

Mr President,

A. Introduction

1. Just before I delivered my Policy Address last year, the credit crisis in the United States (US) had broken out and created the financial tsunami that swept the entire world. For the people of Hong Kong, this past year has been extraordinary.

Economic Crisis

2. I noted in my previous Policy Address that Hong Kong people should stand united to vigorously pursue economic development and seize opportunities while coping with the crisis. Now, a year later, I can say that Hong Kong people have done a great job in keeping the ship afloat during this economic storm of the century.

3. Hong Kong was hit hard by the financial tsunami — our economy recorded a sharp year-on-year decline of 7.8% in the first quarter of this year. The pace of deterioration and the depth of the decline in external trade earlier this year were unprecedented in decades. As the economic downturn in the US began to slow, the Asian economies started to improve. In particular, the Mainland economy quickly regained its growth momentum in the second quarter after forceful stimulus measures by the Mainland authorities. Hong Kong's economy also benefited. Our economy grew by 3.3% in the second quarter as compared with the first quarter, reversing the contraction over the preceding four quarters. I am confident that, for the rest of the year, our economy will improve further and gradually recover.

4. Faced with the worst global recession in decades, the Government spared no effort in “stabilising the financial system, supporting enterprises and preserving employment” in the shortest possible time. The Hong Kong Monetary Authority introduced a full deposit protection scheme. As a result, interbank rates fell significantly. The loan guarantee schemes

launched by the Government last year stabilised over 10 000 enterprises and secured more than 240 000 jobs. The Government's relief measures since last year have amounted to \$87.6 billion — equivalent to 5.2% of our Gross Domestic Product (GDP), higher than the average for the G-20 economies. The stimulus packages taken together, which would raise this year's GDP by roughly two percentage points, have abated the rise in unemployment. These measures have stabilised the local economy without impairing the Government's fiscal position in the long term. The Mainland and Asian economies have been improving at a pace faster than those in Europe and the US. Hong Kong as an Asian business hub has attracted an influx of foreign capital, boosting our real estate and securities markets.

Real Estate Market

5. The local real estate market has not been as seriously affected in the past year as in the 1997 financial turmoil. After a brief downward adjustment, property prices have returned to their mid-2008 levels. Except for luxury flats, property prices are still below their peak in 1997. The home-purchasing power of the public is greater than in 1997, and the number of negative equity cases remains very small. A steady property market can prevent property owners from being hit doubly hard during an economic downturn. The relatively small number of residential units completed and the record prices attained in certain transactions this year have caused concern about the supply of flats, difficulty in purchasing a home, and the possibility of a property bubble. The Government will closely monitor market changes in the coming months. When necessary, we will fine-tune the land supply arrangements and discuss with the Urban Renewal Authority and MTR Corporation Limited with a view to quickening the pace of bringing readily available residential sites to the market.

Role of the Government

6. The global economic crisis has dealt a great blow to most governments and communities. We have to revisit the Government's role in promoting economic development. The Task Force on Economic Challenges (TFEC) set up last year recommended the development of six industries where Hong Kong enjoys clear advantages. They are: education services, medical services, testing and certification, environmental industries, innovation and technology, and cultural and creative industries. The Government has accepted the TFEC recommendations and is developing specific measures for promoting the six industries. Our strategy is to remove barriers to these industries and help them tap into new markets. We will adhere to the principle of "Big Market, Small Government".

New Challenges

7. The economic crisis has changed the landscape of the global economy. The Mainland has been less affected than others, and has emerged as a prominent economic power. While Hong Kong is relatively stable, our competitive environment has changed. Our first new challenge is to maintain Hong Kong's status as a global financial centre. To complement the stated policy of gradually internationalising the Renminbi (RMB), the Mainland needs multi-level international financial services. As the RMB moves towards internationalisation, the Mainland needs a highly open global financial centre that is fully aligned with the world financial markets to serve as its platform for foreign financial activities. Hong Kong can fit this role by making the best of our advantages. We can support the Mainland in promoting the regionalisation and internationalisation of the RMB. In the process, Hong Kong can help the Mainland enhance financial security and develop offshore RMB business. Recently, the people of Hong Kong have expressed concern about the financial development of Shanghai and the policy of the Central Authorities on this. Some even feel worried about this development. However, I believe that Hong Kong can work in collaboration with Shanghai and leverage our respective

strengths to contribute to the development of financial services in the Mainland. The competition between Hong Kong and Shanghai is not a zero-sum game.

8. Another new challenge stems from the significant breakthrough in cross-Strait relations over the past year. Hong Kong has been acting as a bridge between the Mainland and Taiwan in the trade and economic spheres. This intermediary role has been an integral part of Hong Kong's economic pillars, including trade, financial services and logistics. However, the opening of the "three links" this year has put pressure on this traditional role. In particular, there has been a drastic decrease in transit passengers and cargo transshipment. As cross-Strait economic and trade relations deepen, this part of our economy may face greater challenges. It is imperative for us to formulate an overall response strategy, which I will cover later.

B. Economic Development, Our Priority

Knowledge-based Economy

9. As a mature and open capitalist market economy, Hong Kong must constantly enhance its competitiveness and continue to evolve into a high value-added, knowledge-based economy to maintain its leading edge over global competitors and create more quality jobs. Innovation and knowledge-based industries include not only the six recommended by the TFEC but also the four traditional pillar industries, namely financial services, tourism, trading and logistics, and professional services. The four pillar industries are well developed, accounting for 60% of our GDP. In order to sustain their development, we must try every means to enhance the flow of people, goods, capital and information that are related to the four pillar industries.

Traditional Pillar Industries

Financial Services

10. The financial services industry is the most important pillar supporting our economy. As a prime global financial centre in the Asian time zone, Hong Kong enjoys many advantages, including a highly open and internationalised market, a regulatory regime aligned with major overseas markets, the rule of law, and the free flow of information and capital.

Competitiveness

11. We should fully grasp the opportunities presented by “One Country, Two Systems”. We will continue to develop Hong Kong as a global financial centre, asset management centre and offshore RMB business centre attracting capital and talent from within and outside the country. In the process, we will endeavour to meet the overall development needs of our country and achieve a win-win situation, and contribute to our country’s

financial security. The Financial Secretary will formulate specific plans along the following direction:

- (1) To build on our strength as an international market and enhance the quality and competitiveness of our market to attract international talent, capital, financial institutions and products;
- (2) To strengthen our role as the testing ground for the liberalisation of our country's capital account and the regionalisation and internationalisation of the RMB, and to build a market offering a broad range of RMB products and services;
- (3) To leverage on the "early and pilot implementation" policy to enhance the two-way flow of financial institutions, financial products, capital and talent between Hong Kong and the Pearl River Delta (PRD) region;
- (4) To serve as Mainland enterprises' preferred capital raising centre outside the Mainland, providing equity listing, bond issuance, international asset management and hedging services. In this regard, Hong Kong can act as the bridgehead for Mainland enterprises to go international; and
- (5) To strengthen the links between the Mainland and Hong Kong financial markets in the areas of financial market infrastructure, information sharing, and regulatory co-operation to enhance the financial security of cross-border capital flows.

Financial Regulation

12. Hong Kong's financial market has been buffeted by the global financial tsunami since September last year. The collapse of Lehman Brothers triggered the minibond incident. Now, the vast majority of the eligible minibond holders have accepted the settlement offer. Our financial market is gradually emerging

from the shadow of the crisis and moving ahead on the road to recovery. With the experience gained, we will seek to further achieve the two main objectives of investor protection and financial security when formulating policies on financial regulation.

13. To better protect investors, we will canvass the views of the parties concerned on the regulatory regime and the entire sales process of investment products. We aim to strengthen investor protection in every aspect, from investor education, authorisation of investment products, disclosure requirements, sales practices, conduct of intermediaries to financial disputes resolution. Some of these measures have been implemented while some are undergoing or will undergo public consultation.

14. The local financial system has emerged from this global financial crisis without any systemic problems, thanks to our robust regulatory regime. Nevertheless, the G-20 and international regulatory bodies, having learnt lessons from the crisis, have proposed a series of measures to enhance the regulation of financial institutions and markets. Together with the regulators, we shall continue to improve our regulatory regime, taking into account global financial developments and local market needs.

Tourism

15. In the field of tourism, we are actively discussing with the Central Authorities measures to facilitate Mainland visitors travelling to Hong Kong. In April this year, the Mainland authorities introduced a one-year multiple-entry Individual Visit Scheme endorsement for Shenzhen residents to visit Hong Kong. The new arrangement has been well received. By end-September, about 740 000 visitors had travelled to Hong Kong with the new endorsement.

16. In view of the great potential of the cruise industry in the Asia-Pacific region, we are pressing ahead with the construction of the new cruise terminal at Kai Tak to ensure that the first berth will commence operation in mid-2013. At the same time, we are

striving to attract cruise vessels to homeport here. Since the implementation of the measure to allow Mainland tour groups to travel to Taiwan through Hong Kong by taking cruise vessels homeporting here, many major cruise operators have launched relevant tourism products. In the coming year, there will be about 20 journeys from Hong Kong to Taiwan, carrying about 30 000 passengers in total.

Trading and Logistics

17. The Government attaches great importance to the sustainable development of the trading and logistics industry. The Outline of the Plan for the Reform and Development of the Pearl River Delta (the Outline) promulgated in January 2009 stresses the importance of a clear division of work, a reasonable layout and complementarities in respect of the facilities in Hong Kong and in the Mainland. We will work closely with the Mainland authorities to maintain Hong Kong's leading position in the global supply chain.

18. It is increasingly accepted that the trading and logistics sector in Hong Kong should gradually shift to high-value goods and services. To facilitate development in this direction, we have identified a number of permanent sites around the Kwai Tsing area, which is close to our container terminals and airport. These sites will be made available to the market in phases from 2010 onwards to facilitate the development of a logistics cluster.

19. An important measure to support our logistics industry is to enhance the handling capacity of the Hong Kong International Airport. The Hong Kong Airport Authority will carry out a midfield expansion project to provide additional aircraft stands and apron facilities and a new passenger concourse. The project can maximise the use of the two existing runways so that the airport can cope with air traffic demand up to 2020. The preliminary study on the project will be completed in 2010.

Professional Services

20. The professional services we provide are on a par with international standards and renowned for their high quality and efficiency. Hong Kong and the Mainland encourage the mutual recognition of professional qualifications by our respective professional bodies, and facilitate access to the Mainland market by Hong Kong's professional services through the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA). CEPA has introduced various market liberalisation measures for Hong Kong's professional services sector, including allowing Hong Kong residents to sit the Mainland's professional qualification examinations, simplifying internship requirements, facilitating registration and practising, and lowering market entry thresholds.

Six Industries

21. Apart from the four pillar industries, the six industries are crucial to the development of our economy. At present, the private sector part of these six industries directly contributes about 7% to 8% of GDP, and employs around 350 000 workers, or about 10% of the total workforce. With appropriate policies to remove obstacles to their development, the six industries will enter a new phase of development, propelling Hong Kong towards a knowledge-based economy.

Optimising Land Use

22. Over the years, the Government's role in economic development has mainly been setting market rules, creating a fair and open environment, and providing suitable human resources, with the aim of optimising the use of limited resources in society. Now that the economy is restructuring, the Government has the responsibility to examine whether the existing use of resources can support the new economic structure, and to prevent the factors of production from being tied up by outdated policies and economic structure.

23. The community widely supports the development of the six industries, and has clearly reflected to the Government that land resources are crucial to their development. Meanwhile, there have been calls for realising the potential of old industrial buildings. Due to the constraints of the existing systems and policies, these valuable resources have not been fully utilised.

24. Therefore, the Government proposes the following package of measures to release the potential of over 1 000 old industrial buildings. To encourage the redevelopment or conversion of industrial buildings by owners, we will:

- (1) Lower the threshold for compulsory sale for redevelopment for industrial buildings in non-industrial areas to facilitate the consolidation of ownership by owners;
- (2) Enable owners to pay additional premiums according to the actual development density after redevelopment based on a “pay for what you build” approach;
- (3) Allow owners who modify the lease for redevelopment to opt to pay additional premiums by instalments over a period of five years at a fixed interest rate if the premiums payable exceed \$20 million; and
- (4) Exempt owners who opt for the wholesale conversion of a building instead of redevelopment from paying the waiver fee for change of land use, provided that the requirement on age of property is met and planning permission is obtained.

The second, third and fourth measures proposed will be effective only for three years starting from 1 April 2010. The approved projects for redevelopment have to be completed within five years, and those for wholesale conversion within three years.

25. These measures have been proposed after careful consideration by the Government. They can address the needs of economic development by enabling owners to revitalise and add value to their industrial buildings, thus providing new momentum for economic growth and creating jobs. They are also in line with the principle of “Big Market, Small Government”, and allow the market to respond to such needs. To be more business friendly, the Lands Department will set up a dedicated team to process applications for redevelopment or wholesale conversion of industrial buildings.

Education Services

26. On the development of education services, our objective is to enhance Hong Kong’s status as a regional education hub, boosting Hong Kong’s competitiveness and complementing the future development of the Mainland. As announced earlier, we have allocated four greenfield sites to four operators for international school development. Looking forward, we will explore the possibility of allowing Mainland senior secondary students to study in Hong Kong. For example, we may allow them to take short-term courses offered by our degree-awarding tertiary institutions, or pursue senior secondary education at non-public schools in Hong Kong.

Internationalisation

27. In recent years, the Government has introduced a series of measures to internationalise our schools and institutions. As a result, the number of non-local students in Hong Kong reached 9 200 in the 2008-09 school year, representing a rise of 16% over the previous year. We will consider further relaxing the relevant requirements by, for example, allowing Mainland students to pursue studies in non-local programmes at degree level or above in Hong Kong. Apart from targeting Mainland students, we will encourage our higher education institutions to step up exchange and promotion in Asia. An increase of non-local students will provide a more international environment for local students to broaden their horizons.

Diversification

28. At present, there are three self-financing degree-awarding tertiary institutions in Hong Kong, providing some 9 000 places in total. We consider that the self-financing higher education sector has room for further expansion and is an important component of education services. To facilitate its development, we have, as announced earlier, reserved two urban sites for interested operators to provide self-financing degree programmes. These two sites, one in Ho Man Tin and the other in Wong Chuk Hang, are expected to provide some 4 000 places. We will continue to identify other suitable sites for this purpose. Meanwhile, we will take advantage of the new policy on revitalising industrial buildings to enable institutions to run self-financing programmes. We will also provide loans to help institutions meet the costs of purpose-built accommodation and facilities. To this end, we propose to increase the total commitment of the Start-up Loan Scheme by \$2 billion.

29. Developing our education services will bolster the pluralistic, international and professional outlook of Hong Kong, and make the best use of social resources in the non-government sector to provide more opportunities for local students to pursue degree education.

Formulating a Long-term Strategy

30. In view of the rapid development of higher education in the Mainland and the region, we must review the positioning of higher education in Hong Kong and formulate a long-term development strategy. The University Grants Committee (UGC) has commenced another Higher Education Review to examine such areas as the vision and role of higher education in Hong Kong, its development trend, quality assurance and the research support strategy for the sector. The UGC aims to submit a report to the Government in 2010.

Medical Services

Private Hospitals

31. To develop our medical services, we will, by the end of this year, invite expressions of interest from the market to develop private hospitals, which may provide traditional Chinese medicine services, on four sites at Wong Chuk Hang, Tseung Kwan O, Tai Po and Lantau. Based on the expressions of interest received, we will make appropriate land disposal arrangements which can encourage innovation, enhance the quality of services, increase the transparency of fees and charges, and ensure the provision of quality private medical services to the public. Meanwhile, we will also consider making use of the vacant space in public hospitals for additional medical facilities. We will facilitate the change of land use of private sites for medical use subject to planning permission. We will closely monitor the demand of the market and medical sector for land, and ensure that suitable sites are available for the development of medical services.

Strengthening Training of Medical Personnel

32. On software, we will continue to step up the training of medical personnel, and encourage the development and pooling of talent. In the 2009-10 academic year, we have provided 70 additional places for medical degree programmes, as well as 40 and 50 additional places respectively for nursing programmes at degree and sub-degree levels. We will provide 60 additional senior year places for degree programmes on nursing in the 2010-11 academic year. Furthermore, with a view to strengthening the supply and professional training of nurses, the Hospital Authority (HA) has re-opened some of its nursing schools and provided 200 and 350 additional training places for Registered Nurses and Enrolled Nurses respectively in 2009-10. At present, the HA is providing training subsidies to more than 350 nurses each year to take conversion courses.

Development of Chinese Medicine

33. To facilitate the development of Chinese medicine, the Government will expedite the setting of standards for Chinese herbal medicines commonly used in Hong Kong. We aim to extend our coverage from the current 60 herbal medicines to about 200 by 2012. To enhance our capability to test Chinese medicines, we will assist and promote the establishment of testing laboratories in the local market. We will further consider allowing more renowned Chinese medicine practitioners from the Mainland to join clinical teaching and research programmes in Hong Kong so as to make Hong Kong a stage for promoting Chinese medicine to the world.

Testing and Certification Services

34. In September this year, the Government established the Hong Kong Council for Testing and Certification, which comprises members from the testing and certification industry, business sector, professional bodies and relevant public organisations. The first and foremost task of the Council is to draw up a three-year development plan for the industry. One of the major objectives of the plan is to promote the development of Chinese medicine and help establish Hong Kong as a testing and certification centre in the region by introducing new certification services. In fact, our testing and certification industry is highly acclaimed by users for its professionalism, integrity and credibility of test results.

35. The Hong Kong Council for Testing and Certification held its first meeting in late September and has drawn up its work plan. The Council will examine a number of important issues, including how to align the work of the Hong Kong Accreditation Service under the Innovation and Technology Commission with the development needs of the industry. The Council will also consider measures to enhance professional standards, to increase training opportunities, and to promote our testing and certification services in Hong Kong, the Mainland and overseas. In drawing up the development plan for the

industry, the Council will take into full account the views of the industry and relevant stakeholders. I look forward to receiving the Council's recommendations early next year.

Environmental Industries

Cleaner Production Partnership Programme

36. The Government allocated \$93 million last year to jointly launch the five-year Cleaner Production Partnership Programme with Guangdong. Under the programme, the Hong Kong Productivity Council provides professional services in conjunction with over 100 environmental technology service providers in the PRD region to help factories there adopt cleaner production technologies. The programme also facilitates the exchange of information on environmental technology and the promotion of environmental technology and services, creating business opportunities for our service providers. Responses from the trades have been positive. Since the launch of the programme in April last year, the programme has approved over 330 projects up to end-September this year.

37. To complement Guangdong's policy on the development of industrial parks and to provide technical support for our manufacturers relocating to the parks, the Government will extend the scope of the Cleaner Production Partnership Programme to assist Hong Kong enterprises in treating and reducing effluent discharge. This will improve the environment of the region and increase the competitiveness of the enterprises.

Clean Development Mechanism Projects

38. The United Nations has devised the Clean Development Mechanism (CDM) to encourage technology transfer and help countries reduce greenhouse gas emissions. At present about one-third of all CDM projects are being carried out in the Mainland, involving substantial capital and major technology transfer. The Government has recently succeeded in securing approval for eligible Hong Kong enterprises to participate in CDM projects in the Mainland. Energy efficiency projects and

the development of new or renewable energy are areas where green business opportunities are open to Hong Kong enterprises.

Government Green Procurement

39. The Government is committed to promoting green procurement. This can protect the environment and set a role model for the business sector, lending momentum to the development of environmental industries in Hong Kong. To improve air quality, when procuring government vehicles, the Government will give preference to models which comply with environmental and efficiency standards, and has taken the lead with the procurement of 10 electric vehicles this year. Furthermore, the Government is gradually replacing the conventional traffic signals with light-emitting diode (LED) traffic signals. With regard to stores procurement, the Government has been expanding its green procurement list. At present, we have developed green specifications for some 60 products commonly used by government departments, and will actively apply them in procurement procedures. We will also further devise green procurement guidelines for government departments in order to promote the green procurement policy.

Innovation and Technology

40. The Government has been actively promoting the development of innovation and technology. The share of enterprises in Hong Kong's total expenditure on research and development (R&D) steadily increased from less than 30% in 2001 to nearly 50% in 2007. The Government will allocate about \$200 million to launch an "R&D Cash Rebate Scheme", under which enterprises conducting applied R&D projects with the support of the Innovation and Technology Fund or in partnership with local designated research institutions will enjoy a cash rebate equivalent to 10% of their investments. We hope this scheme will inculcate a research culture among enterprises and encourage them to establish long-term partnerships with research institutions. As a result, the R&D capabilities of Hong Kong and the competitiveness of enterprises will be enhanced,

and more business and employment opportunities will be created. We will review the effectiveness of the scheme three years after its implementation.

Cultural and Creative Industries

41. I announced last year the setting up of a dedicated office to expedite the development of creative industries. Create Hong Kong was set up in June this year to co-ordinate the work of different departments. The CreateSmart Initiative launched recently has been warmly received by the industry.

Expanding the Mainland Market

42. The vast Mainland market is of prime importance to the development of our creative industries. We have opened up the Mainland market for them through CEPA. Take the film industry as an example. Since the implementation of CEPA, preferential treatment has been given to our local film industry in such areas as distribution of films (including both Hong Kong productions and Hong Kong-Mainland co-productions) and video products, cinema operation and post-production. At present, films jointly produced with the Mainland are treated as Mainland productions for the purpose of distribution in the Mainland. Because of this advantage, we have seen notable growth and breakthroughs in the output, scale and box office receipts of Hong Kong-Mainland co-productions in the past few years. Of the top 10 box office hits in the Mainland in 2008, six were Hong Kong-Mainland co-productions. The latest supplement to CEPA introduces further liberalisation measures for the creative industries, covering films, publishing and printing, and online game products. We will continue to support local industries to further develop the Mainland market through consultation with the relevant Mainland authorities under the CEPA framework.

Developing the Local Market

43. To develop a local market for culture, we will work closely with the arts sector and our community to produce high quality arts programmes. We will promote arts in schools through the new senior secondary school curriculum. We will nurture artists and arts administrators by providing training and internship programmes. The West Kowloon Cultural District (WKCD) is a major project for promoting cultural development and our creative industries. Upon its completion, the WKCD will offer world-class facilities and quality programmes. We have started to draw up specific plans for the project and launched a public engagement exercise to gauge the views of various sectors on the development blueprint, facilities and programmes of the WKCD.

Regional Co-operation

Co-operation with Guangdong

Developing the PRD Market

44. The Government's strategy for promoting the six industries is to seize the opportunities arising from our co-operation with Guangdong and align our efforts with measures already introduced to get immediate results. The Outline elevates co-operation between Hong Kong and Guangdong on all fronts to a national strategic level, and provides for the early and pilot implementation of various measures in Guangdong. Therefore, tremendous opportunities are now available in the PRD market for the six industries. Since my pledge in April to explore these industries, the Government and the trades concerned have capitalised on the opportunities by actively taking forward their development in the PRD. In just a few months, our efforts have begun to yield results, particularly in the areas of education and medical services.

45. In the past 30 years, Hong Kong has fully participated in the reform and opening up of the Mainland and the industrialisation process, and we ourselves have transformed

from a manufacturing base into a service-oriented economy. In the next 30 years, development of service industries will be critical for the Mainland economy. This sets a clear direction for Hong Kong in the PRD region.

46. The National 11th Five-Year Plan states that “support will be given to Hong Kong in the development of its service industries 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”. Hong Kong, Guangdong and Macao have enhanced mutual co-operation in various key areas. By leveraging the framework and platform provided by the Outline and our own strengths, Hong Kong will be able to contribute to a better industrial structure within the region. In so doing, our service industries can tap a huge market.

Early and Pilot Implementation

47. To capitalise on this strategic opportunity, the governments of Hong Kong and Guangdong are formulating a framework agreement for Hong Kong-Guangdong co-operation. This will translate the Outline’s macro policies into concrete measures conducive to the development of both places. The framework will also serve as an agenda for Hong Kong-Guangdong co-operation, laying a foundation for us to seek to incorporate the related initiatives into the National 12th Five-Year Plan. We will work with Guangdong and Macao to formulate two regional co-operation plans on building a quality living circle and on infrastructure development to improve the living environment and upgrade infrastructure in the three places. In addition, under Supplements V and VI to CEPA, a number of measures for early and pilot implementation in Guangdong have been introduced. We will continue to promote CEPA, ensure its effective implementation and seek further liberalisation and facilitation measures under it. As co-operation between Hong Kong and Guangdong continues to increase, we will strengthen the functions and establishment of the Hong

Kong Economic and Trade Office in Guangdong, and establish a dedicated unit for liaison with Shenzhen.

Development of Qianhai

48. The Government hopes that by participating in the development of Qianhai in Shenzhen, Hong Kong will be able to promote and enhance our own service industries, thereby fostering our long-term economic growth, and contribute to the development of service industries in the Mainland.

49. At the meeting of the Hong Kong/Guangdong Co-operation Joint Conference in August this year, Hong Kong and Shenzhen signed a letter of intent on co-operation in the development of Qianhai. We will continue to actively explore with the Guangdong Provincial Government and Shenzhen Municipal Government, under the frameworks for Hong Kong-Guangdong and Hong Kong-Shenzhen co-operation, on how best to leverage Hong Kong's advantages as an international financial, trade and shipping centre, and combine the strengths of both sides to promote the development of modern service industries in Qianhai.

Enhancing Exchanges between Hong Kong and Taiwan

50. In response to the latest development in cross-Strait relations, we will actively pursue economic, cultural, social and other exchanges with Taiwan in accordance with the Basic Law and Qian Qichen's Seven Principles. The Central Government encourages and supports the Hong Kong Special Administrative Region's efforts. We will adopt the following strategies for developing our relations with Taiwan:

- (1) Establishing a co-operation framework — Apart from initiating the work of the bilateral business co-operation committees, we will establish a Hong Kong-Taiwan Economic and Cultural Co-operation and Promotion Council to promote multi-faceted, multi-level exchanges with Taiwan. We will consider setting up a multi-functional office in Taiwan at an

appropriate time and in an appropriate format to enhance high-level exchanges between the two places;

- (2) Fostering bilateral economic co-operation with Taiwan — We will foster economic co-operation with Taiwan, focusing particularly on trade in services, and will commence discussions with Taiwan on arrangements for avoidance of double taxation, with a view to achieving progress and results; and
- (3) Playing an active role in financial, economic and trade, tourism and other exchanges between the Mainland, Taiwan and Hong Kong — We will play an active role in providing cross-Strait RMB clearing services. We will seek to enable Hong Kong travel agents to operate in the Mainland tours to Taiwan, and explore the further development of cross-Strait Mainland-Hong Kong-Taiwan multi-destination tourism products, including air and cruise packages.

C. Quality Life

Progressive Development

51. The concept of “Progressive Development” is part of my election platform. In the current era, economic development goes hand-in-hand with cultural and environmental conservation. To support a knowledge-based economy, we must have a rich pool of talent. Only by providing a diverse and dynamic cultural life and a quality living environment can we attract talent from around the world to build a career in Hong Kong.

Beautifying the Harbourfront

52. Hong Kong’s image as a vibrant and colourful city owes much to Victoria Harbour. In last year’s Policy Address, I highlighted the need to beautify the harbourfront. The Development Bureau (DEVB) has since set up a Harbour Unit to co-ordinate and plan harbourfront enhancement initiatives. The unit also works with the Harbourfront Enhancement Committee to forge a consensus within the community on the future of the harbourfront. The committee submitted a detailed proposal in August this year, setting out beautification options for 22 action areas on both sides of the harbour. These options have incorporated the views of local residents and are consistent with what the Harbour Business Forum advocates. On the basis of the proposal, the DEVB will co-ordinate the efforts of concerned bureaux and departments to gradually take forward the harbourfront beautification measures.

Conserving Central

53. In the face of global competition, many governments are keen on developing new financial districts, building skyscrapers and creating business centres. While enhancing the hardware, we should not forget the software. Central is a distinctive business district endowed with rich cultural and historical heritage, which we will do our best to preserve.

54. The mention of Central used to invoke in our minds an image of a commercial centre with skyscrapers. Later, restaurants began to spring up and the place took on a new identity. The concept of “Progressive Development” that I advocate emphasises the need to strike a balance between economic development and cultural conservation. The community has responded positively to our conservation measures. This reaffirms my belief that Central has unique historical and cultural features suited to sustainable development that have yet to be realised.

55. The new harbourfront in Central and the historic buildings in the district provide valuable opportunities for conserving Central. We will map out a comprehensive strategy for Central’s future development from a new perspective. We now put forward a series of revitalisation projects that will add a new dimension to Central:

- (1) The Central Ferry Piers sites — We will substantially reduce the development density and open up public space along the waterfront for leisure, recreational and cultural uses;
- (2) The Central Market — We will remove the Central Market from the Application List and hand it over to the Urban Renewal Authority for conservation and revitalisation. This will improve the air quality in the district and provide an additional leisure place rarely found in this busy area. The revitalised Central Market will become an “urban oasis” for white collar workers in the daytime and a new hang-out area for locals and tourists in the evenings and on the weekends;
- (3) The original site of the Central School — In view of the encouraging response to the revitalisation of the original site of the Central School as a creative and cultural landmark, the Government has drawn up a plan for the renovation of the two former police

quarters blocks, and will in the next few months invite interested organisations and enterprises to submit proposals for operating creative industries;

- (4) Central Police Station Compound — Giving due consideration to public views, the Hong Kong Jockey Club is about to complete an improved design of the revitalisation project. The Government in conjunction with the Club will announce and implement the revised proposal shortly;
- (5) Central Government Offices — We recommend that the Main and East Wings, which are of historical and architectural value, be preserved for use by the Department of Justice after the relocation of the existing bureaux to the new Central Government Complex at Tamar. As for the West Wing, which has little heritage value, we recommend that it should be demolished and redeveloped for commercial use. In detailed planning, we will ensure that the public will have access to this low density site stretching from Lower Albert Road to the business area via Battery Path;
- (6) Murray Building — Taking into account the special style of this building and its premium location, we recommend converting it into a hotel through open tender; and
- (7) Court of Final Appeal — I have announced earlier that after the relocation of the Legislative Council to the new office site at Tamar, the Court of Final Appeal will move to the existing Legislative Council Building. The Government is open to suggestions on the future use of the French Mission Building, a declared monument where the Court of Final Appeal is now housed.

56. The idea of conserving Central is premised on our respect for the history of the district. We endeavour to strike a balance between protecting the environment and providing quality space, which is a growing public concern, and relieving the shortage of office space in the city centre. To make the best use of the precious assets of Central, we must create attractions in the district for public enjoyment. Therefore, while conserving Central, we should enhance visitor flow and generate new commercial vibrancy. This is in line with the concept of “Progressive Development”.

57. To conserve Central more effectively, we need the support of the owners of other properties in the district. I am pleased to know that the Hong Kong Sheng Kung Hui is actively pursuing the idea of revitalising its building cluster at Lower Albert Road with a view to balancing conservation and development. The Government will exchange views with the parties concerned in an open and mutually respectful manner. We will ensure that the diversity of Central will be preserved, and its magnificent and modern cityscape fully displayed.

Improving Pedestrian Environment

58. To improve the pedestrian environment in business, shopping and leisure areas with heavy pedestrian flow, the Transport Department (TD) commissioned last March a consultancy study on improvement projects for Causeway Bay and Mong Kok which has resulted in some preliminary conceptual plans. In the plan for Causeway Bay, there will be a pedestrian subway system of about one kilometre running from Victoria Park to the vicinity of Happy Valley. In Mong Kok, the existing footbridge system will be extended to join the two MTR stations in the area and the vicinity of Tai Kok Tsui. It will have a combined length of about 700 metres. The TD is now gauging the views of the local community on these preliminary plans. After considering various aspects of technical feasibility, the TD will put forward specific proposals by the end of this year for consultation with the District Councils and the public.

59. In order to enhance the utilisation of pedestrian subways and boost commercial vibrancy, we will make provision at suitable locations to connect the pedestrian subway system in Causeway Bay with the concourse of the MTR station and large shopping malls. This will facilitate the integration of the subway system with the Causeway Bay shopping area in terms of facilities, pedestrian flow and management.

Tree Management

60. Last June, the Task Force led by the Chief Secretary for Administration put forward a number of recommendations on greening and tree management. The DEVB will set up two new offices, namely, the Greening and Landscape Office and the Tree Management Office, to co-ordinate our efforts in this area. Departments concerned will improve tree risk assessment arrangements, step up training, and promote community involvement and public education. This integrated approach can help us build a green living environment for Hong Kong people, and ensure their safety.

Quality Living Area

61. Last year, I proposed that we should work with Guangdong to create a green and quality living area in the Greater PRD region. Warmly supported by the Central Authorities and the Guangdong Provincial Government, the proposal has been included in the Outline as a key development strategy. We will seek to incorporate this strategy into the National 12th Five-Year Plan. The governments of Hong Kong and Guangdong signed an agreement on environmental co-operation in August this year. Under the agreement, both governments will work together to formulate emission reduction proposals for 2010 onwards. Both sides will also explore a new mode of co-operation in using reusable materials.

Low Carbon Economy

62. The Government attaches much importance to the issue of climate change. We commissioned a consultancy study last year to develop comprehensive strategies and measures to cope with climate change. The consultancy study is expected to be completed early next year. The Government is committed to reducing the energy intensity of Hong Kong by at least 25% by 2030, compared with 2005 levels. Though our economic growth is driven mainly by service industries which are not energy intensive, Hong Kong may reduce carbon emissions even further through the use of clean fuel and improved energy efficiency.

63. The Government concluded a Memorandum of Understanding (MoU) on energy co-operation with the National Energy Administration last year. Since then, substantial progress has been made. Construction work for the eastern section of the Second West-East Natural Gas Pipeline commenced in February this year. Energy enterprises of the two sides are planning to jointly construct a liquefied natural gas terminal in Shenzhen. Completion of both projects is expected in 2013. Also, energy enterprises of the two sides have recently renewed the agreement on the supply of nuclear electricity for a further term of 20 years. The implementation of the MoU on energy co-operation ensures the provision of more clean energy for Hong Kong, which will contribute significantly to the improvement of air quality and the reduction of carbon dioxide emissions. Furthermore, the Environment Bureau (ENB) has started to explore with the two local power companies ways to raise the proportion of using natural gas for local electricity generation from the current 28% to 50%.

64. The Government encourages different sectors of the community to conduct carbon audits in buildings and reduce carbon emissions. Last year, more than 100 organisations joined the initiative. As for the proposed district cooling system at the Kai Tak Development, construction works are expected to commence early next year.

65. Since the launch of the Buildings Energy Efficiency Funding Schemes, the Government has received more than 800 applications. The response has been encouraging. We will introduce a bill into the Legislative Council by the end of this year to enforce mandatory compliance with Building Energy Codes.

66. Compact fluorescent lamps (CFLs) consume 70% less electricity than incandescent light bulbs of the same light intensity. To promote the replacement of incandescent light bulbs by CFLs, the two power companies will distribute cash coupons for CFLs to residential electricity account holders. We also plan to consult the public on progressively restricting the sales of incandescent light bulbs. In addition, the Government plans to propose legislative amendments within this year to implement the second phase of the Mandatory Energy Efficiency Labelling Scheme.

Promoting the Use of Electric Vehicles

67. We are working on the strategy and specific measures to promote the use of electric vehicles. The ENB has been working with a number of electric vehicle manufacturers. We expect a supply of around 200 electric vehicles for the local market in the coming financial year. The Government will work with the two power companies to launch an electric vehicle leasing scheme by the end of 2010. Upon implementation of these two programmes, Hong Kong will rank second in Asia, after Japan, where electric vehicles are most widely used.

Air Quality Objectives Review

68. The Government is determined to improve air quality to protect public health, and is consulting the public on the Air Quality Objectives (AQOs) Review. The public consultation will end in November 2009. We propose to use the Air Quality Guidelines of the World Health Organization (WHO) as our long-term goal, and adopt the WHO's interim targets to update Hong Kong's AQOs in stages. These proposed new AQOs are

very stringent and comparable to those adopted by other advanced countries such as the European Union and the US. Upon completion of the public consultation, the Government will update the AQOs and formulate long-term air quality management strategies. To achieve the new AQOs, it is necessary to take forward the 19 measures relating to emission controls, traffic management, infrastructure development and planning, and energy efficiency. It calls for concerted actions from all quarters in the community, including the Government, the trades and the public. The Chief Secretary for Administration will co-ordinate the relevant work.

Solid Waste Management

69. Following the launch of the plastic bags levy scheme in July 2009, we will consult the public on the introduction of a Producer Responsibility Scheme for electrical and electronic equipment at the end of this year.

70. To properly process and dispose of a large amount of solid waste, we need to extend the landfills and construct Integrated Waste Management Facilities (IWMF), which will adopt advanced incineration technology. We are conducting feasibility and environmental impact assessment studies on the potential sites for IWMF at Shek Kwu Chau and Tsang Tsui Ash Lagoons in Tuen Mun. We will make a decision on the IWMF site by 2010.

71. To tackle the problem of increasing food waste in Hong Kong, we will construct a recycling centre in phases to process and recycle food waste generated by the commercial and industrial sectors into useful resources such as compost and biogas. The facility will be constructed at Siu Ho Wan on Lantau Island and Phase 1 is expected to come into operation around 2015.

72. To further reduce food waste and disposable lunch boxes, the ENB and Education Bureau will jointly invite all schools to sign a “green lunch” charter to encourage schools to stop using disposable containers and adopt the central portioning approach where possible. The Environment and Conservation Fund will

provide a subsidy for schools to install the necessary equipment, while the standard design of new schools will cater for central portioning.

Conservation

Geopark

73. The geopark in Hong Kong is unique and highly representative in terms of geological and topographical features. I am glad to announce that the Ministry of Land and Resources has just given approval for our geopark to be listed as a national geopark. Through the national geopark network, we can gain relevant experience, preserve our valuable geological and topographical resources more comprehensively, raise the public's awareness about geo-science, and foster the development of eco-tourism by adding new attractions.

Healthcare Reform

74. Healthcare is close to the heart of the community. The Government will continue to increase the health budget to improve services. By 2012, healthcare spending will increase from 15% of the Government's recurrent expenditure to 17%.

75. The Government has formulated a series of recommendations to enhance primary care so as to provide comprehensive care support for chronic patients. We will also develop a territory-wide electronic health record sharing system, which can save medical costs, minimise errors and safeguard patients' health. This electronic system will underpin the reform of our primary healthcare services.

Healthcare Financing

76. To deal with the threat of human swine influenza, we have deferred the consultation exercise on healthcare financing. The first-stage consultation on healthcare reform reflects a broad community consensus on the need for the Government to address the issue of healthcare financing. However, the public has

reservations about any healthcare financing scheme of a mandatory nature.

77. We are working on a supplementary financing option based on voluntary participation and planning to consult the public on the proposal next year. This option will comprise insurance and savings components, and will be standardised and regulated by the Government. We will also make use of the \$50 billion set aside to support healthcare reform to provide subsidies and incentives to encourage members of the public to join the scheme. This option will enable a wider choice of private healthcare services for those who can afford it, in particular those who are covered by health insurance. The new option will ease the burden on the public healthcare system and make it more sustainable. At the same time, we will explore how best to strengthen the public healthcare safety net to offer greater protection to patients who need costly medication and treatment.

Disease Control and Prevention

78. The Government has been paying close attention to the spread of human swine influenza to monitor any possible re-assortment of the virus or unusual patterns. At this juncture, I will continue to chair the Emergency Response Level Steering Committee to lead the departments concerned in taking response measures.

79. Through a series of effective measures, we held back the spread of the virus in the early stage of its outbreak. The closure of schools before the summer vacation slowed transmission among students. While human swine influenza has now become the prevalent strain of influenza in Hong Kong, the symptoms of those infected are largely mild. However, as the winter influenza peak is approaching, we must remain vigilant and not let down our guard.

80. The Government's strategy on the prevention and control of common seasonal influenza and human swine influenza has three objectives: first, safeguarding public health; second, reducing the number of infected cases and slowing the spread

of the disease; and, third, minimising the development of complications in those infected. To these ends, we will arrange seasonal influenza vaccinations for high-risk groups starting from this month. We have already started to provide pneumococcal vaccinations for the elderly and children to minimise the development of complications from influenza. We will also provide human swine influenza vaccinations for vulnerable groups later this year.

D. Progressive Society

81. The progress of a society is measured not just by its affluence, but also by its core values, which include kindness, care for others, mutual support, civic-mindedness and respect for traditional values.

Family Values

82. Many social problems, including juvenile drug abuse, prostitution and the neglect of elderly people and children, can be traced back to the family. Better family relationships mean fewer social problems. I will ask the Family Council to focus on these problems and find new policy options to alleviate them at the family level. The Family Council will launch a Happy Family Campaign to promote family core values. Its activities include liaising with stakeholders to establish an inter-disciplinary and interactive information and support network.

Anti-Drug Policy

83. Recognising the urgency of the juvenile drug abuse problem, I have mobilised the community to campaign against drug abuse. We should all do our best to nurture and support our young people. The positive response from the public is encouraging. The Home Affairs Department has spearheaded youth anti-drug abuse community programmes in the 18 districts to mobilise stakeholders to cultivate positive values among youngsters who are at risk, or who have fallen prey to drugs. We will arrange for mentors to provide guidance to these young people.

84. We should strive to foster a drug-free campus culture and strengthen the resolve of the vast majority of students to stay away from drugs. We should act fast to help those students with a drug problem to quit drugs. To achieve these aims, we will launch the Trial Scheme on School Drug Testing in Tai Po later this year. I am grateful to various sectors of the community for their support. They have discussed the scheme seriously and put

forward valuable suggestions to improve it. We will review the trial scheme in due course and consider implementing drug testing more generally in schools.

85. To make available another effective drug-testing tool, the Government Laboratory will take the lead in bringing in hair drug testing, with a view to transferring the technology to the industry.

86. We will provide more rehabilitation facilities for young drug abusers. We have been closely liaising with anti-drug organisations to formulate new and effective modes of service and treatment programmes. We will invite suggestions in due course.

87. Drug testing is just one aspect of the anti-drug campaign. The Government is firmly committed to fighting drug abuse by tackling it on all fronts, including education and publicity, treatment and rehabilitation, legislation and law enforcement, external co-operation, and empirical research. We are joining hands with the Mainland's public security authorities to combat cross-boundary drug abuse and trafficking.

Social Mobility

88. Personal factors aside, young people may feel lost amidst the strong social undercurrents. In the 1960s and 1970s, opportunities abounded for young people to climb the social ladder. Those who worked hard stood a good chance of success. In a mature economy like ours, opportunities for upward mobility tend to be increasingly tied to academic qualifications. Many young people are therefore under enormous pressure. Those who have experienced frustration in formal education or public examinations feel particularly helpless and depressed. I understand the pressure and their helplessness. Competition is fierce in Hong Kong. Many parents make careful arrangements for their pre-primary children, hoping they can move upward through education. Such competitive pressure persists from primary to secondary and tertiary education. It seems that whether a young person aged 16 or 17 can gain

admission to a university or degree programme of his choice will determine his path for the next 30 to 40 years. We can imagine how much pressure our young people have to bear.

89. The Government has been reforming the education system, including launching the new academic structure for senior secondary education and higher education this year. There will be one less public examination under the new structure. A diversified new senior secondary curriculum will help students realise their potential to meet the different needs of society. To support the development of cultural and creative industries in Hong Kong, we need highly versatile people with a broad knowledge base. Conventional education equips students with basic knowledge and the ability to pursue continuous learning. The Government will keep providing opportunities for continuing education for young workers to broaden their knowledge and skills, so that they may better their career prospects and pursue their interests. Only then can we meet the human capital needs of a knowledge-based economy. My proposal to develop the cultural and creative industries will provide young people who are not interested in formal education with an alternative to build a career with their creativity.

90. To help our younger generation cope with the change in academic structure and the advance of a knowledge-based economy, parents should adjust their attitude and approach to the education of their children. Parents should maintain good communication with their children, understand their interests, abilities and needs, and develop their strengths in different areas. Moreover, parents should have reasonable expectations of their children. With the encouragement and support of their families, the younger generation will better understand themselves and develop more self-confidence. They will be able to find their way forward.

Youth Development

91. The family plays a pivotal role in the healthy development of young people. Through the joint efforts of the Family Council

and the Commission on Youth, the Government will help our young people to strengthen their body and mind to prepare for the challenges ahead. We will help them cultivate a positive approach to life and fulfill civic duties. The Commission on Youth and other youth organisations will strengthen moral education for young people and help them realise their full potential through arts, cultural, sports and recreational activities. We will also give greater support to youth uniformed groups.

Internet Learning

92. In the digital age, our younger generation increasingly uses the Internet and electronic tools in their learning activities. To mitigate the impact of the digital divide on the quality of learning, the Financial Secretary will co-ordinate the efforts of relevant bureaux to examine, through tripartite collaboration between the community, business sector and the Government, options to provide convenient and suitable Internet learning opportunities for students in need.

Sports Development

93. Hong Kong will host the 5th East Asian Games (EAG) in December. This will be the first large-scale, multi-sports event to be held in Hong Kong. World-class athletes will compete in the Games. Our own elite athletes, after strenuous training, will have the chance to shine in front of a home crowd.

94. The success of the EAG will be assured by the full participation of the community and our will to “Be the Legend”. About 400 000 teachers, students and parents from some 500 schools are taking part in the school torch relay programme; 6 000 volunteers have registered to assist in staging the Games and receiving guests and spectators; and the local business sector has pledged more than \$100 million in sponsorship for the Games.

95. This grand event will contribute to the long-term development of our sporting culture and present new opportunities for our athletes and those aspiring to a career in

sports. It will also promote a healthy lifestyle among the wider community.

Elderly Services

96. There is no place like home. That is why most elderly people prefer ageing at home. They need care from family members and support from neighbours. It is our policy to encourage elderly people to age in place.

Residential Care Services

97. For those elderly people who cannot live at home because of health or family problems, residential care is important. We know that our ageing population will create greater demand for subsidised residential care places, in particular those with nursing care. The Government will adopt a novel multi-pronged approach to speed up the provision of subsidised residential care places that provide nursing or continuous care. The new initiatives include:

- (1) Increasing from 50% to 90% the proportion of nursing home places in existing subsidised contract residential care homes for the elderly;
- (2) Purchasing, for the first time, vacant places from self-financing nursing homes and care and attention homes; and
- (3) Making full use of the space in existing subsidised elderly homes to provide more places that offer continuous care.

98. These initiatives will substantially increase the number of subsidised residential care places that provide nursing or continuous care in the next five years. We will continue to build new residential care homes for the elderly. Five new contract homes will open in the next three years to provide additional subsidised places.

99. While the supply of subsidised residential care places is important, the service quality of these homes should not be overlooked. We will launch a pilot scheme to provide these homes with visiting pharmacist services to enhance the knowledge and capability of their staff in drug management.

Ageing in Place

100. In addition, the Government will continue to devote resources to supporting those elderly people who live at home. In the next two years, we will provide additional subsidised day care places in districts with a stronger service demand, and extend the District-based Scheme on Carer Training to give greater support to carers of the elderly at district and neighbourhood levels. We will also examine ways to improve the existing home care services and encourage more organisations to provide such services through the operation of social enterprises.

Active Ageing

101. Apart from strengthening elderly care services, we have all along endeavoured to promote the physical and mental well-being of the elderly. The Government has already allocated funds to establish the Elder Academy Development Foundation to develop the curriculum and learning structure of elder academies. We will also provide a one-stop information service through a new and dedicated Internet portal for the elderly, which will enable them to pursue continuous learning, enlarge their social circles and lead a fruitful life.

Rehabilitation Services

Persons with Disabilities

102. Our rehabilitation policy aims to provide various rehabilitation services to support persons with disabilities, their families and carers, so that they can live happily and harmoniously in the community.

103. We have set up 16 District Support Centres since January 2009 to provide one-stop community support services for persons with disabilities who live at home, and for their families.

104. Increasing subvented residential care places aside, we will continue to assist non-governmental organisations in developing self-financing residential care homes, and introduce a pilot Bought Place Scheme for residential care homes for persons with disabilities. Through these measures, we aim to shorten the waiting time and encourage the market to develop more service options for persons with disabilities. We will introduce a bill into the Legislative Council to set up a licensing scheme to raise the service quality of residential care homes to prescribed levels. Moreover, we will provide additional places for day training and vocational rehabilitation services to enhance the employability of persons with disabilities. We will also provide additional places for pre-school rehabilitation services for children with disabilities.

105. In light of the ageing profile of residents in subvented residential care homes for the mentally handicapped, we will strengthen physiotherapy, nursing care and other support services for them to maintain their physical abilities and health.

Mental Health

106. Community support for discharged mental patients has recently become a public concern. To strengthen support for people with mental illness at the community level, the HA will pilot a case management programme in some districts in the next financial year to provide continuous and customised intensive community support for those with severe conditions. If this pilot programme is successful, we will gradually extend it to cover all districts within three years.

107. The HA will promote collaboration between psychiatric specialist out-patient service and the primary healthcare service. The psychiatric specialist out-patient clinics will enhance their assessment service for common mental disorders and focus on patients with complex needs, and refer in a timely manner those

with less severe conditions to the primary healthcare service for follow-up. The HA will also support the primary healthcare service in providing integrated mental healthcare to these patients.

108. We set up the first Integrated Community Centre for Mental Wellness in Tin Shui Wai in March this year. We will revamp the community mental health support services and set up similar centres in all 18 districts, and will enhance their services for persons with severe mental illness to keep pace with the HA's case management programme. We will increase the number of medical social workers.

Supporting Domestic Violence Victims

109. Over the past few years, we have allocated additional resources to strengthen the preventive and support services for victims of domestic violence and families in need. In the coming year, we will put in place a new programme to provide victims with emotional support and relevant information on legal proceedings and community services.

Social Enterprises

110. Through the joint efforts of the Government, business sector and charitable organisations, social enterprises have created employment opportunities for the disadvantaged and promoted a caring culture. I am pleased to see the community establish organisations of social enterprises on their own initiative. These organisations, including the Hong Kong General Chamber of Social Enterprises and the Hong Kong Social Entrepreneurship Forum, can facilitate experience sharing and co-operation among the enterprises. The Secretary for Home Affairs will set up a Social Enterprise Advisory Committee to advise the Government on the development of social enterprises. We will enhance cross-sector collaboration by encouraging more management experts to join the mentorship scheme and forging partnerships between social enterprise operators and commercial organisations or professionals. We will encourage tertiary

institutions to participate in nurturing social entrepreneurs, and continue to engage various sectors in promoting the development of social enterprises.

Supporting Job Seekers

111. To support job seekers, the Government will set up a pioneer one-stop employment and training centre in Tin Shui Wai to integrate the services of various organisations. To help those living in remote areas find a job, we will, on a trial basis, lend NGOs search terminals connected to the extensive employer network and job vacancy database of the Labour Department (LD). The LD will also disseminate information on job vacancies and job fairs via Short Message Service to job seekers registered with the department. Last February, the LD set up a recruitment centre for the catering industry. Given the encouraging results, the department will establish a recruitment centre for the retail industry in mid-2010.

E. Democracy and Governance

Constitutional Development

112. After deliberating on my report, the Standing Committee of the National People's Congress (NPCSC) decided in December 2007 that Hong Kong may implement universal suffrage for electing the Chief Executive in 2017 and for electing all Members of the Legislative Council in 2020. The decision also stipulated the requirements for amending both the Chief Executive and the Legislative Council elections in 2012. Not only has the NPCSC's decision set a clear timetable, it has also established a clear direction for the future constitutional development of Hong Kong. The NPCSC's decision is the constitutional requirement which we must comply with in handling the issue of Hong Kong's future constitutional development. I believe that different sectors of the community would concur with this.

113. In accordance with the NPCSC's decision in 2007, the current-term Government is required to put forth amendments to the electoral methods for electing the Chief Executive and forming the Legislative Council in 2012. We plan to commence extensive public consultations on this issue next month. We will listen closely to the views of different sectors of the community with an accommodating and open attitude. On this basis, we will put forth the relevant motions to the Legislative Council. We hope that the final version of the motions would be passed by a two-thirds majority in the Legislative Council, so as to roll forward the democratic development of Hong Kong's constitutional arrangements.

Civil Service Pay Adjustment and Grade Structure Reviews

114. The civil service is the cornerstone of good governance in Hong Kong. The pay cut for civil servants in the upper salary bands, and the follow-up on the three grade structure review (GSR) reports, especially the one on the disciplined services

grades, have been in the spotlight over the past few months. In dealing with the GSR, the Executive Council will consider all relevant factors, including public opinion. It will draw up a package which is objective, balanced and reasonable having regard to the principle of prudent use of public resources.

115. It is understandable for civil servants to seek a better remuneration package. I believe that civil service staff unions will bear in mind the mission to serve the public and ensure the smooth operation of society in the process, and that they will continue to maintain a dialogue with the management through the existing consultation channels.

National Education

116. To celebrate the 60th Anniversary of the Founding of the People's Republic of China, we organised a variety of celebratory and education activities for Hong Kong people to share the joy and better understand our country's latest developments.

117. The Government spares no effort in promoting national education, which is a long-term mission. We will strengthen the elements on China in various key learning areas under the primary and secondary curricula. We will also organise Mainland exchange activities for students as part of the national education programme. By aligning experiential learning with curriculum objectives and content, we hope to deepen national education.

118. Last year, we devoted additional resources to national education, and have since rolled out various initiatives. Championed by the Government, the national education platform "Passing on the Torch" was established early this year. In this school year, the Government will subsidise 37 000 students to join various Mainland exchange programmes. Through this platform, we establish close co-operation with voluntary groups. We have co-ordinated 45 exchange activities organised by NGOs, benefiting over 20 000 students. Also, we have included national education as one of the priority themes

for the Quality Education Fund. In 2009, the Fund approved various activities, including projects to enhance learning effectiveness in national education and study tours to the Mainland.

F. Conclusion

119. Mr President, almost half way through my tenure as the third-term Chief Executive, I am glad to report that most of the infrastructure projects and major policies that I announced in 2007 are well on schedule. The construction of the Hong Kong-Zhuhai-Macao Bridge and the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link will start by the end of this year. Design of the WKCD has also started. In addition, advance works for the Kai Tak Cruise Terminal are in progress. Construction of the MTR West Island Line commenced last July and is due for commissioning in 2014.

120. As regards major policies, small class teaching is being rolled out as scheduled. This year, 65% of public sector primary schools are implementing small class teaching starting from Primary One. The Minimum Wage Bill was introduced into this Council in July this year. We have also made good progress with environmental protection. Hong Kong and Guangdong now share the common goal of developing the Greater PRD region into a green and quality living area. On heritage conservation, the community has responded positively to our various initiatives, and work on revitalising the first batch of six historic buildings is under way. The consultation exercise on healthcare financing, which has been deferred because of the threat of human swine influenza, will start soon. In the past year, we have resolved major policy, legal and technical issues concerning the Competition Bill and hope to introduce it into this Council within the current legislative session.

Critical Assessment

121. After reunification, Hong Kong experienced the Asian financial crisis and the ensuing recession. When the first glimmer of recovery was visible, we were hit hard by the SARS outbreak. The subsequent economic recovery brought us several prosperous years but inflation set in before long. As the Government was preparing to fight inflation, the global financial

tsunami plunged the world into recession. I deeply share the frustrations endured by our people over the past decade. Many are earning lower wages as a result of the economic downturn. Similarly, civil servants have had their pay cut to ride out the difficulties with the rest of the community.

122. In dealing with the financial tsunami, I understand more than ever that effective governance requires critical assessment of the situation, prompt response to issues, and taking the public pulse. During times of change, the Government has to maintain close contact with various sectors to review public policies in a timely manner. Our policies should be stable and predictable, yet flexible enough to cope with a rapidly changing situation. After setting policy objectives and principles, we need to reach out to the community and listen to their views before refining the implementation details.

Fundamental Solution

123. As a city economy, Hong Kong must strive for economic growth and wealth creation to address the employment and poverty issues. If we were to maintain welfare-based relief measures on a long-term basis, we would have to overhaul our tax system and increase tax rates. I believe the public would not agree with this approach. The fundamental solution lies in our common efforts in promoting the development of our industries.

124. My proposal to develop the six industries has won wide support from the community. This reflects our rethinking in response to the financial tsunami, and the realisation that our economy cannot rely solely on its financial sector but needs to diversify.

The Age of Co-operation

125. For the six industries to flourish, the Government cannot take on the task alone. We must engage the public and the industries. We should keep our policy discussions highly transparent. We also need to dispel the misconception that collaboration between the Government and the business sector

is cronyism in disguise. With the Government, the business sector and the public at large co-operating with one another wholeheartedly, the six industries stand a better chance of success.

Our Competitive Edge

126. Economic integration with the PRD region is the direction for Hong Kong. Some worry that in this process, Hong Kong will lose its uniqueness. Some are concerned that Hong Kong may be marginalised with the rapid rise of Mainland cities and the ensuing competition. To dispel such worries, we must recognise Hong Kong's unique competitive edges. We have the rule of law, the free flow of information and good international networks. "One Country, Two Systems" allows us to give full play to these strengths. We also have a respected brand in the name of "Hong Kong". It stands for professional standards, creative and innovative enterprises, and responsiveness to change. Such "soft powers" are Hong Kong's intangible assets and are vital for a knowledge-based economy. With these, we fear no competition.

Breaking New Ground Together

127. Hong Kong is a city of immigrants. Many of the older generation came here to start a new life, then emigrated in the 1980s and eventually returned after Hong Kong's reunification in search of a good place to live and work. We love this city not just because we can make a living here, but because we enjoy the lifestyle. People from around the world, be they from the Mainland or other countries, are all welcome to work, live and pursue a career here. Hong Kong is a free, pluralistic, advanced and civilised society — a unique cosmopolitan city.

128. For all of us who have made Hong Kong our home, we need to look to the future from a broader perspective. In the next decade, integration between Hong Kong and the PRD will speed up and increase in breadth and depth, covering economic, cultural and social areas. We are entering a new era, but we need

not worry about the new competitive landscape. With an open mind, pioneering spirit, and full preparation, we can break new ground together.