

OFFICIAL RECORD OF PROCEEDINGS

Wednesday, 6 March 1996

The Council met at half-past Two o'clock

MEMBERS PRESENT

THE PRESIDENT

THE HONOURABLE ANDREW WONG WANG-FAT, O.B.E., J.P.

THE HONOURABLE ALLEN LEE PENG-FEI, C.B.E., J.P.

THE HONOURABLE MRS SELINA CHOW LIANG SHUK-YEE, O.B.E., J.P.

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

DR THE HONOURABLE DAVID LI KWOK-PO, O.B.E., LL.D. (CANTAB),
J.P.

THE HONOURABLE NGAI SHIU-KIT, O.B.E., J.P.

THE HONOURABLE SZETO WAH

THE HONOURABLE LAU WONG-FAT, O.B.E., J.P.

THE HONOURABLE EDWARD HO SING-TIN, O.B.E., J.P.

THE HONOURABLE RONALD JOSEPH ARCULLI, O.B.E., J.P.

THE HONOURABLE MRS MIRIAM LAU KIN-YEE, O.B.E., J.P.

DR THE HONOURABLE EDWARD LEONG CHE-HUNG, O.B.E., J.P.

THE HONOURABLE ALBERT CHAN WAI-YIP

THE HONOURABLE CHEUNG MAN-KWONG

THE HONOURABLE CHIM PUI-CHUNG

THE HONOURABLE FREDERICK FUNG KIN-KEE

THE HONOURABLE MICHAEL HO MUN-KA

DR THE HONOURABLE HUANG CHEN-YA, M.B.E.

THE HONOURABLE EMILY LAU WAI-HING

THE HONOURABLE LEE WING-TAT

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

THE HONOURABLE FRED LI WAH-MING

THE HONOURABLE HENRY TANG YING-YEN, J.P.

THE HONOURABLE JAMES TO KUN-SUN

DR THE HONOURABLE SAMUEL WONG PING-WAI, M.B.E., F.Eng., J.P.

DR THE HONOURABLE PHILIP WONG YU-HONG

DR THE HONOURABLE YEUNG SUM

THE HONOURABLE HOWARD YOUNG, J.P.

THE HONOURABLE ZACHARY WONG WAI-YIN

THE HONOURABLE CHRISTINE LOH KUNG-WAI

THE HONOURABLE JAMES TIEN PEI-CHUN, O.B.E., J.P.

THE HONOURABLE LEE CHEUK-YAN

THE HONOURABLE CHAN KAM-LAM

THE HONOURABLE CHAN WING-CHAN

THE HONOURABLE CHAN YUEN-HAN

THE HONOURABLE ANDREW CHENG KAR-FOO

THE HONOURABLE PAUL CHENG MING-FUN

DR THE HONOURABLE ANTHONY CHEUNG BING-LEUNG

THE HONOURABLE CHEUNG HON-CHUNG

THE HONOURABLE CHOY KAN-PUI, J.P.

THE HONOURABLE DAVID CHU YU-LIN

THE HONOURABLE ALBERT HO CHUN-YAN

THE HONOURABLE IP KWOK-HIM

THE HONOURABLE LAU CHIN-SHEK

THE HONOURABLE AMBROSE LAU HON-CHUEN, J.P.

DR THE HONOURABLE LAW CHEUNG-KWOK

THE HONOURABLE LAW CHI-KWONG

THE HONOURABLE LEE KAI-MING

THE HONOURABLE LEUNG YIU-CHUNG

THE HONOURABLE BRUCE LIU SING-LEE

THE HONOURABLE LO SUK-CHING

THE HONOURABLE MOK YING-FAN

THE HONOURABLE MARGARET NG

THE HONOURABLE NGAN KAM-CHUEN

THE HONOURABLE TSANG KIN-SHING

DR THE HONOURABLE JOHN TSE WING-LING

THE HONOURABLE LAWRENCE YUM SIN-LING

MEMBERS ABSENT

THE HONOURABLE CHENG YIU-TONG

THE HONOURABLE SIN CHUNG-KAI

THE HONOURABLE MRS ELIZABETH WONG CHIEN CHI-LIEN, C.B.E.,
I.S.O., J.P.

PUBLIC OFFICERS ATTENDING

THE HONOURABLE MRS ANSON CHAN, C.B.E., J.P.
CHIEF SECRETARY

THE HONOURABLE DONALD TSANG YAM-KUEN, O.B.E., J.P.
FINANCIAL SECRETARY

THE HONOURABLE JEREMY FELL MATHEWS, C.M.G., J.P.
ATTORNEY GENERAL

MR MICHAEL SUEN MING-YEUNG, C.B.E., J.P.
SECRETARY FOR HOME AFFAIRS

MR HAIDER HATIM TYEBJEE BARMA, I.S.O., J.P.
SECRETARY FOR TRANSPORT

MR DOMINIC WONG SHING-WAH, O.B.E., J.P.
SECRETARY FOR HOUSING

MRS KATHERINE FOK LO SHIU-CHING, O.B.E., J.P.
SECRETARY FOR HEALTH AND WELFARE

MR RAFAEL HUI SI-YAN, J.P.
SECRETARY FOR FINANCIAL SERVICES

MR JOSEPH WONG WING-PING, J.P.
SECRETARY FOR EDUCATION AND MANPOWER

MISS DENISE YUE CHUNG-YEE, J.P.
SECRETARY FOR TRADE AND INDUSTRY

MR BOWEN LEUNG PO-WING, J.P.
SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS

MR KWONG KI-CHI, J.P.
SECRETARY FOR THE TREASURY

MR LEE SHING-SEE, J.P.
SECRETARY FOR WORKS

MRS CARRIE YAU TSANG KA-LAI, J.P.
SECRETARY FOR SECURITY

CLERKS IN ATTENDANCE

MR RICKY FUNG CHOI-CHEUNG, SECRETARY GENERAL

MR LAW KAM-SANG, DEPUTY SECRETARY GENERAL

PAPERS

The following papers were laid on the table pursuant to Standing Order 14(2):

Subject

Subsidiary Legislation	<i>L.N. No.</i>
Child Care Centres (Amendment) Regulation 1996	79/96
Food and Drugs (Composition and Labelling) (Amendment) Regulation 1996	80/96
Water Pollution Control (Victoria Harbour (Phase Three) Water Control Zone) Order	81/96
Water Pollution Control (Victoria Harbour (Phase Three) Water Control Zone) (Appointed Days) Order	82/96
Statement of Water Quality Objectives (Victoria Harbour (Phase Three) Water Control Zone)	83/96
Hong Kong Academy of Medicine Ordinance (Amendment of Schedule) Order 1996	101/96
Solicitors' Practice (Amendment) Rules 1996	102/96
Travel Industry Compensation Fund (Procedure for Ex Gratia Payments) (Amendment) Rules 1996	103/96
Travel Industry Compensation Fund (Amount of Ex Gratia Payments and Financial Penalty) (Amendment) Rules 1996	104/96
Criminal Procedure (Amendment) Ordinance 1995 (69 of 1995) (Commencement) Notice 1996	105/96

Import and Export (Strategic Commodities) Regulations (Amendment of Schedule 1) Order 1996 (L.N. 17 of 1996) (Commencement) Notice 1996.....	106/96
District Court Civil Procedure (General) (Use of Language) Rules (L.N. 589 of 1995) (Commencement) Notice 1996	107/96
Matrimonial Causes (Amendment) Rules 1995 (L.N. 590 of 1995) (Commencement) Notice 1996...	108/96
Employees' Compensation (Rules of Court) (Amendment) Rules 1995 (L.N. 591 of 1995) (Commencement) Notice 1996	109/96
Lands Tribunal (Amendment) Rules 1995 (L.N. 592 of 1995) (Commencement) Notice 1996	110/96
Criminal Appeal (Amendment) Rules 1995 (L.N. 53 of 1996) (Commencement) Notice 1996.....	111/96
Criminal Procedure (Appeal Against Discharge) (Amendment) Rules 1995 (L.N. 55 of 1996) (Commencement) Notice 1996	112/96
Criminal Procedure (Applications Under Section 16) (Amendment) Rules 1995 (L.N. 57 of 1996) (Commencement) Notice 1996	113/96
Criminal Procedure (Reference of Questions of Law) (Amendment) Rules 1995 (L.N. 59 of 1996) (Commencement) Notice 1996	114/96
Official Languages (Authentic Chinese Text) (Maintenance Orders (Reciprocal Enforcement) Ordinance) Order.....	(C) 15/96

Official Languages (Authentic Chinese Text) (Traffic Accident Victims (Assistance Fund) Ordinance) Order.....	(C) 16/96
Official Languages (Authentic Chinese Text) (Third Parties (Rights Against Insurers) Ordinance) Order.....	(C) 17/96
Official Languages (Authentic Chinese Text) (Tax Reserve Certificates Ordinance) Order	(C) 18/96
Official Languages (Alteration of Text) (Electoral Provisions Ordinance) Order 1996	115/96
Official Languages (Alteration of Text) (Legislative Council (Electoral Provisions) Ordinance) Order 1996.....	116/96
Administration of Justice (Miscellaneous Provisions) Ordinance 1995 (13 of 1995) (Commencement) Notice 1996	117/96
Official Languages (Authentic Chinese Text) (Electoral Provisions Ordinance) Order.....	(C) 19/96
Official Languages (Authentic Chinese Text) (Legislative Council (Electoral Provisions) Ordinance) Order.....	(C) 20/96
Pilotage (Amendment) Order 1996	118/96
Securities (Exchange - Traded Stock Options) (Amendment) Rules 1996	119/96
Tax Reserve Certificates (Rate of Interest) Notice 1996	120/96

Residential Care Homes (Elderly Persons)

Ordinance (Cap. 459) (Commencement)

Notice 1996 121/96

Sessional Papers 1995-96

No. 63 — Draft Estimates for the year ending 31 March 1997;
Volume IA and Volume IB — General Revenue Account

No. 64 — Draft Estimates for the year ending 31 March 1997;
Volume II — Fund Accounts

WRITTEN ANSWERS TO QUESTIONS**Performance Control of Public Works Contractors**

1. **MR LO SUK-CHING** asked (in Chinese): *Following the collapse of a footbridge under construction off Hau Tak Estate, it is learnt that the building contractor of the project has been awarded many Government projects in the Tseung Kwan O area. In this connection, will the Government inform this Council:*

- (a) *of the number of Government and Housing Authority projects undertaken by the contractor and his subsidiaries (including those relating to the construction of public housing and Home Ownership Scheme estates) in which accidents have occurred in the past three years;*
- (b) *whether the Government has taken into account the past performance records of contractors, particularly in regard to safety records, before awarding a contract; if so, whether the Government will consider re-examining the other projects undertaken by the contractor concerned if an accident which has occurred in a project is found to have been caused by human negligence on the part of the contractor;*

- (c) *whether, in the light of the report that the accident mentioned above has been caused by the temporary props developing problems in the course of the construction of the bridge, the Government has laid down a set of safety standards for inspecting such temporary props, and whether such props can only be used after they have been inspected by the Government before the commencement of each project; and*
- (d) *whether the Government will consider suspending all similar projects temporarily until the cause of the accident is known?*

SECRETARY FOR WORKS: Mr President, my answer to the respective parts of the question is as follows:

- (a) Wan Hin and Company Limited has undertaken 11 Public Works Contracts and nine Housing Authority Contracts in the past three years. Of these, there were one (the recent one in Tseung Kwan O) fatal accident in the former and two in the latter.
- (b) The past performance of the lowest three tenderers are assessed in detail before tender recommendations are made. One important aspect of the tenderers' performance is their safety performance in previous contracts. Tenderers' site safety convictions under the Factories and Industrial Safety Regulations will also be considered before recommending award of contract.

Where the cause of a major accident can be clearly identified, it is our practice to make the circumstances known to all works departments, the Housing Authority and other agencies who are or may be responsible for similar contracts.

- (c) The exact cause of the accident has yet to be identified and investigation is being actively undertaken by the police and the Labour Department with assistance from the Territory Development Department. In order to ensure temporary works such as supporting props are properly designed and constructed, the contractor is

required under the contract to engage a professionally qualified independent checking engineer to check and certify the different stages of the design and construction of the temporary works. Accordingly, the contractor has to ensure that all temporary works throughout all construction stages are constructed in accordance with the certified design.

- (d) The in-situ casting of concrete decks and beams above carriageways in use has been used successfully in previous projects, in particular where circumstances have been against the use of precasting within a reasonable distance or in view of undesirable closure of busy roads during the erection of the precast beams. Following the tragic accident at Tseung Kwan O, we have advised departments with projects involving works over roads to be especially vigilant. However, there are currently no project with casting the beams in-situ above their final position similar to Tseung Kwan O and, were any to arise, we would reassess the methodology in the light of this accident.

Correctional Services Department Staff of Vietnamese Unit

2. **MR CHENG YIU-TONG** asked (in Chinese): *As a result of the implementation of the policy of orderly repatriation of Vietnamese migrants (VMs) by the Government, the number of VMs stranded in the territory has been decreasing and Vietnamese detention centres will be closed down gradually. This will have an impact on the staff of the Correctional Services Department (CSD) responsible for taking charge of these VMs. In this connection, will the Government inform this Council:*

- (a) *of the number of CSD staff presently serving in the Vietnamese Unit,*
- (b) *what arrangements will be made by CSD for the staff of the Vietnamese Unit upon the closing down of all Vietnamese detention centres; whether these staff can be regraded as regular staff; and if so, how many have been regraded as regular staff to date; and*

- (c) *whether the existing staff of the Vietnamese Unit who wish to be regraded as regular staff are required to re-apply and undergo the same recruitment process as other new applicants; if so, what are the reasons for such an arrangement, and whether the Government will revise existing arrangement so as to facilitate the regrading of these staff as regular staff?*

SECRETARY FOR SECURITY: Mr President,

- (a) At present, the Correctional Services Department (CSD) has a total strength of 903 staff serving in the Vietnamese Migrants (VM) Division. The Division comprises 614 regular disciplined staff, four Common Grades staff, 42 General Grades staff, 226 VM staff (employed specifically to man Vietnamese Migrant Detention Centres) and 17 technical grades staff.
- (b) With the gradual closure of the VM camps, the service of most of the staff in VM camps will no longer be required. The regular staff and the Common Grades staff will be posted back to penal institutions to fill existing and anticipated vacancies. The General Grades staff will either be absorbed by the CSD or returned to the central government. The VM staff and the technical grades staff will be absorbed by the CSD as far as possible. Those who wish to continue working in the Civil Service will be helped to find job placements; they will be given priority for appointment if they are found suitable to fill the vacancies. Those who do not wish to work in the Civil Service will be offered retirement on abolition-of-office terms. The staff have been fully briefed on these arrangements.

To reduce the number of surplus staff, the CSD has been actively recruiting VM staff to join the regular stream, subject to their willingness and suitability. Over the years, a total of 171 VM staff have been appointed to similar ranks in the regular stream. Efforts to encourage the rest of the VM staff to apply to switch will continue.

- (c) In line with the normal practice in the Civil Service, VM staff who wish to apply to work in the regular stream will follow the same basic application procedure as for new recruits. If they fulfil the basic entry requirements and are found suitable by the Department, we will accept them readily. We have examined the transfer arrangements carefully. There is no need to change the existing arrangements given the ongoing successful transfer of a larger number of VM staff to the regular stream.

Prison Escapes

3. **MR JAMES TO** asked (in Chinese): *In regard to the escape of prisoners from correctional institutions, will the Government inform this Council of:*

- (a) *the number of prisoners who have successfully escaped from each correctional institution in the past three years (irrespective of whether they have been recaptured afterwards);*
- (b) *the number of escapees who have been recaptured in the same period;*
- (c) *the average term of imprisonment served by these escapees and the average remaining length of sentence yet to be served when they made their escape; and*
- (d) *the major reasons for prisoners escaping from correctional institutions as known to the Correctional Services Department?*

SECRETARY FOR SECURITY: Mr President,

- (a) Over the past three years, 14 prisoners have escaped, including two Training Centre (Cape Collinson) inmates. The table below shows the breakdown by institution:

<i>Institution</i>	<i>Number of escaped prisoners</i>		
	<i>1993</i>	<i>1994</i>	<i>1995</i>
<i>Medium Security</i>			
Hei Ling Chau Correctional Institution		1	
Ma Po Ping Prison			3
<i>Minimum Security</i>			
Cape Collinson Correctional Institution	2		
Lai Sun Correctional Institution		3	2
Pik Uk Prison			3
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Total	2	4	8

- (b) Of these 14 persons, 12 have been recaptured.
- (c) The terms of sentence of the two Training Centre inmates were not fixed: they should serve a period of no less than six months, but no more than 36 months, depending on their performance in the course of their training. The 12 prisoners, who were given fixed sentences, were serving 22 months on average.

In respect of the two Training Centre inmates, the average remaining length of sentence was no more than 29 months. The average remaining sentence of the 12 prisoners was 10 months.

- (d) The main reasons given by the recaptured prisoners were that they felt homesick or they claimed they had to take care of important personal matters outside the institution.

New Territories Land Categories

4. **MR LAU WONG-FAT** asked (in Chinese): *For historical reason, land in the New Territories is divided into different categories, such as those which are commonly known as "old scheduled building lot", "old scheduled lot", "agricultural lot", and so on. In this connection, will the Government inform this Council:*

- (a) how many categories is land in the New Territories divided into; and what were the respective dates for the commencement and completion of the categorization process;*
- (b) of the rationale for dividing land into such categories, together with the restrictions on land use imposed on each category; and*
- (c) whether the Government has reviewed the land categorization process so as to assess if the land use of each category meets today's need?*

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr President,

- (a) lots in the New Territories can be classified into two broad categories, namely, old schedule lots (that is, those held under Block Crown Leases) and new grant lots (that is, those other than old schedule lots).

Old schedule lots were covered by a survey the Government undertook between 1899 and 1903 in respect of all privately-owned land holdings in the New Territories. Following the survey, the land was granted by means of Block Crown Leases. Within each Block Crown Lease, the land was further subdivided into lots, classified mainly as "building" or "agricultural" land according to the then current use.

New grant lots are simply land that was granted after the above survey. They can be subdivided into pre-war new grant lots and

- post-war new grant lots;
- (b) as explained in (a) above, the categorization of land arose out of historical reasons. The permissible land use of a lot in each category is governed by the relevant conditions as well as statutory plans prepared under the Town Planning Ordinance.

Development on old schedule lots are subject to covenants contained in Block Crown Leases. These covenants prohibit building without the prior approval of the Land Authority. Developments on pre-war new grant lots are subject to the conditions contained in the General and Special Conditions of Sale of Land in the New Territories prevailing at the time when the lots were disposed of. Developments on post-war new grant lots are, as a general rule, subject to a set of general and special conditions which have been drawn up for each grant.

As regards statutory planning control over land use, the statutory plans are prepared on the basis of findings from various strategic and district planning studies and are revised from time to time to cater for changing needs and circumstances; and

- (c) we have no intention to re-categorize lots in the New Territories. But as explained in (b) above, the statutory plans which govern land use in the New Territories are revised from time to time to cater for changing needs and circumstances. Where the existing lease conditions of a lot are not consistent with the current statutory plans and administrative controls, the Government is prepared to consider applications for lease modifications. They may be approved subject to such terms and conditions as imposed by the Government, including the charging of premium.

Appointment of District Board Members to Public Advisory Bodies

5. **MR CHOY KAN-PUI** asked (in Chinese): *Will the Government inform this Council:*

- (a) *how many of the members sitting on various government advisory bodies are people appointed from local community groups in the past three years; of this group, how many are elected district board members; and*

- (b) *whether it will appoint more people at the district level to these advisory bodies so that they can put forward their views to the Government; if so, what will be the anticipated rate of increase in such appointment in 1996-97; if not, why not?*

SECRETARY FOR HOME AFFAIRS: Mr President,

- (a) For the purpose of this reply, we have taken major local community groups to mean District Boards, Area Committees, Rural Committees and District Fight Crime Committees. The number of members from these local groups who were appointed to sit on government advisory bodies over the past three years is as follows:

<i>1993</i>	<i>1994</i>	<i>1995</i>
97	77	82

Of the above, the number of elected district board members is as follows:

<i>1993</i>	<i>1994</i>	<i>1995</i>
27	25	31

- (b) When making appointments to advisory boards and committees, the Government's overriding objective is to ensure that the best persons capable of meeting the specific requirements of the concerned advisory bodies are appointed. To this end, appointments are made on the basis of the merits of the individuals concerned taking account of their personal ability, expertise, experience, integrity, commitment to public service and their overall suitability for appointment. The experience and background of those people from local community groups will also be taken into consideration. It is not possible to predict whether an increase in appointment of such people will take place next year. However, the Government will continue to keep in view the suitability of the members from local community groups for appointments to advisory bodies.

Container Thefts

6. **MRS MARIAM LAU** asked (in Chinese): *In view of the frequent occurrence of container thefts, will the Government inform this Council:*

- (a) *of the number of container thefts reported to the police over the past three years, as well as the number of such thefts in which the stolen containers have been recovered;*
- (b) *of the specific actions and measures which have been put in place to combat such crimes, so as to prevent the problem from deteriorating and to guard against both the goods owners and the freight companies suffering from unnecessary losses; and*
- (c) *whether, in the event of the stolen containers being found in mainland China, the police will request the Chinese authorities to arrange for the return of the containers to the territory?*

SECRETARY FOR SECURITY: Mr President,

- (a) The police only started to capture separate statistics on theft of containers since September last year. Before that, these statistics were grouped under theft or miscellaneous thefts. From September 1995 to February 1996, a total of 120 containers was reported stolen and 28 of them have been recovered. The breakdowns by police regions are set out below:

Number of Containers Reported Stolen
and Recovered September 1995 - February 1996

<i>Police Regions</i>	<i>Number of Containers Reported Stolen</i>	<i>Number of Containers Recovered</i>
New Territories North	107	27
New Territories South	13	1
Kowloon East	NIL	NIL
Kowloon West	NIL	NIL
Hong Kong Island	NIL	NIL
Marine	NIL	NIL

Total	120	28
(b)	The police have accorded high priority in tackling container thefts and adopted the following measures:	

(i) Proactive intelligence-led operations

Evidence indicates that the vast majority of these thefts were committed by syndicates. Dedicated units have been set up to collect intelligence and mount operations against targeted suspects in a number of blackspots;

(ii) Detection at Border Crossing Points

The police maintain close liaison with the Immigration Department and the Customs and Excise Department to detect stolen containers at the various border crossing points when they are being smuggled across the border;

(iii) Preventive Measures

With the assistance of insurance companies and the container tractor drivers' associations, the police provide advice on crime prevention to operators in the trade to heighten their awareness on container thefts.

- (c) The police maintain close liaison with the Chinese authorities to combat cross-border crimes. In the event that stolen tractors or containers are found in China, the police will request for their return. So far, the Chinese authorities have returned to us a total of 22 container tractors, one trailer and one container which were stolen in Hong Kong and recovered from different areas of Guangdong Province during their anti-crime operations.

Extension of Kowloon Motor Bus Franchise

7. **MR LAU CHIN-SHEK** asked (in Chinese): *In regard to the extension of the franchise granted to the Kowloon Motor Bus Company Limited (KMB), will the Government inform this Council:*

- (a) *of the progress in the negotiation between the Government and KMB over the extension of the franchise, including the latest developments regarding the proposed exemption of KMB from the Profit Control Scheme, as well as the date when the negotiation is expected to complete, and whether this Council will be consulted on the matter; and*
- (b) *whether the Government will consider extending the franchise granted to the KMB to another bus company, so as to allow two bus companies operating on the same specified routes concurrently to enhance competition?*

SECRETARY FOR TRANSPORT: Mr President,

- (a) The Kowloon Motor Bus Company Limited (KMB)'s current franchise will expire on 31 August 1997. The Administration expects to award a new franchise to KMB and has started negotiations with the company. Our intention is to abolish the current profit control scheme in this new franchise. As requested by Honourable Members, and now stipulated under section 6(2A) of the Public Bus Services Ordinance, a recommendation on a bus franchise renewal should be put to the Governor in Council not less than nine months before the expiry of the franchise, that is, before December 1996. We are working towards and should meet this timetable. As part of this exercise, we shall consult both the Transport Advisory Committee and the Transport Panel of this Council.
- (b) In general, it is the Government's policy to encourage competition. However, in so far as bus services are concerned, it is not practicable nor viable to allow for a complete duplication of bus routes. Franchised bus operators like KMB are required to operate a network of services, some of which are profitable and some are not. Allowing an additional operator to run parallel services throughout the same network would affect the operating efficiency and financial viability of the franchisee. There are also other practical problems such as the difficulty in finding suitable depot sites for bus

operations.

Policemen Running into Debts

8. **MR CHEUNG MAN-KWONG** asked (in Chinese): *Regarding the problem of policemen running into debts, will the Government inform this Council:*

- (a) *Of the amount of loan which policemen have borrowed from the Credit Union of the Police Force in each of the past three years, together with a breakdown of the Police Districts to which they belong and their respective ranks;*
- (b) *whether the Government has any knowledge of the amount of loan borrowed from licensed banks or financial institutions by policemen in each of the past three years; if so, will the Government provide a breakdown of the Police Districts to which they belong and their respective ranks;*
- (c) *whether any policemen are found to have borrowed money from illegal loan-sharks in the past three years; if so, will the Government provide a breakdown of the Police Districts to which they belong, their respective ranks and the loan amounts borrowed by them;*
- (d) *whether the Police Force management has conducted an analysis of the situation regarding policemen borrowing money; if so, whether there is an upward trend for such borrowing and whether an examination of the causes for policemen running into debts has been made, and how the problem of policemen borrowing money can be rectified; and*
- (e) *what monitoring measures does the Police Force management have to prevent policemen who run into debts from being exploited by criminal gangs, and thus prevent the law-enforcement capability of the Police Force from being jeopardized?*

SECRETARY FOR SECURITY: Mr President, the answer to the five parts in this question is as follows:

- (a) The Police Credit Union currently has assets of over \$490 million. These assets are in fact savings of Police Force members. The amount of loans borrowed from the Union in the past three years are:

1993 \$295.8 million

1994 \$344.7 million

1995 \$433.5 million

The increase in loan over the years was mainly due to a steady increase in membership. The police do not keep statistics on the breakdown of loans by police regions or ranks of the officers.

- (b) There is no requirement for police officers to disclose details of their private loans as this would constitute an arbitrary interference with their privacy. We therefore do not have the amount of loans borrowed by police officers from licensed banks or financial institutions.
- (c) In the past three years, a total of five police officers were found and disciplined for obtaining loans from illegal money-lenders including loan sharks. The breakdowns are as follows:

<i>Year</i>	<i>Rank</i>	<i>Region</i>	<i>Amount</i>
1993	NIL	NIL	NIL
1994	Police Constable	Kowloon West	\$20,000
	Police Constable	Hong Kong Island	\$22,500
1995	Police Constable	New Territories South	\$240,000
	Police Constable	Hong Kong Island	\$180,000

Sergeant

Kowloon West

\$20,000

- (d) The Force monitors closely the situation of unmanageable debts among police officers by conducting six monthly surveys. The number of cases of unmanageable debts had dropped from 145 for the second half of 1994 to 132 for the first half of 1995. The survey for the second half of 1995 showed a further decrease to 87. Overspending and gambling were the main reasons for having unmanageable debts.

The Commissioner of Police maintains a strict policy on indebtedness of police officers as serious pecuniary embarrassment might compromise the integrity of the officer concerned. Police officers are required to be prudent and temperate in their financial affairs and encouraged to adopt a healthy lifestyle.

Accordingly, the Force has developed a comprehensive strategy for preventing, identifying and dealing with the indebtedness of police officers. It includes briefings and seminars for new recruits and serving officers on indebtedness and personal budgeting. Where appropriate, counseling will also be offered. Officers who are indebted under the following circumstances may be subject to criminal or disciplinary proceedings:

- (i) betting, gambling, or otherwise related indebtedness;
- (ii) having financial obligation to any person or organization other than as permitted by the Acceptance of Advantage (Governor's Permission) Notice or the Police General Orders.

The Force has also issued an administrative guideline outlining steps to be taken at different levels of management to monitor and tackle indebtedness. A list of indicators of indebtedness has been drawn up to heighten the awareness of the management on the extent of indebtedness of individual officers.

- (e) In addition to (d), there are well-established measures to prevent police officers from being exploited by criminals:

(i) *Vetting*

Officers posted to sensitive posts, for example, anti-triad or anti-vice units, are vetted to ensure only officers of high integrity are placed in these positions;

(ii) *Unofficial association with criminals*

The Police General Orders specify that police officers, other than in the course of their duty, shall not associate with known criminals or triad personalities. If proved to have done so, an officer can be subject to disciplinary action;

(iii) *Turnover of posting*

An officer in a sensitive post will not normally be allowed to remain in that post for an excessive period;

(iv) *Cross-territorial operations*

Officers from different units are allowed to conduct raids and make arrests in other Divisions, Districts and Regions;

(v) *Organizational structure reviews*

Organizational structures are constantly reviewed to minimize opportunities for corruption.

Occupational Deafness Compensation Scheme

9. **MR LEE KAI-MING** asked (in Chinese): *The Occupational Deafness Compensation Scheme has started accepting applications since July 1995. In this connection, will the Government inform this Council:*

- (a) *when the Occupational Deafness Compensation Board (the Board) will start paying out compensation to the first batch of deaf workers who have applied, and how many of these applicants will be paid*

- compensation;*
- (b) of the annual income received and the monthly administrative expenses incurred by the Board;*
 - (c) whether the Board is able to offer assistance to applicants who cannot produce the 10 years' reference by employers required so that their applications can be accepted; and*
 - (d) whether, in cases where several applicants have been employed by the same company or employer before, consideration will be given to admitting cross evidence supporting one another's claim?*

SECRETARY FOR EDUCATION AND MANPOWER: Mr President,

- (a) As of 29 February 1996, 45 applications for compensation payment have been approved under the Scheme. The first batch of payments by the Occupational Deafness Compensation Board for nine of these applications were made in early February 1996.
- (b) In 1995, the Government provided a funding injection of \$100 million to the Board and an interest-free loan of \$115 million as a start-up fund for the Occupational Deafness Compensation Scheme. As for its recurrent income, the Scheme is funded by an across-the-board levy of 1.5% on the insurance premiums of all employees' compensation policies which employers are required to purchase, in accordance with the Employees' Compensation Ordinance. This levy income is collected by the Employees Compensation Insurance Levies Management Board and distributed to the Occupational Deafness Compensation Board (the Board) at quarterly intervals. The first quarterly levy income was distributed to the Board in December 1995 and the estimated levy income for the whole year is around \$30 million. As of 29 February 1996, the average monthly administrative expenses incurred by the Board amount to \$520,000.

(c) and (d)

According to section 14 of the Occupational Deafness Compensation Ordinance, a person who suffers noise-induced deafness and who wishes to claim compensation under the Scheme has to satisfy a requirement that before the date of application, he has had at least 10 years of employment in aggregate in noisy occupations in Hong Kong as defined under the Ordinance.

Apart from the references from employers, the Board will take into account statements made by co-workers of the applicant, as well as other documentary proofs such as tax returns, employment contracts, and wage records in deciding whether the applicant meets this requirement. The Board will also seek information from other relevant parties during the verification process as and when necessary.

Immigration Clearance Time

10. **MR CHIM PUI-CHUNG** asked (in Chinese): *Will the Government inform this Council:*

- (a) *of the average processing time required by the Immigration Department to clear the immigration procedures for each visitor to the territory;*
- (b) *how does the processing time referred to in the reply to (a) above compare with those in Singapore and Japan; and*
- (c) *whether the Immigration Department will consider shortening the processing time for overseas visitors so as to provide a more efficient service?*

SECRETARY FOR SECURITY: Mr President, processing time may refer to waiting time, which is the standard used in our performance pledge, or time

required to process each transaction. I shall include both references in my reply.

- (a) The average time required to clear the immigration procedure for each visitor at the airport is 90 seconds on arrival and 50 seconds on departure. During the months of November and December 1995 and January 1996, on average 92% of arriving visitors were cleared within the target waiting time of 30 minutes. For departing passengers, our performances has consistently been close to 100%.
- (b) We have approached the Japanese and Singaporean authorities to obtain the information, which is still not available at the time this reply is issued. We will separately provide the information to the Council when it is available.
- (c) The Government is committed to providing an efficient immigration clearance service to facilitate ease of travel by overseas visitors to Hong Kong. In September 1995, the Immigration Department implemented a new computer system to process machine readable passports by optical scanners. This results in a reduction of 20 seconds of the time required for each transaction involving a machine readable passport. Apart from the transaction time, we have also taken steps to reduce the overall waiting time of visitors. At the airport, we have taken the following improvement measures:
 - (i) the addition of 51 staff to increase the number of counters from 116 to 128;
 - (ii) adjustment of the roster and staggering meal breaks of counter staff over a longer period to maximize the number of counters that can be manned at any one time;
 - (iii) the Civil Aviation Department is seeking funds to implement a serpentine queuing arrangement (single queue for multiple counters) at the departure level;
 - (iv) a consultancy on the current system, conducted from October to December 1995, has identified measures for further improvement; and

- (v) during festive rush periods such as Easter, Christmas and the Chinese New Year, all roster leave for the staff is suspended so as to deploy additional staff to cope with the heavy workload.

Education on Appreciation of Chinese Culture and History

11. **DR DAVID LI** asked: *According to a recent survey commissioned by the Curriculum Development Council, 10% of primary school pupils thought there was no need to respect Chinese traditions. Moreover, the survey found that the pupils' civic knowledge was generally confined to classroom teaching. In this connection, will the Government inform this Council:*

- (a) *how it plans to reinforce pupils' appreciation of Chinese culture and history, which is vital for developing national identity; and*
- (b) *what specific programmes will be implemented by primary schools to enhance pupils' awareness of civic issues?*

SECRETARY FOR EDUCATION AND MANPOWER: Mr President,

- (a) Primary students learn about Chinese culture and Chinese history through different subjects such as Social Studies and Chinese Language, extra-curricular activities, school assemblies and class teacher periods. The Education Department encourages schools to organize civic education related extra-curricular activities, such as interest clubs and inter-school competitions, by providing advisory services, co-ordination and financial assistance as necessary.

From September 1996, the Government will reinforce learning in these areas through the introduction of a new set of Guidelines on Civic Education which is now under public consultation. One of the five areas in the suggested curriculum framework is on China. This will enhance the students' understanding of Chinese culture and

Chinese history, and give them a better knowledge of China's political, economic and administrative systems.

To support teaching of these areas, the Education Department will provide teaching kits to schools on different aspects of China from the school year 1996-97. These will be supplemented by Education Television Programmes covering a range of topics on Chinese society and culture.

- (b) We will implement additional measures to promote civic education in both primary and secondary schools. Specifically at primary level, we will introduce a new core subject of General Studies in the 1996-97 school year. It aims to equip our primary children with the basic knowledge relating to the individual, family, society, and science and technology; and to develop in them study and life skills, problem solving capability and analytical thinking. At Primary Five and Six, the content extends from the individual and society to Hong Kong, China and the world as a whole.

Under the proposed new Guidelines on Civic Education, emphasis will be put on promoting our students' critical thinking. In handling a topic on civic education, school teachers will be advised to present different views and to assist students to discover and evaluate their own values through reflection. At primary level, the teaching objectives will progress from helping students to recognize their role within the school, family and community to developing their concern for major events in Hong Kong, China and the world.

To prepare teachers to implement the new Guidelines on Civic Education through classroom teaching and extra-curricular activities, we will organize in-service teacher training starting around May 1996.

Emergency Co-ordination

12. **MR CHAN KAM-LAM** asked (in Chinese): *The recent fire tragedy at Hsien Ku Fung in Pat Sin Leng Country Park has given rise to public concern over the ability of various government departments to co-ordinate sufficiently*

their efforts in both the rescue operation and the subsequent medical treatment process. In this connection, will the Government inform this Council:

- (a) why the Government Secretariat Emergency Co-ordination Centre, which is specifically set up to deal with major incidents, was not in operation on the day of the tragedy; under what circumstances will the Co-ordination Centre be put into operation;*
- (b) whether there is a need to review the existing guideline which specifies that ambulance crew should send the injured to the nearest hospital or clinic for treatment; and whether a review will be conducted to ascertain if the arrangement of sending all the injured to the Prince of Wales Hospital by land on that day might have caused a delay in giving emergency treatment to the victims;*
- (c) why the Government did not enlist the assistance of the British Garrison in rescuing the injured and taking them by helicopters to hospitals; under what circumstances will the Government approach the British Garrison for assistance;*
- (d) what co-ordinating role does the Hospital Authority play in coping with major incidents of this kind; why the situation has arisen where the Prince of Wales Hospital openly appeals for skin-donors while there is a reserved stock of skin available in Queen Mary Hospital; and*
- (e) what measures does the Government have to improve the communication equipment of the ambulance crew of the Fire Services Department and to tackle the problem of ambulances having inadequate equipment for the treatment of burns?*

SECRETARY FOR SECURITY: Mr President,

- (a) The Government's emergency response system is built upon professional, well-trained disciplined services staff (primarily Fire Services and police), on call 24 hours a day to respond to*

emergencies. The Government's emergency services are mobilized by departmental command and communication centres (CCCs) operating 24 hours a day. Through these CCCs, the emergency services involving different departments and agencies are well co-ordinated to provide the necessary response in most emergencies. The Government Secretariat Emergency Co-ordination Centre (GSECC) is opened only when the scale of response required is likely to be in excess of that which can be dealt with by the emergency services under their normal operating conditions. The GSECC is required to operate in situations which are usually of a territory-wide nature (for example, rainstorms) to facilitate inter-departmental liaison; and to ensure all relevant information is gathered centrally to facilitate any decision to be made in the Government Secretariat as necessary. In the case of the Pat Sin Range hill fire, as it was largely a localized incident, the Fire Services Communication Centre (FSCC) quickly involved the police, Civil Aid Services, Agriculture and Fisheries Department, Government Flying Services, Auxiliary Medical Services, the Hospital Authority, Information Services Department, Education Department, Social Welfare Department and the Home Affairs Department.

To provide an effective and efficient response to emergencies, it is essential to keep emergency command and communication systems as simple as possible. The Security Branch Duty Officer was informed by the FSCC and the Secretary for Security was kept informed through this channel and through his talks directly with the Director of Fire Services. As the response was under proper and effective co-ordination by the Department, we did not consider it necessary to activate the GSECC to add an extra layer to the communication process.

- (b) The practice of taking patients to the nearest accident and emergency facility is a standard procedure that has been developed by the Fire Services Department, in consultation with the Hospital Authority and the Department of Health. Getting the earliest possible life-saving aid to casualties is in their best interests, even if patients subsequently need to be transferred to receive more

specialized treatment. A decision was made to transfer patients to the Prince of Wales Hospital (PWH) by land, because they could then receive continuous ambulance care and treatment en route. This form of transfer, in fact, allowed the patients to be delivered to PWH as quickly as any alternative. The investigation team appointed by the Director of Fire Services will report on this practice and will consider what improvements may be made.

- (c) We would ask the Commander, British Forces for assistance when we know that the Government's resources are insufficient or inadequate to deal with a situation effectively and within a reasonable period. On this occasion, the Government Flying Services (GFS) had sufficient helicopters to perform all the necessary duties and did not, therefore, need to seek additional assistance from the British Forces. The area where rescue services were being conducted was very small. In order to ensure flight safety in the operational area, there was a practical limit on how many helicopters could be deployed. With reinforcement from Civil Aid Services to form the rescue teams, it was not considered necessary to seek assistance from the British Garrison on rescue support.
- (d) The Hospital Authority Head Office (HAHO) is responsible for liaison to ensure that adequate medical resources are provided. On this occasion, the HA implemented its contingency plans when the FSCC notified it of the need to treat the casualties. An emergency medical team was despatched immediately to the scene and supporting staff were mobilized in PWH to prepare for admission of the burn patients. To ensure speedy and effective treatment of these patients, HAHO also co-ordinated efforts to support the hospital by making contingency arrangements to transfer patients to other hospitals if necessary, and providing emergency funding for additional supplies of medical consumables and equipment.

There was a sufficient supply of skin in the public hospital system to cater for the short-term skin graft requirements of all the burn patients admitted to PWH. Transplant co-ordinators facilitated access to the skin banks. The public appeal for skin donations was made in anticipation of the long-term requirements for the

management of the burn patients.

- (e) All ambulances have radio telephones to communicate with the FSCC. For on-site communication, the incident commander, the incident ambulance officer and the officers leading working crews have hand-held radios to communicate with each other and with the Incident Command post.

All ambulances have, as standard equipment, cling film and burn sheets to treat burns. They also have analgesic apparatus to reduce pain. The ambulancemen's objective is to cover burns, to reduce the risk of infection and to prevent fluid loss in the time before patients reach hospital.

The need for additional equipment on ambulances will be one of the issues that will be addressed in the report on the Pat Sin Range hill fire. We will study the recommendations before deciding what improvements may be necessary.

Task Force on Services Promotion

13. **MR ERIC LI** asked (in Chinese): *It is mentioned in the Governor's policy address last year that a Task Force has been established by the Financial Secretary to chart a course for the further expansion of the territory's service industries and that the Task Force will listen carefully to the views of the business representatives and the professional experts concerned. In this connection, will the Government inform this Council:*

- (a) *of the number of meetings held by the Task Force since its establishment and the concrete conclusions reached in assisting the development of the service industries;*
- (b) *which sectors of the business representatives whose views have been sought by the Task Force; and which of those views have been accepted; and*

- (c) *whether consideration will be given to disclosing the issues discussed and the conclusions reached by the Task Force after each meeting, so as to enhance its transparency?*

SECRETARY FOR TRADE AND INDUSTRY: Mr President, the Task Force on Services Promotion has met five times since its establishment in August 1995. Details of the preliminary results of the Task Force's work are set out in a public document.

The Government is fully aware of the need to have the benefit of the views of the business community in the formulation of the Task Force's recommendations. For this reason, the Financial Secretary has set up an Ad Hoc Consultative Group with prominent business leaders, professionals and academics. In addition, a symposium co-organized by the Government and the business community will be held on 12 March to enable further exchange of ideas relating to the development of the services sector and the facilitating role of the Government.

The public document which I referred to earlier serves to keep the community informed of the work of the Task Force. It also provides a basis for extensive public discussion on this important sector of the economy. Views from the public and the services sector are pivotal to the deliberations of the Task Force which, on completion of its work, will publish a final report for public information.

Eligibility for Occupational Deafness Claims

14. **MR LEUNG YIU-CHUNG** asked (in Chinese): *Recently, some deaf workers have complained that the eligibility criteria for applying to the Occupational Deafness Compensation Board (the Board) for compensation are too stringent, such that many workers with hearing loss in one ear are still not eligible for compensation. Moreover, it is learnt that the average pure-tone hearing loss of a worker measured in a public hospital often varies greatly from that measured in a private clinic. In view of this, will the Government inform this Council:*

- (a) *what is the total number of applications for compensation received by the Board since its establishment; of this, how many are still*

under consideration;

- (b) whether there is a common method used by both public hospitals and private clinics to measure the average pure-tone hearing loss of a worker; if so, what the method is; if not, why not;*
- (c) given the similar nature of the Pneumoconiosis Compensation Fund and the Occupational Deafness Compensation Fund, why a claimant applying for compensation from the former is not required to pay for the cost of a pulmonary function test himself, whereas a claimant applying for compensation from the latter is required to undergo a hearing test at his own expenses; and*
- (d) what is the basis for requiring claimants applying for occupational deafness compensation to have at least ten years' employment in noisy occupations?*

SECRETARY FOR EDUCATION AND MANPOWER: Mr President, the Occupational Deafness Compensation Scheme is a collective liability compensation scheme which was set up under the Occupational Deafness (Compensation) Ordinance in April 1995, with the objective of compensating employees who suffer from noise-induced deafness by reason of their employment. The Scheme came into operation in July 1995.

To be eligible for compensation under the scheme, a claimant is required under the Ordinance to fulfill the following disability and occupational requirements:

- (a) he should be suffering from sensorineural hearing loss amounting to not less than 50 dB in each ear, where such loss is due in the case of at least one ear to noise and being the average of pure-tone losses measured by audiometry over the 1, 2 and 3 kHz frequencies; and*
- (b) he should have*
 - (i) at least 10 years of employment in aggregate in specified*

noisy occupations in Hong Kong; and

- (ii) a period of continuous employment in a noisy occupation at any time either within the 12 months preceding the application for compensation or within the 72 months before the date of implementation of the scheme, that is, 1 July 1995, provided that he submits his application for compensation within 12 months after the commencement of the Scheme, that is, by 30 June 1996.

As regards Part (a) of the question, up to 29 February 1996, the Occupational Deafness Compensation Board (the Board) has received 231 applications for compensation of which 142 are under consideration, 45 have been approved, 39 were rejected, and five withdrawn by the applicants.

As regards Part (b) of the question, according to Section 15 of the Ordinance, a claimant who applies for compensation under the Scheme and who fulfills the occupational requirements has to undergo a hearing test at a hearing test centre designated by the Board for the purpose of assessing the degree of hearing loss suffered by the claimant. The Yaumati ENT Clinic of the Hospital Authority is the only clinic which has been designated by the Board under Section 36 of the Ordinance as the hearing test centre for the Scheme.

The audiological facilities and calibration methods being used in the hearing tests conducted at the Yaumati ENT Clinic conform with well-established international standards. Moreover, as an administrative rule, the Board requires each claimant who applies for the hearing test to be away from excessive noise at work for at least 24 hours prior to taking the audiometric test, so that the measurements can truly reflect his/her permanent hearing disability. This rule is also in line with international standards. As regards tests conducted by private clinics, we have no information on the audiological facilities and calibration methods which may be used to determine hearing loss. Nevertheless, the results of hearing tests conducted by any of these private clinics will not be accepted for the purpose of compensation under the Scheme.

Part (c) of the question concerns the requirement that the claimant has to pay for the hearing test under the Scheme. This requirement was drawn up as a means to prevent abuse of the hearing test arrangement, having regard to the limited audiological resources in Hong Kong. However, all claimants who have passed the hearing test conducted by the hearing test centre designated by the Board will be reimbursed the full amount of the cost and will not be required to pay for the cost of the subsequent medical examination which will be fully borne by the Board.

It is not appropriate to compare this aspect of the Scheme with the Pneumoconiosis Compensation Scheme (PCS) — another collective liability compensation scheme established by statute for persons who are diagnosed after 1 January 1981 to be suffering from pneumoconiosis. The incidence of pneumoconiosis suffered by claimants under the PCS is usually identified through a lengthy curative process. Patients have normally been suffering from chest diseases and receiving medical care for a considerable time. When their medical conditions have become stabilized, their attending physicians (usually doctors in the Government chest clinics) will be in a position to diagnose that they may have contracted pneumoconiosis and refer them to the Pneumoconiosis Medical Board (a body established for the determination of the degree of incapacity of eligible pneumoconiotics under the PCS) for consideration. In other words, these claimants have already undergone the necessary screening procedure during the treatment process. It is therefore not necessary to require them to pay for the cost of a pulmonary function test.

As regards Part (d) of the question, an occupational requirement was required so as to establish a casual relationship between a claimant's deafness and his occupation. This is essential because the objective of the Scheme is to provide compensation for persons suffering for noise-induced deafness by reason of their employment.

The occupational requirement was set at 10 years on the basis of medical advice that this time period was considered appropriate for the development of the minimum sensorineural hearing loss of 50 dB measured at 1, 2, and 3 kHz frequencies as specified under the Scheme. This was also determined with reference to the same requirement used in the United Kingdom and Singapore for their own occupational deafness compensation schemes.

In the light of its operational experience, we will conduct a review on all the various aspects of the Scheme after it has been in operation for one year.

Government Relief in Chills

15. **MRS ELIZABETH WONG** asked: *Arising from the large numbers of deaths of old people, suspected to have been caused by hypothermia, over the Lunar New Year holiday period, will the Government inform this Council whether it has conducted an investigation into the appropriateness of the Government's action to meet the needs of the vulnerable groups in the recent cold spell experienced in the territory; if so, what is the outcome of the investigation; if not, why not?*

SECRETARY FOR HEALTH AND WELFARE: Mr President, hypothermia was not reported as the cause of death of any of the elderly people who died during the recent cold weather. Post mortems show that other underlying medical problems were the cause of death in these cases. The low temperatures may have contributed to exacerbating such medical problems.

The Government has reviewed the actions taken during this period to meet the needs of people vulnerable to such cold weather.

One of the most vulnerable groups were street-sleepers. In accordance with standing arrangements, the Home Affairs Department opened shelters for anybody who needed them. They were opened on a 24-hour basis and provided blankets, ground mats, mattresses, hot drinking water and hot meals. Staff also offered street sleepers transport to take them to the shelters. Social Welfare Department staff distributed blankets to street sleepers who were also given information regarding how to obtain further assistance if needed. All street sleepers have been offered alternative accommodation as a matter of policy. The Subventions and Lotteries Fund Advisory Committee is about to consider a request to start in this month an outreaching multi-disciplinary team to encourage elderly street sleepers to accept housing and reintegration into society.

The other main vulnerable group was identified as elderly persons living alone. This group is vulnerable at all times and especially so in cold weather. In the recent cold spell, Social Welfare Department staff at district level

contacted voluntary agencies providing services to the elderly and all local government welfare offices to make a special effort to contact known elderly persons living alone to check that they were alright.

Various new initiatives are being taken or existing programmes speeded up to improve the care of elderly persons living alone, for example:

- (a) the Social Welfare Department will take the lead to introduce measures to mobilize a higher level of community and volunteer support to develop a better social networking system to support the elderly and other vulnerable groups. It will build on the network of multi-service centres for the elderly and the experience already gained in various volunteer pilot programmes already in hand. The ongoing expansion of home help teams will also bring practical benefit to elderly people living alone.
- (b) Steps are being taken to identify those single elderly persons and other at-risk recipients of Comprehensive Social Security Assistance (CSSA) who may not have a telephone to encourage and assist them to apply for one. CSSA grants are available to cover both the installation and recurrent costs of telephones for those in need. The cold weather highlighted how important it is for vulnerable groups to have easy access to telephones to call for help.
- (c) Since 1990, the Housing Department has been fitting alarm bells in public housing units occupied by elderly persons living alone. The Department is now considering a system which would link such alarm devices to a central control system.

The review concluded that the immediate measures taken by the Government during the cold weather constituted an effective and practical response to an emergency situation. But there are always things that can be done better and lessons have been learnt. It is clear that it cannot be left to the Government alone to act in such circumstances. The family and the community as a whole have a vital role to play in showing care and concern at such times by checking on elderly relatives, neighbours and friends. In the final analysis, there are simply not enough professional social workers and others to knock on every door. The Government and non-governmental organizations can and do provide a comprehensive range of professional services but they will always rely,

to a certain extent, on caring members of the community to act as referral agents to bring the vulnerable into contact with the professional advice and services which are available to help them.

Clearance of Cottage Areas

16. **MR IP KWOK-HIM** asked (in Chinese): *Will the Government inform this Council:*

- (a) *whether it has any plan to clear all the remaining cottage areas in the territory;*
- (b) *if the answer to (a) is in the affirmative, what is the time-table for the clearance of the cottage areas in order of priority, and how the residents in cottage areas affected by the clearance will be resettled; and*
- (c) *if the answer to (a) is in the negative, whether consideration will be given to formulating a long-term policy on the rehousing of residents in cottage areas?*

SECRETARY FOR HOUSING: Mr President, there are six cottage areas (CAs) in the territory, namely, Fo Tan, Tung Tau, Lai Chi Kok, Mount Davis, So Kon Po and Tiu Keng Leng. Clearance of Tiu Keng Leng CA to allow for the development of Tseung Kwan O new town, including major public housing projects, was announced in April 1995. Partial clearance of So Kon Po CA and Mount Davis CA was announced in April and July 1995 respectively for slope safety reasons. There is no plan to clear the remaining CAs.

It is the Government's policy that no one will be rendered homeless as a result of government clearance operations. Eligible residents will be offered public rental housing, or given priority to buy Home Ownership Scheme flats, or allowed to join the Home Purchase Loan Scheme to buy flats in the private sector. Ineligible residents in need will be offered accommodation in temporary housing areas.

We will keep the need to clear the remaining CAs under review, taking into account also the availability of our rehousing resources.

Respiratory Diseases

17. **DR LAW CHEUNG-KWOK** asked (in Chinese): *Will the Government inform this Council:*

- (a) *of the major respiratory diseases which have affected the people in the territory in recent years;*
- (b) *whether the number of people who have died of respiratory diseases is on the increase; and*
- (c) *what measures will be taken to educate the public how to prevent such diseases?*

SECRETARY FOR HEALTH AND WELFARE: Mr President,

- (a) The major respiratory diseases which have affected the people of Hong Kong in recent years are lung cancer, pneumonia and chronic obstructive pulmonary diseases including asthma. Tuberculosis has undergone a resurgence in many parts of the world in recent years and remains a threat.
- (b) The death rate from the major respiratory diseases has remained relatively stable over the past three years.
- (c) Cigarette smoking is a very significant health hazard and is a recognized cause of bronchitis, emphysema and other lung diseases as well as being implicated in a number of cancers and significant disease conditions. The Government has, since 1982, been taking active and increasingly stringent measures to combat smoking, including the banning of smoking in public places, the requirement to display health warnings and tar contents on cigarette packs, the

restriction of tobacco advertisements in the electronic media and the establishment of non-smoking areas in restaurants. The Hospital Authority has also identified chronic lung diseases as one of the priority health areas targeted for concerted action. Public hospitals have taken the initiative in launching smoking reduction and cessation programmes to reduce the risk of cigarette smoking, particularly to those who are already suffering from respiratory diseases.

Turning to the other major preventable respiratory disease, that is, tuberculosis, the Government has in place a universal vaccination programme for preventing tuberculosis and a dedicated service for early detection, control and treatment of the disease. In addition, patient education on respiratory diseases is given through the Central Health Education Unit of the Department of Health, at government out-patient clinics, specialist out-patient clinics and patient resource centres of public hospitals. The setting up of the Health Care and Promotion Fund to further the promotion of a healthy lifestyle, including suitable nutrition and exercise, is also likely to benefit those prone to respiratory illnesses.

Smuggling Prohibited Articles into Prisons

18. **MRS SELINA CHOW** asked (in Chinese): *It is reported that the smuggle of prohibited articles into prisons by staff of the Correctional Services Department (CSD) is causing concern. Will the Government inform this Council:*

- (a) *of the number of cases involving CSD staff being found to have smuggled prohibited articles into prisons in the past three years;*
- (b) *what measures have been put in place by CSD to check whether its staff are involved in such illegal activities;*
- (c) *what action will be taken by CSD in the event that its staff are found to have carried out such illegal activities; and*

- (d) *what measures will be adopted by CSD to strengthen security in prisons?*

SECRETARY FOR SECURITY: Mr President, the answer to the four parts in this question is as follows:

- (a) In the past three years, there were six cases of Correctional Services Department (CSD) staff caught smuggling unauthorized articles into prisons.
- (b) The CSD maintains a high degree of vigilance to prevent and to identify such smuggling activity. Detectors and prescribed search methods are used to check the belongings of every person, including staff, entering an institution. Training courses and simulation exercises are conducted to enhance the staff's skills in detecting smuggling activity. Prison staff who show signs of becoming "at risk" due to financial difficulties are interviewed and given necessary counselling. Inmates' cells are searched regularly, and if unauthorized articles are found, a thorough investigation will be carried out.
- (c) Apart from internal investigation, the CSD refers all smuggling cases involving staff to the Independent Commission Against Corruption (ICAC) for follow-up action. Of the six cases, three have been convicted, one is awaiting trial and two are on bail pending further ICAC investigation.
- (d) Security measures mentioned in (b) above are taken in each penal institution to prevent and to detect smuggling activity. Throughout the Department, a comprehensive intelligence gathering network is maintained to monitor possible smuggling activity. The Department also regularly reviews its measures and improves its training material in the light of the cases referred to the ICAC in order to prevent similar recurrences of smuggling. Besides strengthening security, it is also important to deter smuggling through education. Refresher courses are organized regularly to remind staff of the serious consequences of smuggling unauthorized articles into penal institutions.

Occupancy Rate of Hong Kong Industrial Technology Centre

19. **DR HUANG CHEN-YA** asked (in Chinese): *Will the Government inform this Council:*

- (a) *whether the leasable area of the Hong Kong Industrial Technology Centre has all been committed to tenants; if so, how many enterprises are put on the waiting list; if not, what is the occupancy rate;*
- (b) *of the total number of tenants in the Centre, together with a breakdown of these tenants by trade and number of employees; and*
- (c) *whether there is any plan for the construction of a second industrial technology centre; if so, when will this plan be implemented, whether the second centre will be built on a larger scale than the existing one, and what is the estimated amount of funds involved; if not, whether it will support a joint venture with private developers for the construction of the second centre?*

SECRETARY FOR TRADE AND INDUSTRY: Mr President,

- (a) The Technology Centre is 96% leased out. This is broken down into 98% occupancy for regular tenants who pay market rents and form the majority of occupants and 85% for incubatees who pay discounted rents. At present, there is no waiting list for new occupants since the Centre is not yet full. Nevertheless, the Centre has received numerous enquiries from companies about taking up the remaining available space. However, since these companies have yet to submit formal applications and indicate their respective space requirements, it is too early to say how many of them will eventually be admitted and accommodated.
- (b) There are a total of 33 tenants and 20 incubatees which are classified

as follows:

Breakdown by sector

	<i>Regular tenants</i>		<i>Incubatees</i>	
Software and systems	12	37%	6	30%
Microelectronics and components	4	12%	3	15%
Telecommunications	5	15%	3	15%
Multi-media and Networking	5	15%	8	40%
Others	7	21%	-	-
Total	33	100%	20	100%

Breakdown by number of employees

	<i>Regular tenants</i>		<i>Incubatees</i>	
10 employees or less	9	27%	16	80%
11 - 30	17	52%	4	20%
31 - 50	3	9%	-	-
51 - 70	2	6%	-	-
71 - 90	2	6%	-	-
Total	33	100%	20	100%

- (c) The Board of the Hong Kong Industrial Technology Centre Corporation has proposed the construction and management of a second technology centre. It comprises an eight-storey office building, with a gross floor area of about 32 500 sq m (compared to 21 850 sq m for the existing centre), to be built at an estimated cost of \$520 million (at 1995 prices), by way of a direct capital injection from the Government to the Corporation. The proposal is being considered by the Administration.

BILL

First Reading of Bill

APPROPRIATION BILL 1996

Bill read the First time and ordered to be set down for Second Reading pursuant to Standing Order 41(3).

Second Reading of Bill

APPROPRIATION BILL 1996

THE FINANCIAL SECRETARY to move the Second Reading of: "A Bill to apply a sum not exceeding \$157,157,323,000 to the service of the financial year ending on 31 March 1997."

He said: Mr President,

INTRODUCTION

I move that the Appropriation Bill 1996 be read a Second time.

2. This is a very proud, a very privileged moment for me. Proud because I am the first Financial Secretary who grew up here. Privileged because I am delivering this Budget to the first fully-elected Legislative Council in Hong Kong's history. The fact that I, like all the Members of this Council, am very much part of this community gives the Budget special meaning and gives all of us a special responsibility. I say this because Hong Kong is our community. It is our home. And its future is our future.

3. A Budget is not simply an accounting exercise. It is not just a routine report on the territory's economic and financial well-being. It is, with the Governor's policy address, one of the two set-piece occasions each year when we

in the Government:

- o account for our stewardship of Hong Kong's economic and social affairs;
- o address the concerns of the community, which Members of this Council have articulated so forcefully; and
- o discharge our duty of leadership by offering a clear vision of what the future holds for Hong Kong.

4. I shall have a lot more to say this afternoon about Hong Kong's future and about my vision of what can be achieved if the Government, this Council and the business leaders can go on working together in the best interests of the community we serve. I spoke of a duty of leadership. It is a duty which I and my colleagues in the Civil Service take very seriously. To put it simply, it is our duty to offer our community a clear description of what can be achieved and what we need to do to make our vision a reality.

5. My distinguished predecessor, Sir Hamish MACLEOD, made personal consultations with every Member of the Legislative Council a central feature of his budget preparations. In preparing my first Budget, I have continued this practice. The responsibility for the Budget is mine, of course, but the valuable contributions of Honourable Members have made my task a great deal easier. I am also grateful for the support and sheer hard work of my colleagues in the Civil Service in preparing my Budget.

6. But I have broken with Sir Hamish's approach in one respect. I want to make the Budget more accessible. I want to make it easier for the community, as well as for Members of this Council, to get at the facts, the assumptions and the policy proposals which it contains. So, besides producing the entire set of budget documents in both English and Chinese for the first time, I have adopted a very simple, three-part structure.

- o In the first part, I shall look back at the trends and developments which have shaped our economy and our way of life and brought us the prosperity we enjoy today.

- o In the second part, I will describe the current performance of the economy and look at the prospects for the year ahead.
- o In the final part, I will describe how, in the next century, Hong Kong can achieve its full potential as a world-class service economy.

As a consequence, my revenue and expenditure proposals do not appear in a single section as in previous budgets. They are set out in the second and third parts. In another break with tradition, I will deliver the conclusion to my speech in Cantonese.

HONG KONG PAST

A Tradition of Success

7. The economic history of Hong Kong can be summed up very simply. Manufacturing formed the backbone of our economy for three decades from the 1950s. During these years, the "Made in Hong Kong" label came to mean high-class fashions instead of cheap textiles. This transformation became a symbol the world over of our determination to lay the foundations of the economic and social success we now enjoy. But, over the past 15 years, we have undergone a second revolution in the way we earn our living. By last year, 72% of our total workforce was employed in the services sector, and 83 % of our GDP came from services. Even if we exclude the public sector, services still account for an astonishing 73% of GDP. So swift has this change been that it has taken us policy-makers time to catch up with the new economic reality. Perhaps in a free-market economy, this was inevitable. Entrepreneurs and markets, and not Financial Secretaries, must lead economic change. I believe that the time has come to give the services sector the place it deserves in our economic policies.

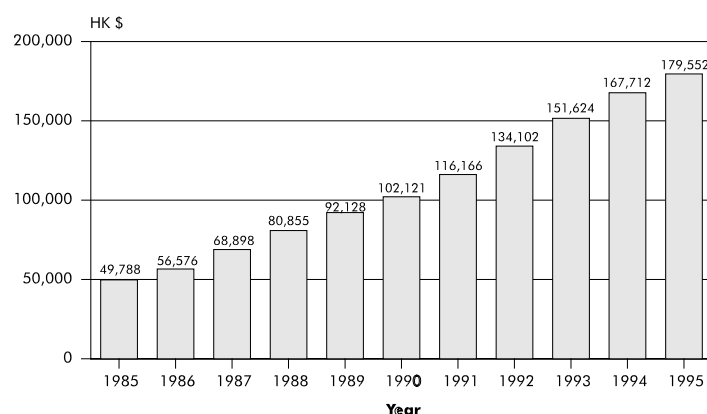
8. Let us be clear about what we mean by a service economy. Quite simply, it means that we now earn our living by selling our skills, our creativity, our enterprise, our professionalism and our reputation for integrity. To put it another way, we have moved up market as an economy and as a community.

- o We now have a well-educated and skilled workforce. Our recurrent spending on education has increased 61% in real terms in the past 10

years.

- o We are now prosperous not only by the standards of our own past but prosperous by the standards of the developed world. Our *per capita* GDP has increased by 65% in real terms in the past 10 years.

Per capita GDP at current market prices



9. And we have put our prosperity to good use by investing in our social as well as our physical infrastructure. As a result, we have increased our recurrent spending on health, welfare and housing programmes by 117% in real terms in the past 10 years.

10. The results of these improvements are self-evident. For example,

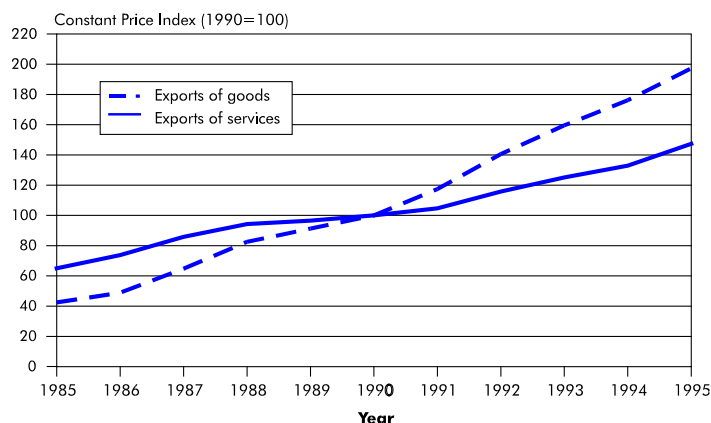
- o In the past 10 years, we have built about 400 000 new public housing units.
- o Over the same period, the proportion of the relevant age group studying for degrees has risen from 4% to 18%.
- o Since 1984, life expectancy at birth has increased by two full years. Our life expectancy rates are now among the longest in the world.

11. Hong Kong has much to be proud of. We have exercised self-discipline,

and we have made the investments that have brought us our success. But we should recognize that this success would not have been possible without three fundamental economic developments which took place outside Hong Kong.

- o The first has been the success of the GATT in opening up world trade and keeping protectionism at bay. World trade has doubled every six years since 1969.
- o The second has been the dramatic surge in China's growth. Thanks to its "open-door policies", China's real GDP has doubled every eight years since 1979. Our links with the Chinese economy have grown so rapidly and so extensively that we now play a vital part in the world's most dynamic economy.
- o The third has been the take-off into sustained economic growth of our neighbours in Asia. Our trade with them has doubled every four years since 1966.

Real growth in exports of goods and services 1985-95



Later in my speech, I shall have more to say on our future prospects and how we must build on past achievements. We cannot rest on our laurels. Past success is no guarantee of future prosperity.

The Government's Contribution

12. Over the last 40 years, Hong Kong has developed its own way of

managing its economic and social affairs. We have our own blend of enterprise and regulation, our own balance between the public and the private sectors, our own formula for individual liberty and social responsibility. I do not think it is going too far to say that there is a distinct Hong Kong model of economic and social development. We might describe this model most simply as a commitment to markets and enterprise but with a recognition that, for these to work fairly and effectively, the Government cannot be passive. The community wants vigour and inspiration from its government, not lethargy.

13. The Government's contribution has been:

- o to provide the legal and regulatory infrastructure which underpins free and fair markets;
- o to encourage enterprise through small government and low, stable and predictable taxation; and
- o to manage our public finances to meet the community's priorities for a modern infrastructure, better homes, health care, better schools and social welfare.

1995 Performance

14. There is no better testimony to our success of the Hong Kong model than the simple fact that we have enjoyed unbroken economic growth since we began to compile GDP figures in 1961. Of course, growth in some years has been faster than in others. We achieved a real GDP growth of 4.6% last year. This outcome, though lower than we had originally hoped, was still robust. Growth was dampened by a sharp slowdown in domestic consumption and reduced private sector building activities as the property market consolidated. We experienced, as in the past, a cyclical adjustment following a period of particular buoyancy in these two areas.

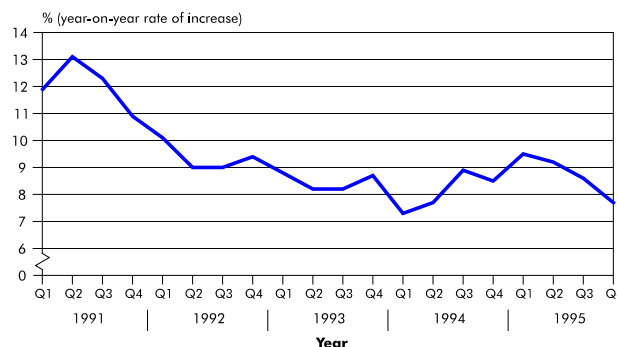
15. Nevertheless, total exports of goods grew by 12% in real terms. Imports of goods, however, grew more rapidly, by 14% in real terms. The visible trade deficit thus widened to 10% of the value of imports, somewhat above the average for the past decade. This increased deficit reflected in part a 15% increase in retained imports of raw materials for production and infrastructure construction, and in part to an impressive 20% growth of investment in machinery and

equipment. We should draw considerable encouragement from this fact. Our balance of trade has deteriorated principally because we have been investing in the expansion of our productive capacity. In due course, this will show itself in increased output, a growth in exports and higher GDP. We should also draw encouragement from an 11% growth in real terms in our exports of services, and from the fact that the substantial invisible trade surplus largely offset our visible trade deficit.

Inflation

16. The average rate for inflation during 1995, as measured by CPI(A), was 8.7%. Underlying this was a sharp fall, from 10.1% in January to 6.6% at the end of the year. The easing of inflation owed a great deal to the way in which the US dollar gained strength in the latter part of the year. Also contributing were more stable world commodity prices, as well as a significant moderation in China's inflation. In addition, locally-generated inflationary pressures eased. Specifically, rents and labour costs moderated, while the prices of consumer goods softened.

Consumer Price Index (A)



The Labour Market

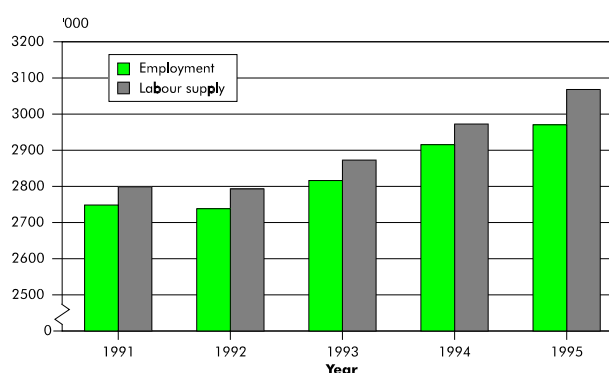
17. Last year, we experienced an uncomfortable rise in the rate of unemployment. The increase in the number of people looking for jobs was caused not so much by the lower than expected rate of GDP growth, but was largely a consequence of changes in the labour supply situation.

- o The total supply of labour increased by over 3% in each of the last

two years. More emigrants returned from overseas and more immigrants arrived from China. Also, there has been a larger proportion of women entering the workforce.

- o Total employment had also increased healthily in 1995. But at 2%, the rise was not sufficient to keep pace with the additional labour supply.
- o Consequently, the unemployment rate rose to 3.5% at the end of the year.

Employment and labour supply 1991-95



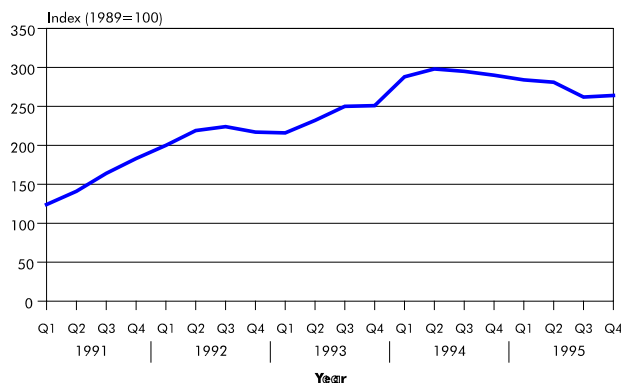
18. We cannot be complacent about the employment situation, low though our rate is by international standards. In the latter part of the year, the private sector was still reporting 50 000 vacancies. Thus, the problem seems to be less a lack of jobs than a mismatch between the skills on offer by the unemployed and the skills required by potential employers. I shall have more to say on this mismatch and how we can overcome it later in my speech.

The Residential Property Market

19. The residential property market continued to consolidate during 1995. I now believe that, following the successful implementation of the measures devised by the 1994 Task Force, the property market has stabilized. By the end of the year, the average prices for residential flats were 24% lower than the peak levels reached in the early part of 1994. Although prices were some 20% above the levels seen at the end of 1992, they were still lower in real terms than three

years earlier. Thus, flats have become generally more affordable to home-buyers, and speculation has subsided. The ground has been laid for the healthy development of the market in the future.

Residential property prices 1991-95

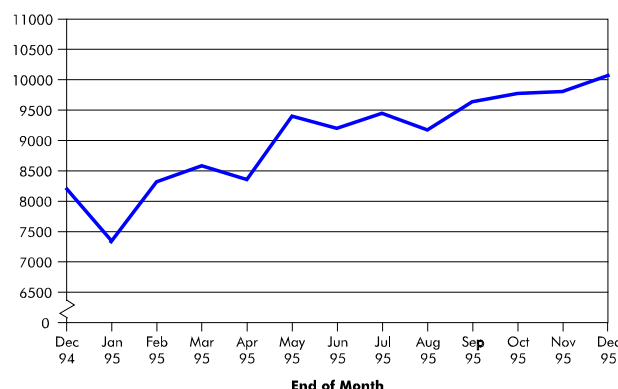


Financial Markets

20. Our financial markets performed well in 1995.

- o The stock market was the best performing in the region, with a 23% increase in the Hang Seng Index for the year.

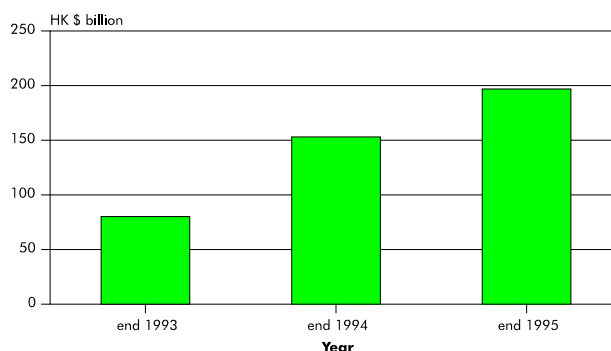
Hang Seng Index 1995



- o The futures market recorded over five million contracts for the year, an all-time high, although this was a year of reverses for overseas futures markets generally.

- o The banking sector saw solid gains. Total deposits and loans both rose by around 14%. The Hong Kong dollar debt market increased by 29% over the year to reach \$197 billion, an indication of its impressive liquidity.

Outstanding amount of HK\$ debt issues



21. Last year was also important because of the further reassurance of the resilience of our financial institutions it offered. I refer in particular to the linked exchange rate. The fall-out from the Mexican currency crisis in early 1995 affected a number of Asian currencies. Hong Kong was not immune from the turbulence. The Hong Kong Monetary Authority handled these pressures decisively and demonstrated the effectiveness of its contingency measures to defend the linked rate. During the year, the Monetary Authority took further steps to reinforce the stability of our financial institutions. It has strengthened ties with other regional central banks. Arrangements are now in place to exchange information with them on currency speculation, as well as for formal repurchase agreements to increase the liquidity of each party's official reserves. The lessons of last year should be very clear. Our commitment to the linked exchange rate at its current parity is absolute. We will not allow speculators to undermine the stability of our financial system. We have both the expertise and the resources that we need to defeat them.

The Exchange Fund

22. As Members know, the Administration is committed to openness and transparency in the operations of the Exchange Fund. Last year, for example, we increased the frequency with which we publish information about the Fund. We are now doing so quarterly. I am happy to take this opportunity to inform Members that the underlying foreign exchange assets in the Exchange Fund rose again in the last quarter of 1995. They now stand at US\$57.2 billion. This is

12% higher than the corresponding total for the year before. These are impressive figures indeed.

The 1995-96 Outturn

23. I will complete my review by providing Members with details of our public finances for the financial year 1995-96. We are now forecasting a deficit for the current year of \$2.5 billion. This is virtually the same as the deficit we originally estimated. In overall terms, this outcome has arisen because a reduction in revenue of \$8.2 billion has been offset by an underspending of \$8.3 billion. However, the original estimates for both revenue and expenditure included the Post Office and the Office of the Telecommunications Authority. During the year, these became trading funds. As a result, we have to account for their revenues and expenditures in the books of the new Trading Funds rather than, as previously, in the General Revenue Account. After eliminating the effect of this accounting change, revenue for the year is \$6.4 billion less than originally estimated, while underspending amounts to \$6.6 billion.

Expenditure

24. On the expenditure side, there are two main reasons for the underspending.

- o First, there has been underspending of \$4.5 billion from the Capital Works Reserve Fund. This is a result of reduced expenditure on land acquisition of \$1.5 billion and a slippage in capital works of \$3.0 billion.
- o Second, there has also been underspending of \$1.8 billion from the Loan Fund. This arises as a result of the payment of loans to the Housing Society being made in March 1995 rather than in the current financial year as anticipated when preparing the original estimates.

25. The underspending of \$4.5 billion in the Capital Works Reserve Fund amounts to 12% of the original estimate. This is the third year in which underspending has been reduced from the high levels of over 30% experienced in both 1991-92 and 1992-93.

Revenue

26. On the revenue side, we have seen a shortfall in both capital and recurrent revenues as a result of two main factors:

- o First, land revenue. During the year, land prices have generally been in line with our expectations. Indeed, the total land premia collected in the year will exceed the original estimate. However, the premia for several sites will not be collected until the final quarter of the current financial year. Because of the sharing arrangements with the future Hong Kong Special Administrative Region Government, the Administration will not receive the proceeds of these land premia collected in the final quarter until the next financial year. As a result, our actual receipts of land revenue in 1995-96 will be \$3.0 billion less than the original forecast.
- o Second, recurrent receipts are lower than originally forecast, reflecting the slower pace of economic growth in 1995. The principal shortfalls in receipts are those from motor vehicle first registration tax of \$1.5 billion, duties of \$0.5 billion and internal revenue of \$0.9 billion.

HONG KONG PRESENT

1996-97 Prospects

27. I now turn to the second part of my speech in which I shall review our current situation and the prospects for the year ahead.

1996 Forecasts

28. For 1996, I forecast that GDP will grow by 5% in real terms. This represents an improved performance from last year, to a level in line with the medium-term trend. I also expect inflation, as measured by the CPI(A), to ease appreciably further, to an annual rate of 7.5%. The moderating trend in both domestically-generated and imported inflation that has emerged in the latter part of last year is expected to carry over into the current year. The level of unemployment will continue to depend primarily on the labour supply. On

current indications, it seems unlikely that the unemployment rate will revert quickly to the very low levels to which we are more accustomed. However, I believe that the better economic prospects that I am forecasting will bring a gradual improvement.

The Trading Environment

29. The general external environment for our trade looks favourable. Economic growth in our major overseas markets, including the United States, Europe and Japan, is generally improving. The recent easing in interest rates is helpful in this respect. In the Asia-Pacific region, growth continues to be dynamic, and trade liberalization is gathering momentum, though one cloud on the horizon remains the annual threat to China's most-favoured-nation status in the United States market. The APEC initiatives on trade liberalization are now winning wider support. A key objective of China's Ninth Five-Year Plan is to ensure steady growth and to keep inflation in check. This should provide a solid foundation for the continuing healthy development of our trade and other economic links with China.

30. Overall, I forecast our total exports of goods to grow this year by 10% in real terms. I expect a growth of only 0.5% in domestic exports but a 12% growth in re-exports. For our exports of services, I forecast continued robust growth also at 10% in real terms. Overall, the surplus on invisible trade would be enough to offset the deficit on visible trade.

The Domestic Economy

31. Domestically, the business prospects also look favourable. Wages and salaries are rising more moderately, and property prices and rentals are unlikely to rebound sharply. Together with the recent substantial investment in machinery and equipment, all this promises well for holding down our costs of doing business and enhancing our competitiveness. On domestic consumption, my forecast is for an accelerated growth in consumer spending to 4% in real terms for 1996 as a whole, with probably a stronger pick-up in the second half of the year. Consumer sentiment is expected to turn better following the rebound in both the stock and the property markets. This will be helped further by the recent easing in interest rates. On domestic investment, construction work on our Airport Core Programme will peak this year, while private sector building activity is expected to bottom out. On the other hand, expenditure on

machinery and equipment is likely to rise at a more moderate pace after two consecutive years of substantial growth. I forecast the growth in our fixed asset investment to be slightly less rapid than last year, at around 6% in real terms.

Social Concerns

32. Overall then, our immediate economic prospects remain good. But I cannot ignore what has been called the "feel bad" factor: the concerns about unemployment and persistent inflation and the cautious attitude on consumption, even though the situation has improved somewhat. The economic statistics of higher GDP, lower inflation, stabilized unemployment rate, rising exports and increased investment are of little comfort to those who have lost their jobs or to businesses under pressure as consumers hold back spending. In his policy address last October, the Governor announced a series of measures aimed at tackling directly the problems of unemployment and low incomes. Let me assure Members of this Council and the community that this Budget makes provision for funding all the measures announced by the Governor. Where possible, I shall be proposing that we go even further in improving and expanding these programmes.

Getting People Back to Work

33. The first priority is to get the unemployed back to work. As I explained earlier, a major challenge is matching skills to jobs. In 1992, we set up an Employees Retraining Scheme to provide retraining for displaced workers. To date, the Employees Retraining Board has provided over 100 000 places on its courses, teaching workers new skills or helping them to upgrade their existing skills. In 1992, we made a grant of \$300 million to the Board as its reserve. But its primary source of income is the levy imposed on employers of imported workers admitted under the various importation of labour schemes. The freeze since April 1995 on the allocation of quotas under the General Importation of Labour Scheme has reduced the income of the Board from its levy. Consequently, the Board has begun to draw down the \$300 million reserve, which now stands at \$186 million. The General Scheme has been replaced by the Supplementary Labour Scheme. This provides for the entry of a limited number of imported workers, which will further reduce the income available from the levy. I propose to inject another \$300 million into the Board's reserves to ensure that it has the financial resources to expand its programmes.

34. But retraining is only part of the solution. When people have skills to offer which the market needs, workers have to be put in touch with potential employers. This is why our Job Matching Programme is so crucial. We have now extended the scope of this Scheme to cover all job-seekers. Its success rate has been increasing steadily, and has now reached 71%.

Safety Net

35. The Governor also presented the interim results of a review of the Comprehensive Social Security Assistance (CSSA) Scheme during his address to this Council last October. Members will recall that, based on the findings from the first six-months data from the Household Expenditure Survey, he announced a package of major improvements to certain CSSA standard rates. The higher rates will come into force on 1 April, and they will cost about \$300 million.

36. In announcing these increases, the Governor pledged that we would seek this Council's endorsement for any additional benefits recommended on completion of the CSSA review. We have now completed that review and identified areas in which further improvements in CSSA are necessary. This is not the place to spell out the detailed results of the review. The Secretary for Health and Welfare, together with the Director of Social Welfare, will be doing so on Friday. But I feel I should give Members this afternoon a brief summary of the main benefits we will provide, including our additional improvements to the CSSA Scheme which will cost an extra \$200 million a year on top of the amount pledged by the Governor.

- o For adults not expected to work (for example, those in ill-health, single parents or family carers), taking into account the increases announced by the Governor, the current monthly standard rate will be increased by \$600. This will be adjusted for inflation, as approved by Members. As a result, the new rate will be \$1,935 a month for a single person and \$1,760 for a family member from 1 April. These new rates represent real increases of between 50% and 57%.
- o For adults expected to work but currently without jobs, taking into account the increase announced by the Governor, the current

monthly standard rate will be increased by \$300. Together with the inflation adjustment approved by Members, the new rate will be \$1,615 a month for a single person and \$1,440 for a family member from 1 April. These new rates represent real increases of between 25% and 29%.

- o For adults with a 50% disability living in a family, the current monthly standard rate will be increased by \$140. Together with the inflation adjustment approved by Members, the new rate will be \$1,760 a month. This new rate represents a real increase of 9%.

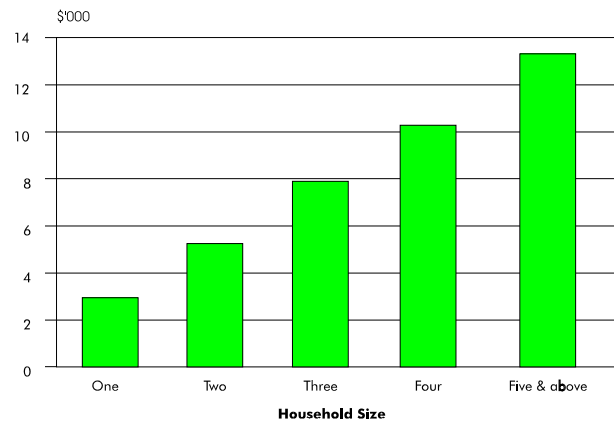
37. The standard rates are only one aspect of the review exercise. A number of other improvements are being recommended. For example,

- o Higher rent allowances will be available to CSSA recipients living in private housing.
- o A new special grant of \$320 a year will be payable to the elderly to reimburse their spending on social and recreational activities. They will also be paid a special allowance of \$200 at Chinese New Year.
- o The current rules will be revised to permit the elderly to receive CSSA standard rates and long-term supplements if they retire to China.

38. Taking into account the proposed increases in standard rates and the special grants payable to those in need (such as rents, school expenses of children, water charges, and so on), the Director of Social Welfare estimates that, from 1 April 1996,

- o a singleton household will on average receive \$2,940 a month; and
- o a four-person household will on average receive \$10,270 a month.

Estimated average monthly CSSA Payment 1996-97



As I have said, the full details of the improvements will be announced on Friday. My purpose today has been to report progress on the initiatives announced by the Governor last October.

Care for the Elderly

39. We have been reminded in recent weeks that the elderly are particularly vulnerable members of our community. It is for this reason that we are providing substantial resources to meet their needs. For example,

- o This year, we have provided \$9 billion both on financial assistance and on health and welfare services for the elderly. This represents an increase of 50% in real terms over 1992.
- o Next year, expenditure on welfare services for the elderly will increase by 17%.

We are putting these resources to good use.

- o By the end of next year, we will be subventing 16 455 residential care places, more than three times as many as 10 years ago.
- o We will provide an additional 43 social centres for the elderly, six multi-service centres and three day care centres.
- o We have already provided four elderly health centres and three more will come on stream by 1997.

40. Concern expressed over the welfare of elderly persons in the recent cold

spell has focused attention on the issue of outreaching to elderly persons living alone. In emergency situations like this, the Social Welfare Department mobilizes a large number of professional staff to reach out, for example, those serving in Family Service Centres. In normal times, in addition to the two elderly outreach teams in operation, staff of the Home Help service are in regular contact with elderly persons since 80% of their clients are elderly. Through these home visits, elderly persons with special needs are identified and referred by home helpers to other welfare services as necessary. We have doubled the number of these teams over the past six years. Next year, we will increase the total number to 126 teams, enabling us to serve about 12 000 elderly people. We are currently also using volunteers to reach out to elderly persons at risk through experimental programmes for older volunteers and other volunteer workers. This month, on a pilot basis, we will establish a multi-disciplinary team to provide intensive outreach services to elderly street sleepers.

41. As a new initiative, we will provide financial support for selected multi-service centres for the elderly to organize new services to reach out to elderly people at risk. The Director of Social Welfare is now examining how best to take this forward through voluntary agencies who will be encouraged to make full use of volunteers to supplement the efforts of professional social workers.

42. Finally, and as a direct result of our experience of the recent cold spell, the Director of Social Welfare is looking at ways to speed up the provision of special grants for such items as telephones for elderly CSSA recipients. In addition, we shall provide the resources needed to improve the facilities at temporary shelters operated by the Home Affairs Department.

43. Our programmes have been guided by a clear-sighted strategy. This is based on the landmark report in 1994 by the Working Group on Care for the Elderly chaired by the Honourable Mrs Elizabeth WONG when she was Secretary for Health and Welfare. The Working Group made a total of 71 recommendations. We have funded, and are implementing, every single one of these recommendations. But we cannot afford to stand still when it comes to taking care of the elderly members of our community. Next month, we will launch an important follow-up study into the needs of the elderly. I want to make it plain to Honourable Members today that our commitment to providing resources for the services our elderly need will continue. Caring for the elderly is, and will remain, a major priority.

44. After this review of our initiatives on unemployment, support for those with low incomes and help for the elderly, I would like to summarize our plans for expanding our other social service programmes in the current year.

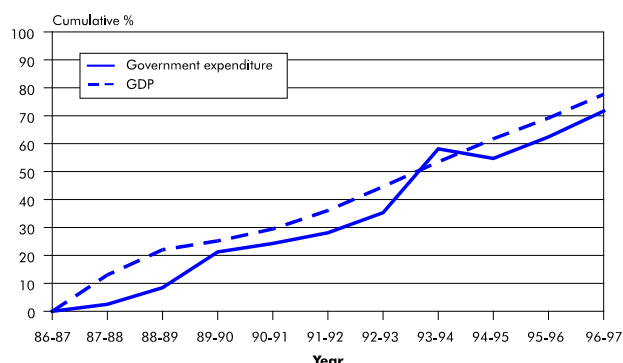
- o There will be further improvements in our education programmes, on which we propose to spend \$34.5 billion in recurrent expenditure.
- o There will be major improvements in our medical and health services, on which we propose to spend over \$22.6 billion in recurrent expenditure.
- o There will be major improvements to our social welfare programmes, on which we propose to spend over \$16.5 billion in recurrent expenditure. This will represent an increase of 14.7% in real terms.

45. I want to make it absolutely plain to this Council and the community that we are in the fortunate position of being able to make all these improvements to our social welfare, health and educational programmes without breaching our budgetary guidelines. Indeed, if there had been any danger of breaking our guidelines because of these improvements, we would not have made them. The new wealth generated by our robust economic performance will fully fund all these measures. We continue, I can assure Honourable Members, to live well within our means, even after responding to the community's aspirations for improved social services.

Expenditure Estimates 1996-97

46. When account is taken of the additional spending initiatives which I have just announced, and others which I will detail shortly, I estimate that, in 1996-97, government expenditure (excluding payments from the Capital Investment Fund) will total \$183.7 billion. This is an increase of \$22.1 billion over the revised estimate for 1995-96. This increase is comfortably within the level of expenditure permitted under our expenditure guideline, that is, that expenditure, over time, should grow at a rate no faster than the economy. Appendix A to the printed version of my speech demonstrates this clearly.

Real growth in government expenditure vs real growth in GDP



Revenue Proposals

General Principles

47. I turn now to my revenue proposals. I will start by restating the principles which are the foundations of the management of our public revenue. Members are fully aware of them and I call them the "seven heavenly virtues". We must:

- o continue to retain a low, simple and predictable tax regime;
- o raise sufficient revenue to meet known spending commitments;
- o maintain a rigorous "user pays" system for setting fees and charges so as to keep tax rates low;
- o keep adequate fiscal reserves to provide a cushion against future uncertainties;
- o combat tax avoidance and evasion;
- o provide concessions where most needed; and, finally,
- o minimize the inflationary impact.

The Government has not devised these principles in isolation. I believe that they represent a community consensus. They have served us well in the past,

and I am convinced that they must remain our guide for the future. These are the principles upon which I have framed my revenue proposals in this year's Budget.

Living within Our Means

48. From time to time, there have been calls for the Government to implement bold revenue measures in order to "stimulate the economy", to reduce inflation and to cut unemployment. I have no doubt that the motives of those making such suggestions are genuine, and we share their concerns. But do they make practical sense in Hong Kong's circumstances? Total public spending as a proportion of GDP is 18%. Government spending itself is only about 14% of GDP. In consequence, we have been able to maintain low taxes.

49. With the standard rate of salaries tax at 15% and corporate profits tax at 16.5%, our tax rates are among the lowest of any advanced economy in the world. Together they provide about 40% of our total revenue. As a result, the Government's ability to directly influence the overall level of economic activity through fiscal means is very limited. In order to achieve any appreciable impact on GDP, taxes would have to be cut very substantially indeed. For example, to engineer an increase of one percentage point in GDP, we would have to slash taxes by over 10 percentage points, throwing the Budget and our financial guidelines into serious disarray. This is simply unrealistic, especially considering there is no guarantee that it would work and no guarantee that the money released would not go straight into savings instead of into spending. We do better — far, far better — in the long run to stick with our tried and tested formula of living within our means and keeping taxes low and predictable. We do best of all by maintaining our commitment to free markets and minimal government interference.

Fees and Charges

50. I mentioned earlier the need to maintain a rigorous "user pays" principle for setting government fees and charges. Our policy on this issue is simple, practical and, I believe, fair. Where there are overwhelming social considerations, we subsidize heavily, providing services free or at a tiny fraction of their cost. This is the basis on which we provide hospital services, education and public housing. But for other services which the Government provides, where there is no overriding social need, we must maintain the principle of user

pays and full cost recovery. Those who use these services, often for commercial purposes, should pay the full cost. I can see no case for taxpayers subsidizing such services. The "user pays" principle is an integral part of our system of public finances. It is part of the balance we have to strike if we are to go on providing heavily-subsidized services while, at the same time, keeping taxes low. Short-term gestures made at the taxpayers' expense would only jeopardize the fundamentals of our public finances.

The Reserves

51. There have also been calls for us to dip into our reserves. The appropriate level of reserves over the long run can be a matter of debate. But let me state unequivocally. This is not the time, with all its inherent uncertainties, to reduce the cushion of healthy reserves that Hong Kong at present enjoys. Our reserves underpin the soundness of our financial system and must be maintained. Following a recent visit by the International Monetary Fund, its report wholeheartedly endorsed our commitment to maintaining Hong Kong's long-established fiscal policies. Indeed they emphasized, and I use their words, the need to preserve the reserves for "torrential downpours not the mild showers" that Hong Kong is currently experiencing.

Areas of No Change

52. Let me turn next to my specific revenue proposals for the coming year. I shall start with those areas where I do not propose to make changes at present.

Tax Enforcement

53. On tax enforcement, we have recently introduced legislation to counter the use of service companies to avoid or significantly reduce tax liability. We have also legislated to specify the minimum records which all businesses must keep for taxation purposes. I am confident that the new legislation is achieving its aims, and I do not propose any further measures for the time being.

54. Over the past three years, the Inland Revenue Department's investigation and field audit staff have tackled some 3 700 cases and collected about \$3 billion in back taxes and penalties. In the coming year, we will step up our efforts in this area by establishing an additional field audit team, increasing the total to nine.

Source Concept

55. Some tax experts have proposed that I should introduce legislation to clarify the territorial source concept which underlies our tax system. In brief, this concept means that only those profits which originate in Hong Kong are liable to tax here. I have considered the arguments very carefully. I have concluded that legislation on this subject is unnecessary and would not even be helpful. Where further clarification is necessary, I believe we should rely on administrative measures, such as Practice Notes issued by the Commissioner of Inland Revenue.

Tax Relief for Housing-Related Expenditure

56. During the Budget consultations, some Members asked me to consider introducing an allowance for expenditure on mortgage interest or rental payments. Some others have suggested that we should at least provide concessions to first-time home buyers. I share their enthusiasm for encouraging home ownership. Indeed, the Government already does a great deal to provide decent homes for Hong Kong people.

57. My colleagues and I have considered these ideas very carefully. The total cost over five years of the various suggestions made by Members on this could be as high as \$17.5 billion. This is a significant sum. Also, there would be serious difficulties in defining first-time home buyers without creating the potential for widespread abuse. I believe we should continue to invest in our existing housing programmes in order to provide direct assistance to those genuinely in need. Thus with great regret, I cannot agree to provide a concession of such a nature. However, I will later discuss one concession to further alleviate the burden on home buyers, one which I hope Members will agree is worthwhile and affordable.

Profits Tax

58. I do not propose to make any change this year in the level of corporate profits tax. Comparisons with other countries in the region continue to support my view that our level of profits tax is already very low. I note, too, that a

recent survey of senior executives in 16 industries found that 93% of them are happy with our current tax arrangements. In any case, the cost to the revenue of reducing the rate of profits tax would be substantial. A one percentage point reduction would mean \$1.7 billion of revenue forgone in 1996-97 and over \$11 billion up to 1999-2000. Nor do I consider that we should provide further tax concessions to encourage expenditure on research and development. Expenditure on scientific research is fully deductible. As Members will hear later, the Government can do more to stimulate research and development but the tax system would be the wrong vehicle.

59. Although I have said that I do not propose any changes to the rate of profits tax, I accept that other changes in the taxation regime for businesses are justified. I will be discussing these later when I come to talk about how we can improve the business environment to encourage future growth and development.

Depreciation Allowances

60. Last year, we asked the Board of Inland Revenue to review the classification of items that fall into the existing three categories for an annual depreciation allowance. The Board has largely completed its review. It has concluded that, on the basis of the estimated useful life of plant and machinery, the present classification is over-generous and should be changed for some items. The result would be to reduce the annual allowance for these items. I am grateful for the work of the Board. However, I accept that the change could affect investment in plant and machinery, in particular in the manufacturing sector. In consequence, I propose to ask the Board to examine how the rationalization of the classification should best be implemented in order to ameliorate the impact on investment in plant and machinery. Any changes to be introduced as a result will be subject to approval by Members of this Council.

Stamp Duty on Stock Transfers

61. We reduced the stamp duty on stock transfers for three consecutive years from 1991 to 1993, from 0.6% to 0.3% for a complete transaction, where it stands now. In practice, the overall cost of stock transfers in the local market is largely the brokerage cost. This is not high compared with other markets in the region, and our market remains competitive. I do not propose to change the stamp duty on stock transfers for the time being. But I am prepared to review the issue next year if there are initiatives from the securities industry to reduce the brokerage cost in order to make our market even more competitive.

Rates

62. Rates are significant as a relatively progressive tax and a stable source of revenue. It is important that we should go on adjusting the rates charged to reflect the changing rental values of different types of properties and in different locations. We will conduct our routine three-year rates revaluation this year, with any changes coming into effect on 1 April 1997. I will also consider if it is necessary to introduce a suitable rates relief scheme to cushion the effect of the revaluation on those experiencing large increases in rateable values.

63. It is far better to make regular adjustments in the rates than to introduce substantial increases at less frequent intervals. In the concluding speech to the 1994-95 Budget debate, my predecessor said that we would look at the option of indexing rateable values between revaluation years, so as to soften the impact of any large increase immediately following a general revaluation. We have examined this issue. I have concluded that a better option might be to consider conducting a revaluation on an annual basis. I am seriously considering the feasibility of conducting annual revaluations after the completion of the forthcoming revaluation exercise.

Alcohol Duty

64. We introduced a simple *ad valorem* duty system on alcoholic beverages in April 1994. The new system has benefited ordinary consumers through the effects of greater competition, especially at the lower end of the market. There was a drop in duty revenue immediately after the introduction of the new system, as most products enjoyed a duty reduction. But I note that the situation has changed, and duty revenue from alcoholic beverages has gradually picked up. I do not propose any change to the duty system.

Tax and Duty Increases

65. Having dealt with the revenue items where I do not intend to make any changes this year, I now turn to a limited number of areas on the revenue side where I believe modest increases in taxes and duties are justified for inflation and other reasons.

Tobacco Duty

66. The anti-cigarette smuggling task force established in the Customs and Excise Department in April 1994 has proved to be extremely effective in tackling the problem of cigarette smuggling. There has been a substantial increase in seizures of contraband cigarettes, and the black market price of cigarettes has continued to increase. These are sure signs that we are hurting the smugglers at current rates of duty. I consider it appropriate that we should adjust the duty rate of tobacco broadly in line with the rate of inflation. This will preserve the deterrent effect on smoking habits whilst not providing a further incentive for smuggling. I propose to increase tobacco duty by 9%.

Fuel Duty

67. There has been an increase in the smuggling and illegal use of diesel oil. We have provided resources to the Customs and Excise Department to set up additional investigation and enforcement teams in 1996-97 to tackle the problem. The situation should improve, and I consider it appropriate to increase the duty on petrol and other hydrocarbon oils by an amount broadly in line with the rate of inflation. I propose to increase fuel duty by 9%.

Bets and Sweeps Tax

68. There has been no increase in betting tax since 1992. I consider that it is now appropriate to raise the tax from 11.5% to 12% for standard bets and 17.5% to 18% for exotic bets. This is a modest increase, and I have asked the Royal Hong Kong Jockey Club to absorb the cost of the increase by reducing its betting commission. There will be no reduction in the prize money pool, so this should not give any encouragement to the activities of illegal bookmakers. The increase should take effect from the beginning of the next racing season in September.

Air Passenger Departure Tax

69. We reduced the air passenger departure tax from \$150 to \$50 in the 1994-95 Budget. Some Members in this Council felt that the reduction was excessive and unjustified, and criticized us. With hindsight, these criticisms

had some validity. (*Laughter*) The reduction obviously affected revenue. But it did not achieve the intended purpose of encouraging transit passengers to leave the transit halls so as to enhance the business of our retail trade and alleviate congestion at the airport. Statistics also show that an increase or a decrease in the tax has absolutely no effect on passenger throughput. The current level of the tax at \$50 is well below the average for the region. I propose to increase the tax to \$100, which was the level when the tax was first introduced in 1983. This will bring the tax more in line with the level charged by other places in the region. I am aware of the concerns that the tourism industry might have at this point. Let me say now that it is not my intention to ignore their interests in my Budget, and I shall give details later of measures that the tourist industry should welcome.

70. I must emphasize that the proposed increases in tobacco and fuel duties, betting and air passenger departure taxes are essential in order to allow us to fund the various revenue concessions that I propose to introduce in this Budget. They are an integral part of my Budget package.

Tax Concessions

71. Having set out the areas where I do not propose to make changes, and the very modest tax and duty increases I believe are necessary, I now turn to a number of tax concessions which I believe are justified.

Salaries Tax

72. I start clearly with salaries tax. The last three Budgets have already provided substantial benefits to salaries taxpayers. As a result,

- o There has been a real increase of 34% in both the basic and the married person's allowances.
- o The proportion of the total workforce with no liability to pay salaries tax has increased from 46% to 60%.
- o The proportion of standard rate taxpayers has decreased from 6% to 2% of the workforce.

- o The average effective rate of tax paid by salaries taxpayers has decreased from 9% to 8%.

73. These have been substantial improvements. But I share Members' views that, whenever possible, we should give priority to salaries taxpayers when it comes to tax concessions. I say this because they are the largest single group of taxpayers and they, including the Financial Secretary, are by no means the wealthiest sector of the community. *(Laughter)* I shall be proposing a wide range of concessions on personal taxation.

- o I propose to increase the basic allowance from \$79,000 to \$90,000 and the married person's allowance from \$158,000 to \$180,000. The allowances will rise by 14%, well above the rate of inflation in 1995.
- o I propose to increase the allowance for the first and second child by 11%, from \$22,000 to \$24,500.
- o I propose to increase the allowance for the third to ninth child by 14%, from \$11,000 to \$12,500.
- o I propose to increase the basic and the additional allowance for dependent parents and grandparents from \$22,000 and \$6,000 by 11% and 17%, to \$24,500 and \$7,000 respectively.
- o I propose to increase the single parent allowance by 13%, from \$40,000 to \$45,000.
- o I propose to increase the disabled dependant allowance by 36%, from \$11,000 to \$15,000.

74. I have two further concessions.

- o I propose to introduce a new allowance of \$24,500 for a taxpayer maintaining a brother or sister for whom no child allowance is being claimed, with an additional allowance of \$15,000 where the brother or sister is disabled. This concession will strengthen our family values.

- o I also want to respond to Members' calls for recognition of the changing nature of the economy and the need to upgrade skill levels. I propose to introduce a specific deduction to allow taxpayers to claim as a deductible item fees for training courses attended at approved institutions, up to a maximum of \$12,000 a year.

75. Taken together these improvements will reduce the tax burden for some 95% of salaries taxpayers. What will these proposed concessions mean in practice? Let me give you a few examples.

- o A single person with a monthly income of \$15,000, with two dependent parents living with him and a dependent brother or sister still receiving full-time education, will have his tax bill cut by over 98%. He will pay less than \$5 a month in tax.
- o The salaries tax bill for a single-parent family earning \$16,000 a month with one child and a dependent parent living together will be reduced by 97% to less than \$2 a month.
- o The typical "sandwich-class" family of four with monthly earnings of \$25,000 will have its tax bill cut by some 43%. It will pay \$556 only a month in tax.

76. I estimate that these concessions will cost \$1.9 billion in 1996-97 and \$12.4 billion up to 1999-2000. Full details of the concessions are set out in the supplement to the printed version of this speech, together with further examples of their effects on different categories of taxpayers.

Estate Duty

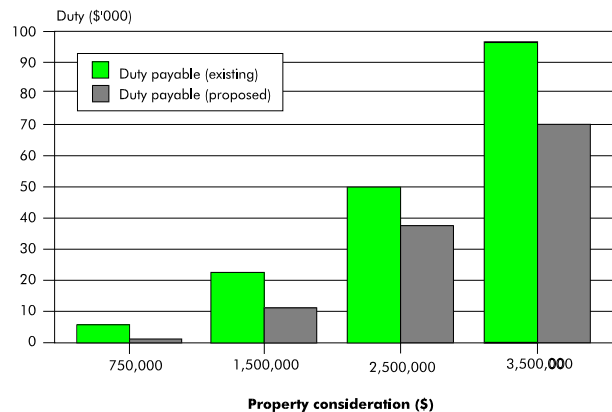
77. Last year, we revised the rates of estate duty to offset the effect of inflation. This year, I propose to further increase the level below which no duty is payable from \$6 million to \$6.5 million. Above that level, I propose that estate duty be payable at 6% on estates between \$6.5 million and \$8 million; 12% for estates between \$8 million and \$9.5 million; and 18% on estates over \$9.5 million. The width of the two bands will thus be increased from \$1 million to \$1.5 million. The cost of this proposal will be some \$50 million in 1996-97 and \$240 million up to 1999-2000.

Stamp Duty on Property Transactions

78. Many Members have suggested that I should make various changes to reduce the impact of stamp duty on property transactions in order to benefit home-buyers. I have examined these ideas with some sympathy but concluded that they are not feasible. It is more practical to focus on reviewing the structure of stamp duty rates in order to relieve the burden on the home-buyer. Accordingly, I propose to reduce the impact of stamp duty in a manner which will directly benefit buyers of lower and medium-value flats with property values of up to \$3.5 million. This will be of particular assistance to buyers of Home Ownership Flats and Sandwich Class Housing Scheme properties. Let me explain the changes I propose, which will bring relief to home-buyers, particularly at the lower to middle end of the market.

- o The limit below which only the nominal fee of \$100 is charged will be raised from \$500,000 to \$750,000.
- o The rate of 0.75% will apply to properties with a value of \$750,000 to \$1.5 million.
- o The rate of 1.5% will apply to properties with a value of \$1.5 million to \$2.5 million.
- o The rate of 2% will apply to properties with a value of \$2.5 million to \$3.5 million.
- o The threshold at which the maximum rate of 2.75% begins to apply will be raised from \$3 million to \$3.5 million.

Stamp duty on selected properties before/after concessions



79. As a result of the proposed adjustments, the stamp duty paid on a typical \$1.5 million flat under a Home Ownership Scheme will be halved, from \$22,500 to \$11,250. I estimate that about 54 000 property transactions will benefit from the proposal each year. These concessions will cost \$550 million in 1996-97 and \$2.7 billion up to 1999-2000. Details of the new schedule of stamp duty rates are set out in the supplement to the printed version of this speech.

Motor Vehicle First Registration Tax

80. There are now over 40 000 private vehicles which are ten or more years old. Most of these vehicles run on leaded fuel and are not fitted with catalytic converters. They are a significant source of pollution. I propose to introduce a scheme to encourage owners to scrap their old vehicles. If the owner of a private vehicle of 10 or more years old decides to scrap his old car and replace it with a new one, he may enjoy a reduction in First Registration Tax of 20% of the tax payable or \$30,000 whichever is the lower amount. This initiative is designed to help to improve air quality by reducing the number of old vehicles without increasing the total vehicle fleet. We have devised a number of measures to safeguard against abuse of the scheme. The scheme will only apply to private vehicles. Commercial vehicles seldom have an economic life exceeding 10 years, and, in any case, they pay a much lower First Registration Tax. We will review the effect of the proposed scheme after 12 months.

81. While still on vehicles, it has become apparent that some motor vehicle dealers have been manipulating their first registration tax liability. They artificially suppress the retail price of the standard motor vehicle and over-declare the value of tax exempted items like vehicle accessories and

distributor's warranties. I intend to stop this abuse and ensure that all vehicle dealers can operate on a level playing field. I will introduce an amendment Bill into this Council within this Legislative Session so that we can set a reasonable ceiling value for these tax exempted items. The excess of the value of these items over the ceiling value will be subject to First Registration Tax.

Refurbishment Allowance for Hotels

82. Finally, I propose to adjust the taxation of refurbishment expenditure incurred by hotels. At present, such expenditure is subject to a commercial rebuilding allowance of just 2%, meaning that it can only be written-off over 50 years. I recognize that, for a hotel, refurbishments have only a limited life before the hotel has to be renovated again to maintain quality and standards. Our tourist industry needs good hotels. I propose the introduction of a specific allowance to enable hotels to deduct refurbishment expenditure over a five-year period using an annual 20% write-off. The cost of this proposal is estimated to be \$2 million in 1996-97 and \$100 million up to 1999-2000.

Implementation

83. The proposed increases in tobacco duty and fuel duty come into immediate effect under a Public Revenue Protection Order issued today. Under similar authority, my proposals on estate duty, stamp duty and air passenger departure tax will come into effect on 1 April this year. My proposals on salaries tax and profits tax will take effect from the year of assessment starting on 1 April 1996, and my scrapping incentive to replace old private vehicles will be implemented as soon as the necessary legislative and administrative measures have been put in place.

Overall Financial Position 1996-97

84. After taking account of the revenue and spending proposals I am making today, including those to be mentioned later in my speech, I expect that we will see a surplus in 1996-97 of \$1.6 billion. This is lower than my predecessor's forecast in his 1995 Budget. Nevertheless, as he predicted, we will have drawn on our reserves only in 1995-96 when our investment in the Airport Core Programme has been at a peak. In 1996-97, we will see a return to a surplus, albeit a very modest one.

Medium Range Forecast

85. I have published my Medium Range Forecast in Appendix A to the printed version of this speech. This is our forecast of revenue and expenditure over the next four years. I must emphasize that this is a forecast only. It has been prepared to reassure ourselves that the proposals which I have put forward today are affordable, both in the context of the next financial year and over the medium term. It does not impose any commitment on the future Special Administrative Region Government (SARG).

86. After taking account of the revenue proposals which I have announced this afternoon, I am making the following forecasts.

- o First, as I have already mentioned, we will see a return to a small surplus in 1996-97.
- o Second, I envisage that the future SARG will enjoy substantial surpluses throughout the remainder of the forecast period. It will benefit from the retention of the full proceeds from land premia and the collection of rents from the extension of the New Territories leases.

87. Our fiscal reserves on 31 March 1997, three months before the change of sovereignty, are expected to stand at a healthy \$150 billion. By the end of the forecast period in March 2000, total reserves including the SARG Land Fund are forecast to be in excess of \$365 billion.

88. In presenting these figures, I must point out that one of the probable calls on these funds will be the need for capital injections into the KCRC and perhaps even the MTRC towards the cost of the priority railway development projects. At the present time, the precise cost, timing and mode of financing of these projects are uncertain. In the circumstances, I have made no allowance for such payments in my Medium Range Forecast.

89. The economic growth I am forecasting for the period up to March 2000, and the corresponding growth in our expenditure, will enable us to go on

enjoying the fruits of our success. As I have explained earlier, these increases in our real expenditure and the benefits that they bring, can and will be funded by the Government's share of the wealth that our successful economy will generate.

HONG KONG FUTURE

90. Traditionally, budget speeches usually come to an end at this point. I want to break with this tradition because, in the third part of my speech this afternoon, I want to address an issue which is very much on all our minds. I want to talk about the future; about our prospects as a community as we prepare ourselves for the change of sovereignty and for the next century. I shall now describe our economic prospects and outline proposals for creating a more business-friendly environment. In particular, I shall discuss how the Government intends to support our high value-added, technology-based manufacturing sector and a world-class services sector.

Economic Prospects

91. I start with our economic prospects. After all, it is our economic success which makes everything else possible; everything we hope for as a community; everything we want to achieve.

East Asia

92. I am truly enthusiastic about what has been called the "Asian Miracle". How could we, as part of Asia, feel anything other than pride at the spectacular success of our region over the past two decades.

- o During this period, literally hundreds of millions of people in East Asia have been lifted out of poverty and subsistence by rapid economic expansion. The economic growth rate for the region over the past five years has been twice as high as the OECD average.
- o If our recent past has been impressive, our future promises to be

spectacular. East Asian growth rates are set to out-perform the rest of the world well into the next century. Even by the year 2000 in East Asia, average GDP per head is expected to reach US\$5,200, compared with only US\$2,500 in 1990.

What this means for Hong Kong is that, increasingly, our economic growth will be derived from regional trade in goods and services. Our traditional markets will remain important to us. But it is East Asia that will provide the fresh dynamism for our economy.

Economic Developments in China

93. If we can take pride as part of the region in East Asia's progress, Hong Kong can take even greater pride in the economic progress made by China. China will continue to offer the prospect of high and sustainable rates of growth well into the next century. We, in Hong Kong, are part of China's past success and its future prospects. This year is the start of China's Ninth Five-Year Plan. This envisages annual real growth rates for the economy of between 8% and 9% a year. The Plan acknowledges Hong Kong's special status, which is a welcome restatement of the Chinese Government's commitment to the Joint Declaration and Basic Law. The Plan also provides encouraging indications of the areas in which Hong Kong can do most to contribute to China's economic development. In making its contribution, Hong Kong will also benefit substantially.

A Modern Business Environment

94. So East Asia in general and China in particular are set to continue their momentous growth. We in Hong Kong stand to benefit from this expansion. What our neighbours need from us is our expertise in organizing production, in marketing and design, in technology, accounting and law. They also want our services particularly those of financial markets. We have to go on developing our infrastructure of skills and creating the environment in which a skills-based economy can flourish. In essence, this means getting right the blend of commercial freedom and regulation which encourages rather than stifles enterprise and innovation.

Protecting IPR

95. The international business community is particularly concerned about the protection of intellectual property rights (IPR). The Government shares these concerns. Our goal is to develop a modern and internationally-accepted framework to protect such rights. We will update the legislation on the protection of trade marks, patents, copyright and registered designs to bring it into line with prevailing international standards. The Secretary for Trade and Industry will introduce draft legislation to this effect by the end of 1996.

96. We will continue to step up enforcement against copyright piracy and trade marks counterfeiting. We are setting up a new 24-strong team in the Intellectual Property Investigation Bureau of the Customs and Excise Department to strengthen intelligence-gathering, border operations and co-operation to hit hard at piracy and counterfeiting.

A Business-Friendly Government

97. Over the past five years, there has been a quiet revolution in the way we in the Government have approached our work. We have increasingly recognized that our role is to "Serve the Community" and that this concept must be central to all our policies and procedures. I believe that we can do more to help the business community in generating the wealth on which our future prosperity depends. We should set ourselves the task of making the Government, as far as possible, user-friendly for business.

Review of Existing Government Procedures and Practices

98. As a first step, I will be asking all the Policy Branches and their Departments which directly serve the business community to carry out a high-level review of their current policies and procedures. The goal will be to create an environment which is positively business-friendly. This review will not be done in a vacuum. I expect Policy Branches and Departments to consult extensively with their customers and partners in the business world. They will be expected to identify opportunities:

- o to streamline existing services through new technology and process re-engineering;
- o to eliminate any over-regulation and unnecessary bureaucracy;

- o to transfer services to the business sector where market conditions make this possible; and
- o to introduce new services which meet the needs of the business sector.

99. We must not confine our efforts to those parts of the Government which are directly involved in serving the business community. I believe the whole of the Government has a duty to provide a business-friendly environment. So I will be asking all Policy Branches and Departments to make their contributions. In particular, and in response to concerns expressed by Members in recent debates in this Council, they will be asked:

- o to review the processes and costs associated with the provision of services for which the Government levies a fee or charge; and
- o to use the improvements identified by these reviews as the basis for specific efficiency plans.

100. I am determined that Hong Kong should have a government which is truly "business-friendly". Resources will be provided to make sure that these initiatives move forward rapidly and effectively. The Secretary for the Treasury will chair a task force serviced by the Efficiency Unit to allocate these resources to priority areas and to ensure that we get results at an early date.

Tax Concessions

101. As a first contribution to this new programme, I propose to offer three tax concessions which should benefit business firms directly.

- o First, I propose to halve the *ad valorem* fees on company registration from the current level of 0.6% to 0.3%.
- o Second, I propose to double the maximum average monthly turnover levels below which businesses are exempt from payment of business registration fees from \$15,000 to \$30,000, for the sales of goods.
- o Third, where the profits of the business are mainly derived from the

sale of services, I propose to raise the exemption level by 150%, from \$4,000 to \$10,000.

102. I believe these concessions will make a direct contribution to reducing the cost of capital, as well as the operating costs of small businesses. These two measures will cost \$190 million in 1996-97 and \$930 million up to 1999-2000. They will come into effect on 1 April this year.

A World-Class Infrastructure

103. To take the fullest advantage of the special opportunities which rapid Asian and Chinese economic growth will bring, Hong Kong needs a world-class infrastructure. This means that we must equip ourselves with the skills and technological know-how to compete in the international market place. But we must also develop our physical infrastructure — the railways, the port, the airport and the support services. Investments in our skills and our physical infrastructure make a very real contribution to our competitiveness.

Physical Infrastructure

104. The Government accepts that it must continue to improve Hong Kong's physical infrastructure to sustain trade and economic growth.

- o We are moving forward with planning for the three rail links recommended in the Railway Development Strategy.
- o The Government will allocate \$15 million in 1996-97 to provide additional staff resources to the Transport Branch and related departments to handle the appraisal and planning work involved.
- o Nearly 90% of our total trade goes through the port, and demand is forecast to rise steadily. We must continue building more container terminals to meet this higher demand. We shall need to have in place not only CT9 but also CT10 and the first berths of CT11 before the century is out.

- o We must ensure that our airport is able to handle efficiently the increasing flow of passengers and goods in and out of Hong Kong by air. We are on track to achieve the target opening date of April 1998 for the new airport at Chek Lap Kok. The Airport Authority, in conjunction with the Government, is looking further into the future and examining air traffic forecasts to determine the timing for developing the second runway at Chek Lap Kok.

Telecommunications

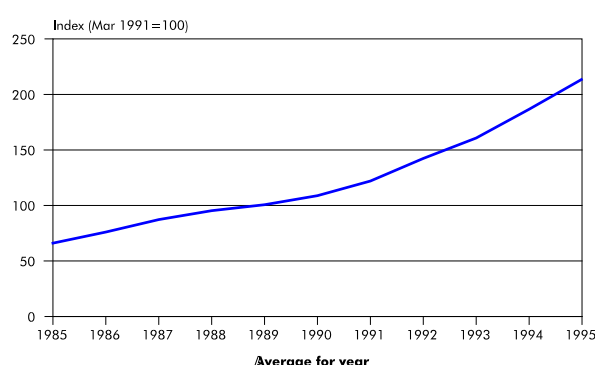
105. These investments in our physical infrastructure, once completed, will make a contribution to every service and product that we sell. The same is true of our telecommunications and other support services. Our fully digitized telephone system and comprehensive optical fibre network are among the most advanced in the world. Our penetration rates for mobile phone and paging services are among the highest in the world. Competition brought about through the deregulation of local fixed network services in July last year will bring investment of more than \$32 billion over the next 10 years from new operators, and they will improve still further our basic telephone network. We shall continue to discuss with the Chinese side our proposal to license new mobile telecommunication services to relieve congestion in the existing networks. We need to increase our capacity to meet the strong local demand for mobile phone services. This will ensure that Hong Kong continues to lead the region in having the best and most advanced telecommunications services. The Government will continue to pursue a pro-competition policy in telecommunications which has already reduced the real cost of domestic line rentals by 32% over the last 10 years and of international calls by up to 75%.

Human Infrastructure

106. However, while we have achieved remarkable progress in upgrading the hardware of our infrastructure, our airport, roads and the port, we must not forget the key software package which makes the infrastructure work. I mean the people of Hong Kong. The results of our earlier investments are paying dividends now. Productivity per manufacturing worker has increased by 227% over the last decade. We must go on investing in education and in skills training. The Government and the private sector must work together. For its

part, the Government is reviewing the New Technology Training Scheme under which employers can obtain matching grants for training their employees in new technology in local or overseas institutions. We are considering a number of proposals, including raising the levels of grants and widening the eligibility for application. The object is to allow more people to receive training and to widen the range and level of skills to be covered by the Scheme.

Labour productivity in manufacturing



Language Skills

107. Hong Kong will not be able to maintain its position as an international centre for trade and finance if it allows its language skills to slip. We need English for much of our international trade and financial services. We need Putonghua for our Chinese future. Education Commission Report No. 6 (ECR6) has made a convincing case on the urgent need to improve our language skills.

108. We need to make an early start on some of the recommendations in ECR6 dealing with English. I have earmarked funds in the Draft Estimates of \$14.2 million, rising to \$29.1 million on a full-year basis. This money will enable the recruitment of some 100 native English speaking teachers for our schools and the organisation of intensive English language courses for an additional 11 300 Secondary Six and Seven students. These will bring their English proficiency up to the level required for entry to tertiary institutions.

109. ECR6 also makes important recommendations on Putonghua education. I have included a provision of \$10 million annually in recurrent expenditure to

enable the introduction of a new Putonghua curriculum in September 1998. This will cover all levels from Primary One to Secondary Five in our schools. This new curriculum will prepare students for the new examination in that subject in the HKCEE in the year 2000. In the interim and starting in 1996, the Education Department will organize Putonghua summer courses for our students with some \$30 million voted for the project by this Council last November. In parallel, the Language Fund has helped to organize similar projects both for students and people in full-time employment. Over the past two years, 15 000 individuals have benefited from such courses. We will provide some of these community projects in the future. We shall be enhancing in-service teacher training in Putonghua, starting in 1996.

Manufacturing

110. As we make our plans for the future, we have to support our manufacturing sector in its drive to compete in the high-value added and high-technology market place of the next century. Our manufacturers have already relocated to Southern China the lower-skilled, lower value-added production operations. The priority for manufacturing in the future must be to move further up-market. Manufacturers, of course, already recognize this and are devoting more attention to applied research and development, product design, prototypes, quality control and the sourcing of materials and components. These high-value processes are essentially creative in nature and technology-based. We must also take full advantage of our strategic location. China is much more than a low-cost production base. It contains a large pool of technological and research expertise which can make a major contribution to our own development.

111. The Government has a part to play in this. Our immediate aim is to encourage manufacturers to get into the business of applied research and development with enthusiasm. The Applied Research Council already operates two funding schemes which, in effect, are a form of venture capital fund. More than a dozen projects are being supported through loans or equity investments for individual firms.

112. We should, of course, do more to secure an advanced technology base. There are several potential projects which we will be taking forward to do exactly that.

- o First, a science park. This will bring together local and

international technology-based businesses. It will provide the right environment for exploiting the enormous potential from the convergence of technologies. We will decide on the most appropriate site quickly and put the institutional arrangements in place.

- o Second, the Government has accepted the case for developing a second industrial technology centre. The first established in 1993 has been so successful that it cannot meet in full the strong market demand for its facilities. We will identify a suitable site quickly to enable detailed planning to proceed.
- o Third, the Government has also accepted the case for developing a fourth industrial estate. Detailed planning is about to begin.
- o Fourth, the Government has offered to help finance a private sector initiative to study our long-term industrial development prospects and identify promising new industries for Hong Kong.

As I have said, the Government is moving forward on these initiatives. But I want to emphasize that industry must make the best case for these initiatives. Each of them is intended to support manufacturers in the market place, and they are very much in line with our established policy of minimizing government intervention and maximizing its support for business.

Services

113. As with manufacturing, so with services. Markets and enterprise have already made Hong Kong a regional and global service centre in the premier league of service providers. The challenge now is to compete and to rise within the premier league. Standing still is simply not an option, and the Government will play its part in supporting the market momentum already created by the private sector.

A Task Force on Services Promotion

114. My predecessor, Sir Hamish MACLEOD, promised in his last Budget speech that the Government would look for ways in which it could contribute to the further development of Hong Kong as a world-class service centre. With his full backing, last August I established a Task Force on Services Promotion. I shall be reporting on this work in a moment. Before doing so, I want to emphasize a point central to our work. Our aim has been to identify ways which we in the Government can facilitate the success of our services sector. Our aim has not been, and never will be, to direct development, to "pick winners" or to second-guess markets and entrepreneurs. To ensure that the Task Force is kept close to business realities, I have set up an Ad Hoc Group with prominent business leaders, professionals and academics to provide us with their input. And to expand the range of outside views and contributions, a symposium will be organized jointly with the major trade and industrial associations on 12 March to discuss specific issues confronting the services sector.

115. Among the Budget documents published today is the first concrete outcome from the Task Force's work. This new document, "The Services Sector: Support and Promotion", sets out:

- o an eight-point "Framework for Action". This describes the strategic thrust of the Government's support for this sector; and
- o 14 individual "Action Agendas". They describe the current performance of key service sectors. They state the Government's current commitments to them and outline the directions for future policy. They also set out the principal initiatives taken by the private sector and the major challenges that lie ahead.

116. Let me give Members just a few examples of what the "Framework for Action" and the individual "Action Agendas" are proposing.

- o We must do more to promote our trade in services. The Trade Development Council has already done an outstanding job in promoting our visible trade. It has agreed to expand its work in promoting trade in services, particularly the export of services. This will complement the work of the Trade Department and our 10 economic and trade offices overseas in gaining market access under

the multilateral trading regime for our service exporters.

- o We must do more to promote inward investment in the services sector. The Industry Department is already very successful in attracting inward investment for the manufacturing sector. It will in future undertake a similar role for the services sector.
- o We must do more to maintain Hong Kong's position as the premier tourist destination in the region. The Hong Kong Tourist Association has recently formulated a visitor and tourism strategy to help us achieve that in the increasingly competitive environment in which we operate. We will continue to give it support in this.
- o The Export Credit Insurance Corporation has developed a range of facilities to support the services sector in its drive for new markets abroad. It will bring these vital services to the attention of the whole of the sector which has, so far, not made the fullest use of the Corporation's facilities.
- o We must do more to support the small and medium enterprises employing less than 50 workers which make up the bulk of the services sector. We shall work with the private sector to formulate new initiatives to enhance productivity, upgrade management systems, identify financing options and make market information more accessible.

117. We need to be very cautious in committing public funds to support what are essentially commercial projects. There can be no question of feather-bedding business or bailing out failed enterprises. But there is a good case for providing financial support to specific projects which could make a general contribution to the competitiveness of our services sector. We already have an Industrial Support Fund, and I believe the time has come to set up a parallel Services Support Fund with an initial allocation of \$50 million. There is also a good case for providing additional funds to the Hong Kong Tourist Association to help it implement the visitor and tourist strategy. I therefore propose to make a one-off grant of \$50 million to the Association to set up a Tourism Development Fund for the purpose.

A Mortgage Corporation

118. Improving the efficiency and reducing the risks in financial intermediation is one of our core strategies in promoting the financial services sector. In the area of housing finance, there is a strong case for establishing a mortgage corporation which will offer the following benefits:

- o it will reduce the concentration and liquidity risks of mortgage lending by banks;
- o it will increase the availability of mortgage funds to home buyers and widen their choice of mortgage products; and
- o it will issue high quality securities which help to improve the depth and the liquidity of the local debt market.

119. The establishment of a mortgage corporation in Hong Kong will be no simple task. However, the benefits of such an institution are large enough to warrant further, detailed study. We have engaged the Federal National Mortgage Association, the United States' largest and most profitable mortgage corporation, to assist us in studying the business and technical issues involved. The Hong Kong Monetary Authority will then prepare a detailed proposal for consultation with the banking community, capital market participants and other relevant parties. Subject to the outcome of the consultation, I would hope that preparatory work for the actual setting up of such a corporation could commence as soon as possible.

Revenue Measures for Financial Services

120. Finally, I believe there is room for two more tax concessions to encourage the further development of our financial services.

- o First, I propose that the interest income and trading profits derived from certain debt instruments be subject to a concessionary tax rate equivalent to 50% of the normal profits tax rate. Instruments qualifying for this concession must be lodged with and cleared through the Hong Kong Monetary Authority, carry a suitable rating, have an original maturity of five years or more and a minimum

denomination of \$500,000. This concession should help to attract overseas issuers to Hong Kong, enlarge our debt market and enhance our competitiveness *vis-a-vis* other financial centres in the region.

- o Second, I propose to waive stamp duty for market makers on stock transactions for the purpose of hedging options transactions. This will help to increase trading volume, improve market liquidity and the quality of risk management, and reduce the underlying price volatility of stocks.

I estimate that these two measures will reduce revenue by \$30 million in 1996-97 and \$135 million up to 1999-2000. They will come into effect as soon as the necessary legislation has been put in place.

121. I also intend to amend the Inland Revenue Ordinance to reflect existing practice. I will

- o include a specific exemption for certain income derived from *bona fide* offshore funds managed in Hong Kong; and
- o exclude stock brokers from potential profits tax liability in respect of share trading profits derived by non-resident investors for whom they act as agents.

Promoting Services

122. This afternoon, I have outlined a package of measures designed not simply to make the Government more business-friendly but to tackle key areas where we can contribute directly to business efficiency. Members will find further details in the new Budget document to which I have already referred. I want to emphasize that this is not the end of our work. This document, and the Task Force's deliberations, should be taken as the first steps only, a first step towards developing a policy support for the services sector, without neglecting manufacturing, well into the next century.

CONSULTATIONS WITH CHINA

123. Before concluding, I want to say something about consultations with the Chinese side. Last March, my predecessor outlined a four-stage programme for the purpose. In essence, this programme involves a steady intensification of work from a general background briefing in stage one, to the specific subject-related seminars in stage two, the detailed introduction of the budgetary cycle in stage three, and full consultation in the preparation of the 1997-98 Budget in stage four. An Expert Group has since been set up under the Sino-British Joint Liaison Group to carry this forward. This Expert Group has gone through the first three stages of the programme of work in a pragmatic and co-operative manner. We expect this to continue in the final stage of the programme. As previously envisaged, we will strengthen co-operation with the Chinese side in the preparation of the Budget for 1997-98 to ensure a smooth transition.

124. I have outlined, this afternoon, a bold range of proposals, particularly for developing the manufacturing and service industries. In the near future, we shall consider these proposals in greater detail. In doing so, the views of Members of this Council and of the community as a whole will be invaluable. But obviously many of the proposals have financial implications beyond 1997. They will have to be considered and, if appropriate, carried forward by the future Hong Kong Special Administrative Region Government. As our consideration progresses, I will ask the Secretary for the Treasury to discuss those proposals having expenditure implications for the 1997-98 Budget in the Expert Group. I also stand ready to explain these proposals personally to the Chief Executive (Designate) as soon as he or she is appointed. I shall deliver the rest of my speech in Cantonese.

FINANCIAL SECRETARY (in Cantonese): Mr President,

CONCLUSION

125. This afternoon I have explained how past developments have given us a strong, healthy and mature economy which has the potential to go on flourishing in the next century. I emphasised the partnership between a business-friendly government and a market-friendly business sector. This partnership is based on

our established policy of minimal intervention and maximum support for business.

126. I have said that I share this Council's genuine concerns for those members of our society who have missed out on the prosperity generated by economic growth. I have tried to address these concerns. I have funded all the pledges made by the Governor in his policy address last October on the whole range of social services. In addition, I have proposed further improvements today to the CSSA scheme which will cost \$200 million over and above the \$300 million pledged by the Governor last October.

- o A further increase in the CSSA standard rates for adults not expected to work due to ill-health, single parents and family carers, which brings their rates from 1 April up to \$1,935 a month for a single person and \$1,760 for a person living in a family.
- o A further increase for adults expected to work, bringing their standard rates up to \$1,615 a month for a single person and \$1,440 a month for an adult living in a family.
- o A new increase in the standard rate for adults with a 50 % disability living in a family, bringing their new rate up to \$1,760 a month.
- o A new special grant of \$320 a year for the elderly as reimbursement for social and recreational activities, and a new annual payment of \$200 for the elderly at Chinese New Year.
- o Freedom for the elderly to retire to China while receiving CSSA standard rates and long term supplements.

Also, I have proposed significant new funding support to build up our soft infrastructure and to improve our competitiveness.

- o \$300 million for the Employees Retraining Board to expand its programme of retraining our local workers.
- o \$39 million a year (on a full year basis) to make an early start on implementing the recommendations in the Education Commission Report No. 6 on English and Chinese language training.
- o \$50 million for a Services Support Fund for projects to enhance the

competitiveness of our services sector.

- o \$50 million for a Tourism Development Fund to maintain Hong Kong's position as a premier tourist destination.

I cannot take personal credit for these initiatives. Many are based on proposals from Members of this Council.

127. I have restated a commitment to the principles which will continue to govern our public finances in the years to come, particularly the importance of living within our means. I intend to maintain strong fiscal reserves, and I am pledged to maintain the current linked exchange rate with the US dollar.

128. On new revenue measures, I have proposed to increase the Betting Tax on horse racing by a half percentage point at the expense of the commission currently received by the Royal Hong Kong Jockey Club. I have also restored the Air Passenger Departure Tax to the 1983 level of \$100. I have decided not to change the level of Profits Tax and have adjusted the duty on tobacco and hydrocarbon oils only in line with inflation. I have proposed a number of substantial concessions for Salaries Tax. For example,

- o a 14% increase in the basic allowance to \$90,000 and the married person's allowance to \$180,000,
- o a 11 to 14% increase in the allowance for dependent children,
- o an increase of 11% in the basic allowance and 17% in the additional allowance for a dependent parent or grandparent,
- o an increase of 13%, from \$40,000 to \$45,000, in the single parent allowance,
- o a 36% increase, from \$11,000 to \$15,000, in the disabled dependant allowance,
- o a new allowance of \$24,500 for a dependent sibling and an additional allowance of \$15,000 where the sibling is disabled, and

- o a specific deduction, up to \$12,000 a year, for attending training courses at approved institutions.

Again, most of these measures reflect suggestions made to me by Members during my consultations with them.

129. I have also proposed specific concessions on Estate Duty and on Stamp Duty payable by home buyers. As an environmental measure, I have proposed a reduction up to \$30,000 in the First Registration Tax for a new private car if an owner scraps a car which is ten or more years old and which uses leaded fuel without a catalytic converter. For the hotel industry, I propose to allow hotels an annual 20% write-off for expenditure on refurbishment.

130. My vision is to meet the community's expectations for Hong Kong as a premier centre for international trade, manufacturing and services in the region. For this I have mapped out an ambitious strategy. I have also proposed to halve the *ad valorem* fees on company registration and increase the exemption levels for business registration by 100% for the sale of goods and 150% for the sale of services.

131. For manufacturing industry, the Government has accepted the need for a science park and will proceed with final site selection and the design of appropriate institutional arrangements. We have also accepted the case for a second industrial technology centre and are about to begin planning for the fourth industrial estate.

132. For the services sector, the Task Force has put together a preliminary package of initiatives. Details of these initiatives are given in an Addendum to the Budget Speech. They include a new role for the Trade Development Council, an expansion of the activities of the Industry Department and the Export Credit Insurance Corporation. We are examining the benefits we could obtain from a mortgage corporation. We have proposed special encouragement for financial services through a 50% reduction in Profits Tax for certain types of debt instruments and exemption from Stamp Duty for the hedging transactions of market makers.

133. In presenting this Budget, my aim, Honourable Members, has been to enable our economic success story to continue well into the next century. By equipping the people of Hong Kong with the skills they need to go on improving their quality of life and building our community's prosperous future. This future

must include everyone. Economic success will enable us to provide the care, support and protection for those who need it. We will be able:

- o to help the elderly live active and full lives enjoying the dignity and respect that they deserve by, for example, providing more home help services, social centres, residential care and financial assistance;
- o to improve our health care facilities still further and promote an environment in which each member of the community has better control over his or her own health; and
- o to promote an integrated education system which enables students at all ages to develop their capabilities to the full and qualify at internationally recognized academic, professional and vocational standards to meet the changing needs of our economy.

134. This is what real growth really means. The actual effect of improving the lives of people: their health, their living conditions, their education, their careers. This real growth has been and will remain our most important objective. And the continual improvement in our standard of living and the constant upgrading of our public services will be funded from within Government's share of the additional wealth created. We will not increase that share and compete with the private sector for resources because, as Hong Kong continues with its success story, we will not need to. It is as simple as that.

135. Mr President, we Hong Kong people have much to do to build our prosperous future. Fortunately, we know what to do, and we know how to do it. I move that the debate on this motion be now adjourned.

PRESIDENT: I now propose the question to you and that is: That the Appropriation Bill 1996 be read the Second time. And in accordance with Standing Order 54(2), the debate on the Second Reading of the Appropriation Bill 1996 is now adjourned. Arrangements have been made for the Finance Committee to examine the draft Estimates in the meantime. I now suspend the sitting for one hour.

4.25 pm

Sitting adjourned.

5.25 pm

Council then resumed.

MEMBER'S MOTIONS

INTERPRETATION AND GENERAL CLAUSES ORDINANCE

MRS SELINA CHOW to move the following motion:

"That the Ferry Services (The "Star" Ferry Company, Limited) (Determination of Fares) (Amendment) Order 1996, published as Legal Notice No. 40 of 1996 and laid on the table of the Legislative Council on 24 January 1996, be amended in section 2 by repealing paragraphs (a) to (k)."

MRS SELINA CHOW: Mr President, I move the first motion standing in my name on the Order Paper. The motion seeks to amend the Ferry Services (The "Star" Ferry Company, Limited) (Determination of Fares) (Amendment) Order 1996.

A Subcommittee, chaired by me, was formed on 26 January 1996 to study eight items of subsidiary legislation (including this one) tabled in the Legislative Council on 24 January 1996. On 9 February 1996, it took on the study of another item of subsidiary legislation tabled in the Legislative Council on 7 February 1996. All items involve fee increases. The Subcommittee, with a membership of 15, has held four meetings, including three with the Administration.

Some Members alleged that the "Star" Ferry has reneged on its promise made in 1994 not to seek another fare increase in 1995. They are dissatisfied with its explanation on the significant discrepancy between the profit and loss forecasts made in 1994 and 1995. The "Star" Ferry argues that the 1994 undertaking was made on the condition that its profit for 1995 would turn out to be more or less the same as forecast and that is approximately HK\$10 million

(with maximum of 10% variance). In actual fact, the Company suffered a loss in 1995. The discrepancy in forecasts is mainly due, as was explained, to decline in patronage and increasing operating costs arising from higher than expected vessel repair and pier expenses.

After detailed study of the "Star" Ferry's arguments and its Profit and Loss Account presented to the Subcommittee in confidence, Members held divided views on its proposed fare increase of 18.9%. Mr WONG Wai-yin, representing the Democratic Party's view, opposed the increase, advocating the granting of pier development rights to the Company by the Government to subsidize its operation. Dr LAW Cheung-kwok supported neither the fare increase nor a pier development package for the "Star" Ferry. He was of the opinion that if the Company discontinued the ferry service, it should be taken over by the Administration or the Government. Miss CHAN Yuen-han, on behalf of the Democratic Alliance for the Betterment of Hong Kong (DAB), reserved their position, because she found it difficult to form a judgment there and then on the basis of the figures provided by the "Star" Ferry. Mrs Miriam LAU, on behalf of the Liberal Party, supported the proposed fare increase on the grounds that pending a long-term strategy, the "Star" Ferry has to survive and the proposed increase is reasonable. In conclusion, the Subcommittee decided by a majority vote that the proposed fare increase in section 2(a) to (k) should be repealed.

In section 2(1) of the Order, a monthly ticket for the route between Hung Hom and Edinburgh Place at the rate of \$125 is proposed. Members of the Democratic Party on the Subcommittee indicated their support to the introduction of a monthly ticket for this route, but at a reduced rate. A motion will be moved separately by Mr WONG Wai-yin to that effect.

Mr President, as I was elected chairman of the Subcommittee scrutinizing this Order, it falls on me to move the resolution to repeal the Order, which reflects the majority decision of the Subcommittee. However, as I entirely agree with Mrs Miriam LAU's opinion and decision to support the Order, I shall be voting against it. I rely on Mrs LAU to explain the reasons for the Liberal Party's support for the fare increase. I hope the wisdom of the minority in the Subcommittee will enjoy the support of the majority in this Council here and now. Star Ferry provides the cheapest cross-harbour service. It is not a monopoly. It is making a loss. If the Legislative Council refuses its request to raise fares,

we send a worrying signal to businesses that we fail to balance the interests between consumers and business operators, and that we do not ensure fairness in the rules of the game of capitalism.

Mr President, while calling on my colleagues to oppose this motion, I beg to move.

Question on the motion proposed.

PRESIDENT: Mr WONG Wai-yin has also given notice to move a motion under the Interpretation and General Clauses Ordinance to amend the same order, that is, the Ferry Services (The "Star" Ferry Company, Limited) (Determination of Fares) (Amendment) Order 1996. Mr WONG's motion has been printed on the Order Paper. As the contents of Mrs CHOW's and Mr WONG's motions relate to the same subject, I propose to have them debated together in a joint debate.

The two motions shall now be debated together in a joint debate. Members can now speak on either or both motions. At the end of the debate, we will vote on Mrs Selina CHOW's motion first. Thereafter, Mr WONG Wai-yin will be called upon to move his motion, but the question on Mr WONG's motion will be put without further debate.

MR WONG WAI-YIN (in Cantonese): Mr President, the "Star" Ferry has a long history and has been providing cross-harbour ferry service to the people of Hong Kong at comparatively cheap rates. However, in face of the keen competition from the Mass Transit Railway (MTR) and tunnel buses with their high frequencies of operations, the competitiveness of the "Star" Ferry has significantly weakened in spite of the cheap fares, resulting in an annual decline in patronage on its two major routes from the Central to Tsim Sha Tsui and from the Central to Hung Hom. In order that normal operation may be maintained, the "Star" Ferry has been obliged to propose large fare increases in recent years in order to break even. At the end of 1993 and 1994, the fares were increased by 22.9% and 13.7% respectively while this time, that is, at the end of last year, a 18.9% increase in fares was proposed.

The "Star" Ferry pointed out that if its fares were not increased this year,

there would be a deficit from 1996 onwards. Some Members and political parties may consider it very cruel and unreasonable to reject the fare increase proposal of a private company like the "Star" Ferry which is losing business, but the Democratic Party holds a different view. We are of the opinion that in deciding whether we should support the fare increase of a means of public transport, apart from considering whether the business is suffering losses, the most important thing is to find out the main cause of the deficit and then identify a proper solution. To maintain the practice of tackling the problem with stopgap measures instead of at the root is short-sightedness. It is to no avail in solving the problem.

The deficit of the "Star" Ferry may in fact be attributed to its failure in controlling effectively the operating costs and the continuous shrinkage of its business.

In proposing a fare increase to this Council at the end of 1994, the "Star" Ferry submitted to us estimated data on its operations for the next few years. The company estimated that if a fare increase of 13.7% was approved in December 1994, a profit of \$10.3 million and \$8.5 million would be made for 1995 and 1996 respectively. Based on these profit forecasts for 1995 and 1996, no further increase would be required before 1997. The "Star" Ferry also gave its word then that no more fare increase would be proposed in 1995, but the promise was eventually broken. In December 1995, we again received a proposal from the "Star" Ferry for a fare increase of 18.9%. While examining the relevant data in the paper submitted this time, we discovered that the total revenue of the "Star" Ferry for 1995 was \$90.5 million while that forecast for 1996 was almost \$92 million, which were more or less the same as those forecast for 1995 and 1996 in the data submitted in support of the fare increase proposal at the end of 1994. In other words, the profit forecast when the "Star" Ferry proposed a fare increase in 1994 proved to be roughly the same as the profit actually made. This means its profit forecasts have materialized. However, the "Star" Ferry pointed out this time (that is, in the paper submitted to us on 14 December 1995) that the unaudited calculations showed a modest profit of \$33,000 for 1995 but a deficit of some \$7.6 million for 1996. Further examination revealed that the actual operating costs for 1995 were some \$10 million in excess of those forecast when the fare increase was proposed at the end of 1994. That there should be a discrepancy of some \$10 million between

the forecast and actual operating costs is not only astounding but also extremely unreasonable.

The fare increase of 18.9% proposed for this year is in fact required to offset the significant increase in the costs of operation. To enable the company to balance its books to forestall any deficit, would Members who allow the "Star" Ferry to increase its fares this year also endorse its proposal for a higher rate of increase if its operating costs for 1996 once again exceeded the forecast by a wide margin?

Furthermore, given the competition from the other modes of transport, the "Star" Ferry's development in ferry service is naturally very limited and the Democratic Party absolutely would not support the practice of allowing the "Star" Ferry to maintain its normal operation by means of continuous fare increases. In fact, the "Star" Ferry also indicated that even if this Council granted a fare increase of 18.9% this year, it was estimated that in order to secure a reasonable rate of return of 7% on average from 1997 to 2000, a fare increase of 32%, 14%, 79% and 9% would be required for 1997, 1998, 1999 and 2000 respectively. To keep raising the fares is by no means a permanent solution for the problem. It brings no advantage at all to the passengers and the development of the "Star" Ferry.

In the absence of any new development direction and strategy and major improvement in the quality of service, increasing the fares significantly time and again would in the end only bring about further decline and wastage in patronage, making its operation all the more difficult. The Democratic Party considers that the Government should as early as possible conduct a comprehensive review of Hong Kong's ferry service and formulate a long-term policy. If the Administration considers that it is still worthwhile to keep the "Star" Ferry, it should seek ways to tackle the continuous shrinkage of the ferry service. We suggest that the Government should consider giving the "Star" Ferry the right of pier development as in the case of the Hongkong and Yaumati Ferry, so that the profit generated from property development may be invested in the ferry service, which in turn would cut down the deficit and improve the service with stabilized fares.

The fare increase of 18.9% proposed this year is necessitated entirely by

the grossly under-estimated costs of operation. It is the "Star" Ferry's own fault in not being able to control its costs of operation effectively. Any loss thus sustained must not be borne by the passengers. Moreover, we oppose the practice of allowing the "Star" Ferry to maintain its normal operation by raising its fares incessantly. The Democratic Party hopes that the Government and the "Star" Ferry would actively and speedily identify solutions for the continuous shrinkage of the ferry service. In view of this, the Democratic Party has decided to reject the "Star" Ferry's proposal for a fare increase of 18.9% this year.

Mr President, at the time when this fare increase was proposed, monthly ticket service from Edinburgh Place to Hung Hom was introduced. The ticket fare is \$125, which is based on the new fare of \$2.5 for an adult's upper-deck single journey from Edinburgh Place to Hung Hom. In line with the Democratic Party's request for freezing the fares of all the routes of the "Star" Ferry, I shall propose an amendment to the fare for the newly introduced monthly ticket service. Based on the current upper-deck adult fare of \$2 for a single journey from Edinburgh Place to Hung Hom, the monthly fare should be \$100. This amendment is in line with the Democratic Party's request for freezing the fares of all the ferry routes. Accordingly, I shall propose an amendment later, whereby the fare for the new monthly ticket shall be amended from \$125 to \$100.

Mr President, these are my remarks.

MRS MIRIAM LAU (in Cantonese): Mr President, the "Star" Ferry proposed a fare increase two years ago and the rate of increase was 13.8%. Although the net profit for 1993 was only some \$6 million, the "Star" Ferry was very optimistic about its prospects, forecasting an annual increase of 2% in patronage and, after the fare increase, a net profit of over \$10 million and a rate of return of 11.2% for 1995. The proposed fare increase was then accepted by Members of this Council, including the Democratic Party. Unfortunately, things did not turn out as the "Star" Ferry had expected. In 1994, the "Star" Ferry made a profit of only some \$2 million while in 1995, the company not only did not make a profit or return, but also incurred a deficit of some \$4.7 million. If the "Star" Ferry failed to secure a fare increase this time, the deficit would further rise to some \$7 million in 1996. It has been estimated that even if a fare increase of 18.9% is secured this time, the "Star" Ferry would only manage to break even. There would hardly be any profit at all. I cannot understand why those colleagues who endorsed the fare increase then, that is, in 1994, when the "Star" Ferry was

making money and predicted a profit, should oppose the fare increase today when the "Star" Ferry is suffering heavy losses. The only explanation for their opposition is that they are doing this just for the sake of opposition, or that they have to suit the wishes of their voters.

If the established stand of opposing all price increases of public utilities was their sole consideration for voting, it would be entirely meaningless to pursue the debate, because those Members opposing the fare increase have made a foregone decision and that is to freeze all price increases irrespective of the company's state of business and its losses.

While grandly opposing the fare increase of the "Star" Ferry, have these Members at the same time explained clearly to the people the possible consequences of their opposition? Forcing the ferry company to operate its business at a loss is by no means a blessing to the people in the long run. No one is willing to run a losing business. If the company lost money, both the shareholders and the staff would be the direct victims. Not only would the hope for a salary increase be dashed, but the original plan of granting retrospective pay rise to the staff might also be withdrawn. If the company closed down because of the losing business, those who ultimately suffer would be the passengers, who would be forced to use other more expensive modes of cross-harbour transport such as the MTR and tunnel buses simply because the "Star" Ferry, the cheapest cross-harbour service, has to be sacrificed thanks to parliamentary politics. If this happened, who should be held accountable to the people?

Certainly, that the company is in the red should not be the only consideration for fare increase. The quality of service is equally vital. In the recent case concerning the Hongkong and Yaumati Ferry's fare increase, the opposing Members fussed over the undesirable service. This however, would not do the trick on the "Star" Ferry, because there were only three complaints against the "Star" Ferry in the first 11 months of 1995 and in the past years, continuous efforts in improving its service and strengthening safety facilities have been witnessed in spite of unsatisfactory business. Overall, it can be said that most of the passengers are satisfied with the service of the "Star" Ferry and consider that the service has good value for the fare paid. In these circumstances, if we insisted on vetoing the fare increase, we would be sending out a dangerous message to the operators that if you do not do well, there will be no fare increase but even if you do well, there will not be any fare increase either. In other words, whether the business is making or losing money, no fare increase will be allowed. Is this fair to the operators? If the Council kept sending out

messages of this kind, would anyone be still willing to invest in public utilities? I have mentioned many times and shall repeat here that on the issue of fare increase, the interests of the investors and those of the community must be balanced. The investors should be given reasonable returns while the people should be provided with services which are satisfactory and worth the money. If we insist on good and cheap service without giving due regard to the viability of the business, who would be willing to become the service provider?

It seems that the only "reason" that can be advanced for opposing the fare increase this time is the undertaking the "Star" Ferry gave the Honourable LAU Chin-shek when the fare increase was proposed at the end of 1994 that no more fare increase would be sought. I must indicate my strong dissatisfaction here over the individual Member's practice of making under-the-table deals with business operators, absolutely bypassing the Transport Panel of this Council. Nevertheless, I shall leave this for the time being. Let us take a look at what the "Star" Ferry promised and whether it has broken the promise. In its letter to the Secretary for Transport on 7 December 1994, it was clearly stated that the ferry company only promised that if the net profit for 1995 did exceed the forecast amount of \$10 million, the company would not seek further fare increase in 1995. However, the company did explicitly and clearly reserve the right to propose a fare increase in September 1995 should the profit fall short of the forecast. Obviously it was a conditional undertaking and the solid fact is that as the condition did not materialize, the undertaking could not be fulfilled. We may criticize the "Star" Ferry for its poor financial forecasts and we may also mock its being over-optimistic, but in fact, the decline in patronage and advertisement income as well as the additional maintenance expenses of the pier and fleet are beyond the company's control. Its inaccurate forecasts are therefore forgivable. I believe that should the "Star" Ferry be given a choice, it would prefer realizing the profit forecast for 1995 to proposing a fare increase in 1995, thereby giving trouble to our Honourable Members.

Now that there is no more room for criticism, the only area in the fare increase proposal that remains vulnerable is the rate of increase. After being considered by the Transport Advisory Committee, the rate of increase was slashed nearly by half from 35% to 18.9%. This was also the rate of increase approved by the Executive Council, a rate which would only allow the "Star" Ferry to manage to break even in 1996 and survive.

On the surface, the rate of 18.9% is well above the inflation rate, but in

fact, most of the passengers would only need to pay 30 cents more per trip. Thirty years ago, the "Star" Ferry's fare increase of 5 cents gave rise to a state of commotion. In those years, one could buy a bowl of plain congee or a piece of fritter with 5 cents, but today, what possibly could one buy with 5 cents? Would one really feel the pinch with the 30-cent adjustment? More importantly, do the people really strongly oppose the increase of 30 cents? On the other hand, if the passengers pay 30 cents more, the "Star" Ferry would be able to continue its business and the people might still enjoy this cheapest cross-harbour service. Thirty years ago, the 5 cents with which one could buy a bowl of plain congee or a piece of fritter triggered off riots, but the last thing I want is that investors' confidence in Hong Kong's commercial environment should be shaken by the 30 cents (that is, six 5 cents) which could hardly buy anything for anyone today. This would be a great detriment to Hong Kong. Against this background, I ask Members not to be so stubborn. I hope you would change your minds and support the "Star" Ferry's fare increase proposal.

Although the "Star" Ferry may manage to survive if the fare increase is endorsed, its future is still very dim. With the Central reclamation works affecting its operation and the opening of the Western Harbour Crossing posing a keen competition, the patronage of the "Star" Ferry may continue to drop in the foreseeable future, resulting in reduced revenue. Increasing significantly the fares alone is by no means the best solution. Fare increase not only adds to the burden of the passengers but also undermines the "Star" Ferry's competitive edge. The Government must find a long-term solution at an early date. The granting of pier development enabled the Ferry to stabilize its fares within a definite period of time. The Government stressed then that it was not a concession to the Hongkong and Yaumati Ferry because the premium concerned was determined at the market rate. I hope the Government would consider granting the same arrangement to the "Star" Ferry, whereby proceeds from the pier development may be used to subsidize the ferry service and alleviate the pressure on fare increase. In addition, the Government should expedite the formulation of a long-term policy on ferry service and redefine the role of ferry service in the overall transport network so that the ferry service may develop towards a confirmed direction and provide sound, efficient and active service to the community.

Mr President, these are my remarks. I oppose the motions of the Honourable Mrs Selina CHOW and the Honourable WONG Wai-yin and support the rate of increase originally proposed by the "Star" Ferry.

MR PAUL CHENG: Mr President, I rise to support the Star Ferry increase proposals. I am very concerned about this Council overly politicizing every single issue because that is not in the interests of Hong Kong's overall progress and Hong Kong's future if we begin to get involved with commercial endeavours. For example, I know the Star Ferry Company is struggling to make a profit. They do not have to stay in business. They can easily close the service, and by closing the service, there will be more unemployment in Hong Kong.

In addition, we must remember that the Star Ferry is a major tourist attraction in Hong Kong. It is a landmark in Hong Kong, and if we close that service, there may also be impact on our tourist industry as a whole.

So I would like to encourage some of my colleagues who are against the fare increase to think carefully. We are talking about 30 cents. Maybe 18% sounds like a big number in percentage terms. But we are talking about only 30 cents. Let us be more realistic and let us not over-politicize every single issue in this Council. It is not in the interests of Hong Kong's future. And it is about time we all wake up to that fact.

Thank you, Mr President.

MR CHAN KAM-LAM (in Cantonese): Mr President, the "Star" Ferry has submitted to this Council a proposal for a fare increase of 18.9%. In percentage terms alone, it is rather high, but still, the Democratic Alliance for Betterment of Hong Kong (DAB) does not agree with some groups or political parties which advocate a freezing of the fare increase after simply comparing the rate of increase with that of inflation, without taking heed at all of the specific rationale for the fare increase.

Inflation is by no means the DAB's one and only consideration in examining the proposals of the Government and public utility companies for increasing their charges and fares. As Hong Kong's economic downturn still persists, our stand on public utility fare increases has always been to balance the interests of the public at large and those of the operators and the industrial and commercial sectors. The DAB is therefore of the view that those organizations with a surplus should realistically consider "tiding over the difficult times"

together with the people of Hong Kong by voluntarily freezing their fares for one year while those with a deficit may be allowed to adjust their fares upward on an individual basis.

In order to understand better the views of the people, especially frequent commuters using the "Star" Ferry service, the DAB commissioned an independent random telephone survey from the middle to the end of February while its members conducted a questionnaire survey on the ferries. Both surveys revealed that most of the interviewees held a mild attitude towards the "Star" Ferry's fare increase proposal. There was no strong objection to the fare adjustment and they considered that the "Star" Ferry should be allowed to raise its fares if it was losing money.

The findings of another survey conducted by Survey Research Hong Kong in December 1995 indicated that among the different modes of transport in Hong Kong, the "Star" Ferry's service rating was only behind that of the two railway companies and the tram company. At the same time, the cumulative rate of fare increase of the "Star" Ferry for the past 15 years was merely 8.5%, next only to the Mass Transit Railway (MTR).

Furthermore, according to the information provided by the "Star" Ferry to this Council, the rising costs of maintenance and operation led to a deficit of \$4.79 million in 1995-96, which would further rise to \$7.5 million if the fares were not revised this year. But even with the 18.9% fare increase, the company could only manage to break even. As far as we know, upon revision of the fares, 90% of the passengers would need to pay only an extra 20 to 30 cents, which is considered to be moderate by most of the interviewees in our surveys.

The "Star" Ferry predicted that its business prospects would be affected by factors such as competition from the other modes of transport and the pier removal. In 1996, its total patronage would further fall from 36 million passengers to 35.6 million passengers. With the opening of the Western Harbour Crossing in mid-1997, there would be further decline.

On the other hand, the service of the "Star" Ferry has all along been given high rating and its average rate of return in the past five years has only been slightly above 5%. The DAB considers that since the "Star" Ferry is a public utility organization operating on commercial principles in a free market economy, it should be allowed to recoup a reasonable return and own a mechanism for fare

increase which would enable it to recover its costs and enjoy reasonable profits.

Having assessed the prevailing economic scenario of Hong Kong, the present state and prospects of the "Star" Ferry's business, the extent to which the people are satisfied with the ferry service and their affordability of the fares, the DAB considers that the fare increase this time is acceptable. As for the revision of the monthly ticket fare proposed by the Honourable WONG Wai-yin, we shall not give our support because we consider it to be impractical. The reason is that after the revision, the gap between the monthly ticket fare, which is already a concessionary fare, and the actual fare per trip would widen. Moreover, the proposed amendment is based on the original fare.

Mr President, some groups or political parties may consider that it is always right to "oppose all price increases whenever they arise". However, it can be seen from the survey findings this time that the great majority of the people of Hong Kong are very rational. In judging a public utility company's fare increase proposal, they would decide only after taking into account the state of business of the organization concerned and the actual impact of the fare increase. Accordingly, as responsible Members of this Council and responsible members of a political party, we should all the more give due and rational consideration to the specific arguments of each fare increase proposal before making a decision which is in the overall interests of the community.

Recently there have been comments that the DAB is "changing tack" on the issue of the "Star" Ferry's fare increase proposal because it indicated before that it would not support the proposal. We have also been criticized for having trimmed our sails under the camouflage of public wishes. True, when the fare increase proposal was first submitted, as the information supplied by the "Star" Ferry was not adequate and the question of an undertaking between the "Star" Ferry and Members from the Democratic Party in private was not yet clarified, we did state that in the circumstances, the DAB would not support the fare increase proposal, but we did stress repeatedly that we would study further the situation of the "Star" Ferry. Some people have thought that the DAB would persist in its objection blindly to the very end. We consider this to be wishful thinking only. The DAB's stand is in conformity with public sentiments and the decision has been made after balancing the overall interests of the public utility organization and the community.

We consider that in order to ease the burden of the rising costs of operation, the Government should bear part of the costs of pier maintenance. Moreover, in view of the absence of a standard system to monitor the operations of public utilities in Hong Kong, the DAB proposes that the Government should, drawing reference from the international quality assurance standards, lay down a set of criteria governing the service standard and regulation of all public utility organizations, so that the operators would have some guidelines to follow in improving their service quality. The set of criteria would also facilitate supervision by the Government, this Council and the public.

Mr President, these are my remarks.

MR CHOY KAN-PUI (in Cantonese): Mr President, although most of the people prefer the more expensive but more convenient modes of cross-harbour transport as the land transport network is getting more sophisticated, there are still advantages in keeping the harbour ferry routes. At present, the service provided by the "Star" Ferry is still the cheapest means of cross-harbour transport. Moreover, it plays a definite role in alleviating the pressure on land transport.

In early 1994, as Hong Kong was experiencing an economic boom, it was inevitable that the "Star" Ferry made a more optimistic forecast of its profits. Unfortunately this was followed by an economic downturn, which, coinciding with the pier removal and an adverse competitive environment, brought a halt to the growth in patronage. It should be noted that the "Star" Ferry is not a monopoly service. On the contrary, it has to face competitors, especially the MTR and tunnel buses. If the passengers consider the rate of increase to be unreasonable, they could by all means choose other modes of transport and if their number drops, the one that eventually suffers would be the company itself. On the other hand, its costs of operation, including the costs of salary, repairs and maintenance, have kept rising. If the fare was not revised, there would be a deficit crisis. When an enterprise is losing money not because of poor management but because of a change in the business environment, we would be transmitting a very destructive message if we froze its fare increase proposal simply because of the habit of "opposing all price increases whenever they arise" without giving due consideration to the actual situation. As a result, the investors and the industrial and commercial sectors would be discouraged from investing in public utilities. This would affect adversely the entire community.

It is learned that most of the commuters are at present satisfied with the service provided by the "Star" Ferry. A survey reveals that the "Star" Ferry enjoys a higher rating among the different modes of public transport in Hong Kong. The 18.9% rate of increase proposed this time may seem to be rather high in percentage terms but in real terms, on average 90% of the passengers need to pay only an extra 20 to 30 cents for the ferry fare. This rate of increase can be regarded as moderate and no strong objection has been expressed. Moreover, a survey indicates that this rate of increase is acceptable to the majority of the passengers. I therefore support the fare increase application submitted by the "Star" Ferry this time.

Mr President, these are my remarks.

MR BRUCE LIU (in Cantonese): Mr President, on behalf of the Hong Kong Association for Democracy and Livelihood (ADPL), I support the freezing of the "Star" Ferry's fare increase.

I hereby reiterate the stand of the ADPL, which is to oppose any fare adjustment which would affect the livelihood of the people and add to their burden. The ADPL considers this year to be a difficult and unusual year and therefore opposes any fare increase which would affect the people's livelihood.

Since the end of 1994, the economy of Hong Kong has slowed down with the unemployment rate soaring and the annual inflation standing at the high rate of 8.7%. The double impact of the high rates of inflation and unemployment have aggravated the people's burden. Constant price increases proposed by the various public utility companies are a deliberate move to worsen the situation. Reluctant to allow this situation to continue, the ADPL demands this year to be a "price-freezing year", during which all the public utilities should refrain from increasing their charges and fees.

The ADPL proposes that the "Star" Ferry should shelve its fare increase proposal until the end of the year and meanwhile, review carefully its mode of operation and development strategy. If the Government has any specific recommendations on stabilizing the "Star" Ferry's rate of fare increase, they should be submitted to this Council for consideration after discussing with the "Star" Ferry. The ADPL also requests that an overall policy on ferry service

should be formulated by the Government.

These are my remarks.

PRESIDENT: I now invite Mr WONG Wai-yin to speak for the second time since after the joint debate, he will not be given the opportunity to speak when moving this motion. But I am sure Mr WONG will be brief and not repetitive. Mr WONG Wai-yin, do you wish to speak?

MR WONG WAI-YIN (in Cantonese): Mr President, in the prevailing case concerning the fare increase of the "Star" Ferry, as in all other cases concerning the price increases of public utility organizations and public transport organizations, the Democratic Party, as the Honourable Bruce LIU of the Hong Kong Association for Democracy and People's Livelihood (ADPL) does, considers that the people of Hong Kong are going through difficult times this year. We are also aware of the fact that some of the consortia in the industrial and commercial sectors are making less money than before. However, is making less money so unbearable? We do not think so. Investments made by some public utility organizations are not judged by the performance of a year or so. We have been saying that the "Star" Ferry is suffering losses. However, this is only the first year it is suffering losses. It made profits in the past. Why do we not take that into consideration?

Just now a number of colleagues mentioned that the Democratic Party "opposes all price increases whenever they arise". Thanks to the Honourable Mrs Miriam LAU who from the outset said that the Democratic Party showed its support when the "Star" Ferry applied for a fare adjustment in December 1994. Even when the "Star" Ferry was enjoying a surplus, we gave our support to its fare increase proposal because we, the "Star" Ferry and the Government held a tripartite discussion and according to the calculations based on the data available, it was expected that an increase of some 13% would raise the company's profit to \$10 million, and no more fare increase would be sought until 1997, thereby ensuring stable fares for the next few years. Against this background, the Democratic Party supported the "Star" Ferry's fare increase proposal then. This suffices to reflect that the Democratic Party by no means "opposes all price increases whenever they arise". Indeed I have lost count of the number of times I have said this. We really do not deserve such a label.

Mr President, in the present case, some colleagues are critical of our not

allowing the "Star" Ferry to adjust its fares even when it is losing money. Does it mean that we should allow an organization which is in deficit to raise its fares, without considering at all the reasons for the increase? Could it basically be due to the fact that something has gone wrong in its operation? I have stressed before that profits of \$10 million and \$8.5 million were forecast for the following two years when the fare increase was proposed in December 1994, but instead of making any money, the "Star" Ferry has now incurred a loss of several million dollars, a difference of \$15 million from the forecast. To a company, a difference of \$15 million definitely reflects that something has gone amiss in its forecasts and cost control. However, the loss has to be shouldered by the passengers now. Our colleagues have also said, not without an air of we-have-full-justifications, that the "Star" Ferry should be allowed to raise its fares because it is losing money, so it means that the deficit should be shouldered by the passengers. We opine that whether the company is losing or making money should not be the sole consideration.

Mr President, many colleagues have also said it is only a matter of an extra 20 to 30 cents in real terms. True, to some of the colleagues sitting in this Chamber, 20 to 30 cents is nothing. Maybe \$2 to \$3, \$20 to \$30 or even \$200 to \$300 is nothing to them, but to those who earn only \$4,000 to \$5,000 or even less a month, every cent counts a lot. Therefore, one must not disregard the increase in percentage terms and harp only on the extra 20 to 30 cents in money terms. As I have specially mentioned just now, if, with an increase of 20%, Honourable Members consider the actual amount of 20 to 30 cents to be small, it is probable that those colleagues might regard the actual amount modest even with an increase of 79%, which the "Star" Ferry is planning to propose, because it is no more than \$1 or so. Does it mean we should also support the company's proposal for a 79% increase, particularly when there might be heavy losses after the pier removal?

Lastly, Mr President, I only want to point out that in this case concerning the fare increase of the "Star" Ferry, I drew experience from the last fare increase of the Hongkong and Yaumati Ferry by holding discussions with the various parties beforehand, except the Liberal Party, whose stand was already very clear. I talked to Mrs LAU in private but discovered that there was too wide a gap between us on the issue and therefore, I only discussed with political parties such as the Democratic Alliance for Betterment of Hong Kong (DAB), Hong Kong Federation of Trade Unions (FTU), Hong Kong Civic Association, ADPL and 1,2,3 Democratic Alliance. I contacted the Honourable CHEUNG Hon-chung, the spokesman for the DAB on transport policies, and the Honourable Miss CHAN Yuen-han of the FTU. Both Members told me explicitly that both the

DAB and FTU would support the recommendation on freezing the fare increase and would not allow the "Star" Ferry to raise its fares. Mr CHEUNG Hon-chung clearly indicated that such a conclusion was reached after discussion. Just now the Honourable CHAN Kam-lam said that assuming that the DAB would oppose the fare increase blindly to the end was only the Democratic Party's wishful thinking. I believe this is not our wishful thinking but is in fact the view openly expressed by the representatives of the DAB and FTU in this Council. Miss CHAN Yuen-han is not present now but she did overtly say outside the Council that they were in favour of freezing the fare increase. Lastly, the DAB claimed, based on survey findings, that the public considered the rate of increase modest and acceptable and therefore, it would support the fare increase. The surveys conducted by them this time, be they phone surveys or field surveys, covered only 1 000 people or so, whereas 6 000 letters opposing the fare increase of the Hongkong and Yaumati Ferry last time were handed to this Council by petitioners from the outlying islands. If the DAB considered public views to be so material and attached such importance to public views, they should have accepted the views of the 6 000 islands residents and frozen the fare increase of the Hongkong and Yaumati Ferry. Of course, I have also learned from this incident that in spite of previous discussions among us, some people might "trim their sails" at the last voting. I wonder whether Mr CHEUNG Hon-chung is in a position to act as the transport policy spokesman on behalf of the DAB and to make a decision on this issue, or whether the other members of the DAB are to make the final decision.

Mr President, I believe that with the DAB's "change of tack", the motion which might succeed in freezing the fare increase of the "Star" Ferry is not likely to be endorsed. Nevertheless, I still hope that Members would support my simple amendment concerning the monthly ticket, because passengers who use monthly tickets are frequent ferry commuters. In the surveys done by the DAB, those who travel on the "Star" Ferry once to twice a week were regarded as frequent commuters. Accordingly, passengers who travel on the ferry every day should be regarded as "extremely frequent" commuters. Monthly tickets are a great facility to these commuters and I hope that such a move would ease the pressure on the livelihood of some of these frequent ferry commuters.

Mr President, these are my remarks. The Democratic Party supports the motion on freezing the "Star" Ferry's fare increase moved by the Honourable Mrs Selina CHOW on behalf of the Subcommittee.

MR CHEUNG HON-CHUNG (in Cantonese): Mr President, as the Honourable WONG Wai-yin has mentioned time and again his discussions with me, I feel obliged to make some appropriate response.

Allow me to reiterate the stand of the Democratic Alliance for Betterment of Hong Kong (DAB) on the issue of public utilities' fare increases. The DAB does ask public utility companies with a surplus to freeze their price increases voluntarily but if the companies are losing money, we will carefully and cautiously handle each case when they propose price increases. We will consider the standard of service, causes of deficit and the previous levels of profits. As for the "Star" Ferry's proposal for fare increase this time, since the specific data were not available in the initial stage, we did tend to oppose it, but this was only a tendency. On some public occasions, we did indicate such tendency and that was against the "Star" Ferry's fare increase proposal, but in the later stage, after studying further into more information and confirming that there would be a deficit of \$4.7 million this year and further deficits in future, we thought there was a need to reconsider our tendency. After conducting some surveys internally, the DAB thought it proper to listen to and understand the public's views as well as their assessment of the service standard of the "Star" Ferry before making a final decision.

Having conducted some opinion surveys, the DAB discovered that the public in general were satisfied with the service of the "Star" Ferry. The DAB deliberated over the various factors and concluded that there was no justification to oppose the fare increase of a public utility company whose service standard was found to be acceptable but whose business was being run at a loss. Hence, throughout the whole process, the DAB has not "changed tack". This somehow reflects that in considering an issue, the DAB makes sensible decisions only after careful and rational examination.

Thank you, Mr President.

MR TSANG KIN-SHING (in Cantonese): Mr President, I want to clarify one point. If there was really no "change of tack", I ask my colleagues from the DAB to add the qualification "but if there is a deficit, price increase will be

allowed" in parenthesis after the slogan "freeze price increases to safeguard people's livelihood" on their roadside placards.

Thank you, Mr President.

MR IP KWOK-HIM (in Cantonese): Mr President, about the Honourable TSANG Kin-shing's advice, I believe that there is no need for him to tell the DAB what to do. If we consider that something should be done, we will decide ourselves how we should do it.

Just now the Honourable WONG Wai-yin mentioned that 20 or 30 cents meant a lot to the public at large and particularly the lower strata in Hong Kong, rather than something that was insignificant or no big deal as some Members claimed. Our view that the increase of 20 to 30 cents was small was not formed out of pure imagination. Rather, it was from survey findings that we clearly saw that an increase of 20 to 30 cents was acceptable to the public. In particular, they would accept it when the business concerned was losing money. Some 60%, or nearly 70% of the interviewees held such a view. I do hope that Mr WONG Wai-yin too would take note of the tendency of public views instead of making up stories behind closed doors by saying that 20 to 30 cents is a huge sum to the general public.

He also mentioned that there were 6 000 signatures opposing the fare increase of the Hongkong and Yaumati Ferry last time. I must clearly point out that we did make a very careful examination of the case and listen to the views of the Islands District Board. I believe that the Islands District Board is representative of public views and a decision made by us after listening to the views representing those of the public should demonstrate that we had consulted the public. We did not ignore the views of the 6 000-odd people, but we have to assess public views and make an analysis based on these views. Judging from society's response, we absolutely have reasons to believe that our decision last time was correct.

SECRETARY FOR TRANSPORT: Mr President, some Members of this Council seem to enjoy the merry-go-round. Virtually every time when

proposals to revise fees and charges are tabled in this Council or when applications are submitted by public transport operators to increase their fares, we have to box and cox. The Administration does not begrudge Honourable Members the right to examine and scrutinize such proposals — indeed, it is because we fully recognize this to be a legitimate discharge of their responsibilities that we in turn do our best to provide all the information that is necessary and can be made available to facilitate the process. However, after all the facts and figures have been provided and it has been clearly demonstrated that a public transport operator needs a fare increase because the company would otherwise sustain a loss, the stubborn adherence to indefensible principles on the part of some political parties and Members, and their continued attempts to frustrate fare adjustments is beyond comprehension and certainly not in the wider public interest. This scenario applies to the motion now before the Council pertaining to the "Star" Ferry Company Limited.

I fully share the Honourable Paul CHENG's views on the dangers of politicizing such cases.

Mr President, the Administration's fundamental policy on public transport is that all such services should be provided by the private sector without any subsidy. This formula has served Hong Kong well and we risk changing this at our peril. There have been many debates on this subject. The arguments and counter-arguments have been rehearsed over and over again and are well documented in the Hansard. Likewise, Members are fully aware of the consultative process and the criteria which the Administration has adopted in processing applications for fare increases. There is no need for me to reiterate these points again today. Instead, let me focus on the basic facts pertaining to the present application from the "Star" Ferry. At this juncture, let me particularly thank the Honourable Mrs Miriam LAU and the Honourable CHAN Kam-lam for so clearly expressing the views of the Liberal Party and the Democratic Alliance for Betterment of Hong Kong (DAB) respectively, and for so convincingly demonstrating why the fare increase sought is totally justified.

Let me now try to echo some of these points and explain why the Government likewise believes that the "Star" Ferry's application merits full support.

First, the Company's undertaking — its commitment not to seek another fare increase in 1995 was subject to the caveat that its profits would remain at more or less the same level as forecast. As the Honourable Mrs Selina CHOW and the Honourable Mrs Miriam LAU have pointed out, there can be no misunderstanding since this was explicitly stated in the "Star" Ferry's letter dated 7 December 1994 which has been circulated to Members of this Council. Although the Company's forecast of its financial performance has not been accurate, the actual position today is that its audited accounts show that it made a small profit in 1994 but incurred a loss of \$4.79 million in 1995. The Company has not therefore reneged on any promise in seeking an adjustment in fares now.

Second, the amount of the fare increase — although this appears to be excessive in percentage terms, the real impact is better described and understood in monetary sums. About 90% of the 96 000 daily passengers will pay but 20 to 30 cents extra per trip. This is minimal and affordable. Senior citizens, comprising 6% of the "Star" Ferry's commuters, will continue to enjoy free rides. It is also worth pointing out that there has been no protest from commuters and no adverse editorial comment on the proposed fare increase. Indeed, even with this increase, the "Star" Ferry will still provide the cheapest public transport mode for cross-harbour services.

I am glad for the survey undertaken by the DAB and I thank them for their initiative as we confirm the public acceptability for the fare increase now sought.

Third, the "Star" Ferry's performance — the Company has consistently provided a high level of services, in both terms of adequacy and quality. Its ferries are clean and comfortable, and certainly good value for money. This is borne out by the fact that in the calendar year 1995, there were only three complaints.

Fourth, the "Star" Ferry's own efforts to economize — the Company has made conscious efforts to keep operating costs down. These include a bridge control automation programme completed in 1994 and special training for its coxswains on measures to safeguard the fender system, resulting in cost savings of \$4 million per year. This clearly demonstrates the "Star" Ferry's willingness to cut costs whilst striving to maintain its services to commuters. Unfortunately, even with such internal economy measures, total costs have still gone up, necessitating a fare rise.

Fifth, a pier development package — some Members have asked why not grant the "Star" Ferry pier development rights to help redress the situation, particularly since there is already a precedent *vis-a-vis* the Hongkong and Yaumati Ferry Company (HYF). The answer is that we are not comparing like with like. In the "Star" Ferry's case, modest adjustments in fares at regular intervals would suffice, but not so for HYF which requires a substantial injection of funds to make their services viable and even then they would require annual fare increases in line with inflation. In short, a transport justification to support a pier development package for the "Star" Ferry has not been established.

Several Honourable Members have suggested that the Government should be more proactive in supporting ferry services, for example, by taking on some responsibilities for pier maintenance. I shall certainly follow this up. I also look forward to the motion debate on the review of long-term ferry policy which I understand the Honourable Mrs Miriam LAU has given notice to propose. This will provide an opportunity for a further exchange of views.

Mr President, the "Star" Ferry's submission has been vetted very meticulously by the Subcommittee chaired by the Honourable Mrs Selina CHOW. May I record the Administration's appreciation to her and to all Members for their time and interest. Not surprisingly, and possibly because of the predetermined stance on the part of the Democrats and the Association for Democracy and People's livelihood to deny any fare increase, an unanimous view could not be reached.

May I add a personal observation on this point. I am surprised that the Honourable WONG Wai-yin has attempted to criticize the DAB for changing their minds. In fact, credit is due to them for their preparedness in analyzing the facts and coming to the right decision.

Mr President, we therefore have to be realistic and pragmatic. The very modest fare increase sought by Star Ferry is fully justified. I urge Honourable Members to vote against both resolutions.

MRS SELINA CHOW (in Cantonese): Mr President, as the saying goes, "Those living in glass houses should not throw stones." Just now the Honourable WONG Wai-yin vigorously attacked the stand of the Democratic Alliance for Betterment of Hong Kong (DAB), but in fact I am very grateful to the DAB for having conducted the opinion survey, because it has certainly proved the

correctness of the Liberal Party's views. The public too hold positive views on the whole case. The DAB's survey has given us a clearer perspective of the issue. I think we should respect it.

In fact, the stand on the fare increase proposal taken by Mr WONG Wai-yin, who is living in a glass house, does not seem to be that firm either. For a number of times, both openly and privately, he said representatives of the Democratic Party and Liberal Party had exchanged views on the matter and they did agree to freeze the Government's charges and fees. However, they have now changed their minds, saying that they would support only certain kinds of fare increases but not others, and that they would support those related to people's livelihood but not those which have nothing to do with people's livelihood and so on. We do not know how convincing the Government is. We only know that it has spent a lot of time.

All in all, I call upon honourable colleagues to vote against my motion as well as Mr WONG Wai-yin's. Only in this way that an appropriate decision conforming with the principles of a capitalist society can really be made.

Thank you.

Question on Mrs Selina CHOW's motion put.

Voice vote taken.

THE PRESIDENT said he thought the "Noes" had it.

Mr WONG Wai-yin and Mr TSANG Kin-shing claimed a division.

PRESIDENT: Council shall now proceed to a division.

PRESIDENT: I would like to remind Members that they are now called upon to vote on the question that Mrs Selina CHOW's motion, moved in the capacity of Chairman of the Subcommittee, be approved. Will Members please register their presence by pressing the top button in the voting units and cast their votes by pressing one of the three buttons below?

MR TSANG KIN-SHING (in Cantonese): May I ask whether the mover of the motion can vote against the motion?

PRESIDENT: Of course, he or she may.

PRESIDENT: Before I declare the result, Members may wish to check their votes. Are there any queries? The result will now be displayed.

Mr Martin LEE, Mr SZETO Wah, Mr Albert CHAN, Mr CHEUNG Man-kwong, Mr Frederick FUNG, Mr Michael HO, Dr HUANG Chen-ya, Mr LEE Wing-tat, Mr Fred LI, Mr James TO, Dr YEUNG Sum, Mr WONG Wai-yin, Mr LEE Cheuk-yan, Mr Andrew CHENG, Dr Anthony CHEUNG, Mr Albert HO, Mr LAU Chin-shek, Dr LAW Cheung-kwok, Mr LAW Chi-kwong, Mr LEUNG Yiu-chung, Mr Bruce LIU, Mr MOK Ying-fan, Mr TSANG Kin-shing, Dr John TSE and Mr YUM Sin-ling voted for the motion.

Mr Allen LEE, Mrs Selina CHOW, Dr David LI, Mr NGAI Shiu-kit, Mr LAU Wong-fat, Mr Edward HO, Mr Ronald ARCULLI, Mrs Miriam LAU, Dr LEONG Che-hung, Miss Emily LAU, Mr Eric LI, Mr Henry TANG, Dr Samuel WONG, Dr Philip WONG, Mr Howard YOUNG, Miss Christine LOH, Mr James TIEN, Mr CHAN Kam-lam, Mr CHAN Wing-chan, Mr Paul CHENG, Mr CHEUNG Hon-chung, Mr CHOY Kan-pui, Mr David CHU, Mr IP Kwok-him, Mr Ambrose LAU, Mr LEE Kai-ming, Mr LO Suk-ching, Miss Margaret NG and Mr NGAN Kam-chuen voted against the motion.

THE PRESIDENT announced that there were 25 votes in favour of the motion and 29 votes against it. He therefore declared that the motion was negatived.

Suspension of Standing Order 36(4)

DR LEONG CHE-HUNG: Mr President, I rise to seek your consent for me to move without notice a motion to enable the duration of the division bell for

certain divisions to be shortened. On 1 March 1996, the House Committee unanimously agreed that I move such a motion to reduce to one minute the duration of the division bell in the event of further divisions being claimed in respect of the remaining motions to be moved under the Interpretation and General Clauses Ordinance at this sitting.

PRESIDENT: You have my consent.

DR LEONG CHE-HUNG: Mr President, I move that in the event of further divisions being claimed in respect of the remaining motions to be moved under the Interpretation and General Clauses Ordinance at this sitting, Standing Order 36(4) be suspended so that the President may order that the Council do proceed to each of such divisions immediately after the division bell has been rung for one minute.

Question on the motion proposed, put and agreed to

PRESIDENT: I now order that in the event of further divisions being claimed for the remaining motions to be moved under the Interpretation and General Clauses Ordinance at this sitting, the Council do proceed to each division immediately after the division bell has been rung for one minute.

MR WONG WAI-YIN to move the following motion:

"That the Ferry Services (The "Star" Ferry Company, Limited) (Determination of Fares) (Amendment) Order 1996, published as Legal Notice No. 40 of 1996 and laid on the table of the Legislative Council on 24 January 1996, be amended in section 2(1) by repealing, in the new item 4A, "\$125" and substituting "\$100"."

MR WONG WAI-YIN (in Cantonese): Mr President, I move the motion standing in my name on the Order Paper.

Question on Mr WONG Wai-yin's motion proposed and put.

Voice vote taken.

THE PRESIDENT said he thought the "Noes" had it.

Mr WONG Wai-yin and Mr LEE Wing-tat claimed a division.

PRESIDENT: Council shall now proceed to a division.

PRESIDENT: I would like to remind Members that they are now called upon to vote on Mr WONG Wai-yin's motion. Will Members please register their presence by pressing the top button and then proceed to vote by choosing one of the three buttons below?

PRESIDENT: Before I declare the result, Members may wish to check their votes. Are there any queries? The result will now be displayed.

Mr Martin LEE, Mr SZETO Wah, Mr Albert CHAN, Mr CHEUNG Man-kwong, Mr Frederick FUNG, Mr Michael HO, Dr HUANG Chen-ya, Mr LEE Wing-tat, Mr Fred LI, Mr James TO, Dr YEUNG Sum, Mr WONG Wai-yin, Mr LEE Cheuk-yan, Mr Andrew CHENG, Dr Anthony CHEUNG, Mr Albert HO, Mr LAU Chin-shek, Dr LAW Cheung-kwok, Mr LAW Chi-kwong, Mr LEUNG Yiu-chung, Mr Bruce LIU, Mr MOK Ying-fan, Mr TSANG Kin-shing, Dr John TSE and Mr YUM Sin-ling voted for the motion.

Mr Allen LEE, Mrs Selina CHOW, Dr David LI, Mr NGAI Shiu-kit, Mr LAU Wong-fat, Mr Edward HO, Mr Ronald ARCULLI, Mrs Miriam LAU, Dr LEONG Che-hung, Miss Emily LAU, Mr Eric LI, Mr Henry TANG, Dr Samuel WONG, Dr Philip WONG, Mr Howard YOUNG, Miss Christine LOH, Mr James TIEN, Mr CHAN Kam-lam, Mr CHAN Wing-chan, Mr Paul CHENG, Mr CHEUNG Hon-chung, Mr CHOY Kan-pui, Mr David CHU, Mr IP Kwok-him, Mr Ambrose LAU, Mr LEE Kai-ming, Mr LO Suk-ching, Miss Margaret NG and Mr NGAN Kam-chuen voted against the motion.

THE PRESIDENT announced that there were 25 votes in favour of the motion and 29 votes against it. He therefore declared that the motion was negatived.

INTERPRETATION AND GENERAL CLAUSES ORDINANCE

MRS SELINA CHOW to move the following motion:

"That -

(1) the Land Registration Fees (Amendment) Regulation 1995, published as Legal Notice No. 35 of 1996 and laid on the table of the Legislative Council on 24 January 1996, be amended -

(a) in section 5 -

(i) by repealing subsection (3);

(ii) by repealing subsection (4);

(iii) by repealing subsection (5) and substituting -

"(5) Regulation 4(1) is amended by adding before paragraph (a) -

"(aa) item 10(1) of the Schedule for supplying a copy of a folio of a New Territories Land Registry register, ".";

(b) by repealing section 6 and substituting -

"6. Schedule amended

The Schedule is amended -

(a) in item 7, by adding ", New Territories

Land Registry register," before "or diazo copy";

(b) in item 10(1), by adding "or folio of a New Territories Land Registry register" after "Crown lease";

(c) in item 10(2), by adding ", or a hard copy from a microfilm," after "copy".";

(2) the Land Registration (Amendment) Regulation 1996, published as Legal Notice No. 39 of 1996 and laid on the table of the Legislative Council on 24 January 1996, be amended by repealing section 2(2)."

MRS SELINA CHOW: Mr President, I move the second motion standing in my name on the Order Paper. The motion seeks to amend the Land Registration Fees (Amendment) Regulation 1995 and Land Registration (Amendment) Regulation 1996. These Regulations, together with three others on Land Registration, have been studied by the Subcommittee I mentioned in my first motion today.

The five Land Registration Regulations under study aim to consolidate the land registration fee structure for the urban and New Territories, and to rationalize and update the existing fee structure for various services by the Land Registry on a cost recovery basis. It was put to us that the overall average increase is about 10%.

Having studied the additional information provided by the Administration on the proposed fee increases, Members consider that the Regulations involving policy issues on restructuring of registration fees cannot be thoroughly studied by the Subcommittee within the short scrutiny period allowed for subsidiary legislation. They agree that the Administration should justify in detail the proposals in the Regulations at the Legislative Council Panel on Planning, Lands and Works.

Members unanimously decide to:

- (a) repeal the new schedule of fees under section 6 of Land Registration Fees (Amendment) Regulation 1995 (L.N. 35 of 1996) in the interest of time;
- (b) make, as a consequence of such repeal, other amendments as are necessary to allow the existing fee structure to apply to both the urban and New Territories areas; and
- (c) preserve as far as possible other Administration's proposals that are not inconsistent with the existing fee structure as reinstated.

Mr President, I beg to move.

Question on the motion proposed.

MR ALBERT CHAN (in Cantonese): Mr President, it is quite unexpected that only a few Members are interested in speaking on this issue. Perhaps the Budget presented by the Financial Secretary today was too exciting.

About the amendments to the Land Registration Regulations, I want first of all to record the Democratic Party's dissatisfaction over the lack of any public consultation and discussion before the amendments were formally announced. We hardly had sufficient and enough time to study the relevant amendments before they were gazetted and considered by the Subcommittee concerned of this Council, thus resulting in certain unreasonableness and unfairness.

After studying the amendments, the Subcommittee considered that the registration fees might involve the policy issue on restructuring of registration fees and accordingly, accepted the recommendation that the various regulations be elaborated in detail in the panel concerned. This was the view given in the report submitted to the House Committee by the Subcommittee tasked with the consideration of the amendments. As time was pressing, the Panel concerned, that is, the Panel on Planning, Lands and Works, decided urgently to convene a special meeting this noon to discuss the matter. Our discussion focused on the question of whether the fee adjustment would affect or alter the established policy. Most of the members who attended the meeting basically considered that the amendments proposed by the Government had not altered the policy as a

whole and in principle. As to whether individual members are in favour of the fee increase, it is another matter. I wish to stress that the overall policy has not been altered. The amendments proposed by the Land Registry this time basically follows the underlying principles adopted when the Land Registry Trading Fund was set up in 1993, which were based on "user pays", self-sufficiency, no cross-subsidy and that the fees should be self-financing. This is the explanation given by the Government, which expounds that the amendments this time are consistent with the direction of the previous two fee adjustments, without involving any change.

Since no policy change is involved, let us look at the practical question of the individual fees. Of all the fees concerned the Democratic Party had strong views on two of them. In fact, recommendations were put forth by the Honourable SIN Chung-kai on behalf of the Democratic Party at the meeting on 1 February 1996. The first one is about the amendment to the registration fee structure. The Government proposed to replace the original three-tier fee structure with standard fees. The Democratic Party considered this change to be quite unfair to those who used to pay low fees and therefore, recommended that the fee structure be changed to a two-tier one, under which the registration fee for properties with a value of \$750,000 or less should be fixed at \$230 while that for properties with a value above \$750,000 should be fixed at \$450.

As for the registration fee of the Deed of Mutual Covenant, the Government proposed that it should be standardized, meaning that the registration fee of the Deed of Mutual Covenant of all flats should be \$2,000. The Democratic Party considered this to be too drastic a change, which was quite unreasonable and unacceptable. We therefore recommended a progressive mode of reform. The registration fee of the Deed of Mutual Covenant of a building with more than 10 units could be fixed at \$2,000 as the Government proposed, but that of a building with 10 units or below should be cut by half, that is, \$1,000.

As I have just said, these recommendations were discussed at the meeting on 1 February 1996 and accepted by the Government then, but because of procedural problems, the necessary amendments based on these recommendations could not be made immediately today. If, after the new fees are passed today, the Government makes as early as possible the necessary

adjustment according to the recommendations I just mentioned, that is, if the old fees or the three-tier structure is maintained before the new proposal is officially enforced, the registration fee of Deed of Mutual Covenant will be kept at the \$60 level until the recommendations I mentioned just now are confirmed. If such an undertaking is made by the Government, the Democratic Party will vote against the Honourable Mrs Selina Chow's motion.

Thank you, Mr President.

MR RONALD ARCULLI: Mr President, I would like to seek a clarification from the Honourable Albert CHAN. I could not quite understand whether he is suggesting that if in fact the proposal of the Administration is passed today, he is actually asking the Administration not to enforce it but to follow the old regime which would have been revoked by passing of the resolution today.

MR ALBERT CHAN (in Cantonese): The Honourable Ronald ARCULLI is correct in his understanding, because as far as I understand, if the Government's regulations are passed today, that is, if the Honourable Mrs Selina CHOW's motion is vetoed today, the schedule of fees gazetted will take effect. However, as the effective date is an administrative decision to be made by the Government, the Government may exercise its administrative authority by withholding its implementation until the new schedule of fees is re-gazetted.

As I have just said, if the Government makes such an undertaking later, we will support its original overall fee package, because it involves a number of fees and not just the two items I have mentioned. We have strong views only on those two items.

MR RONALD ARCULLI: Mr President, I think in my seven years here, it is probably the first time that I have heard it suggested to the Government to actually not enforce something that is passed today.

In terms of the commencement period, the reason why we are dealing with the resolution today is that I believe there is in fact a time limit. If there is no objection by this Council, presumably the resolution would have gone ahead.

But be that as it may, clearly the Democratic Party, if they choose to adopt this rather unusual line, so be it. For myself, and indeed for the Liberal Party, I do not think we can subscribe to breaking with tradition in encouraging the Administration not to enforce, or not to implement, any measures passed by this Council, whether we are talking about the resolution today or indeed any other laws. If in fact there is a clear mandate to the Administration for it to choose the implementation of an ordinance which quite often there is, be it in the Governor or be it with the relevant Secretary whether as the whole or part of any ordinance, then the Committee and this Council deliberating that particular bill or bills would have in fact taken that into consideration. And I think this is why the Subcommittee in its deliberations actually decided to recommend to this Council that we reject the current proposal but have made it quite clear to the Administration that they can come back in fact with a new proposal. And indeed the proposal put forward by the Democratic Party of a two-tier rather than the three-tier charge was not a proposal that the Administration thought was acceptable to them. But they simply considered it because Members put it forward. So what the Administration's position on the two-tier rather than three-tier proposal is, as a member of the Subcommittee, I am not in the know so to speak. So all I can say is that we need time to consider the policy implications in the proposal and that is why it was referred to the relevant Panel.

I disagree with the Honourable Albert CHAN when he says that there is no policy implication. There is policy implication, in fact, in the current proposal. Certainly from a legal point of view, I can see a difference in policy proposals. So I would urge Members to reject the proposal of the Administration.

Thank you, Mr President.

MR MARTIN LEE (in Cantonese): Mr President, in fact there is no need for the Honourable Ronald ARCULLI to be so uptight, because I believe that the Honourable Mrs Selina CHOW might, as in the previous motion, hope that we will vote against her motion. So, the Democratic Party will vote against it.

MR LEE WING-TAT (in Cantonese): Mr President, I wish to respond to two points. The Honourable Ronald ARCULLI mentioned the issue of system and there is the question of whether or not we respect the decision of the House Committee on this issue, that is, whether we hold a different view on the practice of referring a government legislation, motion or resolution to the relevant committees. In fact we agree to such a practice, because it was the Honourable Martin LEE's recommendation. However, we may have different views as to which legislation, resolution or subsidiary legislation involves the question of policy. Mr ARCULLI held that the question of policy was involved in this fee change, which we think otherwise. So did the House Committee at the discussion held this morning. We opine that in this voting process, not only the colleagues' views on this fee proposal but also their inclination over the question of whether this fee proposal involves any policy change can be shown. I believe that if our colleagues present consider that a policy change is involved in this resolution or subsidiary legislation, they would not let it pass within such a short time. I therefore consider that the voting can demonstrate their inclination over the two questions. I consider that Mr ARCULLI was a bit uptight in saying what he did just now. We in fact have not expressed any views on the system issue.

Thank you, Mr President.

MR CHAN KAM-LAM (in Cantonese): Mr President, we discovered in the process of deliberation that this first Trading Fund of the Government had made lucrative surpluses in the past couple of years and therefore we considered that no fee revision under the Trading Fund should be made at this stage. It was also mentioned by some colleagues just now that the fee restructuring had resulted in considerable reduction in some fees, which was offset by substantial increases in other fees in order to acquire an overall increase of 10%. We considered this to be not so appropriate. After careful consideration, we have decided not to endorse the Government's proposal.

Thank you, Mr President.

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS (in Cantonese): Mr President, I am very grateful to all the members of the Regulations Subcommittee for studying and considering the Land Registration Fees (Amendment) Regulation 1995, the Land Registration (New Territories) Fees (Repeal) Regulation 1995, the Land Registration Fees (Amendment) Regulation 1995 (Amendment) Regulation 1996, the Land Registration (New Territories) Fees (Repeal) Regulation 1995 (Amendment) Regulation 1996 and the Land Registration (Amendment) Regulation 1996.

However, I could not agree with the resolution concerning the Land Registration Fees (Amendment) Regulation 1995 and the Land Registration (Amendment) Regulation 1996 moved today. The practical effect of the passing of this resolution is no less than repudiating the Land Registry's proposal to revise its various fees. This would not only be detrimental to the operation of the Land Registry Trading Fund, but also adversely affect the services it provides to the public.

First of all, I wish to point out that the purpose of the fee adjustment proposal is to enable the Land Registry to continue its mode of operation on the self-sufficiency basis, so that it may provide services of good value to meet the customers' aspiration. The entire proposal is based on the principles of cost recovery, "users pay" and no more cross-subsidy. This policy is also the underlying principle of the Trading Funds Ordinance. With the support of this Council, the Trading Funds Ordinance was passed on 10 March 1993 and the Land Registry Trading Fund was set up in August 1993. All along, the operation of the Fund has followed this policy. For instance, fees were revised in July 1994 and January 1995 in order that full cost recovery and reduction in cross-subsidy could gradually be achieved. The fee adjustment proposal this time has not deviated from the policy.

In reviewing the prevailing fees, we discovered that cross-subsidy existed in some of the fees and accordingly, amendment was necessary. The purpose of determining fees on the principle of full cost recovery is to rationalize the fee structure, eliminate cross-subsidy among the various services and raise the fees in line with inflation. In this way, some of the fees might increase while others might remain unchanged, but the major registration fees would be reduced. As the overall rate of increase proposed was only 10%, we did not consider that there would be any significant effect on inflation or the people's livelihood.

To ensure that the Land Registry Trading Fund might operate on a sound financial basis, target rates of return on assets have been fixed. The current target rate of return is 10%. This is an average figure, meaning that the annual actual rate of return might fluctuate by a small margin. Any surplus must be ploughed back into the Fund to meet the daily operation expenses and re-invested in the service improvement scheme, the ultimate purpose of which is to enhance the efficiency and quality of the services. It has been estimated that even if the present fee increases were endorsed and annual adjustments in line with inflation were allowed from 1996 to 2000, only a rate of return on assets of some 9.5% would be secured for the Trading Fund.

I would further point out that the fee adjustments proposed this time would benefit most of the members of the public engaged in property transactions. Under the new schedule of fees, the registration fee payable for every transaction generally would be reduced by some 9%, while the search fee would remain the same. We therefore do not consider that the new schedule would affect people's livelihood.

As for today's resolution, we do not consider it acceptable, because first of all, it has violated the "users pay" principle. The users of certain services might need to subsidize those of other services and this is hardly fair. If the resolution was passed, whereby the prevailing fees would remain unchanged, the existing undesirable situation in which users of certain services have to subsidize those of other services would persist.

Secondly, the resolution runs counter to the spirit in which the Trading

Fund was set up by the Land Registry pursuant to the Trading Funds Ordinance and would undermine the Registry's ability to introduce new projects and new services.

It has been estimated that the new fees would generate an additional revenue of \$33.9 million for the Registry per day. Repudiation of the new fee proposal would have a direct implication on the financial soundness of the Trading Fund in the form of a \$12 million deficit for 1996-97. In these circumstances, the efficiency improvement measures being considered by the Land Registry, such as transforming all registration documents into electronic images and providing inter-district search services, would have to be deferred or even withdrawn. Furthermore, the Registry might have to seek more funds from the Government, or indirectly from the tax-payers.

Thirdly, the resolution would prevent members of the public from enjoying the Land Registry's services at cheaper rates. For instance, we propose that the major registration fees, or the fees charged for the most widely used services, should be reduced from \$530 to \$420. Item 8(b) in the Schedule to the Land Registration Fees (Amendment) Regulation 1995 stipulates the charge of \$150 for each copy of the Memorial Day Book, which provides an alternative to search for individual items in the Memorial Day Book. Our purpose is to provide at a cheaper rate a kind of service which would facilitate the search for a large number of items in the Memorial Day Book for statistical or evaluation purposes. However, the motion proposes to repeal the entire Schedule, thereby preventing the Land Registry from providing this service to the general public at a cheaper rate.

Just now the Honourable Albert CHAN mentioned a recommendation of the Subcommittee on further amendment, which would have the effect of retaining two of the fee levels in the three-tier structure of the major registration fees. They proposed that for properties with a value above \$750,000, the registration fee should be revised to \$450 while that for properties with a value of \$750,000 or less should be revised to \$230. At the same time, the registration fee of mutual deed of covenant should be charged at the two levels of \$2,000 for buildings with more than 10 units and \$1,000 for buildings with 10 units or below. This recommendation was discussed at the Subcommittee's meeting and primarily we consider this recommendation of the Members' to be feasible and acceptable. If the Government's fee increase proposal is passed today, we will assess in detail the implication of the above amendment. We

need to consult the Executive Council as well. As soon as its endorsement is obtained, we will have the two fee revisions gazetted and submitted to this Council for consideration.

I wish to remind Members again that when this Council passed the Trading Fund Ordinance, the rationale adopted was that the costs of delivery of services should be fully recouped from the fee income. It was also based on the assumption that the Land Registry should be able to offset the costs of operation and repay the loan with the fee revenues under the Trading Fund that the Finance Committee approved the loan of some \$160,700,000 to the Fund as capital investment in its service improvement. The public might find it difficult to understand why Members should prevent the Registry from being able to recover its operating costs and repay the loan.

It was mentioned by Members that the fee proposal had been discussed by the Panel on Planning, Lands and Works. Members also mentioned that it had been discussed this morning. More detailed information and explanation have been provided by the Government. I wish to thank the Panel for agreeing this morning that no policy change was involved in our proposal.

Mr President, I wish to add lastly that this motion would bring undesirable effect on the operation of the Land Registry Trading Fund and damage the Registry's service quality. I recommend that Members should not support this motion. Thank you.

MR JAMES TIEN (in Cantonese): Mr President, after listening to what Mr Bowen LEUNG said just now, I want him to clarify a bit, because what he said sounded as if he was doing business with the Democratic Party. He said the Democratic Party's proposal, that is, changing the three-tier fee structure to a two-tier one was acceptable to him, but then he said this had to be endorsed by the Executive Council. In fact, if this is passed by us today, it will take immediate effect. Is he making a deal with the Democratic Party such that if the Democratic Party votes against the Honourable Mrs Selina CHOW's motion, thereby resulting in the endorsement of the Government's fee proposal, he will have the Executive Council agree to replace the three-tier structure with a two-tier one as if nothing has happened over the last couple of days?

MR MARTIN LEE (in Cantonese): Would Mr TIEN clarify what he meant by

making a deal with the Democratic Party?

MR JAMES TIEN (in Cantonese): Mr President, I am most willing to respond, because just now the Honourable Albert CHAN

PRESIDENT: Mr TIEN, please resume your seat. I permitted Mr James TIEN to make a fairly long point in seeking elucidation from the Secretary, because he had not spoken earlier. Mr TIEN, do you wish to speak or do you wish to simply seek elucidation. In future, when seeking elucidation, be brief and concise on the point that you wish to seek elucidation.

MR JAMES TIEN: Mr President,

PRESIDENT: Are you seeking elucidation or are you speaking?

MR JAMES TIEN: I am responding to Mr Martin LEE's point.

PRESIDENT: I did not permit Mr Martin LEE to speak.

MR JAMES TIEN: I see. You have not permitted him to speak, so I do not have to respond to him. Is that right?

PRESIDENT: I was asking you a question. Were you making a speech or were you seeking elucidation?

MR JAMES TIEN: I am seeking elucidation from Mr LEUNG.

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS (in Cantonese): Mr President, I believe that what we are here to discuss today is the rate of increase in fees and the proposal concerned under the Land

Registration Regulation that the Government submitted to this Council. Accordingly, the voting that is going to take place later should be on the Government's proposal. As for the commencement date, I believe that has been the centre of argument among Members. We have in fact stated very clearly in the paper that the Regulation will take effect on a date the Land Registrar specifies in the Gazette. It is not that when it is approved today, it will take effect tomorrow. The commencement date will be gazetted in due course.

PRESIDENT: I would have to reconsider whether or not to permit Members to seek elucidation after speeches. Elucidation may only be sought while a Member is speaking and if that Member is prepared to yield. And as it is now, points of elucidation have been made as a guise for making speeches and these shall not be permitted in future.

MRS SELINA CHOW: Mr President, I was hoping that, in view of the unanimous recommendation on the part of the Subcommittee endorsed by the House Committee, we were not going to debate the resolutions today. Unfortunately, I think that events have had it that we are drawn into a sort of debate.

But I would like to draw the attention of Members to the fact that the unanimous recommendation of the Subcommittee to the House Committee, which was accepted by the House Committee, was in fact that the Administration should justify in detail the proposals in the Regulations at the relevant Legislative Council Panels. In other words, it was not just for the Panels to be looking at whether the Regulations are in line with policy or not. That is not the only purpose. The purpose is for the Administration to justify in detail the proposals in the Regulations. I submit that this had not been achieved in today's Panel meeting.

Going a little into the point about policy, I know that we have different views as to whether the Regulations are in line with policy. But I urge Members to stick to the original recommendation of the Subcommittee as well as the endorsement of the House Committee, and that is, we need more time to look at these Regulations.

Just to put to Members some of the facts contained in the Regulation, the

Administration told us that there are certain decreases in fees. I am telling Members that there are items in which fees are increased from \$90 to \$210, from \$60 to \$2,000, from \$520 to \$2,000, and from \$10 to \$50. And this is by no means the minority. In fact, there are increases in the majority. So what happens is that under one of the items, that is, item 1, we have a deduction of \$29.3 million in revenue. But as a total, the net gain, as far as the Administration is concerned, is \$33.9 million. In other words, even though there is a decrease in a certain item, all the other items have increases that made up for the decrease plus some more. In fact, the result is a decrease in one item and increases in the majority of items, some of which are five-fold, four-fold. That is why, we feel in the Subcommittee, it is extremely difficult for the Subcommittee to recommend. That is why we feel that time is needed. That is why we feel that the Panel should be looking at it.

As far as the Panel is concerned, I think we know that— and here I must pay a compliment to the Land Registration Trading Fund General Manager — they (the Trading Fund) have been very professional and they have abided by certain commercial principles in administering the Fund. But the fact of the matter is, and I do not know whether this fact is clear, at the end of this financial year, they will have achieved an 14.7% return on their average net fixed assets. This surpasses the guiding 10% or whatever was quoted by Mr LEUNG earlier. They told us that it is an overall 10% increase. I have already shown Members that it is not. On average they could argue that so many items, so much money at 10%, but in some of the items, we are looking at four-fold, five-fold increases. Also I think that the Government, on top of the 14.7% return on fixed assets, is also making interest from the fund that it has lent to the Trading Fund at prime rate. On top of that, I think that Members would probably realize — you know when you are talking about a fee which increases from \$60 to \$2,00 — there has been a restructuring of the fee in terms of the basis on which to calculate a certain fee.

Now all these things, I think, need to be looked at in much more detail. The Administration's argument, I must let Members know, for the increases is that such increases only affect professionals and not people's livelihood. They actually reiterated this in the Panel. It has been put to the Administration in the Subcommittee and also today in the Panel that in fact all professional fees which are expenses incurred on behalf of the client would be passed directly onto the client. And you cannot say that such increases, four-fold increases, five-fold increases would not impact on consumers. Such arguments certainly cannot

stand.

What we are in fact arguing that the Administration should do is to give us more time. They can come back next week or the week after. But I think that what is clear is that there are many many question marks. In fact they have actually shifted the goal posts. The Administration can argue that whether it is to charge on the basis of a page or the entire document, or whether that has nothing to do with policy. But it is certainly a deviation from past practices.

I urge Members to give the Subcommittee or whichever Subcommittee Members choose to designate the task to enough time to look at it, so that the people who had ultimately to pay the fees— who are actually the consumers — will not be short-changed. We want more time and we think that this is important, that it should be given to the Subcommittee and to Members. I think in fairness to the House Committee, I do not think the thinking, the views or the arguments have actually been adequately put even to the House Committee. And I think that this is most unfair to Members as a whole. So I urge Members to support my motion to repeal. Thank you.

Question on the motion put.

Voice vote taken.

THE PRESIDENT said he thought the "Ayes" had it.

Mr Albert CHAN and Mr LEE Wing-tat claimed a division.

PRESIDENT: Council shall now proceed to a division.

PRESIDENT: I would like to remind Members that they are now called upon to vote on Mrs Selina CHOW's second motion on the Land Registration Fees (Amendment) Regulation 1995 and Land Registration (Amendment) Regulation 1996. Will Members please register their presence by pressing the top button and then proceed to vote by choosing one of the three buttons below?

PRESIDENT: Before I declare the result, Members may wish to check their votes. Are there any queries? The result will now be displayed.

Mr Allen LEE, Mrs Selina CHOW, Mr Edward HO, Mr Ronald ARCULLI, Mrs Miriam LAU, Dr LEONG Che-hung, Mr Frederick FUNG, Mr Henry TANG, Mr Howard YOUNG, Mr James TIEN, Mr CHAN Kam-lam, Mr CHAN Wing-chan, Miss CHAN Yuen-han, Mr CHEUNG Hon-chung, Mr David CHU, Mr IP Kwok-him, Dr LAW Cheung-kwok, Mr LEE Kai-ming, Mr Bruce LIU, Mr MOK Ying-fan, Mr NGAN Kam-chuen and Mr YUM Sin-ling voted for the motion.

Mr Martin LEE, Mr SZETO Wah, Mr Albert CHAN, Mr CHEUNG Man-kwong, Mr Michael HO, Dr HUANG Chen-ya, Miss Emily LAU, Mr LEE Wing-tat, Mr Eric LI, Mr Fred LI, Mr James TO, Dr Samuel WONG, Dr Philip WONG, Dr YEUNG Sum, Mr WONG Wai-yin, Miss Christine LOH, Mr LEE Cheuk-yan, Mr Andrew CHENG, Dr Anthony CHEUNG, Mr CHOY Kan-pui, Mr Albert HO, Mr LAU Chin-shek, Mr LAW Chi-kwong, Mr LEUNG Yiu-chung, Mr LO Suk-ching, Miss Margaret NG, Mr TSANG Kin-shing and Dr John TSE voted against the motion.

THE PRESIDENT announced that there were 22 votes in favour of the motion and 28 votes against it. He therefore declared that the motion was negatived.

INTERPRETATION AND GENERAL CLAUSES ORDINANCE

MRS SELINA CHOW to move the following motion:

"That the Lifts and Escalators (Safety) (Fees) (Amendment) Regulation 1996, published as Legal Notice No. 42 of 1996 and laid on the table of the Legislative Council on 24 January 1996, be repealed."

MRS SELINA CHOW: Mr President, I move the third motion standing in my name on the Order Paper. The motion seeks to repeal the Lifts and Escalators (Safety) (Fees) (Amendment) Regulation 1996. These Rules have been studied

by the same Subcommittee mentioned in my first motion.

Members of the Subcommittee note that the Lift and Escalator Contractors Association considers that some of the proposed fees are high but can be justified with improved productivity. In general, the proposed fees are acceptable. However, some Members are concerned that the proposed fee increases on the contractors will eventually be transferred to the consumers and that there is cross-subsidization in the proposed fees. Members decide, by a majority vote, to repeal the Regulation.

Mr President, I beg to move.

Question on the motion proposed.

DR HUANG CHEN-YA (in Cantonese): Mr President, this fee regulation is about charging contractors and engineers a registration fee, which is payable only at the time of registration rather than on an annual basis. We therefore consider that this regulation in fact would not have much effect on people's livelihood or inflation. Neither can the contractors use the increase as a pretext for increasing their annual charges. Hence we oppose the Honourable Mrs Selina CHOW's motion.

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS (in Cantonese): Mr President, I sincerely hope that Members of this Council will vote against the motion repealing the Lifts and Escalators (Safety) (Fees) (Amendment) Regulation 1996.

The Regulation aims to revise two categories of fees. The first is the registration fee of lift engineers, escalator engineers, lift contractors and escalator contractors. The second is the fee for obtaining a certificate of examination and testing of lifts and escalators.

Honourable Members will note that registration as lift and escalator engineers or lift and escalator contractors is just a one-off exercise when the applicant's name is included in the relevant register. In other words, the fee is only payable to start a profession or a business. The increase for registering engineers is in fact conforming to the inflation rate as well as the

well-established "user-pays" and "full-cost recovery" principles. The rate of fee increase for registering contractors is, admittedly, above inflation but well justified in that this increase has taken into account the cost needed for carrying out inspections of the applicants' workshops to make sure that they comply with the safety requirements. The proposed increases are marginal when compared with the business costs of those engaged in the trade and will definitely not cause any hardship to any party. They have minimal impact on inflation and will not involve any livelihood dimension. For lifts or escalators under normal operation, the only fee which has to be paid regularly is that for the issue of a safety certificate under Regulation 26(1)(b) and the proposed increase is from \$210 to \$220, that is, \$10 per year only.

I must add that none of the organizations or professional bodies in the industry consulted has raised objection to the proposed revision. Repealing the amendment regulation will mean using taxpayers' money to subsidize contractors who are engaged in the trade for profit and who do not need help from the Government. Therefore, in conclusion, I urge Members again to vote against the motion.

Question on the motion put.

Voice vote taken.

THE PRESIDENT said he thought the "Noes" had it.

Mr James TIEN claimed a division.

PRESIDENT: Council shall now proceed to a division.

PRESIDENT: I would like to remind Members that they are now called upon to vote on Mrs CHOW's third motion to repeal the Lifts and Escalators (Safety) (Fees) (Amendment) Regulation 1996. Will Members please register their presence by pressing the top button and then proceed to vote by choosing one of the three buttons below?

PRESIDENT: Before I declare the result, Members may wish to check their votes. Are there any queries? The result will now be displayed.

Mrs Selina CHOW, Mr Edward HO, Mr Ronald ARCULLI, Mrs Miriam LAU, Mr Henry TANG, Mr Howard YOUNG and Mr James TIEN voted for the motion.

Mr Martin LEE, Mr SZETO Wah, Dr LEONG Che-hung, Mr Albert CHAN, Mr CHEUNG Man-kwong, Mr Frederick FUNG, Mr Michael HO, Dr HUANG Chen-ya, Miss Emily LAU, Mr LEE Wing-tat, Mr Eric LI, Mr Fred LI, Mr James TO, Dr Samuel WONG, Dr YEUNG Sum, Mr WONG Wai-yin, Miss Christine LOH, Mr LEE Cheuk-yan, Mr CHAN Kam-lam, Mr CHAN Wing-chan, Miss CHAN Yuen-han, Mr Andrew CHENG, Dr Anthony CHEUNG, Mr CHEUNG Hon-chung, Mr CHOY Kan-pui, Mr David CHU, Mr Albert HO, Mr IP Kwok-him, Mr LAU Chin-shek, Dr LAW Cheung-kwok, Mr LAW Chi-kwong, Mr LEE Kai-ming, Mr LEUNG Yiu-chung, Mr Bruce LIU, Mr LO Suk-ching, Mr MOK Ying-fan, Miss Margaret NG, Mr NGAN Kam-chuen, Mr TSANG Kin-shing, Dr John TSE and Mr YUM Sin-ling voted against the motion.

THE PRESIDENT announced that there were seven votes in favour of the motion and 41 votes against it. He therefore declared that the motion was negatived.

INTERPRETATION AND GENERAL CLAUSES ORDINANCE

MRS SELINA CHOW to move the following motion:

"That the Minor Employment Claims Adjudication Board (Fees) (Amendment) Rules 1996, published as Legal Notice No. 67 of 1996 and laid on the table of the Legislative Council on 7 February 1996, be repealed."

MRS SELINA CHOW: Mr President, I move the fourth motion standing in my name on the Order Paper. The motion seeks to repeal the Minor Employment Claims Adjudication Board (Fees) (Amendment) Rules 1996. This set of Rules,

which was tabled in the Legislative Council on 7 February 1996, have been studied by the same Subcommittee referred to in my first motion.

The Minor Employment Claims Adjudication Board was established in December 1994 and the proposed fee increase of about 10%, with an estimated additional revenue of \$6,000 per annum, is on the basis of the Government Consumption Expenditure Deflator movement from 1994-95 to 1995-96, pending a detailed costing review in the next financial year. The Subcommittee queries whether the "full-cost recovery" principle should be strictly observed in these minor employment claims not exceeding \$5,000 per claimant, mostly lodged by small employees. Members are of the opinion that this should more be a service for the public; and unanimously decide to repeal the Regulation.

Mr President, I beg to move.

Question on the motion proposed.

DR HUANG CHEN-YA (in Cantonese): Mr President, the Honourable Mrs Selina CHOW should be pleased to know that the Democratic Party will support this motion of hers. The name of the Minor Employment Claims Adjudication Board (Fees) (Amendment) Rules 1996 already suggests that it is for the sake of minor employment claims that the employees have to turn to the Adjudication Board. We consider that this kind of adjudication boards should serve the public. Employees who turn to the Adjudication Board to claim outstanding wage in lieu of notice or leave are themselves the victims. Instead of being sympathetic, the Government cuts down further on the money due to these victims on the pretext of cost recovery. This is hardly acceptable. We therefore support of Mrs Selina CHOW's motion.

SECRETARY FOR EDUCATION AND MANPOWER (in Cantonese): Mr President, the Minor Employment Claims Adjudication Board (MECAB) was established in December 1994. It provides a quick and inexpensive service for the adjudication of minor employment claims involving five or less claimants for a sum of money not exceeding \$5,000 per claimant. As at 29 February 1996 it has adjudicated 1 890 cases.

The MECAB (Fees) Rules specify fees payable for the proceedings taken

in the MECAB. The fees have not been revised since introduction.

As a matter of principle, all fees are subject to regular review. On 7 February 1996 we tabled in the Legislative Council the MECAB (Fees) (Amendment) Rules 1996 which proposes to raise the fees by 10%.

We estimate that the existing fees, ranging from \$5 to \$50, can only recover a small fraction of the total cost. The effect of the proposed fee increases, which range from 50 cents to \$5, does no more than to maintain the real value of the existing fees.

I must emphasize that section 3 of the MECAB (Fees) Rules provides that the Registrar may reduce, remit or defer payment of the fees. An applicant may apply for waiver of fees on grounds of financial difficulty. So far, no such application has been received.

The proposed fee increases will not affect the livelihood of the general public and will have no impact at all on inflation.

I urge Members to oppose the motion.

Thank you, Mr President.

Question on the motion put and agreed to.

ADJOURNMENT AND NEXT SITTING

PRESIDENT: In accordance with Standing Orders, I now adjourn the Council until 2.30 pm on Wednesday, 13 March 1996.

Adjourned accordingly at twenty-seven minutes past Seven o'clock.