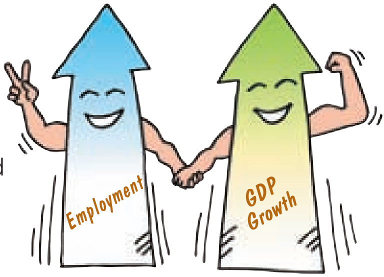
2007-08 Budget Highlights

Broad-based Recovery with a Positive Outlook

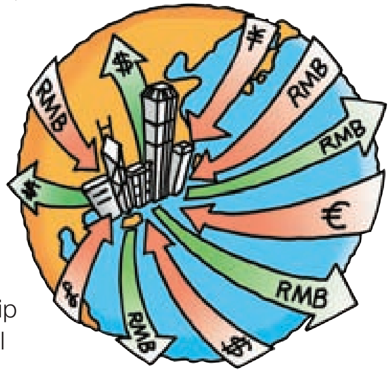


- GDP leapt by 6.8% in 2006, the third consecutive year of above-trend growth. Both consumption and investment grew considerably. Inflation was kept at 2%.
- In 2007, forecast GDP growth is 4.5-5.5%. Trend real GDP growth is forecast at 4.5% a year.
- Total employment grew by 310 000 over the past $3\frac{1}{2}$ years to a historical high. Unemployment is at a six-year low of 4.4%.
- Fiscal balance in both the Operating and Consolidated Accounts was restored ahead of schedule. Public expenditure has been contained at below 20% of GDP.

Promoting the Economy and Employment

Moving towards a high value-added, knowledge-based economy, Hong Kong is well-positioned to complement the economic development of the Mainland and create a "win-win" situation.

- Hong Kong has unique advantages in our financial infrastructure, regulatory regime, internationalised financial markets, professionals and diversified investment products. A complementary, co-operative and interactive relationship between the financial



systems of the Mainland and Hong Kong can contribute to raising the efficiency of financial intermediation in the Mainland and facilitating reform of the Mainland financial system.

- To provide a seamless system for cargo movements and customs clearance: construct an electronic advance cargo information system and implement the On-Board Trucker Information System on a trial basis.

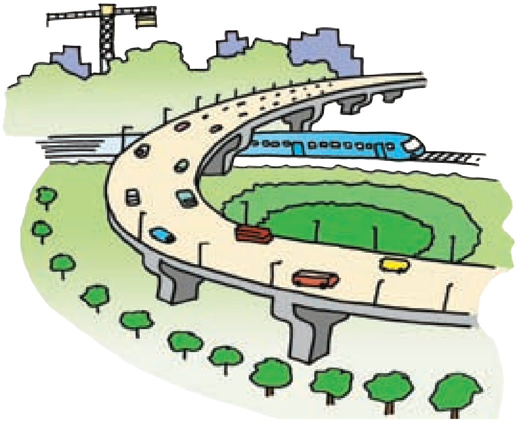
- To earmark $3.1 billion to replace the existing air traffic control system and build a new headquarters for the Civil Aviation Department.

- To invite tenders for a new cruise terminal to be situated at Kai Tak. The first berth will be completed in 2012.

- To earmark $210 million to provide WiFi networks in government venues for free use by our citizens.

- To earmark $300 million to establish a new fund to help film development.

- To expedite the implementation of major infrastructure projects, which will create about 23 000 jobs for the construction industry in the next financial year. About 14 000 new jobs will be created if other major projects under planning can start early.



Improving People's Livelihood

Allocating about $900 million to implement the following measures to help the disadvantaged.

- To provide about $300 million to introduce a one-year pilot Transport Support Scheme, in the middle of this year, to encourage unemployed and low-income people in financial difficulties who live in remote areas to seek jobs and work across districts.

- To earmark $300 million to set up a child development fund to provide children from a disadvantaged background with more development opportunities.
- To provide additional support services to families and children in need:

  – an additional $52 million to provide more education, training and residential care services for pre-school children and other people with disabilities;

  – an additional $31 million to strengthen family welfare services and give better care to victims of domestic violence;

  – an additional $20 million to enhance outreach services for the promotion of mental health in the community and provide support for those in need;

– an additional allocation of about $10 million over three years to expand the Capacity Building Mileage Programme by strengthening education in parenting and encouraging continuous learning.

- To strengthen elderly care and support services:

  – an additional $38 million to 156 elderly centres to enhance their outreach programmes to provide assistance to more elderly singletons;

  – an additional $16 million to provide additional subsidised residential care places in new purpose-built care homes for the elderly;

  – allocation of $96 million over four years to implement a trial scheme in two districts to provide one-stop support services to elderly dischargees in need.

Leaving Wealth with the People where Affordable

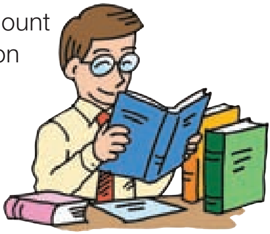
Allocating $20.3 billion for the following tax relief and one-off rebate measures.

- Government's financial position has improved following the strong economic recovery. Adhering to the principle of affordability and avoiding further narrowing of our tax base, we propose the following salaries tax relief measures:

  – to revert the marginal tax rates and tax bands to their 2002-03 levels;

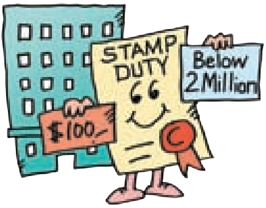
  – to increase the child allowance by $10,000 to $50,000 and introduce an additional one-off child allowance of $50,000 for each child in the year of birth;

– to increase the maximum amount of deduction for self-education expenses by $20,000 to $60,000 to encourage employees to seek continual self-advancement through learning.



The above tax concessions will reduce the tax burden of 1.1 million taxpayers and cost the Government about $4.9 billion a year.

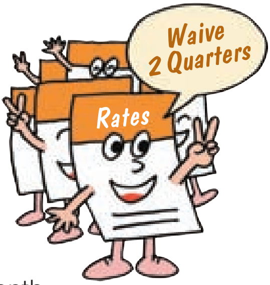
- To reduce the stamp duty on transactions of properties valued between $1 million and $2 million to a fixed amount of $100 to assist more families to buy their homes. This will benefit about 30 000 home buyers and cost the Government about $250 million a year.



- To reduce by half the duty rates on wine, beer and other types of liquor containing not more than 30% of alcohol to help promote the development of our catering industry, tourism and wholesale and retail alcoholic beverage trade, thereby benefiting the community at large. This will cost the Government about $350 million a year.
- To align the duty-free quantities of tobacco and liquor that local residents and visitors are allowed to bring in when entering Hong Kong.
- As the Government's fiscal position in 2006-07 is considerably better than our original estimates, the following one-off rebate measures are proposed:

  – to waive 50% of salaries tax and tax under personal assessment assessed for 2006-07, subject to a ceiling of $15,000. The waived amount will be deducted from the taxpayer's final tax payable for that year. This will cost the Government about $8.1 billion in 2007-08;

– to waive rates for the first two quarters of 2007-08, subject to a ceiling of $5,000 a quarter. Over 99% of domestic properties and 86% of non-domestic properties will be subject to no rates in these two quarters. This will cost the Government $5.2 billion in 2007-08;



– to provide one additional month of standard rate payments for CSSA recipients and one additional month of allowance for recipients of Old Age Allowance and Disabilities Allowance. This will benefit over 1 million people and cost the Government about $1.5 billion.

- To revise the income-sharing arrangement between the fiscal reserves and the Exchange Fund to increase our investment income and enhance its stability.

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