Chapter 3

The Economy

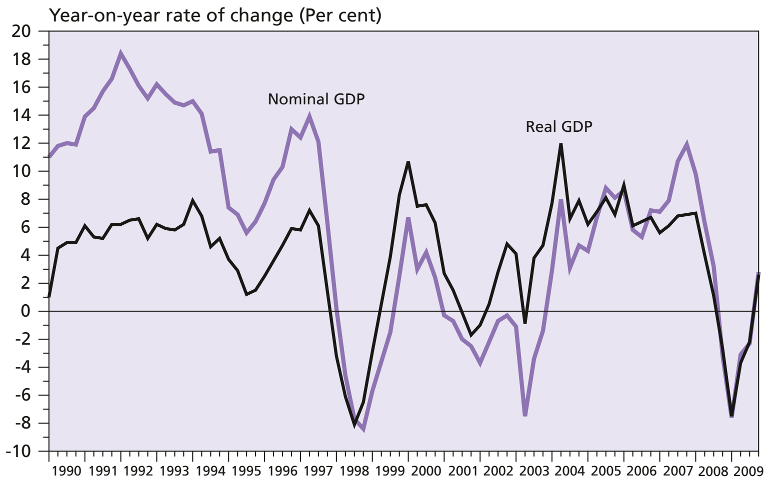
Hong Kong's economy showed great resilience in countering the financial tsunami and the ensuing global recession. Although the economy contracted for 2009 as a whole, year-on-year growth resumed in the fourth quarter. Unemployment peaked in the second quarter, then came down progressively for the rest of the year. Inflationary pressure was subdued for most of the year.

2009 was a year of exceptional gyrations in the Hong Kong economy. It suffered a heavy blow in the early part of the year as the global financial tsunami mutated into the most severe global recession since the Second World War. Then, with the Mainland taking the lead in the global economic recovery, Hong Kong also staged a notable rebound during the second quarter, and improved further in the rest of the year. For 2009 as a whole, the Gross Domestic Product (GDP) contracted by 2.7 per cent in real terms, the first annual recession since 1998.

This followed a 2.1 per cent growth in 2008, and represented the second year of sub-par growth. Indicating the exceptional shocks from the global crisis in early 2009 and the subsequent recovery, GDP went sharply down by 3.1 per cent in real terms in the first quarter on a seasonally adjusted quarter-to-quarter comparison, rebounded notably by 2.9 per cent in the second quarter, and grew further by 0.4 per cent and 2.3 per cent respectively in the third and fourth quarters. The progressive improvements were more visible from the year-on-year profile, with the rate of decline in GDP narrowing notably from 7.5 per cent in the first quarter to 3.7 per cent and 2.2 per cent respectively in the second and third quarters, followed by the return to positive growth at 2.6 per cent in the fourth quarter *(Chart 1)*.

The setback in merchandise exports during most of 2009 imposed a significant drag on Hong Kong's economic growth. They suffered their steepest drop since 1954 in the first quarter of the year amidst the collapse in demand from the advanced economies and its knock-on effect on intra-regional trade. They then saw improvement in the following quarters, initially on the recovery in the Asian region led by the return to rapid growth in the Mainland economy from the second quarter, then on the gradual bottoming-out in demand from the advanced economies following the resumption of growth from the third quarter. The improvement was more notable towards the end of the year, with merchandise exports resuming year-on-year growth in November and December, reflecting some normalisation of global trade after a period of exceptionally large fall-off.

Chart 1 **Quarterly Gross Domestic Product**



In comparison, exports of services fared persistently better in 2009. Indeed, all the major categories of exports of services reverted to year-on-year growth in real terms by the fourth quarter of the year. Inbound tourism showed solid growth during most of the year, except for a brief setback around mid-2009 due to concern about the spread of human swine flu.

Exports of financial and other business services plummeted in the first half of the year in the aftermath of the global financial breakdown, but showed a visible turnaround in the rest of the year as financial market activities revived and business activities gradually recovered. Merchanting and other trade-related services (mainly offshore trade), and to some extent exports of transportation services, were sluggish during most of 2009, reflecting the plunge in global trade flows in early 2009 and their subsequent slow recovery.

The Government's strategy of 'stabilising the financial sector, supporting enterprises and preserving employment' helped to cushion the economy from the aftershock of the financial crisis and to maintain confidence. The stabilising effect was particularly evident in the domestic sector. Apart from a manifest contraction in the first quarter, private consumption demand actually strengthened from the second quarter. For 2009 as a whole, private consumption expenditure (PCE) dipped only 0.3 per cent in real terms. Overall investment spending likewise showed a sharp improvement in the second half of 2009. Under the Government's commitment to expedite public sector projects to counter the financial tsunami, public sector building and construction works accelerated markedly during the year. With the return of business confidence, private sector expenditure on machinery and equipment showed a notable improvement in the latter part of the year.

The local labour market showed much resilience during the global crisis. After a marked rise in the early part of 2009, the seasonally adjusted unemployment rate stabilised by around mid-year and came down successively to 4.9 per cent in the fourth quarter. The total number of job loss was 43 000 at the worst time of the crisis, only one-third of the total job loss during the Asian financial crisis in 1997-1998. Towards the end of the year, there were signs that companies had turned more positive in hiring workers. Likewise, the downward pressure on labour earnings abated in the latter part of the year.

The residential property market put up a strong performance through 2009, underpinned by the gradually improving economic situation and low interest rate environment. Transactions rebounded sharply due to a low base of comparison and the release of pent-up demand. Residential property prices on average rose by 28 per cent between December 2008 and December 2009, largely representing a bounce-back from the sharp correction in late 2008 when the market was hard hit by the global financial crisis. Flat rentals likewise rebounded starting in April 2009, and rose by a total of 12 per cent during the year.

Numerous indicators, including the number of transactions as a percentage of the housing stock, the level of speculative activities, and in particular the home purchase affordability ratio, suggested that the market was largely end-user led and reasonably healthy.

In the financial market, the local stock market was under much selling pressure in early 2009, with the Hang Seng Index (HSI) reaching the post-crisis low of 11 345 on March 9. It then staged a strong rebound alongside other Asian markets, reaching a high of 22 944 in mid-November. The abundance of liquidity amidst the substantial monetary easing by central banks around the world, coupled with the relatively brighter prospects of the Asian region, led to a strong influx of funds into Hong Kong and other Asian economies. The HSI closed the year at 21 873, 52 per cent higher than at end-2008. Activities in the local stock market also revived over the course of the year, with the average daily turnover averaging $62.3 billion in 2009, compared to $50.8 billion in the fourth quarter of 2008. Fund-raising activities also showed a strong comeback in the second half of the year. For 2009 as a whole, altogether there were 73 Initial Public Offering (IPO) listings, raising a total capital of $248.2 billion, the largest among all stock exchanges in the world.

Inflationary pressures quickly subsided over the course of 2009 as the global recession led to spare capacity around the world. Underlying consumer price inflation, in terms of the year-on-year rate of change of the underlying Composite Consumer Price Index, came down steadily during the first half, turning slightly negative from July to November. Yet, with economic recovery gathering pace, inflation reverted to a slight positive level of 0.3 per cent in December.

For 2009 as a whole, the underlying Composite Consumer Price Index rose by an average of 1 per cent, down markedly from 5.6 per cent in 2008. Headline inflation continued to be lower than its underlying counterpart, thanks to further one-off relief measures introduced by the Government in 2009. The headline Composite Consumer Price Index rose by 0.5 per cent in 2009, compared with the increase of 4.3 per cent in 2008.

Structure and Development of the Economy

Hong Kong is a global centre for world trade, finance, business and telecommunications, thanks to its strategic location on the doorstep of Mainland China, a vast booming economy. Hong Kong is currently the world's 11th largest trading entity. It operates one of the world's busiest container ports in terms of container throughput, as well as one of the world's busiest airports in terms of number of international passengers and volume of air cargo handled. Hong Kong is also the world's 15th largest banking centre in terms of gross external positions of banks, and the sixth largest foreign exchange trading centre. Its stock market is the third largest in Asia in terms of market capitalisation.

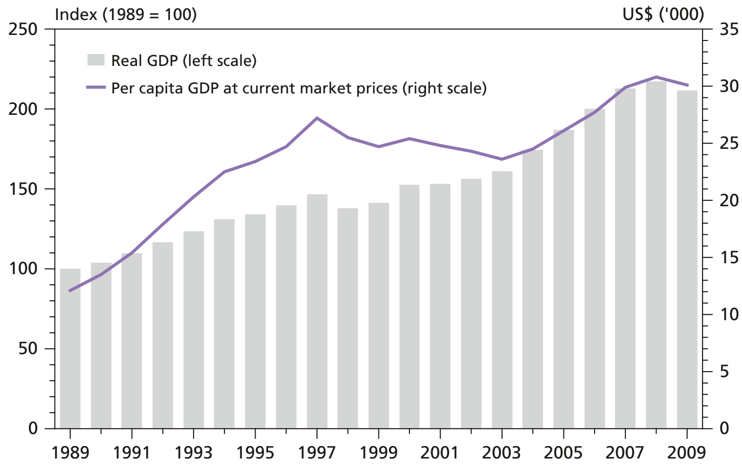
As an international business hub, Hong Kong has a business-friendly environment with the rule of law, free trade and free flow of information, open and fair competition, a well-established and comprehensive financial network, a superb transport and communications infrastructure, sophisticated support services, and efficient and innovative entrepreneurs complemented by a well-educated workforce.

Moreover, it has substantial foreign exchange reserves, a fully convertible and stable currency, prudent fiscal management and a simple tax system with low tax rates. In view of these virtues, Hong Kong has retained its rating by The Heritage Foundation as the freest economy in the world, a position it has held since 1995. Likewise, the Fraser Institute of Canada has also consistently ranked Hong Kong as the world's freest economy.

The Hong Kong economy more than doubled in the past two decades, with its GDP expanding at an average annual rate of 3.8 per cent in real terms, surpassing the world economy's growth of 3.2 per cent. Over the same period, Hong Kong's per capita GDP nearly doubled, posting an average annual growth rate of 2.7 per cent in real terms. At US$30,100, Hong Kong's per capita GDP was one of the highest in Asia in 2009 *(Chart 2)*.

In the midst of the growing influence of globalisation, Hong Kong's degree of trade linkages has risen continuously. Its trade in goods expanded almost four times in real terms over the past two decades, and trade in services three times. In 2009, the total value of visible trade (comprising re-exports, domestic exports and imports of goods) reached $5,198 billion, equivalent to 318 per cent of GDP. This was considerably larger than the ratios of 209 per cent in 1989 and 215 per cent in 1999. If the value of exports and imports of services are also taken into account, the ratio will be even greater, at 380 per cent in 2009, compared to 249 per cent in 1989 and 251 per cent in 1999.

Chart 2 **Gross Domestic Product**



Over the past two decades, the Hong Kong economy grew by an average of 3.8 per cent in real terms, outpacing the 3.2 per cent growth for the world economy. Hong Kong's per capita GDP is among the highest in Asia.

The stock of inward direct investment in Hong Kong was significant, at $7,074 billion in market value at the end of 2009, equivalent to 433 per cent of GDP. It served as another strong indicator of Hong Kong's increasingly international focus. Hong Kong is among the most preferred destinations for inward direct investment in Asia.

The corresponding figures for Hong Kong's stock of outward direct investment were likewise huge, at $6,469 billion and 396 per cent of GDP. As an international financial centre with huge cross-territory fund flows, Hong Kong's external financial assets and liabilities were also substantial, at $19,813 billion and $14,044 billion respectively at the end of 2009. The corresponding ratios to GDP in that year were 1 213 per cent and 860 per cent. Reflecting Hong Kong's sound international investment position, its net external assets rose to $5,768 billion at the end of 2009, equivalent to 353 per cent of GDP.

The Gross National Product (GNP), comprising GDP and net external factor income flows, stood at $1,682.9 billion in 2009. This was higher than the corresponding GDP by 3 per cent. The difference represented a net inflow of external factor income. In gross terms, inflows and outflows of external factor income remained substantial in 2009, at $791.5 billion and $742.1 billion respectively, equivalent to 48 per cent and 45 per cent of GDP respectively. This was related to the huge volume of both inward and outward investment in Hong Kong.

Contributions of the Various Economic Sectors

Primary production (including agriculture, fisheries, mining and quarrying) has been insignificant in Hong Kong, in terms of both value-added contribution to GDP and share in total employment, as the city is a predominantly urban economy.

Secondary production (comprising manufacturing, construction, and supply of electricity, gas and water), which contributed greatly to the value-added component of the total economy in the early 1980s, has since diminished in relative importance. Within this broad sector, the value-added contribution from manufacturing shrank from 20 per cent in 1988 to 6 per cent in 1998 and to only 3 per cent in 2008. The construction sector's contribution to GDP stayed at around 5 per cent between 1988 and 2000, before edging down in the following years to 3 per cent in 2008. The supply of electricity, gas and water held relatively stable, with a share of around 2-3 per cent of GDP over the past two decades.

Hong Kong's economy has become increasingly service-oriented since the 1980s. The Mainland's open-door policy and economic reform have not only provided an enormous production hinterland and market outlet for Hong Kong's manufacturers, but also created abundant business opportunities for a wide range of service providers. Hong Kong has continued to re-orient itself towards service activities, prompted by the changing regional and global economic environment and also by closer integration with the Mainland.

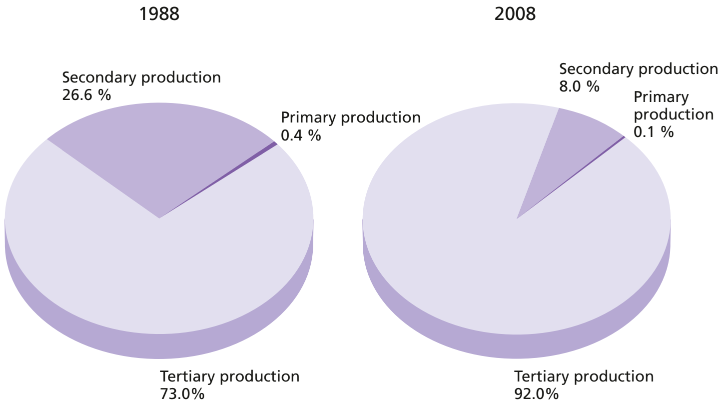
In particular, while the thriving Mainland economy has provided ample business opportunities for Hong Kong's services sector, the availability of cheaper land and labour on the Mainland side giving rise to improved competitiveness and productivity there has also propelled Hong Kong up the value chain.

As a result, the share of the tertiary sector (comprising the wholesale, retail and import/export trades; restaurants and hotels; transport, storage and communications; finance, insurance, real estate and business services; community, social and personal services and ownership of premises) in GDP rose visibly, from 73 per cent in 1988 to 86 per cent in 1998 and 92 per cent in 2008 *(Chart 3)*. The development on the employment front was similar. Over the past two decades, the tertiary sector employed significantly more workers while the share of employment for secondary production continued to shrink *(Chart 4)*.

The Services Sector

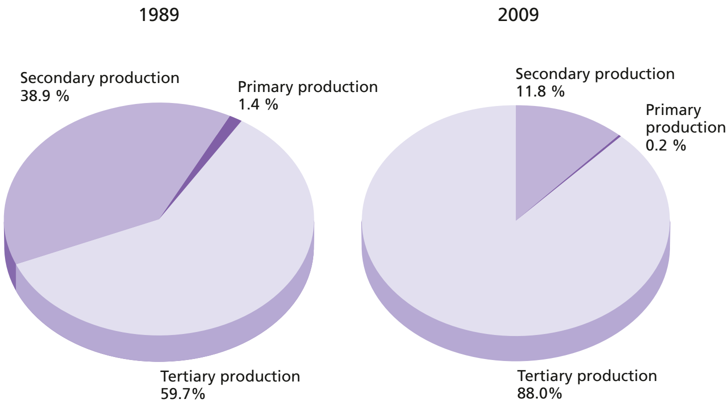
The services sector has fared strongly on a broad front, along with the economy's structural transformation in the past two decades. Services related to trading and tourism; community, social and personal services; and finance and business services such as banking, insurance, real estate and a host of professional services, have all grown significantly.

Chart 3 Gross Domestic Product by Broad Economic Sector



Over the past two decades, the economy has become increasingly service-oriented, as the share of GDP contributed by the tertiary sector has followed a steady uptrend.

Chart 4 Employment by Broad Economic Sector



Over the past two decades, the share of the services sector in total employment greatly increased, whereas the share of the industrial sector kept on shrinking.

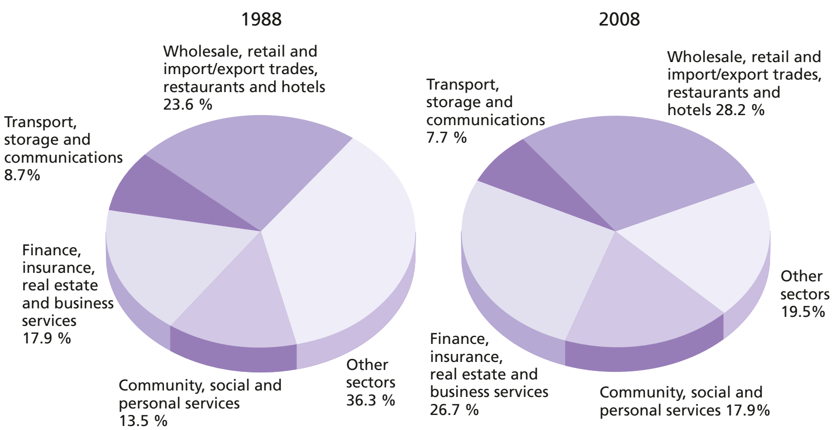
Note: The compilation methodology of composite employment estimates was reviewed in June 2005. Employment figures from 1996 onwards have thus been revised accordingly. They are not strictly comparable with those of earlier years.

Being a highly service-oriented economy, Hong Kong's services sector has been the dominant driving force behind the overall economic growth. Despite the setback in 2009 due to the global recession, the value-added part of the services sector grew by a cumulative 23 per cent in real terms over the past five years, outpacing the corresponding 21 per cent growth of the economy. Among the constituent service sectors, financing and insurance showed the fastest cumulative growth of 58 per cent, a testament to Hong Kong's drive as an international financial centre.

Import and export trade also performed impressively, with a 30 per cent increase in the value-added component of its trading activities over the period. This, together with a notable growth of 13 per cent in transport and storage services, underlined the competitiveness of Hong Kong's trading and logistics sector. The increase of 25 per cent in wholesale and retail trades, as well as the steeper growth of 26 per cent in restaurants and hotels, were underpinned by the strength of domestic demand and the vibrancy in inbound tourism brought about by the continued expansion in the Individual Visitor Scheme.

In 2008, the services sector contributed 92 per cent to GDP. The wholesale, retail and import/export trades, restaurants and hotels remained the largest service sector, accounting for 28 per cent of the GDP. This was followed by finance, insurance, real estate and business services (27 per cent), community, social and personal services (18 per cent), and transport, storage and communications (8 per cent) *(Chart 5)*. More specifically, of the four key industries, trading and logistics accounted for 26 per cent of value-added contribution to GDP in 2008, financial services 16 per cent and tourism 3 per cent. The corresponding contribution of professional and other producer services was 12 per cent.

Chart 5 Gross Domestic Product by Major Service Sector

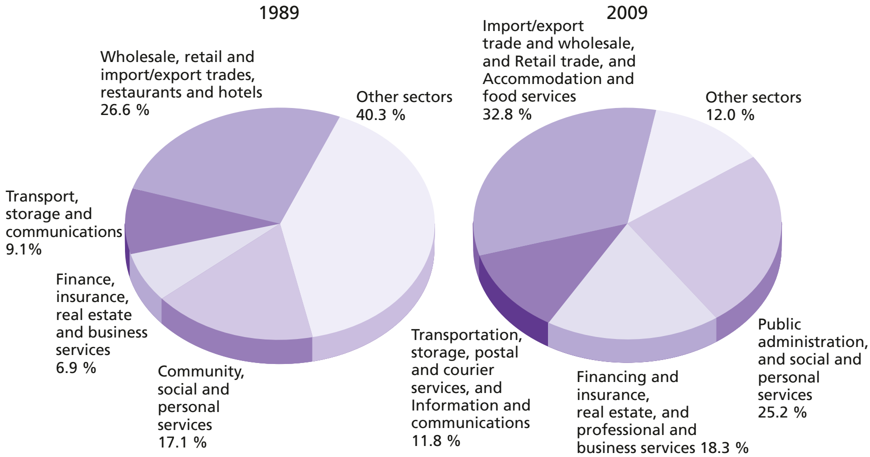


The wholesale, retail and import/export trades, restaurants and hotels sector, and the finance, insurance, real estate and business services sector remained the two largest service sectors in terms of net output in 2008.

The profound structural change in the economy towards the services sector was also borne out by a shift in the sectoral composition of employment. Over the past two decades, the share of the services sector in total employment went up from 59.7 per cent in 1989 to 82 per cent in 1999 and 88 per cent in 2009. As for individual services, wholesale, retail and import/export trades, accommodation and food services accounted for 32.8 per cent of the total in 2009. This was followed by public administration, social and personal services with a share of 25.2 per cent;

financing and insurance, real estate, and professional and business services, 18.3 per cent; and transportation, storage, postal and courier services, information and communications, 11.8 per cent *(Chart 6)*.

Chart 6 **Employment by Major Service Sector**



Wholesale, retail and import/export trades, restaurants and hotels employed the most people in 2009.

Note: The compilation methodology of composite employment estimates was reviewed in June 2005. Employment figures from 1996 onwards have thus been revised accordingly. They are not strictly comparable with those of earlier years.

Starting from the first quarter of 2009, industrial classification of employment has adopted the Hong Kong Standard Industrial Classification Version 2.0 while that in previous years is based on Version 1.1.

The Manufacturing Sector

Hong Kong's manufacturing sector continues to be versatile and resilient in coping with the changing environment. Thanks to the increased manufacturing arrangements in the Mainland, not only has Hong Kong's productive capacity been effectively expanded, its overall productive efficiency and product quality have also seen significant upgrading along with the advances in technology and a shift towards production with a more knowledge-based and higher value-added content. It is also worth noting that although the direct value-added contribution of the manufacturing sector to the economy is not large relative to the services sector, its well-established linkages with the Mainland economy have provided ample business opportunities that go hand in hand with the growth of Hong Kong's services sector.

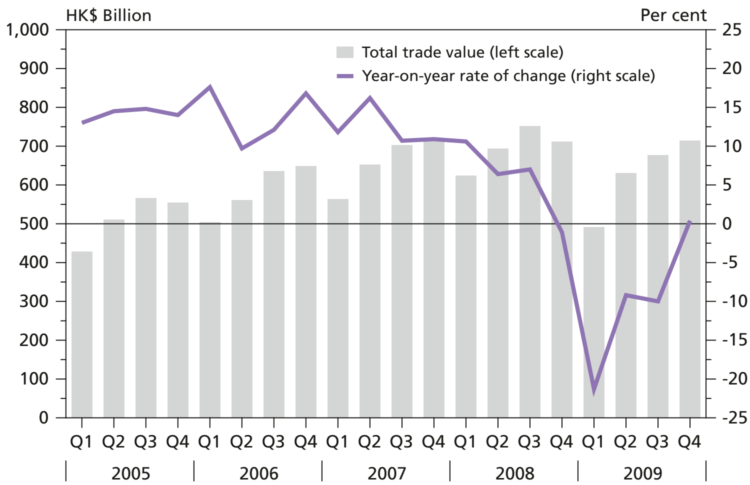
Economic Links between Hong Kong and the Mainland

Since the introduction of the Mainland's open door policy in 1978, the ongoing economic integration between the Mainland and Hong Kong has brought enormous mutual benefits. The huge flows of goods, services, people and capital between Hong Kong and the Mainland and between the Mainland and the world through

Hong Kong have created remarkable growth in incomes and employment in both Hong Kong and on the Mainland.

Visible trade between Hong Kong and the Mainland has soared by 231 times since 1978, or an average annual rate of 19 per cent in value terms. Nevertheless, affected by the global economic downturn, visible trade with the Mainland recorded a drop of 10 per cent in 2009 *(Chart 7)*, while Hong Kong's total trade declined by 12 per cent over the same period. In 2009, Hong Kong and the Mainland were ranked the world's 11th and second largest trading entities respectively.

Chart 7 Visible Trade between Hong Kong and the Mainland



Since the Mainland adopted economic reform and an open door policy in 1978, there has been a rapid expansion in merchandise trade, especially re-export trade, between Hong Kong and the Mainland.

The Mainland has long been Hong Kong's largest trading partner, accounting for 49 per cent of Hong Kong's total trade value in 2009. Ninety per cent of Hong Kong's re-export trade was related to the Mainland as a market or a source. Reciprocally, Hong Kong was the Mainland's fourth largest trading partner (after the European Union, United States and Japan), accounting for nearly 8 per cent of the Mainland's total trade value in 2009.

Hong Kong is also a principal gateway to and from the Mainland for business and tourism. The number of trips made by foreign visitors to the Mainland through Hong Kong rose by a cumulative 53 per cent in the past 10 years to 3.8 million trips in 2009. Correspondingly, the number of trips made by Mainland residents to, or through, Hong Kong rose by nearly five times over the decade to 18 million trips in 2009.

Hong Kong continues to be the largest external investor in the Mainland. According to the Mainland's statistics, the cumulative value of Hong Kong's realised direct investment in the Mainland reached US$396 billion at end-2009, accounting for 41 per cent of the total inward direct investment there. Over the years, the composition of Hong Kong's direct investment in the Mainland has shifted gradually from industrial processing to a wider spectrum of business ventures, such as hotels and tourist-related services, real estates, retail trade, infrastructure construction, and various business and communications services.

Hong Kong has closer economic links with Guangdong than other places in the Mainland. By the end of 2009, the cumulative value of Hong Kong's realised direct investment in Guangdong was US$143 billion, accounting for 61 per cent of its total inward direct investment.

Hong Kong's huge direct investment in the Mainland has contributed to the latter's industrialisation and, at the same time, facilitated the rapid structural change in the Hong Kong economy.

The Mainland is likewise Hong Kong's largest source of foreign direct investment. By the end of 2008, the Mainland had invested a total of US$298 billion in Hong Kong, accounting for 37 per cent of the total external direct investment. Mainland companies also maintain a strong presence in Hong Kong. In mid-2009, 223 and 527 Mainland companies had established regional headquarters/offices and local offices respectively in Hong Kong. All these reflected Hong Kong's position as the region's business hub.

Hong Kong is also a major funding centre for Mainland enterprises. A total of 524 Mainland enterprises were listed on Hong Kong's stock market by the end of 2009, of which 48 were listed in 2009. Driven by the Mainland's strong economic recovery, a total of $356 billion of equity fund was raised by Mainland enterprises during the year. These listing and fund-raising activities further consolidated Hong Kong's position as a major fund-raising centre in the region.

In addition, the development of Renminbi business in Hong Kong made marked advances in 2009. At the end of 2009, a total of 60 licensed banks engaged in Renminbi services business, with outstanding Renminbi deposits reaching RMB62.7 billion, equivalent to 2.4 per cent of total foreign currency deposits in Hong Kong. To support the further development of the Renminbi bond market in Hong Kong, the Mainland authorities agreed to allow Hong Kong banks on the Mainland to issue Renminbi bonds in Hong Kong.

By the end of 2009, Renminbi bonds totalling RMB38 billion had been issued in Hong Kong, including bonds issued by the Ministry of Finance and those issued by the Mainland subsidiaries of the Hong Kong banks. Moreover, from July 2009, qualified enterprises were allowed to settle their trade obligations in Hong Kong in Renminbi. The rapid expansion of Renminbi business in Hong Kong signified the Mainland's recognition of Hong Kong as its premier international financial centre.

Economic co-operation and integration with the Mainland has been fostered through the Mainland and Hong Kong Closer Economic Partnership Arrangement

(CEPA). In May 2009, the Hong Kong Government and the Central People's Government reached an agreement on further liberalisation measures under the Supplement VI of CEPA introducing 29 new liberalisation measures in 20 services areas, including 18 existing CEPA and two new ones. As a result, the total number of services areas covered by CEPA expanded from 40 to 42.

In December 2009, the construction of the Hong Kong-Zhuhai-Macao Bridge commenced. Upon completion, the bridge will significantly reduce transportation costs and commuting time between Hong Kong and the Western Pearl River Delta (PRD) region. In addition, the Guangzhou-Shenzhen-Hong Kong Express Rail Link reached its final stage of pre-construction preparation during 2009. The improvement in cross-boundary infrastructure will enhance the flow of people and goods among Greater PRD and help expedite the integration of Hong Kong with its hinterland.

Hong Kong has the unique advantage of having the Mainland as its hinterland while maintaining an international outlook. With the increasing integration of the Mainland with the global economy, Hong Kong's role as an international financial, trade and shipping centre will continue to strengthen. Abundant opportunities will be available to support the development of Hong Kong's four conventional pillar industries as well as the six new industries.

The Economy in 2009

External trade

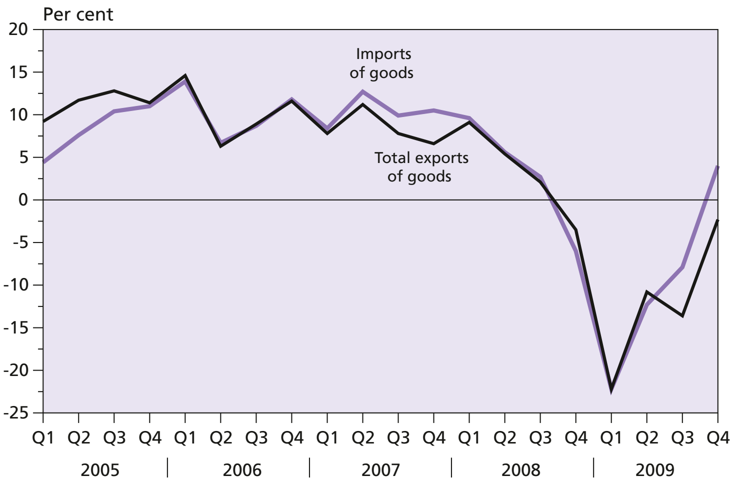
Merchandise exports suffered a severe blow from the slump in global demand and world trade in the aftermath of the financial tsunami, especially in late 2008 and early 2009. In 2009, total exports of goods (comprising re-exports and domestic exports) plunged by 12 per cent in real terms, compared with the increase of 2.9 per cent in 2008 *(Chart 8)*. The decline in exports in the first quarter of 2009 was particularly great, 22.2 per cent in real terms over a year earlier, the largest decline since 1954.

This was nevertheless followed by smaller year-on-year declines of 10.8 per cent and 13.6 per cent respectively in the second and third quarters. The rate of decline tapered to 2.3 per cent in the fourth quarter (growth actually resumed in November and December), thanks to the further pick-up in Mainland demand and also the revival in intra-regional trade in Asia.

The global financial crisis evolved into the most severe global economic recession since World War II. Nevertheless, thanks to the massive fiscal stimulus and monetary easing policies implemented by governments and central banks, financial markets stabilised and the global economy also bottomed out in around mid-2009. This global recovery was however uneven across regions, with the emerging Asian economies, particularly the Mainland, taking the lead in the process.

Although the US and EU economies resumed growth after the third quarter of 2009, their recovery was not yet solidly in place. Against this background, exports of Asian economies generally fell markedly during most of 2009, only improving more visibly in the latter part of the year. As unemployment in the US and EU remained severe, the rise of protectionist sentiments in these markets remained a threat to the global trading environment.

Chart 8 **Hong Kong's Visible Trade (year-on-year rate of change in real terms)**



Merchandise exports declined sharply in 2009 amidst the slump in global demand and world trade.

Hong Kong's merchandise exports to the EU and US markets, where recovery had been very weak by past standards, posted double-digit declines in all four quarters of 2009, reflecting the sluggishness in their domestic demand. The return of the Mainland to faster economic growth from the second quarter of 2009 provided an important stabilising force in Asia and helped to revive intra-regional trade. As a result, Hong Kong's exports to many Asian economies improved visibly in the latter part of the year. Exports to the Mainland, South Korea and Taiwan, rebounded to show year-on-year increases in the fourth quarter, and those to Japan saw a much tapered year-on-year decline in the same quarter. However, exports to Singapore still fell at double-digit rates.

Imports of goods recorded a decline of 9.4 per cent in real terms in 2009, after an increase of 2.6 per cent in 2008. Retained imports, referring to imports for domestic use, were also down, by 3.8 per cent in real terms in 2009, having fallen by 1.4 per cent in 2008. The fall-off was concentrated in the first half of 2009, as the severe global recession led to a world wide plunge in production and import demand, which in turn prompted local producers to pull back placing orders in view of the highly uncertain environment. But as the recessionary forces progressively receded later in the year, the inventory cycle began to turn along with some normalisation of global trade and the strengthening of domestic demand, leading to distinct increases in retained imports in the latter part of the year.

Analysed by end-use, retained imports of raw materials and semi-manufactures reverted to a marked increase in the second half of 2009, having plunged in the first half. Retained imports of consumer goods and capital goods both fell in 2009 as a whole, yet reverted to year-on-year increases in the latter part of the year. The growth in intake of consumer goods towards the year-end was particularly sharp, consistent with the upturn in local consumer spending. Retained imports of foodstuffs likewise showed faster growth in the second half of 2009, while those of fuels increased notably throughout the year.

Exports of services fared persistently better over the course of 2009, particularly during the second half of the year where there was a marked rebound. For the year as a whole, exports of services fell by only 0.7 per cent in real terms, following an increase of 5 per cent in 2008. As IPO and other financial market activities started to bottom out in the second quarter after the dismal first quarter, followed by a distinct upturn in the second half, exports of finance, business and other services registered a moderate increase in 2009 as a whole. Thanks to the rebound in the number of visitor arrivals in the second half of the year, exports of travel services held up well. However, exports of transportation services and trade-related services (mainly offshore trade) were down during most of 2009 due to the large shrinkage in global trade flows, before reverting to year-on-year increases by the fourth quarter.

Imports of services contracted by 4 per cent in real terms in 2009, in contrast to the 6.3 per cent growth in 2008. Imports of finance, business and other services decreased in 2009, but held up rather well in the second half of the year as financial and commercial activities revived. Imports of travel services, after contracting in the first quarter, resumed growth in the remaining three quarters, along with a strengthening of local consumer sentiment, resulting in a modest increase in 2009 as a whole. Meanwhile, imports of trade-related services recovered to positive growth in the fourth quarter amidst a revival in intra-regional trade, while imports of transportation services fell throughout the year *(Chart 9)*.

With the surplus in the invisible trade account more than offsetting the deficit in the merchandise trade account, a sizable surplus of $117.7 billion was recorded in the combined visible and invisible trade balance in 2009, equivalent to 3.9 per cent of the total value of imports of goods and services. This compared with the corresponding figures of $170.7 billion and 5 per cent in 2008. The still sizable trade surplus was one of the strong economic fundamentals that Hong Kong possessed in meeting the challenges posed by the global financial crisis.

Chart 9 **Hong Kong's Visible Trade (year-on-year rate of change in real terms)**

Exports of services displayed more resilience than merchandise exports in 2009.

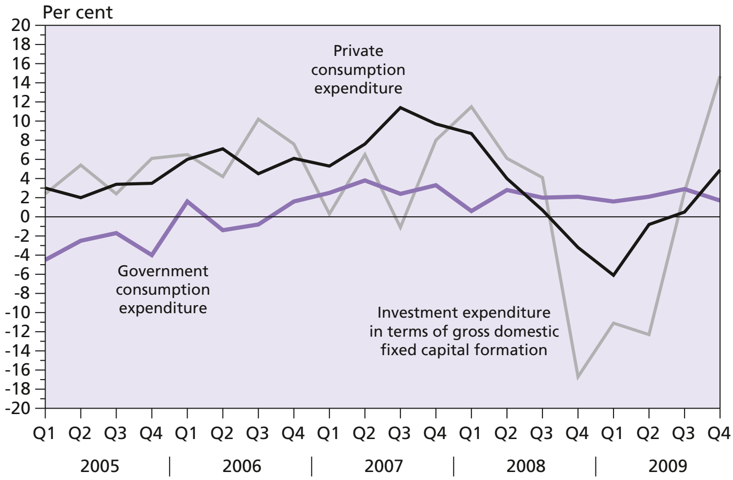
Domestic demand

The Government's strategy of 'stabilising the financial sector, supporting enterprises and preserving employment' helped to cushion the economy from the aftershock of the financial tsunami and to maintain confidence. The stabilising effect was particularly evident in the domestic sector. Apart from a noticeable contraction in the first quarter, private consumption demand actually strengthened after the second quarter, along with an improvement in labour market conditions and a better economic outlook. For 2009 as a whole, private consumption expenditure (PCE) fell by only 0.3 per cent in real terms, after the 2.3 per cent growth in 2008. Government consumption expenditure continued to play the role of automatic stabiliser, growing by 2 per cent in real terms in 2009 following the 1.8 per cent growth in 2008.

Overall investment spending likewise showed a sharp improvement in the second half of 2009 after a dismal first half. Under the Government's commitment to expedite public sector projects to counter the financial breakdown, public sector building and construction works accelerated markedly during the year, while public sector investment in machinery and equipment also grew solidly. With the return of business confidence, private sector expenditures on building and construction as well as machinery and equipment both showed relative improvement in the second half of the year. Indeed, according to the Quarterly Business Tendency Survey conducted by the Census and Statistics Department, a greater proportion of large business establishments surveyed turned more optimistic about their outlook over the course of the year.

Reflecting the broad-based improvements in private investment, gross domestic fixed capital formation resumed positive growth in the third quarter and picked up significantly further in the fourth quarter, trimming the annual decline to 2.2 per cent in real terms for 2009 as a whole *(Chart 10)*.

Chart 10 **Main Components of Domestic Demand (year-on-year rate of change in real terms)**



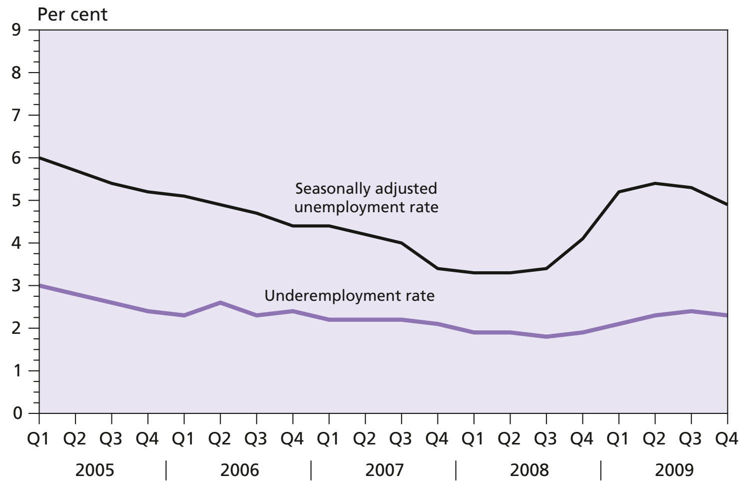
Domestic demand had actually strengthened notably since the second quarter of 2009, along with the improvement in labour market conditions and better economic outlook.

The Labour Market

The labour market slackened markedly during the first half of 2009, as the economy was severely battered by the global financial crisis and the ensuing world recession. Consequential to the corporate sector cutting back on jobs in the midst of the most severe recession since 1998 at a time when more people were entering the labour force to search for jobs, the seasonally adjusted unemployment rate posted a sharp jump, reaching a high of 5.4 per cent in mid-2009. This was 1.3 percentage points above the level of 4.1 per cent at end-2008. Then as the economy hit bottom and progressively regained strength, the unemployment situation exhibited a steady improvement, falling back to 4.9 per cent at the year-end, below the 5 per cent mark for the first time since early 2009. Meanwhile, the underemployment rate moved within a narrow range of 2.1-2.5 per cent during 2009, ending the year at 2.3 per cent *(Chart 11)*.

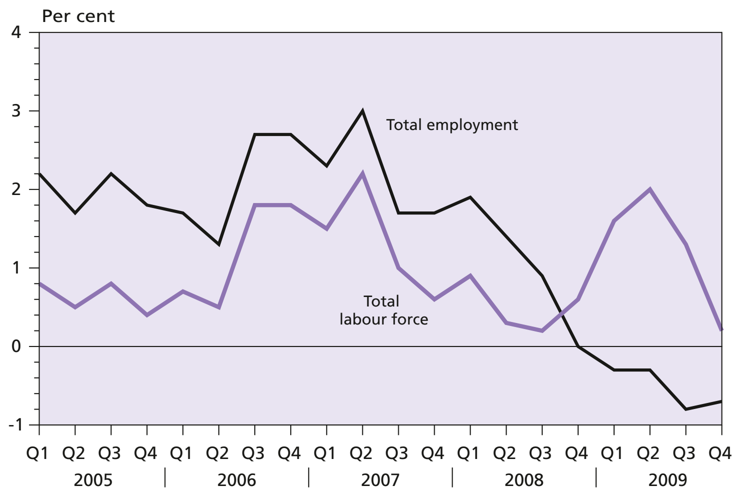
The labour force expanded by 0.8 per cent in 2009, while total employment fell by 1.1 per cent in tandem with the economic downturn. Although employment growth stayed in negative territory throughout the year, some economic sectors such as construction, tourism and financing recorded modest employment gains in the fourth quarter of 2009 over a year earlier. It was the trade-related sectors that bore the brunt of the job losses. Even though the growth in the labour force surpassed the employment growth by a considerable margin in all four quarters of 2009, the differential between them began to narrow from mid-year *(Chart 12)*.

Chart 11 The Unemployment and Underemployment Rates



Unemployment rate peaked in mid-2009 in the aftermath of the global financial crisis and came down successively for the rest of the year.

Chart 12 Total Labour Force and Total Employment (year-on-year rate of change)



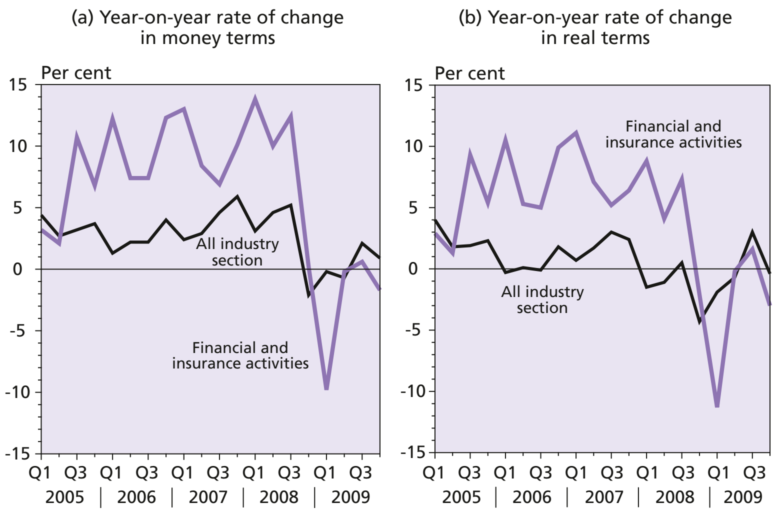
The differential between labour demand and supply improved towards the latter part of 2009.

Job vacancies in private sector establishments increased by 7.5 per cent year-on-year in December 2009, a significant improvement from the marked decrease of 50.6 per cent in March. Concurrently, the ratio of job vacancies per 100 job seekers went up from 15 in March to 20 in December. The corresponding ratio for lower-skilled jobs also moved up from 12 to 20, while that for higher-skilled jobs held steady at 31.

Improvement in job vacancies, whilst occurring extensively in most economic sectors, was most visible in accommodation services, followed by transportation, storage, postal and courier services, retail, and import and export and wholesale trades.

With labour market conditions gradually turning better in the second half of 2009, labour earnings in the private sector witnessed a moderate rise of 0.5 per cent in money terms and showed virtually no change in real terms in 2009 over a year earlier *(Chart 13)*. In particular, labour earnings in professional and business activities recorded an increase of 2.7 per cent, while those in real estate activities were up by 2.5 per cent in the fourth quarter. Meanwhile, labour earnings in such sectors as retail, and the import/export and wholesale trades stayed soft, registering decreases of 1.3 per cent and 0.3 per cent respectively.

Chart 13 **Labour Earnings**

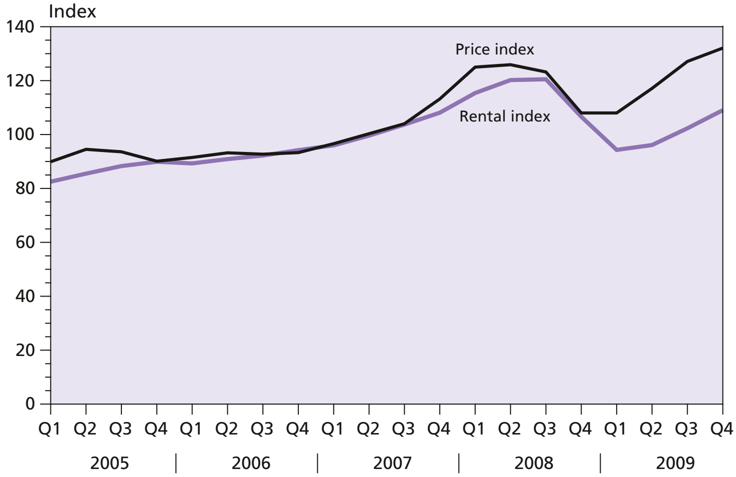


Labour earnings reverted to a modest year-on-year increase in nominal terms and were flat in real terms during the fourth quarter of 2009.

The Property Market

Following the sharp correction in the second half of 2008 amid the severe shocks of the global financial crisis, the residential property market staged a strong rebound in 2009. The gradual improvement of the economy through the year lent support to market demand, while strong inflow of funds and the consequential low interest rates helped create an accommodative environment. As a result, flat prices showed an uninterrupted increase through the year, culminating in a 29 per cent increase in December 2009 over a year earlier. As to the leasing market, flat rentals started to rebound in the second quarter of 2009, albeit at a much more gradual pace. Comparing the fourth quarter of 2009 with the same period in 2008, rentals posted an overall increase of 2 per cent *(Chart 14)*.

Chart 14 Prices and Rentals of Residential Property (1999=100)



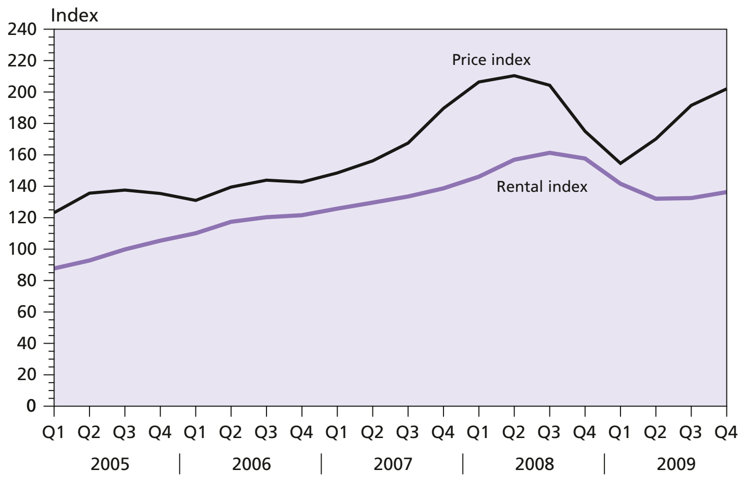
Both prices and rentals of residential property went up in 2009 amid gradual improvement of the economy and a low interest rate environment.

The surge in residential property prices during 2009 was largely a bounce-back from the significant drop during the second half of 2008, and overall home prices in the fourth quarter were only 5 per cent above the peak before the global financial crisis. The market remained largely end-user led, with nearly 90 per cent of secondary market transactions in 2009 involving flats smaller than 70 square metres. Furthermore, the home purchase affordability (i.e. the ratio of mortgage payment for a 45 square metre flat to median household income) stayed healthy at around 38 per cent in the fourth quarter, lower than the average of 53 per cent in the past 20 years. While the figure was to some extent held down by the exceptionally low mortgage rates, it indicated that the market was still reasonably healthy.

Nevertheless, the Government is mindful of the possible effect of sharp fluctuations in property prices on macroeconomic and social stability. With a view to ensuring a healthy and stable development of the property market, and forestalling any possible formation of a property bubble, the authorities set out a number of measures in October and November 2009. To prevent excessive expansion in mortgage lending, in October 2009 the Hong Kong Monetary Authority advised banks to cap the loan-to-value ratio at 60 per cent for residential properties valued at $20 million or more, and reminded lenders to be more prudent in processing mortgage loan applications. To improve the transparency of the property market, in November 2009 the Government shortened the lead time for developers to make public details of transactions, and required developers to list the price per square foot in saleable area of individual flats and adopt a reasonable floor numbering system.

The non-residential property market also benefited from the revival in economic activities in 2009. For office space, overall sale prices switched back from decline to increase starting from the second quarter of 2009, though the momentum tapered somewhat towards the end of the year. Comparing the fourth quarter of 2009 with the same period in 2008, prices rose by 15 per cent, but they remained 5 per cent lower than the high in the second quarter of 2008. Analysed by type of office space, prices of Grade A, B and C offices in the fourth quarter were respectively 12 per cent, 14 per cent and 19 per cent higher than a year earlier. Office rentals also trended upwards gradually after bottoming out in the second quarter, but still registered a year-on-year decline of 14 per cent in the fourth quarter. Rentals for Grade A, B and C offices in the fourth quarter of 2009 dropped by 17 per cent, 10 per cent and 5 per cent respectively from a year earlier *(Chart 15)*.

Chart 15 **Prices and Rentals of Office Space (1999=100)**



Prices of office space rallied from the second quarter of 2009, while office rentals showed a mild rebound.

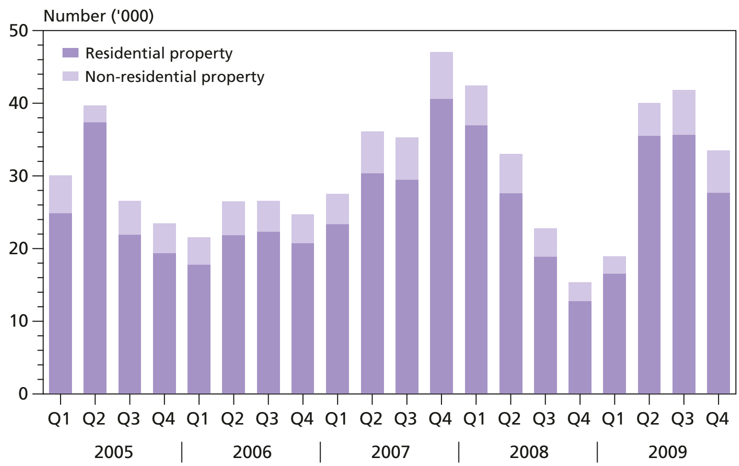
The market also staged a recovery with regard to shopping space, in tandem with stronger consumer spending. Sale prices jumped by 25 per cent between the fourth quarter of 2008 and the fourth quarter of 2009, while rentals edged up by only 2 per cent over the same period. Prices for flatted factory space rose by 10 per cent between the fourth quarter of 2008 and the fourth quarter of 2009, though rentals fell by 3 per cent.

On the supply side, completions of private residential flats fell by 18 per cent to 7 160 units in 2009. While completions are expected to rebound to 14 300 units in 2010, these will still be below the annual average of 19 100 units in the past ten years. As to the potential supply of new private residential flats, it is projected that the number of unsold completed flats and flats already under construction but not yet sold, together with the number of flats on disposed sites where construction has yet to commence, will be around 55 000 units in the next few years.

Reflecting the tight supply relative to demand, the vacancy rate for residential property declined visibly from 4.9 per cent at end-2008 to 4.3 per cent at end-2009. For non-residential property, the vacancy rate for office space rose from 8.4 per cent at end-2008 to 10.3 per cent at end-2009, while the vacancy rate for flatted factory space also increased from 6.5 per cent to 8 per cent. Meanwhile, the vacancy rate for retail shop space, at 8.7 per cent at end-2009, was unchanged from a year earlier.

On transactions, the number of sale and purchase agreements for residential property received by the Land Registry jumped by 20 per cent to 115 092 for 2009 as a whole, though this was partly due to a low base of comparison and the release of pent-up demand. Total consideration for the agreements rose by a slightly larger extent of 24 per cent, to $425.8 billion. Likewise, the number of sale and purchase agreements for non-residential property increased by 9 per cent to 18 870 in 2009, with total consideration up by 30 per cent to $89.9 billion *(Chart 16)*.

Chart 16 **Sale and Purchase Agreements by Broad Type of Property**



Property transactions rebounded in 2009 partly due to a low base of comparison and the release of pent-up demand.

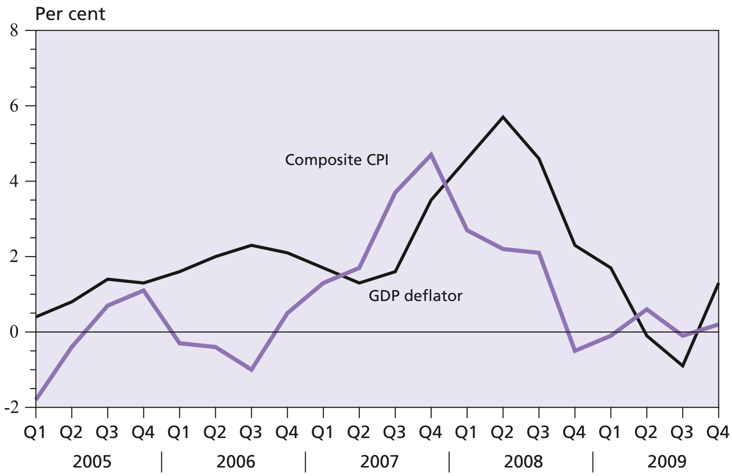
Price Movements

Inflationary pressures quickly subsided in the early part of 2009 as the economy slipped into a severe recession. Given the slack in the economy and softening import prices in the aftermath of the global financial crisis, underlying inflation turned slightly negative in July and held steady at the -0.3 per cent level for five consecutive months. Towards the end of the year, however, the slight deflation gave way to slight inflation, thanks to the economic recovery. In the international markets, food and oil prices showed renewed increases during the year, driven partly by a weaker US dollar.

Many other Asian economies also saw a return to inflation in the latter part of the year. The Composite Consumer Price Index (Composite CPI) increased by a modest 0.5 per cent in 2009, much slower than the 4.3 per cent increase in 2008. Netting out the effects of the Government's one-off relief measures, underlying consumer price inflation in 2009 was 1 per cent, also markedly lower than 5.6 per cent in 2008.

As a broad measure of the overall change in prices of the economy, the GDP deflator rose only slightly by 0.2 per cent in 2009, slower than the 1.5 per cent increase in 2008. The moderation was due mainly to the significant easing in local inflationary pressures during 2009. For the year as a whole, there was a marginal improvement in terms of trade, as import prices eased off slightly faster than export prices. Taking out the external trade component, the domestic demand deflator went down more visibly in the first quarter of 2009 before gradually rising once more along with the concurrent upturn in local demand *(Chart 17)*.

Chart 17 **Main Inflation Indicators (year-on-year rate of change)**



Consumer price inflation came down distinctly in the first half of 2009, dipping to the negative region for several months, before reverting to a slight positive level at year-end.

Public Finance

Structure of Government Accounts

The Government controls its finances through the General Revenue Account and funds. The General Revenue Account is the main account for day-to-day departmental expenditure and revenue collection. Funds are established by resolutions of the Legislative Council for specific purposes. They include the Capital Works Reserve Fund, Capital Investment Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund. The accumulated balances of the General Revenue Account and the above eight Funds constitute the Government's fiscal reserves.

The Capital Works Reserve Fund finances the public works programme, land acquisitions, capital subventions, major systems and equipment, computerisation and the payment of redemption money in respect of land exchange entitlements. Its income is derived mainly from land premiums and investment income.

The Capital Investment Fund finances the Government's capital investments, such as equity injections to the Airport Authority and the MTR Corporation Limited, and capital investments in the Housing Authority and the Urban Renewal Authority. Its income is derived mainly from appropriation from the General Revenue Account and dividends.

The Civil Service Pension Reserve Fund acts as a reserve to meet payment of civil service pensions in the unlikely event that the Government cannot meet such liabilities from the General Revenue Account. Its income is derived from investment income.

The Disaster Relief Fund finances grants for humanitarian aid in relief of disasters that occur outside Hong Kong. Its income is derived mainly from appropriation from the General Revenue Account.

The Innovation and Technology Fund finances projects that help promote innovation and technology upgrading in manufacturing and service industries. Its income is derived mainly from investment income.

The Land Fund was established on July 1, 1997 to enable the investments held by the former Trustees of the Hong Kong Special Administrative Region Government Land Fund to be formally brought into the Government's account. Its income is derived from investment income.

The Loan Fund finances loan schemes such as housing loans and education loans. Its income is derived mainly from loan repayments and interest.

The Lotteries Fund finances welfare services through grants and loans. Its income is derived mainly from sharing the proceeds of the Mark Six Lottery and investment income

In addition to the above Funds, the Bond Fund was established in July 2009 in connection with the implementation of the Government Bond Programme (GBP) to promote further and sustainable development of the bond market in Hong Kong. The Bond Fund does not form part of the fiscal reserves and is managed separately from other Government accounts. Its income is derived from the issuance of bonds under the GBP and investment income.

Management of Public Finances

The principles underlying the Government's management of public finance are set out in the Basic Law: to keep expenditure within the limits of revenues in drawing up the budget, to strive to achieve a fiscal balance, to avoid deficits and to keep the budget commensurate with the growth rate of its gross domestic product. The Budget presented by the Financial Secretary to the legislature each year is developed against the background of a medium-range forecast to ensure that full regard is given to the longer-term trends in the economy.

Public Expenditure

Public expenditure comprises government expenditure and expenditure by the Trading Funds and the Housing Authority. It does not include expenditure by those organisations, including statutory organisations, in which the Government has only an equity position, such as the Airport Authority and the MTR Corporation Limited.

Financial Results

The Government's consolidated account recorded a surplus of $1.5 billion after repayment of bonds and notes in 2008-09. Fiscal reserves at the end of March 2009 stood at $494.4 billion. This reserve is available to meet any calls on the Government's contingent liabilities and to cope with any short-term fluctuations in expenditure relative to revenue.

Total government revenue in 2008-09 amounted to $316.6 billion, expenditure $312.4 billion and repayment of bonds and notes $2.7 billion. For details of revenue by source and of expenditure by component for 2008-09 and 2009-10 (Revised Estimate) see Appendix 6, Table 6.

Public expenditure in 2008-09 totalled $331 billion, an increase of 31.1 per cent over the previous year. Some $226.9 billion, or 68.5 per cent of the public expenditure in 2008-09, was of a recurrent nature. Table 7 gives an analysis of expenditure by policy area group and Table 8, the growth rate of public expenditure as compared with the rate of economic growth.

Revenue Sources

Hong Kong's tax system is simple and relatively inexpensive to administer. Tax rates are low, and the Government gives a high priority to curbing tax evasion and minimising opportunities for tax avoidance. The major sources of revenue are profits tax (33 per cent), land fund, properties and investments (16 per cent) and salaries tax (12 per cent). Other significant sources include revenue from stamp duties (10 per cent), land premium (5 per cent), utilities, fees and charges for services provided by the Government (5 per cent), bets and sweeps tax (4 per cent), general rates (2 per cent), and duties on dutiable commodities (2 per cent). These major sources of revenue are presented at Appendix 6, Chart 1.

The Inland Revenue Department collects about 60 per cent of total revenue, including profits tax, salaries tax, property tax, stamp duties, bets and sweeps tax, and hotel accommodation tax. Profits, salaries and property taxes (including tax under personal assessment), which together accounted for about 46 per cent of the total revenue in 2008-09, are levied under the Inland Revenue Ordinance. Persons liable to these taxes may be assessed on three separate and distinct sources of income: business profits, salaries and income from property.

Profits tax is charged only on profits arising in or derived from Hong Kong, from a trade, profession or business carried on in Hong Kong. In 2008-09, profits of unincorporated businesses were taxed at 15 per cent and profits of corporations at 16.5 per cent.

Profits tax is paid initially on the basis of profits made in the year preceding the year of assessment and is subsequently adjusted according to profits actually made in the assessment year. Generally, all expenses incurred in the production of assessable profits are deductible. There is no withholding tax on dividends paid by corporations. Interest income, other than that received by financial institutions, and dividends received from corporations are exempt from profits tax. In 2008-09, the Government received about $104.2 billion in profits tax (about 33 per cent of total revenue).

Salaries tax is charged on emoluments arising in, or derived from, Hong Kong. The basis of assessment and provisional tax mechanism are similar to profits tax. Tax payable in 2008-09 was calculated on a sliding scale that progressed from 2 per cent, 7 per cent and 12 per cent on the first, second and third segments of net income (i.e. income less deduction and allowances) of $40,000 each, respectively, and then to 17 per cent on the remaining net income. No one, however, needed to pay more than the standard rate of 15 per cent of his or her total income.

The earnings of husbands and wives are reported and assessed separately. However, where either spouse has allowances that exceed his or her income, or when separate assessments would result in an increase in salaries tax payable by the couple, they may elect to be assessed jointly. Salaries tax contributed some $39 billion (about 12 per cent of total revenue) in 2008-09. Owing to the generous personal allowances under the Hong Kong tax law, only 1.4 million people or 40 per cent of the workforce had to pay salaries tax for the year of assessment 2007-08.

Owners of land or buildings in Hong Kong were charged property tax in 2008-09 at the standard rate of 15 per cent of the actual rent received, less an allowance of 20 per cent for repairs and maintenance. There is a system of provisional payment of tax similar to that for profits tax and salaries tax. Properties owned by a corporation carrying on a business in Hong Kong are exempt from property tax, but profits derived from ownership are chargeable to profits tax. Property tax contributed some $0.8 billion (about 0.3 per cent of total revenue) in 2008-09.

The Stamp Duty Ordinance imposes fixed and ad valorem duties on different classes of documents relating to assignments of immovable property, leases and share transfers. The revenue from stamp duties was some $32.2 billion, about 10 per cent of total revenue, in 2008-09.

A duty is imposed on the gross profits on horse racing and football betting administered by the Hong Kong Jockey Club, and proceeds of Mark Six lotteries. These are the only legal forms of betting in Hong Kong. The duty on horse racing is charged on a sliding scale, starting from the rate of 72.5 per cent on the first $11 billion of the gross profits. The rate progressed to 73 per cent, 73.5 per cent, 74 per cent and 74.5 per cent for each segment of $1 billion of gross profits thereafter, up to 75 per cent on the remainder of gross profits exceeding $15 billion. The duty on football betting is charged at a rate of 50 per cent of gross profits. The yield from betting duty in 2008-09 totalled some $12.6 billion, about 4 per cent of total revenue.

From July 1, 2008, the tax rate for hotel accommodation tax was revised to 0 per cent.

Under the Dutiable Commodities Ordinance, excise duties are levied on only four types of commodities to be consumed locally — hydrocarbon oil, liquor, methyl alcohol and tobacco, irrespective of whether they are manufactured locally or imported. The Customs and Excise Department is responsible for collecting these duties. In 2008-09, the department collected duties of $6.05 billion (about 2 per cent of total revenue).

Duty on tobacco was increased by 50 per cent with effect from February 25, 2009.

The Rating and Valuation Department is responsible for the billing and collection of rates, which are levied on landed properties at a specified percentage of their rateable values. The rates percentage charge in 2009-10 was 5 per cent.

The rateable value of a property is an estimate of its annual open market rent at a designated date. Rateable values are reviewed each year to reflect better prevailing market rents. The current Valuation List took effect on April 1, 2009, with rateable values reflecting the rental values on October 1, 2008.

The Valuation List contained about 2.3 million assessments on March 31, 2009. The revenue from rates in 2008-09 was $7.2 billion, accounting for about 2 per cent of total revenue.

To alleviate people's hardship caused by the financial turmoil, rates concession was given to all ratepayers to offset the rates payable for the four quarters from April 2009 to March 2010, subject to a ceiling of $1,500 per quarter for each rateable tenement. As a result, about 86 per cent of ratepayers were not required to pay any rates, while the remaining 14 per cent of ratepayers had their rates bills reduced by the full concession amount of $1,500, costing the Government about $8.4 billion.

The Rating and Valuation Department is also responsible for the billing and collection of Government rent for properties held under land leases granted on or after May 27, 1985, or on the extension of non-renewable land leases. Government rent is levied at 3 per cent of the rateable value of the property and is adjusted in step with any subsequent changes in the rateable value. There were about 1.8

million assessments in the Government Rent Roll on March 31, 2009. Total government rent collected in 2008-09 was $5.9 billion, or about 2 per cent of total revenue.

Fees and charges for services provided by government departments generated about $10.5 billion, or about 4 per cent of total revenue, in 2008-09. It is government policy that fees, in general, should be set at levels sufficient to recover the full cost of providing the services. Certain essential services are, however, subsidised by the Government or provided free of charge. Government-operated public utilities generated about $3.3 billion, which accounted for about 1 per cent of total revenue; the most important of these, in revenue terms, is provision of water supplies.

The Government also collected $46.6 billion from investments and interest income on the fiscal reserves in 2008-09, amounting to about 15 per cent of the total revenue.

Lastly, some $16.9 billion, or about 5 per cent of the total revenue in 2008-09, was generated from land transactions. All revenue from land transactions is credited to the Capital Works Reserve Fund to help finance the Public Works Programme.

Government Procurement and Supplies Management

Hong Kong, China is a signatory to the World Trade Organisation Agreement on Government Procurement (WTO GPA). Government procurement is undertaken in accordance with the principles of openness, transparency, fairness, public accountability, value for money and non-discrimination. Open tender procedures are widely used. Restricted or single tender procedures may be used under exceptional circumstances where open competitive tendering would not be appropriate, such as in cases involving compatibility with existing equipment, patent or proprietary items. For complex and critical purchases, pre-qualification exercises may be conducted before tendering to ensure that suppliers are technically competent.

Purchases of goods and related services with values above pre-determined thresholds of the WTO GPA are undertaken by the Government Logistics Department (GLD). These purchases are normally made by competitive tendering to ensure that user departments' needs are met at the best possible price, having regard to the life-time cost and reliability of supply. Consideration is given to purchasing environmentally friendly products where available and appropriate. In 2009, the GLD awarded contracts with a total value of $3.78 billion. The goods and related services were procured from 26 different countries or territories (including Hong Kong).

To facilitate sourcing and market research, the GLD maintains and regularly updates the Supplier Lists comprising suppliers both in and outside Hong Kong for different categories of goods and services.

Notices for open and pre-qualification tenders are published in the Government Gazette and local newspapers, and put on the Internet. Suppliers on the relevant Supplier Lists and, in case of procurement covered by WTO GPA, consulates and overseas trade commissions will also be informed where appropriate. Tender documents may be downloaded and tender offers submitted through a prescribed internet system as well.

Websites

Economic Analysis and Business Facilitation Unit, Financial Secretary's Office: www.eabfu.gov.hk
Financial Services and the Treasury Bureau: www.fstb.gov.hk
Government Logistics Department: www.gld.gov.hk