

Mr President,

A. Introduction

1. For the past two years, we lived under the menace of a looming global economic recession. Our policies were thus geared to responding to the crisis triggered by the financial tsunami. To cope with the crisis, we appealed to all Hong Kong people to stand united to vigorously pursue economic development and to seize opportunities for progress. The situation has more or less stabilised, and we have weathered this financial storm.

2. The Hong Kong economy has progressively stepped out of the shadow of the global financial crisis. Following the rebound that started in the second quarter of last year, our Gross Domestic Product (GDP) returned to positive year-on-year growth in the fourth quarter. This recovery gained further momentum in the first half of this year. Driven by both exports and domestic demand, our economy has grown by a robust 7.2% and surpassed the pre-tsunami peak level. The unemployment rate has dropped to 4.2%, the lowest since January 2009. Inflationary pressure, although rising with the economic rebound, is still mild.

3. This year, our economy is expected to grow by 5-6%. Nevertheless, we must remain vigilant since there are still many uncertainties in the external economy. We need to guard against greater downside risks in the global economy and increased risks of asset-price bubbles in Asia resulting from the fragile recovery of the US economy and the lingering sovereign debt crisis in Europe.

4. With the retreat of the economic shadow, livelihood issues are now the community's principal concerns, with housing, the wealth gap and elderly welfare drawing the greatest attention. The Government has long been making efforts to deal with these issues. Our work includes consultation on the Government's role in helping members of the public purchase a home, increasing

land supply, and protecting consumer interests through various measures such as enhancing the transparency of the private property market. For low-income families, we have completed a review of the Transport Support Scheme. In regard to welfare services for the elderly, we will adopt a new mindset to tackle the challenges to our healthcare and welfare systems posed by an ageing population. This Policy Address outlines the results achieved in these areas and proposes initiatives for the next stage of work.

5. Social tension has already divided our community to a certain degree. When running for Chief Executive in 2007, I stressed the need to properly handle various relationships in the Special Administrative Region (SAR), including the relationships between the rich and the poor and between large corporations and ordinary people.

6. Over the past century or so, Hong Kong has evolved from a fishing village into a migrant city, an entrepot, a world factory and, today, an international financial centre. With a deep-water port as our only natural advantage, our success has been founded on the perseverance and enterprising spirit of our people. The Government's role has been to create a favourable business environment through various policies to enable enterprises to flexibly cope with external economic challenges. Step by step, we have come a long way.

7. As the economy and society continue to progress, Hong Kong people's expectations about their own lives and about the Government also change. Post-war migrants to Hong Kong looked for food and shelter to improve their living standard. The generation that followed sought to build a comfortable home and a good career. The new generation pursues social justice, civil rights and environmental conservation. This is what a mature economy goes through in the course of social development. We cannot avoid these changes. Instead, we should actively promote them to build a better society for future generations.

8. Since my election as the third-term Chief Executive, I have been committed to promoting change and reform. I have

advocated striking a balance between development and conservation, and invited the business sector to play a bigger role in society. I believe that Hong Kong enterprises can more actively fulfil their social responsibility. For example, they can participate in the development of social enterprises, which will not only ease the tense and confrontational atmosphere in society through tripartite co-operation among the community, businesses and the Government, but also provide substantive help to people in need.

9. Hong Kong took a critical step towards universal suffrage last June, when the 2012 constitutional package was passed by the Legislative Council. The road to universal suffrage lies ahead. All sectors of the community should set aside their differences for the common good and move ahead step by step in a pragmatic manner. Universal suffrage is the ultimate goal of Hong Kong people, but to achieve good governance, democratic reform must be supported by complementary measures, in particular the nurturing of political talent.

10. The business sector has to participate actively in this process. In the face of further democratic development, the business sector needs to adopt a new mindset and make greater efforts to prepare for universal suffrage. I believe that a stable and harmonious society is the foundation for democratic development. Everyone is duty-bound to contribute to a favourable social environment for universal suffrage in Hong Kong.

B. Giving Priority to Livelihood Issues

Housing Policy

11. Housing is currently the greatest concern of our people. The Government's housing policy is premised on three principles. First, the focus of the Government's subsidised housing policy is to help the low-income group who cannot afford private rental accommodation by providing public rental housing (PRH). Second, apart from PRH, the major role of the Government is to supply land. The Government should refrain from participating in subsidised housing schemes as far as possible, and minimise intervention in the property market. Third, the Government will ensure sufficient land supply and provide quality infrastructure to maintain a fair and stable environment for the healthy and sustainable development of the property market.

12. Over the past few years, private housing supply has been relatively low. In September, private residential property prices rose by 20% year-on-year. The mortgage-to-income ratio in the second quarter was 41%, which, even though lower than the average ratio of 53% over the past 20 years, is on a rising trend.

13. We should address the fundamentals by increasing land supply in response to market demand. We will create a land reserve, use the Application List system as the main axle, and supplement it by a government-initiated land sale arrangement, to ensure that there will not be any shortage in housing land supply. Under normal circumstances, the market itself will adjust its demand for land. But if there is an upsurge in residential flat prices and developers do not actively apply for land under the Application List system, the Government will on its own initiative put up for auction land suitable for building various types of residential flats, including land designated for small and medium units, to stabilise flat prices.

Land Supply

14. Under the “Hong Kong 2030 Planning Vision and Strategy”, we will have sufficient land to meet our housing needs if we optimise the use of existing development areas and new towns, and develop the Kai Tak Development Area and other new development areas in the northern New Territories. Nevertheless, housing land has been in short supply over the past few years because of a number of challenges in land development, including the re-planning of southern Tseung Kwan O to lower its overall density, adopting “zero reclamation” for the new design of the Kai Tak Development, reviewing high-density development projects, and tackling various problems arising from statutory procedures.

15. These challenges must be overcome if we are to implement the concept of “progressive development” that I advocate. After several years of strenuous efforts, a consensus has been reached in the community — Hong Kong must not stay put. Having carefully considered the opinions of different parties and striking a balance as far as practicable, we must put development plans into action. The Government should also think out of the box to review existing land uses and explore new land resources. We have completed a study on industrial sites across the territory, and proposed to rezone about 30 hectares of land for residential use. We have also lowered the threshold for compulsory sale of land for redevelopment to facilitate the redevelopment of more old buildings. Later, we will consult the public on the proposal for reclamation on an appropriate scale outside Victoria Harbour to generate more land in the long run. In addition, we are devoting resources and expediting internal procedures to make more residential sites available to the market. Next year, for example, we plan to put out to the market the former North Point Estate site and the Ho Man Tin site returned by the Housing Authority, as well as other sites in various districts including Tung Chung and Tseung Kwan O. Also, we will speed up infrastructure construction at the Kai Tak Development Area so that some residential sites in the area can be made available to the market earlier, in 2015.

16. Last year, I pledged to monitor changes in the private residential property market, fine-tune land supply arrangements and discuss with the Urban Renewal Authority (URA) and MTR Corporation Limited (MTRCL) ways to quicken the pace of bringing residential sites to the market.

17. Subsequently, the Financial Secretary announced that the Government would put up specific sites on the Application List for sale by auction or tender to increase land supply. As at end-September, a total of eight sites were sold, of which three were put up for auction by the Government and five were triggered by developers from the Application List. Altogether, these sites can provide some 4 700 flats. Taking into account further sites made available through lease modifications and land exchanges with premium paid, as well as projects to be tendered by the MTRCL and URA, and other private redevelopment projects not subject to premium payment, we estimate that a total of 61 000 first-hand private residential units will come on the market in the next three to four years.

18. In the past 10 years, the average annual take up rate of first-hand private residential flats was 18 500 units. To ensure a healthy and stable property market, in the next 10 years, on average land needs to be made available annually for some 20 000 private residential flats. I need to stress that this is not a fixed target for residential flat production. Our aim is to build up a sufficiently large land reserve over a period of time to ensure stable land supply for the residential property market. In particular, we need to make available sufficient land for building small and medium residential flats to keep their prices stable.

19. To achieve this objective, the Financial Secretary will chair a “Steering Committee on Housing Land Supply” to co-ordinate the efforts of the departments concerned. This will ensure that issues relating to housing land will be dealt with as a matter of priority to guarantee a stable and adequate supply of such land. Members of the committee will include heads of bureaux and departments.

Public Housing

20. On PRH, the committee will ensure an adequate supply of land to produce about 15 000 flats each year, thus maintaining an average waiting time of three years. To ensure rational allocation of limited resources, the Housing Department will step up checks on PRH tenants' household income and assets. In addition to checking some 5 000 randomly selected cases a year, an additional 5 000 random checks will be conducted this year.

21. Some people want the Government to use proposed PRH sites to build Home Ownership Scheme (HOS) flats. Any proposals that may undermine our pledge to maintain the waiting time of three years for PRH are unacceptable.

Subsidising Home Ownership

22. The Government recognises the importance of a stable home, and is fully aware of our people's wishes to improve their quality of life and move up the social ladder through home ownership. Many find it unnerving that property prices have kept rising and years of hard-earned savings cannot even cover a down payment. They hope that the Government will help them realise their aspirations for home ownership. The Transport and Housing Bureau (THB) started consulting the public on subsidising home ownership last May. The exercise was completed in mid-September.

23. There are diverse views on the resumption of HOS. We share the public concern over soaring property prices and the difficulties in purchasing their first flat. The conventional HOS has already helped over 300 000 families buy their homes. We believe that we should introduce more targeted measures in light of the latest situation to help the sandwich class purchase their own flats.

24. As to whether the Government should offer loans to these prospective home buyers, many consider that home ownership loan schemes may lure some families into acquiring properties they cannot afford. Some are also concerned that such a scheme

will spur short-term demand for properties, which will further push up property prices.

My Home Purchase Plan

25. Any form of subsidised home ownership will only serve as a buffer. In the face of short-term market fluctuations, it is appropriate for the Government to offer relief measures to potential sandwich class home buyers to give them time to save up. In this regard, the Government, in collaboration with the Hong Kong Housing Society (HKHS), will introduce an enhanced scheme of subsidised housing known as the My Home Purchase Plan.

26. Under this Plan, the Government will provide land for the HKHS to build “no-frills” small and medium flats for lease to eligible applicants at prevailing market rent. The tenancy period will be up to five years, within which the rent will not be adjusted. Within a specified time frame, tenants of the Plan may purchase the flat they rent or another flat under the Plan at prevailing market price, or a flat in the private market. They will receive a subsidy equivalent to half of the net rental they have paid during the tenancy period, and use it for part of the down payment.

27. The Plan has the following merit:

- (1) It provides the sandwich class with flexibility in their home purchase plan, including the choice of opting to purchase the flat they rent, another flat under the Plan, or a flat in the private market;
- (2) It provides them with rental flats for a maximum of five years so that they will have sufficient time to think through their housing plan while building up their capability to buy a flat. This means they will not have to rush into buying flats that are over-priced during short-term fluctuations in property prices. Also, there will not be any rental adjustment during the five-year period. This will help them save for

part of the down payment for their future flat purchase;

- (3) There will be no re-sale restrictions or premium payment requirement as is the case of conventional HOS flats. This will facilitate upward mobility in the property market;
- (4) Flats under the Plan will, to an extent, fill the supply gap of “no-frills’ flats in the first-hand private market; and
- (5) The Plan will not reduce the supply of private residential land or land for PRH, as the land will not come from either the Application List or the sites earmarked for PRH.

28. The subsidy equivalent to half of the net rental paid may not be sufficient to cover the down payment in full. Tenants must conscientiously build up savings to meet the down payment and related expenses. The Plan reflects Hong Kong people’s spirit of self-reliance by enabling them to make their home purchase wish come true in a practical and step-by-step manner. The Secretary for Transport and Housing will announce details of the Plan later.

29. The Government has already earmarked sites in Tsing Yi, Diamond Hill, Sha Tin, Tai Po, Tuen Mun and other areas for a total of some 5 000 flats to be built under the Plan. The first project will provide about 1 000 flats in Tsing Yi by 2014.

Revitalising the HOS Secondary Market

30. The Housing Authority is taking measures to revitalise the HOS secondary market. These include the Premium Loan Guarantee Scheme launched by the Hong Kong Mortgage Corporation Limited, which allows HOS owners to pay the premium by instalments.

Supply of Small and Medium Flats

31. To address the shortage of first-hand small and medium flats, we have already reserved a site at the former Yuen Long Estate and will, as a pilot, specify in its sale conditions the minimum number of units and unit size restrictions. We are preparing to sell the site by tender later this year. In light of experience gained, we will explore applying this arrangement to other sites. We will discuss with the URA and MTRCL the provision of more small and medium flats in their urban renewal projects and residential developments along the West Rail respectively.

Monitoring the Sale of Flats

32. To enhance the transparency of the sale of first-hand private residential properties, the Government has implemented various measures over the past two years, covering such areas as price lists, sales brochures, sales arrangements, transactions and show flats. We have declared that we will legislate to regulate the sale of first-hand private residential units, if the existing regulation through the Lands Department's Consent Scheme and the guidelines of the Real Estate Developers Association of Hong Kong (REDA) proves ineffective.

33. As we cannot reach a consensus with the REDA on the regulation of the sale of first-hand completed flats, the THB will set up a steering committee to discuss specific issues on regulating the sale of first-hand flats by legislation and put forward practicable recommendations within one year, including the use of saleable floor area as the only basis for listing the price per square foot to avoid misleading buyers and eradicate the problem of "shrunk flats".

Review of the Capital Investment Entrant Scheme

34. The Government has reviewed the Capital Investment Entrant Scheme, and noted an upward trend in real estate investment, which accounted for 42% of the total investment

under the scheme for the first nine months of this year. Despite the fact that real estate investments under the scheme in recent years have only represented about 1% of the total market turnover, the Government, in view of public concern, has decided to temporarily remove real estate from the investment asset classes under the scheme with effect from 14 October. The Security Bureau will announce the implementation details and other changes to the scheme later.

Urban Regeneration Strategy

35. Urban renewal plays an important part in improving people's living environment. Urban regeneration is a key topic straddling a number of policy areas, including planning, land, housing, heritage conservation and social development. Public aspirations for urban renewal have also been evolving with changes in social values. With the two-year Urban Renewal Strategy Review, a consensus has been reached on most issues, taking into account the concerns of different stakeholders. On this foundation, we have revised our urban renewal strategy and will consult the public in the coming two months.

36. The new strategy is based on the core values of people orientation, public engagement and respect for local characteristics. It encourages government departments, public and private organisations, all sectors of the community and the URA to join hands to regenerate our urban areas.

37. We will set up District Urban Renewal Forums to collect views from professionals and local residents to formulate a blueprint for sustainable urban renewal. The first pilot forum will be set up in Kowloon City. Another emphasis of the new strategy is to establish rehabilitation and redevelopment as the URA's core business areas in future. The URA will serve as an "implementer" or "facilitator" in future redevelopment projects.

38. In addition, the URA will earmark \$500 million to set up an Urban Renewal Trust Fund to support studies and activities to be conducted by the forums. The Trust Fund will also be funding the appointment and operation of social service teams,

which provide assistance to residents affected by URA's redevelopment projects. Furthermore, the Trust Fund will subsidise preservation or revitalisation projects within the scope of urban renewal.

39. While maintaining the prevailing compensation level at the value of a replacement seven-year old flat in the same locality, we will introduce a "flat for flat" scheme as another option for owner-occupiers of residential properties affected by the URA's urban renewal projects. In this way, the affected households can continue to live in a familiar environment and keep their social networks. To enable early implementation of this arrangement, the Government will reserve residential sites at the Kai Tak Development Area for the URA to build residential flats for the purpose.

Sustainable Built Environment

40. The Government is committed to enhancing the design standard of new buildings to foster a quality and sustainable built environment for our next generation. In light of the recommendations of the Council for Sustainable Development, the Government will introduce a series of measures, requiring the incorporation of such design elements as building separation or enhancement of building permeability, setback and greenery in new buildings. To widely promote green building in Hong Kong, we will raise the building energy efficiency standards and require developers to provide environmental and energy consumption information of buildings for the reference of potential users.

Controlling "Inflated Buildings"

41. The Government's purpose of allowing private buildings to increase floor area to include green and amenity features is to enhance the living environment of private buildings. In recent years, there have been community concerns about developers using this concessionary policy to substantially increase the floor area of buildings, which has given rise to the so-called "inflated building" problem. After a review, we have decided to tighten

the policy. Major changes include doing away with concessions for certain features, lowering the level of concessions for car parks, balconies, utility platforms and clubhouse facilities, and imposing an overall cap of 10% for a number of features which still qualify for concession. We will also reduce the maximum permissible area of bay windows.

42. We believe that this package will strike a proper balance between fulfilling environment performance and comfort requirements of buildings on the one hand, and minimising the impact on the surrounding environment as far as possible on the other. It will also ensure room for creativity in Hong Kong's building designs.

Building Safety

43. The building collapse in Ma Tau Wai Road last January aroused public concern about the rising problem of ageing buildings. The Government has completed a comprehensive review of the existing measures to improve building safety. We will provide resources to the executive agencies to launch measures in the shortest time, adopting a multi-pronged approach, to enhance building safety through legislation, enforcement, public education and support for building owners.

44. We will introduce legislation to tackle the problems of building dilapidation and unauthorised building works (UBWs), including "sub-divided units", which have drawn widespread concern in the community. Also, we will better handle public complaints and step up enforcement action against UBWs. In addition, we will work with the HKHS and URA to provide comprehensive assistance to building owners who lack organisational ability or financial resources. Having said that, every member of the public has a role to play in building safety. Apart from urging owners to take up their responsibilities to properly maintain their properties, we will also encourage owners, tenants, building attendants and the general public to report potentially dangerous buildings, with a view to raising public awareness about old building repair.

Building Management

45. To help owners and owners' corporations (OCs) better understand their rights and responsibilities, we will embark on a series of initiatives including establishing a panel of advisors to provide owners involved in building management disputes with impartial and authoritative advice, organising training for office-bearers of OCs, and putting in place a platform for owners to share experience, thus promoting mutual help.

46. We are particularly concerned that some owners of properties in old buildings are willing but unable to manage and maintain their buildings, which have fallen into disrepair. We will work with the property management sector to establish a task group to strengthen our support for these property owners.

47. We will consider amending the law to ensure that buildings will not become a threat to the safety of occupants or other members of the public as a result of poor management, and to effectively require the owners or OCs concerned to hire property management companies if necessary.

Licensing Regime for the Property Management Industry

48. We also need to monitor the operation of property management companies. Such monitoring will be essential to complement any future legislation under which the hiring of property management services may become mandatory for certain buildings. There are currently no industry-wide basic requirements for property management companies and practitioners. We propose that a statutory licensing regime for the property management industry be established to ensure the quality of their services. We will consult the public shortly and make a decision within the first half of next year.

Overall Strategy

49. I have just now explained Hong Kong's housing policy and our proposed actions. They represent our response to

prevailing issues. From a macro perspective, we need to formulate a strategy on land development to address the root cause of the housing problem. In the medium term, the proposed My Home Purchase Plan will help the sandwich class purchase homes. We will make available land for small and medium flats to respond to the shortage of such units in the private residential market. In the short term, we will take appropriate measures to ensure the healthy and stable development of the private residential market, including controlling “inflated buildings”, revising the Capital Investment Entrant Scheme, and examining the issues on regulating the sale of first-hand residential properties by legislation. I hope these long, medium and short-term initiatives will make Hong Kong a better home.

Wealth Gap

50. Social tension in Hong Kong stems partly from the wealth gap. The most fundamental way to ease such tension is to enable the community to benefit from economic development and share the fruits of prosperity. Past experience has shown that Hong Kong’s poor can have their living conditions improved once the economy embarks on a solid recovery.

51. The wealth gap is related to economic restructuring. The forces of globalisation have propelled Hong Kong towards a high value-added service economy to achieve further economic development. In the transition to a knowledge-based economy, however, the wages of some low-educated, low-skilled workers have continued to lag behind economic growth owing to differences in education and skill levels among the working population. As a result, income disparity has widened. Less demand for low-skilled workers stemming from our economic integration with the Mainland means that these workers have to face keen competition due to excess supply. New arrivals from the Mainland have further enlarged the pool of low-skilled workers in Hong Kong, which is another cause of their stagnant wage growth.

52. The Government can effectively narrow the income disparity through taxation, housing, education, healthcare and welfare measures. This involves the issue of how public resources should be allocated, which requires a consensus between the Government and members of the public. Hong Kong maintains a simple and low tax regime. In drawing up the budget, the Government must also comply with the Basic Law to follow the principle of keeping expenditure within the limits of revenue, keeping spending increases in line with GDP growth and striving to achieve a fiscal balance.

Combating Inter-generational Poverty

53. Education is fundamental to alleviating inter-generational poverty. Good education helps enhance the quality of our next generation and raise their competitiveness in a knowledge-based society, enabling them to improve living standards for themselves and their families. We will continue to devote substantial resources to education. I will talk more about this later.

54. We are particularly concerned about the development needs of children from low-income families. The Government has launched a number of projects under the Child Development Fund to foster the personal development of underprivileged children. A subsidy for internet access charges and other measures were announced in this year's Budget. When preparing his coming Budget, the Financial Secretary will consider further measures to cater for the needs of these children.

Textbook Assistance for Students in Need

55. The Government has been providing financial assistance to primary and secondary students from low-income families to help them cover the costs of textbooks and school-related expenses. We propose to significantly increase the flat-rate grant under the School Textbook Assistance Scheme from the existing \$408 to \$1,000 per year for full-grant students, and from \$204 to \$500 per year for half-grant students, with effect from the next

school year. The proposed increase will cost an extra \$120 million each year. We will also streamline the approval procedures so that the grants can be disbursed to most applicants before the new school term begins.

Work Incentive Transport Subsidy Scheme

56. Travelling expenses put pressure on low-income earners. To relieve their burden and encourage them to stay in employment, the Government has decided to launch a Work Incentive Transport Subsidy Scheme to help all eligible employees in Hong Kong meet part of their travelling expenses. The monthly allowance will be \$600 a person. The new initiative will replace the existing Transport Support Scheme. The Labour and Welfare Bureau is working on the details and implementation timetable, and will brief this Council as soon as possible. We will review the scheme three years after its implementation.

Community Care Fund

57. Hong Kong has a sound social security system to help our people meet their basic needs. The Government also heavily subsidises various social services for the benefit of people in need. Actively engaging the community and the business sector in poverty alleviation will not only demonstrate tripartite collaboration and a readiness to share responsibility, but also bring in new ideas to make our measures more flexible and effective. This is also the experience of other developed societies. To encourage the business sector's participation in helping the poor, I have decided to set up a Community Care Fund, to which the Government and the business sector will each contribute \$5 billion to support people in need in areas not covered by the Comprehensive Social Security Assistance Scheme. The fund will be chaired by the Chief Secretary for Administration. I will raise funds from the business sector. The initial response has been positive. I am confident that the fund can directly benefit many people in need. The Government will put forward an execution plan after consulting the community.

Legislating for a Minimum Wage

58. Legislating for a minimum wage to protect low-income workers is a major labour policy that I have advocated during my term of office. The Minimum Wage Ordinance was passed by this Council in July. We will submit to this Council the subsidiary legislation on the minimum wage level as soon as possible, and prepare for and publicise the implementation of the legislation. I expect the statutory minimum wage to come into force in the first half of next year.

Enhancing Employment Services

59. With the implementation of the statutory minimum wage, the Labour Department (LD) will strengthen employment services for young and middle-aged people and those with disabilities. The LD will also launch a two-year Pilot Employment Navigator Programme later this year, and set up a pilot one-stop employment and training centre in Tin Shui Wai next year to offer targeted assistance to job seekers.

Labour Rights

60. We have amended the legislation to criminalise wilful defaults of Labour Tribunal and Minor Employment Claims Adjudication Board awards. This is another milestone in the protection of labour rights. The LD will rigorously enforce the law and raise public awareness of the legislation.

61. The Protection of Wages on Insolvency Fund provides a safety net for employees affected by business closures. To further enhance employee protection, we will amend the law to expand the scope of the fund to cover pay for untaken annual leave and statutory holidays under the Employment Ordinance.

62. With the Minimum Wage Ordinance enacted, some suggest it is time to embark on a policy study on standard working hours. We must handle this complex and controversial issue with care to strike a balance between the interests of

various sectors. I have asked the Secretary for Labour and Welfare to conduct the study.

Assisting New Arrivals and Ethnic Minorities

63. Various government departments have been providing a range of services to help new arrivals adapt to their new environment as soon as possible and help ethnic minorities integrate into our society. The Permanent Secretary for Home Affairs will lead a dedicated team to step up and co-ordinate efforts in this regard. The team will monitor closely the service needs of new arrivals during the adaptation period and the difficulties faced by ethnic minorities in daily life, so as to ensure that the support services can meet their needs. Moreover, the team will enhance collaboration with non-government organisations and district organisations to facilitate the early integration of new arrivals and ethnic minorities into the local community.

Overall Strategy

64. Short-term benefits offered by the Government cannot bridge the wealth gap. They are only relief measures for exceptional times. The Government mainly employs a three-pronged strategy to address the issue of poverty. First comes investment in education, which facilitates poverty alleviation through social mobility. Next comes employment support, which includes enhancing the quality of the workforce and ensuring reasonable wage levels for workers. Finally, there is social welfare. Assistance is given to families in need to help them cope with difficulties and maintain a reasonable standard of living.

Ageing Population

65. As post-War “baby-boomers” approach retirement age, our population aged 65 or above is expected to surge from about 900 000 at present to 2.1 million by 2030. This increase will be equal to 90% of the net increase in total population over the same

period. The rapidly ageing population will bring challenges to our elderly services. We must get prepared.

Old Age Allowance

66. Many people suggest that the permissible limit of absence from Hong Kong for the Old Age Allowance (OAA) should be relaxed so that elderly people can enjoy greater flexibility in taking up residence, travelling or visiting relatives in the Mainland. After careful consideration, we propose to substantially relax the limit of absence from Hong Kong for the OAA from the present 240 days to 305 days a year, thus enabling elderly recipients to receive a full-year allowance as long as they have resided in Hong Kong for 60 days a year. The new arrangement will also apply to the Disability Allowance.

67. There are also views that all restrictions on absence from Hong Kong both before application and after approval should be removed. As a judicial review of the existing policy is underway, we will consider the way forward when the situation becomes clear.

Facilitating Senior Citizens' Retirement in the Mainland

68. As the relationship between Hong Kong and Guangdong grows closer, some of our senior citizens want to retire in Guangdong. There is also a suggestion in the community that the Government should introduce a maintenance allowance for our senior citizens who have retired. This has legal, financial and technical implications that require detailed examination. I have asked the Secretary for Labour and Welfare to study further the feasibility of such arrangements.

Population Policy Review

69. The Steering Committee on Population Policy, chaired by the Chief Secretary for Administration, has been closely monitoring the latest population projections and co-ordinating the efforts of various bureaux to formulate related measures. I have asked the committee to focus its study on two topics. First,

it will examine ways to facilitate and support our elderly people to settle in the Mainland after retirement if they so wish. Second, the approximately 30 000 children born in Hong Kong to Mainland women annually in recent years are Hong Kong permanent residents, although most of them live in the Mainland after birth. The committee will study in detail the ramifications of these children returning to Hong Kong to study and live.

Community and Home Care Services

70. The Government will significantly increase subsidised community care places for the elderly next year. We also expect to launch the pilot scheme on home care services early next year to provide “tailor-made” services for elderly people on the waiting list for nursing home places. Furthermore, the pilot Integrated Discharge Support Programme for Elderly Patients has been well received. Through collaboration between the welfare and healthcare sectors, the programme has been effective in helping elderly patients discharged from the hospital to recover at home. We plan to make it a regular service and extend its coverage from the current three districts to all districts in two years’ time. We will also consider offering more tax concessions as incentives for the working population to live with their elderly parents. This is in line with our policy objective of encouraging elderly people to age at home.

Residential Care Service

71. For frail elderly people in need of residential care, we will provide additional places by building new residential care homes and making full use of the space in existing homes. We will also increase the supply of higher-quality places under the Enhanced Bought Place Scheme.

72. The public is increasingly concerned about the proper care of elderly people suffering from dementia. We will provide or increase relevant supplements for subsidised residential care homes and day care centres for the elderly to render more targeted services to such patients.

Elderly Healthcare Voucher Pilot Scheme

73. The Government launched the three-year Elderly Healthcare Voucher Pilot Scheme last year to subsidise elderly people aged 70 or above to use private primary care services. An interim review is now underway, and is expected to be completed by the end of this year. We will earmark \$1 billion to extend or enhance the pilot scheme having regard to review findings.

Overall Strategy

74. In the short to medium term, we will increase the supply of various subsidised elderly care services to cope with a surging elderly population. In addition, we are jointly examining with the Elderly Commission how new thinking may be applied to map out the service and financing modes for elderly care in the future, including ways to enhance support for elderly people to age at home. In the long term, we need to study from the perspective of regional integration ways to assist elderly people who wish to retire in the Mainland.

Public Healthcare Services

Upgrading Services

75. The current-term Government has pledged to increase public health expenditure and to enhance healthcare services. The additional resources allocated for this purpose over the past few years reached a total of \$13.7 billion. The Government will continue to work towards the objective of increasing healthcare spending to 17% of the Government's recurrent expenditure by 2012. We will endeavour to reduce the waiting time for specialist services, including cataract surgery, joint replacement, mental health assessment and consultation services for children and adolescents, magnetic resonance imaging and computerised tomography scanning. We will also strengthen the services for cancer patients, and add more new and effective drugs to the Drug Formulary.

76. In addition, we are actively preparing for the establishment of a multi-partite paediatric medical centre with more than 400 beds at the Kai Tak Development Area. Meanwhile, to meet the increasing demand for healthcare services in Tin Shui Wai, we have decided to build a new hospital in the area to provide accident and emergency services, in-patient services and ambulatory and community care services for local residents. We also plan to redevelop the four hospital blocks at Yan Chai Hospital to enhance the services. These three projects are expected to be completed in 2016.

Training for Healthcare Workers

77. We expect a substantial increase in the demand for healthcare practitioners, including doctors, nurses, pharmacists, radiotherapists, physiotherapists and occupational therapists. We will ensure an adequate supply of healthcare personnel for the provision of services through various measures, which include encouraging tertiary institutions to increase student places for these disciplines and strengthening training programmes provided by the Hospital Authority.

Healthcare Financing

78. In view of our ageing population and rising medical costs, the public generally believes that the Government needs to enhance the sustainability of the healthcare system, but has reservations about introducing any supplementary healthcare financing scheme of a mandatory nature at this stage. Public opinion largely favours voluntary participation in private health insurance.

79. To further the healthcare reform, the Food and Health Bureau has put forward proposals for a voluntary Health Protection Scheme in the second stage public consultation just launched. The objective of the scheme is to provide the public with wider choices and better protection through government-regulated private health insurance and healthcare services. The Government will consider using the \$50 billion earmarked for

supporting healthcare reform to provide incentives for the public to join the scheme early, and subsidise the future healthcare protection of participants.

Regulation of Pharmaceutical Products

80. In the coming years, we will strengthen the regulatory regime of Chinese and Western medicines. We are implementing all 75 recommendations of the Review Committee on Regulation of Pharmaceutical Products in Hong Kong. The legislation on proprietary Chinese medicines will come into effect in phases from the end of this year. We will actively engage the industry to work out a timetable for mandatory compliance with the Good Manufacturing Practice for the manufacture of proprietary Chinese medicines.

The Underprivileged

Rehabilitation Services

81. To meet the increasing demand for rehabilitation services, the Government will provide additional places for pre-school, day and residential rehabilitation services. We will put in place other measures to enhance services, including continuing to implement the Pilot Scheme on Home Care Service for Persons with Severe Disabilities and preparing for the introduction of a licensing scheme for residential care homes for people with disabilities.

Assistance to Autistic Children

82. We will endeavour to provide early identification, assessment and treatment for autistic children to ensure that they receive appropriate care and support during their development.

83. On healthcare services, to enhance our support for more autistic children, the Hospital Authority will strengthen the professional team comprising child psychiatrists, paediatricians, clinical psychologists, nurses, speech therapists and occupational therapists. They will also provide parents and carers of autistic

children with more information to enhance their understanding of autism and the treatment needs of these children.

84. The Social Welfare Department (SWD) will increase places for pre-school early intervention service and training for autistic children. The SWD's medical social services will also be strengthened to dovetail with the services of the Hospital Authority.

85. On the education front, a pilot scheme will be launched in ordinary primary and secondary schools to improve autistic students' communication, emotion management and learning skills to facilitate their studies.

Mental Health Services

86. Last year, I proposed to set up district-based Integrated Community Centres for Mental Wellness across the territory. This new mode of service delivery has been implemented in all 18 districts, providing integrated services ranging from prevention to crisis management. We will strengthen the manpower of these centres to handle more cases. Furthermore, we will enhance our psychiatric medical social services to provide assistance to people with mental health problems.

87. Among these centres, only one has secured permanent accommodation while the others are currently providing services at temporary accommodation. I call upon district leaders and residents to show more understanding and support so that the service operators can secure permanent accommodation.

88. The Hospital Authority will roll out its case management programme in five more districts in the coming year to provide intensive community support for patients with severe mental illness. Separately, the Hospital Authority will expand the Integrated Mental Health Programme for patients with common mental disorders to cover all clusters. The Early Assessment and Detection of Young Persons with Psychosis Programme will be expanded to cover adults. The Hospital Authority will gradually strengthen its geriatric outreach services in the next three years,

covering about 80 more residential care homes for the elderly next year.

89. To improve treatment outcome, the Hospital Authority will use more new psychiatric drugs with proven effectiveness and fewer side effects.

Child Care Services

90. I have visited a Neighbourhood Support Child Care Project run by a local women's association in Tin Shui Wai to see for myself its operation. I am glad to learn that the project has achieved the objectives of both fostering mutual help in the neighbourhood and providing flexible child care services. The Government has therefore decided to extend the coverage of the project from the current 11 districts to all 18 to benefit more families in need.

91. Currently, the Comprehensive Child Development Service enables the early identification of pregnant women, mothers and children in need, and their referral to suitable health or welfare service units for follow-up and support services. We plan to extend the service to all 18 districts.

C. Promoting Economic Development

The National 12th Five-Year Plan

92. To ensure that Hong Kong can better leverage its unique advantages and functions during the National 12th Five-Year Plan (the Five-Year Plan) period, we will strive to enhance Hong Kong's status as an international centre for financial services, trade, shipping and logistics, and to develop the six industries where Hong Kong enjoys clear advantages. We are actively helping our service industries, especially the professional services sector, expand their presence in the Mainland market progressively. We are working with Guangdong Province to seek to incorporate the most important functions and roles of Hong Kong-Guangdong co-operation into the Five-Year Plan.

Regional Co-operation

Development of Qianhai

93. The State Council set clear objectives and directions for the development of Qianhai last August. The SAR Government will work with the Shenzhen authorities to encourage the trades in Hong Kong to seize the opportunities arising from the development of Qianhai and to expand the hinterland for Hong Kong's service industries. With their strengths and international experience, they can complement our country's plan to optimise its industrial structure and contribute to its reform and opening up in the next three decades.

Hong Kong-Taiwan Relations

94. Last April, we set up the Hong Kong-Taiwan Economic and Cultural Co-operation and Promotion Council (ECCPC) while Taiwan established the Taiwan-Hong Kong Economic and Cultural Co-operation Council (THEC). The establishment of the ECCPC and THEC is a milestone in the relations between Hong Kong and Taiwan. The two places can use this platform to discuss public policies. We have also set up the Hong Kong-Taiwan Business Co-operation Committee and Hong Kong-

Taiwan Cultural Co-operation Committee, which comprise members from the local business and cultural sectors. They will work with their counterparts under the THEC to foster economic ties and social exchanges between the two places.

95. Last August, the Financial Secretary led a delegation of all ECCPC members to Taiwan and attended the first joint meeting of the ECCPC and THEC. This was an important starting point to institutionalise communication and liaison between Hong Kong and Taiwan. In the coming year, we will continue to promote multi-faceted, multi-level exchanges with Taiwan. These include the active consideration of updating the air services arrangements between Hong Kong and Taiwan, support for the regulatory bodies of both places to strengthen the liaison mechanism on co-operation in regulating the banking industry, the use of the new ECCPC-THEC platform to explore opportunities for economic and trade co-operation and double taxation avoidance issues. We will pursue the setting up of an office in Taipei by the Hong Kong Tourism Board and discuss with Taiwan the establishment of a multi-functional office in Taipei by Hong Kong.

Ten Major Infrastructure Projects

96. The current-term Government's strategy of promoting economic growth through infrastructural development entails the undertaking of 10 major infrastructure projects. The projects are now being gradually implemented. Among them, the Hong Kong-Zhuhai-Macao Bridge, the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Kai Tak Development Plan Stage 1 have commenced construction. We are pressing ahead with the planning, design and consultation for the MTR Sha Tin to Central Link so that construction can commence as soon as practicable. The planning and design of the South Island Line (East) will also be completed soon and the construction works are expected to commence next year. Apart from the 10 major infrastructure projects, we have also forged ahead with government works projects to improve our urban environment and create employment opportunities.

Annual expenditure on capital works projects has climbed from \$20.5 billion in 2007-08 to an estimated \$49.6 billion this financial year. The amount will exceed \$50 billion for each of the next few years. With these projects, and initiatives such as Operation Building Bright, the employment situation in the construction industry has improved remarkably. The unemployment rate in the construction industry has dropped from a post-tsunami peak of 12.8% to the recent 7%.

The Six Industries

97. Last year, I accepted the recommendations of the Task Force on Economic Challenges for the development of six industries where Hong Kong enjoys clear advantages. They are medical services, environmental industries, testing and certification, education services, innovation and technology, and cultural and creative industries. We are gradually implementing the relevant measures. This is a long-term industrial development plan which can put Hong Kong on a path towards a diversified and high value-added economy. We will continue to monitor the development of these six industries, with emphasis on integration with the Mainland market, so as to inject new impetus into our economy.

Traditional Pillar Industries

Financial Services

98. The financial services industry, accounting for about 16% of our GDP, is one of Hong Kong's four traditional pillar industries. We are committed to developing Hong Kong as a global capital formation centre, asset management centre and offshore Renminbi (RMB) business centre to attract capital and talent, with a view to providing world-class, comprehensive and quality financial services in the Asian time zones.

99. The financial tsunami not only highlighted the need for the international regulatory system to progress with time, but also changed the global financial landscape. At a time when the international financial order is being reshuffled, and the centre

of global economic gravity is shifting to the East, we must grasp the opportunity to continuously enhance Hong Kong's regulatory system and strengthen our advantage of being "part of China but outside the Mainland" under "One Country, Two Systems".

Financial Co-operation with the Mainland

100. Strengthening our financial co-operation with the Mainland is vital for our financial services. These services should be positioned and developed in a way that will increase our contribution to promoting the modernisation of the Mainland's financial system, particularly the internationalisation of the RMB and the increased convertibility of the Mainland's capital account in a gradual and orderly manner. We have the following four short-term goals:

- (1) To seek "early and pilot implementation" in Hong Kong of those Mainland financial services which have not been liberalised because the capital account is not yet opened or it is necessary to test the market through piloting. For example, we may seek the expansion of channels for enterprises to invest in the Mainland the RMB capital raised in Hong Kong;
- (2) To promote capital flows between banks in Hong Kong and the Mainland, and to attract more foreign enterprises to use Hong Kong's RMB settlement services by taking advantage of the development of cross-border trade settlement in RMB;
- (3) To encourage more Mainland, Hong Kong and foreign enterprises to issue RMB bonds in Hong Kong; and
- (4) To strengthen the linkage between products traded on the stock exchanges of Hong Kong and the Mainland, seek mutual access for market participants and intermediaries, and expand the channel for capital flows between the two places.

Emerging Markets

101. We will enhance financial co-operation with emerging markets. Apart from Islamic finance, we will also tap into business opportunities in Russia, Central Asia, India, South America and other emerging markets to attract more large enterprises to list in Hong Kong and make use of Hong Kong's well-established financial and trading platform to expand their international business.

Investor Protection

102. On investor protection, we will take forward proposals such as establishing a cross-sector investor education council and a financial dispute resolution scheme, and introducing statutory requirements for listed corporations to disclose price sensitive information in a timely manner. On the insurance industry, the Government will take into account public views and draft legislation on the establishment of an independent Insurance Authority. In addition, to further boost market confidence and promote financial stability, we are preparing, in collaboration with the industry, a proposal to establish an insurance policyholders' protection fund. We hope to consult the public by the end of this year.

Tourism

103. Our tourism industry has performed impressively this year. In the first eight months, visitor arrivals topped 23 million. However, several incidents concerning unscrupulous practices relating to Mainland tour groups came to light this year. The malpractice of a few has tarnished the reputation of our tourism industry. The Government is determined to step up regulation. I have asked the Secretary for Commerce and Economic Development to review the operation and regulatory framework of the entire tourism sector, including the role, powers, responsibilities and operation of the Travel Industry Council of Hong Kong, as well as its working relationship with the Travel Agents Registry. Our aim is to promote the healthy and sustainable development of the tourism industry.

Logistics

104. To support the logistics sector's switch to high-value goods and services, we are gradually making available long-term sites for the sector to develop a logistics cluster. As a start, a site in Tsing Yi was put up for open tender last month. In parallel, we will continue to provide suitable sites for port back-up uses to facilitate efficient port operations. We will continue to consolidate Hong Kong's position as an international maritime centre, reinforce the maritime service cluster, strengthen the training of human resources and promote our quality and comprehensive maritime services both locally and abroad.

105. On air transport, the Airport Authority is implementing a midfield expansion project to provide additional aircraft stands and apron facilities and a new passenger concourse. Phase 1 works are expected to begin in the third quarter of next year for completion in mid-2015. In addition, the new air cargo terminal project is expected to be completed in early 2013. This project will increase the airport's cargo handling capacity by 50%. We expect more competition in the industry upon completion of this new terminal, which will help enhance the airport's competitiveness.

Professional Services

106. We have been promoting access of local professional services to the Mainland market through CEPA. For example, we encourage mutual recognition of professional qualifications, seeking the opening up of Mainland's professional qualification examinations to eligible Hong Kong residents, and facilitate Hong Kong professionals with relevant qualifications to register and practise in the Mainland. Supplement VII to CEPA signed this year further liberalises the Mainland market for our medical services and construction-related professional services. We will maintain close contact with the Mainland to enhance the effective implementation of CEPA.

Support for Small and Medium Enterprises

Credit Facilities

107. In response to the global financial crisis, the Government rolled out a series of measures to “stabilise the financial system, support enterprises and preserve employment” to help small and medium enterprises (SMEs) tide over the difficult times. Over the past year, some 39 000 applications have been approved under loan guarantee schemes, involving total loans of over \$97 billion. The measures have benefited some 20 000 enterprises and helped preserve more than 330 000 jobs.

108. The Hong Kong Mortgage Corporation Limited is exploring the establishment of a market-oriented loan guarantee scheme to provide a sustainable platform for obtaining credit.

109. The SME Export Marketing Fund under the Trade and Industry Department subsidises SME participation in export promotion activities. The SME Development Fund provides financial support for trade and industrial organisations, professional bodies, support organisations and research institutes to carry out projects to enhance the competitiveness of SMEs. As these two funds have been well received, we plan to inject an additional \$1 billion into these funds next year.

Competition Bill

110. The Competition Bill was introduced into this Council last July. It aims to prohibit and deter anti-competitive conduct in various sectors and to maintain a level playing field. The Government fully understands the concern of SMEs that a competition law may undermine their flexibility in doing business and increase their operating costs. We have included in the bill exemptions and a mechanism to help enterprises comply with the law. We will continue to explain to the business community the content of the bill, and listen carefully to their views.

D. Quality Life

Environmental Protection

Combating Climate Change

111. Combating climate change, emission reduction and low carbon are now a worldwide consensus. Our emission reduction strategy emphasises the wider use of cleaner and low-carbon energies and fuels in power generation. Specifically, we propose optimising the fuel mix for power generation, significantly reducing our reliance on fossil fuels, phasing out existing coal-fired generation units, and increasing the use of non-fossil, cleaner and low-carbon fuels, including renewable energy and imported nuclear energy. We propose that by 2020, natural gas should account for about 40% of our fuel mix for power generation, coal no more than 10%, renewable energy about 3-4%, and the balance of about 50% by imported nuclear energy. Furthermore, we will endeavour to enhance energy efficiency, promote green building, advocate electricity saving, facilitate low-carbon transport and develop facilities to turn waste into energy.

112. By implementing this strategy, we expect the carbon intensity in Hong Kong to be reduced by 50-60% by 2020, compared with the 2005 level. Greenhouse gas emissions will decrease by 19-33% compared with 2005. Emissions per capita will also be lowered from 6.2 tonnes to 3.6-4.5 tonnes, far lower than the levels of the United States, the European Union and Japan.

Air Quality

113. Air quality in Hong Kong is improving gradually. Last year, the ambient air concentrations of such major pollutants as sulphur dioxide, suspended particulates and nitrogen dioxide dropped by 36%, 15% and 4% respectively compared with 2005. However, for roadside air pollution, the concentration of nitrogen dioxide is still on the high side. We will implement the following improvement measures.

Franchised Buses

114. Franchised buses are the major cause of roadside air pollution on busy corridors. The ultimate policy objective of the Government is to have zero emission buses running across the territory. When the current bus franchises expire in the coming few years, we will impose additional requirements in the franchises for the bus companies to switch to zero emission buses or the most environmental-friendly buses when replacing existing ones, taking into account the feasibility and affordability for bus operators and passengers.

115. In terms of fuel consumption and other environmental performance, hybrid buses are superior to ordinary diesel buses. In view of market availability and technical developments, hybrid buses have the potential to replace diesel buses on a large scale within a short period. Therefore, we propose to fund the full cost of procuring six hybrid buses for use by the franchised bus companies along busy corridors to test the operational efficiency and performance of these buses under Hong Kong conditions and to collect operational data. If the bus companies wish to test other greener buses such as electric buses, the Government will be ready to provide them with the same financial support.

116. At present, over 60% of franchised buses are Euro II and Euro III vehicles. There are too many to phase them all out in the coming few years. In view of this, the Government and franchised bus companies are conducting a trial to retrofit Euro II and Euro III buses with catalytic reduction devices to meet Euro IV nitrogen oxide emission standards. Subject to satisfactory trial results, we will fully fund the retrofit of the devices on all Euro II and Euro III buses. Bus companies will bear the subsequent operational and maintenance costs.

117. Furthermore, the Government plans to designate pilot low-emission zones in busy districts such as Causeway Bay, Central and Mong Kok. We will increase as far as possible the ratio of low-emission franchised buses running in these zones

from next year, with the target of having only low-emission buses in these zones by 2015.

Pilot Green Transport Fund

118. Land and sea transport are the second largest sources of air pollution and greenhouse gas emissions. To encourage the transport sector to test out green and low-carbon transport means and technology, the Government plans to set up a \$300 million Pilot Green Transport Fund this year for application by the transport trade.

Improving Water Quality in Victoria Harbour

119. To improve the water quality of Victoria Harbour, we have further allocated about \$17 billion for the full-speed construction of relevant facilities. Upon completion in 2014, the facilities will treat the remaining untreated sewage, about 450 000 cubic metres a day, discharged from Hong Kong Island. This will substantially improve the water quality of our harbour. In parallel, we have advanced the construction of some disinfection facilities to improve the water quality in the western part of the harbour and the beaches in Tsuen Wan. We expect to re-open some of the Tsuen Wan beaches next year. In the coming few months, we will finalise our plans and discuss the preparatory work with the District Councils.

Ban on Trawling

120. In recent years, Hong Kong's marine environment has been affected by pollution and capture fisheries, resulting in a declining quality of fish catches. To protect our precious marine resources and ecology, we will implement a basket of management measures such as banning trawling in Hong Kong waters through legislation in order to restore our seabed and marine resources as early as possible. We plan to introduce legislation into this Council next year. To assist the fishermen affected, we will launch a voluntary trawler buyout scheme, and grant an ex-gratia allowance to eligible fishermen. The Secretary for Food and Health will later announce the details of the scheme.

121. Meanwhile, we will provide training and technical support for affected fishermen to help them switch to other sustainable fishing operations, including aquaculture and leisure fishing. Some fishing vessels bought under the voluntary scheme will be processed for use as artificial reefs to enrich fishery resources and improve the marine ecology. I believe these measures are conducive to the sustainable development of the fisheries industry.

Nature Conservation

122. Hong Kong boasts over 40 000 hectares of land of scenic beauty. However, the recent Tai Long Sai Wan incident has highlighted the need to take prompt action to regulate land use in the vicinity of country parks to forestall human damage.

123. We have prepared draft Development Permission Area plans for Sai Wan, Hoi Ha, Pak Lap and So Lo Pun. There remains 50 sites adjacent to country parks but not yet covered by statutory plans. To meet conservation and social development needs, we will either include them into country parks, or determine their proper uses through statutory planning. We will start work as soon as possible.

Environment and Conservation Fund

124. In 2008, the Government injected \$1 billion into the Environment and Conservation Fund (ECF) to expand its scope with a view to encouraging more organisations to undertake conservation research and technology demonstration projects. We have earmarked \$500 million for injection into the ECF as necessary.

Cultural Development

125. The West Kowloon Cultural District (WKCD) Authority is conducting a public engagement exercise on the conceptual plans submitted by three world-class planning and design teams. The Authority will select one of them early next year as

the master plan, which will serve as the basis of a detailed development plan.

126. To tie in with the development of the WKCD, we will strengthen our cultural software, develop our audience base, and support more small and medium arts groups. We have injected \$3 billion into the Arts and Sports Development Fund. We will use part of the fund's investment return to match donations from individuals and the business sector to provide funding for the continued development of promising artists and arts groups.

127. To allow arts and culture to reach out to the community, we will display in our parks, open spaces and government offices buildings visual art pieces created by budding artists, students or teams, and improve the image, facilities and services of our public museums.

128. In addition, to facilitate the use of public library services, the Leisure and Cultural Services Department (LCSD) will provide drop-in boxes at major MTR interchange stations on a trial basis to make it more convenient for people to return books and other library items.

Sports

Sports Facilities

129. Over the past five years, the Government has invested more than \$3.5 billion to build and improve sports facilities. We will continue to invest substantially in sport facility projects, including the construction of the Kai Tak Multi-purpose Stadium Complex, which is now under planning, as well as new indoor sports centres and games halls. These facilities are crucial to the promotion of "sport for all" and to the development of elite sports.

130. We are consulting the public on whether Hong Kong should bid for the 2023 Asian Games. Our decision will be subject to community support and the acceptance of the financial

implications by the Finance Committee of this Council. We encourage the public to express their views.

Football Development

131. Football is a popular sport in Hong Kong, and one that can help foster a sense of community. The Government is committed to developing football at both the professional and amateur levels. The Home Affairs Bureau is working with the Hong Kong Football Association and others to implement the recommendations of the Consultancy Report on Football Development. To popularise the sport, we will build new pitches and upgrade existing ones, and allocate additional resources from the Arts and Sports Development Fund to give greater support to district football teams and provide them with more competition opportunities.

Pets and Stray Cats and Dogs

132. There are many dog lovers among us. To cater for their needs, the LCSD plans to make available more venues which allow them to bring in their dogs. It will also identify suitable sites for new pet parks. We will consult local residents and the District Councils beforehand.

133. Recently, there has been criticism of the Government's policy on stray cats and dogs. We should tackle the problem of stray cats and dogs at source. We will enhance public education and publicity. In parallel, we will co-operate with animal welfare groups to enhance adoption services for stray cats and dogs and provide free neutering for adopted ones. We will explore other feasible measures acceptable to the public.

E. Social Stability

Investment in Education

134. The Government attaches great importance to education. Education is the largest single expenditure item in our budget, representing over 20% of total government recurrent expenditure. We will continue to allocate resources to provide quality and diversified education for our people and nurture talent for the community.

Multiple Study Pathways

135. We provide multiple and flexible pathways for our young people. Degree programmes organised by 13 institutions aside, many local post-secondary institutions offer sub-degree programmes covering various disciplines. Youngsters have many other options in continuing education and vocational training.

136. We will step up efforts to diversify our post-secondary education. We propose to set up a fund with a total commitment of \$2.5 billion for the development of self-financing post-secondary education. The fund will offer scholarships to students of self-financing post-secondary programmes, and support institutions to enhance the quality of teaching and learning.

137. In addition, we propose to increase publicly-funded first-year-first-degree places to 15 000 for each cohort from the 2012-13 academic year. Taking into account the views of the University Grants Committee, we also recommend that senior year intake places should be doubled progressively to 4 000 each year to provide more articulation opportunities for sub-degree graduates. The proposed additional places will involve an additional annual expenditure of about \$1 billion. Upon full implementation, over 30% of our young people in the relevant age group will have the chance to take self-financing or publicly-funded degree programmes. Including sub-degree places, young people attending local post-secondary programmes will

account for about 65% of the age group, more than double the level of about 30% a decade ago.

138. The community is concerned about the interest rate and repayment arrangements for loans to post-secondary students. The Government has commenced a review on all non-means-tested loan schemes for post-secondary students. The review covers the scope of eligible programmes, loan amounts, interest rates and repayment arrangements under the schemes, as well as measures to reduce the default rate. We are drawing up detailed recommendations for further consultation with the public at the end of this year.

Youth Development

Temporary Work Opportunities for Young People

139. While overall employment in Hong Kong has improved recently, the unemployment rate among young people remains high. We have decided to extend to March 2012 the 3 000 temporary work opportunities created for young people aged between 15 and 29 to gain work experience.

Mainland Volunteer Service under the Service Corps Programme

140. Many of us were moved by the selfless act of Hong Kong volunteer Mr Wong Fuk-wing, who sacrificed his life to save others during the earthquake in Yushu, Qinghai. Many Hong Kong people are passionate about voluntary work and render volunteer service in both Hong Kong and the Mainland. The Government plans to form a “Service Corps” in the coming year to recruit and provide financial support for senior secondary school leavers, tertiary students and working youths aged between 18 and 29 to serve in underprivileged areas in the Mainland for 6 to 12 months by providing training on, for example, education, hygiene and environmental protection.

The Auxiliary Medical Service Cadet Corps

141. The Auxiliary Medical Service (AMS) will set up a cadet corps next year aiming to recruit 1 000 members in five years. The AMS cadet corps will encourage young people aged between 12 and 17 to develop practical skills and leadership through group activities and training, and help them build self-confidence, a sense of responsibility, self-discipline and the spirit to serve.

Cyber Youth Support

142. In view of the changing lifestyle of youths, we will introduce pilot Cyber Youth Outreach Projects with funding support from the Lotteries Fund. Under these projects, we will reach out through the Internet to youths in need, particularly those identified as at-risk or hidden, for timely support services to them.

Anti-drug Initiatives

143. Our territory-wide campaign against drug abuse in the past two years has garnered community support. The youth drug abuse problem has shown some signs of easing. But we must not be complacent.

144. Schools are an important platform for fighting drugs. The Trial Scheme on School Drug Testing in Tai Po launched last year ran smoothly. We have decided to extend the scheme for one year in order to gain further practical experience. An evaluation research will soon be completed. In light of its recommendations, we will engage stakeholders to map out the way forward for school drug testing. We also plan to step up school social work services in all secondary schools by a 20% increase in manpower. The fight against drug abuse is a protracted war. The Government will continue its anti-drug efforts using a five-pronged approach, spanning social mobilisation, community support, law enforcement, treatment and drug testing.

Family Harmony

145. Last year, the Family Council conducted a series of studies on social problems. It concluded that, to tackle these problems, we have to start from the family and adopt a multi-pronged approach. The Family Council will organise a series of family education activities, and continue to actively mobilise all sectors of the community through the “Happy Family Campaign” and “Happy Family Info Hub” to jointly promote family core values and foster an environment conducive to harmonious family relationships. It will launch a “Family Friendly Company Award Scheme” to recognise family friendly companies, with a view to encouraging the business sector to promote family core values.

Social Enterprises

146. There are more than 300 social enterprises in Hong Kong. To rally community support and help social enterprises sustain their development, the Government will launch a “Be a Friend to Social Enterprise” campaign. Private enterprises will be encouraged to assist social enterprises in different ways, such as subsidies, consultancy services and partnership. We will introduce training programmes to nurture young social entrepreneurs. We will organise Social Enterprise Fairs to raise community awareness about social enterprises and promote socially responsible consumption.

Enhanced Protection of Personal Data

147. The transfer of customers’ personal data by some enterprises for use in direct marketing has aroused community concern. The Privacy Commissioner for Personal Data has investigated the cases and will issue a new guidance note on relevant issues. Moreover, we propose that more specific requirements should be laid down in the Personal Data (Privacy) Ordinance, and will put forward legislative proposals for public discussion shortly. We will consider carefully the impact of the legislative proposals on the relevant sectors.

Enhancing Legal Aid Service

148. To make legal aid services more accessible, the Government has recently decided to substantially increase the financial eligibility limits of the Ordinary Legal Aid Scheme and the Supplementary Legal Aid Scheme (SLAS). Moreover, the age requirement for exempting part of the savings in calculating disposable capital will be relaxed from the age of 65 to 60.

149. To complement the SLAS review soon to be completed by the Legal Aid Services Council, and to benefit more middle-class people, the Government will earmark \$100 million for injection into the SLAS Fund when necessary to expand the scheme to cover more types of cases, such as claims for damages for professional negligence in a wider range of professions, and claims to recover outstanding wages and other employee benefits.

150. In addition to legal aid services, the public can also obtain preliminary legal advice through the government-funded Free Legal Advice Scheme without any means testing. We will enhance support services for the scheme to attract more volunteer lawyers to join.

Emergency Response Strategy for Hong Kong Residents in Distress Outside Hong Kong

151. Our nation's diplomatic resources provide a firm backing for our emergency response system. We benefit from frontline assistance rendered by Chinese embassies when our residents are in distress outside Hong Kong. In the Manila hostage incident, with the staunch support of the Office of the Commissioner of the Ministry of Foreign Affairs of the People's Republic of China in the Hong Kong Special Administrative Region and the Chinese Embassy in the Philippines, our support team managed to accomplish its relief tasks promptly. Drawing from the experience of this incident, the Government will further improve the existing response mechanism to offer better assistance to our residents in distress outside Hong Kong.

F. Democratic Development

Constitutional Development

152. Hong Kong has taken a critical step forward in its constitutional development. Last June, this Council passed the draft amendments to the methods for selecting the Chief Executive and for forming the Legislative Council in 2012. I subsequently signed instruments of consent to the draft amendments. The amendments were then approved and recorded respectively by the Standing Committee of the National People's Congress in August. This signifies the completion of the five-step legislative process for amending the methods for selecting the Chief Executive and for forming the Legislative Council. The community's aspiration to roll forward constitutional development has been realised.

153. The task before us is to enact local legislation on the two electoral methods. We plan to put forward proposals later this month and consult this Council. We hope that the bills will be passed in a few months to allow political parties and prospective candidates to make early preparations. We hope that the community will adopt a rational, pragmatic and accommodating attitude, and take this hard-earned opportunity to promote the constitutional development of Hong Kong, paving the way for universal suffrage for the Chief Executive in 2017 and for the Legislative Council in 2020.

154. It is evident that public opinion plays an important role in a political system with universal suffrage. The Government has to engage the public when advocating its policies. The Government should gauge, collate and take into account people's views. We will make greater use of the new media that have become popular in recent years to enhance our interaction with the public and engage the community in rational discussions of public affairs.

Political Talent

155. For democracy to bring about good governance and benefit our people, political talent is of the utmost importance. The political appointment system introduced in 2002 was expanded in 2007 with the new positions of Under Secretary and Political Assistant. Despite some early criticisms, it has been effective in enhancing the political capacity of the Government, and has helped nurture political talent. We believe in creating a diverse pool of political talent consisting of political party members, academics, business people, professionals and elite civil servants. To attract more people from different sectors to take up political appointment, we need to consider more flexible arrangements such as a “revolving door”.

The Civil Service

156. An effective government relies not only on political talent, but also on a professional and highly efficient civil service. Civic awareness among the public has been increasing, leading to rising demands and expectations on the Government. Our civil servants have carried on their fine tradition and remained as dedicated as ever to their duties. They have spared no effort to deliver quality services to the people of Hong Kong and pursue excellence. Their commitment to serving our people and their spirit of putting people first are for all to see.

157. The professionalism of our civil servants was most evident in the Ma Tau Wai Road building collapse incident early this year and the Manila hostage incident in August. On both occasions, the civil service responded promptly with strong teamwork, urgently mobilising manpower to assist the victims and their families, and handled these rare emergencies professionally. The officers’ hard work and devotion to duty won the trust and recognition of the public. I firmly believe that our civil servants will keep up their efforts in the face of challenges.

National Education

158. It is our established policy to promote national education. We will collaborate further with the Committee on the Promotion of Civic Education, District Councils, community organisations, national education organisations and youth organisations. We will organise more Mainland exchange programmes, study tours and volunteer activities so that Hong Kong people, especially the younger generation, may gain a deep understanding of our country, develop a stronger sense of national identity, and recognise the common origin and close bonds between Mainland and Hong Kong people. For example, with Shanghai hosting World Expo 2010, we have organised and sponsored study tours and a volunteer team for our young people to attend this mega event. We will also provide volunteer services for the Asian Games in Guangzhou this year and the Universiade in Shenzhen next year to encourage Hong Kong people's participation in international events and strengthen their ties with our country.

159. We will increase opportunities for students to participate in Mainland learning and exchange activities. Our target is to subsidise every primary and secondary school student to join at least one Mainland exchange programme. We will organise more exchange activities together with voluntary groups through the "Passing on the Torch" programme, providing some 4 000 additional places a year. We expect to achieve this by the 2015-16 school year. To better equip our teachers, we will provide additional resources for student teachers to participate in relevant professional study courses in the Mainland.

160. Based on the current curriculum, the Education Bureau (EDB) will improve students' understanding of the Basic Law, step up the teaching support relating to the Basic Law and "One Country, Two Systems" in the primary and secondary school curricula and compile a learning package in this school year. We also propose to increase study hours on the Basic Law and related topics. Furthermore, the EDB will develop a database

of questions on the Basic Law for students to attempt online and for schools to use in examinations.

161. The EDB will invite the Curriculum Development Council to review the curriculum framework for moral and civic education at primary and secondary levels, and to develop an independent subject on “moral and national education”. This initiative is expected to be implemented in the 2013-14 school year to further enhance the elements of national education.

162. In addition, the Civil Service Bureau will enhance training and organise more exchange activities for civil servants to deepen their understanding of national development and affairs.

Legislating under Article 23 of the Basic Law (BL23)

163. I am aware of the diverse opinions about the enactment of legislation to implement BL23. The majority view is that the current-term Government should, in the remaining one year or so of its term, focus its efforts on promoting economic development, improving people’s livelihood and maintaining the prosperity, stability and development of our society, and that legislative work for implementing BL23 could be deferred. After repeated deliberations, we have decided not to legislate under BL23 during the current term. That said, I must reiterate that it is both a constitutional duty of the Hong Kong SAR Government and the collective responsibility of the whole community to enact legislation under BL23. I believe that different sectors of the community will eventually arrive at a consensus and complete this task in due course.

G. Conclusion

164. Mr President, not long ago, some of our fellow citizens were held hostage in Manila. Our hearts were wrenched as the tragedy unfolded before our eyes. Yet, at such a sad time, Hong Kong people showed great nobility and empathy by their support to the families of the victims. The business sector also selflessly lent a hand by providing free charter flights and other assistance. This incident prompted us to reflect on our values, and made us realise even more the preciousness of life and relationships. Crises, man-made or natural, happen everywhere. Happiness and harmony cannot be taken for granted.

165. Hong Kong has witnessed social division and confrontation in recent years. Since the Asian financial crisis in 1997, challenges have come one after another, changing people's views on the goals of social development, the allocation of public resources and the pace of democratic development. Diverse views have polarised our society. The widening wealth gap has led to social tension. As a city economy, Hong Kong is vulnerable to external economic changes. Facing challenges and competition on all fronts, we cannot afford to be divided. Only by embracing unity and tolerance will our society progress.

166. The third-term Hong Kong SAR Government under my leadership adopts a pragmatic and balanced approach to governance. We strive to ease social tension and adjust our policy objectives and roles from time to time according to practical needs to uphold social justice, maintain an orderly market and protect the disadvantaged. We are pragmatic and rational in solving problems and forging consensus as far as possible in the community.

167. In 2005, as Chief Executive, I raised the concept of "Strong Governance for the People" as the vision of my administration. I pledged that the Government would be decisive in policy making, vigorous in action and directed by clear objectives. Strong governance cannot be achieved behind closed doors; it has to be based on public opinions. When government policy

differs from mainstream thinking, we must listen attentively to comments and criticisms, and make timely adjustments to avoid departing from the people's views. In handling issues such as the WKCD development and healthcare financing, we did adjust our approach in light of public opinion. This is pragmatism at work.

168. I have always believed that Hong Kong people are rational, and that rationality is the foundation of social stability. I believe that every sector of our society can tackle problems rationally and contribute to social progress, democratic development and economic prosperity.

169. The constitutional reform package was passed last June. This marked the beginning of the journey towards our common goal of universal suffrage. We will complete the necessary legislative procedures and devise fair, open and impartial election methods.

170. We should prepare well for the implementation of universal suffrage. Democracy is a system for power sharing. It is not a panacea. It works differently in different circumstances. Only in a mature and rational social environment can it bring about good governance and benefit the people.

171. Opportunities come to those who are ready. Hong Kong must ride on the opportunities brought about by the rise of our country, and make giant strides in our political, social, economic and cultural development in the coming decade. This is a mission for the SAR Government. This is a mission for every one of us.