

Madam President,

A. Introduction

1. This is the last Policy Address of my term of office. I will report the progress of work over the past year. This will cover our achievements, as well as areas where there is still room for improvement. Following that, I will summarise the views received during my 32 consultation sessions and the findings of the public opinion polls. It is on this basis that I will set out the priority tasks for the remainder of this term.

2. In the coming year, the top of my policy agenda will be economic development, wealth creation, improving people's livelihood and enhancing the quality of life, in particular, strengthened support for families and intensified efforts in our anti-pollution strategy.

3. Finally, I will mention several challenges facing Hong Kong. It is my wish that we can join hands to reach a consensus for our future development.

B. Work Review

4. Last year, I raised the concept of “Strong Governance for the People” in my Policy Address. In the past year, I diligently put this concept into practice.

5. On various occasions, I have explained what I mean by “strong governance”. At the Question and Answer Session of the Legislative Council last March, I explained that “the concept of ‘strong governance’ does not mean that the Government is omnipotent. Instead, it is our faith in a small, but strong and effective government that can rise up to challenges, operate with transparency and provide effective response at crucial times”. The purpose of strong governance is to serve the people. Strong governance means building up a culture of decisiveness as well as effective policy execution in responding to the demands of the people.

6. Our country continues to provide strong support to Hong Kong. CEPA has continued to grow, with new measures introduced this year in the areas of trade and commerce, professional services and facilitation of investment. The Individual Visit Scheme has gradually expanded to cover all provincial capital cities in Pan-Pearl River Delta. We have recently received further approval from the Central Authorities to extend the Scheme to cover Shijiazhuang in Hebei, Zhengzhou in Henan, Changchun in Jilin, Hefei in Anhui and Wuhan in Hubei.

7. The Hong Kong economy grew steadily last year. The Government has accelerated the pace of public investment to create more development and employment opportunities. With the support of the Legislative Council, we have started the tendering process for the Tamar Development Project, which covers the Central Government Complex, the Legislative Council Complex and public open space. The extension of the Hong Kong Convention and Exhibition Centre has also commenced. The merger of the Kowloon-Canton Railway and Mass Transit Railway systems will facilitate the rational expansion of our rail network. The Stage 3 consultation on Kai Tak Planning Review ended in August. The public generally supports the development of a cruise terminal at the tip of the former runway.

8. During the past year, fiscal balance was restored. Total government spending in the 2005-06 financial year was reduced to 16.4% of our Gross Domestic Product (GDP). The main reason was the successful reduction of the size of the civil service as well as civil service salaries. The civil service establishment now stands at about 160 000, with salaries brought back to 1997 levels. Government departments have implemented effective cost-saving measures whilst maintaining high quality services. This bears witness to the fact that the Hong Kong civil service is amongst the finest you will find: a deep-rooted service culture, corruption-free, efficient and well disciplined. I am sincerely grateful to all civil servants for their devotion to duty.

9. In the past year, I could see that what people treasured most was maintaining their quality of life, and to be free from threats such as avian influenza, food safety scares, and air pollution. We have now strengthened our infectious disease notification system with the Mainland. The Centre for Food Safety has been established. At the same time, the Government has launched the Action Blue Sky Campaign to join hands with the public to fight air pollution. In the face of economic changes, and on the premise of building a harmonious community with less conflict, I proposed that the Labour Advisory Board (LAB) thoroughly discuss the issue of a minimum wage and standard working hours. I am most grateful for the LAB's in-depth discussions during the past year. In addition, the report on the review of the fair competition policy has been completed. Further consultation will start shortly.

10. For the West Kowloon Cultural District (WKCD) project, in response to public views and requests from the cultural and arts sector, the Government has undertaken to reassess and plan again. The results are expected to be ready early next year. Separately, to tie in with the 11th Five-Year Plan for National Economic and Social Development, the Government convened an Economic Summit. In collaboration with the business community, the labour sector and the professional sector, we are continuing our deliberations with a view to reaching a consensus, after which we will draft a practical and feasible action agenda by the end of the year or early next year. These comprise the important work that I strived to undertake in the past year.

11. The biggest challenge in the past year was the discussion on constitutional development. I made specific proposals for the election of the Chief Executive in 2007 and the formation of the Legislative Council in 2008. Although the proposals were backed by public opinion, they failed to secure the necessary support of a two-thirds majority of all Members of this Council. As a result, the status quo remains for the electoral arrangements for 2007-08. As Chief Executive, I feel that I was responsible for not securing the necessary support from the Legislative Council for constitutional development. Immediately after that episode, I started new discussions in the Commission on Strategic Development with a view to developing a roadmap towards universal suffrage. At the same time, I also suggested enhancing the function of District Councils by improving district administration and strengthening the role of District Officers. In this way, the spirit of strong governance may be extended to the district level.

12. To prepare for democratic development, Hong Kong needs to encourage quality people to pursue a political career. The Government will continue to promote national and civic education. I have proposed creating new positions of Deputy Director of Bureau and Assistant to Director of Bureau to provide more channels for those who aspire to a political career in the Administration. These proposals are currently under consultation. A decision will be made in the first half of next year.

13. I shall say more on constitutional development later.

C. Direction of Economic Development

14. As we move into the 21st century, we are faced with a revolution in information technology and accelerating globalisation. In the 1960s and 1970s, before the Mainland's opening up and reform, we seized the opportunity to transform ourselves into an international trading hub. Financial services, trade, logistics and tourism have gradually become the four main pillars of our economy. Following nearly 30 years of reform and opening up, China has created a world economic miracle and emerged as one of the world's most important economies. In today's world, all developed countries are contemplating their economic and trade relations with China. If Hong Kong is to embrace the era of globalisation, our primary task must be to find an appropriately important role in the development of our country. Globalisation and the rise of China are now synonymous – adapting to globalisation and integrating with the Mainland are not two contradictory paths of development for Hong Kong. Given that Hong Kong has been reunified with the motherland, there is all the more reason for us to develop into a cosmopolitan city in which we can all be proud, that can play an important role in the peaceful rise of our country, and can also exert a positive, international influence.

15. The National 11th Five-Year Plan states clearly that “support will be given to Hong Kong's development on fronts such as financial services, logistics, tourism and information services, and the maintenance of Hong Kong's status as an international centre of financial services, trade and shipping”. This recognises our dominant industries and their important function in our country's development. In this regard, amongst all the cities in China, Hong Kong's role is unique and irreplaceable.

16. At the Economic Summit convened last month, we explored not only the opportunities and challenges brought about by the National 11th Five-Year Plan but also took a critical look at our weaknesses and shortcomings, and endeavoured to chart the way forward for our sustainable development.

Financial Centre

17. We need to consolidate and enhance our position as an international financial centre in the Asian region. This is consistent with our national and regional interests. Our leading position on the financial front is underpinned by various factors, including the rule of law, market system, freely convertible currency, protection of property rights, sound infrastructure, good corporate governance, the free flow of information, high efficiency, a business-friendly environment, and business practices aligned with international standards. To maintain our leading position, we must pursue further liberalisation. For instance, the source of enterprises seeking to list in Hong Kong should be broadened. We should quickly amend existing listing rules to enable well-established and qualified foreign enterprises from different parts of the world to list in Hong Kong. We also need to continue to enhance our regulatory regime to keep it in line with international standards. The Financial Reporting Council will come into operation early next year. It can help attain world-class standards by strengthening corporate governance and investor protection. In addition, we will host the Asian Financial Forum to reinforce Hong Kong's prestige as an international financial centre.

18. Hong Kong is now experienced in the Renminbi (RMB) business after running it smoothly for two years. Expanding RMB business represents a natural progression and a development priority for Hong Kong that is consistent with the national policy. The State Council is actively studying the scope for further expansion of RMB business in Hong Kong, which includes allowing Hong Kong importers to settle in RMB the accounts of direct imports from the Mainland and the issuance of RMB bonds in Hong Kong. The SAR Government is fully prepared to launch these two types of new business as soon as possible.

19. To meet the demands of the Mainland market, Hong Kong can develop a whole range of risk management instruments. In this regard, we will conduct an in-depth study on the development of the commodity futures market. We will also endeavour to attract to Hong Kong some of the offshore securities investment business of Mainland insurance agencies. The international insurance and reinsurance markets in Hong Kong can provide reinsurance services for the Mainland's fast-growing insurance industry.

Trade and Logistics

20. The trade and logistics sectors account for a significant share of Hong Kong's output value and employment. As China emerges as the "factory of the world", with growing affluence and increasing consumption, many new opportunities arise for Hong Kong's trade and logistics sectors. Since the implementation of CEPA, domestic exports have started to pick up again. From January to September 2006, the value of exports to the Mainland with Hong Kong Certificates of Origin rose by 37% year-on-year.

21. Hong Kong is a founding member of the World Trade Organisation (WTO). At present, we rank 11th in the world trade hierarchy. Over the years we have built a prominent image in promoting international free trade. Last year we hosted the WTO's Sixth Ministerial Conference and succeeded in putting the Doha Development Agenda negotiations back on track. Regrettably, subsequent negotiations were unable to sustain the momentum created at the Conference. Negotiations were suspended in July this year, as key members could not narrow their differences. We nonetheless persevere and seek key members' support to reopen negotiations as soon as possible. Meanwhile, in response to new trends in world trade, we will seek to enter into more economic and trade arrangements with our trading partners, so our goods and services can gain access to overseas markets under more favourable conditions.

22. As regards logistics, our cargo catchment has in recent years gradually extended from the eastern to the western side of Pearl River Delta (PRD). Large volumes of cargo are being transported via river. To enhance efficiency, the Government will amend the law to introduce multiple entry permits for river trade vessels, reduce permit fees, and streamline application and entry procedures.

23. To enhance the air cargo handling capacity of Hong Kong International Airport, continuous efforts will be made to increase the number of cargo freighter parking stands and to expand its air cargo terminal facilities. The SAR Government has been taking progressive steps to expand the city's air transport network, conclude more bilateral air services agreements, and take practical follow-up action to expand our air transport capacity. All these serve to reinforce our position as an international and regional aviation hub.

24. To enhance the efficiency of cross-boundary cargo flows and inspection, we have reached a consensus with Dongguan authorities for an express clearance system to be introduced at the Liaobu inland control point when it comes into operation later this year. The SAR Government and the Mainland authorities will continue to communicate and jointly study the development of cross-boundary infrastructural projects.

Independent Innovation

25. Our traditional pillar industries continue to leverage on the development of our country on all fronts and to meet globalised competition. To consolidate Hong Kong's status as an international centre for financial services, trade and shipping, we need to upgrade our local economic infrastructure gearing it to support independently innovative and high value-added industries. The Government accepts the responsibility to create favourable conditions for this to happen, covering information technology, technology, cultural and creative industries.

Information Technology Industry

26. Hong Kong's success lies in the convergence of talent, capital, logistical support and information. In turn, this has created a thriving and vibrant city, full of energetic people. The Government will set a good example by promoting the application of information technology. In terms of e-Government, we will provide more user-friendly integrated public services through a one-stop portal.

27. Hong Kong is a forerunner in promoting media convergence with a single platform supporting telephony, broadcasting and Internet access services (triple-play). Media convergence technology and business models are rapidly developing. To tie in with the transformation of traditional telecommunications services into integrated information services, we consulted the public early this year on the reform of the regulatory regime and proposed merging the functions of the Office of the Telecommunications Authority and the Broadcasting Authority to form a new Communications Authority. We aim to adopt a regulatory framework to promote innovation and competition to a level on par with advanced international standards. Consumers stand to gain in these developments. We are prepared to introduce legislation in the 2006-07

legislative year to effect the establishment of the new Communications Authority. The application of new wireless communication technologies has also spread rapidly and widely. We will carry out public consultation by the end of 2006 on the policy of radio spectrum management. We aim to ensure, through market forces, more flexible and effective utilisation of the radio spectrum as a public resource, facilitating technological advance and the evolution of new business models.

Application of Technology

28. Future competition in global production will come down to technology and design. The application of innovative technology can enhance product functions, whilst design can help promote original brand name development as well as sales. The Government is keen to invest in research infrastructure and manpower development, and to promote design. We also encourage collaboration between business and research institutes to conduct joint applied research, enhance the technological level of industries and develop high value-added products.

29. With funding support from the Government's Innovation and Technology Fund, research and development centres have been set up in the fields of information communications technologies, logistics and supply chain management, automotive parts and accessory systems, nanotechnology and advanced materials, textiles and clothing. These are areas where Hong Kong has a comparative advantage. In addition, we have established an Integrated Circuit Design and Development Support Centre at the Science Park, as well as the Digital Media Centre and the Wireless Development Centre at the Cyberport. The SAR Government will earmark \$100 million over five years for the Hong Kong Design Centre to further assist our trades and industries to make full use of their designs and build their brand names.

Cultural and Creative Industries

30. The presence of cultural and creative industries is indispensable in a world-class financial and trade centre. Hong Kong's popular cultural industries have always been in a leading position: music, film and television dramas are favourites of Chinese markets around the world. Our film industry is one of our most important creative industries and

enjoys a high reputation regionally and internationally. CEPA has opened up new opportunities for our film industry to tap into that huge market and to capitalise on the resources of the Mainland. With appropriate assistance from the Government, the industry is poised to scale new heights. We will rationalise the framework of government and public organisations for film industry development and support. The Secretary for Commerce, Industry and Technology (SCIT) will co-ordinate the relevant policy, planning and activities, including manpower training, Mainland and overseas promotion, and filming support. We will set up a Hong Kong Film Development Council, which will include members of the film industry, to support the SCIT. I understand that the Film Development Committee established last year has commissioned a strategic study which proposes that the Government should help resolve some of the problems faced by the film industry, especially budding or small and medium sized film makers. The Government will seriously consider the proposals.

City of Culture and Arts

31. To develop cultural and creative industries, we need to attract worldwide creative talent to Hong Kong. To this end, we need to offer not just the prospect of development but also a city with the appropriate cultural atmosphere. Hong Kong is a vibrant city with a diversified and liberal cultural life, where the East and West meet. At present, Hong Kong has more than 1 000 performing arts groups that annually stage over 10 000 performances of great variety. The Government has accepted the recommendations of the Committee on Performing Arts and will introduce a Venue Partnership Scheme covering the performance venues of the Leisure and Cultural Services Department. The scheme will foster the partnership between venue operators and performing arts groups, help develop venue-based arts promotion strategies, broaden the audience base, facilitate sponsorship, and encourage community involvement in arts development. The Government will identify new performance venues to support the development of traditional Chinese and other performing arts. We will also inject \$40 million into the Arts and Sport Development Fund to buttress support for the cultural sector.

32. On the sports development front, Hong Kong is now uniquely presented with a golden opportunity. The 2008 Beijing Olympic and Paralympic Equestrian Events are to be staged in Hong Kong. This demonstrates our country's trust in and support for us. We will also host the East Asian Games in 2009. It is the SAR Government's strategy in sports development to promote sports in the community, to develop elite sports, and to make Hong Kong a major location for international sports events. To achieve this aim, a multi-purpose stadium complex fully equipped for international events has been included in the Southeast Kowloon Development Plan. The Government has also earmarked funding to embark on the redevelopment of the Hong Kong Sports Institute to provide world-class training facilities for local athletes. We will allocate an additional \$70 million in recurrent expenditure to provide comprehensive support for our elite athletes and to enable the National Sports Associations to intensify their participation in community activities and the School Sports Programme.

Flow of Talents

33. To sustain Hong Kong's economic development, one of our fundamental policies has been to attract talent from around the world. Over the past three years, more than 11 000 talented people from the Mainland have come to work in Hong Kong under the Admission Scheme for Mainland Talents and Professionals. In June this year, we also introduced the Quality Migrant Admission Scheme to allow talented people meeting certain criteria to settle in Hong Kong without having to secure an offer of local employment beforehand. Since its inception, we have received hundreds of applications. A deep pool of talent will boost our economic development and create more jobs. To attract talent from around the world, including the Mainland, to participate in Hong Kong's development, we must adopt a more open-minded and proactive approach. The Government will continue to review the situation and fine-tune policy to expand the pool of human capital so essential to Hong Kong's sustainable development.

Protecting Labour Rights

34. We strive to ensure that all strata of the community will benefit from economic growth. We will continue to assist workers by resolving the problems faced by them in employment, having regard to changes in the labour market. As to whether a statutory minimum wage and standard working hours should be introduced in Hong Kong, views within the Labour Advisory Board (LAB) and different sectors of the community remain diverse. Taking into account the views of stakeholders, and having carefully considered our socio-economic situation, the Government considers that the pragmatic approach at this stage is to provide wage protection through non-legislative means. Together with the business community and the labour sector, the Government will launch a Wage Protection Movement for employees in the cleansing and guarding services sectors. We will actively encourage corporations and contractors to join this Movement to ensure that employees in these two sectors will receive wages not lower than the average market rates of the relevant industries and occupations as published in the Quarterly Report of Wage and Payroll Statistics of the Census and Statistics Department. These employees will enjoy the same protection as their counterparts employed under Government outsourced service contracts. The Labour Department (LD) will promote wage protection through a package of measures including promotion, publicity, public education, contractual regulation and enforcement. Through the use of written employment contracts, the LD will be able to conciliate labour disputes and take enforcement action more effectively, thereby protecting the employees. In the spirit of corporate social responsibility, I call on the trade and industry sectors to actively participate and fully support this worthy social cause. We will monitor the effectiveness of the Wage Protection Movement through the LAB and conduct a comprehensive review two years after implementation. If the review finds that the Movement has failed to yield satisfactory results, we will set out to prepare for the introduction of legislation for a minimum wage in the cleansing and guarding services sectors. I believe that the next Administration will follow up on this matter.

D. Cherishing the Family

35. As I mentioned in my Policy Address last year, cherishing the family is a core value of our community, and family harmony is the foundation of social harmony. This is my firm belief, and I trust that the community shares this view. As such, our social policies will continue to be geared towards supporting and consolidating the family, and fostering the well-being of family members.

Supporting the Family

36. During the consultation exercise conducted in preparation for this Policy Address, many organisations put forward this to me: to effectively deal with a wide spectrum of complicated social problems, the key lies in establishing a family-based support network and forging closer and harmonious relationships among family members. I fully share this view. Social problems are often rooted in different family problems, for example, the lack of proper care and attention for family members, including the elderly, women, youngsters and children. To tackle social problems, it is necessary to start with supporting and strengthening the family: fostering a sense of responsibility and obligation in every family member, nurturing care and love, and developing a relationship of mutual support. Our social welfare measures should strengthen, rather than detract from, the functions of a family. Currently, family-related policies and initiatives cut across the portfolios of different bureaux and departments. We also have separate commissions and various bodies set up specifically to handle issues relating to youth, women and the elderly.

37. To strengthen the functioning of families and provide various family-based support as well as fostering close and harmonious family relationships, we need to think afresh. A proposal worth considering is the setting up of an integrated, holistic and high-level Family Commission responsible for policies and initiatives relating to family support. The Commission would bring under one roof the various commissions and committees currently responsible for handling issues regarding different age groups and genders. It would be able to pool resources, and study and address problems from a cross-policy perspective with a view to achieving more effective co-ordination. Under this Commission, dedicated groups would be set up to oversee specific sectors as need arises from

time to time. The Government will seriously study whether we should set up such a Commission and, if so, the re-organisation and resources re-allocation that need to follow. Our primary consideration is whether this new organisation would enhance the effectiveness of implementing our social policy and be conducive to building a harmonious community. The report on the study is expected to be finished by mid-2007. A final decision will be made by the next Administration.

38. The Government will reinforce services provided by the Integrated Family Service Centres. We will continue to devote resources to promote family education. In the years ahead, we will focus on parenting education, providing marriage counselling and advocating parental responsibility. The Women's Commission has been playing an active role in promoting quality parenting. The Government will also promote mutual support among families through our community networks.

39. The nuclear family, comprising a married couple and their unmarried children, is the most common type of family unit in Hong Kong. That said, married couples in general still maintain close and mutually supportive relationships with their parents and siblings, that is, among their extended families. It is common to see married children supporting and taking care of their parents, or for grandparents to help take care of their young grandchildren. Mutual care and support between two generations and among married siblings is a virtue long practised by Chinese families that should be encouraged and promoted. The Government has already adopted a number of policies in support of extended families. For example, under the public housing allocation policy, married offspring are encouraged to live with their parents or in the same housing estate. In addition, our tax regime provides allowances for taxpayers who take care of their dependent parents, grandparents and siblings. We will consider further ways to enhance support for extended families.

40. The Government implemented the first phase of the five-day week initiative on 1 July 2006 in order to improve the quality of family life for staff. I am pleased to note that a number of business corporations have responded positively to the five-day week initiative by adopting this family-friendly measure. The SAR Government will actively work with the business community and NGOs to study ways to promote and deepen

various family-friendly measures, such as flexi-time arrangements, job-sharing and working from home.

41. We plan to amend the Domestic Violence Ordinance and complement this initiative with a series of preventive, supportive and specialised services, including an enhanced 24-hour hotline in the Social Welfare Department, a crisis support centre dedicated to victims of domestic violence and sexual violence, as well as support services for the family members of victims. We will strengthen the functions of the refuge centres for women, continue to promote the building of community support networks, and reach out to vulnerable families to address their problems at an early stage. We will also continue to provide support for families with disabled members. The Government will enhance the community mental health outreach service, raise the awareness of mental health among family members and provide counselling services to those in need.

42. Building a family-friendly society is an undertaking of the whole community and requires the concerted efforts of the Government and various parties, including the community, neighbourhoods, schools, the business sector, the media, religious organisations and NGOs.

Subsidising Early Childhood Education

43. Providing quality education for our next generation is an integral part of government support for the family. The Education and Manpower Bureau issued the Guide to Pre-primary Curriculum earlier this year, and has set up a pre-primary education support team to provide on-site support on curriculum development and education strategy with a view to upgrading the quality of pre-primary education. The Standing Committee on Language Education and Research has also allocated funds to enhance the effectiveness of English language teaching in kindergartens and to subsidise overseas training for teachers. To improve kindergarten facilities, we plan to allocate \$70 million in the current school year as a one-off Capacity Enhancement Grant for kindergartens to acquire more books, a wider variety of teaching aids, computers and other teaching resources, etc. The amount of grant per student will be \$500, while the maximum amount per kindergarten will be \$135,000.

44. So far, we have focused on supporting the development of kindergartens. Next, we will focus our resources to support the family by easing the financial burden of parents. We will provide fee assistance to parents of children aged three to six in the form of an “education voucher”, and we will rationalise all existing fee assistance schemes. Starting from the 2007-08 school year, we will provide, in the form of vouchers to parents, an annual subsidy of up to \$13,000 per student, of which at least \$10,000 must be used on fee subsidy, with the remaining money spent on teacher training. With the gradual upgrading of teachers’ academic qualifications and corresponding increases in salaries, we plan to progressively raise the level of subsidy. By the 2011-12 school year, the annual subsidy per student will be \$16,000 and will be used entirely for fee subsidy. Any local non-profit-making kindergartens that charge fees not more than \$24,000 per student per annum will be eligible to redeem the “education voucher” according to their student intake. To assist parents to choose a kindergarten, all participating kindergartens will be required to provide information on their facilities and achievements, including the academic qualifications of the principals and teachers, the number of teachers and students, special features of their curriculum, and teaching arrangements. To assure teaching quality, they will also be subject to classroom inspection.

45. To implement the scheme, we estimate that up to an additional \$2 billion will be required each year by 2011-12. Ninety per cent of students aged three to six will benefit from the scheme, while more than 80% of kindergartens will be eligible. We expect that within five years all kindergarten teachers will have obtained a Diploma in Early Childhood Education, while some will have obtained a university degree. We also encourage all kindergarten principals to pursue further studies and obtain a degree by 2011-12.

Gifted Education

46. The support rendered by the Government to families is not just confined to pre-primary education. Since we started to systematically promote gifted education in 2001, we have seen a growing number of exceptionally gifted local teenagers rise to fame by winning top awards in international competitions. To nurture students with exceptional potential

and talent, we support the establishment of an Academy for Gifted Education. This will enhance the performance of high achievers.

47. We envisage the Academy will target students aged 10 to 18 who are either excellent academic achievers or distinguished performers in specific areas. The curriculum will be tailor-made to bring out the full potential of students. The Academy will also provide training for parents and teachers to promote the concepts and practices of gifted education. In the long run, the Academy can be developed into a platform for international exchanges as well as research and development.

48. To facilitate the development of family members and a knowledge-based society, we are steadily moving forward with our education reforms and have started to see results in various areas. Preparatory work for the introduction of the “3-3-4” academic structure has been progressing as scheduled. Students are now able to pursue continuous learning through multiple progression pathways. I have deep respect for all our frontline educators for their hard work in nurturing talent and their active participation in implementing the education reforms. We are delighted to see that in recent years generous donations for local education have been made by an increasing number of benefactors. Their lofty and visionary deeds have won wide acclaim in our community, and deservedly so.

Community and Neighbourhood

49. Mutual concern and mutual aid among neighbours is a strong support for families. We encourage community building and friendly neighbourhoods. There are individual new towns where inadequacies occurred in the course of past development, resulting in imbalances in certain aspects of community development. These imbalances meant that we were unable to provide a suitably favourable environment for the development of healthy families. Tin Shui Wai and Tung Chung are two such examples. We will pay particular attention to these districts and develop additional facilities. In Tin Shui Wai, we will be providing, among other facilities, a library, an indoor recreation centre with an indoor heated swimming pool, a football pitch, basketball courts, more open space and a general out-patient clinic. For Tung Chung, we will be providing a library, indoor recreation centres, swimming pool and other leisure

facilities. To cater for the needs of Tin Shui Wai, the Social Welfare Department has strengthened its integrated services. Furthermore, the Labour Department's two job centres in Yuen Long and North District have commenced operation to provide comprehensive employment services. We welcome any views, and will actively study any proposals, to invigorate healthy economic growth in local communities. In future, the Government will allocate resources according to the different conditions in the districts, and strengthen district planning and co-ordination. In mobilising community resources and building mutual support networks at district level, the Community Investment and Inclusion Fund (CIIF) has brought about new models of collaboration. At this juncture, our heartfelt gratitude goes to the late Dr Raymond Wu, the former Chairman of the CIIF Committee, who made important contributions to this cause. He will be long remembered. We believe that with sustained efforts, continuous improvements will be made at the district level to the living conditions of families.

50. The Heung Yee Kuk has always played an important role in New Territories affairs. In particular, it has made significant contributions to preserving traditional clan and family values. To better co-ordinate our work with the Heung Yee Kuk, we have set up Home Affairs Bureau–Heung Yee Kuk Liaison Committee in mid-2006. We believe that through meetings and discussions, the distinct characteristics of rural communities will be fully considered in the formulation of public policies.

E. Quality Environment

51. Hong Kong deserves and can afford a better living environment today. We must secure sustainable development for our future generations and take the lead in addressing regional environmental issues. There exists a strong community consensus on the pressing need to take decisive measures to improve air quality and our environment generally. I need not repeat the rationale here. What is important is to focus on the overall strategic direction, set targets for different stages, establish guiding principles and introduce specific policy initiatives for environmental protection.

Strategic Objectives

52. Environmental protection is a long-term undertaking. First, we must adopt a forward-looking strategic approach by setting improvement goals for different stages while allowing for future new technology-induced improvements. To reduce air pollution, we have formulated the PRD Regional Air Quality Management Plan. This plan, prepared in partnership with the Guangdong Provincial Government, aims to achieve specific emissions reduction targets by 2010. We have now set up a 16-station air quality monitoring network in the PRD. Based on the data collected, the PRD Regional Air Quality Index is released everyday on the Internet to keep the public informed of the actual regional air quality. The data collected will also help us assess the effectiveness of our pollution reduction measures. The Guangdong Provincial Government has been strengthening its hardware and software to reduce pollution. Measures being pursued include installing desulphurisation systems, using natural gas for power generation, and striving to speed up the introduction of National III motor vehicle emission standards (on a par with Euro III standards) in PRD cities.

53. In Hong Kong, we have imposed emission caps on power plants at Castle Peak, Black Point and Lamma Island. These emission caps will be progressively tightened to meet the 2010 emission reduction targets. I stress that we shall not allow these firm targets to be compromised in any way. We require power plants to regularly review and update their pollution control technology by the best practicable means. The need to protect our environment will be the focus of our negotiations with the

power companies over their new Schemes of Control. Their permitted rate of return will be linked to their achievement of the emission caps.

54. Vehicle emissions account for some 25% of local air pollution. In the long run, we will continue to follow closely the latest Euro standards to ensure that we adopt new fuels and technology to reduce polluting vehicle emissions.

55. All of us will be able to help make a difference to our air quality if we are committed to energy saving. The Government has been making vigorous efforts to promote building energy codes (BECs). Newly designed government buildings have fully complied with the BECs. We are also replacing less energy efficient equipment in older government buildings as well as strengthening daily housekeeping practices by Government departments to improve overall energy efficiency. The Government will adopt the concept of greening of rooftops whenever practicable in the design of new buildings. We are studying the wider application of the concept with a view to encouraging more projects to adopt this approach.

56. In preparing for future development, we have embarked on a review of our Air Quality Objectives. The Environmental Protection Department, in light of the World Health Organisation's new guidelines on air quality announced last week, will examine the local situation and come up with suitable targets and strategies for the future.

57. For wastewater and solid waste management, we have made steady progress in implementing our long-term strategies and initiatives. The Harbour Area Treatment Scheme started in the early 1990s and we expect Stage 2A to be completed in 2014. The Policy Framework for the Management of Municipal Solid Waste for 2005-2014, published last December, is a comprehensive plan covering the reuse, recycling and reduction of solid waste, together with a timetable for legislation on Producer Responsibility Schemes and waste charging. Since the launch of the charging scheme on construction waste early this year, there has been a 36% reduction in construction waste going to landfills.

Guiding Principles

58. Proper disposal of waste entails substantial recurrent expenditure. To alleviate the burden on the community as a whole, we must be guided by the “polluter pays” principle. The experience of some mature economies shows that the most effective way to reduce waste and conserve natural resources is to strictly enforce the “polluter pays” principle. To achieve the desired outcome but also to minimise impact, we may progressively take small, incremental steps to impose charges in light of the prevailing situation.

59. While upholding the “polluter pays” principle, the Government should provide appropriate incentives in areas necessary to achieve environmental benefits. Many old vehicles are highly polluting and it is in the public interest to accelerate their replacement. In this regard, I propose that the Government spend \$3.2 billion to provide an incentive for the early replacement of 74 000 pre-Euro and Euro I diesel commercial vehicles with Euro IV vehicles. We will allow pre-Euro vehicle owners 18 months and Euro I vehicle owners three years to take up the offer. Upon completion of this programme, we envisage that emissions of nitrogen oxide and respirable suspended particulates in Hong Kong will be reduced by 10% and 18% respectively.

60. We also encourage people to reduce pollution through the use of new technologies. A 30% reduction in first registration tax will be given to people purchasing vehicles with low emissions and high fuel efficiency, subject to a ceiling of \$50,000 per vehicle.

Public Participation

61. In promoting the Action Blue Sky Campaign, I am pleased to note that the community at large is committed to improving our environment. The environment is a public resource that requires our concerted efforts to conserve. We encourage voluntary participation. However, if necessary and appropriate, we will also enlist the Legislative Council’s support to implement mandatory measures. We have been encouraging motorists to switch off their vehicle engines while waiting. In view of the general perception that many drivers have yet to acquire this practice, we will consult the public on whether legislation should be introduced to enforce this practice.

62. There are also voices in the community calling for more stringent traffic management measures, such as electronic road pricing or congestion charges, to control traffic flow in busy business districts. On certain days, such as before a typhoon when we are affected by a low-pressure weather system, our city suffers from very serious air pollution. Some people consider we should take draconian measures to reduce road traffic on such days. Others advocate that we should follow the Japanese example of legislating for an indoor air-conditioned temperature threshold of 28 degrees Celsius. For these measures to come into effect, we must secure community support and engage the public in extensive discussions.

63. Volatile organic compounds (VOCs) are major pollutants that affect visibility in Hong Kong. Last year, we introduced legislation to provide for the installation of vapour recovery systems at petrol filling stations. We have completed a 15-month consultation process with the trades, and will introduce legislation in due course to restrict the contents of VOCs in printing materials, paints and consumer products.

64. The success of solid waste management hinges on public participation. The level of public participation in source separation of waste for recovery and recycling is encouraging. More than 1.7 million people have joined the scheme, which has reduced domestic waste for disposal by between 1% to 3% year-on-year. A trial scheme on waste charging will be launched at the end of the year to test the detailed implementation arrangements. After this we will conduct public consultation on the overall scheme. We will also introduce a Product Eco-responsibility Bill into this Council to control waste generation at source.

65. As a world city, Hong Kong should not only attach importance to local pollution problems but also look at the wider picture. The crisis of global warming caused by the greenhouse effect is a major concern. Although the greenhouse gas emissions per capita in Hong Kong in 2004 were 7% below the 1990 level, we should maintain our efforts in this regard.

Summing Up

66. The environment is a complex system. There are no magic bullets, no quick fixes, and certainly no easy laws that can quickly solve environmental problems. It is imperative that we set our goals before it is too late and work relentlessly to achieve them. Whilst the Government will work proactively to achieve these goals, success hinges on the recognition and participation of the community. The Council for Sustainable Development will continue to play an active role engaging the public to formulate and implement environmental protection policies and measures. I encourage all members of the community to render, from this moment onwards, full support to energy conservation. I appeal to the trade and industry sectors to do their bit to protect the environment by means such as adopting comprehensive clean production and green procurement methods in their operations. With patience and perseverance, and through shared responsibility, we will create for ourselves a cleaner and better place in which to live and work.

F. Conclusion

67. Madam President, the success of Hong Kong can be found in our pragmatism – we did not engage in ideological debates or utopian social projects. My recent remarks on pragmatic politics and our philosophy of public finance have aroused some public discussion. It was my intention to provide people with a better idea of the Government's role and values, while trying to gauge their expectations of the Government, in order to reach consensus.

68. Some mistook our stopping to use the term “positive non-interventionism” as a shift, or a U-turn, in our policy. This is not the case. For the sake of effective governance, I have always believed that we have to keep our feet firmly on the ground, and not be hamstrung by ideology or slogans. During the colonial era in the early 1980s, the then Financial Secretary, Sir Philip Haddon-Cave, in addressing the prevailing needs of social development, broke away from the *laissez-faire* doctrine and put forward the view that the Government should carefully weigh all relevant factors before deciding to intervene. He redefined the role of the Government with his pragmatic approach. During his term of office, the Government made great strides in expanding the development of education, housing, public health and infrastructure, elevating Hong Kong to new heights. He used the term “positive non-interventionism” to characterise his ideas, which immediately attracted widespread comments and criticism. Since then, all his successors have avoided using the term but the underlying philosophy has remained unchanged for the past 30 years. The Government has endeavoured to maintain public expenditure below 20% of GDP. After the Asian financial turmoil, the SAR Government, through vigorous and continuous efforts, successfully reduced Government expenditure to below 17% of GDP, while total public expenditure has dropped to 18.1% of GDP if we include the spending of all statutory bodies. Both figures are at the lowest level in many years. At present, globalisation and the rise of China are the two major changes affecting Hong Kong. As such, this calls for pragmatic and concrete discussions on the Government's role in various economic sectors. The Government's role and level of participation in the economic development of different sectors has varied over time to meet changing

circumstances. I welcome the participation of the business community, the Legislative Council and members of the public in discussing when and to what extent the Government should ever intervene in the market, under the rubric of “Big Market, Small Government” and public expenditure not exceeding 20% of GDP. These discussions would be far more profitable than prolonging philosophical debates over abstract slogans or terminology.

69. For Hong Kong to make further progress, it is important to set bold goals that can foster consensus in the community. As Chief Executive, it is my responsibility to explain clearly to the public our thinking on the way forward. Apart from the need to define the role of the Government in economic development, I think we need to be clear about the challenges Hong Kong is going to face as we move ahead. The Chief Executive of the third SAR Government, whoever that may be, will need to address the three following issues, set clear objectives, formulate appropriate measures, and build a general consensus.

70. The first challenge is how to sustain economic development. I have recently noticed that some in the community regard economic development and environmental/cultural conservation as mutually exclusive. This is dangerous thinking. In my view, the pursuit of social advancement is a holistic concept that should be people-oriented, comprehensive, well co-ordinated, harmonious and sustainable. In the process, attention should be paid not only to the pace, but also to the promotion of the well-being of the people, society and the environment, as well as the economy. The promotion of humanities is about the conservation of our history and culture. The well-being of society is about sharing the fruits of our success and promoting social harmony. The well-being of the environment is about resource conservation and sustainable development. To attain these progressive goals, however, we must keep up the momentum of economic growth, otherwise this is all empty talk and we shall lack the resources to make things happen. Currently, Hong Kong's development is hampered by insufficient investment and the slow pace of public investment. I believe that in the days ahead, it will be important for the Government to enhance communication with the business community, the Councils and environmental groups on

development goals. Only in this way can we smoothly take forward our public investment programmes.

71. The second challenge is how to further the development of a democratic political system. The Basic Law requires the active promotion of the democratic development of our political system, which is also the aspiration of the community at large. As Chief Executive, I am fully aware of my constitutional responsibility in this regard. Last year, the SAR Government and I did our utmost and, achieving general consensus in the community after lengthy consultation, put forward a constitutional development package for the election of the Chief Executive in 2007 and the formation of the Legislative Council in 2008. The package would have substantially enhanced the democratic element of the two election systems with the proposed participation of District Councillors. However, it failed to secure the necessary two-thirds majority of this Council. But the SAR Government has continued in its endeavour to move towards universal suffrage. I have been personally leading the Commission on Strategic Development (the Commission) to study our future constitutional development in an open and inclusive manner. For this study, progress has been made on various fronts and our efforts have been positive and constructive as much as they have been effective.

72. As pointed out time and again by many learned people in our community, the development of Hong Kong's political system impacts on every aspect of our community. It will have important and far-reaching implications for Hong Kong's existing institutions and way of life, the governance of the SAR Government, and the immediate interests of every stratum and sector of the community. It also affects the constitutional powers of the Central Authorities. In a pluralistic society such as ours, it is extremely complicated to handle, and difficult to achieve, a wide consensus. What is certain is that both the SAR Government and the Central Government are determined to achieve the ultimate goal of having the Chief Executive and the entire Legislative Council elected by universal suffrage in accordance with the Basic Law, in light of the actual situation in Hong Kong and in a gradual and orderly manner. This stance has never changed. Through the concerted efforts of Hong Kong people from all strata and sectors, and with rational

communication in the spirit of seeking common ground while reserving differences, we will be able to deal with the development of Hong Kong's political system in a proper way.

73. As the incumbent Chief Executive, I will continue to lead and take forward the work of the Commission in a positive and responsible manner throughout the remainder of my term. The Commission will study more intensively and extensively all relevant issues pertaining to the future development of our political system with a view to summing up the findings in 2007. This will lay a solid foundation for the next SAR Government to follow up on the issue. We have made, and will continue to make, strenuous efforts to draw up a blueprint for the future development of our political system, covering 2012 and beyond. I firmly believe that this is the most practicable way in our quest to realise universal suffrage for the election of the Chief Executive and the Legislative Council.

74. The elections of the Election Committee and the Chief Executive will be held in December this year and in March next year respectively. The SAR Government will make all the necessary preparations for the two elections in order that they may be carried out smoothly according to the law in an open and equitable manner.

75. The third challenge is how to build a harmonious society. Globalisation brings new opportunities. People engaged in global, high value-added economic activities, such as financial investment and innovative technology, are able to earn high income. Yet, low skilled workers are facing increasing economic hardship; they may still fail to make ends meet despite all their hard work. In addition, among the baby boomers born in the 1950s with a low to middle education level, a good number of them are faced with the threat of redundancy and pay cuts. At a time when the wealth gap in society keeps widening and social mobility begins to stall, we need to look for ways to resolve conflicts and promote social harmony. These are the thorny issues we need to consider, to tackle, and to solve in the days ahead. An optimist sees every challenge as an opportunity; a pessimist only sees trouble in every opportunity. I am an optimist, and I believe most of us in Hong Kong are, too.

76. As I said in the Question and Answer Session of this Council in March, “strong governance requires fostering social consensus instead of working behind closed doors. Our administration will be based on public opinion”. Today, Hong Kong is faced with more challenges on the threshold of a new phase of development. We must work together to build a new consensus for our sustainable development, on the basis of which we will easily turn difficulties into opportunities. Hong Kong will certainly have a better tomorrow.

The Chief Executive made the following remarks after the last paragraph of his Policy Address at the Legislative Council:

Madam President,

I joined the Government on January 3, 1967. In three months' time, I will have been in public service for 40 years. During this time, I have seen Hong Kong transform itself from a city of refugees into an industrialised centre powered by the proliferation of small, domestic factories. We gradually developed into a trading hub, an international financial centre and a logistics base. To me, and to people in my age group, this transformation has been an incredible journey.

In those days we did not have the luxury of lofty ideals, development blueprints or master plans. All we did was to work hard and constantly try to improve our lot. We adapted to the ever-changing social and economic circumstances swiftly and flexibly. Step by step we worked hard to achieve what we have today.

I never for one minute thought that one day I would become Chief Executive. But as I am now in this position I will certainly rise to the challenge with courage, using my abilities and experience to do my utmost for the people of Hong Kong.

"Act when you should act, and stop when you should not press on."

Hong Kong is indeed a blessed land. I have only one simple wish, and that is for our next generations to enjoy the same blessings and good fortune that we have grown up with. With our country's selfless care and strong support, with the favourable and unique conditions that Hong Kong enjoys and with the enterprising spirit of Hong Kong people, I am convinced that our next generations will continue to enjoy the same blessings and build an even more prosperous and better Hong Kong.

Thank you.