

The 2008-09 Policy Address

**Embracing New
Challenges**

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Mr President,

A. Introduction

1. Last year, I delivered the first Policy Address of the Third Term Government of the Hong Kong Special Administrative Region (HKSAR). It set out a five-year blueprint for the Government.

Governance Review

Progressive Development

2. In that Policy Address, entitled “A New Direction for Hong Kong”, I advocated “Progressive Development” as a core value of our governance. This includes promoting economic development as our primary goal, promoting economic development through infrastructure projects, promoting community development through the revitalisation of historic and built heritage, and promoting social harmony under the concept of helping people to help themselves. We have been implementing these pledges over the past year.

3. The large-scale infrastructure projects are coming on line. The construction start dates for most of the transport infrastructure projects have been fixed, and there has been significant progress in cross-boundary infrastructure projects. Design of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link is under way. A consensus has been reached on financing arrangements for the Hong Kong-Zhuhai-Macao Bridge. We expect works to start by 2010. We have been examining ways to enhance co-operation between Hong Kong International Airport and Shenzhen Airport, and to develop the Lok Ma Chau Loop.

4. The West Kowloon Cultural District (WKCD) is an important strategic project that will support Hong Kong’s development as a creative economy and global metropolis. The Legislative Council has approved the bill and funding application for this project. The WKCD Authority will be established soon to steer the project. We have also decided that the Government should fund the construction of the Kai Tak cruise terminal and will submit detailed proposals in phases to the Finance Committee for approval. We expect works to start in 2009 and aim to complete the first berth in 2013.

5. The concept of “Progressive Development” represents sustainable, diversified and balanced development. Last year we achieved substantial progress in striking a balance between economic development and environmental conservation. We signed the new Scheme of Control Agreements with the two power companies. This means lower electricity tariffs for the public. This also means that the power companies will reduce emissions through an incentive and penalty mechanism. In August, with the support of the Central Government, we secured a continuous and stable supply of clean fuel from the Mainland. This, in turn, will help improve the air quality in Hong Kong.

Care for Society

6. In times of sustained economic prosperity, people from different strata will benefit from real income growth. It is a time when everyone strives ahead. But once the economic tide changes, the community needs to pull together to care for the less fortunate. The relief measures that the Government announced earlier have progressively come into effect and directly benefit most people. These include the government payment of public housing rents, an electricity bill subsidy for all households, a rates waiver for the whole year, and extra payments of the Comprehensive Social Security Assistance (CSSA), Disability Allowance and Old Age Allowance (OAA). In rolling out these measures, we have made every effort to ensure they cover different sectors so the benefits of economic growth can be shared by all. Apart from helping people to ride out difficulties in the short term, we encourage our citizens to strive for the best and uphold the Hong Kong Spirit.

Constitutional Development

7. The HKSAR Government achieved a major breakthrough on constitutional development. After deliberating my report, the Standing Committee of the National People's Congress (NPCSC) made a decision in December 2007 setting out a clear timetable for Hong Kong to implement universal suffrage for the Chief Executive election in 2017, and the Legislative Council election in 2020.

Relationship with the Mainland

8. A new chapter has opened in Hong Kong's relationship with our country. The pace of our economic integration is accelerating, while co-operation with Guangdong is about to enter a new phase with increasingly diversified areas of co-operation. We will contribute to the formulation of the National 12th Five-Year Plan so that Hong Kong can play a greater role in our nation's development. The 2008 Olympic and Paralympic Games were a phenomenal success. Here in Hong Kong, we shared in the glory by co-hosting the Olympic and Paralympic Equestrian Events. Astronauts aboard the Shenzhou-7 successfully performed China's first spacewalk and returned to a triumphant welcome from the entire nation. We have seen a growing sense of national pride and identity in our community. I firmly believe that we can continue to make the best of the advantages under "One Country, Two Systems".

Risk Management in the Global Village

9. New challenges have surfaced since the last Policy Address. The risk of global recession is in sight and tainted milk products have triggered concerns over food safety. Economic globalisation has narrowed the distance between nations and fostered a closer international community. Some even suggest that "the world is flat". As an externally-oriented economy, Hong Kong is naturally vulnerable to changes in the external economic environment. With globalisation, Hong Kong is even more exposed to external factors in areas such as the economy,

finance, food safety and environmental protection. To address these issues, we need to co-operate with other governments as well as international organisations. The Government's role is increasingly important and needs to be redefined. We must exercise public power in an appropriate manner and formulate forward-looking policies. We should be ready to take decisive action to help stabilise the economy and rebuild people's confidence to ride out the difficulties.

10. The financial crisis, food safety and environmental pollution are the three major concerns of the public. All involve economic and social risk management under globalisation. The financial crisis triggered by US subprime mortgages has spread worldwide. Some banks have been affected by rumour-mongering, which has shaken the confidence of customers. Risk management has become more important than ever to our financial system. Separately, the globalisation of the food trade is a huge challenge to food safety management because foodstuffs nowadays are made from ingredients sourced from different places.

11. Environmental pollution is another problem that takes more than the efforts of one single government to tackle. Just as it takes international co-operation to fight global warming, we need cross-boundary collaboration to improve our air quality.

12. Honourable Members, to meet the challenges posed by globalisation, we need to re-examine the functions and roles of the Government. We will continue to uphold the principle of "Big Market, Small Government" in promoting economic development. The Government's role is to formulate policies conducive to market competition. When the market fails, however, the Government should be prepared to intervene in a timely and decisive manner. To stand out in the face of severe competition, we need to broaden our horizons and intensify economic integration with the Pearl River Delta (PRD) Region. The Government also needs to take the lead in building a Hong Kong-Shenzhen international metropolis as well as strengthening co-operation with Guangdong.

13. Advanced industrial countries are all facing such problems as an ageing population, a widening wealth gap and environmental pollution. The solutions to these social development problems lie in long-term policy planning and regional co-operation.

14. On governance, rising public expectations, coupled with rapid information dissemination by the media, necessitate prompt government response. Government officials should be more proactive in reaching out to the public, listening to their views and taking the public pulse. Apart from communicating through traditional channels such as advisory bodies and opinion leaders, we need to have direct dialogue with various sectors in the community.

15. These are uncertain times. We face risks to our economy, society and everyday lives. Strong government leadership is the key to stabilising the economy and helping people regain peace of mind. Under the concept of "Strong Governance", we endeavour to achieve a pragmatic, credible and accountable Government. "Public opinion underpins the strength of our leadership. Enhancing people's well-being is the first order of business of good governance." I hold fast to these values in policy making.

B. Turning Crises into Opportunities

16. Hong Kong is a modern international city and a sophisticated capitalist market economy. It has always been a great challenge to achieve sustained prosperity, good governance, social harmony and quality living.

17. The first major challenge we now face is the severe external economic environment. The financial turmoil triggered by the US subprime crisis continues to deteriorate, with a fall in asset prices, a near-frozen credit market, and a number of major international financial institutions running into difficulties. The crisis has spread to Europe, and it seems the worst is yet to pass. As they bear the brunt of the financial turbulence, Europe, the US and other developed economies are verging on recession. Here in Hong Kong, economic growth declined noticeably to 4.2% in the second quarter. We expect the economy to slow further. As a small, open economy and a global financial centre, Hong Kong is not immune to the impact of this financial tsunami. Some investors in Hong Kong have suffered losses from a derivative product, referred to as Minibonds, issued by the US investment bank Lehman Brothers, while rumours triggered a fleeting run on a local bank.

18. The financial tsunami we now face is a global crisis. Its destructive force is much stronger and more widespread than the Asian financial turmoil in 1997. The recovery will take longer, be more difficult and certainly cannot be taken lightly. That said, our financial infrastructure is more robust than it was in 1997, having matured a lot from the opportunities seized and the experience we — me and my financial team included — all gained from the previous crisis. Although the current financial tsunami has not caused systemic damage to our financial market, we will not underestimate its impact, nor flinch from meeting the challenges, nor rest on our laurels. We must get the job done.

19. To meet this major challenge, Hong Kong people should stand united in vigorously pursuing economic development. The Government will implement the major infrastructure projects and development strategies to reinforce our role as a global financial centre. We have no plan to cut back public expenditure on infrastructure and social services for the disadvantaged. At the same time, we will uphold fiscal prudence and the concept of “Big Market, Small Government”.

20. As the financial tsunami has yet to recede, it is impossible at this stage to ascertain its adverse impact on both our and the global economy. To prepare for the challenges ahead, I will soon establish and chair a task force to continually monitor and assess the impact of the financial tsunami on local and global markets, and provide timely evaluation of its impact on the local economy and our major industries during this trying period. More importantly, the task force will propose specific options for the Government and business community to address the challenges. This will help us overcome the crisis, turn it into new business opportunities and enhance our competitiveness. Members of the task force will include top government officials, finance experts, economists and representatives of major industries.

Reinforcing Our Position as a Financial Centre

21. The financial turmoil has given rise to a series of questions: Will a new global financial order emerge? Can the existing regulatory regime cope with developments in the global financial market? How should we chart Hong Kong's development as a global financial centre?

22. Enhancing our status as a global financial centre to help the economy power ahead is a well-considered strategy. In the face of global financial volatility, we need to keep calm and take a critical look at our own strengths and weaknesses. By so doing we can move in the right direction and reinforce our position as an international financial centre.

23. Hong Kong boasts a sound legal system, a free flow of capital and information, a large pool of financial talent and a vibrant economy. All these underpin our status as a global financial centre. Meanwhile, the economic development as well as the reform and opening up of our country have presented new opportunities for a broader and deeper financial market. We have much to offer in supporting our country's rapidly expanding and increasingly internationalised economy. Hong Kong is the only Chinese city in the same elite league as the global financial centres, London and New York. Building on this solid foundation, we will look for opportunity amidst this financial tsunami, and tap into emerging markets to consolidate our financial sector as an important economic pillar.

Optimising the Supervisory Framework

24. We have remained vigilant since the onset of the global financial crisis more than a year ago. We have exercised our best endeavours to ensure financial system stability and strictly performed our supervisory functions. The Hong Kong Monetary Authority (HKMA), the Securities and Futures Commission (SFC), and the Office of the Commissioner for Insurance (OCI) have strengthened their regulation of financial institutions to ensure proper protection of the public interest.

25. The HKMA is now looking into the complaints about the Lehman Minibonds. The HKMA and the SFC will examine how to further strengthen the regulatory regime and enhance investor protection and education before making a full report to the Financial Secretary. The Government will then follow up as soon as possible. These measures will help enhance public confidence in our financial system.

Banking Supervision

26. The financial crisis has prompted international organisations and various economies to co-operate and recommend ways to strengthen the future stability of financial markets. To boost the resilience of financial institutions, the HKMA will strengthen the supervisory framework for liquidity risk management for authorized institutions, and revise the methodology for calculating capital adequacy ratios in accordance with the latest guidelines and recommendations of the Basel Committee on Banking Supervision.

*27. The HKMA will strengthen stress tests, capital planning and management of off-balance sheet exposures, and encourage a more complete disclosure of risk information. As precautionary measures to safeguard banking stability in Hong Kong and boost public confidence, the Financial Secretary announced yesterday the use of the Foreign Exchange Fund, on a special and time-limited basis, to establish a Contingent Bank Capital Facility to make available additional capital to locally incorporated licensed banks when necessary. Besides, the Fund will be used to guarantee, with immediate effect, the repayment of all customer deposits. These two measures will remain in force until the end of 2010. Meanwhile, the Hong Kong Deposit Protection Board will continue to review the coverage and compensation limit of the Deposit Protection Scheme, and provide feasible long-term proposals to better protect depositors in the long run.

(*The speech delivered by the Chief Executive is different from the printed text.)

Regulation of the Securities Industry

28. The SFC has stepped up its efforts, including intensified stress tests, to assess the financial exposure that brokers can withstand in adverse market conditions. The SFC will tighten regulation of fund managers by reviewing the Code on Unit Trusts and Mutual Funds to better protect investors. In addition, the International Organization of Securities Commissions is reviewing the disclosure of information by distributors of funds at points of sale. The SFC will enhance the disclosure of information to investors, taking into account best international practices and Hong Kong's situation.

Insurance Supervision

29. The OCI is a government department. To further improve the insurance supervisory framework, we see the need to establish an independent Insurance Authority. This will give the regulatory body more flexibility in operations and staff recruitment, and prepare Hong Kong for the "risk-based capital regulatory regime" to be adopted by the international community. We believe the establishment of an independent Insurance Authority will promote the long-term, stable development of our insurance industry. A Government-commissioned consultancy is expected to be completed this year. We will assess the consultant's recommendations and prepare proposals for consultation.

30. To protect policyholders in the event of insurer insolvency, the OCI is exploring with the Hong Kong Federation of Insurers feasible options for establishing Policyholders' Protection Funds.

Control of the Mandatory Provident Fund (MPF)

31. Protecting investors aside, our priority task in enhancing Hong Kong's status as a global financial centre is to increase the competitiveness of our financial sector. To promote market competition and encourage employees to take a more active interest in their MPF investments, the Government will propose changes to the operational arrangements of the MPF system. These

changes will allow employees to transfer their contributions from an MPF scheme selected by their employers to a scheme of their own choice. The Government is drafting legislation which we will introduce into this Council as early as possible.

Combating Money Laundering and Terrorist Financing

32. To maintain a business and investment-friendly environment, Hong Kong must combat money laundering and terrorist financing effectively. To better co-ordinate our strategies and policies, the Government set up the high-level Central Co-ordinating Committee on Anti-Money Laundering and Counter Financing of Terrorism. The initial stage of work is to scrutinise the supervisory regimes adopted by individual financial sectors to combat money laundering and terrorist financing, with a view to drawing up legislative proposals. Departments and organisations concerned will consult the industry on their recommendations.

Development of the Securities Market

33. In the face of competition from other cities in the region, we need to be forward looking in planning the development of our securities market. We have to deepen and broaden the scope of the market, expand its service network and improve its reliability; develop the commodity futures market; enhance the efficiency of listings; attract more new enterprises from the emerging markets to list in Hong Kong, including large corporations from Eastern Europe and Russia; and, push ahead with the development of an Islamic bond market.

Stability of Real Estate Market

34. The real estate market is an important contributor to Hong Kong's economy and is closely related to people's livelihood. To most people, their flats are their most important assets. In the years following reunification, the negative equity faced by many home owners during the Asian financial turmoil has left a mark on the community. Through a re-positioned housing policy and market-driven land supply over the past six years, we have rebuilt people's confidence in the property market, solved the over-supply problem and allowed the property market to resume development and vitality. We cherish these hard-earned results and will continue to implement the Application List system to allow the market to decide the new land supply. Despite the financial crisis we now face, the Government and government-owned statutory bodies will not indiscriminately supply residential or commercial land. Neither will we sell land way below market prices.

Economic and Trade Development

Regional Integration

Co-operation with Guangdong

35. Co-operation with Guangdong over the past year has been fruitful thanks to the efforts of both Governments. The Governments of Guangdong, Hong Kong and Macao have reached a

consensus on funding the Hong Kong-Zhuhai-Macao Bridge. This has allowed us to advance the start of construction to no later than 2010. The recently-signed Supplement V to the Mainland and Hong Kong Closer Economic Partnership Arrangement will usher in a new phase of co-operation under a package of service liberalisation and facilitation measures for early and pilot implementation in Guangdong.

36. We should step up efforts to pragmatically take forward priority joint ventures in the short to medium term. We have to focus on: promoting co-operation in service industries; actively working with Guangdong to optimise and upgrade its industrial structure while assisting Hong Kong enterprises to respond to Mainland policy adjustments; and, actively facilitating cross-boundary environmental protection to create a green and quality living area in the PRD Region. We also need to strengthen co-ordination in the planning and implementation of cross-boundary infrastructure projects.

Development of the Lok Ma Chau Loop

37. The Lok Ma Chau Loop has huge potential for long-term development. The planning authorities of Hong Kong and Shenzhen consulted the public on the future development of the Loop this year. Among proposed land uses, higher education, the research and development of new high technology, and cultural and creative industries received wide support on both sides. We will assess these proposals in greater depth and consult stakeholders on the feasibility of various proposals. We intend to decide on the land uses of the Loop and conduct a comprehensive planning study in the coming few months.

Exchanges with Taiwan

38. To enable Hong Kong to complement enhanced cross-strait relations, the HKSAR Government is strengthening exchanges and co-operation with Taiwan. The Hong Kong Trade Development Council (TDC) will set up an office in Taipei. The preparatory work is now at the final stage.

39. We are also encouraging Hong Kong industrial and business leaders, as well as Taiwanese businessmen in Hong Kong, to form a Hong Kong-Taiwan Business Co-operation Committee. The Committee will facilitate direct communication between enterprises from both places and foster closer co-operation in areas such as trade, investment and tourism.

40. The Immigration Department will introduce two new measures in January 2009 to provide greater convenience for frequent business visitors and tourists from Taiwan:

- (1) Remove the restriction that limits a person to two iPermit applications within each 30-day period; and
- (2) Extend the limit of stay in Hong Kong from 14 days to 30 days for holders of iPermits and multiple-entry permits.

41. I have appointed the Financial Secretary to head an inter-departmental steering committee. It has been examining and co-ordinating the overall strategy and action plan on closer economic and trade ties with Taiwan.

Development of Scientific Research

42. We will continue to promote Hong Kong's technological development through financial and infrastructural support. We will also reinforce our intermediary role to promote technological co-operation between the Mainland and the rest of the world. In May this year, thanks to joint efforts with Shenzhen, DuPont decided to establish the Global Thin Film Photovoltaic Business/R&D Centre in the Hong Kong Science Park, and to set up production facilities in Shenzhen. We will continue to work with the Shenzhen authorities to maximise the benefits of the Shenzhen-Hong Kong Innovation Circle.

43. To nurture local talent, we introduced an Internship Programme under the Innovation and Technology Fund (ITF). It aims to attract promising science and engineering graduates to take part in ITF-funded research and development (R&D) projects to better equip them for a future career in industrial and commercial R&D. We have recently enhanced the programme by increasing the amount of the subsidy and expanding the pool of new recruits to cover graduates of higher degrees as well as non-local graduates of local universities. We will extend the programme to our R&D centres to provide more opportunities to develop our human capital.

Creative Industries

44. To promote the development of creative industries, the Commerce and Economic Development Bureau will set up a dedicated Creative Industry Office with integrated and realigned resources from related departments, including the Television and Entertainment Licensing Authority, the Innovation and Technology Commission, the Office of the Government Chief Information Officer, and the Trade and Industry Department. The new Office will co-ordinate the work of different departments and work closely with the trades to boost the development of creative industries. It will also consider providing more effective support for our creative industries through integration of resources.

Business and Commerce Development

45. To maintain our position as a convention and exhibition capital, we need to increase the exhibition area of the Hong Kong Convention and Exhibition Centre (HKCEC). The atrium link expansion of the HKCEC will be completed next year. The Government and the TDC are examining the feasibility of a Phase 3 expansion of the HKCEC at a nearby site. We will embark on detailed studies and public consultation as soon as possible.

46. We will also strengthen collaboration among agencies responsible for promoting Hong Kong overseas, including the Hong Kong Economic and Trade Offices, TDC, Invest Hong Kong and Hong Kong Tourism Board, in developing strategies for city branding and publicity.

Wine Trade

47. Following the exemption of wine duty in February 2008, the Government has taken various measures to promote the development of wine-related businesses.

48. To complement efforts to develop wine trading and distribution businesses in Hong Kong, the wine industry has been looking for a venue suitable for multiple uses such as auction, retail and wholesale, wine appreciation, food and beverage, storage, exhibition, wine school and museum. As we take forward the revitalisation of historic buildings, we have identified some buildings with commercial value that can serve such purposes on a trial basis. To test market and community reaction, we plan to designate Haw Par Mansion for commercial uses, including wine-related businesses. We will invite expressions of interest early next year.

Optimising Human Capital

Attracting Talent

49. To attract more talent to Hong Kong, we maintain an open immigration policy. In 2007, more than 33 000 talented people from the Mainland and overseas came to live and work in Hong Kong — almost double the tally of five years ago. To expand our pool of talent, we launched the Quality Migrant Admission Scheme in June 2006. As a further step, in January this year, we relaxed some restrictions under the Scheme. So far, more than 700 applicants have been accepted under the Scheme.

Investing in Education

50. From the 2008-09 school year, the Government has fully subsidised students in public secondary schools, including senior secondary education. The New Senior Secondary Curriculum will be implemented from the 2009-10 school year. This will mark a key milestone in our educational development. The curriculum and assessment changes aim to promote whole-person development and life-long learning among students. We will give full support to schools in implementing these initiatives. In parallel, we will continue to commit additional resources to enhance the quality of English teaching and learning.

Keeping Teaching Resources Up-to-date

51. To enhance students' ability for self-learning and interactive learning, and to promote the use of e-books rather than printed copies, we will look into the development of electronic learning resources. The use and prices of school textbooks have become a public concern. Some people have pointed out that the frequently-revised textbooks have imposed a financial burden on parents in recent years. We will invite information technology experts, parents, school principals, teachers, publishers and others to form a task force to study these issues in detail. We will draw on international experience in formulating long-term measures to alleviate the financial burden on parents and to facilitate learning.

Expanding the International School Sector

52. Following the delivery of the 2007-08 Policy Address, the Government earmarked four greenfield sites and four vacant school premises for international schools. We invited all international schools and other interested parties to express interest in those sites and premises, and received an overwhelming response. We have completed the allocation exercise for the vacant school premises, and we expect that the schools concerned will start running classes in the coming two school years. As for the four greenfield sites, we will, by year-end, ask the 31 organisations that have expressed interest to submit their proposed school plans.

C. Care for the People

53. The second challenge is balancing social interests and upholding social justice. Public policies should balance the interests of different social strata. We also need to devise long-term solutions and foster community consensus over controversial policies. In parallel, we need to take a forward-looking approach in promoting social development. This includes upholding the family as the core social value of this modern Chinese society and introducing sustainable measures to meet the challenges posed by an ageing population.

Protecting People's Interests

Food Safety

54. To better ensure food safety, the Government has been working on a comprehensive Food Safety Bill for introduction in the current legislative session. The recent milk product incidents have highlighted the inadequacies of existing laws and the need to speed up the legislative work. The Government has set up an expert group to thoroughly assess the impact of the melamine incidents and to recommend follow-up measures to the Chief Secretary for Administration on the healthcare and food safety fronts.

55. The Government will give priority to drafting the relevant part of the Food Safety Bill so that the authorities can promptly ban the import and sale, and order the recall of, problem food when necessary. We will soon introduce the Bill into the Legislative Council.

Protection for Flat Buyers

56. Purchasing a flat is an important investment decision for most people. Clear information about the flats for sale helps prospective buyers to make an informed choice. To address the problem of different definitions of "saleable area" adopted by real estate developers, the Transport and Housing Bureau worked with relevant sectors to standardise the definition of "saleable area" for uncompleted first-hand residential properties. "Saleable area" includes only the area of the unit, balcony and utility platform. Other areas such as bay windows will be listed separately, item by item.

57. The Government amended the relevant provisions of the Consent Scheme early this month. Since then, the sales brochures for uncompleted residential units offered for the first time should carry the standardised definition of "saleable area", and developers will adopt the new pricing template for these units. The Consumer Council and the Estate Agents Authority are stepping up publicity and education for the public and estate agents. This includes publishing leaflets that remind flat buyers of the information they should get as well as requiring estate agents to provide prospective buyers with comprehensive and accurate information on unit areas and selling prices.

Information on Consumer Prices

58. The Consumer Council has rolled out measures to provide the public with information on the prices of various goods. To enhance the transparency of prices, and to expedite the flow of information, the service will be expanded to include a wider range of goods. This will help consumers make informed choices.

Tolls for Harbour Crossings

59. The Government appreciates the public's concern about traffic congestion at the harbour crossings and the different toll levels. We will commission a consultancy study on this issue this month. While the complexity of the problem should not be underestimated, we will endeavour to find a long-term solution that is feasible in transport, financial and legal terms, and develop strategies for possible negotiations in the future.

60. Adjusting the tolls of the three crossings alone cannot effectively solve the congestion problem. Well-developed road links to the crossings are also a crucial factor. Traffic congestion in Central and Wan Chai will not be alleviated until the Central-Wan Chai Bypass project is completed. The Bypass will also help rationalise the traffic flow of the three crossings.

Competition Law

61. Consumers benefit from a business environment conducive to free competition. I pledged last year to introduce a Competition Bill in the 2008-09 legislative session. The Government published a consultation paper on a competition law in May this year. We are now working on draft legislation based on views collected during the exercise. We expect to introduce the Bill in the current legislative session.

Fuel Prices

62. In response to public concerns that fuel prices are "quick going up, slow coming down", we have asked the oil companies to promptly adjust prices in tandem with international oil price movements, and be more transparent in price setting so the public can monitor their retail prices. We are now discussing specific measures with the oil companies. If it is found that fuel prices are indeed "quick going up, slow coming down", the Government will consider further measures to protect the public interest which may include tightening the monitoring of fuel prices through the petrol station tendering process. We hope the community will actively discuss the fuel price issue. This will enable us to strike a balance between maintaining a level playing field for business and protecting consumer interests.

Care for the Disadvantaged

Legislating for Wage Protection

63. Since we launched the Wage Protection Movement (WPM) for cleaning workers and security guards in October 2006, there has been a gradual shift in the community's attitude towards a minimum wage, marked by a greater empathy and appreciation of wage protection for grassroots

workers and corporate social responsibility. I would like to thank wholeheartedly those trade associations, enterprises, employers and owners' corporations that have supported and participated in the WPM. I am also grateful to the Labour Advisory Board for its efforts in monitoring the progress of the WPM over the past two years. We have just completed a review of the WPM. Despite increases in both the number and proportion of workers benefiting from the WPM compared with two years ago, the situation, on the whole, is unsatisfactory. There are indeed limits in promoting wage protection through voluntary participation. I have unequivocally pledged to introduce legislation on a statutory minimum wage for cleaning workers and security guards should the WPM fail. To honour this pledge, the Government will now proceed with the legislative work.

64. Some members of the business community and the labour sector are of the view that if the Government introduces a statutory minimum wage, employees in all trades and industries should be covered at the same time. I share their views, particularly from the perspective of social justice. In fact, cleaning workers and security guards are not the only low-income jobs, and worker mobility among different types of low-income jobs does exist. Moreover, it is quite difficult to define "cleaning worker", and any definition is bound to be controversial. Therefore, the Government is inclined to go for an across-the-board statutory minimum wage. We aim to introduce a bill into this Council in the 2008-09 legislative session. I am aware that some people, including businessmen, employers and academics, have qualms about the introduction of a statutory minimum wage. Let me stress that the Government will handle the relevant issues, including the minimum wage level and related review mechanism, in a prudent and pragmatic manner.

65. Drawing reference from the successful experience of other countries, we will establish an advisory Minimum Wage Commission (MWC). MWC members will be drawn from the labour sector, business community, academia and government departments. The Commission will study the level of minimum wage as well as the review mechanism, to ensure a sensible balance between safeguarding the interests of grassroots workers and forestalling the loss of low-paid jobs, while sustaining our economic growth and competitiveness. The Labour and Welfare Bureau (LWB) will proceed immediately with the preparatory work for the establishment of the MWC.

66. Finally, I would like to reiterate my views on the minimum wage issue. First, the introduction of an across-the-board minimum wage should protect workers against exploitation while at the same time prevent the loss of low-paid jobs. Second, wages are returns for employees' labour. As family needs vary, the minimum wage may not be sufficient to cover family expenses of all employees. Employees in need can obtain assistance under the current social security system. This can also encourage able-bodied recipients of the CSSA to rejoin the workforce and motivate them to move from welfare to self-reliance.

Social Enterprises

67. The development of social enterprises helps create job opportunities for the grassroots in local communities. We will continue to enhance the public's understanding of social enterprises.

The Home Affairs Department launched the Social Enterprises Partnership Programme early this year to encourage tri-partite collaboration among the Government, the business sector and the community. To date, more than ten social enterprise projects have been successfully implemented through cross-sectoral collaboration. We will continue to provide seed money under the Enhancing Self-Reliance Through Partnership Programme to support the start-up of new social enterprises.

Food Assistance

68. Surging food prices have created a financial strain for many low-income earners. I announced in July that we would enhance short-term food assistance services to individuals in dire need, with \$100 million earmarked for the Social Welfare Department to work with non-profit-making organisations to offer additional food assistance. This additional support service will provide immediate and direct aid to all needy individuals and families, including new arrivals, single parent families, individuals and families in need of emergency relief, street sleepers, and needy individuals who have not benefited from our relief measures over the past year. We will submit our proposals to the Finance Committee for approval as soon as possible.

69. We will call upon district organisations and non-governmental organisations (NGOs) to proactively get in touch with needy individuals who have not benefited from our relief measures over the past year to see if they need further assistance. We will also step up publicity on the food assistance initiatives for this group, in particular tenants of bedspace apartments, cubicle apartments and rooftop structures.

Assistance for the Elderly

70. The ageing population is another challenge we must address. The number of people aged 65 or above is expected to increase to 2.17 million by 2033, or two and a half times the present figure. By then, one in four persons in Hong Kong will be in this group. Individuals, families and society should share the responsibility for taking care of our elderly people.

Old Age Allowance

71. The OAA Scheme is not intended to meet the basic needs of the elderly. That is why the OAA rate is lower than that of the CSSA. As the ageing population grows, and more of the elderly who cannot meet the CSSA income and asset eligibility resort to the OAA as a maintenance subsidy, there have been calls for the Government to increase the OAA rate to \$1,000. We need a comprehensive strategy on the provision of financial support for the elderly. We should consider the following points:

- (1) In recognition of views expressed by different sectors and political parties over the past year, we concur that the proposed level of \$1,000 for the OAA is reasonable.
- (2) Given a rapidly ageing population and our limited financial resources, we should direct resources to the elderly in genuine need to ensure the sustainable development

of our existing non-contributory social security and welfare system, which is based on a simple tax regime. As such, the Government needs to consider introducing a means test mechanism. The current OAA recipients will not be affected.

- (3) We will proactively explore whether the permissible limit of absence from Hong Kong under the OAA Scheme can be further relaxed.
- (4) For the financially self-sufficient elderly, we also need to show our gratitude by encouraging various sectors and private organisations to offer different forms of concessions to them.

The LWB is working to complete the review on the OAA by year-end. Over the past six months, the Government has provided altogether more than six additional months of the OAA to the elderly. This should help alleviate the financial burden for needy elderly people in the short run.

Expanding Elderly Services

72. We will increase subsidised residential care places through those to be provided in new contract homes and the Enhanced Bought Place Scheme. At the same time, we will provide additional subsidised day care places and home-based services to better support elderly people and their carers. The District-based Trial Scheme on Carer Training has proved effective in enhancing carers' confidence and skills in looking after the elderly. We will extend the Scheme to cover all districts.

Support for Families

Core Family Values

73. The Family Council headed by the Chief Secretary for Administration was established in December last year. The Council has discussed in detail core family values and harmonious relationships among family members, and will encourage the community to participate in promoting these values.

74. To create an environment conducive to family harmony, the Family Council is considering further ways to encourage the business community to adopt family-friendly work practices that enable employees to strike a work-family balance. On the advice of the Council, the Government is looking into ways to include the family as a factor to consider in its policy-making process.

Home-based Child Care Service

75. To help needy families take better care of their children, the Neighbourhood Support Child Care Project has this month been launched on a trial basis at six locations to mobilise community organisations to provide "centre-based care" services for children under six years old. The service operators will also train women in the districts to become "home-based child carers" and encourage them to look after their neighbours' children at home. This will promote mutual help in the

neighbourhood. In addition, the operating hours of the services are more flexible as they are available in the evenings, and on some weekends and holidays. This can better meet the needs of parents who have to work or attend to urgent matters away from home, and thereby reduce the risk of children having accidents while left unattended at home. The Project will be extended to all districts by March next year.

Combating Domestic Violence

76. We have enhanced support services and amended legislation to strengthen protection for victims of domestic violence. In the coming year, we will build on this foundation and further reinforce direct services and support. This includes increasing the manpower of the Family and Child Protective Services Unit and the Clinical Psychology Unit, further developing the batterer intervention programmes, enhancing support provided by refuge and crisis centres to women and children in need as well as those facing family crises, and continuing to strengthen public education.

Enhancing Rehabilitation Services

77. The Government will continue to develop family-oriented and diversified support services and enhance professional support for persons with disabilities or mental health problems so as to cater for their needs at different stages.

78. Early action is vital to the development of children with disabilities. The Government will strengthen pre-school training and provide timely services for them. As for adults with disabilities, the Government will continue to provide additional places for day training and residential services. We will also enhance medical social services for chronic patients and persons with mental health problems.

Tackling Juvenile Drug Abuse

79. Over the past year, the Task Force led by the Secretary for Justice has been working in full swing to map out strategies to combat the youth drug abuse problem. The Task Force has worked closely with anti-crime and anti-drug networks, solicited views from stakeholders, and enhanced collaboration among government departments, NGOs and the community for the anti-drug cause. A series of short to medium-term measures, which are being implemented, cover preventive education and publicity, treatment and rehabilitation, law enforcement, and research. A two-year territory-wide anti-drug campaign and the “Path Builders” initiative have been launched to foster a drug-free youth culture, and to mobilise the whole community to provide assistance to our young people at different levels and through innovative ways. The Task Force will shortly publish a report on holistic and sustainable policies and measures for the long term.

Healthcare Reform

Consultation

80. The first-stage public consultation on healthcare reform reflects a broad community consensus on the pressing need for reform. Our citizens recognise the need to enhance primary care, promote public-private partnerships, develop an electronic health record system and strengthen the healthcare safety net. They consider that these service reforms should be expedited. We are committed to making the best use of increased resources over the next few years to introduce those service reforms with clear public support before finalising the healthcare financing arrangements.

81. The public generally agrees that the Government should increase its commitment to healthcare and continue to be the primary source of financing for healthcare. As for the supplementary financing options, we have received many insightful views on various important issues. We plan to launch the second-stage public consultation in the first half of 2009 to encourage further discussions and seek to forge a consensus on healthcare financing.

Promoting the Development of Private Healthcare

82. To consolidate and enhance Hong Kong's position as a prime medical centre in the region, we must have comprehensive measures in place to upgrade our hardware and software. For the hardware, we will encourage and facilitate the development of private hospitals. The Government is identifying suitable sites initially including the Wong Chuk Hang, Tseung Kwan O, Tai Po and North Lantau areas. We will invite expressions of interest and proposals on hospital development from the private sector. We will formulate policies to ensure that the premiums for such land are fair to the private hospitals and the public. We will also ensure that the development of private hospitals will further upgrade our healthcare services to benefit the community and promote the expansion of the medical services industry.

83. As for the software, we need to attract talent from around the world to enhance training, exchanges and the professional competence of our healthcare personnel. In full respect for professional autonomy, we will discuss with the healthcare registration bodies, training providers and professional bodies ways to strengthen local medical practitioners' professional competence in line with international standards.

84. In parallel, the Government will take steps to redress the serious imbalance in the provision of public and private healthcare services. We will implement a series of pilot measures to promote public-private partnership. These include purchasing primary care services and hospital services from the private sector, subsidising the public for preventive care provided by the private sector, and establishing medical centres of excellence in paediatrics and neuroscience.

District Medical Facilities

85. To meet service demand in Tin Shui Wai, which has seen rapid developments in recent years, we plan to build a hospital in the district to strengthen medical services for residents. We expect works to start in 2011 for completion in 2015.

Enhancing Primary Care Services

Working Group on Primary Care

86. The proposal to enhance primary care services received broad public support during the healthcare reform consultation. We will allocate more resources in the coming few years to implement this proposal. This will include introducing basic primary care service models focusing on preventive care and a primary care register based on the family-doctor concept. The Secretary for Food and Health will set up a Working Group on Primary Care to take forward this initiative. Members will include healthcare professionals from the public and private sectors.

Community Health Centre

87. To provide comprehensive primary services in local communities, and to cater for the healthcare needs of the elderly and the under-privileged in particular, we will explore a primary care delivery model — the “community health centre” — to co-ordinate the efforts of different service units in the delivery of primary care services. Depending on the different needs of communities, service units could include general out-patient services, outreach community healthcare services, nurse clinic services, allied health services, and specialist services for relatively simple cases. We will explore the feasibility of delivering services under the community health centre model through tri-partite collaboration among the public sector, the private sector and NGOs, with the public sector responsible for service co-ordination. Under the new service delivery model, low-income families and the under-privileged will continue to be taken care of by subsidised public healthcare services.

Childhood Immunisation Programme

88. The Government keeps abreast of the latest developments in vaccines and pathology, and will include new vaccines in the free Childhood Immunisation Programme (CIP) if there are sufficient scientific justifications. On the advice of experts and the Centre for Health Protection, the Government has decided to include pneumococcal conjugate vaccine in the CIP.

Care for Chronic Patients

89. To improve the health of our citizens and reduce the risk of chronic diseases such as diabetes, hypertension and renal disease, we will promote the prevention of, and care support for, chronic diseases in both the public and private sectors in local communities. We will conduct health risk assessments and draw up management programmes for high-risk patients; help chronic patients improve their self-care skills through enhanced education; implement a pilot scheme to subsidise chronic patients to receive comprehensive treatment, follow-up and care support from private practitioners; and, set up multi-disciplinary teams at designated General Out-patient Clinics to provide chronic patients with integrated care.

D. Hong Kong Our Home

90. The third challenge is how to meet public demands for a quality life. Hong Kong is a modern world city. For residents, a quality living environment — covering air quality, living space, cultural infrastructure and heritage conservation — is just as important as economic growth. Over the past two decades, Hong Kong has transformed from a manufacturing base into a services-based economy. Such a transformation has impacted on urban planning, and set the stage for us to re-examine ways to beautify our cityscape and upgrade the quality of life to make Hong Kong an ideal home.

91. The Government is now reviewing the air quality objectives. To improve air quality in the long run, we will adopt targets in stages giving due regard to the World Health Organization's guidelines.

Developing the PRD Region into a Green and Quality Living Area

92. We must press ahead with sustainable development. While we help our economy power ahead, we must protect the environment and ecology. We also need to work hand-in-hand with neighbouring areas to foster the development of an economy that is based on low energy consumption and low pollution in the PRD Region.

93. To further strengthen our co-operation on environmental protection, we have reached a consensus with the Guangdong Provincial Government on jointly transforming the PRD Region into a green and quality living area under the principle of promoting environmental protection and sustainable development. Our common goal is to enhance the appeal and competitiveness of the Province and the Region.

94. To achieve this goal, Hong Kong and Guangdong will work together in the areas of post-2010 emission reduction arrangements, the optimisation of the fuel mix for power generation, the development and wider use of renewable energy, vehicle emissions reductions, enhanced conservation and greening, scientific research, as well as publicity and education. We will also discuss in detail our objectives, specific measures and co-operation mechanism.

Low Carbon Economy

95. We will make early preparations to meet the challenge of climate change. In particular, we will enhance energy efficiency, use clean fuels, rely less on fossil fuel, and promote a low carbon economy — an economy based on low energy consumption and low pollution.

Clean Fuels

96. Improving air quality and reducing greenhouse gas emissions are among the Government's top priorities. As electricity generation is a major source of pollution in Hong Kong, I pay special

attention to ways of reducing coal-fired power generation and promoting the wider use of clean fuels while maintaining secure supplies of energy.

97. The Memorandum of Understanding signed between the HKSAR Government and the National Energy Administration on 28 August 2008 ensures a long-term and stable supply of nuclear electricity, and the supply of natural gas from three different sources — namely, offshore gas, piped gas, and liquefied natural gas (LNG) to be supplied through an LNG terminal to be built, as a joint venture, on a neighbouring Mainland site. At present, 28% of electricity generated by power plants in Hong Kong is gas-fired. To improve air quality and address the challenges posed by global warming, we will actively explore ways to gradually increase the use of clean energy by, for example, increasing the proportion of natural gas for local electricity generation to 50%. As part of our review of the air quality objectives, we will consult the public on this and other measures to improve air quality.

Enhancing Energy Efficiency in Buildings

98. Energy consumption is closely related to greenhouse gas emissions. In Hong Kong, buildings account for 89% of total power consumption. As such, we will legislate for the mandatory compliance of Building Energy Codes to improve energy efficiency in new and existing buildings as soon as possible.

Energy Audits

99. I propose reserving \$150 million under the Environment and Conservation Fund to partially subsidise building owners to conduct comprehensive energy and carbon audits. I propose reserving another \$300 million to offer building owners partial subsidies for energy efficiency projects.

Promoting Energy Conservation

100. To further promote energy efficiency and conservation, and to reduce carbon dioxide emissions substantially, we plan to implement a district cooling system at the Kai Tak Development to supply chilled water to buildings in the new development area for centralised air-conditioning.

101. We enacted the legislation on the Mandatory Energy Efficiency Labelling Scheme in May this year. We will propose amendments to the Energy Efficiency (Labelling of Products) Ordinance in 2009 for the second phase of the Scheme. In addition, to promote the use of more energy-efficient lighting products, we will study the need to restrict the sale of incandescent light bulbs. The Government will also assess the problem of energy wastage of external lighting and study the feasibility of tackling the problem through legislation.

Waste Management

102. We will continue to reduce waste at source and encourage waste recovery and recycling. Following the enactment of the Product Eco-responsibility Ordinance by this Council, we will

introduce an environmental levy on plastic shopping bags at selected retail outlets next year. The Government will monitor the effectiveness of this initiative and consider how best to extend its coverage. To promote waste recovery and recycling, apart from the source separation of waste programme in residential, commercial and industrial buildings, the Government has enacted legislation for the provision of a refuse storage and material recovery room on each floor of new residential buildings.

103. The disposal of electrical and electronic equipment affects the environment. While we continue our efforts to promote the voluntary Producer Responsibility Scheme (PRS), we will study the possibility of introducing a mandatory PRS through legislation to cover other electrical products. We will consult the community and the trade on our proposals.

Geological Park

104. Hong Kong boasts rich geological resources of high academic research, tourism and scenic value. For example, the hexagonal rock columns and erosion features along the New Territories East coastline are unique attractions. We are considering the development of a geological park under the framework of the Country Parks Ordinance and Marine Parks Ordinance, with a view to turning these special geological features and rock clusters into natural scenic spots for our citizens and visitors to enjoy.

Beautifying the Harbourfront

105. Imbued with cultural and historical significance, Victoria Harbour is an icon of our city. All Hong Kong people cherish it as our precious asset. The Harbour-front Enhancement Committee, and a number of community organisations, have in recent years offered suggestions and advice on ways to enhance our harbourfront. I applaud their efforts. The Development Bureau will co-ordinate the work of different government departments to ensure the effective implementation of projects to beautify and revitalise these areas. It will set up a task force to study the feasibility of conducting medium and long-term re-planning of the harbour, improve the accessibility of the harbourfront and, in consultation with District Councils, proceed with the construction of waterfront promenades. I hope that our beautiful harbour will remain a symbol of our city that can be enjoyed by all.

Revitalising the Central School

106. In my previous Policy Address, I announced that the Former Police Married Quarters Site in Aberdeen Street, the original site of the Central School, would be removed from the List of Sites for Sale by Application for a year and that we would invite proposals on its revitalisation. In view of the general support for its revitalisation during extensive consultations, I have decided to formally remove the site from the List. Its planned use will be for creative industries and education. The revitalisation plan will take into account the history and characteristics of the area along Hollywood Road, and will be subject to public consultation.

Improving the Pedestrian Environment

107. We will take forward pedestrian schemes to minimise vehicle-pedestrian conflicts and improve roadside air quality. The schemes cover footbridges, pedestrian subways, pedestrianised streets and traffic calming streets. Our focus will be on improving the pedestrian environment in business districts, shopping centres, and leisure areas with heavy pedestrian flows. For example, we will consider constructing additional pedestrian subways in Causeway Bay linking the MTR station with Victoria Park as well as the busy streets in the heart of Causeway Bay and its junction with Happy Valley; extending the footbridge system in Mong Kok to cover central Mong Kok and the Tai Kok Tsui area; and developing a footbridge system at Castle Peak Road (Yuen Long) in the Yuen Long town centre. We expect to put forward specific proposals as early as possible.

108. In addition, we will establish an assessment system for the provision of hillside escalator links and elevator systems. The Housing Department is studying the feasibility of installing lifts and escalators connecting common areas in hillside public housing estates, as well as lifts in walk-up, low-rise public housing blocks to facilitate resident access.

Cultural and Recreational Diversity

109. To tie in with the WKCD development, we need to enhance our software by promoting cultural activities in the community and tapping into cultural consumption markets. To bring more cultural activities into local communities, the Government will encourage cultural and performing arts groups to stage performances across the territory. We will continue to support artistic creations and overseas exchanges, encourage tertiary institutions and professional arts groups to nurture intermediaries for arts services, and develop a broad audience base. Our joint efforts will help realise the vision of developing Hong Kong into a world-class arts and culture destination.

Sports Development

110. The tremendous success of the Beijing 2008 Olympic and Paralympic Games, coupled with our success in staging the Olympic and Paralympic Equestrian Events, has aroused much community interest in sports. We will step up our efforts on various fronts, such as further promoting sports in the community, organising more major sports events, and reinforcing support for elite athletes. In this way, we can make the best preparations for hosting the Hong Kong 2009 East Asian Games, and prepare for the Guangzhou 2010 Asian Games, and the London 2012 Olympics. The Hong Kong Sports Institute is being redeveloped to provide world-class training facilities for our athletes, including disabled athletes. With the participation of districts and schools, we will launch more effective feeder programmes to identify and nurture budding young athletes for competitive sports. We will also encourage the business community to support our sports development. For instance, they can sponsor major sports events organised by the National Sports Associations, or work more closely with the sports sector in such areas as attracting sports professionals from the Mainland, youth training and post-retirement arrangements for athletes.

Immigration Convenience

111. As a tourism, financial, business and trading centre in the Asia-Pacific region, Hong Kong must continue to attract business visitors and tourists from the rest of the world. Hong Kong people often go on sightseeing or business trips to the Mainland and overseas. Last year, the passenger traffic in and out of Hong Kong continued to rise, almost topping 220 million trips. Convenient and efficient immigration services are essential. Hong Kong has so far secured mutual visa-free access or visa-on-arrival arrangements with more than 130 countries and regions. We are about to conclude an agreement with our close neighbour, the Macao Special Administrative Region, to further streamline clearance for residents travelling between the two places. We expect the new measures to take effect in mid-2009. For Taiwan, I have just outlined measures to facilitate the entry of its people. In addition, we expect to sign a mutual visa-free access agreement with Russia in the near future. This will be the first such agreement signed by Russia with a developed economy, and will help promote the trade and tourism development between our two economies.

E. Effective Governance and Social Harmony

112. The fourth challenge lies in effective governance and the public's trust in the Government. Rising inflation, and the controversies over the expansion of the Political Appointment System and post-retirement employment of civil servants, have changed the public's trust in the Government over the past year. People have doubts about certain issues: Have the core values of the HKSAR Government changed? Is the Government trustworthy? Is the Government fair and impartial? Is it less capable than before? Does the Government still adhere to the principle of meritocracy? Does it take into account public opinion in formulating policies?

113. We inherited the political system of the pre-1997 executive-led government. The gradual development of democracy since reunification has brought about significant changes to our political landscape. Hong Kong people have developed keen political awareness, which has led to higher expectations for effective governance. We will draw lessons from the controversy and criticisms over the expansion of the Political Appointment System as our political system evolves.

114. To gain public support, the Government needs to deliver. Our decision-making process has to be more transparent and built on wider community consensus. This will help create an inclusive political environment and promote democracy in an orderly and progressive manner, thereby meeting the public's aspirations for democracy.

Executive Council

115. The Executive Council assists the Chief Executive in policy making. It actively helps the Government promote policies and enhance communication with different sectors of the community. Last year, the Government put forward a new policy agenda for the ensuing five years. A new Legislative Council was elected in September. In light of these developments, I have decided to appoint new members to the Executive Council, which will continue to operate under the principles of confidentiality and collective responsibility. I will announce the new membership shortly.

Political Appointment System

116. Earlier this year, there was some controversy over the expansion of the Political Appointment System. I assure the public that the Government adheres to the principle of meritocracy in its appointments. A number of Under Secretaries and Political Assistants have assumed duty, and their performance is being scrutinised by the Legislative Council and the media. I am confident they will help enhance the political capability of the Government. The expanded Political Appointment System will strengthen the relationship between the Executive Authorities and the Legislature, as communication, formal or otherwise, steps up between Honourable Members and the new appointees.

Relationship between the Executive Authorities and the Legislature

117. There are many new faces in the current term of this Council. I hope that this will bring fresh thinking and a change to the relationship between the Executive Authorities and the Legislature. We will face many challenges in the coming year. The Executive Authorities and the Legislature must co-operate closely before we can take solid action in the interests of our community. I will foster multi-level, multi-front communication between the Executive Authorities and the Legislature. Government officials at different levels — the Chief Executive, the three Secretaries, all Directors of Bureaux, as well as Under Secretaries and Political Assistants — will maintain dialogue with Members when formulating policies, and seek their views as early as possible.

Electoral Methods for 2012

118. The timetable for universal suffrage set by the NPCSC last year enjoys wide support in the community. To lay a solid foundation for universal suffrage, the top priority for the Third Term HKSAR Government is to determine the two electoral methods for 2012 with a view to further democratising the election systems. In the first half of 2009, we will consult the public on the methods for electing the Chief Executive and for forming the Legislative Council in 2012. I hope that in the coming years, different sectors and political parties will be pragmatic and make good use of the time to forge a consensus for the electoral arrangements in 2012.

Enhancing the Quality of Public Services

119. Rising civic awareness has increased public demands for accountability. In face of this challenge, the civil service has been as devoted to duty as ever and spared no effort to meet the needs of the community. I am most grateful to all civil servants for their professionalism. I am also proud of their outstanding performance.

120. While we have kept on improving the quality of public services, there have been occasions when we might not have met people's expectations. We must remain humble at all times and be open to suggestions for improvement. To ensure that public services move with the times and respond quickly to citizens' needs, I have asked Heads of Departments to review the implementation of their performance pledges and to improve their complaint handling mechanisms in the coming year.

121. In addition, we will study the reports of such institutes as the Heritage Foundation of the US, Fraser Institute of Canada, World Bank and World Economic Forum on global competitiveness, economic freedom and business environment to identify areas for improvement. We will promptly formulate measures to upgrade the quality of government services in line with the standards of other advanced economies.

Public Engagement

122. The Government has been seeking community views through advisory and elected bodies such as District Councils and the Legislative Council. I have asked all my politically-appointed

officials to reach out to the community more proactively and to visit districts to listen to public views and work with stakeholders. I will continue to promote the concept of public engagement within the Government, and provide training for civil servants on communication with the civil society. With the development of new media, many citizens now voice their views on the Internet. The Government will collect public opinion from the Internet more actively.

National Education

123. Apart from encouraging our people to care about, and participate in, local affairs, it is the Government's duty to help everyone, especially our younger generations, to know more about our fast-developing motherland. This year, we mark the 30th anniversary of China's opening up and reform. Next year, we will mark the 60th anniversary of the founding of the People's Republic of China. We will launch a series of activities for this important occasion to enhance young people's understanding of our country. This will help foster a strong sense of national identity in the era of globalisation.

124. It is the HKSAR Government's established policy to promote national education. We will continue to adopt a three-pronged approach in this regard: helping students better understand the history and development of our country through curriculum planning; providing students with opportunities to join study and exchange programmes to heighten their sense of national identity; and, encouraging students to contribute to our country's development.

125. In the past year, we organised lectures and training programmes for teachers and students, and produced web-based teaching materials on the opportunities and challenges in our country's development. Topics included the Beijing 2008 Olympic Games, the staging of the Olympic Equestrian Events in Hong Kong, China's first spacewalk by astronauts in its space mission of Shenzhou-7, the 30th anniversary of China's opening up and reform, and disaster relief and reconstruction efforts for the Sichuan earthquake.

126. The Government will devote additional resources to promoting national education. For example, we will offer more opportunities for Hong Kong students to join Mainland study trips and exchange programmes, and enhance professional training and exchange programmes for teachers. In this way, both teachers and students will see for themselves the rapid development of our country. Currently, we subsidise about 5 000 secondary students to participate in such trips and programmes each year. We will increase the quota to 37 000 to include junior secondary and upper primary students. To promote national education in a more strategic and systematic manner, we will create a national education platform to be known as "Passing on the Torch" by co-ordinating the work of various voluntary groups.

127. We will continue to subsidise Mainland study trips for youths. Separately, we will allocate additional resources to launch a National Education Funding Scheme for Young People to subsidise and support large-scale national education activities targeting mainly youngsters. This is to give our young people a chance to see for themselves the development of our country and to grow to love our motherland and Hong Kong.

F. Conclusion

128. Mr President, in my previous Policy Address I outlined a five-year blueprint for Hong Kong, and set out clear development goals. With the concerted efforts of our governing team, the civil service and this Council, my policy agenda is being gradually implemented. I would like to thank Honourable Members for your support. Our track record has shown that ours is a pragmatic government that gets things done.

129. In my view, the Chief Executive has two leadership roles — as a political leader and a government administrator. As political leader, I have to set development goals and uphold core social values, and embody these goals and values in the policy agenda, development strategies and public policies. To get the job done, I need to interact with and listen to the views of the Legislative Council, political parties and various sectors in the community. Having devoted my entire career to public service, I have a reasonable grasp of the management and administrative duties as a government administrator. As our political institution evolves, there is bound to be room for improvement for the expanded Political Appointment System, as well as the Chief Executive's mode and style of governance.

Core Values

130. Political leadership requires sound values and clear vision. In recent years, there has been a lively discussion on the core values of society. The Government and the community must open a dialogue on this issue. In my manifesto for the 2007 Chief Executive Election, I stated my view on Hong Kong's core values. I said, "With globalisation, Hong Kong is facing an economic transformation, and conflicting opinions and interests have emerged in the community. I believe that Hong Kong needs to handle these conflicts appropriately to rise to a new height and enter a new era".

131. Simply put, these conflicts manifest themselves in the economic, political and social arenas. On the economic front, we need to strike a balance between development and environmental conservation. In fact, they are not opposing forces. On the political front, while developing democracy, we should put in place a supporting system and maintain high efficiency in governance. The Executive Authorities and the Legislature should complement each other and take into account public opinion in performing their respective functions and in decision-making. The ultimate aim is to work for Hong Kong's prosperity and stability, and the benefit of the people. We should maintain a proper balance between our rights and duties. Hong Kong people cherish freedom and the rule of law. They should also recognise that they have a duty to our community and our country. While the Government accepts the responsibility to take care of the disadvantaged, our citizens have to shoulder their own responsibilities, care for their families and contribute to society. As our society advances, citizens have higher expectations on enterprises. Enterprises should no longer just perform a purely economic role — they should shoulder greater social responsibility. They should also gear up for a more open and democratic political system.

132. As for social conflicts arising from, for example, the wealth gap and balancing interests between big business and ordinary citizens, I believe the key to tackling the problem lies in boosting our economic development to bring about prosperity, and investing in education to promote social mobility. Helping people to help themselves is essential to poverty alleviation. To resolve conflicts between big business and ordinary citizens, the Government is duty bound to monitor the situation and take remedial measures when the market becomes ineffective.

133. We have to re-examine some of the ideas about the development of Hong Kong that gained prominence in the 1980s and abandon dichotomy as an analysis tool. For instance, not only can patriotism and democracy co-exist, they can also complement each other in politics. Building a democratic system on a shared sense of national identity is where our future lies. In regard to the economy, we should not see a free market and government intervention as two exact opposites. The market is not omnipotent. Intervention is not necessarily an evil. If the market fails, the Government should intervene. We also need government supervision when public interests are compromised. As to social development, a diversified cultural life and a green environment can help improve our competitive edge.

134. International politics have evolved considerably since the ideological confrontations in the 1960s and 1970s. Both left-wing and right-wing political parties are searching for a middle ground, the so-called Third Way. People have turned their back on political, economic and social extremes. I firmly believe in justice, equality and liberty. We should steer the middle course in the best interests of the community. We should adopt a moderate approach to balance the various interests of society, and seek collaboration and consensus in the political, economic and social arenas rather than resort to confrontation, struggle and conflict.

135. The external economic environment is deteriorating. The financial tsunami has sent huge shockwaves across the globe and caused anxieties about our economic prospects. In times of uncertainties, there is a greater need to keep calm and to accomplish our tasks pragmatically. Hong Kong is on the right track with its development. The implementation of the ten major infrastructure projects announced in the last Policy Address will increase employment opportunities and economic benefits, which will give fresh impetus to our economic growth.

Riding out the Difficulties

136. We will address squarely the challenges ahead with effective crisis management and improvements to our systems. At the same time, we will seize new opportunities and turn crises into opportunities. Hong Kong people are known for our resilience in the face of adversity. All these years, we have worked miracles in times of difficulty, making continuous improvements and progress.

137. I have full confidence in Hong Kong people. Our people should have confidence in themselves, too. Sharing a common vision, we can rise above all challenges and emerge stronger.