average waiting time for general PRH applicants at around three years. To this end, the Housing Authority (HA) will adjust and increase the production volume when necessary.

We shall continue to identify suitable sites for public housing development in various districts. The HA will develop the sites to their full potential to maximize public housing supply by relaxing restrictions on plot ratio and building height. This will be done without compromising the living environment.

### New Home Ownership Scheme and My Home Purchase Plan

The Chief Executive announced in last year's Policy Address a new policy for the resumption of the Home Ownership Scheme (HOS). The new scheme will offer flats with a saleable floor area of about 400 sq ft to 500 sq ft to families with a monthly household income under \$30,000, mainly first-time home buyers. The HA has initially identified six sites in Sha Tin, Tsuen Wan, Kwai Tsing and Yuen Long for the first batch of developments under the new HOS. The respective District Councils will be consulted shortly. The HA has also initiated discussions on the implementation details of the scheme, including pricing principles and future premium payment arrangements.

In addition to the new policy for the resumption of the HOS, the Government, in collaboration with the Hong Kong Housing Society, will continue to implement the My Home Purchase Plan (MHPP) to provide "no frills" small and medium-sized rental flats for families with a relatively higher monthly income of up to about \$40,000 so that they will have time to save up. The Government has already earmarked a number of sites for 5 000 MHPP flats. The first development project at Tsing Yi will provide 1 000 small and medium-sized flats. They will be completed in 2014 and application for pre-letting will begin in the fourth quarter of this year. The second development project at Sha Tin will provide 700 small and medium-sized flats.

### Supply of Business Sites

Office rental in Hong Kong has remained high over the past few years. While the soaring rental is an indication of thriving economic activities, it also drives up the cost of doing business in Hong Kong. This will make Hong Kong less attractive to foreign investors and undermine the competitiveness of local enterprises. Therefore, we must seek to maintain a stable and sufficient supply of business sites.

Last year, the sale of seven sites in various districts for commercial/business use provided an additional 320 000 sq m for office or other commercial uses. Under the policy to revitalize industrial buildings, by the end of 2011, the Lands Department had approved 40 applications for redevelopment or wholesale conversion of buildings, releasing 410 000 sq m of floor area for commercial use.

To sharpen Hong Kong's competitive edge, we must focus not only on the supply of office space, but also on the development of new core business districts, including Kowloon East announced in last year's Policy Address. Taking advantage of the future office development at Kai Tak and the revitalization or redevelopment of industrial buildings in Kwun Tong and Kowloon Bay, Kowloon East will develop into another major business district, with office gross floor area increasing from the current 1.4 million sq m to 5.4 million sq m. The Kowloon East Development Office tasked with this project is expected to be established in the first half of this year.

These brand new office nodes, however, will by no means replace the established Central Business District (CBD). Given their geographical advantages and well-equipped facilities, Grade A offices within the CBD are still in keen demand. To free Grade A office space currently taken up by the Government for commercial use, we shall continue to reduce our leased office space in Central and Admiralty. The total gross floor area of office premises leased by the Government in both districts has reduced from 11 500 sq m five years ago to the present level of 4 300 sq m, and is expected to further reduce to 230 sq m in 2015.

We shall continue to relocate government departments from core business districts where appropriate. The Legislative Council has approved an appropriation of nearly \$800 million for the relocation of a Water Supplies Department facility in Mong Kok to an industrial building in New Territories West. The Mong Kok site, together with the neighbouring Food and Environmental Hygiene Department depot and temporary car park, will be developed into a commercial property. It will provide 65 000 sq m of office gross floor area according to our preliminary estimate.

This Council has also approved another funding of \$2.6 billion for the construction of the Trade and Industry Tower at the Kai Tak Development Area. Upon its completion by the end of 2014, 18 000 sq m of gross floor area in the Trade and Industry Department Tower in Mong Kok will be released for commercial use. Also in the pipeline are the relocation of the Department of Justice to the Main and East Wings of the old Central Government Offices, development of a government office building in West Kowloon and the phased relocation of the departments in the three government office buildings at the Wan Chai waterfront.

## Urban Renewal

Building dilapidation, unauthorized building works and "sub-divided units" were issues of grave public concern last year. While a series of measures have been implemented by the Government to improve building safety, many people still consider that speeding up the redevelopment of old buildings a more effective solution. This will also release urban sites for housing development. We have asked the URA to assume its new roles as set out under the new Urban Renewal Strategy announced last February. Apart from initiating redevelopment projects on its own as "implementer", the URA will take forward "demand-led" schemes and act as "facilitator" to help owners of old buildings carry out redevelopment.

Since its establishment, the URA has been focusing on residential redevelopment. We need to accelerate the renewal of old industrial areas to release more sites for residential or commercial development. Many industrial buildings are situated on lots already rezoned for other uses and can benefit from the policy initiatives of revitalization. However, their redevelopment is held back by multiple ownership. The same problem of multiple ownership in industrial buildings also presents the greatest challenge to Energizing Kowloon East.

In view of this, I propose to invite the URA to launch redevelopment projects of industrial buildings in the form of a pilot scheme. After trying out the pilot scheme, we shall review the situation and consult the public before deciding on the level of long-term commitment of the URA on the redevelopment of industrial buildings. Subject to the results of the pilot scheme, I shall propose to make another injection to the URA when necessary. The additional resources will ensure that the URA's task of improving the living environment of people residing in old buildings will not be affected if the URA becomes heavily involved in the redevelopment of industrial buildings in future.

## Strengthening Our Social Capital

We strive for economic development to better people's livelihood. To this end, while following our established strategy of "Market Leads, Government Facilitates", we endeavour to provide a platform for building social capital so that the "big society" between the market and the Government may flourish.

The Community Investment and Inclusion Fund was set up in 2002 to promote social capital development through encouraging mutual support in the neighbourhood, community participation and cross-sectoral partnerships. Since its establishment, the Fund has subsidized 238 projects rolled out by more than 130 organizations involving over 560 000 participants. There have been notable achievements in capacity building, enhancement of interpersonal relationship and development of community networks. I propose to inject an additional \$200 million into the Fund to ensure that it can continue to perform its social function in furthering social capital development at the district level.

Since its establishment in 2011, the Community Care Fund (CCF) has launched over 10 assistance programmes, benefiting several hundred thousands of people. Such programmes include the provision of a lunch subsidy for students from low-income families, and a subsidy for Hospital Authority's patients using specified self-financed cancer drugs. Initiatives can be implemented on a pilot basis under the CCF to help the Government identify measures to be incorporated into its regular assistance and service programmes. Upon examining the effectiveness of individual programmes, we shall decide the appropriate ones to be incorporated into the Government's regular assistance programmes, subject to the views of the Steering Committee on the CCF. I shall make the corresponding financial arrangements.

Last year, I asked the HKMC to study the feasibility of establishing a microfinance scheme in Hong Kong to assist people who may wish to start their own businesses or take self-enhancement training but cannot do so due to a lack of financial means or difficulties in obtaining loans from traditional finance sources. Having considered the results of the study, I decided to commission the HKMC to introduce a three-year pilot scheme in co-ordination and collaboration with banks, voluntary organizations and other stakeholders. The scheme will be operated on a self-financing basis with supporting services provided to make microfinance more viable. The maximum loan amount of the pilot scheme will be capped at \$100 million tentatively. The target borrowers are business starters, self-employed persons and people who wish to receive training, enhance their skills or obtain professional qualifications for self-improvement. The repayment period will be as long as five years and the interest rate will be set with reference to that of the personal loans charged by banks in general. The HKMC will announce the details in due course.

## **Developing Our Economy**

I shall now give an account of the economic development of Hong Kong.

### **Capitalizing on Our Competitive Edge**

We must take advantage of our existing competitive edge to promote economic development. The National 12th Five-Year Plan (FYP) has unprecedentedly included a dedicated chapter on Hong Kong and Macao. This spells out the functions and positioning of the Hong Kong and Macao Special Administrative Regions in the development strategy of our country.

Last August, Mr LI Keqiang, Vice-Premier of the State Council, announced the Central Government's package of more than 30 specific policy measures to support our economic, trade and financial co-operation with the Mainland. We shall actively take forward these measures.

The continued liberalization of the Mainland economy has presented Hong Kong with an opportunity to further develop its economy. Take the capital market as an example. Mainland enterprises flock to list in Hong Kong, attracting large international capital inflows. This has made Hong Kong the premier location for capital formation for Mainland enterprises seeking to raise funds overseas. After more than two decades of development, the Mainland has gradually moved from seeking to attract capital inflows to encouraging its enterprises and funds to go global, a process that is accelerating. Hong Kong should brace itself for another restructuring of its capital market. Among other things, we should improve our market infrastructure, seek to enhance the market connectivity of the Mainland and Hong Kong and increase our market capacity.

On the promotion of Hong Kong-Taiwan co-operation, the Hong Kong-Taiwan Economic and Cultural Cooperation and Promotion Council and the Taiwan-Hong Kong Economic and Cultural Co-operation Council are actively following up on the agreed priority co-operation areas, including medical and health co-operation, arrangements for avoidance of double taxation on shipping income, and further strengthening bilateral economic exchanges between the two places. In late December last year, both sides signed an air services arrangement, which increased the flight frequency, number of destinations, and passenger and cargo capacities between Hong Kong and Taiwan. Not only will

the arrangement benefit the development of the aviation, freight and tourism industries of the two places, it will also strengthen Hong Kong's position as an international and regional aviation hub. Furthermore, the Hong Kong Economic, Trade and Cultural Office in Taiwan commenced operation last December. This marks a significant step in fostering the co-operation between Hong Kong and Taiwan on economic, cultural and other fronts in the long run.

Linkage to the world is one of the competitive edges of Hong Kong. Since this Government took office, we have been strengthening trade ties with emerging markets. I led various business delegations to the BRICS countries, Southeast Asia, South America, and so on, and signed with a number of trading partners a series of tax arrangements, investment promotion and protection agreements and free trade agreements (FTAs). Hong Kong has started negotiations with Chile on a bilateral FTA recently, which will enable us to tap business opportunities and development potential in this emerging market, and open a gateway to the South American region.

We need to pursue participation in multilateral and regional economic co-operation to reinforce Hong Kong's position as Asia's world city. To this end, we have conveyed to ASEAN our wish to join the China-ASEAN Free Trade Area. We shall also continue to be an active member of the World Trade Organization and the Asia-Pacific Economic Cooperation to further promote trade and investment liberalization. With these efforts, more business opportunities will be opened up, facilitating greater trade and investment flows for Hong Kong.

To enhance the competitiveness of Hong Kong as an international financial, investment and commercial hub, we shall continue our efforts to expand our network of avoidance of double taxation agreements. Significant progress has been made in recent years, and our endeavour has been widely recognized by both local and foreign chambers of commerce. In just two years after the relevant legislative amendments took effect to align Hong Kong's exchange of tax information arrangements with international standards, we have already signed 17 new agreements, including those with some major economic partners such as the United Kingdom, Japan and France. We have also concluded agreements with partners like India, Malaysia and Mexico, and are in discussion with other partners, including Canada and South Korea.

At present, there are 7 000 parent companies from overseas and the Mainland operating in Hong Kong, an increase of 6% over 2010. They are attracted by a combination of factors, including our strategic location, sound legal system, simple and low tax regime and diverse pool of talent. We must strive to maintain these competitive edges.

I believe that we should take full advantage of our relationship with the Mainland while enhancing our international outlook. This should continue to be our way forward. It will further reinforce Hong Kong's position as a global economic, financial and commercial centre. Hong Kong is prepared and ready for future challenges.

### Promoting Development of Industries

To maintain Hong Kong's competitiveness, we have been pursuing economic development in recent years by actively promoting the four traditional pillar industries and the six industries where Hong Kong enjoys clear advantages.

#### The Pillar Industries

The four pillar industries, namely trading and logistics, financial services, business and professional services, and tourism, have been the engines powering Hong Kong's economic development for years. In 2010, the four industries brought about a total value added of almost \$1,000 billion and made a contribution of 58% to GDP, which represented an increase of nearly 15% over the previous year. They employed nearly 1.7 million people in the year.

#### *Trading and Logistics*

First, trading and logistics. With Hong Kong's strategic location and the competitive edge of the trading and logistics industry in handling high-value goods and providing high value-added services, Hong Kong is well-positioned to develop into a high-value goods inventory management and regional distribution centre. To facilitate development in line with this trend, the Government put a second logistics site at Tsing Yi on the market last December for the construction of modern logistics facilities. We shall continue to identify land suitable for logistics and port backup uses to meet the industry's development needs.

The planning of airport development and construction take time. Therefore, we should formulate long-term strategies in a timely manner to ensure that the handling capacity of the Hong Kong International Airport will fully meet the ever-increasing air traffic demand. Last year, the Airport Authority Hong Kong (AA) commenced Phase 1 works of its midfield expansion project to provide additional aircraft stands and apron facilities and a new passenger concourse. Upon completion of the project, the handling capacity of the airport will be increased to 70 million passengers and 6 million tonnes of cargo a year. Such capacity will be sufficient to cope with the air traffic demand up to 2020.

The AA launched a public consultation in 2011 on the findings of the Hong Kong International Airport Master Plan 2030. In their report submitted to the Government, the AA has recommended adopting the three-runway system as the blueprint for the airport's future development and further planning. The future development of the airport, the construction or not of the third runway in particular, and the overall economic development of Hong Kong are inextricably intertwined. The project will have profound financial implications for our society. The Government is considering the AA's recommendations carefully in a bid to make an early decision for the commencement of the next stage of work, which includes conducting an environmental impact assessment and preparing the associated detailed design and financing proposals.

Turning to the port, we have commissioned a preliminary feasibility study on the development of Container Terminal 10 at Southwest Tsing Yi to assess the project's impact on the environment and on road and marine traffic. We have also commenced the Study on the Strategic Development Plan for Hong Kong Port 2030 to update port cargo forecasts and explore how to make better use of the existing port facilities in support of future development. Both studies are scheduled for completion by the end of this year. We shall take into account the study results, economic situation, the views of stakeholders, and so on, when deciding on the need to develop Container Terminal 10 and the timetable.

While developing its services, the shipping industry is also very concerned about environmental protection. Last year, it launched the Fair Winds Charter. By signing the Charter, the industry voluntarily switches to low sulphur fuel for ocean-going vessels berthing in Hong Kong waters in a bid to reduce emissions. To encourage more carriers to switch to cleaner fuels when berthing in Hong Kong waters, I propose to reduce by half the port facilities and light dues charged on ocean-going vessels using low sulphur fuel while at berth in Hong Kong.

The proposed scheme will span three years and cost the Government \$260 million.

In response to the positioning of Hong Kong as an international maritime centre as set out in the National 12th FYP, we shall continue to reinforce the local maritime service cluster, strengthen manpower training, and join hands with the industry to promote both locally and abroad our maritime services in areas such as ship management, maritime arbitration and ship finance.

### *Financial Services*

The second pillar industry is financial services. The World Economic Forum ranked Hong Kong first in its Financial Development Index announced in late 2011. Overtaking the United States and the United Kingdom, Hong Kong becomes the first Asian financial centre to top the rankings. We shall keep up our efforts in maintaining Hong Kong's edge in financial services.

Last year, Hong Kong further consolidated its position as an offshore renminbi (RMB) business centre. Since last August, cross-border trade settlement in RMB has been expanded to cover the entire nation. RMB trade settlement conducted through Hong Kong amounted to RMB 1,900 billion in 2011, which was five times the value of the whole year of 2010.

Hong Kong became the first place outside the Mainland to develop an RMB bond market. As at the end of last year, there were 116 RMB bond issuances with a total value approaching RMB 180 billion. As at the end of 2011, RMB deposits in Hong Kong amounted to nearly RMB 590 billion, representing an increase of nearly 90% compared with the RMB 310 billion as at the end of 2010.

Last year, the Central Government announced a package of measures to support financial development in Hong Kong, of which eight are beneficial to the development of RMB business, such as allowing the use of RMB for direct investments in the Mainland and permitting investments in Mainland's equity and bond markets through the RMB Qualified Foreign Institutional Investors (RQFII) Scheme. These measures have been implemented. Regarding the RQFII, the first batch of products was approved by the Securities and Futures Commission in December last year for public subscription.

As regards strengthening our role as a fund-raising platform, Hong Kong was ranked first worldwide for the third consecutive year in terms of the total amount of funds raised through initial public offering, which amounted to US\$33 billion in 2011. Enterprises from the United States, Switzerland, Kazakhstan and Italy came last year to list here for the first time.

On asset management, Hong Kong's combined fund management business set another record high of over HK\$10 trillion by the end of 2010, representing a year-on-year growth of almost 19%. Two thirds of the assets of the fund management business in Hong Kong were sourced from non-Hong Kong investors, indicating that Hong Kong was a preferred location for overseas fund managers to conduct asset management business.

We shall continue to consolidate our position as a global platform to raise capital. In collaboration with the Hong Kong Exchanges and Clearing Limited (HKEx), we shall strive to attract more overseas companies, especially those from emerging markets, to list in Hong Kong. While maintaining a high standard of regulation, the HKEx is also studying ways to further facilitate listing or secondary listing of overseas companies in Hong Kong, and accept companies incorporated in other jurisdictions to apply to list here.

On the development of Islamic finance, we are close to finalizing the draft amendments to the relevant legislation with a view to levelling the playing field for common types of Islamic bonds (that is, sukuks) *vis-à-vis* their conventional counterparts as far as profits tax, property tax and stamp duty are concerned. We plan to conduct market consultation in the first quarter of this year to gauge market views on our legislative proposals, and introduce the amendment bill into this Council in the next Legislative Session.

With regard to the bond market, the iBond we launched last year was well received. It has helped enhance retail investors' understanding of and interest in bond investment, thereby fostering the development of the retail bond market in Hong Kong. It has also provided investors with another option for coping with inflation. As the interest rates in the market continue to stay at low levels, the attractiveness of conventional fixed-rate retail bonds to investors has been limited. To further promote the sustainable development of the retail bond market, another issuance of the iBond is a preferable option in the short term. I

have to point out that this is a special measure taken at this time having regard to the current market situation. In the long run, we need to leave room for developing other kinds of bonds, including conventional fixed-rate bonds, for the development of a more mature bond market in Hong Kong.

We shall launch a further issuance of iBond worth not more than HK\$10 billion under the Government Bond Programme. The iBond, with a maturity of three years, will target Hong Kong residents. Interest will be paid to bond holders once every six months at a rate linked to the inflation of the last half-year period. The HKMA will announce relevant details as soon as possible.

### *Business and Professional Services*

The third pillar industry is business and professional services. The National 12th FYP emphasizes domestic demand expansion, as well as upgrading and restructuring. Vice-Premier LI Keqiang also stressed last August during his visit to Hong Kong that the Central Government supported the stable growth, upgrading and restructuring of Hong Kong enterprises engaging in processing trade in the Mainland. The policy initiatives include maintaining a stable policy on processing trade, establishing a sound mechanism to facilitate the domestic sales of processing trade, and encouraging Hong Kong enterprises engaging in processing trade to upgrade and restructure. To assist Hong Kong enterprises in capturing the opportunities arising from the National 12th FYP in a more focused manner, the Chief Executive proposed in his Policy Address the setting up of a dedicated fund of \$1 billion. The fund aims to help Hong Kong enterprises tap the Mainland market by restructuring and upgrading their operations, developing their brands and expanding domestic sales in the Mainland. We shall seek funding approval from this Council in the first half of this year.

The National 12th FYP proposes lifting the share of the value added of the service sector in the Mainland's GDP by four percentage points in five years, equivalent to Hong Kong's GDP in one year. This will provide development opportunity of massive value for Hong Kong, being a service-oriented economy, and in particular service industry operators who wish to tap the Mainland market.

In this regard, the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) provides a suitable platform for Hong Kong enterprises and professionals to gain preferential market access to the Mainland. Under the framework of CEPA, the Government will maintain close liaison with the Mainland and the industries, and continue to encourage mutual recognition of professional qualifications and facilitate Hong Kong professionals' practice and business start-ups in the Mainland, and so on. All these efforts will serve to help meet the target of basically achieving liberalization of trade in services between the Mainland and Hong Kong towards the end of the National 12th FYP period.

Mainland enterprises can enhance their strength in tapping overseas markets by taking advantage of Hong Kong's mature service industry and rich international business experiences. Likewise, overseas companies can also invest in the Mainland market by making use of the business and professional services Hong Kong provides. We shall continue to work closely with the Mainland and actively complement the accelerated implementation of the policy of encouraging Mainland enterprises to go global, bringing into full play Hong Kong's strengths in various services sectors, including financial services, trading, legal services, accounting, logistics and advisory services.

Meanwhile, the Hong Kong Trade Development Council (HKTDC) will step up its efforts to go global jointly with both Mainland and Hong Kong enterprises. Together they will search for merger and acquisition and investment opportunities overseas, providing a win-win situation for all. To this end, the HKTDC plans to organize investment study tours and tours for co-operation on branding, and hold its "Lifestyle Expo" in various overseas cities. In addition, Invest Hong Kong will strengthen its publicity and promotional efforts in a number of Mainland cities to brief more Mainland enterprises on Hong Kong's business edge, and highlight the territory's role as a platform for Mainland companies to grow their business internationally.

### *Tourism*

Fourth, tourism. Tourism is an important pillar of our economy and employs a workforce of nearly 220 000. In 2011, our tourism industry again put up a robust performance. The number of visitors reached a new high of 42 million during the year, an increase of almost 50% over 2007. Total

spending associated with inbound tourism also saw an increase of nearly 70% over 2007, exceeding \$250 billion.

In recent years, Hong Kong has been investing heavily in tourism infrastructure. The redevelopment of Ocean Park at a cost of \$5.5 billion will be completed within this year. Ocean Park is working on a plan to construct an all-weather waterpark. We shall give it our full support to bring this project to fruition. On the development of hotels in Ocean Park, we shall put in place flexible arrangements, so that Ocean Park can revise the tender conditions for re-tendering the projects. We hope that these projects will help enhance the attractiveness of Ocean Park, making it ready for another success after an increase of 22% in attendance last year.

Turning to Disneyland. Its attendance was close to 6 million last year, with merchandise, food and beverage sales as well as hotel room occupancy registering impressive growth. Its latest themed area "Toy Story Land" was newly opened at the end of 2011 with another two, "Grizzly Gulch" and "Mystic Point", scheduled for completion in 2012 and 2013 respectively. We hope that the new themed areas will take Disneyland's performance in the coming year to new heights. Another phase of expansion in the existing park site is under planning. We shall carefully consider the proposals to be submitted to us.

Meanwhile, the development of the Kai Tak new cruise terminal is making good progress, with the terminal building and the first berth expected to start operation in mid-2013. We shall also update the hardware infrastructure of the border crossings to provide speedier and more convenient clearance services for tourists.

To make Hong Kong a more attractive place, the Mega Events Fund was established in 2009 for a period of three years. The Fund has sponsored a variety of events staged by many local non-profit-making organizations, such as the Hong Kong Dragon Boat Carnival and the Hong Kong Open Championship (golf tournament). I propose to allocate \$150 million to the Mega Events Fund and extend its operation for five years. We have also invited the Mega Events Fund Assessment Committee to study ways of giving the Fund more flexibility to facilitate its effective operation.

Currently, there are nearly 190 hotels in Hong Kong, supplying more than 62 000 rooms. The Government has been making various efforts to increase the

supply of hotel rooms. Firstly, we have put "hotel only" sites on our Land Sale Programme. Three out of five "hotel only" sites included in the Land Sale Programme for 2011-2012 have been sold. It is estimated that they will provide more than 1 500 hotel rooms. Another site sold was also designated for mixed development comprising hotels. In addition, as at the end of last year, five applications for redevelopment or wholesale conversion of industrial buildings into hotels were approved by the Lands Department. It is estimated that more than 1 500 hotel rooms will be provided. Three other applications are being processed. We estimate that the total number of hotels will increase by nearly 50 to close to 240 in 2016, supplying over 71 000 rooms, an increase of 9 000 rooms.

### The Six Industries

Cultural and creative industries, medical services, education services, innovation and technology, environmental industries, and testing and certification services are the six industries where Hong Kong enjoys advantages for further advancement. The private-sector part of these industries accounted for 8.4% of GDP in 2010 and contributed over \$140 billion value added to our economy, an increase of more than 15% over the previous year. The number of employees engaged in these industries was close to 410 000. I shall now give an account of the recent major development of each of these industries.

#### *Cultural and Creative Industries*

Design is an integral part of the creative industries. I have earmarked \$100 million to support the operation of the Hong Kong Design Centre (HKDC) for the coming three years, and to finance two anchor events, namely Business of Design Week and Hong Kong Design Centre Awards. Besides, we shall allocate new resources for a new round of the "Design Incubation Programme" launched by the HKDC. The programme offers management, marketing, financial, facility and other professional support services to design start-ups during their two-year incubation period.

Designated as Hong Kong Design Year, 2012 will feature a number of large-scale design activities for the promotion of Hong Kong design. We shall collaborate with the design sector, sponsor some of the signature events through the CreateSmart Initiative, and encourage the sector to showcase their excellence.

*Medical Services*

Renowned for its high standards and professionalism as well as its up-to-date medical technology and equipment, Hong Kong's healthcare sector is able to provide the public with quality medical services, and has potential for further advancement.

The Government has reserved four sites at Wong Chuk Hang, Tseung Kwan O, Tai Po and Lantau for the development of private hospitals. We are formulating the land disposal arrangements for these sites, and plan to tender out the two sites at Wong Chuk Hang and Tai Po in the first quarter of 2012. To ensure that services offered by new hospitals meet the needs of the public, future private hospitals will be subject to relevant development parameters covering the scope of services such as the types of specialty. The standard of services, such as the number of beds, hospital accreditation and pricing transparency, will also be specified.

*Education Services*

Our efforts to establish Hong Kong as a regional education hub have started to bear fruit. In recent years, our tertiary institutions have been recognized as leading institutions in various international rankings, and our business administration programmes are among the best in the world. In the 2010-2011 academic year, 18 000 non-local students from more than 70 countries or regions came to Hong Kong for post-secondary studies. Relaxing the restrictions on non-local students to stay in or return to Hong Kong will help attract more non-local students to come here to study. Since the implementation of this initiative in May 2008, more than 15 000 applications have been approved. To further promote the internationalization of our higher education, the Education Bureau will explore long-term goals and strategies in this respect and implement relevant measures to foster collaboration among institutions.

We shall continue to facilitate the development of the international school sector to provide school places to meet the demand from families coming to Hong Kong for work or investment. Five thousand additional international school places are expected to be available in the next few years with four international schools on greenfield sites coming on stream. We will continue to support *in-situ* expansion of individual international schools or allocate suitable vacant

school premises to them for short-term use. We will carry on monitoring closely the provision of school places in the international school sector and maintaining dialogue with the schools as appropriate.

On diversification, the number of self-financing degree-awarding tertiary institutions in Hong Kong has increased to six, providing a total of over 13 000 places. We launched two sites in 2010, and another two in 2011, for the development of self-financing degree programmes. We shall consider launching more sites as appropriate having regard to the development of the sector.

### *Innovation and Technology*

In recent years, we have sought to create an environment that facilitates the development of innovation and technology. We shall strengthen our efforts in four areas in the coming year.

Firstly, for providing world-class research infrastructure, Hong Kong Science Park Phase 3 development, costing \$4.9 billion, has commenced. The expansion will increase the floor area of Hong Kong Science Park by 50% to 330 000 sq m and create 4 000 scientific research-related jobs. The first batch of new buildings is scheduled for completion in early 2014.

The Hong Kong Science and Technology Parks Corporation (HKSTPC) will continue to revitalize the three industrial estates. We shall also invite the HKSTPC to explore the feasibility of expanding the Yuen Long Industrial Estate by about 16 hectares. To meet the needs for long-term development of the high-tech industry, we shall continue to identify sites for the sustainable development of Hong Kong Science Park and industrial estates.

Last year's Budget highlighted the importance of data centres to Hong Kong. The Policy Address announced that two hectares of land in Tseung Kwan O had been reserved for the development of data centres, and that consideration would be given to the use of industrial buildings for data centres. To ensure early provision of land for more data centres to be set up in Hong Kong, we shall implement two time-limited measures in 2012-2013. First, we shall exempt the waiver fees for using certain floors of eligible industrial buildings as data centres. In addition, where lease modification is required for the development of an industrial lot into a high-tier data centre, the Government will assess the premium

based on the use of the site as a high-tier data centre. We shall announce the implementation details in due course.

Secondly, for promoting collaboration with the Mainland, we shall encourage more local research and development (R&D) institutions and research personnel to take part in national science and technology programmes, and nominate Hong Kong experts for the National Science and Technology Programmes Expert Database. We shall also start a new round of application exercise for Partner State Key Laboratories.

Thirdly, we launched the R&D Cash Rebate Scheme in April 2010 to provide financial assistance to applied R&D projects and encourage co-operation between enterprises and local R&D institutions. By the end of last year, the Scheme had benefited nearly 270 enterprises. To enhance the effectiveness of the Scheme, we propose a threefold increase in the level of cash rebate under the Scheme for enterprises' qualified R&D projects, from 10% to 30%.

To support the R&D activities of SMEs, we propose to enhance the Small Entrepreneur Research Assistance Programme (SERAP) under the Innovation and Technology Fund by increasing the funding ceiling for each project under the SERAP from \$4 million to \$6 million. We shall also refine the operational details of the Programme and expand its scope of funding.

Fourthly, to nurture a culture of innovation, the Internship Programme under the Innovation and Technology Fund encourages universities, enterprises and R&D centres to employ local university graduates to participate in R&D. In the past three years, over 800 internships were provided under the Programme. To inspire more young people to engage in R&D, we shall increase the monthly allowance for each intern by nearly 20%.

### *Environmental Industries*

The current Government has introduced a number of green policies and has spent over \$30 billion on environment-friendly facilities and funded projects. The impetus provided by these facilities and projects has helped promote the environmental industries by creating numerous opportunities for the environmental engineering sector, thereby driving the demand for related skills, talent and services.

These facilities and projects include the Harbour Area Treatment Scheme currently underway and Sludge Treatment Facilities under construction. We have planned other public works such as the construction of Integrated Waste Management Facilities and Organic Waste Treatment Facilities. With our measures to promote waste reduction and recycling, the recycling industry in Hong Kong has been taking shape. To help enhance recycling technologies, we have earmarked land in EcoPark for the construction of facilities to break down waste electrical and electronic equipment into recyclable materials.

Our green policies benefit not only the industrial sector but also professional services. The Buildings Energy Efficiency Ordinance enacted in 2010 specifies the energy efficiency design standards for four types of building services installations, and requires certain buildings to conduct energy audits. With the full implementation of the new legislation in September 2012, there will be more business opportunities for related professional services. In collaboration with the industry, the Government has been promoting green building standards and assessment, bringing new opportunities for the green building sector.

We shall also capitalize on Hong Kong's advantages to open up business opportunities in the Mainland for our environmental industries. The Government will support the industry's participation in such activities as environmental exhibitions and trade missions to help build local environmental brands, and facilitate collaboration with local and overseas enterprises.

#### *Testing and Certification Services*

We have been working closely with the Hong Kong Council for Testing and Certification (HKCTC) to vigorously implement a three-year development plan for the testing and certification industry with a view to enhancing the industry's competitiveness. We shall also step up the promotion of our testing and certification services outside Hong Kong. In particular, our efforts are targeted at promoting testing and certification and developing new services in four selected trades, namely Chinese medicine, construction materials, food and jewellery.

In the field of Chinese medicine, we are assisting laboratories in raising the testing standard of Chinese herbal medicine. As for construction materials, we

shall make greater efforts to publicize the merits of product certification to the construction industry, and promote the product certification schemes for construction materials introduced in recent years. In respect of the food trade, we have been providing funding support for the industry to develop a new certification scheme on food hygiene management for meeting the operational needs of the local catering industry. This will create business opportunities for certification services. For the jewellery trade, we have worked out standard testing methods for jadeite jade, and shall introduce standard testing methods for the other two types of jade next year. In addition, the HKCTC will set up two new panels this year to explore with the industry new business opportunities in environmental protection and information and communications technology sectors.

With regard to access to the Mainland market, testing laboratories in Hong Kong have been allowed to perform testing of four types of products (that is, toys, circuit installation, information technology equipment and lighting apparatus) processed in Hong Kong for the China Compulsory Certification (CCC) System since last year. Under Supplement VIII to CEPA, the coverage of this pilot scheme will be extended this year to all 23 types of products under CCC. This offers testing laboratories in Hong Kong new opportunities to undertake testing work in the Mainland.

## Conclusion

The four pillar industries and the six industries are the major driving forces of our economy, accounting for over 60% of GDP and employing a workforce of over 2 million. The four pillar industries are well developed and have achieved significant growth over the years. Flourishing in recent years, the six industries also have good potential for development. Apart from creating many related jobs, these industries have also indirectly contributed to new employment opportunities in other sectors. For example, the creation of every 100 jobs in financial services will in turn bring about some 60 jobs in related industries. Similarly, in tourism and in import and export trade, every 100 jobs will indirectly bring about some 56 and 40 jobs respectively in related industries. We shall keep working with relevant sectors to further enhance the competitiveness of these industries so that they will continue to contribute to our economic development.

## **Public Finances in Retrospect and Prospect**

I shall now give a brief account of the revised estimates for 2011-2012 and the estimates for 2012-2013. I shall also review and forecast expenditure in major policy areas.

### **Revised Estimates for 2011-2012**

The revised estimate for government revenue for 2011-2012 is \$433.1 billion, \$63.4 billion higher than the original estimate. With the impressive economic performance last year, the revenues from profits tax and salaries tax have increased by nearly \$30 billion compared to the original estimate. To counter the risk of asset-property bubbles, the Government increased land supply by putting additional sites on the market last year since the announcement of the Budget. The sale of land brought in \$83.1 billion, nearly \$21.1 billion higher than the original estimate. For government expenditure, I forecast that the revised estimate will be \$366.4 billion, \$11.8 billion less than the original estimate.

For 2011-2012, I forecast an operating surplus of \$38.2 billion and a surplus of \$66.7 billion in the Consolidated Account, equivalent to 3.5% of GDP. By 31 March 2012, our fiscal reserves are expected to be \$662.1 billion, equivalent to 35% of GDP or 22 months of government expenditure.

### **Estimates for 2012-2013**

Operating expenditure for 2012-2013 is estimated to be \$315 billion, an increase of 6% over the revised estimate for 2011-2012. Recurrent expenditure will be \$264.3 billion. Capital expenditure will be \$78.7 billion, including an all-time high of \$62.3 billion on capital works. Taking into account operating and capital expenditure, I forecast that government expenditure will reach \$393.7 billion, an increase of 7% compared with the revised estimate for 2011-2012. Public expenditure will be equivalent to 21.4% of GDP.

I estimate that total government revenue for 2012-2013 will be \$390.3 billion. Earnings and profits tax, estimated at \$161.6 billion, will still be our major source of revenue. Land revenue is estimated at \$60 billion.

Taking all these into account, there will be a small deficit in our accounts in the coming years, and will largely achieve fiscal balance. I forecast a deficit of \$2.5 billion in the Operating Account and a deficit of \$0.9 billion in the Capital Account. There will be a deficit of \$3.4 billion in the Consolidated Account. Fiscal reserves are estimated at \$658.7 billion by end-March 2013, representing approximately 34% of GDP or equivalent to 20 months of government expenditure. In this highly uncertain global economic climate, we will hand over a healthy set of accounts to the next Government.

## **Government Expenditure**

Government expenditure is estimated to increase from more than \$230 billion in 2007-2008 to more than \$390 billion in 2012-2013, a rise of nearly 70%, which is significantly greater than the nominal GDP growth of 21% over the same period. Recurrent expenditure is estimated to grow by 33% during this period.

The allocation of resources by the Government is based on the principle of "policy leads and financial resources follow". A major function of the budget is to provide funding for the implementation of the policy objectives and initiatives announced in the policy address. I shall now give an account of government expenditure on education, health, social welfare, art, culture and sports, environmental protection and infrastructure.

### **Education**

Education is a matter of public concern. For individuals, it is a pathway to knowledge; for parents, it is a road to success for their children about which they are most concerned. Equipping our younger generation to achieve their full potential in a knowledge-based economy, education is also the golden key to promoting social mobility.

Education is the policy area which has always taken up the largest share of recurrent government expenditure. Recurrent expenditure in 2012-2013 is nearly \$60 billion, a jump of 28% compared with 2007-2008.

In the past few years, we have implemented a number of important education policies. On pre-primary education, we launched the Pre-primary

Education Voucher Scheme in the 2007-2008 school year to provide direct subsidy for parents amid the diversified development in pre-primary education. At present, over 80% of kindergarten parents choose to enrol their children in schools participating in the Scheme. In the 2010-2011 school year, the Scheme benefited a total of 120 000 school children with subsidies amounting to \$2 billion. We also provide school fee remission under the Kindergarten and Child Care Centre Fee Remission Scheme to ensure that children will not be deprived of the opportunity for kindergarten education due to lack of means.

We notice that there are calls from the community for free pre-primary education. We recognize the importance of pre-primary education and have allocated substantial resources to it. The issue is not solely a question of resources. More importantly, we must first analyse where the existing system is inadequate, and identify appropriate changes. The Education Bureau will maintain dialogue with stakeholders and seek the views of different sectors to enhance the quality of pre-primary education.

During the past few years, we have been increasing recurrent expenditure on primary and secondary education. The Government extended free education to 12 years in 2008, incurring an additional annual expenditure of \$1.2 billion. We have introduced small-class teaching in primary schools progressively since 2009. More teaching staff and resources are required due to the increased number of classes, and the estimated additional expenditure will reach \$2.1 billion a year. We also started to reduce in phases the number of students allocated to each Secondary One class from 38 to 34. It is estimated that the additional expenditure involved will reach \$1.4 billion a year. In 2009, we implemented the new senior secondary academic structure and enhanced the ratio of graduate teacher posts in public sector primary and secondary schools. These measures are expected to involve an additional expenditure of \$1.6 billion a year.

With regard to post-secondary education, we estimate that, by the 2014-2015 academic year, over one third of the relevant age cohort will have the opportunity to pursue degree-level education. If sub-degree places are also counted, over two thirds of our young people in the relevant age group will have access to post-secondary education. To facilitate the further development of post-secondary education, I have mentioned earlier that we shall provide \$1 billion to implement a new Project Yi Jin, \$2.5 billion to launch the sixth Matching Grant Scheme and \$2 billion to establish more scholarships.

We shall also continue our two-pronged strategy to promote the parallel development of the publicly-funded sector and self-financing sector. Apart from allocating \$1 billion annually for increasing the number of first-year first-degree and senior year undergraduate places funded by the University Grants Committee, the Government also provides a series of support measures to promote the development of the self-financing post-secondary sector. These measures include land grant at nominal premium, start-up loans, quality enhancement grants and accreditation grants. Last November, we also set up the \$2.5 billion Self-financing Post-secondary Education Fund to offer scholarships to students and provide support to institutions to enhance the quality of education.

Our established policy for student financial assistance is to ensure that no student will be denied access to education due to lack of means. In the 2010-2011 academic year, the Student Financial Assistance Agency (SFAA) disbursed grants and loans of over \$4.6 billion under various financial assistance and loan schemes, benefiting more than 360 000 students or one third of the total number of full-time students.

To give greater support to students from low-income families, the Government introduced various measures in the 2011-2012 academic year, including relaxing the income ceiling for full level of assistance under the means test mechanism, adjusting the tiers of assistance, increasing school textbook assistance, enhancing the Examination Fee Remission Scheme and the Kindergarten and Child Care Centre Fee Remission Scheme, and so on. The subsidy disbursed to each secondary or primary student who benefit from these measures will increase by 30% to \$5,000 a year on average, and the average grant per post-secondary student is also expected to increase by nearly 20% to \$38,000. It is estimated that the amount of grants and loans disbursed by the SFAA in the 2011-2012 academic year will increase by \$800 million to more than \$5.4 billion.

The Government commenced the Phase 2 public consultation on the Review of Non-means-tested Loan Schemes for post-secondary students in November last year. Proposals put forward include measures seeking to ease the repayment burden of student loan borrowers. If the proposals are supported by the public, the Government will implement them in phases starting from the next academic year. The Education Bureau will also review the interest rate mechanism for the means-tested living expenses loans and launch improvement measures in the next academic year.

## Health

Next to education, healthcare is an area of great public concern. In the past few years, the Government has provided additional resources to improve healthcare services. The recurrent expenditure on healthcare will be almost \$45 billion in 2012-2013, an increase of over 40% when compared with 2007-2008. The amount of recurrent funding allocated to the Hospital Authority (HA) will also increase by nearly 40% to \$40 billion in 2012-2013. In the coming year, \$2.2 billion will be allocated to meet expenditure on hospital projects, and \$500 million to acquire and upgrade medical equipment for public hospitals.

We have been continuously upgrading public healthcare facilities and specialist services through the provision of additional resources. In 2012-2013, the HA will increase its in-patient service capacity and strengthen its neonatal intensive care service. It will provide haemodialysis and peritoneal dialysis services for an additional 120 renal patients, provide risk factor assessment and management services for 84 000 diabetic and hypertensive patients, and set up eight new teams to take care of an additional 33 600 hypertensive patients. Moreover, the HA will extend the coverage of its community-based case management programme for patients with severe mental illness to four more districts, and enhance its care for hospitalized mental patients by providing multi-disciplinary treatment. With additional resources, the Government is also taking forward healthcare service reform initiatives in a progressive manner. These initiatives include enhancing primary care, encouraging public-private partnership, implementing hospital accreditation, and developing a territory-wide electronic health record sharing system.

In the past five years, the number of full-time medical staff of the HA increased by more than 10% to 60 000 in 2011-2012, including the addition of some 300 doctors and 1 800 nurses. Looking ahead, we need to recruit yet more medical staff. Apart from increasing the provisions for medical services, we shall allocate \$200 million to increase the number of first-year first-degree places in medicine by 100, nursing by 40 and allied health professions by 146.

At the same time, we shall take forward healthcare reform through three initiatives, that is, reviewing the healthcare manpower strategy, facilitating healthcare service development, and formulating a regulatory framework and

operational details for the Health Protection Scheme (HPS). We expect to put forward specific proposals in the first half of 2013, and shall finalize the implementation arrangements and proceed with the necessary legislative process as soon as possible. I have earmarked \$50 billion for providing the funding and appropriate financial incentives needed to support the healthcare financing arrangements.

## Social Welfare

Recurrent government expenditure on social welfare for 2012-2013 is estimated at \$44 billion, representing an increase of \$10 billion, or nearly 30%, when compared with \$34 billion for 2007-2008.

To cope with an ageing population, the Government has allocated substantial resources to various elderly services in recent years. In line with the Government's elderly policy which regards "ageing in place as the core, institutional care as back-up", we have allocated funds to provide 2 000 additional places of community care services, including 1 500 places for the Enhanced Home and Community Care Services and 500 day care places, from 2007-2008 to 2011-2012. For the coming year, I propose to increase recurrent funding by \$36 million for the provision of an additional 500 places for the Enhanced Home and Community Care Services and some 180 day care places. There will also be a breakthrough in the current funding and operation model for subsidized services as Government plans for a pilot scheme on community care service voucher for the elderly. Under the scheme, subsidy will be provided directly to eligible elders for them to choose the services they need.

While encouraging "ageing in place", the Government will continue to devote additional resources to upgrading residential care services and providing more residential care places. In the past five years, we have allocated funds to provide 3 600 additional subsidized residential care places. From 2011-2012 to 2014-2015, more than 2 600 additional subsidized residential care places will come on stream.

Last year's Policy Address announced the provision of public transport concessions for the elderly and eligible people with disabilities to travel on the general MTR lines, franchised buses and ferries at a concessionary fare of \$2 a trip. The Government is discussing the details of and specific arrangements for

the concession scheme with the public transport operators concerned and the Octopus Cards Limited, with a view to launching the concession scheme in 2012-2013.

Apart from providing funding for elderly services, we have also devoted substantial resources to supporting other people in need. We have strengthened rehabilitation services and support services to children, youngsters and families. On rehabilitation services, we have enacted the Residential Care Homes (Persons with Disabilities) Ordinance to bring the licensing scheme for residential care homes for persons with disabilities (RCHDs) into operation. We have also introduced certain complementary measures, which include providing \$70 million for the implementation of a pilot Bought Place Scheme for private RCHDs and \$39 million for the Financial Assistance Scheme. The aim is to encourage private RCHDs to upgrade their service standards and provide them with subsidies for improvement works.

In 2010, we allocated \$135 million as well to set up Integrated Community Centres for Mental Wellness across the territory for the provision of district-based and one-stop services. Additional funding totalling \$48 million for 2011-2012 and the coming year has been made available to strengthen the manpower of these centres to dovetail with the Case Management Programme of the HA and provide services for more people in need.

On support services to children and families, we shall provide 130 additional places for residential child care services in phases and raise the foster care allowance for foster families. In addition to the Integrated Family Service Centre established in Sham Shui Po last year, another three centres will be set up in districts with greater service demand, bringing the total number of such centres to 65. The total annual expenditure of these measures is estimated to be about \$68 million.

On youth services, to reach out to more youths at risk, we shall set up three more youth outreaching teams, one each in Tseung Kwan O, Ma On Shan and Tung Chung. With the additional teams, we can counsel them and refer them to other mainstream services. This will incur additional annual funding estimated at \$12 million.

## Art, Culture and Sports

The Government will continue to allocate substantial resources to the development of art, culture and sports. We granted a one-off upfront endowment of \$21.6 billion in 2008 to the West Kowloon Cultural District (WKCD) Authority for the implementation of the WKCD project. We also injected \$3 billion into the Arts and Sport Development Fund in 2010 and received approval to set up a \$7 billion "Elite Athletes Development Fund" in 2011 in support of the long-term development of sports, art and culture.

The Government's expenditure on art and culture in 2012-2013 will exceed \$3 billion. In 2012-2013, we shall provide a total of \$40 million additional funds for nine major performing arts groups, bringing the total amount of funding to over \$300 million, an increase of almost 40% compared with 2007-2008. Efforts have also been made to upgrade and promote museum service and organize major exhibitions for audience building. Expenditure on museum exhibitions and public art in 2012-2013 will be about \$85 million.

Since 2007, four new libraries have come into service. In 2009, the Government extended and standardized the opening days of major and district libraries in the territory to seven days a week, with weekly opening hours of 71 hours. The annual recurrent expenditure on library services has increased by \$34 million since then.

On sports development, we are promoting "sport for all" in the community. Since 2007-2008, a total of more than \$600 million has been spent on organizing recreational and sports activities in the community. Through the School Sports Programme, we also encourage students of primary, secondary and special schools to participate regularly in sports activities. In 2012-2013, we shall raise our funding support for national sports associations to almost \$250 million for providing training to athletes and organizing sports events. Through the "M" Mark Scheme, we help national sports associations host major international sports events in Hong Kong.

On sports infrastructure, we are building our first indoor velodrome in Tseung Kwan O while redeveloping both the Victoria Park and the Kwun Tong Swimming Pools. Preparatory work is underway for the development of a sports complex at Kai Tak. This project involves the construction of a main

stadium, a secondary stadium and an indoor sports arena. We are conducting a consultancy study on the project to explore the most suitable construction and financing arrangements.

### Environmental Protection

We are committed to protecting the environment, making Hong Kong a green and more pleasant place to live. The current-term Government has allocated over \$30 billion for building environment-friendly facilities, funding green projects, improving air quality, combating climate change, and improving waste management. To improve roadside air quality and promote green transport, we provide grants and tax concessions to encourage early replacement of old diesel commercial vehicles with new ones, and purchase of more environment-friendly vehicles. In addition, we have allocated \$300 million for setting up a Pilot Green Transport Fund to facilitate trial use of green and innovative transport technologies in the transport industry. Trials approved include the testing of electric vehicles for various uses, such as electric non-franchised buses for resident shuttle services and employee and on-campus transportation, and electric goods vehicles for courier services and goods transportation. These trial runs will commence within this year. The Government has also taken an important step to start the use of zero-emission buses, and we shall seek this Council's approval for a provision of \$180 million to subsidize trials of hybrid buses and fully electric buses by the franchised bus companies. The ultimate policy objective is the full-scale use of zero-emission buses across the territory.

On the promotion of electric vehicles, currently there are over 240 electric vehicles on local roads, more than double that of last year. We are installing charging facilities for electric vehicles in government car parks as planned. Along with the related facilities provided by the business and non-government sectors, it is estimated that there will be about 1 000 charging points in Hong Kong by mid-2012.

To combat climate change, save energy and reduce emissions, we have implemented new measures and introduced new legislation. The Mandatory Energy Efficiency Labelling Scheme, launched in 2009, now covers products whose electricity consumption accounts for 70% of that in the residential sector. The current-term Government has injected a total of \$1.5 billion into the

Environment and Conservation Fund. It subsidizes projects which promote energy saving, waste reduction and recycling, greening, conservation and scientific research on environmental protection. These projects aim at encouraging people's participation in the promotion of a greener lifestyle at different levels. Between 2008 and the end of 2011, the Fund approved more than 2 000 projects involving subsidies of over \$1 billion.

On improving waste management, the overall recovery rate of municipal solid waste in Hong Kong rose from 45% in 2006 to 52% in 2010. Under the legal framework provided by the Product Eco-responsibility Ordinance enacted by the Legislative Council in 2008, we have been progressively implementing a mandatory Producer Responsibility Scheme. With the Environmental Levy Scheme on Plastic Shopping Bags put in place since 2009, the number of such bags distributed by 3 000 registered retail outlets covered by the Scheme .....

(Mr Albert CHAN rose, while holding a placard in his hand)

**MR ALBERT CHAN** (in Cantonese): President, environmental protection and .....

**PRESIDENT** (in Cantonese): Mr CHAN, please sit down.

**MR ALBERT CHAN** (in Cantonese): President, I wish to seek an elucidation from the Financial Secretary because I did not catch his remarks clearly just now .....

**PRESIDENT** (in Cantonese): Mr CHAN, this is not the time for you to speak.

**MR ALBERT CHAN** (in Cantonese): President, I only wish to seek an elucidation on one question from the Financial Secretary .....

**PRESIDENT** (in Cantonese): This is not the time for you to ask questions either.

**MR ALBERT CHAN** (in Cantonese): President, the Rules of Procedure allow Members to seek elucidations. The Financial Secretary has covered the part on waste but I am not sure if I have missed anything. I have listened for two full hours, so I hope the Secretary can help me understand the relevant matters. I am not sure if I have missed anything because the Financial Secretary has already covered such matters as environmental protection and waste management .....

**PRESIDENT** (in Cantonese): Mr CHAN, you have already stated your request clearly. Please sit down immediately.

**MR ALBERT CHAN** (in Cantonese): President, I hope you can help me seek an elucidation from the Financial Secretary on whether or not he has talked about giving us \$8,000 in refund? President, I hope you can help me seek an elucidation from the Financial Secretary on this point.

**PRESIDENT** (in Cantonese): Mr CHAN, please sit down immediately. Financial Secretary, please continue.

**MR ALBERT CHAN** (in Cantonese): Give us \$8,000 in refund!

**PRESIDENT** (in Cantonese): Mr CHAN, sit down immediately.

**MR ALBERT CHAN** (in Cantonese): The surplus stands at \$80 billion .....

**PRESIDENT** (in Cantonese): Mr CHAN, if you continue to disrupt the order, I will have to ask you to leave immediately.

**MR ALBERT CHAN** (in Cantonese): ..... but he refuses to give us a refund. Shame on him!

**PRESIDENT** (in Cantonese): Mr CHAN, if you continue to disrupt the order, I will have to ask you to leave the Chamber immediately.

**MR ALBERT CHAN** (in Cantonese): President, you do not have to .....

**PRESIDENT** (in Cantonese): Please sit down now.

**MR ALBERT CHAN** (in Cantonese): ..... President, I am leaving of my own accord. I am leaving of my own accord in protest. Give us \$8,000 in refund!

(Mr Albert CHAN turned to leave his seat)

**PRESIDENT** (in Cantonese): Mr CHAN, leave the Chamber now.

(Security officers approached Mr Albert CHAN with a view to helping him leave the Chamber)

**MR ALBERT CHAN** (in Cantonese): He refuses to give us a refund. Shame on him! He refuses to give us a refund. Shame on him!

**PRESIDENT** (in Cantonese): Leave the Chamber now.

(Security officers were trying to help Mr Albert CHAN leave the Chamber)

**MR ALBERT CHAN** (in Cantonese): Don't bother. I am leaving of my own accord. He refuses to give us a refund. Shame on him! With \$80 billion in surplus, he refuses to give us a refund. Shame on him! The money belongs to the people.

**PRESIDENT** (in Cantonese): Mr CHAN, leave the Chamber now.

**MR ALBERT CHAN** (in Cantonese): He refuses to give us a refund. Shame on him!

(With the assistance of security officers, Mr Albert CHAN left the Chamber)

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

**FINANCIAL SECRETARY** (in Cantonese): President, on improving waste management, the overall recovery rate of municipal solid waste in Hong Kong rose from 45% in 2006 to 52% in 2010. Under the legal framework provided by the Product Eco-responsibility Ordinance enacted by the Legislative Council in 2008, we have been progressively implementing a mandatory Producer Responsibility Scheme. With the Environmental Levy Scheme on Plastic Shopping Bags put in place since 2009, the number of such bags distributed by 3 000 registered retail outlets covered by the Scheme has dropped by as much as 90%. Preparatory work is underway for the extension of the Environmental Levy Scheme on Plastic Shopping Bags and the introduction of a Producer Responsibility Scheme for waste electrical and electronic equipment. We are also consulting the public on the proposal for charging municipal solid waste.

## Infrastructure

To fulfil our policy objective of promoting economic growth through infrastructural development, the current-term Government has been increasing its investment in capital works over the past few years. By making such investment we can lay a firm foundation for future economic development and create employment opportunities during the project construction period. The total value of projects approved by this Council is expected to increase by three times from \$62 billion in 2007-2008 to \$184 billion this year. The annual actual expenditure on capital works also sees a significant threefold increase from \$20.5 billion in 2007-2008 to \$62.3 billion in 2012-2013 and is expected to increase to over \$70 billion per year in the next few years.

Expenditure on capital works is our investment in the future. A large part of the expenditure is devoted to massive projects, such as the Ten Major

Infrastructure Projects, cross-boundary facilities, and transport infrastructural projects, with a view to expanding our economic hinterland and strengthening the territory's road and railway network. These projects include the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the Hong Kong-Zhuhai-Macao Bridge, the Liantang/Heung Yuen Wai Boundary Control Point, the Central-Wan Chai Bypass, and railway construction works of the South Island Line (East) and the West Island Line. We shall also seek funding approval for the construction of the Shatin to Central Link from this Council in the current Legislative Session.

To increase land supply, we shall continue to carry out infrastructure works such as land formation, road construction and laying of water mains in the new development areas of different districts such as Tseung Kwan O, Kai Tak, Tuen Mun and Yuen Long.

While implementing large-scale infrastructure projects, we have spared no effort in taking forward projects of various scales to meet people's demand for public facilities for everyday life. District works projects approved by this Council in the five Legislative Sessions from 2007-2008 are estimated at \$220 billion in total. These projects include schools, hospitals, libraries, sports centres, swimming pools and community halls. We also hope to provide our citizens a better living environment and quality leisure facilities through implementing projects such as parks, cycle tracks and greening works. Upon completion of all the ongoing and approved waterfront promenade projects at Central, Quarry Bay, Kwun Tong and Kai Tak, the length of the water promenade open for public use will be extended by two kilometres.

Besides taking forward individual projects to construct waterfront promenades, the Development Bureau is exploring with the Harbourfront Commission on the establishment of a statutory and dedicated harbourfront authority, which will push ahead with the design, construction, operation and management of harbourfront projects with a creative mindset, flexible framework and entrepreneurial culture. A proposal is expected to be put forward in the middle of this year. We aspire to create a vibrant waterfront with all kinds of attractions for the enjoyment of the public and tourists. If the proposal is widely supported by the community, we shall provide the necessary financial support.

## **Public Finance Management**

Our need to achieve fiscal balance and avoid deficits is enshrined in the Basic Law. I have kept this in mind when preparing this Budget, just as I have in the past four years. While maintaining a low tax environment, we spare no effort to provide quality services for our people. We also ensure adequate fiscal reserves to cope with economic contingencies and build a solid financial foundation for the future.

### **Revenue**

Our revenue comes mainly from five sources, namely profits tax, land premium, salaries tax, stamp duty and investment returns on fiscal reserves. Together they account for three quarters of our total revenue. Highly susceptible to economic fluctuations, they are affected by the ebb and flow of the economy. Revenue from these sources has fluctuated wildly over the past decade, bringing many challenges to the management of public finances.

During the budget consultation period, some people suggested tax deductions for business or personal spending in particular areas such as rent, children's education, medical services, insurance and the purchase of products with Grade 1 Energy Efficiency Labels.

I fully understand that these suggestions are meant to reduce the burden of taxpayers or operating costs of businesses. However, I would like to point out that our simple and low tax regime has stood Hong Kong in good stead and contributed to our success over many years. Various types of allowances and deductions which are very generous are already provided under the current tax system. We must be extremely cautious when considering tax deduction proposals of any kind.

As far as profits tax is concerned, all operating expenses and capital expenditure permitted by the law are deductible from taxable profits. Currently, nearly 90% of companies do not have to pay tax. Some have suggested that we should introduce "group loss relief" and "loss carry-back" arrangements and tax concessions for specific sectors or enterprises. When considering these suggestions, we need to take into account various factors, such as whether the

proposals will further narrow our tax base and restrict the source of tax revenue to a handful of enterprises, making our tax revenue unstable.

In view of this year's economic forecast, and in support of our enterprises, I have put forward proposals, such as offering a one-off reduction of profits tax, waiving the business registration fees, halving the charges for import and export declarations and abolishing capital duty levied on local companies. These measures will benefit enterprises of different sizes in Hong Kong without compromising our established tax neutrality principle or being in favour of a particular type of enterprises.

Turning to salaries tax, the personal allowances currently available to taxpayers, including basic allowance, dependent parent allowance and child allowance, are provided having regard to their basic needs and additional financial burden arising from family responsibilities. The introduction of deductible items for various expenses of a private nature will make our tax system less flexible because individual taxpayers without the need to pay such specific expenses will not benefit from these deductions.

That said, I fully understand the financial burden of the middle class in areas like housing, education, and healthcare. In view of this year's economic situation and the needs of taxpayers, I have proposed one-off salaries tax reduction and adjustments to various personal allowances or deductions, including basic allowance, single parent allowance, married person's allowance, dependent parent allowance, child allowance, dependent brother/sister allowance, disabled dependant allowance, and the extension of the entitlement period for the tax deduction for home loan interest.

We have been striving to maintain a simple and low tax regime. According to the survey results of Invest Hong Kong and the Census and Statistics Department, our simple and low tax regime is the key favourable factor for Hong Kong as a location for setting up regional headquarters, regional offices or local offices. Paying Taxes 2012-The Global Picture published by the World Bank at the end of last year pointed out that Hong Kong was ranked among the top in the world for the ease of paying taxes. Among the advanced economies, Hong Kong is also one of the places with the lowest total tax rate. These suggest that the tax system in Hong Kong is a positive factor underpinning the competitiveness of Hong Kong enterprises.

## Expenditure

Government revenue is susceptible to fluctuations in the external economic environment, but it is undesirable to make any drastic changes to expenditure during periods of adversity. That is because almost 60% of our recurrent expenditure is provided for education, health and social welfare, which are closely related to people's livelihood. Reducing expenditure during an economic downturn will only add hardship to our people. Instead, we shall increase government expenditure, and our adequate fiscal reserves can provide the headroom for financial manoeuvres under such circumstances. In times of reduced revenue resulting from an economic downturn, the fiscal reserves allow us to maintain all the necessary public services, and adopt counter-cyclical fiscal measures to alleviate people's burdens, stimulate the economy and invest in the future. Take 2009 as an example. When GDP was forecast to contract by 2% to 3% that year, we adopted counter-cyclical measures. We increased government expenditure and relieved the pressure on our people. The strategy also created conditions favourable for the subsequent economic recovery. (Chart 5)

During the consultation period, there were quite a number of views on the appropriate level of public expenditure as a proportion of GDP. The share of public expenditure is close to 20% of GDP in recent years. Our policy is to prevent overspending by the Government, which will stifle the development of the private market. We strive to strike a proper balance between increasing government expenditure and maintaining a low tax regime. In the event that our expenditure continuously exceeds this level, we shall need to explore ways of increasing our revenue to maintain a higher level of expenditure. The European and the United States Governments have to resort to fiscal austerity measures of all kinds to tackle the debt crisis caused by their escalating expenditures in recent years. This illustrates the importance of upholding fiscal principles and maintaining the health of our public finances.

However, I must state that we can go beyond this level on a need basis. In fact, in four of the past 10 years, public expenditure exceeded 20% of GDP. This is also the case for the estimated public expenditure for 2012-2013.

In figuring out the level of government expenditure, we must take into account the fact that our Government adopts a cash-based accounting system with no provision for our liabilities, contingent liabilities and commitments, including

the government bonds issued in 2004, the loan guarantees for SMEs, infrastructure commitment and civil service pension. As at the end of March 2011, the present value of public officers pension obligations was over \$530 billion. Further increase is expected in the coming years. As for infrastructure, the value of capital projects approved by the Finance Committee and to be submitted to this Council within the year has reached \$400 billion. The loan guarantees for SMEs have surpassed \$70 billion. If government revenue drops due to any economic downturn, we shall have to draw on our fiscal reserves to pay for these expenditure.

Structural changes in the community such as an ageing population will also bring pressure to bear on public finances. We estimate that our population aged 65 or above will increase from the current 0.9 million to 2.1 million in 2030. To cope with this long-term issue, both the community and the Government will have to make sustained efforts in various respects. Measures implemented in certain policy areas, such as the healthcare financing reform, will help us get ready for the future. We also need to maintain adequate fiscal reserves if we are to take on the challenges posed by an ageing society.

### **Medium Range Forecast**

For the medium term, I project that the annual average growth rate will be 4% in real terms for the period 2013-2016, while the underlying inflation rate will average 3.5%. I forecast a small deficit in the Operating Account, Capital Account and Consolidated Account for 2012-2013. The Operating Account will see a surplus for the period between 2013-2014 and 2016-2017. With expenditure on infrastructure projects ever increasing, a deficit will arise in the Capital Account for the whole period. As we have earmarked \$50 billion for 2015-2016 to support the healthcare financing arrangements, the Consolidated Account will also run a deficit in that year. Fiscal reserves are estimated at \$670.4 billion by end-March 2017, representing about 27% of GDP or 18 months of government expenditure.

### **Concluding Remarks**

President, the office of Financial Secretary represents the most demanding responsibility that I have taken up during my years in the public service. It is my great honour to have had the opportunity to take on these challenges and difficulties with the people of Hong Kong.

I shall never forget the days when we were working together to fight against the financial turmoil. Beset with an unprecedented crisis, our financial stability was shaken, local exports fell by the biggest margin ever. This led to rising unemployment and negative GDP growth, affecting SMEs and the livelihood of our people. But, the people of Hong Kong rose to the difficulties with perseverance and flexibility. We not only rode out the crisis, we also staged a swift rebound well in advance of other economies. Thanks to the solidarity and commitment of all our people, our financial system remained stable while GDP has returned to positive growth. With full employment, Hong Kong saw a more vibrant retail business and market growth.

While adhering to the principles of prudent management of public finances, we show our commitment to the community. For my five budgets, I have increased government expenditure by nearly 70%. This exceeds GDP growth of 21% for the same period. Dedicated to education, medical services and social welfare to cater for public needs in such areas, this spending also helps invest in the future and sustain economic vibrancy. The increase in expenditure demonstrates our commitment, and confidence in Hong Kong. But we always bear in mind the importance of ensuring the structural integrity of public finances and keeping adequate fiscal reserves for future challenges. This will also save our next generation from bearing a heavy burden. In this year's Budget, I have made proposals to build on the sound economic conditions facing us to brace ourselves for a possible downturn. Although this term of Government will end in the middle of this year, we shall never give anything but our very best. Where necessary, we shall take appropriate and timely measures in a responsible manner to safeguard the well being of our society and economy.

A number of advanced economies around the world are currently engulfed by debt crises. The crux of their difficulties lies in lax fiscal discipline that makes it hard to rectify the situation. These governments have no alternative but to slash their expenditure or drastically increase their revenue, resulting in problems of all kinds in the political economy and society. These are real examples of how much trouble overspending and excessive borrowing can cause. They have convinced me that fiscal prudence is crucial if we are to maintain our socio-economic stability. It is sensible to uphold the principle of sustainability in public finance management. It is a principle that should not be abandoned lightly.

Looking ahead, global economic crises will take a different course in terms of frequency, speed of contagion and intensity under the impact of globalization. As Hong Kong continues to grow, being an open and small economy, it is inevitably vulnerable to any fluctuation in the world economy. In the face of social and economic changes in the days to come, we must uphold the principle of prudent management of public finances and strive to take pragmatic relief measures. This will involve greater wisdom and courage.

Trust and co-operation are keys to the functioning of a modern economy. With trust and co-operation come reduced transaction costs, increased opportunities for economic development and social advance. Without them, crises and shocks may easily make us stumble. That is why we always want the "big society" to play its part in fostering opportunity for community co-operation and solving social problems by engaging public resources to support community efforts.

This Government puts people first. We introduced an array of measures to stabilize the economy and safeguard people's livelihood during the past five years. We attach importance to preserving employment not just for the sake of socio-economic stability, but because we take our people as our primary concern. Similarly, when we invest in the future, we do not focus solely on hard infrastructure. We place particular emphasis on the provision of education opportunities for individuals and promote the well-being of the community. We make every effort to ease the hardship of those living in poverty. No matter how difficult the economic environment is, we never give up our commitment to do so.

Since I became Financial Secretary five years ago, I have always worked conscientiously. As the saying goes, "A steady conscience can stand the brunt of life." We have weathered tough times together, and overcome challenges and, each time, we have scaled new heights in our economic development. We may not always see eye-to-eye with each other on how to deal with the difficulties we face, but working together we have always been able to find ways to develop Hong Kong into a better place. Behind the intense discussions are our shared beliefs and affection for the place we live in, our home, Hong Kong. We have survived all the crises and made Hong Kong a modern international city which we can all be proud of. We are also able to show to the world our tenacity in the face of global competition.

President, we are fortunate to live and work in Hong Kong. True, this extraordinary city is not immune to challenges, but it also brings out the best in us by providing inspiring opportunities. From every crisis, without exception, we have emerged stronger and stood taller before the world. Undoubtedly, there will be many more ups and downs on the road ahead. But, if we take our shared beliefs as our guide and seek unity in our cause and trust in each other, there is nothing to stop us reaching many more milestones. This is not only my sincere wish, but my unshakeable conviction.

Thank you, President.

**PRESIDENT** (in Cantonese): I now propose the question to you and that is: That the Appropriation Bill 2012 be read the Second time.

In accordance with Rules 67 and 71 of the Rules of Procedure, the debate on the Second Reading of the Appropriation Bill 2012 is now adjourned, and the Estimates are referred to the Finance Committee for examination before the debate on the Bill resumes.

## **MOTIONS**

**PRESIDENT** (in Cantonese): Motion. Proposed resolution under the Interpretation and General Clauses Ordinance to amend the Frontier Closed Area (Amendment) Order 2011.

I now call upon the Secretary for Security to speak and move the motion.

## **PROPOSED RESOLUTION UNDER SECTION 34(2) OF THE INTERPRETATION AND GENERAL CLAUSES ORDINANCE**

**SECRETARY FOR SECURITY** (in Cantonese): I move that the motion, as printed on the Agenda, to amend the Frontier Closed Area (Amendment) Order 2011 (the Amendment Order) be passed by this Council.

The current coverage of the Frontier Closed Area (FCA) is specified in the Frontier Closed Area Order pursuant to section 36 of the Public Order Ordinance.

We announced in January 2008 the policy decision that the coverage of the FCA would be substantially reduced from about 2 800 hectares to about 400 hectares. In order to implement the reduced coverage of the FCA while maintaining the integrity of the boundary, we need to construct new boundary patrol road and primary boundary fence at certain sections along the Hong Kong SAR's boundary with the Mainland, and a secondary boundary fence along the entire boundary patrol road, from Mai Po in the west to Sha Tau Kok in the east.

To facilitate early implementation of the reduced FCA coverage, the construction works have been divided into four sections. We will implement the reduction of the FCA by amending the Frontier Closed Area Order in stages to tie in with the completion of the construction works for the four sections.

The construction works for the "Mai Po to the Lok Ma Chau Control Point Section" and the "Lin Ma Hang to Sha Tau Kok Section" have been completed. In this regard, we have enacted the Amendment Order to specify the reduced FCA in the two Sections concerned. The Amendment Order will take effect on 15 February 2012. This will, in effect, excise more than 740 hectares of land from the FCA for public access.

The Subcommittee set up by the Legislative Council has completed its scrutiny of the Amendment Order. I would like to thank the Chairman of the Subcommittee, the Honourable LAU Kong-wah, and other members of the Subcommittee for their valuable suggestions in the process as well as for giving support to the Administration in the submission of the proposed amendments to the Amendment Order to this Council for approval.

During the examination process, the Subcommittee noted that Note 1 of the Schedule under the Order explains the system on which the new co-ordinates are based. To ensure that the general public could easily understand the meaning of the co-ordinates, the Subcommittee suggested that Note 1 be placed before the location where the co-ordinates appear.

We agree to the suggestion of the Subcommittee. In this regard, we propose to move a motion to amend the Amendment Order by deleting Note 1 and adding a new section 3 to the Schedule, the substance of which being the same as Note 1. Accordingly, Notes 2 to 5 will be renumbered as Notes 1 to 4 in tandem.

I hope Members will support the passage of the motion, as printed on the Agenda, to amend the Amendment Order so that the first stage of FCA reduction will be implemented on 15 February 2012 as planned.

Thank you, President.

**The Secretary for Security moved the following motion:**

"RESOLVED that the Frontier Closed Area (Amendment) Order 2011, published in the Gazette as Legal Notice No. 170 of 2011 and laid on the table of the Legislative Council on 7 December 2011, be amended as set out in the Schedule.

Schedule

Amendments to Frontier Closed Area (Amendment) Order 2011

1. Section 3 amended (Schedule substituted)
  - (1) Section 3, new Schedule, after section 2 —  
Add  
"3. The coordinates are based on Hong Kong 1980 Grid System."
  - (2) Section 3, new Schedule —  
Repeal Note 1.
  - (3) Section 3, new Schedule —  
Re-number Notes 2, 3, 4 and 5 as Notes 1, 2, 3 and 4."

**PRESIDENT** (in Cantonese): I now propose the question to you and that is: That the motion moved by the Secretary for Security be passed.

**MR LAU KONG-WAH** (in Cantonese): President, in my capacity as Chairman of the Subcommittee on Frontier Closed Area (Amendment) Order 2011 (the Subcommittee), I now report on the deliberations of the Subcommittee.

Members noted that the Frontier Closed Area (Amendment) Order 2011 (the Amendment Order) seeks to specify the coverage of the frontier closed area (FCA) after completion of the construction works to reduce the boundaries of the FCA.

In response to members' concern about the security of the reduced FCA, the Administration has advised that to implement the reduced coverage of the FCA while maintaining the integrity of the boundary, it will construct a secondary boundary fence along the boundary patrol road and new sections of the boundary patrol road and the primary boundary fence at certain sections, thereby enclosing the road and ensuring that the primary boundary fence and boundary patrol road will be protected from deliberate or inadvertent interference. According to the Administration, any person who enters or leaves the closed area is required to possess a valid Closed Area Permit. Upon the reduction of FCA in February 2012, apart from Sheung Shui Police Station and Sha Tau Kok Police Station where the applications can be processed, the police will expand its service and set up a Closed Area Permit Office at the Sha Tau Kok Checkpoint to handle applications from local residents (including fishermen) for Closed Area Permits.

In the course of the deliberations, members noted that Note 1 of the Schedule to the Amendment Order contains important information as to the system of co-ordinates used in the Schedule. To further enhance comprehension of the co-ordinates by the public, members considered it advisable to place Note 1 in the main text of the Schedule rather than at the end of the Table. Having considered members' view, the Administration has agreed to amend the Amendment Order to delete Note 1 and add a new section 3 to the Schedule, the substance of which being the same as Note 1. The Subcommittee supports the amendment proposed by the Administration.

President, I will now express my personal views.

The opening up of the FCA has remained my first and foremost concern since the first year after I became a Member of the Legislative Council, because the FCA lies within the boundary of my constituency. When I visited the FCA at that time, I found that the vast expanse of land there was beautiful, but the public felt that it was very inconvenient to go there. Therefore, historically, there has been a need to make changes to the FCA.

The amendments proposed by the Administration today are simple but have great historical significance. After opening up the FCA, there will certainly be changes in the living of the people but there will be boundless development there in the future. The remaining problem is that the 400-hectare Sha Tau Kok town will not be opened up for the time being. This does warrant our concern, for it means that the residents there will still be living in the closed area. While they can see that a large piece of land that used to lie within the FCA — places where their friends and colleagues live — may have been released to become an open area, with the Sha Tau Kok town alone remaining still closed, I believe they will feel somewhat disappointed. In the long term, this area will need to be opened up, though we are, of course, concerned about issues relating to customs clearance. In the short term, even though this area cannot be opened up now, I hope the Administration can pay attention and provide support to it in respect of the living of the residents, their daily necessities, and even housing in the area.

President, I support this Amendment Order.

**MR WONG SING-CHI** (in Cantonese): President, I have worked in the frontier area and North District for almost 30 years. The residents in North District and the frontier area consider that the arrangements for the frontier closed area (FCA) in Hong Kong are basically rather absurd, though some are made to meet actual security needs. It is because to many residents living in the FCA, while their relatives and friends in Hong Kong can cross the border with just a Home Visit Permit, they nevertheless have to apply for a Closed Area Permit or permission for entering the FCA to visit the residents there, and they even cannot always pay visits to residents in the FCA. Therefore, many residents living in the FCA have, over the years, hoped for the opening up of the FCA. This arrangement made by the Administration is indeed a benevolent measure and should be implemented expeditiously. For this reason, the Democratic Party will support this motion. However, the 700-odd hectares of land proposed to be opened up now may account for only one third of the total area of the FCA planned to be opened up. We hope that the remaining two thirds of the FCA can be opened up as soon as possible.

Moreover, as Mr LAU Kong-wah has just said, in Sha Tau Kok there is still a huge piece of land inhabited by a large number of residents which has not

yet been opened up, and this has disappointed many residents. I hope that the Government can, in the long term, consider implementing better frontier security measures and arrangements to facilitate the opening up of land where residents of Sha Tau Kok town are living. Even though these places cannot be opened up now, I hope that after the passage of these proposed measures for the FCA, the Administration can start streamlining the arrangements for all residents in the FCA in entering and leaving the FCA and the arrangements for application for the Closed Area Permit required for visiting residents in the FCA. Otherwise, the absurd arrangements that I have just referred to will remain, which means that Hong Kong residents can easily enter and leave the borders and places in our country or other countries but cannot enter places within the boundaries of Hong Kong. This is indeed rather absurd. I, therefore, believe the Government should step up efforts to provide support in this respect and streamline the arrangements for entering and leaving those places in the FCA which have yet been opened up.

Furthermore, the opening up of these places in the FCA can actually increase the population in the area and there may also be great changes in the use of land in the area. While the Government has made some efforts in planning, it has not obtained the full support of the residents. Therefore, I hope that the Government can consult the residents more on the direction of the overall development, and in order to provide support in future, some arrangements should be implemented expeditiously, such as mass transport arrangements, the road network, or other facilities and land planning in the area. I believe following the first-phase opening up of the FCA, the Administration should start implementing more arrangements to achieve greater effects, so that residents in the FCA who have been subject to restrictions in entering and leaving the FCA or whose relatives and friends have been subject to such restrictions for so many years will know that the places where they live still have prospects in the future and that they can continue to live there at ease or there can be development in their living environment. The Democratic Party supports this motion

**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 Security to reply.

**SECRETARY FOR SECURITY** (in Cantonese): President, as I have mentioned earlier, the Frontier Closed Area (Amendment) Order 2011 seeks to specify the reduced coverage of the frontier closed area (FCA) in the Mai Po to the Lok Ma Chau Control Point Section and the Lin Ma Hang to Sha Tau Kok Section. The amendment proposals in the motion on the Amendment Order are meant to facilitate easy comprehension by the public of the meaning of the co-ordinates found in the Schedule to the Amendment Order.

Mr WONG Sing-chi has talked about the problem of Closed Area Permit, that is, making applications for a permit to enter the FCA. I would like to state clearly that the police will consider the specific circumstances of the applicants, that is, whether they have a practical need to enter the FCA, before issuing Closed Area Permits to them. This is because as its name suggests, a closed area is normally closed to the public. The police will consider whether, for example, the applicants are persons who live, study or work in the closed area or owing to family or historical background, they have to maintain ties with the community in the closed area, and so on. As for residents living on land of the FCA to be excised, they can apply to the police for a Closed Area Permit as before to visit their friends and relatives living in the FCA or for any other practical need.

Mr WONG has also pointed out that matching transport facilities should be increased to facilitate the development of land excised from the FCA. In this connection, we will convey the Member's views to the Transport and Housing Bureau. According to information from the Transport and Housing Bureau, roads connecting the land excised from the FCA will be improved in accordance with the planning study for the FCA undertaken by the Planning Department and in line with the implementation timetable for the reduction of the coverage of the FCA. With respect to public transport services, the Government will take action to strengthen the public transport services for the land excised from the FCA, in conjunction with the development and planning of the newly opened areas and supplemented by the adding of infrastructure and other matching facilities such as roads, footpaths, pick-up points for vehicles, and so on.

Mr LAU Kong-wah has spoken on the wish of some Members for the opening up of the Sha Tau Kok closed area as soon as possible. We know that

Sha Tau Kok has its unique historical background and there is also the Chung Ying Street in it. However, in view of our efforts to combat illegal immigration and smuggling, there is a need to maintain the integrity of the boundary and we cannot open up the Sha Tau Kok closed area completely for the time being and revoke its status as a closed area. However, we have been discussing with the residents in Sha Tau Kok on the possibility of operating some kind of eco-tours such as by opening up the Sha Tau Kok pier for that purpose. We will maintain a close dialogue with them.

President, the Amendment Order as amended will come into effect on 15 February 2012 to implement the first stage of the reduced FCA coverage. This will excise about 740 hectares of land from the FCA for public access.

President, I so submit.

**PRESIDENT** (in Cantonese): I now put the question to you and that is: That the motion moved by the Secretary for Security be passed. 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.

## **MEMBERS' MOTIONS**

**PRESIDENT** (in Cantonese): Members' motions. Proposed resolution under the Interpretation and General Clauses Ordinance to extend the period for amending two items of subsidiary legislation laid on the table of this Council on 11 January 2012. The two items of subsidiary legislation are the Road Traffic

(Impairment Test) Notice and Road Traffic (Amendment) Ordinance 2011 (Commencement) Notice 2012.

I now call upon Ms Miriam LAU to speak and move the motion.

**PROPOSED RESOLUTION UNDER SECTION 34(4) OF THE  
INTERPRETATION AND GENERAL CLAUSES ORDINANCE**

**MS MIRIAM LAU** (in Cantonese): President, in my capacity as Chairman of the Subcommittee on the Road Traffic (Impairment Test) Notice and Road Traffic (Amendment) Ordinance 2011 (Commencement) Notice 2012, I now move a motion to extend the scrutiny period of the two Notices to 29 February 2012.

At the House Committee meeting on 13 January 2012, Members decided to form a Subcommittee to study the two Notices jointly. As the Subcommittee needs more time for scrutiny, I implore Members to support the motion to extend the scrutiny period of the two Notices to 29 February 2012.

**Ms Miriam LAU moved the following motion:**

"RESOLVED that in relation to the —

- (a) Road Traffic (Impairment Test) Notice, published in the Gazette as Legal Notice No. 1 of 2012; and
- (b) Road Traffic (Amendment) Ordinance 2011 (Commencement) Notice 2012, published in the Gazette as Legal Notice No. 2 of 2012,

and laid on the table of the Legislative Council on 11 January 2012, the period for amending subsidiary legislation referred to in section 34(2) of the Interpretation and General Clauses Ordinance (Cap. 1) be extended under section 34(4) of that Ordinance to the meeting of 29 February 2012."

**PRESIDENT** (in Cantonese): I now propose the question to you and that is: That the motion moved by Ms Miriam LAU be passed.

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

(No Member indicated a wish to speak)

**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 respectively of each of the two groups of Members, that is, those returned by functional constituencies and those returned by geographical constituencies through direct elections, who are present. I declare the motion passed.

**PRESIDENT** (in Cantonese): Ms Miriam LAU will move a motion under Rule 49E(2) of the Rules of Procedure to take note of Report No. 10/11-12 of the House Committee laid on the Table of the Council in relation to the Mandatory Provident Fund Schemes (Contributions for Casual Employees) (Amendment) (No. 2) Order 2011.

**PRESIDENT** (in Cantonese): According to the relevant debate procedure, I will first call upon Ms Miriam LAU to speak and move the motion, and then call upon the Chairman of the Subcommittee formed to scrutinize the relevant item of subsidiary legislation to speak, to be followed by other Members. Each Member may only speak once and may speak for up to 15 minutes. Finally, I will call

upon the public officer to speak. The debate will come to a close after the public officer has spoken, and the motion will not be put to vote.

I now call upon Ms Miriam LAU to speak and move the motion.

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

**MS MIRIAM LAU** (in Cantonese): President, in my capacity as Chairman of the House Committee, I move under Rule 49(E) of the Rules of Procedure that the motion, as printed on the Agenda, be passed so that Members can debate on the Mandatory Provident Fund Schemes (Contributions for Casual Employees) (Amendment) (No. 2) Order 2011 mentioned in the Report No. 10/11-12 of the House Committee on Consideration of Subsidiary Legislation and Other Instruments.

#### **Ms Miriam LAU moved the following motion:**

"That this Council takes note of Report No. 10/11-12 of the House Committee laid on the Table of the Council on 1 February 2012 in relation to the subsidiary legislation and instrument(s) as listed below:

<u>Item Number</u>	<u>Title of Subsidiary Legislation or Instrument</u>
(2)	Mandatory Provident Fund Schemes (Contributions for Casual Employees) (Amendment) (No. 2) Order 2011 (L.N. 171/2011)."

**PRESIDENT** (in Cantonese): I now propose the question to you and that is: That the motion moved by Ms Miriam LAU be passed.

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

**MR IP KWOK-HIM** (in Cantonese): President, I speak on behalf of the Democratic Alliance for the Betterment and Progress of Hong Kong (DAB) in support of the Mandatory Provident Fund Schemes (Contributions for Casual Employees) (Amendment) (No. 2) Order 2011 (the Amendment Order). The amendments in the Amendment Order are made in consequence to the revised maximum level of relevant income as set out in Schedule 3 of the Mandatory Provident Fund Schemes Ordinance. The Mandatory Provident Fund Schemes Authority (MPFA) is required to make consequential amendments of a technical nature to the Mandatory Provident Fund Schemes (Contributions for Casual Employees) Order (the Order) based on the approved adjusted daily relevant income of \$830.

The Order will only apply to casual employees under the two industry schemes of catering and construction industries. In the case of a casual employee to whom an employer pays the daily relevant income once or more than once a day and his income falls within "more than \$650 but not more than \$830 per day", the new amount of contribution will be \$37.5 per day, representing an increase of \$7.5 compared with the mandatory contribution currently applicable to employees falling within the income band of more than \$650 per day.

Regarding public consultation on the Amendment Order, the MPFA indicated that the Mandatory Provident Fund Schemes Advisory Committee was consulted in June last year and the latter expressed agreement with the amendments. The MPFA also issued a notice on the proposed amendments to the Mandatory Provident Fund Industry Schemes Committee, trade unions and relevant government departments in June last year and no comment was received in respect of the relevant amendments. As the Amendment Order is technical in nature, the public has not raised any other objection. Therefore, the DAB supports the Amendment Order and agrees that it will come into operation in June 2012 to tie in with the effective date of the (Amendment of Schedule 3) Notice.

President, I so submit.

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

(No Member indicated a wish to speak)

**PRESIDENT** (in Cantonese): Members have already spoken. I now call upon the Under Secretary for Financial Services and the Treasury to speak. This debate will come to a close after the Under Secretary has spoken.

**UNDER SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY** (in Cantonese): President, corresponding mandatory contributions for different income bands are set out in the Mandatory Provident Fund Schemes (Contributions for Casual Employees) Order (the Order). The Order, which applies to casual employees in catering and construction industries, seeks to facilitate these employees and their employers in calculating their contributions. In consequence to the passage of the Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 3) Notice 2011, which has raised the maximum relevant income level and the corresponding daily figure for maximum relevant income level for Mandatory Provident Fund Schemes from \$20,000 to \$25,000 per month, and from \$650 to \$830 per day respectively, the Mandatory Provident Fund Schemes Authority has formulated the Mandatory Provident Fund Schemes (Contributions for Casual Employees) (Amendment) (No. 2) Order 2011 (the Amendment Order) so as to adjust correspondingly the contributions applicable to casual employees under the industry schemes. The Amendment Order will come into operation on 1 June this year simultaneously.

According to the figures in December 2011, around 4 500 and 14 700 casual employees are earning a daily income of more than \$650 in the catering industry and construction industry respectively. After the Amendment Order has come into operation, the amount of their daily contribution for their retirement life in the future will be increased by not more than \$11.5 per day.

Finally, I am most grateful to members of the Subcommittee for their participation in the deliberation of the Amendment Order and Mr IP for his speech just now. I so submit, President.

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

**NEXT MEETING**

**PRESIDENT** (in Cantonese): I now adjourn the Council until 11 am on Wednesday 8 February 2012.

*Adjourned accordingly at fourteen minutes to Two o'clock.*

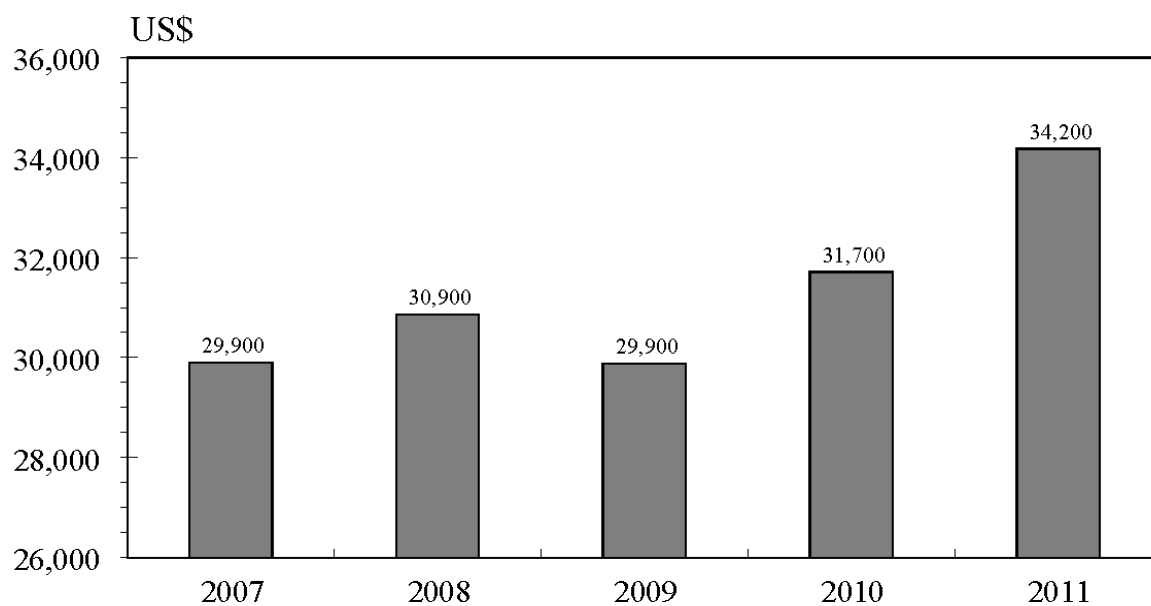
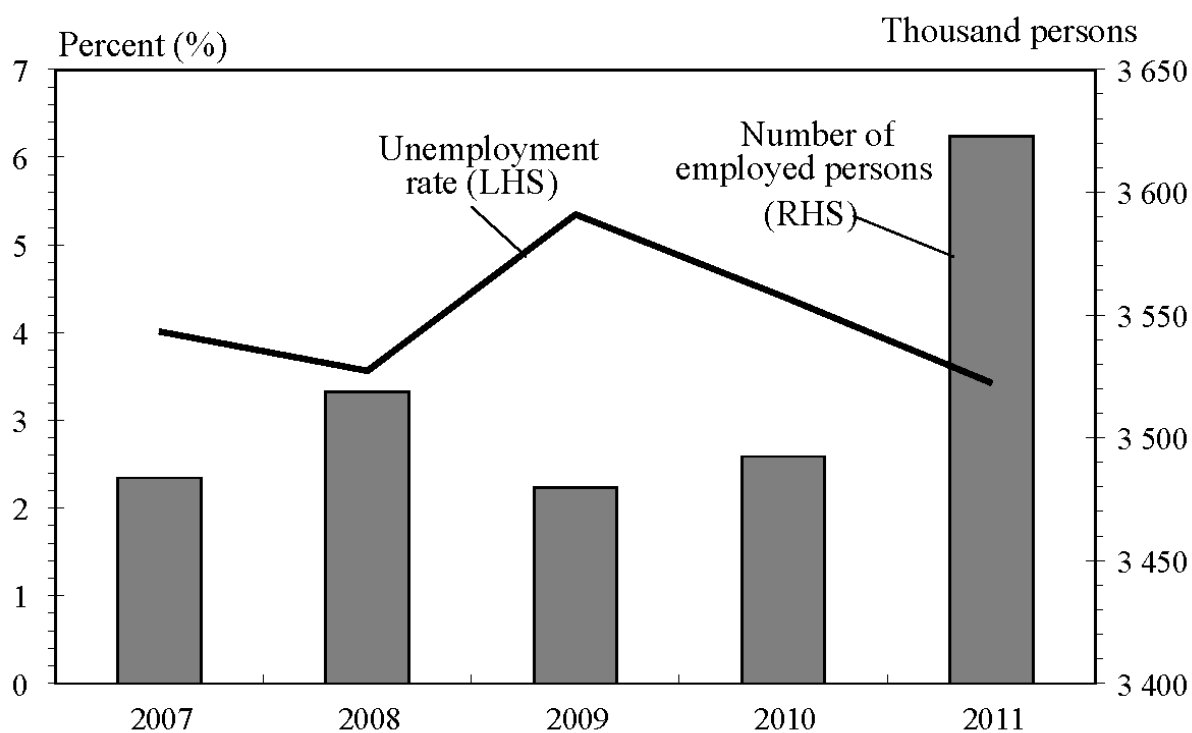
**Chart 1****Per Capita Gross Domestic Product****Chart 2****Number of Employed Persons and Unemployment Rate**

Chart 3

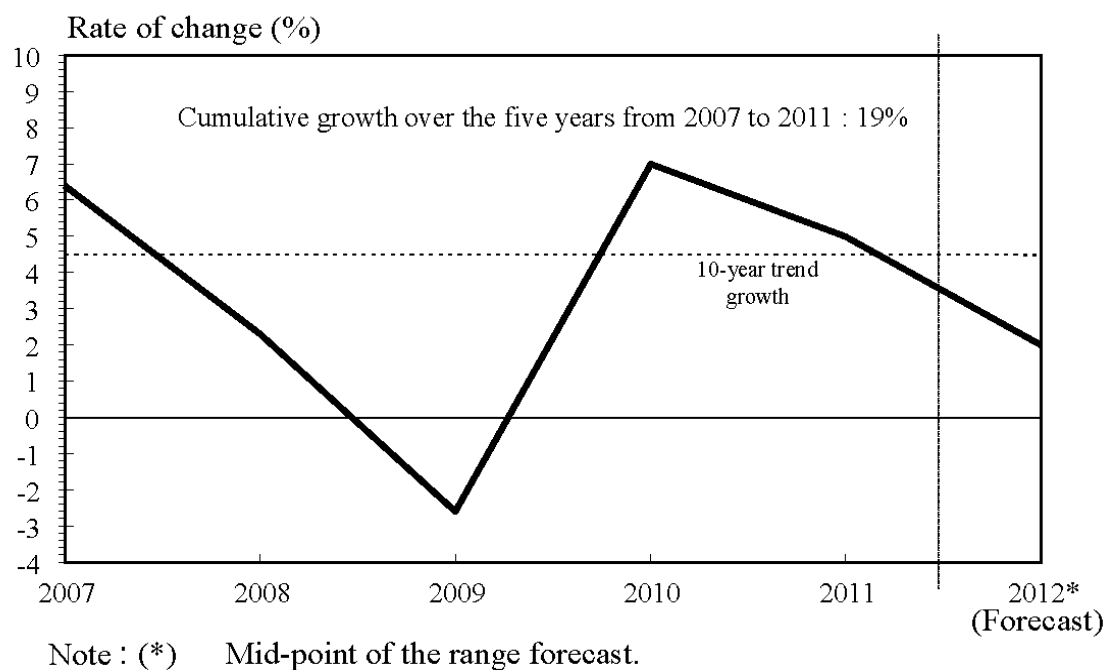
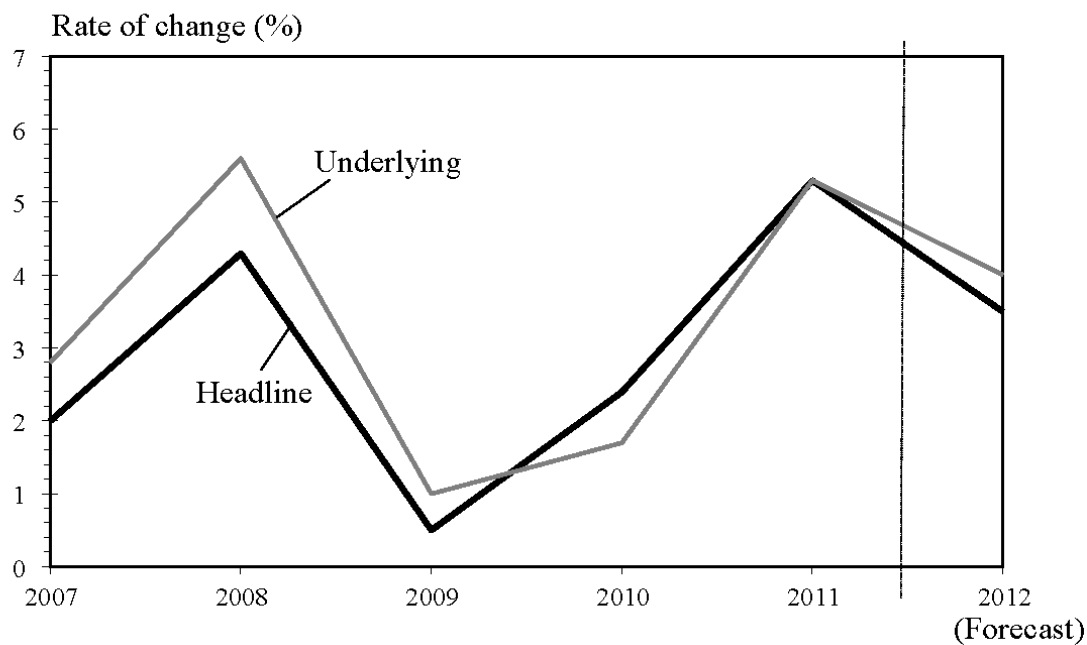
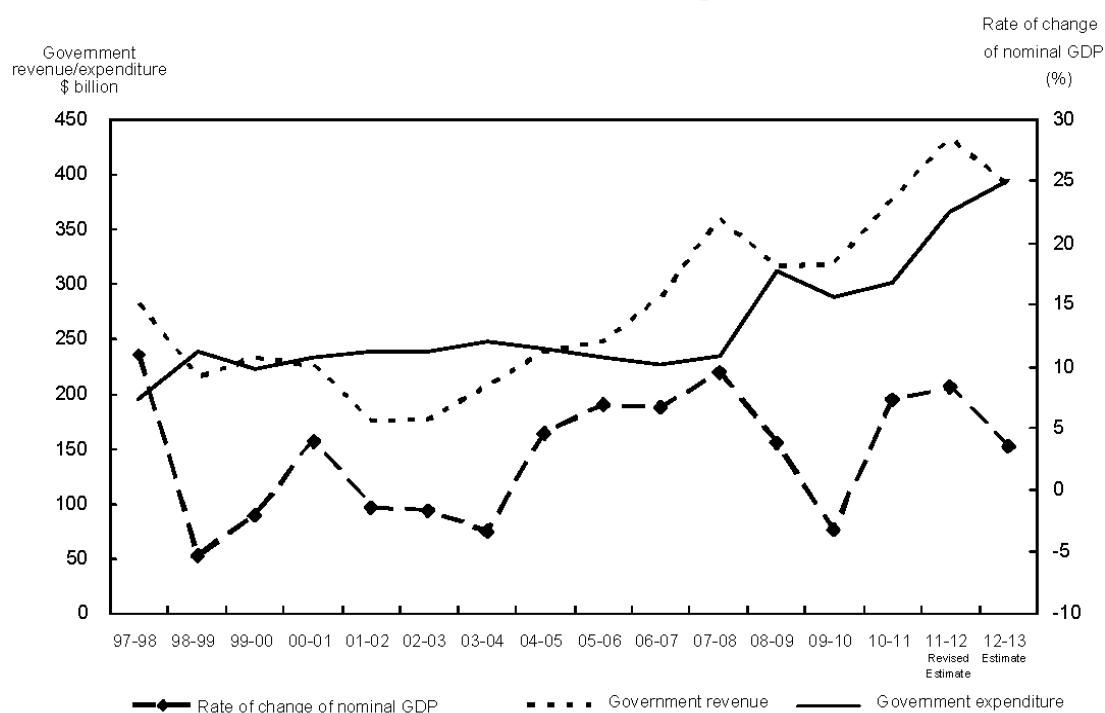
**Real Gross Domestic Product**

Chart 4

**Composite Consumer Price Index**

**Chart 5****Government Revenue and Expenditure**

## EFFECT OF THE GENERAL REVALUATION OF RATES ON MAIN PROPERTY CLASSES

<i>Property Type</i>	<i>2012-13</i>		
	<i>Average Increase in Rateable Value<sup>(6)</sup></i>	<i>New Average Rates Payable<sup>(7)</sup></i>	<i>Increase<sup>(8)</sup></i>
	<i>%</i>	<i>\$ per month</i>	<i>\$ per month</i>
Small Domestic Premises <sup>(1)</sup> (Private)	+10	355	<b>+30</b>
Medium Domestic Premises <sup>(1)</sup> (Private)	+8	855	<b>+65</b>
Large Domestic Premises <sup>(1)</sup> (Private)	+7	2,134	<b>+130</b>
Public Domestic Premises <sup>(2)</sup>	+8	184	<b>+13</b>
<b>All Domestic Premises<sup>(3)</sup></b>	+8	375	<b>+29</b>
Shops and Commercial Premises	+8	2,464	<b>+174</b>
Offices	+25	3,162	<b>+639</b>
Industrial Premises <sup>(4)</sup>	+9	921	<b>+75</b>
<b>All Non-domestic Premises<sup>(5)</sup></b>	+12	2,400	<b>+247</b>
<b>All Properties</b>	+10	640	<b>+58</b>

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

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

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

(3) Including car parking spaces in domestic premises.

(4) Including factories and storage premises.

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

(6) The rateable values for 2012-13 reflect changes in open market rental values between 1 October 2010 and 1 October 2011.

(7) The effect of the proposed rates concession in 2012-13 has not been taken into account.

(8) The effect of rates concession in 2011-12 has not been taken into account.

*Supplement*

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

<i>Property Type</i>	<i>2012-13</i>		
	<i>Average Increase in Rateable Value<sup>(6)</sup></i>	<i>New Average Rent Payable</i>	<i>Increase</i>
	<i>%</i>	<i>\$ per month</i>	<i>\$ per month</i>
Small Domestic Premises <sup>(1)</sup> (Private)	+9	202	+17
Medium Domestic Premises <sup>(1)</sup> (Private)	+8	485	+36
Large Domestic Premises <sup>(1)</sup> (Private)	+6	1,035	+56
Public Domestic Premises <sup>(2)</sup>	+8	109	+8
<b>All Domestic Premises<sup>(3)</sup></b>	+8	198	+15
Shops and Commercial Premises	+7	1,378	+92
Offices	+27	3,393	+717
Industrial Premises <sup>(4)</sup>	+9	551	+45
<b>All Non-domestic Premises<sup>(5)</sup></b>	+10	1,287	+113
<b>All Properties</b>	+9	315	+26

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

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

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

(3) Including car parking spaces in domestic premises.

(4) Including factories and storage premises.

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

(6) The rateable values for 2012-13 reflect changes in open market rental values between 1 October 2010 and 1 October 2011.

## SALARIES TAX

### Changes to Allowances and Deductions

	<i>Present</i> (\$)	<i>Proposed</i> (\$)	<i>Increase</i> (\$)	<i>(%)</i>
<b>Personal Allowances:</b>				
Basic	108,000	120,000	12,000	11
Married	216,000	240,000	24,000	11
Single Parent	108,000	120,000	12,000	11
<b>Other Allowances:</b>				
Child:				
1st to 9th child				
Year of birth	120,000	126,000	6,000	5
Other years	60,000	63,000	3,000	5
Dependent Parent/Grandparent:				
Aged 60 or above				
Basic	36,000	38,000	2,000	5.6
Additional allowance (for a dependant living with the taxpayer)	36,000	38,000	2,000	5.6
Aged 55 to 59				
Basic	18,000	19,000	1,000	5.6
Additional allowance (for a dependant living with the taxpayer)	18,000	19,000	1,000	5.6
Dependent Brother/Sister	30,000	33,000	3,000	10
Disabled Dependant	60,000	66,000	6,000	10
<b>Deduction Ceiling:</b>				
Self-Education Expenses	60,000	60,000	—	—
Home Loan Interest	100,000	100,000	—	—
(Number of years of deduction)	(10 years of assessment)	(15 years of assessment)	(Entitlement period extended by 5 years of assessment)	
Approved Charitable Donations	35% of income	35% of income	—	—
Elderly Residential Care Expenses	72,000	76,000	4,000	5.6
Contributions to Recognised Retirement Schemes	12,000	15,000*	3,000	25

\* The maximum level of relevant income under the Mandatory Provident Fund Schemes Ordinance will be increased to \$25,000 with effect from 1 June 2012. Hence, the maximum amount of deductible contributions is \$14,500 for the year of assessment 2012-13 and \$15,000 for the year of assessment 2013-14 onwards.

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

Salaries tax and tax under personal assessment:

Income in 2011-12	No. of taxpayers	Average amount of tax reduction
\$108,001 to \$200,000	423 000	\$830
\$200,001 to \$300,000	366 000	\$4,040
\$300,001 to \$400,000	241 000	\$7,520
\$400,001 to \$600,000	235 000	\$10,170
\$600,001 to \$900,000	115 000	\$11,980
Above \$900,000	120 000	\$12,000
Total	1 500 000	—

Profits tax:

Profits in 2011-12	No. of businesses	Average amount of tax reduction
\$100,000 and below	41 000	\$4,430
\$100,001 to \$200,000	15 000	\$11,990
\$200,001 to \$300,000	9 000	\$12,000
\$300,001 to \$400,000	6 000	\$12,000
\$400,001 to \$600,000	8 000	\$12,000
\$600,001 to \$900,000	7 000	\$12,000
Above \$900,000	33 000	\$12,000
Total	119 000	—

## ECONOMIC PERFORMANCE IN 2011

1. Estimated rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2011:

	(%)
(a) Growth rates in real terms of:	
Private consumption expenditure	8.4
Government consumption expenditure	1.8
Gross domestic fixed capital formation	7.3
Total exports of goods	3.6
Imports of goods	4.8
Exports of services	6.3
Imports of services	3.0
<b>Gross Domestic Product (GDP)</b>	<b>5.0</b>
<i>Per capita GDP in real terms</i>	4.4
<i>Per capita GDP at current market prices</i>	HK\$266,000 (US\$34,200)
(b) Rates of change in:	
<b>Composite Consumer Price Index</b>	<b>5.3</b>
<b>GDP Deflator</b>	<b>3.4</b>
<b>Government Consumption Expenditure Deflator</b>	<b>4.9</b>
(c) <b>Growth rate of nominal GDP</b>	<b>8.6</b>

*Supplement*

2. Annual growth rates in real terms of re-exports and domestic exports based on external trade quantum index numbers <sup>(Note 1)</sup>:

	<i>Re-exports</i> (%)	<i>Domestic exports</i> (%)
2009	-11	-35
2010	18	16
2011	4	-22
<i>Share in the value of total exports of goods in 2011</i>	98	2

3. Annual growth rates in real terms of retained imports by type <sup>(Note 1)</sup>:

	<i>Retained imports</i>					
	<i>Total</i> (%)	<i>Consumer goods</i> (%)	<i>Foodstuffs</i> (%)	<i>Capital goods</i> (%)	<i>Raw materials and semi-manufactures</i> (%)	<i>Fuels</i> (%)
2009	-4	-9	7	-4	-10	23
2010	20	22	12	16	31	14
2011	9	24	2	15	-9	-11

4. Annual growth rates in real terms of retained imports of capital goods by type <sup>(Note 1)</sup>:

	<i>Retained imports of capital goods</i>				
	<i>Total</i> (%)	<i>Office equipment</i> (%)	<i>Industrial machinery</i> (%)	<i>Construction machinery</i> (%)	<i>Telecommunications equipment</i> (%)
2009	-4	-9	-31	63	5
2010	16	-6	12	18	27
2011	15	-15	-11	-10	25

Note 1 Figures for 2011 are estimates based on actual unit value indices up to November 2011. They are subject to revision when the full-year data become available.

*Supplement*

5. Annual growth rates in real terms of exports of services by type <sup>(Notes 2 & 3)</sup>:

*Exports of services*

	<i>Total</i> (%)	<i>Trade-related services</i> (%)	<i>Transportation services</i> (%)	<i>Travel services</i> (%)	<i>Finance, insurance, business and other services</i> (%)
2009	0	-5	-2	8	5
2010	15	13	8	26	16
2011	6	—	—	—	—

6. Hong Kong's visible and invisible trade balance in 2011 reckoned on GDP basis <sup>(Note 2)</sup>:

(HK\$ billion)

Total exports of goods	3,409.2
Imports of goods	3,846.5
<b><i>Visible trade balance</i></b>	<b>-437.3</b>
Exports of services	940.5
Imports of services	434.5
<b><i>Invisible trade balance</i></b>	<b>506.0</b>
<b><i>Combined visible and invisible trade balance</i></b>	<b>68.8</b>

Note 2 Advance preliminary figures.

Note 3 As the compilation of the figures of exports of services for 2011 as a whole has been advanced, breakdown figures of major service groups are not available.

*Supplement*

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

	<i>Unemployment rate (%)</i>	<i>Underemployment rate (%)</i>	<i>Growth in labour force (%)</i>	<i>Growth in total employment (%)</i>
2009	5.4	2.3	0.8	-1.1
2010	4.4	2.0	-0.6	0.4
2011	3.4	1.7	2.6	3.7

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

	<i>Composite CPI</i>				
	<i>Headline (%)</i>	<i>Underlying (%)</i>	<i>CPI(A) (%)</i>	<i>CPI(B) (%)</i>	<i>CPI(C) (%)</i>
2009	0.5	1.0	0.4	0.5	0.6
2010	2.4	1.7	2.7	2.3	2.1
2011	5.3	5.3	5.6	5.2	5.1

**ECONOMIC PROSPECTS FOR 2012**

Forecast rates of change in the Gross Domestic Product and prices in 2012:

	(%)
<b>Gross Domestic Product (GDP)</b>	
<i>Real GDP</i>	<b>1 to 3</b>
<i>Nominal GDP</i>	2.5 to 4.5
<i>Per capita GDP in real terms</i>	0.1 to 2.1
<i>Per capita GDP at current market prices</i>	HK\$270,400-275,700 (US\$34,700-35,300)
<b>Composite Consumer Price Index</b>	
<i>Headline Composite Consumer Price Index</i>	<b>3.5</b>
<i>Underlying Composite Consumer Price Index</i>	<b>4.0</b>
<b>GDP Deflator</b>	<b>1.5</b>

## Appendix A

<b>CONTENTS</b>		<b>Page</b>
SECTION I	— FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA	5182
SECTION II	— MEDIUM RANGE FORECAST	5183
SECTION III	— RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE/PUBLIC EXPENDITURE AND GDP IN THE MEDIUM RANGE FORECAST	5186
SECTION IV	— CONTINGENT AND MAJOR UNFUNDED LIABILITIES	5188

**SECTION I FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA**

**1** A wide range of assumptions on the factors affecting Government's revenue and expenditure are used to derive the Medium Range Forecast (MRF). Some assumptions are economic in nature (the general economic assumptions) while others deal with specific areas of Government's activities (the detailed assumptions).

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

**2** GDP is forecast to increase by 1% to 3% in real terms in 2012. We have used the mid-point of this range forecast in deriving the MRF. For planning purposes, in the four-year period 2013 to 2016, the trend growth rate of the economy in real terms is assumed to be 4% per annum.

*Price change*

**3** The GDP deflator, measuring overall price change in the economy, is forecast to increase by 1.5% in 2012. For the four-year period 2013 to 2016, the GDP deflator is assumed to increase at a trend rate of 2% per annum.

**4** The Composite Consumer Price Index (CCPI), measuring inflation in the consumer domain, is forecast to increase by 3.5% in 2012. Eliminating the effects of various relief and stimulus measures introduced since the 2008-09 Budget, the underlying CCPI is forecast to increase by 4% in 2012. For the ensuing period 2013 to 2016, the trend rate of increase for the underlying CCPI is assumed to be 3.5% per annum.

*Nominal Gross Domestic Product (nominal GDP)*

**5** Given the assumptions on the rates of change in the real GDP and the GDP deflator, the GDP in nominal terms is forecast to increase by 2.5% to 4.5% in 2012, and the trend growth rate in nominal terms for the period 2013 to 2016 is assumed to be 6% per annum.

**Detailed Assumptions**

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

- estimated cash flow of capital projects,
- forecast completion dates of these capital projects and their related recurrent consequences in terms of staffing and running costs,
- estimated cash flow arising from new commitments and policy initiatives,
- the expected pattern of demand for individual services,
- the trend in yield from individual revenue sources, and
- new initiatives in the 2012-13 Budget.

**Budgetary Criteria**

**7** There are a number of criteria against which the results of forecasts are tested for overall acceptability in terms of budgetary policy.

**8** The following covers the more important budgetary criteria –

— *Budget surplus/deficit*

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

— *Expenditure policy*

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

— *Revenue policy*

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

— *Fiscal reserves*

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

## Appendix A—Contd.

## SECTION II MEDIUM RANGE FORECAST

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

Table 1

(\$ million)	2011–12 Revised Estimate	2012–13 Estimate	2013–14 Forecast	2014–15 Forecast	2015–16 Forecast	2016–17 Forecast
<b>Operating Account</b>						
Operating revenue ( <i>Note (b)</i> )	336,046	312,539	346,934	373,027	403,165	418,991
Less: Operating expenditure ( <i>Note (c)</i> )	297,831	315,000	299,500	317,500	386,600	356,800
<b>Operating surplus/(deficit)</b>	<b>38,215</b>	<b>(2,461)</b>	<b>47,434</b>	<b>55,527</b>	<b>16,565</b>	<b>62,191</b>
<b>Capital Account</b>						
Capital revenue ( <i>Note (d)</i> )	97,083	77,771	51,545	51,747	55,162	58,180
Less: Capital expenditure ( <i>Note (e)</i> )	68,580	78,759	95,130	94,749	97,893	89,051
<b>Capital surplus/(deficit)</b>	<b>28,503</b>	<b>(988)</b>	<b>(43,585)</b>	<b>(43,002)</b>	<b>(42,731)</b>	<b>(30,871)</b>
<b>Consolidated Account</b>						
Government revenue	433,129	390,310	398,479	424,774	458,327	477,171
Less: Government expenditure	366,411	393,759	394,630	412,249	484,493	445,851
<b>Consolidated surplus/(deficit) before repayment of bonds and notes</b>	<b>66,718</b>	<b>(3,449)</b>	<b>3,849</b>	<b>12,525</b>	<b>(26,166)</b>	<b>31,320</b>
Less: Repayment of bonds and notes ( <i>Note (f)</i> )	-	-	-	9,750	-	-
<b>Consolidated surplus/(deficit) after repayment of bonds and notes</b>	<b>66,718</b>	<b>(3,449)</b>	<b>3,849</b>	<b>2,775</b>	<b>(26,166)</b>	<b>31,320</b>
<b>Fiscal reserves at 31 March</b>	<b>662,120</b>	<b>658,671</b>	<b>662,520</b>	<b>665,295</b>	<b>639,129</b>	<b>670,449</b>
In terms of number of months of government expenditure	22	20	20	19	16	18
In terms of percentage of GDP	35.0%	33.7%	31.9%	30.3%	27.4%	27.1%

## Appendix A—Contd.

Notes –

## (a) Accounting policies

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

## (b) Operating revenue

- (i) The operating revenue takes into account the revenue measures proposed in the 2012-13 Budget, and is made up of –

(\$ million)	2011-12 Revised Estimate	2012-13 Estimate	2013-14 Forecast	2014-15 Forecast	2015-16 Forecast	2016-17 Forecast
Operating revenue before investment income	304,793	282,272	320,942	353,117	368,702	390,384
Investment income	31,253	30,267	25,992	19,910	34,463	28,607
Total	336,046	312,539	346,934	373,027	403,165	418,991

- (ii) Investment income under the Operating Account includes investment income of the General Revenue Account which is credited to revenue head Properties and Investments, and investment income of the Land Fund. The rate of investment return for 2012 is 5.6% and for 2013 to 2016 is assumed to be in the range of 3.3% to 5.8% a year.

## (c) Operating expenditure

This represents expenditure charged to the Operating Account of the General Revenue Account. The levels of operating expenditure in 2012-13 to 2016-17 represent the expenditure guideline for these years. The sum for 2015-16 has included \$50 billion for supporting healthcare reform.

## (d) Capital revenue

- (i) The breakdown of capital revenue is –

(\$ million)	2011-12 Revised Estimate	2012-13 Estimate	2013-14 Forecast	2014-15 Forecast	2015-16 Forecast	2016-17 Forecast
General Revenue Account	2,862	6,153	791	649	551	547
Capital Investment Fund	1,286	1,198	1,087	995	1,017	1,034
Capital Works Reserve Fund	83,227	60,165	41,434	43,933	46,581	49,390
Disaster Relief Fund	7	-	-	-	-	-
Innovation and Technology Fund	38	10	-	-	-	-
Loan Fund	2,231	2,355	2,450	2,631	2,723	3,070
Lotteries Fund	1,390	1,456	1,527	1,601	1,680	1,762
Capital revenue before asset sales and investment income	91,041	71,337	47,289	49,809	52,552	55,803
Asset sales	118	111	147	147	147	147
Investment income	5,924	6,323	4,109	1,791	2,463	2,230
Total	97,083	77,771	51,545	51,747	55,162	58,180

## Appendix A—Contd.

- (ii) Land premium included under the Capital Works Reserve Fund for 2012-13 is assumed to be \$60 billion. For 2013-14 onwards, it is assumed to be 2% of GDP.
- (iii) Investment income under the Capital Account includes investment income of the Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Loan Fund and Lotteries Fund.

(e) *Capital expenditure*

The breakdown of capital expenditure is –

(\$ million)	2011-12 Revised Estimate	2012-13 Estimate	2013-14 Forecast	2014-15 Forecast	2015-16 Forecast	2016-17 Forecast
General Revenue Account	3,267	3,635	3,970	3,970	3,970	3,970
Capital Investment Fund	12	779	1,116	628	268	268
Capital Works Reserve Fund	61,183	68,548	83,491	84,934	88,843	79,822
Disaster Relief Fund	38	-	-	-	-	-
Innovation and Technology Fund	743	783	836	887	922	965
Loan Fund	2,289	3,796	4,191	3,323	2,819	2,841
Lotteries Fund	1,048	1,218	1,526	1,007	1,071	1,185
Total	68,580	78,759	95,130	94,749	97,893	89,051

(f) *Repayment of bonds and notes*

Repayment of bonds and notes is only in respect of the global bond issue in 2004. Outstanding principal as at 31 March 2017 is estimated at \$1,500 million.

## Appendix A—Contd.

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

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

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

Table 2

(\$ million)	2011–12 Revised Estimate	2012–13 Estimate	2013–14 Forecast	2014–15 Forecast	2015–16 Forecast	2016–17 Forecast
Operating expenditure	297,831	315,000	299,500	317,500	386,600	356,800
Capital expenditure	68,580	78,759	95,130	94,749	97,893	89,051
<b>Government expenditure</b>	<b>366,411</b>	<b>393,759</b>	<b>394,630</b>	<b>412,249</b>	<b>484,493</b>	<b>445,851</b>
Other public bodies expenditure	22,402	24,311	25,277	26,592	28,410	29,645
<b>Public expenditure (Note (a))</b>	<b>388,813</b>	<b>418,070</b>	<b>419,907</b>	<b>438,841</b>	<b>512,903</b>	<b>475,496</b>
<b>Gross Domestic Product (calendar year)</b>	<b>1,890,939</b>	<b>1,957,100</b>	<b>2,074,500</b>	<b>2,199,000</b>	<b>2,330,900</b>	<b>2,470,800</b>
Nominal growth in GDP (Note (b))	8.6%	3.5%	6.0%	6.0%	6.0%	6.0%
Growth in government expenditure (Note (c))	21.6%	7.5%	0.2%	4.5%	17.5%	-8.0%
Growth in public expenditure (Note (c))	21.3%	7.5%	0.4%	4.5%	16.9%	-7.3%
<b>Public expenditure in terms of percentage of GDP</b>	<b>20.6%</b>	<b>21.4%</b>	<b>20.2%</b>	<b>20.0%</b>	<b>22.0%</b>	<b>19.2%</b>

Notes –

- (a) Public expenditure comprises government expenditure and expenditure by other public bodies. It does not include expenditure by those organisations, including statutory organisations in which the Government has only an equity position, such as the Airport Authority and the MTR Corporation Limited.
- (b) For 2012-13, the nominal GDP growth of 3.5% represents the mid-point of the range forecast of 2.5% to 4.5% for the calendar year 2012.
- (c) The growth rates refer to year-on-year change. For example, the rates for 2011-12 refer to the change between revised estimate for 2011-12 and actual expenditure in 2010-11. The rates for 2012-13 refer to the change between the 2012-13 estimate and the 2011-12 revised estimate, and so forth.

## Appendix A—Contd.

11 Table 3 shows the relationship amongst the sum to be appropriated in the 2012-13 Budget, government expenditure and public expenditure.

**Relationship between Government Expenditure  
and Public Expenditure in 2012–13**

Table 3

Appropriation (\$ million)	Government expenditure and revenue			Public expenditure
	Operating	Capital	Total	
<b>Expenditure</b>				
General Revenue Account				
Operating				
Recurrent	264,349	264,349	-	264,349
Non-recurrent	50,651	50,651	-	50,651
Capital				
Plant, equipment and works	2,052	-	2,052	2,052
Subventions	1,583	-	1,583	1,583
	318,635	315,000	3,635	318,635
Transfer to Funds	1,042	-	-	-
Capital Investment Fund	-	-	779	779
Capital Works Reserve Fund	-	-	68,548	68,548
Innovation and Technology Fund	-	-	783	783
Loan Fund	-	-	3,796	3,796
Lotteries Fund	-	-	1,218	1,218
Trading Funds	-	-	-	4,785
Housing Authority	-	-	-	19,526
	319,677	315,000	78,759	393,759
				418,070
<b>Revenue</b>				
General Revenue Account				
Taxation		250,544	70	250,614
Other revenue		50,899	6,083	56,982
		301,443	6,153	307,596
Land Fund		11,096	-	11,096
		312,539	6,153	318,692
Capital Investment Fund		-	1,282	1,282
Capital Works Reserve Fund		-	64,276	64,276
Civil Service Pension Reserve Fund		-	1,365	1,365
Disaster Relief Fund		-	2	2
Innovation and Technology Fund		-	152	152
Loan Fund		-	2,562	2,562
Lotteries Fund		-	1,979	1,979
		312,539	77,771	390,310
<b>Deficit</b>		(2,461)	(988)	(3,449)

## Appendix A—Contd.

## SECTION IV CONTINGENT AND MAJOR UNFUNDED LIABILITIES

**12** The Government's contingent liabilities as at 31 March 2011, and estimates of these should they remain unsettled as at 31 March 2012 or 31 March 2013, are provided below as supplementary information to the MRF –

(\$ million)	2011	At 31 March 2012	2013
Guarantees provided under the Special Loan Guarantee Scheme	68,563	66,008	53,630
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	22,693	23,624	25,319
Guarantees provided under loan guarantee schemes for small and medium enterprises	5,878	7,369	8,405
Possible capital subscriptions to the Asian Development Bank	6,753	6,554	6,554
Guarantees provided under a commercial loan of the Ocean Park Corporation	1,388	1,388	1,388
Litigation	4,232	20	20
Guarantees provided under the Film Guarantee Fund	-	-	3
Total	109,507	104,963	95,319

**13** In addition to the bonds and notes issued in 2004, the repayment of which has been included in the MRF, the Government's major unfunded liabilities as at 31 March 2011 were as follows –

(\$ million)	
Present value of public officers pension obligations	533,832
Untaken leave ( <i>Note</i> )	21,955

*Note* –

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

## Appendix B

<b>CONTENTS</b>	<b>Page</b>
<b>SECTION I — THE ESTIMATES IN THE CONTEXT OF THE ECONOMY</b>	
Relationship between Government Expenditure, Public Expenditure and GDP	5190
<b>SECTION II — ANALYSIS OF RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP</b>	
Recurrent Public Expenditure — Year-on-Year Change	5193
Recurrent Government Expenditure — Year-on-Year Change	5194
Percentage Share of Expenditure by Policy Area Group —	5195
Recurrent Public Expenditure	
Recurrent Government Expenditure	
<b>SECTION III — ANALYSIS OF TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP</b>	
Total Public Expenditure — Year-on-Year Change	5196
Total Government Expenditure — Year-on-Year Change	5197
Percentage Share of Expenditure by Policy Area Group —	5198
Total Public Expenditure	
Total Government Expenditure	
<b>SECTION IV — MAJOR CAPITAL PROJECTS ESTIMATED TO BEGIN IN 2012-13</b>	5199
<b>SECTION V — TRENDS IN PUBLIC EXPENDITURE: 2007-08 TO 2012-13</b>	5201
<b>SECTION VI — ANALYSIS OF GOVERNMENT REVENUE</b>	5203
<b>SECTION VII — CLASSIFICATION OF EXPENDITURE BY POLICY AREA GROUP</b>	5204

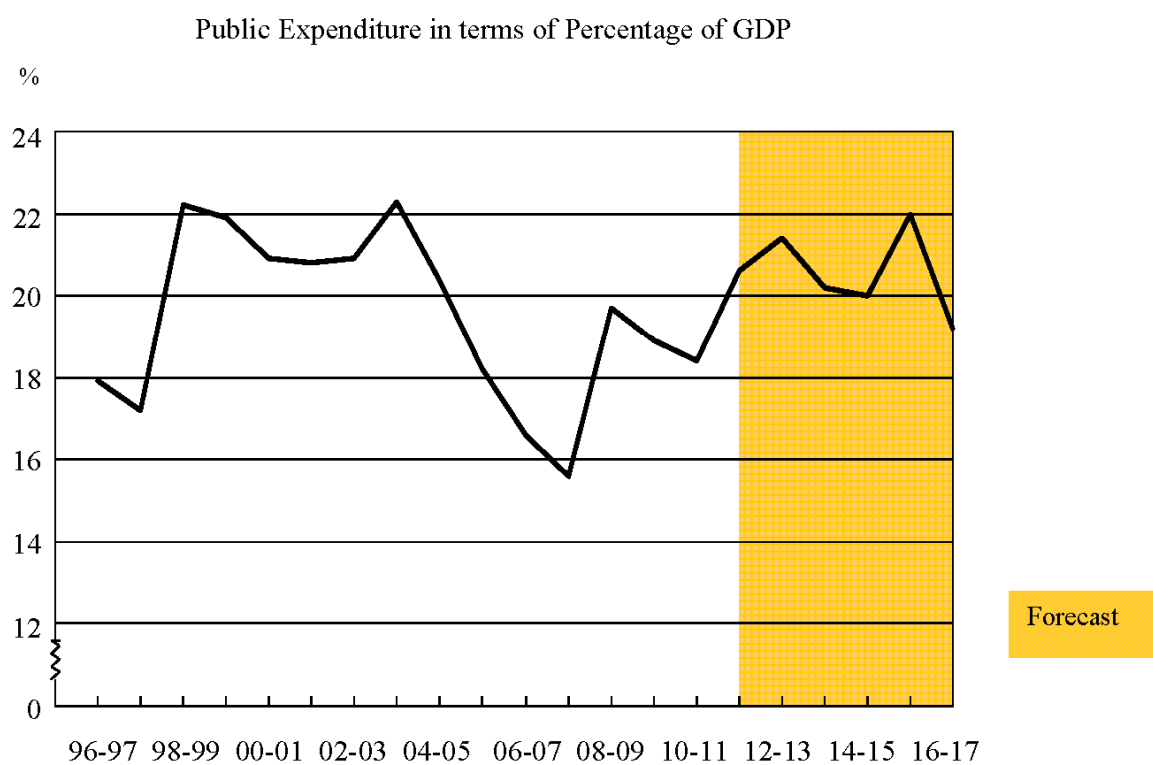
Appendix B—*Contd.*

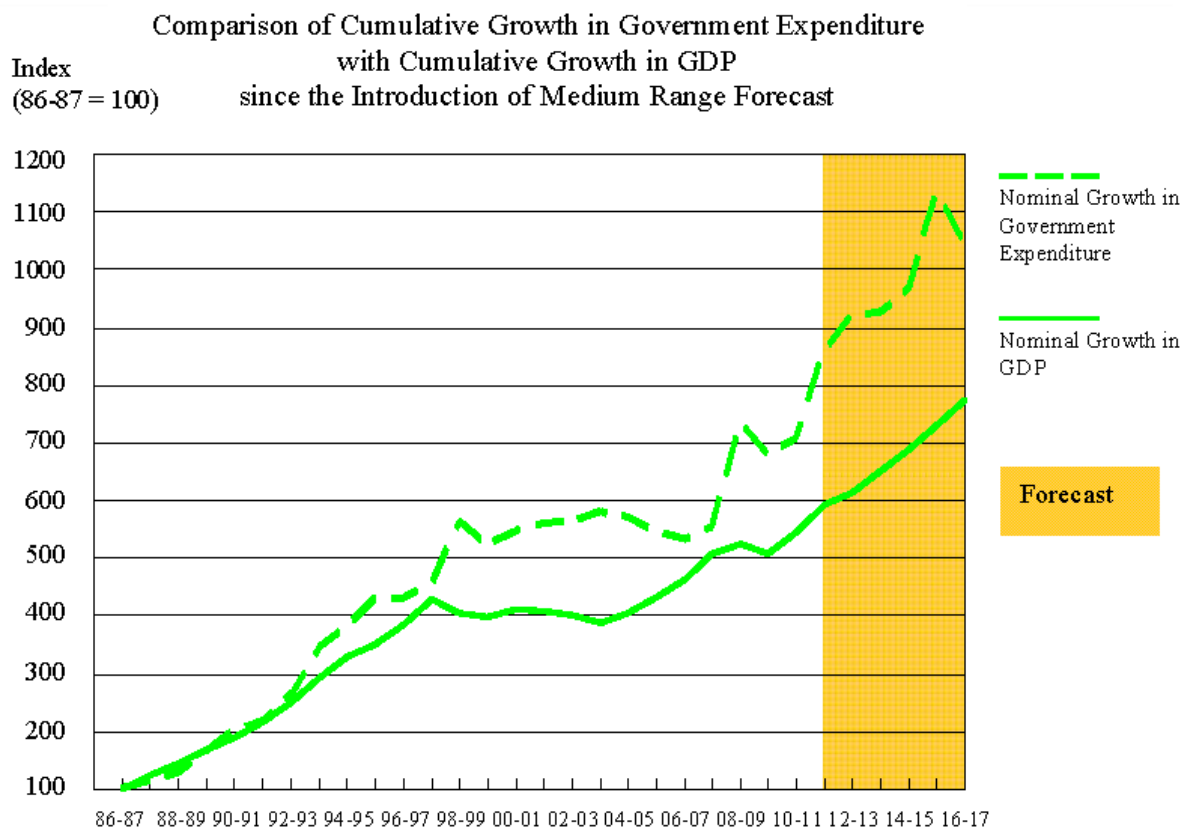
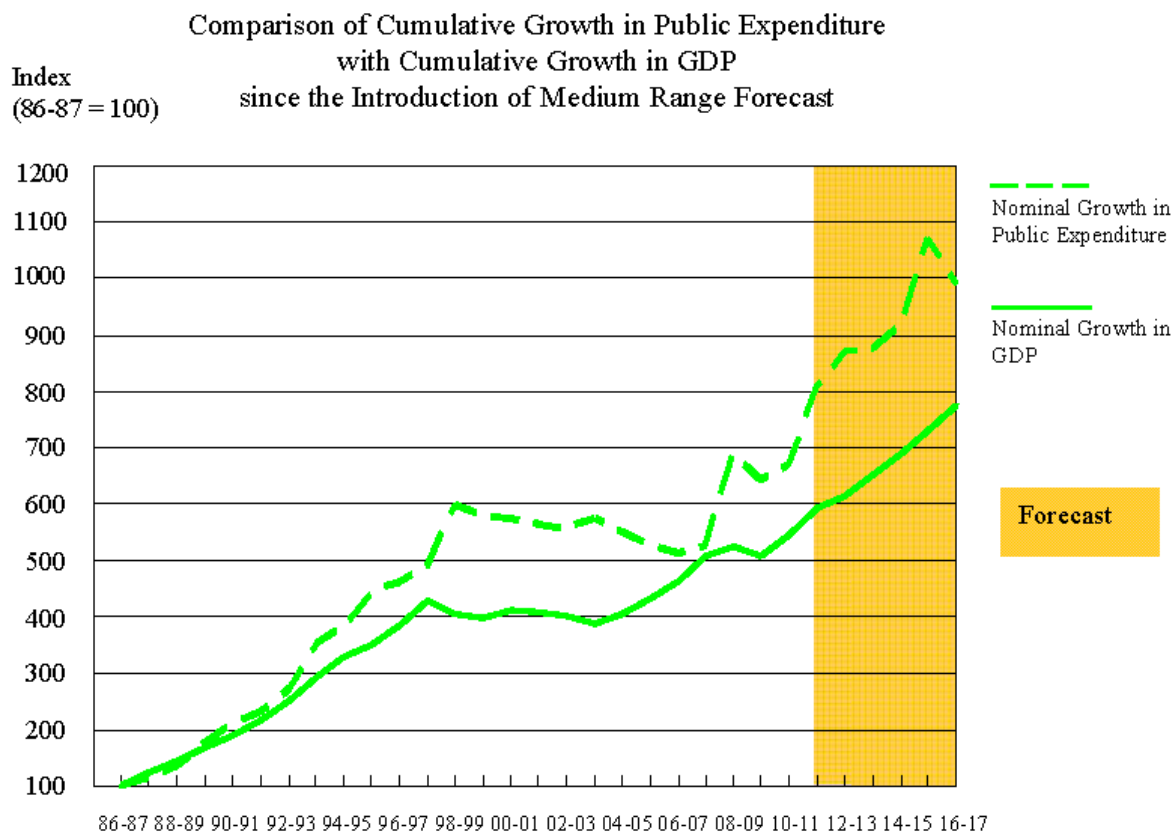
## SECTION I THE ESTIMATES IN THE CONTEXT OF THE ECONOMY

## Relationship between Government Expenditure, Public Expenditure and GDP

	2012–13 Estimate \$m
General Revenue Account	
Operating	315,000
Capital	3,635
	<hr/> 318,635
Capital Investment Fund	779
Capital Works Reserve Fund	68,548
Innovation and Technology Fund	783
Loan Fund	3,796
Lotteries Fund	1,218
	<hr/> 393,759
Government Expenditure	
Trading Funds	4,785
Housing Authority	19,526
	<hr/> 418,070
Public Expenditure	
	<hr/>
GDP	1,957,100
Public Expenditure in terms of percentage of GDP	21.4%

## Appendix B—Contd.





## Appendix B—Contd.

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

## Recurrent Public Expenditure : Year-on-Year Change

	2010–11 Actual \$m	2011–12 Revised Estimate \$m	2012–13 Estimate \$m	Increase/Decrease over 2011–12 Revised Estimate in Nominal Terms %	in Real Terms %
<b>Education</b>	51,034	56,052	<b>59,746</b>	<b>6.6</b>	<b>6.2</b>
<b>Health</b>	36,774	41,540	<b>44,672</b>	<b>7.5</b>	<b>7.1</b>
<b>Social Welfare</b>	37,577	40,439	<b>44,020</b>	<b>8.9</b>	<b>5.8</b>
<b>Security</b>	27,434	29,317	<b>30,536</b>	<b>4.2</b>	<b>3.8</b>
<b>Infrastructure</b>	15,413	16,297	<b>17,139</b>	<b>5.2</b>	<b>3.4</b>
<b>Economic</b>	11,463	12,433	<b>13,241</b>	<b>6.5</b>	<b>5.0</b>
<b>Housing</b>	9,508	10,997	<b>11,645</b>	<b>5.9</b>	<b>2.6</b>
<b>Environment and Food</b>	9,570	10,414	<b>11,172</b>	<b>7.3</b>	<b>6.4</b>
<b>Community and External Affairs</b>	8,065	8,578	<b>9,089</b>	<b>6.0</b>	<b>5.0</b>
<b>Support</b>	29,825	33,283	<b>39,079</b>	<b>17.4</b>	<b>15.2</b>
	<u>236,663</u>	<u>259,350</u>	<u><b>280,339</b></u>	<b>8.1</b>	<b>6.8</b>

Appendix B—Contd.

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

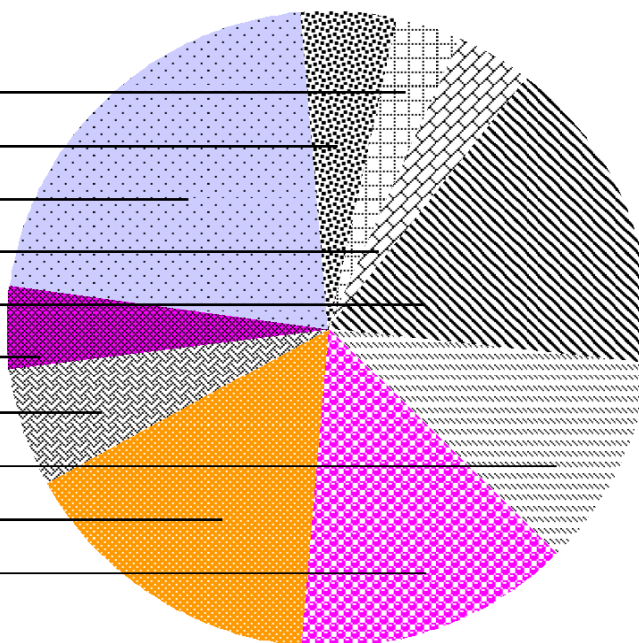
### Recurrent Government Expenditure : Year-on-Year Change

	2010–11 Actual \$m	2011–12 Revised Estimate \$m	2012–13 Estimate \$m	Increase/Decrease over 2011–12 Revised Estimate in Nominal Terms %	in Real Terms %
<b>Education</b>	51,034	56,052	<b>59,746</b>	<b>6.6</b>	<b>6.2</b>
<b>Health</b>	36,774	41,540	<b>44,672</b>	<b>7.5</b>	<b>7.1</b>
<b>Social Welfare</b>	37,577	40,439	<b>44,020</b>	<b>8.9</b>	<b>5.8</b>
<b>Security</b>	27,434	29,317	<b>30,536</b>	<b>4.2</b>	<b>3.8</b>
<b>Infrastructure</b>	15,227	16,084	<b>16,909</b>	<b>5.1</b>	<b>3.4</b>
<b>Economic</b>	7,471	8,210	<b>8,879</b>	<b>8.1</b>	<b>7.5</b>
<b>Housing</b>	196	229	<b>247</b>	<b>7.9</b>	<b>7.8</b>
<b>Environment and Food</b>	9,570	10,414	<b>11,172</b>	<b>7.3</b>	<b>6.4</b>
<b>Community and External Affairs</b>	8,065	8,578	<b>9,089</b>	<b>6.0</b>	<b>5.0</b>
<b>Support</b>	29,825	33,283	<b>39,079</b>	<b>17.4</b>	<b>15.2</b>
	<u>223,173</u>	<u>244,146</u>	<u><b>264,349</b></u>	<b>8.3</b>	<b>7.1</b>

## Appendix B—Contd.

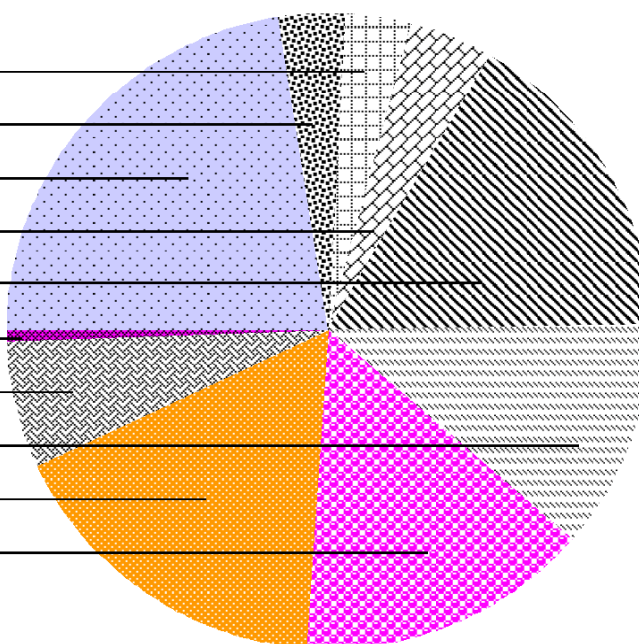
**Percentage Share of Expenditure by Policy Area Group**  
**Recurrent Public Expenditure : 2012-13 Estimate**

<b>Community and External Affairs</b>	<b>3.3%</b>
<b>Economic</b>	<b>4.7%</b>
<b>Education</b>	<b>21.3%</b>
<b>Environment and Food</b>	<b>4.0%</b>
<b>Health</b>	<b>15.9%</b>
<b>Housing</b>	<b>4.2%</b>
<b>Infrastructure</b>	<b>6.1%</b>
<b>Security</b>	<b>10.9%</b>
<b>Social Welfare</b>	<b>15.7%</b>
<b>Support</b>	<b>13.9%</b>
	<b>100.0%</b>



**Percentage Share of Expenditure by Policy Area Group**  
**Recurrent Government Expenditure : 2012-13 Estimate**

<b>Community and External Affairs</b>	<b>3.4%</b>
<b>Economic</b>	<b>3.3%</b>
<b>Education</b>	<b>22.6%</b>
<b>Environment and Food</b>	<b>4.2%</b>
<b>Health</b>	<b>16.9%</b>
<b>Housing</b>	<b>0.1%</b>
<b>Infrastructure</b>	<b>6.4%</b>
<b>Security</b>	<b>11.6%</b>
<b>Social Welfare</b>	<b>16.7%</b>
<b>Support</b>	<b>14.8%</b>
	<b>100.0%</b>



Appendix B—Contd.

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

#### Total Public Expenditure : Year-on-Year Change

	2010–11 Actual \$m	2011–12 Revised Estimate \$m	2012–13 Estimate \$m	Increase/Decrease over 2011–12 Revised Estimate in Nominal Terms %	in Real Terms %
<b>Education</b>	60,719	68,274	<b>79,105</b>	<b>15.9</b>	<b>15.1</b>
<b>Health</b>	39,890	45,181	<b>59,217</b>	<b>31.1</b>	<b>30.3</b>
<b>Social Welfare</b>	40,519	43,620	<b>48,357</b>	<b>10.9</b>	<b>7.9</b>
<b>Security</b>	32,577	31,563	<b>34,341</b>	<b>8.8</b>	<b>8.1</b>
<b>Infrastructure</b>	48,955	52,864	<b>62,554</b>	<b>18.3</b>	<b>13.6</b>
<b>Economic</b>	17,353	47,537	<b>37,931</b>	<b>-20.2</b>	<b>-21.5</b>
<b>Housing</b>	16,938	19,982	<b>21,728</b>	<b>8.7</b>	<b>4.8</b>
<b>Environment and Food</b>	15,213	17,684	<b>20,104</b>	<b>13.7</b>	<b>11.1</b>
<b>Community and External Affairs</b>	15,101	26,067	<b>13,573</b>	<b>-47.9</b>	<b>-49.1</b>
<b>Support</b>	33,305	36,041	<b>41,160</b>	<b>14.2</b>	<b>12.0</b>
	<u>320,570</u>	<u>388,813</u>	<u><b>418,070</b></u>	<b>7.5</b>	<b>5.5</b>

## Appendix B—Contd.

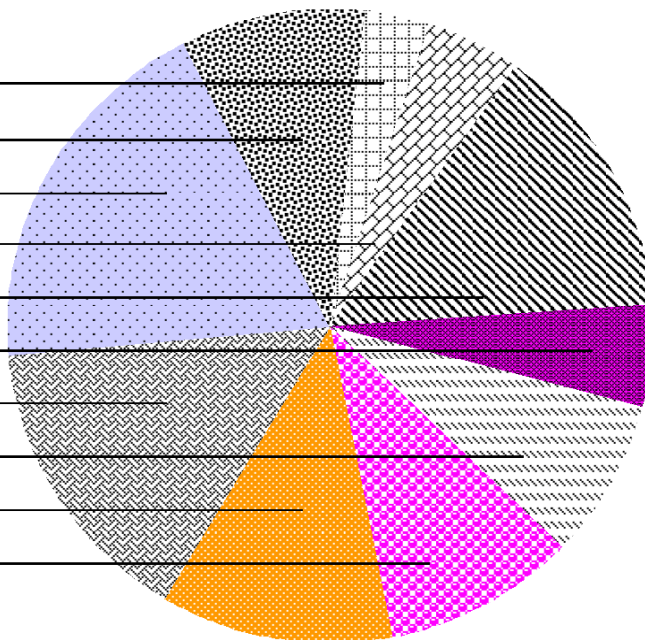
## SECTION III ANALYSIS OF TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

## Total Government Expenditure : Year-on-Year Change

	2010–11 Actual \$m	2011–12 Revised Estimate \$m	2012–13 Estimate \$m	Increase/Decrease over 2011–12 Revised Estimate in Nominal Terms %	in Real Terms %
<b>Education</b>	60,719	68,274	<b>79,105</b>	<b>15.9</b>	<b>15.1</b>
<b>Health</b>	39,890	45,181	<b>59,217</b>	<b>31.1</b>	<b>30.3</b>
<b>Social Welfare</b>	40,519	43,620	<b>48,357</b>	<b>10.9</b>	<b>7.9</b>
<b>Security</b>	32,577	31,563	<b>34,341</b>	<b>8.8</b>	<b>8.1</b>
<b>Infrastructure</b>	48,716	52,638	<b>62,309</b>	<b>18.4</b>	<b>13.6</b>
<b>Economic</b>	13,314	43,192	<b>33,391</b>	<b>-22.7</b>	<b>-23.8</b>
<b>Housing</b>	2,006	2,151	<b>2,202</b>	<b>2.4</b>	<b>2.3</b>
<b>Environment and Food</b>	15,213	17,684	<b>20,104</b>	<b>13.7</b>	<b>11.1</b>
<b>Community and External Affairs</b>	15,101	26,067	<b>13,573</b>	<b>-47.9</b>	<b>-49.1</b>
<b>Support</b>	33,305	36,041	<b>41,160</b>	<b>14.2</b>	<b>12.0</b>
	<u>301,360</u>	<u>366,411</u>	<u><b>393,759</b></u>	<b>7.5</b>	<b>5.6</b>

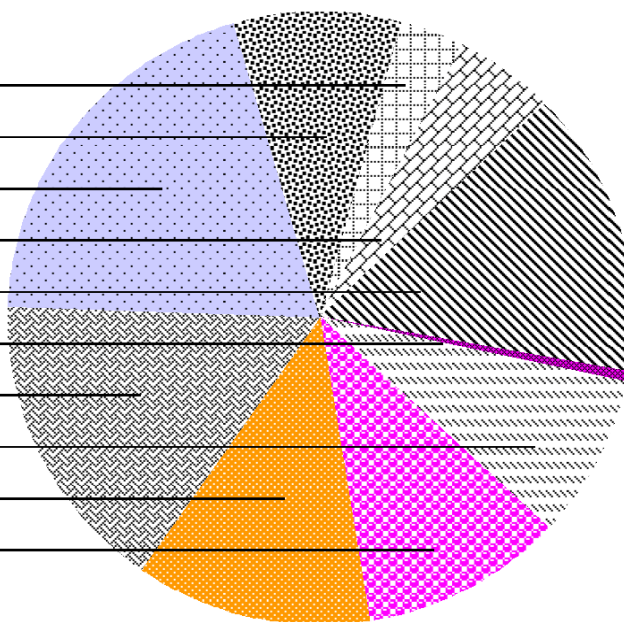
**Percentage Share of Expenditure by Policy Area Group**  
**Total Public Expenditure : 2012-13 Estimate**

<b>Community and External Affairs</b>	<b>3.2%</b>
<b>Economic</b>	<b>9.1%</b>
<b>Education</b>	<b>18.9%</b>
<b>Environment and Food</b>	<b>4.8%</b>
<b>Health</b>	<b>14.2%</b>
<b>Housing</b>	<b>5.2%</b>
<b>Infrastructure</b>	<b>15.0%</b>
<b>Security</b>	<b>8.2%</b>
<b>Social Welfare</b>	<b>11.6%</b>
<b>Support</b>	<b>9.8%</b>
	<b>100.0%</b>



**Percentage Share of Expenditure by Policy Area Group**  
**Total Government Expenditure : 2012-13 Estimate**

<b>Community and External Affairs</b>	<b>3.4%</b>
<b>Economic</b>	<b>8.5%</b>
<b>Education</b>	<b>20.1%</b>
<b>Environment and Food</b>	<b>5.1%</b>
<b>Health</b>	<b>15.0%</b>
<b>Housing</b>	<b>0.6%</b>
<b>Infrastructure</b>	<b>15.8%</b>
<b>Security</b>	<b>8.7%</b>
<b>Social Welfare</b>	<b>12.3%</b>
<b>Support</b>	<b>10.5%</b>
	<b>100.0%</b>



## Appendix B—Contd.

**SECTION IV MAJOR CAPITAL PROJECTS ESTIMATED TO BEGIN IN 2012–13**

Major capital projects estimated to begin in 2012-13 include –

	<b>Project Estimates \$ million</b>
<b>Infrastructure</b>	<b>89,711</b>
— Dredging, management and capping of contaminated sediment disposal facility to the south of The Brothers	
— Feasibility study on relocation of Mount Davis fresh water primary service reservoir and Kennedy Town fresh water service reservoir to caverns	
— Formation, roads and drains in Area 54, Tuen Mun, phase 2 stage 2 works	
— Hung Shui Kiu development, stage 2—widening of Tin Ha Road and Tan Kwai Tsuen Road	
— Improvement to Pok Oi Interchange	
— Infrastructure works for West Kowloon Cultural District phase 1—design and site investigation	
— Liantang/Heung Yuen Wai Boundary Control Point and associated works—site formation and infrastructure works	
— Mainlaying along Fanling Highway and near She Shan Tsuen	
— Planning and engineering studies on reclamation sites, stage 1	
— Planning and engineering study for housing sites in Yuen Long south	
— Planning and investigation study of desalination plant at Tseung Kwan O	
— Provision of barrier-free access facilities at public footbridges, elevated walkways and subways, phase 2	
— Retrofitting of noise barriers on Tuen Mun Road (Town Centre section)	
— Revitalisation Scheme—Revitalisation of Old Tai Po Police Station into a Green Hub	
— Revitalisation Scheme—Revitalisation of the Blue House Cluster into Viva Blue House	
— Shatin to Central Link—construction of non-railway works—remaining works	
— Shatin to Central Link—construction of railway works—remaining works	
— Study on long-term strategy for cavern development	
— Water supply to northwestern Tuen Mun, stage 1	
— Widening of Tolo Highway/Fanling Highway between Island House Interchange and Fanling—stage 2	
<b>Security</b>	<b>7,507</b>
— Redevelopment of ex-Fire Services Married Quarters in Fu Tei, Tuen Mun	
— Redevelopment of Fire Services Training School cum reprovisioning of Driving Training School	
— Redevelopment of Tai Lam Centre for Women	
— West Kowloon Law Courts Building	
<b>Community and External Affairs</b>	<b>2,729</b>
— Cycle track between Tsuen Wan and Tuen Mun—detailed design and site investigation (advance and stage 1 works)	
— Development of a bathing beach at Lung Mei, Tai Po	
— Expansion and improvement of Wanchai campus of the Hong Kong Academy for Performing Arts	
— Kwun Tong promenade—stage 2	
— Lei Yue Mun Waterfront Enhancement Project—development of a waterfront promenade and related improvement works	
— Lei Yue Mun Waterfront Enhancement Project—construction of a public landing facility	
— Local open space at Chung Yee Street, Kowloon City	
— Open space in Area 117, Tin Shui Wai	
— Runway Park at Kai Tak, Kowloon City District (phase 1)	
— Sports centre, community hall-cum-public library in Area 14B, Sha Tin	

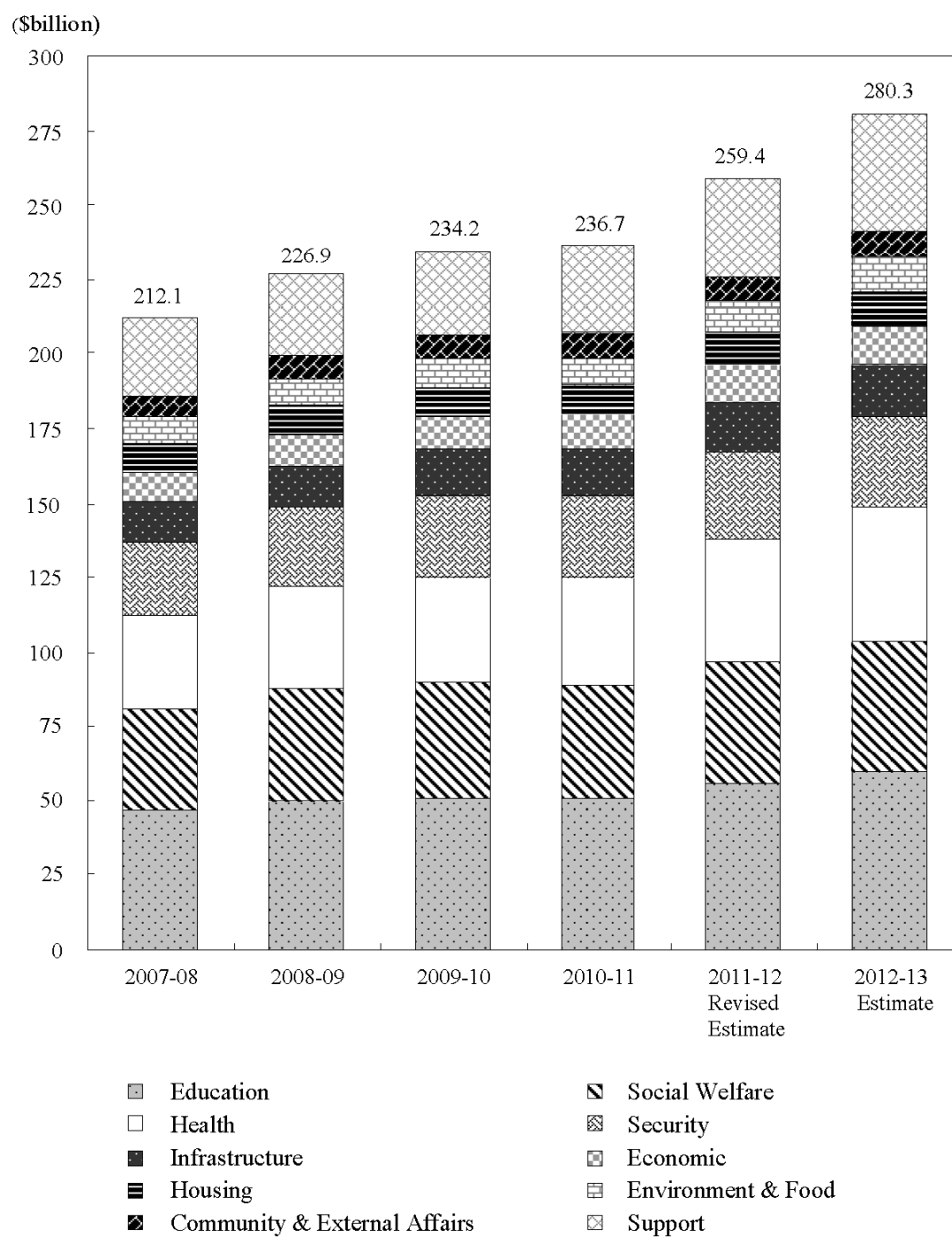
Appendix B—*Contd.*

	<b>Project Estimates \$ million</b>
<b>Environment and Food</b>	<b>2,725</b>
— Development of organic waste treatment facilities, phase 1	
— Feasibility study on relocation of Sha Tin sewage treatment works to caverns	
— Lam Tsuen Valley sewerage, stage 2	
— Outlying Islands sewerage stage 2—South Lantau sewerage works—consultants' detailed design fees	
— Port Shelter sewerage, stage 2 package 1	
— Port Shelter sewerage, stage 3 package 1	
— Sewerage in Kau Lung Hang Lo Wai, Kau Lung Hang San Wai, Tai Hang and trunk sewer in Tai Wo Service Road West	
— Upgrading of Mui Wo sewage treatment works and sewerage at Mui Wo town centre and Wang Tong	
— West New Territories landfill extension—consultants' fees and investigations	
— Yuen Long and Kam Tin sewerage, stage 3 package 2	
<b>Health</b>	<b>973</b>
— Expansion of United Christian Hospital—preparatory works	
— Redevelopment of Kwong Wah Hospital—preparatory works	
<b>Economic</b>	<b>466</b>
— Construction of a station for the new Terminal Doppler Weather Radar	
— Fitting-out works for government facilities associated with midfield expansion project at Hong Kong International Airport	
<b>Education</b>	
— Redevelopment of Ying Wa Girls' School at Robinson Road, Hong Kong	<b>466</b>

Appendix B—Contd.

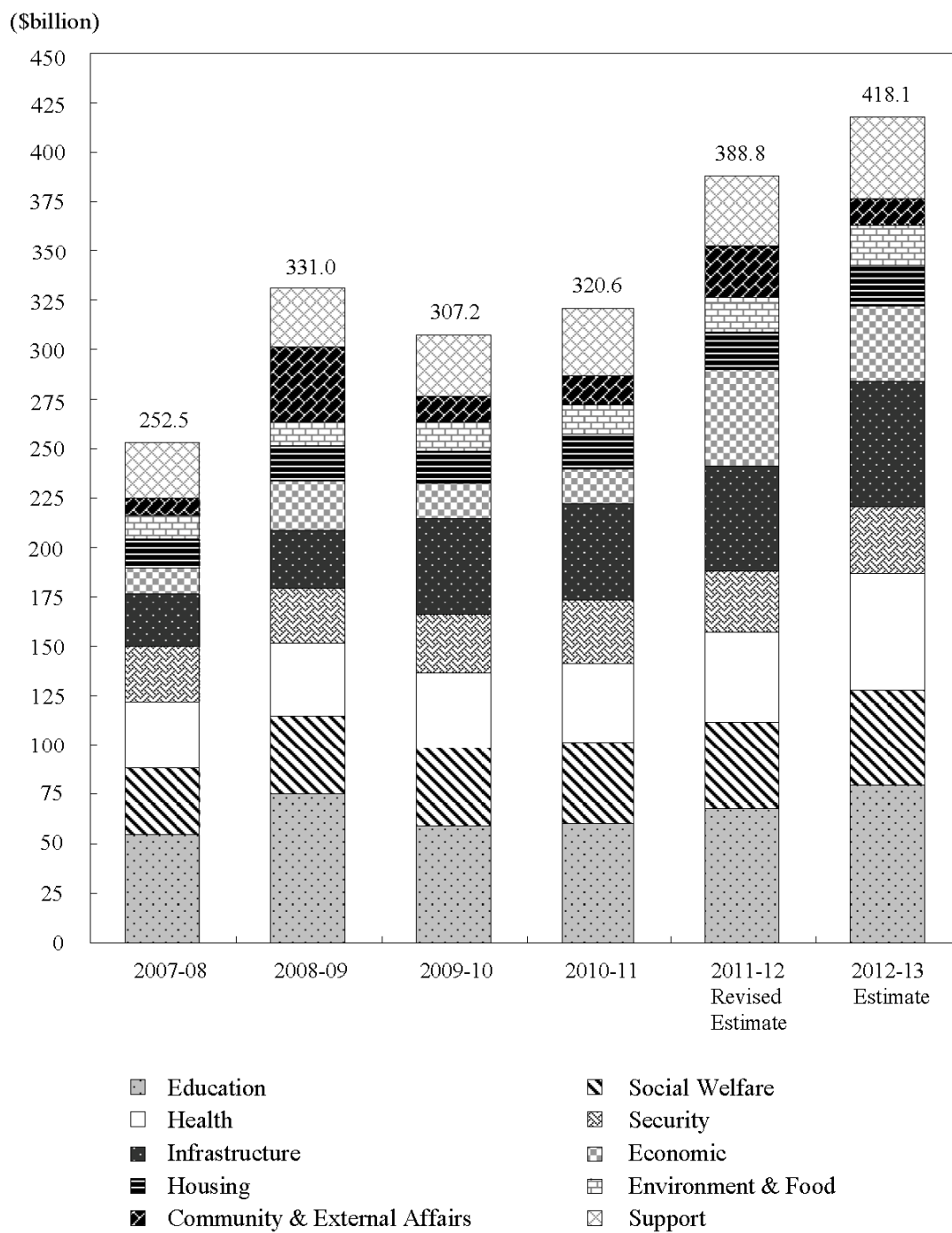
## SECTION V TRENDS IN PUBLIC EXPENDITURE : 2007–08 TO 2012–13

Recurrent Public Expenditure by Policy Area Group 2007-08 to 2012-13



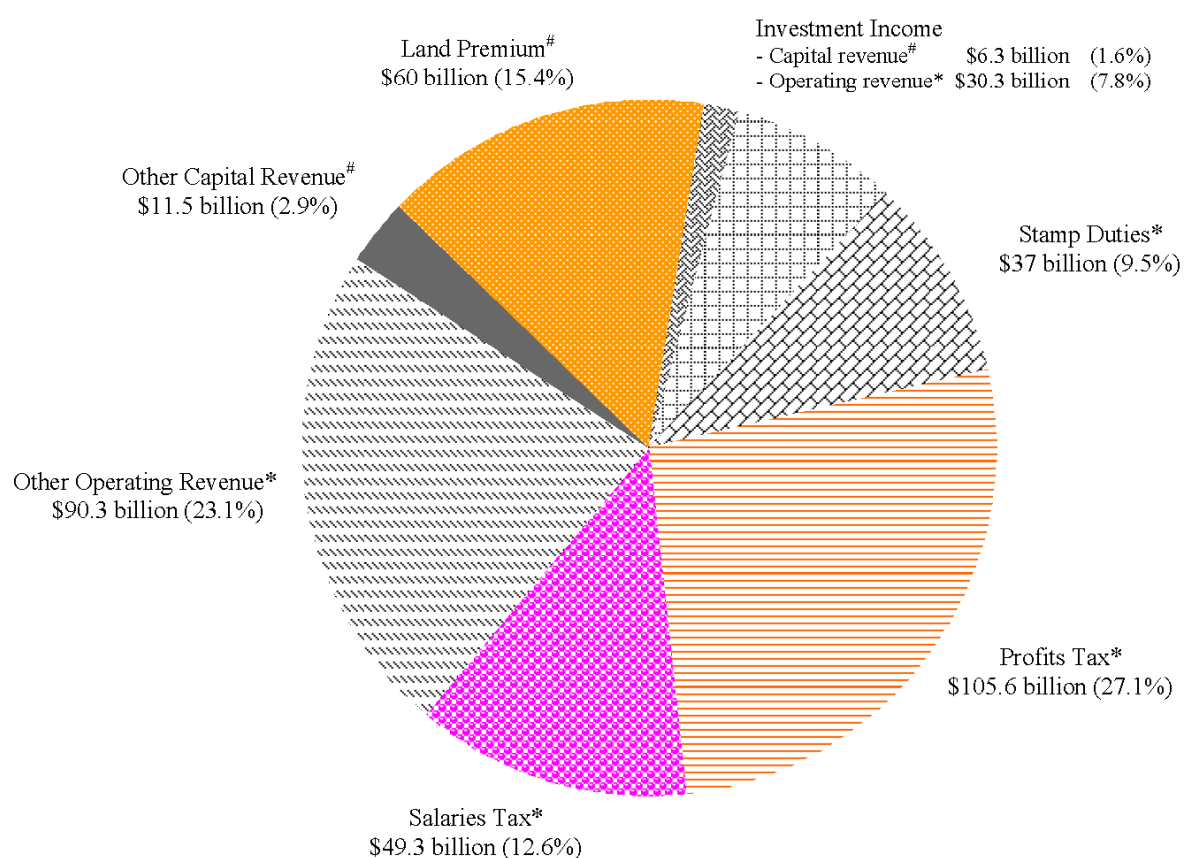
## SECTION V TRENDS IN PUBLIC EXPENDITURE : 2007-08 TO 2012-13

Total Public Expenditure by Policy Area Group 2007-08 to 2012-13



## SECTION VI ANALYSIS OF GOVERNMENT REVENUE

2012-13 Estimate (\$390.3 billion)



\* Operating Revenue    \$312.5 billion    (80.1%)

# Capital Revenue        \$77.8 billion    (19.9%)

## SECTION VII CLASSIFICATION OF EXPENDITURE BY POLICY AREA GROUP

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

*Note:* Details of individual heads of expenditure contributing to a particular policy area are provided in an index in Volume I of the 2012-13 Estimates. The index further provides details, by head of expenditure, of individual programmes which contribute to a policy area.

---

**GLOSSARY OF TERMS**

---

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

---

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

*General Revenue Account*

equipment, works and capital subventions of a minor nature

*Capital Investment Fund*

advances and equity investments

*Capital Works Reserve Fund*

acquisition of land  
capital subventions  
computerisation  
interest and other expenses on government bonds and notes issued in 2004  
major systems and equipment  
Public Works Programme expenditure

*Disaster Relief Fund*

relief to disasters that occur outside Hong Kong

*Innovation and Technology Fund*

projects promoting innovation and technology upgrading in manufacturing and service industries

*Loan Fund*

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

*Lotteries Fund*

grants, loans and advances for social welfare services

**Capital surplus/deficit.** The difference between *capital revenue* and *capital expenditure*.

**Capital revenue.** This comprises certain revenue items in the General Revenue Account and all receipts credited to seven Funds, as highlighted below –

*General Revenue Account*

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

*Capital Investment Fund*

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

*Capital Works Reserve Fund*

investment income  
land premium  
recovery from MTR Corporation Limited

*Civil Service Pension Reserve Fund*

investment income

*Disaster Relief Fund*

investment income

*Innovation and Technology Fund*

investment income  
loan repayments received  
proceeds from sale of investments

*Loan Fund*

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

*Lotteries Fund*

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

**Consolidated surplus/deficit before repayment of bonds and notes.** The difference between *government revenue* and *government expenditure*.

**Fiscal reserves.** The accumulated balances of the General Revenue Account, Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund.

**Government expenditure.** The aggregate of *operating expenditure* and *capital expenditure*. Unlike *public expenditure*, it excludes expenditure by the Trading Funds and the Housing Authority.

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

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

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

*General Revenue Account*

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

*Land Fund*

investment income

Appendix C—*Contd.*

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

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

**Transfer to Funds.** Transfers between the General Revenue Account and the eight Funds (Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund) are not counted as government revenue and expenditure as these are merely internal transfers within Government's accounts.