

The 2007-08 Policy Address

**A New Direction for
Hong Kong**

Contents

	<i>Paragraph</i>
A. Introduction	1–17
B. Undertaking 10 Major Infrastructure Projects for Economic Growth	18–34
Transport Infrastructure	20
Cross-boundary Infrastructure Projects	20
New Urban Development Areas	20
International Financial Hub	21–26
Economic and Trade Development	27–34
C. Quality City and Quality Life	35–65
Environmental Protection	35–48
Heritage Conservation	49–56
Creative Capital	57–64
Safe Living	65
D. Investing for a Caring Society	66–86
Returning Wealth to the People	70
Social Enterprises	71–72
Enhancing Employability	73–77
Minimum Wage	78
Alleviating Poverty	79
Health Care Vouchers for the Elderly	80
Care for the Elderly	81–82
Elderly Housing	83
The Family as a Core Value	84

	<i>Paragraph</i>
Mediation Services	85
Tackling Juvenile Drug Abuse	86
E. Optimising Our Demographic Structure and Attracting Talent	87–98
Education Reform	88–91
Education Hub	92–94
Attracting Talent	95
Health Care Reform	96–98
F. Developing Democracy and Enhancing Governance	99–121
Implementation of Universal Suffrage	99–101
Pursuing Excellence in Governance	102–107
Relationship between the Executive Authorities and the Legislature	108
Reaching out to the Community	109
People-based Governance	110–111
Integration with the Mainland	112–114
Promoting the Basic Law	115
National Education	116–121
G. Conclusion	122–130

Madam President,

A. Introduction

1. This is my first Policy Address following my re-election as Chief Executive of the Hong Kong Special Administrative Region (HKSAR). It sets out the blueprint for the Third Term Government of the HKSAR in the next five years. I have prepared this Address with full confidence in the future of Hong Kong.

Full Confidence

2. I am confident because Hong Kong's economy is back on track, registering rapid growth over the past 15 quarters. The three years from 2004 to 2006 saw average annual growth of 7.7%. The first half of 2007 saw further growth of 6.3%. The unemployment rate has dropped from 8.6% in mid-2003 to 4.2%. While inflation has edged up recently, it is still relatively mild. I will pay close attention to its implications on the livelihood of the low-income group. That said, incomes have generally risen, and I believe that the community at large is feeling more prosperous.

3. I am confident because Hong Kong people have overcome the confusion and anxiety about their future, which was once shrouded in uncertainty. In the 10 years since reunification, we have experienced various ups and downs. And when we found our footing, we were no longer the same: we now have a stronger faith in the future, are more confident and know where we are going.

4. I am confident because after 10 years of implementing "One Country, Two Systems", the advantages are there for all to see. Only through leveraging the strengths of our country can we position ourselves globally to create a better future.

A New Era

5. The rise of our country brings new opportunities. It also ushers in a new era for Hong Kong. Over the next five years, we need to cultivate a new spirit for these new times. We need to become new Hongkongers, better equipped to sustain developments in the new era. New opportunities do not bring about wealth and prosperity overnight. Only by integrating emerging opportunities with our own personal improvement can we aspire to sustained prosperity and progress. To capitalise on these opportunities, we all have to set new goals. We need vision but, more importantly, we need practical plans to achieve that vision.

New Goals

6. I will insist on promoting economic development as our primary goal. The reason is simple. Without economic prosperity, people cannot make a decent living and all visions are just empty talk. And even during the good times we must continue to make progress by achieving our targets in a step-by-step pragmatic manner. We must not engage in empty talk about ideals, in the vain hope of achieving everything in one go.

7. I will insist that our development be sustainable, balanced and diversified. While the economy powers ahead, we must take care of environmental protection and cultural conservation to offer our people a quality city life.

8. I will insist that development bring about social harmony, with different strata of people sharing the fruits. I will devote myself to facilitating social mobility, helping the poor, creating job opportunities and promoting a caring culture in the community.

9. These three guiding principles embody the overall goals of Hong Kong. They will ultimately lead Hong Kong to become the most advanced and harmonious city of our country, as well as a global metropolis offering quality life.

Progressive Development

10. I advocate the concept of “Progressive Development” in achieving these three goals. I will explain how this concept will chart the course for Hong Kong’s development. On this basis, we will endeavour to forge a consensus in the community. Over the past decade, there has been too much controversy and too little consensus. Time and opportunities have passed us by while we got caught up in endless debates.

11. “Progressive Development” is envisioned to be realised by:

- (1) Promoting economic development through infrastructure projects: History tells us how the Hong Kong economy took off in the 1970s, and developed progressively into a modern international metropolis. The large-scale infrastructure projects implemented in the 1970s and 1990s provided the impetus for rapid growth. Apart from upgrading urban development, infrastructure projects bring about higher employment, wage increases and real economic benefits. As we embark upon the 21st century, we will push ahead with 10 major infrastructure projects, details of which will follow.
- (2) Promoting community development through revitalisation: In pursuing further development, we must attach importance to environmental protection and heritage conservation. To protect our environment, we need a two-pronged approach. Apart from enacting legislation, we need to engage the business sector and the public to enhance their awareness and rally their support to protect the environment with a view to changing some of our daily habits. As for heritage conservation, emphasis should not be placed solely on the preservation of historic buildings. We should also seek to revitalise these buildings in order that they may become an

integral and lively part of the local community, which in turn will generate wider social and economic benefits.

- (3) Promoting social harmony under the concept of helping people to help themselves: While globalisation spurs development, some people are not yet able to share the fruits of prosperity. In my view, the Government should not attempt to narrow the wealth gap by redistributing wealth through high levels of tax and welfare. The role of the Government should be confined to creating the social conditions that help improve the livelihood of people with low income using a multi-pronged policy approach. This includes promoting infrastructure development to achieve higher wages; developing soft infrastructure on all fronts including expanding retraining programmes to help the middle class and the grassroots upgrade their skills – this will improve their competitiveness in an ever-evolving labour market; creating employment opportunities at the community level through social enterprises based on tri-partite collaboration between the Government, the community and the business sector; continuing to invest heavily in education and fostering social mobility to reduce cross-generational poverty; and, adding value to social capital as the target of welfare services development in the future.

Government, Enterprises and Individuals

12. To realise “Progressive Development”, the Government, enterprises and individuals all have different roles to play. I adhere to the principle of “Big Market, Small Government” and to containing public expenditure below 20% of Gross Domestic Product (GDP) as far as possible. However, I object to a dichotomy between the roles played by the Government and the market, whether it be a strong belief in the omnipotence of government intervention or a passionate support of the free

market being sacrosanct. Both are sweeping generalisations. In striving for economic growth, complex and unique relationships exist among different sectors of our economy. We should take a practical look at the respective responsibilities of the Government, enterprises and individuals.

13. In my view, the Government's role is mainly to formulate policies conducive to sustainable development so that every citizen has the opportunity to share the fruits of prosperity and progress. The Government needs to balance the political, economic and social demands of different interest groups in the community, and to make progress while maintaining stability. It should take the lead at the policy-making level in certain areas such as promoting economic integration with the Mainland, taking forward cross-boundary infrastructure projects and making joint efforts to develop a world-class metropolis.

14. As for enterprises in today's society, they should no longer just perform a pure economic role – they should also shoulder social responsibility. The Government can achieve social goals through consultation with our enterprises. Regulation by legislative means should be a last resort. I will mobilise our enterprises to actively participate in wage protection, environmental protection, heritage conservation and building a caring society.

15. At the individual level, I will promote the family as the mainstream social core value through various policies to help our people adapt to the social changes brought about by globalisation. The Government will invest more on each member of our community. Every one of us should seize these opportunities and fully equip ourselves. Our people should move with the times, actively embrace the new economy and meet the demands of the changing world in a way that befits the new Hongkongers.

An Era of Consensus

16. The world is changing at an unprecedented pace in history. A city may rise or fall in no time. Hong Kong needs to

foster consensus on its future and promote internal cohesion so that all citizens, enterprises and the Government can progress together. Only in this way will Hong Kong rise to a new level of development and meet the challenges of a changing world.

17. I will now go into the details of the policy items, which aim to realise the pledges made during my election campaign and lay the foundations for our society to build consensus.

B. Undertaking 10 Major Infrastructure Projects for Economic Growth

18. Infrastructure development can bring about huge economic benefits. Both employment opportunities and wages will increase during the construction stage, and, upon completion, the infrastructure projects will boost economic activities and improve the living environment.

19. In promoting infrastructure development, our efforts over the past decade did not match expectations. Overall expenditure on infrastructure for this year may well be the lowest in recent years. To address this problem, the recently established Development Bureau in the reorganised Government Secretariat will co-ordinate major infrastructure projects. I will push ahead with 10 large-scale infrastructure projects within my term of office. These projects will not only expand the room necessary for Hong Kong's further development, but also improve our transportation, thereby linking up our socio-cultural and business activities with more efficient transportation systems. More importantly, with closer rail and road transport links between Hong Kong and the neighbouring regions of Shenzhen and the Pearl River Delta (PRD), we can foster further cross-boundary integration. These infrastructure developments will consolidate Hong Kong's status as a global city and lay a new foundation for our sustained development in the future.

20. A rough estimate of the added value to our economy brought about by these projects, from commissioning to a mature stage, would be more than \$100 billion annually, amounting to some 7% of our GDP in 2006. In addition, some 250 000 additional jobs would be created. Details of the projects are:

Transport Infrastructure

- (1) **South Island Line:** The local community has been strongly demanding the extension of the mass transit railway to Southern District. The Executive Council will soon examine a proposal submitted by the MTR

Corporation Limited with a view to authorising it to proceed with engineering design. Construction of the seven-kilometre rail line will start in 2011 and cost more than \$7 billion. The South Island Line will be commissioned no later than 2015. With the expected endorsement of the West Island Line, Hong Kong Island will have a much more extensive rail network.

- (2) **The Sha Tin to Central Link:** The Sha Tin to Central Link will connect the Northeast New Territories and Hong Kong Island via East Kowloon. The Government has stated that a detailed plan will be ready for public consultation early next year. We expect construction work to start in 2010.
- (3) **The Tuen Mun Western Bypass and Tuen Mun-Chek Lap Kok Link:** We have conducted a strategic review of the transport infrastructure for the Northwest New Territories and Lantau to ensure that it can meet future demand. Our plan is to develop the Tuen Mun Western Bypass and the Tuen Mun-Chek Lap Kok Link at a cost of over \$20 billion. Upon completion in 2016, there will be a direct access linking up Deep Bay in Shenzhen, the Northwest New Territories and the Hong Kong International Airport (HKIA). The logistics industries will stand to benefit from the direct access, which will also link up the Northwest New Territories and the HKIA, thereby alleviating the busy traffic along the North Lantau Highway in the future.

Cross-boundary Infrastructure Projects

- (4) **The Guangzhou-Shenzhen-Hong Kong Express Rail Link:** Our country is now building a high-speed national rail network of some 12 000 kilometres to link up major cities, with maximum train speeds of 200 to 300 kilometres per hour. The network will substantially enhance the Mainland's

transport capacity. To seize the opportunities, we are pressing ahead with the building of the Guangzhou-Shenzhen-Hong Kong Express Rail Link running from West Kowloon to Shibi, Guangzhou. When running in Hong Kong, this Express Rail Link will use a dedicated line to ensure its smooth operation. We will actively study the provision of a common immigration and customs clearance system for Hong Kong and the Mainland at the Kowloon Terminal. Our target is to complete the planning and design processes within next year, so that construction will commence in 2009.

- (5) **Hong Kong-Zhuhai-Macao Bridge:** The Hong Kong-Zhuhai-Macao Bridge is a priority project. As a major strategic cross-boundary project, it is unprecedented in terms of scope, scale and complexity. The efforts made by the three governments involved are gradually bearing fruit. We have completed the engineering feasibility studies for over 20 project items. A remaining task is to finalise the financial arrangements. We aim to complete the financial arrangements in the near future and convene an expert group meeting to scrutinise the report. This will serve as the basis for discussion over specific investment and financing arrangements by the three governments at the next stage.

We have also made much effort on site investigation of the connecting roads in Hong Kong. Following the principle of “separate locations of boundary crossing facilities” agreed by the three parties, we have commenced the site selection study in Hong Kong and are collecting public views. I hope that we will have your support.

- (6) **Hong Kong-Shenzhen Airport Co-operation:** The HKIA and Shenzhen Airport are two major airports in the PRD region. The HKIA ranks among the busiest international airports in the world in terms of both passenger and cargo traffic, while Shenzhen Airport handles far more domestic flights than Hong Kong. For the two airports to fully complement each other and achieve a win-win situation, it is necessary to study the feasibility and economic benefits of establishing a rail connection between the two. Currently, high-speed ferry services ply between the two airports. A rail link can forge even closer ties. I am glad that the Shenzhen Municipal Government strongly supports the proposals on further co-operation between the two airports. To follow up, the two governments will form a joint task force. The Airport Authority will provide research support to the task force. We hope that specific work plans can be drawn up early next year.
- (7) **Hong Kong-Shenzhen Joint Development of the Lok Ma Chau Loop:** As neighbours, Hong Kong and Shenzhen can achieve a win-win situation for both sides by adopting an integrated regional development strategy. Apart from enhancing cross-boundary transport links, we will work with the Shenzhen authorities to tap the land resources of the Lok Ma Chau Loop to meet future development needs and consolidate the strategic position of Shenzhen and Hong Kong in the Pan-PRD region. For this purpose, we will establish a high-level coordinating mechanism. We will jointly explore the feasibility of developing the Lok Ma Chau Loop to our mutual benefit, and steer further research and planning work on other cross-boundary issues.

New Urban Development Areas

- (8) **West Kowloon Cultural District:** The West Kowloon Cultural District (WKCD) represents a major investment in our cultural and arts infrastructure. It is also a strategic plan to promote long-term development of arts and culture, supporting Hong Kong as a creative economy and Asia's world city. The integrated arts and cultural district will offer a mix of world-class arts and cultural facilities, talented artists, quality programmes and distinctive architecture to attract people in Hong Kong as well as from the Mainland and the rest of the world.

A public engagement exercise has been launched on the recommendations of the Consultative Committee on the Core Arts and Cultural Facilities of the WKCD. Our initial assessment shows general and positive public support for the early development of WKCD. The Government will introduce the bill on establishing the WKCD Authority in early 2008. We aim to have the legislation enacted in mid-2008 so that the Authority can be set up as soon as possible. The Chief Secretary for Administration will lead the work.

To fully realise the vision and mission of WKCD, the Government will co-operate with the cultural and arts sector in taking timely measures to foster the development of software and talent. We will invest more resources to implement the following key measures: reinforcing support to arts bodies of all sizes; comprehensively assessing the demand and supply of cultural and arts talent with a view to launching appropriate training programmes; promoting arts education and audience building; enhancing cultural exchange and co-operation; improving the management of performing arts

venues; and, expanding “alternative art space” in the community for local artists to unleash their creativity while increasing the public’s exposure to culture and the arts in their daily lives.

- (9) **Kai Tak Development Plan:** The formulation of the Kai Tak Development Plan is an example of successful public engagement. The challenge now is to take forward this major project within a tight schedule. Statutory procedures to amend the Kai Tak Outline Zoning Plan are almost finished, after which the project will enter the implementation stage. We will invite tenders in due course to construct a new cruise terminal. The first berth is expected to be operational in 2012. A high-level inter-departmental committee led by the Secretary for Development will ensure that the project stays on schedule. It will also ensure that this vast ex-airport site will be developed into an attractive place for our citizens to enjoy and take pride in.
- (10) **New Development Areas (NDAs):** To ease pressure on developed areas and to meet the demand for land arising from population growth, we need to plan for NDAs without delay. The scope of NDAs will be smaller, less than one fourth of that of the existing new towns such as Tuen Mun and Sha Tin. The NDAs will provide land for various uses such as housing, employment, high value-added and non-polluting industries. Through comprehensive planning, the NDAs will provide quality living space and convenience to both residents and users. In this connection, we will revive planning and engineering studies on NDAs at Kwu Tung North, Fanling North, Ping Che and Ta Kwu Ling and Hung Shui Kiu, and work out implementation strategies.

International Financial Hub

21. In parallel with these 10 major infrastructure projects, we will reinforce our position as a global financial centre to help the economy power ahead. The financial sector is an important pillar supporting our economic development. We need sustained improvements to further consolidate Hong Kong's status as an international financial hub. Our country's rapid development and the opening up of its financial sector have presented unprecedented opportunities for Hong Kong's financial services sector. We will continue to promote integration of the financial systems of Hong Kong and the Mainland through complementary development, mutual co-operation and interaction. We are confident that with the strong support of the Central Government, Hong Kong's financial market will be more vibrant. It will become a broader and deeper market, further strengthening our position as a global financial centre.

A Consolidated and Diversified Financial Market

22. We will actively facilitate Mainland enterprises and investors to participate in Hong Kong's stock market through the Qualified Domestic Institutional Investors Scheme and the pilot scheme for Mainland individuals to invest directly in securities in Hong Kong. We will also upgrade our market infrastructure, promote financial intermediation, encourage financial reform and launch new financial products to attract more overseas enterprises to list in Hong Kong.

Continuous Development of the Renminbi (RMB) Market

23. We will further enhance the capability of Hong Kong's financial system to handle RMB-denominated transactions through continuous expansion of RMB business in Hong Kong. The HKSAR Government is actively exploring with the Mainland authorities the introduction of new types of RMB business in Hong Kong, which include settling in RMB the accounts of imports from the Mainland.

Strengthening Co-operation with the Mainland Financial Market

24. The Government will continuously strengthen the financial market linkage and interaction between Hong Kong and the Mainland, including multi-level contacts with the Central Government and related authorities, to step up our co-operation in the financial sector with a view to enhancing the scale and efficiency of both financial markets. We will also strive to expand the scope of business for Hong Kong's financial institutions in the Mainland, and encourage frequent use of Hong Kong as a platform for more outward investment by Mainland funds, investors and financial institutions.

Developing an Islamic Bond Market

25. Islamic finance offers huge potential for development. To further consolidate Hong Kong's position as a global financial centre, we should actively leverage on this new trend by developing an Islamic financial platform in Hong Kong. Apart from stepping up our efforts to promote Hong Kong's financial services to major Islamic countries and regions, we will focus on developing an Islamic bond market. The Hong Kong Monetary Authority, in conjunction with the financial sector, has set up a dedicated team to study related issues and make recommendations for the early introduction of Islamic debt offerings in Hong Kong.

Promoting International Arbitration Services

26. A sound judicial system and comprehensive legal services for dispute resolution are indispensable for an international financial centre. We have endeavoured to develop Hong Kong into an arbitration centre in the Asia-Pacific region. With increasing demand for arbitration services in Hong Kong and the region, the number of cases handled here is on the rise. Hong Kong-based arbitral bodies and their arbitrators, with their status well recognised, are committed to promoting the development of arbitration services. An enhanced arbitral

environment will help to further develop our arbitration services. To strengthen Hong Kong's competitive advantage, we have been forging closer ties with international arbitral bodies. By updating our legal mechanism, we will add to Hong Kong's appeal as a prime jurisdiction for arbitration. We will consult the public on the new Arbitration Bill, which seeks to align local legislation with international laws and make our arbitration legislation and procedures more user-friendly.

Economic and Trade Development

27. The National 11th Five-Year Plan states clearly, for the first time, that support will be given to Hong Kong's development on such fronts as financial services, logistics, tourism and information services, and the maintenance of Hong Kong's status as an international financial, trade and shipping centre. The Plan recognises Hong Kong's industries with a competitive advantage and our unique as well as irreplaceable role in our country's development. The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) and its four supplements have laid a sound foundation for the mutual economic co-operation between Hong Kong and the Mainland. In parallel, the success of Hong Kong enterprises in restructuring, upgrading and relocating their businesses as well as their brand building in the Mainland will not only contribute to the overall economic development of our country, but also spur the growth of Hong Kong's service industries in line with the Plan.

Restructuring of Hong Kong Enterprises Operating in the Pearl River Delta

28. Many Hong Kong enterprises have actively capitalised on the enormous opportunities in the Mainland market – but they are also facing unprecedented challenges. This is particularly the case for Hong Kong enterprises with manufacturing operations in the PRD. The recent policy adjustments on processing trade in the Mainland call for an overhaul of the *modus operandi* adopted by our industries for more than two decades. Our industries need to gear up for this new challenge. Industrial

restructuring, upgrading and relocation need to be seriously considered.

29. The Government has been working closely with industry and taken a multi-pronged approach to tackle the situation. We relay to the Central Government industry concerns as well as our assessment of the policy adjustments on Hong Kong's economy; propose to the Central Government other flexible measures to match with the policy adjustment; explore with the provinces and industry alternative operating bases and help investors obtain first-hand information about the investment environment.

30. In addition, we plan to improve the Small and Medium Enterprises Funding Schemes and help industries upgrade production facilities and explore new markets. To date, our efforts have paid off. For example, we are most grateful that the Central Government has allowed alternative arrangements regarding the Guarantee Shadow Margin Account requirements.

Implementing the Action Agenda of the National 11th Five-Year Plan

31. The HKSAR Government held the Economic Summit on "China's 11th Five-Year Plan and the Development of Hong Kong" in September last year. The Summit's four Focus Groups submitted a forward-looking Action Agenda to me in January this year. The Action Agenda contains 50 strategic proposals and 207 action items on how we can enhance our competitiveness in areas where we are strong and also support the development of our country. The Government has taken prompt follow-up action on these various recommendations and taken steps to implement about 100 items. For the remainder the Financial Secretary is taking the lead to sort out specific arrangements with the parties concerned, including the Mainland authorities. These action items can achieve a win-win situation for the economic development of both Hong Kong and our country.

A Level Playing Field

32. One of Hong Kong's advantages is a level playing field for business. This is crucial to sustaining our economic vitality. To maintain a free and competitive business environment, we have reviewed our competition policy. A public consultation exercise on the findings of the review was launched early this year.

33. While the public generally supports the introduction of a competition law, there are concerns in the business sector that the new law may adversely affect normal business operations, in particular those of small and medium enterprises. To allay their worries, we will announce the details of the proposed legislation for public discussion and scrutiny before introducing the bill. Our target is to introduce the bill in the 2008-09 legislative session.

Strengthening the Management of Government Owned Assets

34. It is necessary to enhance the efficiency of our management of Government assets acquired through our considerable investments in local infrastructure over the years. I have asked the Financial Secretary to undertake a study to clarify the Government's role, and its level of participation as a shareholder, in the management of its assets operated on commercial principles. Our purpose is to achieve higher returns and better governance.

C. Quality City and Quality Life

Environmental Protection

35. As these 10 infrastructure projects come on line, Hong Kong will see new developments of far-reaching significance. I hope that our society can reach a consensus on the implementation of these 10 projects, so that we can grasp the opportunities to take them forward as soon as possible. Should there again be delays, the price to be paid in the future will be even higher.

36. By “Progressive Development”, I mean overall progress rather than economic development alone. Apart from economic benefits, we should strive for benefits to culture, the society and the environment. Progressive Development emphasises sustainable, balanced and diversified development. Our target is to develop Hong Kong into a quality global metropolis.

The Crisis of Global Warming

37. Global warming has become a challenge to the international community. In light of their own economic, social and environmental characteristics, governments around the world have to formulate measures to strike a balance between economic development and the reduction of greenhouse gas emissions, with a view to achieving sustainable development. In the same vein, we should do our part to improve the regional environment. We have been taking vigorous measures to reduce greenhouse gas emissions. From 1995 to 2005, the energy intensity in Hong Kong, that is, energy consumed per unit GDP, dropped by 13%.

38. We welcome the Asia-Pacific Economic Co-operation (APEC) Leaders’ Declaration on Climate Change, Energy Security and Clean Development recently adopted in Sydney. As an APEC member, Hong Kong will honour its pledge and seek to achieve a reduction in energy intensity of at least 25% by 2030 (with 2005 as the base year). To this end, the Government will endeavour to raise public awareness of climate change and to

introduce energy saving measures at different levels. We will consult the public on the proposed mandatory implementation of the Building Energy Codes by means of legislation. When we have completed the legislative work related to the Energy Efficiency Labelling Scheme (first phase) for household electrical appliances early next year, we will start planning for the second phase.

39. To further reduce greenhouse gas emissions, the Government will set an example by conducting a Carbon Audit and implement an emissions reduction campaign in the new Central Government Complex at Tamar. I believe that the business sector will respond positively by implementing measures in suitable commercial buildings for this campaign.

Emissions Reduction by Power Companies

40. A key to our economic success has been the quality and reliable energy infrastructure provided by the two power companies over the years. That said, they are at present the major local source of air pollution. The Government is still negotiating with the power companies over the new regulatory regime. We aim to put it in place by year end. The Government's stance is very clear: we seek to improve local air quality through linking the power companies' permitted rate of return to their achievement of emission caps. At the same time, the new regulatory arrangements must benefit the public through the lowering of electricity tariffs.

Clean Fuels

41. To improve our air quality, the Government has endeavoured to reduce emissions by introducing cleaner vehicle fuels and improving the quality of industrial and power generation fuels. With the progressive installation of desulphurisation equipment and the adoption of cleaner fuels in local power plants, we are confident that the 2010 emissions reduction targets set jointly with the Guangdong Provincial Government can be achieved. To bring about sustained

improvement, we propose to legislate on replacing industrial diesel with ultra low sulphur diesel in all industrial and commercial processes. Subject to public consultation, we will require motorists to switch off idling vehicle engines to improve roadside air quality. We will study the feasibility of requiring all vessels plying the harbour to use high-quality fuel. We will also re-examine the option of road pricing using new high technology.

Clean Production

42. The people of Hong Kong and the PRD region breathe the same air under the same sky. Regional co-operation is vital to develop Hong Kong into a green metropolis. To further encourage Hong Kong enterprises in Guangdong to play their part to improve the regional environment, I will ask the Legislative Council to approve funding of \$93 million for the Hong Kong Productivity Council to launch a five-year programme. This programme will assist and encourage Hong Kong-owned factories within the PRD region to adopt clean production technologies and processes. Under the programme, enterprises will be able to reduce emissions and enhance energy efficiency as well as improve competitiveness and corporate image. This initiative complements the Mainland's policy of industrial restructuring and upgrading.

Building a Green City

43. For citizens to enjoy a quality city life, a green urban environment and countryside recreation areas are indispensable. In spite of our small area and dense population, protected green space still accounts for 40% of the land in our city, with country parks covering 417 square kilometres. To step up our ecological conservation efforts and to provide Hong Kong people with more open space in a natural environment, we will initiate the statutory procedures to designate our 24th country park which will be situated on Northern Lantau. This will increase the total country park area to 440 square kilometres. The Government will push ahead with greening work in densely populated

urban areas. The Greening Master Plans (GMPs) developed for Tsim Sha Tsui and Central are being implemented. The Development Bureau will continue to pursue the development and implementation of GMPs for the remaining districts of Hong Kong Island and Kowloon, and actively study the possibility of developing GMPs for the New Territories. Meanwhile, in the New Territories, the Government will give priority to beautification works along the Tuen Mun River.

Lowering Development Density

44. Over the past few years, the public has raised concerns about the “wall effect” caused by high-density buildings, which affects ventilation and leads to a rise in temperature. Despite the absence of a scientific definition of the “wall effect”, we believe that a slight reduction of development density can increase the distance between buildings and upgrade building design. This will enhance the vista of the buildings and improve ventilation.

45. The Government will review the outline zoning plans of various districts in a step-by-step manner and, where justified, revise the relevant planning parameters to lower the development density. We will also review the approved schemes of above-station property development projects at the Nam Cheong Station and the Yuen Long Station along the West Rail, with a view to lowering their development densities. Such measures will inevitably lead to a reduction in public revenue, but I am convinced that it is well worth it for the better living environment that will be created for our people.

Promoting Environmental Protection and Conservation

46. To improve the living environment in Hong Kong, we must continue to raise the community’s awareness of environmental protection and conservation with enhanced participation. I propose to inject \$1 billion into the Environment and Conservation Fund (ECF) for educational, research and technology demonstration projects as well as environmental protection and conservation activities. The Government will

encourage community participation and promote educational work to raise the public's environmental awareness through the enhanced ECF. At the same time, the ECF will encourage different organisations to carry out greening work on rooftops and podiums in suitable buildings to bring about environmental benefits and to set an example for the community. We should also leverage on our position as a global metropolis to actively promote international exchanges and experience sharing on environmental protection policies and technological research through the ECF. To achieve this, we will review the funding guidelines, including the criteria, funding limits and project duration so that the ECF is better utilised.

Waste Management

47. Apart from improving our air quality, we also face another challenge to find effective ways to handle our solid waste management problem. We need to implement the “polluter-pays” principle to achieve waste reduction at source by inducing people to change their living habits, and to encourage recovery and recycling. We will introduce in this legislative session the Product Eco-responsibility Bill to provide a legal framework for implementing producer responsibility schemes. The environmental levy on plastic shopping bags proposed earlier has gained public support. It will form the first producer responsibility scheme under the Bill to address the indiscriminate use of plastic shopping bags in Hong Kong. I would like to make it clear that the proposed levy is designed to promote waste reduction and recovery, with the ultimate aim of minimising the waste of resources and relieving the heavy burden of waste management.

48. Given the current rate of increase in solid waste, we estimate that the three existing strategic landfills in Hong Kong will run out of space within the next few years. With no alternatives in the short to medium term, there is a pressing need to expand these landfills. Elsewhere in the world, modern incineration facilities are safe, technologically proven, and have stringent emission standards. This waste treatment method is in

line with the principle of sustainable development. We are trying to identify suitable sites for developing Integrated Waste Management Facilities that adopt incineration as the core technology. By using advanced technology, we can reduce the amount of solid waste sent to landfills which in turn will minimise the impact on the surrounding environment. In addition to the Harbour Area Treatment Scheme Stage 2A, we will also build sludge treatment facilities to avoid dumping huge volumes of sludge at landfills. These facilities will substantially expand our waste treatment capacity and ensure the sustainable development of Hong Kong.

Heritage Conservation

49. Cultural life is a key component of a quality city life. A progressive city treasures its own culture and history along with a living experience unique to the city. In recent years, Hong Kong people have expressed our passion for our culture and lifestyle. This is something we should cherish. In the next five years, I will press ahead with our work on heritage conservation.

Heritage Impact Assessment

50. To fully implement heritage conservation, we will require all public works projects involving historic and built heritage to undergo heritage impact assessment so that the conservation of historic sites and buildings will be given due consideration in the project planning stage.

Revitalising Historic Buildings

51. In my view, revitalisation, rather than preservation alone, should be pursued to maximise the economic and social benefits of historic buildings. This is in line with the concept of sustainable conservation.

52. The Urban Renewal Authority (URA) has done a great deal to preserve and revitalise historic buildings. I call on the URA to extend the scope of historic building protection to cover

pre-war buildings. In so doing, it is necessary for the URA to consider not just preservation but also ways of revitalisation.

53. At present, quite a number of historic buildings are owned by the Government. I will seek to revitalise them by introducing a new scheme which will allow non-governmental organisations to apply for adaptive re-use of these historic buildings. As a start, six to eight buildings will be offered under the scheme. We hope they can be transformed creatively into unique cultural landmarks. The *modus operandi* of social enterprise under commercial management will be adopted to achieve a win-win situation. The Government will provide appropriate financial support to ensure that the scheme is practicable. I have earmarked \$1 billion under the Capital Works Reserve Fund for this purpose. As for other historic buildings with commercial value, we welcome the business community's participation in their adaptive re-use. To highlight revitalisation as the guiding principle of heritage conservation, I put forward the following specific proposals:

- (1) The Central Police Station Compound at Hollywood Road: We have accepted in principle an innovative revitalisation proposal of \$1.8 billion submitted by the Hong Kong Jockey Club.
- (2) The Original Site of the Central School: The Former Police Married Quarters Site at Aberdeen Street, which is the original site of the Central School, will be removed from the List of Sites for Sale by Application for a year and proposals will be invited on its revitalisation.
- (3) Open-air Bazaar in Wan Chai: Our plan for preserving the open-air bazaar in Tai Yuen Street and Cross Street has been finalised. Once endorsed by the Wan Chai District Council, we will further beautify the bazaar with local characteristics. The Development Bureau and the URA will adopt a district-based approach in considering the development and revitalisation of Wan Chai.

Privately-owned Heritage Conservation

54. Promoting the protection of privately-owned historic buildings is a complex issue which involves balancing interests such as safeguarding private property rights, the prudent use of public money, and meeting public expectations. We will actively explore new arrangements to provide economic incentives for private owners to encourage heritage protection by the private sector. In parallel, the Government will offer financial support for the maintenance of privately-owned graded historic buildings.

A Commissioner for Heritage

55. In the next five years, the Government will step up our work on heritage conservation. A Commissioner for Heritage Office, to be set up in the Development Bureau, will provide a focal point for public participation and the Government's heritage conservation work. This shows that heritage conservation will be a long-term commitment of the Government.

Promoting Local Culture

56. We will actively preserve and promote our intangible cultural heritage, such as Cantonese Opera. An emblem of local culture, it is a refined, as much as a popular, art form. The Government has decided to convert the Yau Ma Tei Theatre into a Cantonese Opera centre, which will serve as a permanent performance venue for Cantonese Opera troupes. The Cantonese Opera sector also plays an important role in the venue partnership scheme of the Leisure and Cultural Services Department (LCSD).

Creative Capital

57. Globalisation has brought about the rise of various cultural and creative industries. The markets for leisure goods, advertising, film, television, tourism, design, architecture and art are flourishing. These high value-added industries are environmentally friendly and compatible with the mode of

economic development for global cities. Since the 1970s, Hong Kong has attained a leading position in the Asia-Pacific region in such industries as film, television, music, advertising, design and tourism. “Hong Kong film”, our most successful creative product in the global market, has won worldwide acclaim.

58. With intense competition in the creative industries, our leading position is under threat as neighbouring regions catch up. For example, Korean films and Taiwanese music have become increasingly popular. Mainland cities have set up creative industries parks. Tourism boards are marketing their city brands in innovative ways to attract tourists. My view is that to maintain our edge, the development of our creative industries must accelerate in the next five years. The Financial Secretary and the Commerce and Economic Development Bureau under his ambit will oversee our creative industries development plan. They will draw up overall strategic plans for future development, complementary facilities and manpower training in collaboration with government departments, non-governmental organisations and professional bodies.

59. I hope that the recently announced plan for the WKCD project will stimulate the development of cultural and creative industries in Hong Kong. At the same time, we need a large pool of creative talents and a discerning audience. To achieve this, the Education Bureau will encourage the nurturing of creativity, talents and ability in artistic and cultural appreciation in primary and secondary students, and promote university training for creative, performing arts and cultural talents.

60. On promoting our city’s brand, I will ask the Financial Secretary to formulate strategies to revitalise Brand Hong Kong and step up publicity efforts highlighting Hong Kong as Asia’s world city. We will also encourage and promote the development of Hong Kong brands.

61. World Expo 2010 Shanghai will provide an excellent opportunity for us to publicise Hong Kong’s quality city life and position as a creative capital. To match the Expo’s theme of

“Better City, Better Life”, we will organise a series of campaigns to promote Hong Kong’s image.

International Convention, Exhibition and Tourism Capital

62. To meet intensified regional competition, we will enhance the appeal of Hong Kong as an international convention, exhibition and tourism capital. The Government will work more closely with the convention and exhibition, tourism and hotel industries to improve our competitive edge by seeking to host more mega international events. In parallel, we will actively work with various sectors to promote exhibition and convention tourism, and provide participants and tourists with more quality facilities, services and entertainment. We will also ensure a continuous supply of world-class professionals to support the rapid development of relevant industries. The Financial Secretary and the Secretary for Commerce and Economic Development will lead a cross-sector steering committee comprising government and trade representatives to conduct a comprehensive review and formulate relevant development strategies.

63. On infrastructure development, the exhibition area of the Hong Kong Convention and Exhibition Centre will increase by 42% with the completion of the atrium link extension in 2009. To cater for longer term demand, we are exploring with AsiaWorld-Expo (AWE) the early commencement of the phase II expansion, which will increase the AWE exhibition area to 100 000 square metres. We are also looking at providing additional convention and exhibition facilities in conjunction with the Trade Development Council. We will also gauge the need for land supply for hotel development.

64. Hong Kong will become a focus of world attention as the city staging the 2008 Olympic Equestrian Events. We will make use of this opportunity to attract tourists by vigorously promoting Hong Kong as a tourism and events capital.

Safe Living

65. A quality city life is not only about the natural environment, culture and creativity, but also a safe and worry-free living environment. Thanks to our outstanding disciplined services, Hong Kong's law and order has been well maintained with low crime rates over the years. There is, however, a threat which has caused grave concern in the community, namely, food safety. Ensuring food safety will be a priority.

- (1) **Food Safety Bill:** I will introduce a Food Safety Bill to provide for a comprehensive registration scheme for food importers and distributors. Under the scheme, importers and distributors will be required to maintain proper transaction records of imported food, so that in the event of a food incident, the sources and points of sale of the food concerned can be traced by the Government swiftly and thoroughly. Under the new legislation, when public health is under serious threat, the authorities will be empowered to require all wholesalers and retailers to stop selling and recall the food concerned. We expect to submit the proposals to this Council by year end. The Bill will be introduced in the 2008-09 legislative session after a consultation exercise.
- (2) **Food safety standards:** In parallel with reforming the food safety regulatory regime, we will formulate a set of comprehensive and clear food safety standards for Hong Kong. We will conduct a series of reviews and take reference from the food standards drawn up by the Codex Alimentarius Commission jointly set up by the Food and Agriculture Organisation and the World Health Organisation of the United Nations. Based on reviews, we plan to submit to this Council recommendations on the control regimes on residues of agricultural pesticides and veterinary drugs in 2007 and 2008 respectively.

- (3) **Nutrition Labelling Scheme:** In addition to ensuring food safety, we will enact food labelling legislation to help consumers make informed choices and protect their health. The new requirement for labelling food additives and allergens on pre-packaged food came into effect in July this year. Drafting work will soon be completed for regulations on the Labelling Scheme on Nutrition Information for pre-packaged food. We plan to introduce the amendment bill into this Council early next year.

D. Investing for a Caring Society

66. The progress of a society is measured not just in terms of per capita income, air quality and cultural and creative activities, but also in interpersonal relationships. This includes how people care for the disadvantaged and whether they are good Samaritans. These are social benefits that should be brought about by economic development.

67. While our economy is back on track, the extent to which different sectors of the community share the fruits of prosperity varies. Some low-income families are under pressure, and the onset of inflation only makes them more anxious. I fully appreciate their worries and will try my best to alleviate their problems.

68. Experience elsewhere indicates that the most effective way to tackle the poverty problem in the long run lies in reducing inter-generational poverty. The key is to provide the younger generation of low-income families with favourable conditions for upward mobility. To this end, the Government intends to implement a 12-year free education programme and provide more opportunities for retraining. Coupled with the Pre-primary Education Voucher Scheme, these measures can help children of low-income families grow and learn from early childhood to adolescence. We want to enhance their ability to improve themselves and to lay a solid foundation for their future.

69. We will make substantial investment in infrastructure, help our economy power ahead, attract more quality migrants, and provide more training and retraining opportunities for aspiring individuals. All these are essential to create jobs. The Government will actively adopt a multi-pronged approach in dealing with issues concerning people's livelihood, in particular the economic hardship faced by people at the grassroots level.

Returning Wealth to the People

70. When standing for the Chief Executive election, I have pledged that in this term, I would provide tax relief, which

includes gradually lowering salaries tax and profits tax rates to 15%, if fiscal conditions allow. The consolidated surplus for 2006-07 is about \$3.5 billion higher than the revised estimate in the 2007-08 Budget. To date, public revenue figures for 2007-08 are better than expected in some areas. I have therefore decided to introduce the following relief measures:

- (1) **Tax Reduction:** With the consent of the Financial Secretary, I am pleased to announce that the standard rate of salaries tax will be reduced to 15% in 2008-09. Given the significance of profits tax on the Government's revenue, I intend to adopt a prudent approach by initially offering a one percentage point cut to 16.5% in 2008-09. These two measures will cost the Government about \$5 billion annually. We will consider further profits tax relief if our economy remains robust and our public finances stay sound.
- (2) **Rates Relief:** The Financial Secretary has announced waiving rates for the first two quarters of the 2007-08 financial year. I am pleased to announce that rates for the last quarter will also be waived, subject to a ceiling of \$5,000 for each rateable tenement. This will cost the Government \$2.6 billion.

Social Enterprises

71. The widening wealth gap is a global trend. Today, corporate CEOs and sports superstars take home astronomically high pay, while many people's income remains stagnant. I believe that to prevent the widening wealth gap from becoming a serious social conflict, it is important for the well-off to care for the disadvantaged. Enterprises should fulfill their social responsibilities. To translate this into action, the business community and professionals should actively volunteer to participate in charity work including promoting the development of social enterprises. Hong Kong has an excellent track record in charitable activities. This is clearly shown in our people's generosity in providing relief for disaster victims of the floods

in the Mainland and the tsunami in South Asia. In this new era, we have to foster a new caring culture in Hong Kong. We need to nurture more social entrepreneurs to achieve our social goals with entrepreneurial thinking and commercial strategies.

72. In my election campaign, I have pledged to promote the development of social enterprises by motivating a tri-partite collaboration among the Government, business and society. With concerted efforts, we can promote the development of social enterprises and boost employment. Eligible operators of social enterprises are not only non-profit-making organisations. The business community can play an important part as well. I have already received a series of social enterprise projects from non-government organisations. I will invite non-profit-making organisations and the business community to participate in these projects. I will also convene a summit on social enterprises before year end.

Enhancing Employability

73. Employment is an issue that has to be tackled by setting long-term strategies. Hong Kong's economic growth model has changed. The need for training and self-improvement is not just confined to low-skilled, low-educated and middle-aged workers. We need to turn our training policy into a long-term social investment. The Employees Retraining Scheme is now providing 100 000 training places a year with an annual expenditure of about \$400 million. The accumulated employees retraining levy paid by the employers of foreign domestic helpers is some \$3.5 billion. The levies collected will be used to fund a comprehensive expansion of training schemes under the Employees Retraining Board (ERB). This includes relaxing the age limit of eligible trainees (currently set at 30 or above) to cover people aged 15 or above, and relaxing the eligibility criteria from secondary three or below to cover those with an education level at sub-degree or below. In addition, the ERB will offer training programmes that are more diversified and geared towards market needs. The number of training places will

increase by 50% to 150 000 by 2008-09, and to 200 000 by 2009-10.

74. The Government's effort to expand the training schemes requires support from enterprises. Enterprises have a duty to allow employees sufficient time for training. Employers can also take the initiative by providing training for employees.

75. The ERB is now conducting a strategic review to upgrade its services and operation. This will include tailor-made on-the-job training schemes and other support services to those with employment difficulties to help them find suitable jobs and reduce their reliance on welfare. The ERB will also work closely with the industrial and business sectors, in particular small and medium enterprises and social enterprises, to gain a better picture of their manpower and skill requirements and assist enterprises of different trades with human resources development and continued skills upgrading.

76. We will buttress the employment support for our young people by providing 3 000 three-year employment opportunities for those aged between 15 and 29.

77. We will examine how to rationalise, integrate and enhance the employment and training services currently provided by the Labour Department, the Social Welfare Department (SWD) and the ERB. We will also launch a pilot scheme to trial the one-stop employment support mode and on-the-job training. We hope that the revamped service mode will more effectively help the unemployed.

Minimum Wage

78. In respect of wage levels, I will pay close attention to the mid-term review conducted this month of the Wage Protection Movement (WPM) for cleansing workers and security guards. If the mid-term review is unsatisfactory, we will further promote the movement as well as proceed immediately with the preparatory legislative work on a statutory minimum wage. An overall review of the WPM will be conducted in October next

year. If the voluntary movement has failed, we will introduce the bill on a statutory minimum wage for security guards and cleansing workers as early as possible in the 2008-09 legislative session. I call on our enterprises to share the fruits of their success with their staff to maintain their service level and retain quality staff. Otherwise, the Government will resort to legislation.

Alleviating Poverty

79. Poverty alleviation is a priority for the Government in the next five years. The Commission on Poverty has recently concluded its work and put forward over 50 proposals. The Secretary for Labour and Welfare will head an inter-bureau/departmental task force to oversee poverty alleviation matters. The Commission has finalised arrangements to implement some of these initiatives:

- (1) A pilot Transport Support Scheme was launched in June and will be reviewed in mid-2008;
- (2) Current restrictions on disregarded earnings under the Comprehensive Social Security Allowance Scheme are expected to be relaxed in December this year;
- (3) Proposals to establish a Child Development Fund will be submitted later this year;
- (4) The Comprehensive Child Development Service will be gradually expanded to all districts from the 2008-09 financial year; and
- (5) More will be done to help the “hidden” and single elderly people integrate into the community. Additional residential care places will be provided, and community care services will be enhanced in the 2008-09 financial year.

Health Care Vouchers for the Elderly

80. We should care more about the elderly, especially their health care needs. They have made contributions to our society, and they deserve better services in return. I am pleased to announce that the Government will launch a trial scheme under which all citizens aged 70 or above will be given annually five health care vouchers worth \$50 each to subsidise primary medical care services they purchase from the private sector. The vouchers can be used for services provided by western and Chinese medicine practitioners, allied health professionals and dental practitioners, as well as for preventive services such as medical examination or vaccination, and therapeutic services. Apart from giving something back to our senior citizens, this initiative enables them to choose more freely various primary medical care services in the local community and therefore reduces the waiting time. It also seeks to encourage the elderly to make good use of primary medical care services and establish a “continuum of care” relationship with family doctors, to better safeguard their health. The health care vouchers will cost some \$150 million annually. The three-year trial scheme will be subject to a full review. The Secretary for Food and Health will draw up details of the scheme, which is expected to be implemented in the 2008-09 financial year.

Care for the Elderly

81. The elderly are important members of families. Family members play a major role in taking care of the elderly. We need to strengthen mutual support among family members and improve their ability to look after the elderly. We will strengthen training for carers of the elderly and provide them with information on elderly services. We will also enhance the counselling services at district elderly community centres. In addition, we will provide more day care places for the elderly. We will increase home care services in support of families living with frail elderly people in certain districts. A trial scheme to provide one-stop support services to elderly discharges,

including rehabilitation, home care and carer support services, will be launched in Kwun Tong early next year.

82. Some elderly people live in relatively poor communities without family support. Their dilapidated homes imply poor quality of life and domestic safety problems. We will earmark one-off funding of \$200 million to help improve their homes in the next five years. The Labour and Welfare Bureau will, in collaboration with the SWD, examine the arrangements to implement this measure. We hope that this initiative will encourage our citizens to care more about the elderly in need, enabling the culture of caring for the elderly to take root in our community.

Elderly Housing

83. The Hong Kong Housing Society (HKHS) has implemented a pilot Senior Citizen Residence Scheme. It has been well received. We believe that it is necessary to continue the comprehensive home care approach by expanding the scheme. The HKHS will propose new plans and locations for the elderly housing scheme on Hong Kong Island in the near future.

The Family as a Core Value

84. In welfare planning, service delivery modes are determined by the types of service recipients. The provision of social services has not been planned from a holistic family approach. Hong Kong is a predominantly Chinese community with the family as its core value. The Government should strengthen the family by formulating social policy and providing welfare services relating to the family that meet the needs of women, children, youngsters and the elderly. I announced in my last Policy Address the establishment of a Family Council. The Council will be set up this year and will be chaired by the Chief Secretary for Administration. It will implement policies and initiatives relating to family support in the next two years. From now on, supporting and consolidating the family will be the

primary consideration of our social policy and social services planning, and the family will be promoted as a core social value.

Mediation Services

85. To alleviate conflicts and foster harmony, we will promote the development of mediation services. On many occasions, interpersonal conflicts need not go to court. Mediation can reduce social costs and help the parties concerned to rebuild their relationship. This is a new trend in advanced regions around the world. The cross-sector working group headed by the Secretary for Justice will map out plans to employ mediation more extensively and effectively in handling higher-end commercial disputes and relatively small-scale local disputes.

Tackling Juvenile Drug Abuse

86. Hong Kong and many other advanced cities face similar social problems, among which youth drug abuse figures prominently. A lack of awareness, coupled with peer influence and curiosity, has led many young people to believe that taking psychotropic drugs is not that serious or even trendy. Drug abuse is dangerous to health as well as a criminal offence. I am deeply concerned about the problem of juvenile drug abuse because young people are the pillars of our future. We must tackle this issue with a multi-pronged approach. Otherwise, our society will definitely pay a high price in the future. To this end, I will appoint the Secretary for Justice, the incumbent Deputy Chairman of the Fight Crime Committee, to lead a high level inter-departmental task force which will make use of the existing anti-crime and anti-narcotics networks to consolidate strategies to combat juvenile drug abuse from a holistic perspective. The task force's terms of reference covers a wide range of areas, such as preventive education and publicity, treatment and rehabilitation, law enforcement, research and external co-operation. Task force members will do their best to mobilise various government departments and the local community to tackle juvenile drug abuse.

E. Optimising Our Demographic Structure and Attracting Talent

87. Many countries face the same problem of an ageing population. While the birth rate in Hong Kong ranks among the world's lowest, our life expectancy is one of the longest. To address demographic change, we need to focus on two aspects. First, the problems arising from an ageing population. Second, the lowering of the quality of our population. Our efforts include expediting the development of human capital and promoting healthy ageing.

Education Reform

88. The quality of our population hinges on education. We have, since reunification, spent 10 years developing our education on all fronts and taking forward education reform. The education reform has produced the desired outcomes. I would like to thank our teachers for their persistent efforts over the years, without which the results we see today would not be possible. The education reform process has now entered a consolidation and fine-tuning stage. This will help consolidate achievements, and meet the reasonable demands of stakeholders.

12-year Free Education

89. Hong Kong has been providing nine-year free education through public primary and secondary schools. Some people consider that this should extend to senior secondary forms. To demonstrate the Government's steadfast commitment to education and the nurturing of our next generation, we will offer 12-year free education starting from the 2008-09 school year. We will fully subsidise students in public secondary schools, including senior secondary education. For students under the new three-year senior secondary education structure starting from the 2009-10 school year, we will provide 12-year free education. For those secondary students under the existing structure, we will provide 13-year free education.

90. Some Form Three school leavers have chosen to enrol in full-time subsidised courses provided by the Vocational Training Council instead of pursuing senior secondary education. Starting from the 2008-09 school year, the Government will fully subsidise these courses to provide an alternative free avenue for senior secondary students to further their studies other than in mainstream education.

Small-class Teaching

91. I have pledged to implement small-class teaching in my Election Platform. Starting from the 2009-10 school year, small-class teaching will be implemented in Primary One of suitable public primary schools by phases. By the 2014-15 school year, this initiative will be extended to all classes from Primary One to Primary Six. Some people consider that small-class teaching is just one of the means to enhance the quality of teaching and learning. As such, a one-size-fits-all approach requiring all schools to reduce the class size should be avoided. In fact, in some school nets, if all schools implemented small-class teaching, there would be a shortage of school places. The full implementation of small-class teaching hinges on having enough teachers and classrooms. Therefore we need to be flexible and pragmatic in implementing this policy. As the preference and conditions necessary for small-class teaching vary among schools, the Education Bureau will allow flexibility and fully consult the stakeholders and respect their opinions in formulating detailed implementation arrangements, which are expected to be finalised by September 2008.

Education Hub

Expanding the International School Sector

92. It is important for us to develop a vibrant international school sector to underpin our aspiration to be a global metropolis and fortify our status as a regional education hub. We will make available a number of greenfield sites at nominal premium for the development of new international schools or the expansion

of existing schools with interest-free capital works assistance loans. We will study the feasibility of allowing the international school sector to develop hostel facilities on a trial basis, with a view to attracting students from different parts of the world.

Attracting Outstanding Students to Hong Kong

93. Attracting more outstanding students to study in Hong Kong will enlarge our pool of talent and enhance the quality of our population. It will also help create a diversified cultural and learning environment, and broaden the horizons of our students. The Government will introduce a package of measures which includes increasing the admission quotas for non-local students to local tertiary institutions, relaxing employment restrictions on non-local students, as well as providing scholarships to strengthen support to local and non-local students.

Contributing to Our Community

94. Non-local students taking full-time and locally-accredited programmes at degree level or above will be allowed to take up part-time jobs on campus and full-time summer jobs outside campus without the prior approval of the Immigration Department. These students are also free to take up study-related internships arranged by their tertiary institutions. We will also relax the restrictions on seeking employment after graduation and the condition of stay during employment in Hong Kong. Such measures will enhance our status as an education hub and bring young, new and high quality talent into our population.

Attracting Talent

95. The large-scale development projects to be launched require talented people from everywhere. Last year, 28 000 people from different corners of the globe came to work in Hong Kong and settled here. Among them, about 5 500 came from the Mainland. Global competition means that we have to compete for markets as well as talent. Hong Kong's future development requires more talent from the Mainland and overseas. I will modify the Quality Migrant Admission Scheme by relaxing the

restrictions on age limit and other prerequisites. We will also actively promote the Scheme in order to attract more Mainland and overseas talent to come and contribute to the development of Hong Kong.

Health Care Reform

96. We take pride in our current health care system. Our health care personnel are highly professional. The public health care system provides quality subsidised health care services to the general public, ensuring that no one with financial difficulties will be denied proper health care. But there are causes for concern. For example, the proportion of our old-aged population continues to rise. According to the population projection, the proportion of those aged over 65 will increase from less than one eighth of the present population to more than one fourth of the population by 2030. The incidence of diseases, including chronic illnesses, has been rising. We anticipate that the demand for health care services will increase substantially.

97. We need to plan ahead for these challenges so that Hong Kong will maintain its competitive edge. Given the increasing demand for health care services, we need to devote more resources to this area. We also need to implement a comprehensive and fundamental reform of our health care system to maximise medical benefits and promote the good health of the community. We plan to adopt a full range of health care reform initiatives. They include enhancing primary health care and promoting family doctor-based services; introducing more services through public-private-partnership; encouraging healthy competition between the private and public sectors, and purchasing health care services from the private sector. We will explore alternative models of public-private-partnership to provide health care services and develop medical centres of excellence. We will also study the establishment of medical centres in paediatrics and neuroscience to upgrade our health care services, and develop a territory-wide, patient-oriented electronic health record.

98. While taking forward these reforms, we need to face reality. Given the inevitable increase in the proportion of long-term health care expenditure as a percentage of GDP, we must make long-term arrangements for health care financing. The purpose of health care financing is to support health care reform and ensure the sustainable development of our health care system rather than reduce the Government's commitment. I have decided to increase the Government's recurrent expenditure on medical and health services from the present 15% to 17% in 2011-12. However, it is impossible for the Government to increase public health care expenditure indefinitely. We must also introduce supplementary financing in parallel. The Secretary for Food and Health will give an account of various reforms, including details of the financing package, and conduct a public consultation by year end. I hope that the community will take this opportunity to forge a consensus on taking forward health care reform.

F. Developing Democracy and Enhancing Governance

Implementation of Universal Suffrage

99. Finally, I would like to deal with two issues of general concern – constitutional development and governance. Promoting democracy is a constitutional responsibility vested in the Chief Executive of the HKSAR under the Basic Law. It is my responsibility to take Hong Kong towards universal suffrage.

100. During my election campaign, I have undertaken to launch a public consultation exercise on the implementation of universal suffrage after the inauguration of the new HKSAR Government. I have made good on my electoral promise: the Third Term HKSAR Government published the Green Paper on Constitutional Development 11 days after its inauguration. This is the first time that wide-ranging discussion on the models, roadmap and timetable for implementing universal suffrage for electing the Chief Executive and the Legislative Council has been initiated within the community.

101. The three-month public consultation period ends today. During the consultation period, the Government received thousands of submissions and proposals on the issues from different sectors and strata of the community. These views have expressed thoroughly the community's pluralistic aspirations on democratic development. I am particularly moved and encouraged by the fact that the entire consultation has been conducted in a rational and pragmatic manner. Hong Kong people treasure democracy and hope to implement universal suffrage as soon as possible. However, they are well aware that implementing universal suffrage is a complicated social exercise. When and how to implement universal suffrage will have far reaching implications on Hong Kong's long-term stability and prosperity. We must seriously consider and thoroughly study the issues rationally and pragmatically. I would like to take this opportunity to thank those organisations and individuals who put forward their views. I would also like to thank those who

did not submit views but have shown their concern and support for the consultation exercise. Our next step is to collate and summarise the views received. On this basis, we will submit a report to the Central Authorities, reflecting faithfully the community's views on democratic development. Let me reiterate that I will try my utmost to forge a consensus on the implementation of universal suffrage in accordance with the Basic Law within the Third Term of the HKSAR Government. I will also strive to secure the Central Authorities' trust and understanding for its early implementation.

Pursuing Excellence in Governance

102. In the course of democratic reform, we should not ignore the issue of governance. As the quality of governance has a direct bearing on people's daily lives, the efficiency and effectiveness of our governance must not be compromised by constitutional development.

Professional Political Talents

103. Since the introduction of the Accountability System for Principal Officials in 2002, all posts of Secretaries and Directors of Bureaux have been held by politically appointed officials. To further develop the Accountability System, the HKSAR Government published in July 2006 a consultation document on the creation of two new tiers of politically appointed positions, namely Deputy Directors of Bureau and Assistants to Directors of Bureau. I hope that these positions can be created as soon as possible to provide the team of Principal Officials with stronger support in carrying out political work, and in leading an outstanding, permanent and politically neutral civil service. I believe that the additional political appointments offer excellent opportunities to professional political talents to gain public administration experience. This is conducive to the grooming of political leaders for the Government.

District Administration

104. To improve the work at the district level and further the development of district administration, the Government will enhance the roles of the District Councils (DCs) and the District Officers (DOs). In light of the experience gained from the pilot scheme launched early this year in four selected districts, we have decided to fully implement the recommendations for enhancing the functions of all 18 DCs with effect from January 2008 when the next DC term begins. The DCs will be involved in the management of designated district facilities. The annual funding for the DCs to conduct community involvement activities will be increased to \$300 million, and a dedicated block vote for district minor works proposed by the DCs will be increased to \$300 million per year.

105. In May next year, I will chair the first Summit on District Administration Scheme, which seeks to strengthen the communication between high-ranking government officials and the DCs. It also serves as a platform for exchanging views on the strategies for the future development of district administration.

106. The Government will provide the DOs with more resources to support their efforts in promoting district administration. As always, the DOs will actively co-ordinate the work of government departments and promptly address issues concerning people's livelihood within their districts. They will also foster closer communication with local organisations and promote cross-sector co-operation, so that our policies will be implemented more effectively at the grassroots level and people's livelihood further improved.

Rural Affairs

107. A new round of rural elections, which include village representative elections, Rural Committee elections and Heung Yee Kuk (HYK) election, was concluded in the first half of the year. We will continue to enhance our communication and co-operation with representatives of public opinion in the rural areas and set up a working group with the HYK to conduct a

comprehensive review on the arrangements of rural elections as a whole. We will consider the HYK's proposal to provide an allowance for village representatives.

Relationship between the Executive Authorities and the Legislature

108. A good relationship between the Executive Authorities and the Legislature is conducive to smooth governance, high efficiency in policy implementation and a harmonious society. In the next five years, to take forward the major reforms and projects I have proposed, we need strong support from all Honourable Members. The HKSAR Government is determined to work closely with this Council. We will seek Members' views as early as practicable when formulating important government policies. Following the further expansion of the Accountability System, all Directors and Deputy Directors of Bureaux will attend the Panel meetings of this Council to explain government policies and answer questions raised by the Members. I am convinced that as long as both the Executive Authorities and the Legislative Council take into account public opinion in performing their functions, they will establish a harmonious and constructive relationship.

Reaching out to the Community

109. To strengthen interaction between the Government and the community, I have asked the politically appointed officials of the Third Term Government to proactively reach out to the community, listen to public views and work with the stakeholders. In this connection, we will make better use of the available channels, including various advisory bodies such as the Commission on Strategic Development. Reaching out to the community is a two-way communication process. Members of the community also need to organise themselves, and express their views in a pragmatic and responsible manner, so that a consensus can be reached.

People-based Governance

110. Civil servants deliver public services in the front line. I am grateful to them for maintaining quality services at a time when they are required to achieve enhanced productivity. I take pride in them. They are Hong Kong's pride too. I will adhere to the "people-based" principle in public services planning. I will identify what our people need, so as to provide them with more efficient and convenient services.

111. For the business sector, the Government is both a regulator and a service provider. To enhance the efficiency of the building construction industry and property development market, we endeavour to speed up the planning and approval procedures for private works. As the first step, the District Lands Offices will set up dedicated teams with an integrated management structure to expedite the processing of lease modification and land exchange applications. To complement this initiative, the head office of the Lands Department will step up case management and monitor more closely the progress of processing applications. We will launch this pilot scheme in the next financial year by setting up the first dedicated team in the District Lands Office (Hong Kong West and South). This measure is expected to bring about a 10% reduction in the processing time of related cases within the district. We will also examine if further improvements can be made to urban planning, land administration and approval procedures for building construction. Separately, to enhance our competitiveness, the Government will conduct a comprehensive review on other business licensing processes and streamline application procedures.

Integration with the Mainland

112. I have stressed on various occasions that to embrace the era of globalisation, Hong Kong must find a suitable niche in the development of our country. Our economic integration with the Mainland is an irreversible trend. In the course of integration, our work can be divided into two major levels as detailed in the ensuing paragraphs.

Central Planning

113. Preparatory work for the National 12th Five-Year Plan will begin next year. We will strengthen our communication with the Mainland authorities and put in place appropriate working mechanisms, so that the HKSAR can take early action in supporting the preparation of the Plan under the principle of “One Country, Two Systems”. In this way, Hong Kong can leverage on the latest developments of the region to set the stage for our long-term development. We will also better understand the directions of socio-economic development in the Mainland when the Plan is being drawn up. This will enable us to make more timely and effective contributions to the development of our country while maintaining Hong Kong’s irreplaceable role in the course of national development.

Relations with Provinces and Municipalities

114. It is important for Hong Kong to complement the planning work of the Central Authorities. However, it is equally important to co-operate with Shenzhen, Guangdong Province as well as Pan-PRD provinces and municipalities. I will press ahead in the following areas :

- (1) Jointly developing a world-class metropolis with Shenzhen: In my Election Platform, I have put forward the vision of developing the Hong Kong-Shenzhen metropolis and undertaken to strengthen our co-operation. My proposals met with positive responses from the Shenzhen authorities. We share a common goal and have had some preliminary exchange of views. Currently, we are discussing airport collaboration and the development of the Lok Ma Chau Loop.
- (2) Co-operation with Guangdong: We will strengthen co-operation with Guangdong to achieve a win-win situation; provide service support for economic transformation and industry upgrades in Guangdong Province; and enhance our co-operation

in infrastructure development and environmental protection.

- (3) Pan-PRD: We will promote jointly with Guangdong Province regional co-operation in the Pan-PRD; assist Hong Kong enterprises in the Pan-PRD in enhancing technology, and facilitate their brand building; and consolidate Hong Kong's leading position in financial services, trade, logistics, tourism and professional services.

Promoting the Basic Law

115. As the constitutional document of the HKSAR, the Basic Law has laid a solid foundation for the continued stability and prosperity of Hong Kong. The Constitutional and Mainland Affairs Bureau will devote more resources to increase the promotion of the Basic Law. We will also enhance Basic Law-related training for the civil service. In addition to providing training courses tailored to the specific needs of different levels of civil servants, we will establish a mechanism to follow up on their training status and incorporate the Basic Law into the civil service recruitment examination. At the same time, we will work closely with the working groups under the Basic Law Promotion Steering Committee to step up the promotion of the Basic Law in local communities and schools. For instance, we will actively sponsor and assist community organisations and schools in organising promotional activities.

National Education

116. The decade following Hong Kong's return to the motherland has seen a growing sense of national identity in our community. To prepare ourselves for the next decade, we must have a better understanding of our country's development and a stronger sense of our national and cultural identity. If Hong Kong people make their life and career plans from the perspective of national development, both individual citizens and the community at large will surely have a brighter future.

117. At the welcoming banquet the HKSAR Government hosted on 30 June this year, President Hu Jintao earnestly advised that “we should put more emphasis on national education for the youth in Hong Kong and promote exchanges between them and the young people of the Mainland so that they will carry forward the Hong Kong people’s great tradition of loving the motherland and loving Hong Kong”.

118. The future lies with our young people. In the interest of our country’s development and the continued success of “One Country, Two Systems”, the HKSAR Government will make every effort to promote national education. In particular, we will attach great importance to promoting national education among our young people, so that they grow to love our motherland and Hong Kong, aspire to win honour and make contributions for our country, and have a strong sense of pride as nationals of the People’s Republic of China.

119. The promotion of national education is an undertaking of the whole community. The HKSAR Government will work closely with various sectors in the community, in particular the education sector, to enhance our young people’s awareness and understanding of our country’s development, the land and the people, the history and the culture. This can be done through different means and channels, such as classroom teaching, teacher education, extra-curricular activities and exchanges with young people from the Mainland. The objective is to foster among young people a sense of affinity with our motherland and heighten their sense of national pride and identity.

120. We will give more weight to the elements of national education in the existing primary and secondary curricula and the new senior secondary curriculum framework to help students acquire a clearer understanding of our country and a stronger sense of national identity. The Government will also encourage more schools to form flag guard teams and to stage more national flag-raising ceremonies, and subsidise more Mainland study trips and exchange programmes for youths. We will rally

the efforts of various sectors to bring about synergy in enhancing the overall effectiveness of national education.

Promoting the Olympic Spirit

121. The 2008 Beijing Olympic Games presents an excellent opportunity to promote national education. We will highlight this important event as the main theme of our promotional activities, so people will understand our country better and have a shared sense of national pride. We will also take this opportunity to promote sports among the public by making available the sports and recreational facilities managed by the LCSD for public use free of charge from 1 July to 30 September 2008. These facilities include public swimming pools, water sports centres, tennis courts, squash courts and holiday camps.

G. Conclusion

122. Madam President, in the conclusion of my last Policy Address, I highlighted three major challenges facing the SAR, namely, sustaining economic development, furthering the development of democracy, and building a harmonious society. Following the establishment of the Third Term HKSAR Government, I have studied, discussed and examined these issues in great detail with the Secretaries and Directors of Bureaux and devised pragmatic and practicable strategies to meet the three major challenges.

123. For these strategies to succeed, the Government, enterprises and individual citizens must each play their part. We all need to be pragmatic and proactive in shouldering our respective responsibilities. Otherwise, our strategies will be nothing but empty slogans or castles in the air.

Overcoming Self-doubt

124. Hong Kong has always been a city of immigrants. In the wake of the Second World War, this tiny community saw an influx of migrants. They lived from hand to mouth and struggled to make ends meet. There was no catchy slogan or a grand vision of development. Taking one step at a time, Hong Kong transformed itself from a trading port into a world factory. Today, Hong Kong has made its mark on the world map as an international city and global financial centre.

125. Hong Kong's development over the past six decades is a miracle, attesting to the dedication and contributions of every member of society. Working hard to earn a living, Hong Kong people together have created a miracle without realising it. At times, such a remarkable feat can appear quite incredible. This is why we have sometimes felt confused, particularly after the Asian financial crisis, and fell prey to self-doubt. We kept asking ourselves: Is the miracle over? Have we run out of luck? Are we at our wits' end? Have our golden days gone? The 1980s saw an economic boom in Hong Kong. People were confident and

ambitious. When the Mainland economy entered a period of rapid growth in the 1990s, Hong Kong people's confidence fell. We feared that Hong Kong would be marginalised or eventually replaced by Mainland cities. Immediately after reunification, we were unsure about our identity. Time and again, we have asked ourselves: What will become of Hong Kong? Who are we?

126. Let me share my thoughts with you. To free ourselves from doubt and confusion, we have to see Hong Kong from the perspective of our country's future. Only in doing so will we be able to cultivate the right niche for ourselves in our own nation. Over the past three decades, we have contributed substantially to our country's economic growth. Hong Kong's businessmen were the earliest investors in the Mainland when our country began to reform and open up. Our professionals followed suit and headed north to embark on new ventures. In the coming decade, Hong Kong will remain a balanced, pluralistic, stable and advanced city. We play by the rules of a free market while stressing corporate social responsibility. We embrace modern values while upholding the core values of the traditional Chinese family. We promote democratic development without compromising social stability or government efficiency. We pursue economic growth, and care about environmental protection and cultural conservation. We cherish the personal freedom of individuals and pluralism, and we have a shared sense of national identity. Ours is a Chinese city, as well as a global city. Hong Kong will certainly continue to serve the country in our unique way. We will also lay an even more solid foundation to maintain our own long term prosperity, stability and development.

127. Working hard for bread and butter, Hong Kong people have created an economic miracle without realising it. Right now we are creating a new miracle. I have just turned 63, a post-war baby boomer. Ten years from now, our generation will fade out, and the next generation will take over. Our successors have to look at Hong Kong from the perspective of our nation's development. Only from this vantage point will they be able to see Hong Kong's promising future.

Realising Our Vision in a Pragmatic Manner

128. To create this new miracle, the Hong Kong spirit – pragmatic, responsible and determined to get things done – should not and cannot change. Only by retaining such qualities can we realise our vision. This is the same spirit that underpins my style of governance. In this new era of swift changes, I believe what we need is more consensus, less controversy; more practical action, less empty talk; more cohesion, less division.

Scaling New Heights

129. People may ask: What is the foundation for such consensus, harmony and cohesion? I would say it lies in the determination of the Government, enterprises and individuals to improve themselves. As the head of the Government, I will promote the development of democracy, pursue excellence in governance and progressively implement my policy agenda, with a view to improving the political environment in Hong Kong. As the pillar of our economy, enterprises should enhance corporate governance, develop creativity and shoulder more social responsibilities, so as to help create a better socio-economic environment. As the base of society, individuals should make sustained efforts to pursue personal advancement in this ever-changing world and strengthen the family unit in the face of different challenges, so that Hong Kong will become more competitive and our society more harmonious.

130. When people from different social strata and age groups, and people of different political views, all strive for progress and advancement, we will embark upon a new journey for a golden decade. I believe with the joint efforts of the people and the Government, in the next decade, Hong Kong will shine even more as a global metropolis.