Illegal worker jailed

A Vietnamese illegal worker holding a recognisance form was jailed by Shatin Magistrates' Courts yesterday (February 23).

During operation "Twilight" conducted on February 17, Immigration Department (ImmD) investigators raided a commercial building in Sheung Wan. A Vietnamese woman, aged 38, was arrested while working as a cleaning worker. Upon identity checking, she produced for inspection a recognisance form issued by the ImmD, which prohibits her from taking employment. Further investigation revealed that she was a non-refoulement claimant.

The illegal worker was charged at Shatin Magistrates' Courts yesterday with taking employment after landing in Hong Kong unlawfully and remaining in Hong Kong without the authority of the Director of Immigration or while being a person in respect of whom a removal order or deportation order was in force. She pleaded guilty to the charge and was sentenced to 15 months' imprisonment. Meanwhile, she was also charged with one count of using a forged Hong Kong identity card and one count of being in possession of a forged Hong Kong identity card. She was sentenced to 15 months' and 12 months' imprisonment respectively. All sentences are to run concurrently, making a total of 15 months' imprisonment.

The ImmD spokesman warned that, as stipulated in section 38AA of the Immigration Ordinance, illegal immigrants or people who are the subject of a removal order or a deportation order are prohibited from taking any employment, whether paid or unpaid, or establishing or joining in any business. Offenders are liable upon conviction to a maximum fine of $50,000 and up to three years' imprisonment. The Court of Appeal has issued a guideline ruling that a sentence of 15 months' imprisonment should be applied in such cases. Under the prevailing laws, it is an offence to use or possess a forged Hong Kong identity card or a Hong Kong identity card related to another person. Offenders are liable to prosecution and a maximum penalty of a $100,000 fine and up to 10 years' imprisonment.

The spokesman reiterated that it is a serious offence to employ people who are not lawfully employable. The maximum penalty is imprisonment for three years and a fine of $350,000. The High Court has laid down sentencing guidelines that the employer of an illegal worker should be given an immediate custodial sentence. According to the court sentencing, employers must take all practicable steps to determine whether a person is lawfully employable prior to employment. Apart from inspecting a prospective employee's identity card, the employer has the explicit duty to make enquiries regarding the person and ensure that the answers would not cast any reasonable doubt concerning the lawful employability of the person. The court will not accept failure to do so as a defence in proceedings. It is also an offence if an employer fails to inspect the job seeker's valid travel document if the job seeker does not have a Hong Kong permanent identity card. The maximum penalty for failing to inspect such a document is imprisonment for one year and a fine of $150,000.

Under the existing mechanism, the ImmD will, as a standard procedure, conduct initial screening on vulnerable persons, including illegal workers, illegal immigrants, sex workers and foreign domestic helpers who are arrested during any operation, with a view to ascertaining whether they are trafficking in persons (TIP) victims. When any TIP indicator is revealed in the initial screening, the officers will conduct a full debriefing and identification by using a standardised checklist to ascertain the presence of TIP elements, such as threats and coercion in the recruitment phase and the nature of exploitation. Identified TIP victims will be provided with various forms of support and assistance, including urgent intervention, medical services, counselling, shelter, temporary accommodation and other supporting services. The ImmD calls on TIP victims to report crimes to the relevant departments.

Budget Speech by the Financial Secretary (11)

Public Finance

Deficit Budget

164. As an open economy with a relatively narrow tax base, Hong Kong’s government revenue is susceptible to changes in the economic environment. The ageing population also poses pressure on public expenditure. Though I have great confidence in Hong Kong’s fundamental strengths and long-term prospects, we must, in the face of an economic downturn and the aforesaid challenges, exercise extra prudence in managing public finance.

165. Our fiscal reserves are the fruits of the economic development of Hong Kong and the hard work of our people over the years. They enable us to adopt a deficit budget amid the prevailing economic downturn and launch counter-cyclical measures to support the economy and relieve people’s burden. In the past year, we have increased government expenditure substantially to combat the epidemic and roll out relief measures, which resulted in our fiscal reserves dropping sharply in two years from the equivalent of 23 months of government expenditure to 13 months.

166. Although I forecast an improvement in revenue for the next financial year, I expect that the fiscal deficit will be $101.6 billion, accounting for 3.6 per cent of GDP, due to the counter-cyclical fiscal measures and the continued increase in recurrent expenditure. In other words, Hong Kong will record a deficit for a number of years after achieving a surplus for 15 years. As shown in the Medium Range Forecast (MRF), the Operating Account is projected to be in deficit for five consecutive years. The operating deficit for 2021-22 will be more than $140 billion mainly due to the counter-cyclical measures while the operating deficit for the remaining four years will range

from $22.4 billion to $40.7 billion. The Consolidated Account is also expected to record a deficit for four consecutive years. The above forecast has not yet taken into account any tax rebate or relief measure that the Government may implement in the future.

167. The deficits are mainly caused by the fact that the rise in government expenditure is outpacing the increase in government revenue, especially in terms of recurrent expenditure. Recurrent expenditure of the Government increased from about $150 billion in 1997-98 to about $470 billion in 2020-21, representing a more than three-fold increase. The significant rise in government expenditure in recent years is for enhancing services or investing for the future. However, as emphasised in my last Budget, government expenditure should enter a consolidation period, and the long-term financial commitments should also be commensurate with the increase in revenue.

168. As a number of measures announced in this year’s Budget will have a bearing on the new financial year and the MRF, I would like to offer some explanations here.

169. To optimise the use of fiscal reserves for seeking a better return to meet future needs, the Government set up the Future Fund in 2016 to make longer-term investments for a period of ten years. The investment return of the Fund forms an integral part of public financial resources, and has accumulated a return amounting to nearly $100 billion. While the Government has all along been disclosing the rate of return of the Future Fund, the investment return yet to be brought back has not been reflected under the cash-based government accounts. Starting from 2021-22, I will reflect the cumulative investment return of the Fund in the Operating Account on a progressive basis, with $25 billion brought back in the first year.

170. The 2021-22 Budget has also included $23 billion brought back from the Housing Reserve and the annual proceeds of about $35 billion from the expansion of the Government Green Bond Programme as mentioned earlier. The sums raised under the Government Green Bond Programme will provide funding for green projects under the Capital Works Reserve Fund but will not be used to finance operating expenditure, and hence will not undermine public finance discipline. The issuance of bonds cannot bolster our real financial strength as it ultimately requires the repayment of principal and interest. Nonetheless, the issuance of additional green bonds for financing eligible projects can definitely relieve the Government’s fiscal pressure arising from the need to use existing resources to meet capital expenditure. This is a reasonable and appropriate approach in the light of the current low interest rate environment, and is also conducive to the development of Hong Kong’s bond market.

171. The above measures of bringing back the Future Fund’s investment return and the Housing Reserve and issuing additional green bonds will ensure that our fiscal reserves can be maintained at a relatively robust level despite deficit budgets in the next few years. They would enhance confidence in Hong Kong’s fiscal strength and are conducive to maintaining our financial stability. However, in the long run, the key to maintaining healthy public

finances is to follow the principle of keeping expenditure within the limits of revenue and ensure that the growth of expenditure is commensurate with economic growth. In the face of the challenges of fiscal deficits, we should not only reduce expenditure but also increase revenue.

Reduce Expenditure

172. This year's Budget will continue to roll out a series of measures for supporting individuals and businesses. Last year, Hong Kong's economy was battered by the epidemic, and all sectors of the community were generally affected in varying degrees, particularly the grassroots. Despite the fiscal deficit, I have decided not to reduce our spending in areas related to people's livelihood, especially resources allocated to the three policy areas of education, social welfare and healthcare, in order to safeguard people's livelihood and maintain public confidence. In 2021-22, the recurrent funding for these three policy areas amounts to $302.3 billion in total, accounting for 58 per cent of the Government's total estimated recurrent expenditure and representing an increase of 45 per cent over the provision of $208.2 billion in 2017-18.

173. The Government will set an example by cutting expenditure so as to strengthen fiscal discipline. In 2021-22, we will have zero growth in the civil service establishment. Besides, the Government will implement an expenditure reduction programme by requiring all policy bureaux and departments to reduce expenditure without affecting livelihood-related spending. The objective is to trim recurrent expenditure by one per cent in 2022-23. The estimated savings will be about $3.9 billion. While it seems not too difficult to achieve the one per cent cut in recurrent expenditure, there is limited room for curbing expenses related to personal emoluments which account for about 60 per cent of recurrent expenditure of government departments. We can only achieve the target mainly through savings from the remaining 40 per cent of recurrent expenditure, including major items such as general expenses and subventions. All departments have to undertake critical review, adjust priorities and enhance efficiency in order to achieve the savings target without affecting day-to-day operation and the public services they provide. Many a little makes a mickle.

Increase Revenue

174. As I have pointed out in my last Budget, Hong Kong needs to maintain the development and vibrancy of our economy and identify new areas of growth, with a view to increasing our revenue. I have just elaborated on the long-term positioning of Hong Kong's economy and the strategies for the development of our major sectors, which will help increase government revenue in the long run.

175. Besides, I mentioned last year that we need to consider seeking new revenue sources or revising tax rates, and reducing one-off relief measures progressively. Though raising tax rates can increase revenue in the short run, the choice must be made carefully.

176. Having duly considered the impact on the securities market and our

international competitiveness, we have decided to introduce a bill to raise the rate of Stamp Duty on Stock Transfers, from the current 0.1 per cent to 0.13 per cent of the consideration or value of each transaction payable by buyers and sellers respectively. The Government will continue to spare no efforts in introducing measures to facilitate the development of the securities market, so as to take our financial services sector to the next level.

177. As businesses and individuals are generally under considerable financial pressure amid the prevailing economic environment and the epidemic, I consider that it is not the appropriate time to revise the rates of profits tax and salaries tax, which are our major sources of revenue. Nevertheless, we will keep in view the situation and make adjustments at the appropriate time.

178. During Budget consultations, I received many proposals to introduce new taxes. If we do so, we have to carefully examine the proposals, take all factors into consideration, and earnestly listen to views of various sectors of the community. Fighting the epidemic and reviving the economy are our current priorities. This is not the time to introduce new taxes. Nevertheless, we will carry out related research and make preparation to facilitate in-depth discussions at a suitable time, and forge consensus before we introduce new taxes to increase revenue.

International Tax Co-operation

179. The Organisation for Economic Co-operation and Development (OECD) is drawing up new proposals to address base erosion and profit shifting (BEPS 2.0), which include the introduction of a global minimum tax rate and a digital tax. In mid-2020, the Advisory Panel on BEPS 2.0 commenced work on assessing the impact of the proposals on Hong Kong. At the same time, the Government has been collecting views from stakeholders in the business sector. Taking into account the preliminary views of the Advisory Panel, I would like to outline the direction of the Government’s response measures so that the business sector can have a better grasp of the issue and make early preparation. First, as an international financial and business centre, Hong Kong will actively implement the BEPS 2.0 proposals according to international consensus. Second, as most of the rules under BEPS 2.0 are only applicable to large multinational corporations, we will minimise the impact on local SMEs where possible when drawing up the response measures and strive to maintain the simplicity, certainty and fairness of our tax regime, which are our key advantages. Third, while safeguarding Hong Kong’s taxing rights, we will at the same time minimise the compliance burden on affected corporations. Fourth, we will keep up our efforts in improving Hong Kong’s business environment and enhancing our competitiveness, with a view to attracting multinational corporations to invest and operate in Hong Kong. Once the OECD has finalised the proposal, the Advisory Panel will put forth its recommendations on the specific response measures in its report to me.

Rating System

180. The rating system in Hong Kong has not undergone any major change since

1995. To ensure that our rating system could keep pace with the times, I have requested the FSTB and the Rating and Valuation Department to review whether there is any room for improvement in respect of the rating system. We will review the case for introducing a progressive element to the rating system and that for providing rates concession to owner-occupied properties on a regular basis. Furthermore, we will consider shifting the primary liability for rates payment from the occupier to the owner of a property to reflect that the ultimate responsibility with regard to a property should rest with its owner. The Government will consult the relevant LegCo panel on whether and how to revise the rating system.

(To be continued.)

Budget Speech by the Financial Secretary (10)

Quality Living

148. Apart from large-scale infrastructure projects, I also care about developing a quality city for our citizens, including enhancing the facilities in our highly popular country parks, hiking trails, recreational facilities and harbourfront facilities. I will allocate more resources to the relevant projects.

Improve Country Parks

149. I will set aside $500 million to carry out enhancement works on facilities in some country parks, such as providing recreational elements like additional lookout points, treetop adventure and glamping sites, improving toilet facilities and barbeque and picnic sites, and revitalising some wartime relics by converting them into open museums so as to enrich visitors' experience and enjoyment at the countryside. The new facilities will adopt low-carbon and green design that integrates with its natural surroundings. The needs of all age groups and people with or without physical disabilities will be catered for. The new facilities will be rolled out gradually in the coming two to three years for public enjoyment. Meanwhile, I have also earmarked $55 million for the Tourism Commission to work with the Agriculture, Fisheries and Conservation Department to take forward the second phase of the enhancement programme for ten popular hiking trails in country parks that have potential for tourism in the coming five years, with a view to enriching leisure experience of the public and visitors.

Upgrade Recreational Facilities

150. The Government has launched a five-year plan to modify more than 170

public play spaces managed by the Leisure and Cultural Services Department (LCSD) across the territory since 2019 with a view to providing children's play equipment which incorporate more elements of fun, creativity and challenge. To cater for people's diverse needs for fitness equipment, the LCSD will install some novel outdoor fitness equipment as appropriate when constructing new parks or renovating existing ones, such as the Yat Ming Road Park in North District which is near completion and the Butterfly Beach Park in Tuen Mun.

151. Football has long been one of the most popular sports. The Kai Tak Sports Park, scheduled for completion in 2023, will provide, among others, two main stadiums for hosting both international and local football matches. The Five-year Plan for Sports and Recreational Facilities also includes the construction or reconstruction of 12 football pitches, including the redevelopment of Yuen Long Stadium.

152. I will earmark $318 million to implement a five-year plan for upgrading over 70 football pitches under the management of LCSD, including substantially increasing the number of 5-a-side football pitches meeting international standards, exploring the possibility of expanding the existing football pitches into standard 11-a-side turf pitches and expediting the replacement of artificial turf on football pitches. Relevant national sports associations and their affiliates, district football groups, schools and other organisations will have more up-to-standard football pitches to organise football training programmes and football matches in the future. The general public, in particular young people, will have more opportunities to play football regularly and develop their potential, thereby contributing to the long-term development of football in Hong Kong.

Enhance Harbourfront

153. I have earlier earmarked a total of $6.5 billion for harbourfront enhancement. We have completed six kilometres of harbourfront promenades over the past three years or so for public enjoyment. The 20 kilometres-plus Victoria Harbourfront promenades have now become popular leisure spots. This year, we will seek funding from the LegCo for commencing the construction works of two major projects, namely the Boardwalk underneath the Island Eastern Corridor and the harbourfront park at Eastern Street North in Sai Ying Pun. An incremental approach will continue to be adopted so that the harbourfront sites can be opened as early as possible for public enjoyment.

Strengthen Healthcare System

Healthcare Facilities and Manpower

154. The HA will press ahead with the implementation of the first 10-year Hospital Development Plan (HDP) and the planning of the second 10-year HDP. The HA will review the design of hospital projects under the two 10-year HDPs taking into account the experience in combating COVID-19 and incorporate required provisions for two to three general wards in each selected hospital, so that they can be readily converted into Tier-2 isolation wards when the need arises.

155. To strengthen professional healthcare training, around $1.9 billion has been allocated to the University of Hong Kong, the Chinese University of Hong Kong and the Hong Kong Polytechnic University in the past two financial years for carrying out short-term renovation works and facility enhancement as well as studies and medium and long-term works projects to increase their teaching facilities. The Government will continue to work with the universities to upgrade and increase healthcare-related teaching facilities.

156. Healthcare workers play a pivotal role in our fight against the epidemic. The last Budget earmarked funding to support the HA in providing sufficient manpower for the public healthcare system and easing the pressure on healthcare workers. The measures are being taken forward.

Primary Healthcare

157. Following the commencement of service of the first District Health Centre (DHC) in Kwai Tsing District, I earmarked $650 million recurrent expenditure for setting up DHCs in six other districts last year. Two of them in Sham Shui Po and Wong Tai Sin target to commence operation within the coming two years. Last year, I also allocated about $600 million for setting up “DHC Expresses” in the remaining 11 districts which are expected to commence service progressively within this year.

Development of Chinese Medicine

158. The Government will award the service deed for the Chinese Medicine Hospital in Tseung Kwan O in the middle of this year, and construction works are expected to be completed in 2025. Since last year, the Government has also allocated more resources to the 18 Chinese Medicine Clinics cum Training and Research Centres, with a view to continuously enhancing the remuneration package of and training for Chinese medicine practitioners. Moreover, the Government promotes the development of Chinese medicine in Hong Kong through a dedicated fund of $500 million.

Mental Health Services

159. The Government will provide additional recurrent funding of around $147 million to enhance child and adolescent psychiatric, community psychiatric and psychogeriatric services of the HA, and support the enhanced service of Kwai Chung Hospital upon its redevelopment. It was earlier announced that a sum of $300 million will be used for strengthening support for people in need in the community as well as enhancing public awareness of the importance of mental health.

Caring and Inclusion

160. The Government will provide an extra 1 500 subsidised elderly home care service places this year, involving an annual expenditure of about $150 million. The Government is also taking forward 66 new projects, providing about 8 800 residential care places and about 2 800 subsidised day care service places for the elderly in the coming few years.

161. The Government has substantially increased the resources allocated to

rehabilitation services in recent years. The number of places for on-site pre-school rehabilitation services has been increased by 1 000 to 8 000 in the current school year and is expected to further increase to 10 000 in 2022/23 school year.

162. The Labour Department launched the Racial Diversity Employment Programme last year to enable NGOs to provide one-stop employment services for ethnic minority job seekers through a case management approach. Over 500 ethnic minority job seekers are expected to participate in the first two years of the programme.

163. The revenue for the Lotteries Fund has dropped substantially due to the epidemic. I will make an injection of $1.1 billion to ensure that development projects in respect of much-needed social welfare services premises (particularly major facilities for elderly and rehabilitation services) can proceed as scheduled and that the feasibility studies and detailed design work for such projects will not be affected.

(To be continued.)

LCQ14: Procurement of face masks by the Government

Following is a question by the Hon Chung Kwok-pan and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (February 24):

Question:

In the early days of the outbreak of the Coronavirus Disease 2019 epidemic at the beginning of last year, there was a shortage of face masks (masks) across the globe. The Government Logistics Department (GLD) sourced masks globally, and awarded direct procurement contracts without going through the tendering procedure. It has been reported that the GLD procured a total of 1.12 billion masks last year; quite a number of the delivered masks had quality problems, and a significant quantity of masks have not been delivered although the deadlines have expired. In this connection, will the Government inform this Council:

(1) in respect of those masks which have not been delivered although the deadlines have expired, of (i) their quantity, (ii) the originally scheduled and latest anticipated delivery dates, and (iii) the reasons for their not being delivered although the deadlines have expired (set out in a table by procurement contract number and name of supplier); the average unit price of such masks, the total amount of deposits involved, and the total amount of

remaining payments; whether the GLD has requested the suppliers concerned to return the deposits or make compensation; and

(2) of the quantity of masks with quality problems, with a breakdown by place of origin, name of manufacturer and type of quality problems (e.g. bearing false trade descriptions, and bacteria counts exceeding limits); how the GLD uncovered that such masks had quality problems; the quantity of such masks that had been distributed to various government departments before quality problems were uncovered, the disposal methods for the undistributed masks, and the follow-up actions taken by the GLD against the suppliers concerned?

Reply:

President,

Our reply to the Hon Chung Kwok-pan's question is as follows:

(1) Amongst the masks procured by the Government Logistics Department (GLD) in 2020, excluding those rescinded contracts, there are 400 000 masks of overdue delivery concerning two local suppliers as listed in the following table. The relevant contracts are for the supply of 2.6 million small-sized masks with an average unit price of about $0.65, of which 2.2 million masks have already been delivered to the GLD. For the remaining 400 000 masks, the suppliers indicated that the delivery of these masks had to be postponed due to export restrictions at the place of manufacture. Details are set out in the following table. The Government is not required to pay any deposit or advance payment under the contracts. The GLD will closely monitor the delivery of the masks concerned.

Contract number	Name of supplier	No. of masks of overdue delivery (pieces)	Delivery date
L/M (538) to GLDPA/1-90	China International Import & Export Company Limited	300 000	Original: October 2020 Latest estimation: March 2021
L/M (581) to GLDPA/1-90	China Resources Textiles Company Limited	100 000	Original: November 2020 Latest estimation: March 2021

(2) As at end December 2020, the GLD has identified that around 83.7 million masks might be problematic. Details are as follows:

	Quality Problems	Not All Originated From the Purported Place of Manufacture	Suspected False Trade Description
How the problems arose	Through random inspections and laboratory tests arranged by the GLD	The GLD learnt from a newspaper report that the supplier concerned had allegedly re-packaged masks from another place of manufacture as masks produced in the place specified in the contract. After enquiries with the supplier concerned, the GLD suspected that the place of origin of the masks delivered by the supplier was not the same as the one specified in the contract and reported the case to the Customs and Excise Department (C&ED)	Noting the C&ED's investigation, the GLD suspected that the supplier concerned had submitted false documents and referred the matter to the Police for follow-up
Quantity involved (pieces)	Around 45 million	Around 32 million	Around 6.7 million
Place of origin	Mainland, Japan, India, Russia, Turkey, Kazakhstan, Malaysia, Indonesia, Sri Lanka, the United States of America, Ireland, Dubai and Germany	Japan (purported by the supplier)	Mainland
Number of masks distributed to Government departments	Around 3.27 million	Not distributed	Around 3.12 million
Number of masks used by Government departments	Around 3.21 million	Not used	Around 820 000

Disposal means for the unused masks	The GLD had informed relevant departments to cease using the masks and return the remaining stock to the GLD for follow-up	The masks are temporarily kept by the GLD pending action by the relevant law enforcement department	The GLD had informed relevant departments to cease using the masks, and had passed the undistributed masks and the unused masks from relevant departments to the C&ED for action
Follow-up action taken by the GLD against the suppliers	The GLD is following up with the suppliers to request replacement/ refund for the whole batch of masks	The GLD has referred the cases to relevant law enforcement agents and will render full cooperation on their evidence collection and investigation work. The GLD has rescinded the procurement contracts concerned and is seeking to recover all losses and compensation from the suppliers concerned	

To avoid compromising negotiations or law enforcement work and causing implications to any possible litigations, the GLD is not in a position to disclose the details of individual contracts and information about the suppliers concerned.

LCQ4: Management of Tracker Fund of Hong Kong

Following is a question by the Hon Christopher Cheung and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (February 24):

Question:

State Street Global Advisors Asia Limited (SSGA), the manager of the Tracker Fund of Hong Kong (TraHK), issued a notice on the 11th of last month to the unitholders of TraHK stating that, as affected by the executive order signed by the President of the United States, TraHK would not make any new investments in those constituent companies of the Hang Seng Index which were sanctioned entities (the companies concerned) with immediate effect (the decision). Two days later, SSGA issued another notice stating that TraHK would resume investments in the companies concerned on the next day. Some investors consider that by contradicting itself within a short period of time and acting recklessly, SSGA has made people lose confidence in its capability to manage TraHK. In this connection, will the Government inform this Council:

(1) as the Government stated in response to the incident that the decision "did not bring any material impact on the investors of TraHK", of the justifications for such a statement;

(2) whether it has reviewed if SSGA's making the decision constitutes an act of misconduct and has violated the relevant codes/professional conduct; if it has reviewed and the outcome is in the affirmative, whether it will request the Supervisory Committee of TraHK to replace the manager, so as to ensure that TraHK is managed effectively; if the review outcome is in the negative, of the justifications for that; and

(3) as the Government indicated early this month that the Hong Kong Monetary Authority was closely following up the incident with the Supervisory Committee of TraHK and SSGA, of the progress of the follow-up work?

Reply:

President,

State Street Global Advisors Asia Limited (SSGA) announced on January 11, 2021 that the Tracker Fund of Hong Kong (TraHK) would, with effect from the same date, not make any new investments in the Hang Seng Index constituent stocks that were sanctioned by the United States (US) and that TraHK would no longer be suitable for US person to invest. Subsequently, the company announced on January 13, 2021 that TraHK would resume investment in the sanctioned Hang Seng Index constituent stocks.

Such announcements have given rise to unnecessary market chaos. The Government has earlier expressed deep concern over the situation and immediately requested the Hong Kong Monetary Authority (HKMA) and the Supervisory Committee of TraHK to seriously follow up on the incident. Having consulted the Securities and Futures Commission (SFC), the HKMA and the Mandatory Provident Fund Schemes Authority (MPFA), the Government's reply to the three parts of the question is as follows:

(1) According to the prospectus of TraHK, "TraHK's investment objective is to provide investment results that closely correspond to the performance of the Hang Seng Index (Index) … The Manager seeks to achieve TraHK's investment objectives by investing all, or substantially all, of TraHK's assets in shares in the constituent companies of the Index in substantially the same weightings as they appear in the Index …". If there is any significant deviation between TraHK's portfolio and the composition and weighting of the Index, the manager will, having considered the transaction costs and the impact, if any, on the market, adjust the TraHK's portfolio when it considers appropriate. Under the "risk disclosure" part of the prospectus, it is also suggested that TraHK's return may deviate from that of the Index due to the tracking strategy adopted by the Manager.

TraHK is an exchange-traded fund which currently invests in 52 constituent stocks of the Hang Seng Index. According to the information provided by the regulators, the sanctioned entities which SSGA has earlier announced that it would not make further investments in accounted for around 2.6 per cent of the Hang Seng Index. The tracking error recorded during January 11 to January 13, 2021 was around one basis point each day.

Investors who participate in the trading of TraHK generally expect that the fund can closely resemble the performance of the Hang Seng Index. The Government considers that the hasty announcement by SSGA about its investment decision, and that such decision was then altered within a short period of time have inevitably caused confusion to the public. The Government considers the situation highly unsatisfactory and would take follow-up actions seriously.

(2) and (3) The SFC and the HKMA have, as soon as they were informed of such investment decision, contacted the manager to understand the justifications and specific arrangements of its decision. Since SSGA is a licensed corporation regulated by the SFC, it has to comply with the Fund Manager Code of Conduct (the Code). The Code has prescribed certain restrictions and requirements for fund managers in relation to investment management, including making adequate disclosure of information (as well as any material changes to the information) on the fund which is necessary to enable investors to make informed decisions about their investment in the fund.

The SFC has maintained regulatory communication with SSGA, and has urged the company to comply with the Code and make all decisions in an honest, fair and diligent manner taking into account investor protection and market integrity. The enquiry about the incident by the SFC is still ongoing. The SFC will continue to closely monitor the situation to ensure that the market would operate in an orderly manner and that investors would be adequately protected.

Separately, once the HKMA and the Supervisory Committee of TraHK were informed of the decision of the manager, they have immediately got in touch with the company and requested it to explain the reasons of the decision, adopt measures to mitigate the impact to investors, and review its decision. Since SSGA announced resumption of relevant investment on January 13, 2021, the HKMA has continued to closely follow up with the Supervisory Committee of TraHK and that company. The follow-up work by the Supervisory Committee of TraHK is still ongoing.

As for the Mandatory Provident Fund (MPF) schemes, there are currently three index-tracking constituent funds (constituted respectively under three MPF schemes) which appoint SSGA as investment manager and invest wholly in TraHK. The total net asset value of these three funds amounts to HK$3.6 billion or 0.32 per cent of the total MPF scheme assets. The MPFA has requested relevant trustees to review whether SSGA, as their MPF investment manager, has continued to perform its functions and invested in accordance with the fund's original investment objectives. If the relevant trustees consider that SSGA is no longer suitable to act as an investment manager, they should make necessary arrangements and adopt risk management measures to protect the interests of MPF scheme members. The MPFA will continue to monitor the situation and maintain close communication with trustees.