



Six-monthly Report on Hong Kong

1 July – 31 December 2007

*Presented to Parliament
by the Secretary of State for Foreign and Commonwealth Affairs
by Command of Her Majesty
March 2008*

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FOREWORD

This is the twenty-second in a series of reports to Parliament on the implementation of the Sino-British Joint Declaration on the Question of Hong Kong. It covers the period from 1 July to 31 December 2007.

The reporting period opened on 1 July 2007 with the 10th Anniversary of the Handover of Hong Kong, which we looked forward to in our last report. The people of Hong Kong, China and Britain rightly celebrated the success of the historic and unprecedented arrangements that established the Special Administrative Region (SAR) of Hong Kong, of which all can be proud.

Politics in Hong Kong were lively during the reporting period. Two elections were contested: for the District Councils in November, and the by-election for the vacant Legislative Council seat on Hong Kong Island in December. By international standards the turnout for all elections in Hong Kong remains high. Hong Kong people have demonstrated their engagement and interest in electing the people who run the SAR.

To take forward constitutional reform the SAR Government issued a Green Paper on Constitutional Development. Following a three-month public consultation on the Green Paper, the Chief Executive reported the findings to the Central People's Government (CPG). In his report the Chief Executive recognised that the majority of Hong Kong people wished to see universal suffrage in 2012. Following consideration of the Chief Executive's report, the National People's Congress Standing Committee (NPCSC) issued a Decision clearly pointing towards universal suffrage for the Chief Executive election in 2017 and the Legislative Council thereafter. I made a statement on the same day, expressing disappointment that the NPCSC decision ruled out universal suffrage in 2012 despite this being the wish of the majority of Hong Kong's people; and expressing the hope that all parties concerned would now engage in meaningful dialogue, and that the Hong Kong Government would put forward constructive proposals to make progress in 2012, in order to build greater democracy, and achieve universal suffrage for the Chief Executive's election in 2017, and the Legislative Council in 2020 - as envisaged by the NPCSC decision.

When I recently visited Hong Kong I was struck by its continued economic dynamism as it develops its role as a centre of services for the region, and by the optimism, energy and political maturity of its people. Hong Kong is at a crucial stage in its political development. I will continue to watch developments closely and to report back to Parliament, in line with the British Government's commitments to the people of Hong Kong in the Sino-British Joint Declaration.



David Miliband
Secretary of State
For Foreign & Commonwealth Affairs

SIX MONTHLY REPORT ON THE IMPLEMENTATION OF THE JOINT DECLARATION ON HONG KONG

INTRODUCTION

This series of six-monthly reports reflects the British Government's continuing interest in developments in Hong Kong and our commitment to the faithful implementation of the Sino-British Joint Declaration on Hong Kong. In this, the Chinese Government undertook that the Hong Kong Special Administrative Region (SAR) would enjoy a high degree of autonomy except in foreign and defence affairs, and that the continuation of Hong Kong's social and economic systems, lifestyles, rights and freedoms would be guaranteed.

CONSTITUTIONAL ARRANGEMENTS

10th Anniversary of the handover of Hong Kong

1. Hu Jintao, President of the People's Republic of China (PRC), visited Hong Kong from 29 June to 1 July to mark the 10th Anniversary of the handover of sovereignty of Hong Kong from Britain to China. He had meetings with Chief Executive Donald Tsang, Principal Officials of the SAR Government, former Chief Executive C H Tung and Macau Chief Executive Edmund Ho. He reviewed the People's Liberation Army troops garrisoned in Hong Kong and opened the new western border crossing between Shenzhen and Hong Kong.
2. On 1 July the Foreign Secretary issued a statement:

Today, the UK joins Hong Kong in celebrating the city's remarkable success since 1997. This is a real testament to the arrangements which Britain and China negotiated before the handover, and to the people of Hong Kong who have worked to make a reality of "One Country, Two Systems".

Hong Kong is already one of the 21st Century's great cities. With its talented, optimistic and industrious people, vibrant society, free media, and fair and transparent systems of government and law, it is moving towards an even greater future. We hope that Hong Kong will continue to prosper in the next ten years and beyond, that its Government can make significant progress in the coming months towards introducing a system of universal suffrage as soon as possible, and that the UK and Hong Kong will further develop our already close partnership.

Hong Kong SAR Government

3. On 1 July President Hu presided over the inauguration ceremony for the third term SAR Government in which the Chief Executive Donald Tsang, Principal Officials and members of the Executive Council took their oaths of office. President Hu stressed that Hong Kong should fully implement "One Country, Two Systems", comply with the Basic Law and uphold social harmony and stability. Mr Tsang gave a speech in which he committed to build a more open government, to develop a more democratic system, to promote a new mode of economic development by expanding the financial sector and increasing investment in infrastructure, to create a better quality of life and to promote a new caring culture.

4. On 10 October the Chief Executive delivered the first Policy Address of his new term to the Legislative Council (LegCo). The speech, entitled “A New Direction for Hong Kong”, outlined the SAR Government’s policy direction for Mr Tsang’s coming five-year term. Mr Tsang defined his guiding principle as “Progressive Development” which included ‘promoting economic development through infrastructure projects’, ‘promoting community development through revitalisation’, and ‘promoting social harmony under the concept of helping people to help themselves’.
5. On 17 October the Secretary for Constitutional & Mainland Affairs, Stephen Lam, announced the release of the Report on the Further Development of the Political Appointment System following a public consultation in 2006. In the report the SAR Government proposed creating two layers of politically appointed officials, 24 positions, to support Bureau Secretaries in their political work: Deputy Directors of Bureau and Political Assistants to Directors of Bureau. The Legislative Council Finance Committee approved funding for the proposals on 14 December.

Constitutional development

6. On 1 July the annual march for democracy took place. The organisers claimed that 68,000 people took part in the event; the police put the figure at 20,000; and the University of Hong Kong’s Public Opinion Programme estimated almost 24,000. Cardinal Joseph Zen, Apple Daily founder Jimmy Lai and former Chief Secretary Anson Chan took part. Along with calls for universal suffrage, the marchers also campaigned to save the public broadcaster Radio Television Hong Kong (RTHK), for the Chinese authorities to release journalist Ching Cheong and for the SAR Government to uphold academic freedom.
7. On 11 July the SAR Government released the Green Paper on Constitutional Development. It summarised models and timeframes discussed by the Commission on Strategic Development for reforming the methods to elect the Chief Executive and Legislative Council in order to achieve the Basic Law’s ultimate aim of universal suffrage. Members of the public were asked to submit their views on their preferred models within three months.
8. Lord Malloch-Brown issued the following statement on 13 July:

We welcome this early move by the Special Administrative Region Government to issue its green paper with options for constitutional reform.

We have long expressed our support for progress towards full universal suffrage in line with the wishes of the people of Hong Kong. We hope that the SARG will take full and careful account of the views of the people and come forward with appropriate proposals once the consultation period is complete.

9. The Green Paper identified four steps in a future election of the Chief Executive by universal suffrage:
 - a broadly representative nominating committee should be formed;
 - the committee should nominate candidates for election in accordance with democratic procedures;

- candidates should be elected by universal suffrage; and
 - the Chief Executive must be appointed by the Central People's Government.
10. The Green Paper identified three key areas for consideration when moving the election of the Chief Executive towards a system of universal suffrage:
- the composition and size of the nominating committee;
 - the method of nomination; and
 - the method for selecting the Chief Executive by universal suffrage election (i.e. whether there should be one or more rounds of one-person-one-vote).

The Green Paper presented various possible options in each of these three areas.

11. The Green Paper also set out three options for reforming the method to elect the Legislative Council:
- Directly electing all 60 legislators, either all through geographical constituencies, or with some through a party list system;
 - Retaining the 30 functional constituencies and either expanding the franchise so that all voters have a vote in a functional constituency (i.e. in addition to their vote to elect their geographically-based representative); or requiring functional constituencies to nominate candidates to be put to a universal vote; and
 - Reforming the 30 functional constituencies to seats elected by District Councillors.
12. In terms of the timeframe for reform, the Green Paper asked for the public's views on whether universal suffrage should be implemented in 2012 or later, or in stages up to 2024. It proposed implementing reform to the method to elect the Chief Executive prior to doing so for the Legislative Council
13. Lord Malloch-Brown made the following comment during his visit to Hong Kong on 27-28 August:

There is a need to have a clear plan with dates, and I hope that would emerge from this consultation around the Green Paper.

14. On 7 October 5,580 people joined a rally to raise umbrellas in the shape of 2-0-1-2 in support of universal suffrage for the Chief Executive and Legislative Council in 2012. Organisers claimed that 7,000 joined the following march in support of early moves towards universal suffrage. (Police said the rally and the march drew crowds of 4,450 and 4,600 respectively.)
15. The public consultation on the Green Paper on Constitutional Development closed on 10 October. The SAR Government received more than 29,500 submissions (12,000 of which the SAR Government categorised as "standard responses"). A spokesperson said: "After the close of public consultation, we will assess according to the views received within the public consultation period whether differences in opinions have narrowed sufficiently to provide a basis for consensus on implementation of universal suffrage to be formed. After summarising the views received, the Government will submit a report to the Central Authorities to reflect the views gathered".

16. On 12 October in an interview with RTHK the Chief Executive, Donald Tsang, argued that social stability should not be sacrificed for democratic development, citing the Cultural Revolution as an example: “People can go to the extreme like what we saw during the Cultural Revolution. For instance, in China, when people take everything into their own hands, then you cannot govern the place.” He was broadly criticised for the remarks and on 13 October Mr Tsang issued a statement: “I am very sorry that I made an inappropriate remark concerning the Cultural Revolution during a radio interview yesterday, and I wish to retract that remark. Hong Kong people treasure democracy and hope to implement universal suffrage as soon as possible. I share the same aspirations. I reiterate that I will honour my pledge in the Policy Address to do my utmost in resolving the question of universal suffrage in Hong Kong during my current term.”
17. On 12 December the Chief Secretary, Henry Tang, announced to LegCo that the Chief Executive had submitted a report to the National People’s Congress (NPC) Standing Committee on the outcome of the public consultation on the Green Paper on Constitutional Development. In the report Mr Tsang summarised the views of 18,200 submissions and 150,000 signatures. He stated that the community generally expected that universal suffrage could be attained as early as possible and that a timetable could be determined early so the course for Hong Kong’s constitutional development could be set. Mr Tsang stated that a consensus had begun to emerge on implementing universal suffrage for the Chief Executive first, to be followed by universal suffrage for the Legislative Council. However, he also said that: “Opinion polls have shown that implementing universal suffrage for the Chief Executive election first in 2012 is the expectation of more than half of the public. This expectation should be taken seriously and given consideration. At the same time, implementing universal suffrage for the Chief Executive election first by no later than 2017 would stand a better chance of being accepted by the majority in our community.” He concluded the report by asking the NPC Standing Committee to confirm that the methods for selecting the Chief Executive and for forming the Legislative Council in 2012 could be amended.
18. Following lobbying from pan-democratic legislators, 21 legislators met the Chief Executive on 20 December at Government House to set out their views on his report to the NPC Standing Committee. After the meeting, Mr Tsang said he had referred a letter from the legislators to the NPC Standing Committee expressing their view that the people of Hong Kong wanted full universal suffrage to elect the Chief Executive and Legislature in 2012.
19. On 29 December the Standing Committee of the NPC issued a Decision. The Standing Committee ruled that the Chief Executive could be elected by universal suffrage no earlier than 2017 and that the method by which he is elected may be amended in 2012. The Standing Committee stated that in selecting the Chief Executive by universal suffrage, “a broadly representative nominating committee shall be formed. The nominating committee may be formed with reference to the current provisions regarding the Election Committee in Annex I to the Hong Kong Basic Law. The nominating committee shall in accordance with democratic procedures nominate a certain number of candidates for the office of the Chief Executive, who is to be elected through universal suffrage by all registered electors of the Hong Kong SAR, and to be appointed by the Central People’s Government.”

20. With regard to LegCo, the Standing Committee ruled that once the Chief Executive was elected by universal suffrage, the legislature could be elected by universal suffrage i.e. no earlier than 2020. The Standing Committee confirmed that the method to elect the legislature could be amended in 2012 but that: “The half-and-half ratio between members returned by functional constituencies and members returned by geographical constituencies through direct elections shall remain unchanged. The procedures for voting on bills and motions in the Legislative Council shall remain unchanged”. The Decision also stated that for any reform to the method to elect the Chief Executive or Legislature, the Chief Executive must first submit a report to the NPC Standing Committee.
21. The Chief Executive welcomed the Decision: “The timetable for attaining universal suffrage has been set. Hong Kong is entering a most important chapter in its constitutional history. We should all try to apply fresh thinking to secure implementation of universal suffrage for the Chief Executive first, in 2017, to be followed by that for the Legislative Council in 2020.” With regards to the methods to elect the Chief Executive and Legislature in 2012, the Chief Executive said he would ask the Commission on Strategic Development to consider the most appropriate electoral methods. He said: “After the Commission on Strategic Development has completed discussions around mid-2008, I hope that by the fourth quarter of 2008 the Hong Kong SAR Government will have formulated options for the two elections in 2012. We will then consult the public on these options as soon as possible. Our aim is to settle the two electoral methods for 2012 within the tenure of the third-term HKSAR Government. We hope that this will lay a solid foundation for attaining universal suffrage for the Chief Executive in 2017, and for the Legislative Council in 2020.”
22. On 29 December, NPC Standing Committee Deputy Secretary General Qiao Xiaoyang attended two fora on Hong Kong’s constitutional development. The NPCSC Decision was welcomed by the Democratic Alliance for the Betterment of Hong Kong (DAB) and the Liberal Party. The pan-democratic parties criticised the Decision for ruling out universal suffrage in 2012 and for deviating from public opinion.
23. The Foreign Secretary issued the following statement on 29 December

Today’s announcement by the National People’s Congress that there will not be universal suffrage in the 2012 Hong Kong elections will be a disappointment for all those who want to see Hong Kong move to full democracy as soon as possible.

As the Hong Kong SAR Government has itself recognised, this includes the majority of Hong Kong’s own people who have clearly said that they wish to elect the Chief Executive by universal suffrage in 2012.

I remain of the view that both China and Hong Kong’s interests will be best served by allowing Hong Kong to move to full democracy as soon as possible. The National People’s Congress’ statement clearly points towards universal suffrage for the Chief Executive election in 2017 and the Legislative Council thereafter. I hope that all parties concerned can engage in meaningful dialogue to allow this, and that the Hong Kong authorities will now put forward constructive proposals making progress in 2012 to achieve this goal.

Legislators

24. On 8 August the Democratic Alliance for the Betterment and Progress of Hong Kong (DAB) announced that the Chairman of the party, Ma Lik, had died in hospital in Guangzhou of a long-term illness. British Consul-General Stephen Bradley said: "I was very saddened to hear of the death of Ma Lik this afternoon. He gave many years of public service to Hong Kong: as a teacher, as an elected representative and as leader of his party. He will be missed by the community and by all of us who knew him personally."
25. On 17 October Martin Lee, a Democratic Party Legislator, wrote in the Wall Street Journal: "I would encourage President Bush to take a broader vision of the possibilities for the Beijing Games. He should use the next ten months to press for a significant improvement of basic human rights in my country, including press, assembly and religious freedoms... In the US and elsewhere, there are campaigns to boycott the Beijing Games over the Chinese government's trade with and support for regimes in Sudan and Burma. As a Chinese person, I would encourage backers of these efforts to consider the positive effects Olympic exposure could still have in China, including scrutiny by the world's journalists." His comments were criticised by many in Hong Kong in which Mr Lee was depicted as inviting 'external forces' to politicise the Olympic Games. Tsang Hin-chi, a member of the NPC Standing Committee, called Mr Lee a "traitor" who invited foreign interference.
26. On 2 November the Democratic Party filed complaints with the Independent Commission Against Corruption and the Registration and Electoral Office following the distribution of leaflets by the DAB criticising Mr Lee for his comments in The Wall Street Journal. The Democratic Party's complaint was that the contents of the leaflet were inaccurate and were being used during the District Council election campaign.
27. Twelve elected legislators in Hong Kong continue to be prevented from travelling freely to Mainland China. As we said in our last report, **the inability of some legislators to travel to the Mainland is a barrier to open dialogue between the three parties - the Chief Executive, the Legislature and the NPC Standing Committee. The Basic Law, as interpreted by the NPC Standing Committee, requires these three parties to agree in order for progress to be made in attaining the ultimate aim of the Basic Law, the election of the Legislature and the Chief Executive by universal suffrage.**

District Council Elections: 18 November

28. Hong Kong has 18 District Councils with a total of 534 seats. Of these 405 are directly elected, 102 are appointed by the Chief Executive and 27 are filled by the Rural Committee Chairmen in the New Territories.
29. On 18 November 1.15 million voters (38.83% of registered voters) cast their votes in the District Council Election. This was the highest number to vote in a local election in Hong Kong. 41 candidates were elected unopposed. 866 candidates fought for the remaining 364 seats. The pro-government parties dominated the election with the DAB winning 115 seats (up from 62 in 2003) and the Liberal Party 14. The pan-democratic parties, who co-ordinated the seats in which they ran, won a total of 90 seats (the Democratic Party won 59, Association for Democracy and People's Livelihood (ADPL) 17, Civic Party 8 and the League of Social Democrats 6). The new District Councils started their four-year term on 1 January 2008.

30. On 14 December the Chief Executive appointed a further 102 people to sit on the District Councils. **We expressed our concern in 1999 at the introduction of appointed seats on the District Councils, which seemed to us to be at odds with the SAR Government's commitment to wider universal suffrage. We hope that this system will be reformed in line with democratic principles in due course as part of wider political reform.**

Hong Kong Island Legislative Council By-Election: 2 December

31. The Electoral Affairs Commission announced on 28 August that a Legislative Council by-election would be held on Sunday 2 December to fill the vacancy in the Hong Kong Island geographical constituency caused by the death of Ma Lik, Chairman of the DAB.
32. On 11 September the former Chief Secretary, Mrs Anson Chan, announced that she would stand as a candidate in the by-election. On 30 September the pan-democratic camp endorsed Anson Chan as their official candidate. This followed a televised debate with a rival aspirant from the League of Social Democrats (LSD), and an electoral college involving all shades of pro-democracy opinion as well as an opinion poll run by the Hong Kong University Public Opinion Programme. Her platform focussed on universal suffrage for both the Chief Executive and Legislature in 2012 and a review of the Political Appointment System in order to improve governance. She also campaigned on reducing the wealth gap and providing quality education.
33. On 27 September former Secretary for Security and Chairperson of the Savantas Policy Institute, Regina Ip, formally announced her candidacy for the by-election. She was supported by the DAB and the Liberal Party. She campaigned on a platform of allowing more schools to teach in English, developing hi-tech clusters at the Hong Kong boundary and improving air quality. On constitutional reform, she proposed implementing universal suffrage for the legislature by 2016 should consensus not be reached in time for 2012. Her proposal to reform the method to elect the Chief Executive on a similar time frame involved requiring candidates to have the support of at least 10% of each of the four sectors in an enlarged nominating committee before being put to a popular vote.
34. On 2 November the Returning Officer for the Legislative Council by-election announced that following the end of the nomination period he had received a total of eight valid nominations: Anson Chan, Regina Ip, barrister Lee Wing-kin, company directors Tandon Lal Chaing and Ling Wai-wan, worker Lau Yuk-shing, solicitor Siu See-kong and volunteer Ho Loy.
35. On 8 November the eight candidates for the by-election took part in a live televised debate hosted by Hong Kong University. Candidates answered questions from the 500-member audience on their platforms over the course of 90 minutes. All candidates also participated in a second televised debate on 26 November, which was held in Chater Garden.
36. 52% of the 618,350 registered voters cast a vote in the by-election which was held on 2 December. Mrs Anson Chan was elected as Legislator with 55% of the vote (175,874 votes). Mrs Regina Ip won 43% (137,550 votes). Of the remaining five candidates Tandon Tal Chiang, who ran with a platform representing transport workers, got the most votes at 3,518. There were a number of reports of incidents involving minor violence and the tearing down of election posters which marred the generally open and lively campaign.

37. In her victory speech, Anson Chan said: “The result of this election indicates that Hong Kong people are anxious to push forward on democracy. We think we’re ready to implement universal suffrage in 2012.”
38. **We believe that this well-run election dispelled any doubt that Hong Kong is ready for full democracy.**

Central People’s Government

39. On 15 October President Hu Jintao, commenting on Hong Kong and Macau at the Communist Party’s 17th annual congress, said that the country would adhere to the principle of “One Country, Two Systems” and would fully support the Governments of the Special Administrative Regions (SARs). He also said that China would firmly oppose attempts by any external force to interfere in the affairs of the SARs.
40. The Chief Executive, Donald Tsang, visited Beijing from 21 to 23 November. During the visit he met President Hu and Premier Wen Jiabao. The Hong Kong SAR Government reported that President Hu had praised Hong Kong’s achievements in economic development and improving people’s livelihood, and believed the Special Administrative Region would continue to fare even better. The SAR Government also reported that Premier Wen had called on Hong Kong to boost its efforts in innovation, knowledge, talented people and the environment.

LEGAL AND JUDICIAL

Interception and communication

41. On 31 October the Security Bureau responded to and released the June 2007 annual report by the Commissioner on Interception of Communications and Surveillance, Justice Woo Kwok-hing. This was the first report following the passage of the Interception of Communications and Surveillance Ordinance in August 2006. The objective of the Ordinance is to prohibit public officers from directly or indirectly carrying out any interception of communications and any covert surveillance unless it is done pursuant to a prescribed authorisation. The Commissioner concluded that the compliance by law enforcement agencies with the requirements of the Ordinance had been satisfactory and there had not been any deliberate breach of the Ordinance. The Commissioner made a number of recommendations to better carry out the Ordinance and its Code of Practice, many of which have been implemented by the Security Bureau.

BASIC RIGHTS AND FREEDOMS

Journalism, media and RTHK

42. In July, the Hong Kong Journalists Association (HKJA) published its annual report for 2007 entitled “Shrinking Margins: Freedom of Expression Since 1997”. The report concluded that: “the room for dissenting voices is narrowing”. HKJA argued that this was borne out by the survey conducted by Reporters Without Borders which placed Hong Kong 58th out of 168 jurisdictions in its press freedom ranking for 2006 compared to 18th in 2002. Reporters Without Borders noted that: “Hong Kong continues to enjoy real press freedom but political

and financial pressures from Beijing are constantly increasing.” HKJA also cited a survey by Freedom House, which placed Hong Kong at number 66 in its press freedom list. As we said in our last report, **freedom of expression is essential to the development of a modern, stable and sustainable society. We trust that Hong Kong’s diverse and open media, one of its main strengths, will be protected.**

Academic freedom

43. On 17 September Michael Suen, Secretary for Education, announced that the SAR Government had applied for leave for a judicial review on part of the findings of the report of the Commission of Inquiry on Allegations relating to the Hong Kong Institute of Education (HKIED) (as reported in the last six-monthly report). The Commission’s report concluded that direct contact of a senior government official with academic members to express their opinion on or to protest against the critical views of the members, without threat of sanction or reprisal, would constitute improper interference with academic freedom. Mr Suen said: “Legal advice has [indicated] that the findings of the commission are wrong in law and in principle. Having sought the advice of the Department of Justice, the Education Bureau considers it necessary to launch a judicial review on that part of the findings.” Mr Suen said it was established practice for the Government to consult different stakeholders in the formulation of policies to balance the needs of different social sectors and ensure policies work in the overall community interest.
44. The contract of the former President of HKIED, Paul Morris, was not renewed in September. On 27 September the Council of HKIED appointed Professor Anthony B L Cheung as its next President. Professor Cheung is a Professor in the Department of Public and Social Administration at the City University of Hong Kong. He has also served as a member of the Chief Executive’s Executive Council since 2005.

ECONOMY, TRADE AND THE ENVIRONMENT

45. The Hong Kong economy continued to prosper over the reporting period. In the third quarter of 2007, the Hong Kong SAR Government reported GDP growth of 6.2% year-on-year. This had moderated from the earlier year-on-year growth rate of 6.9% for Q2. Unemployment fell to 4.1% across the reporting period, the lowest figure for 9 years. Inflation stood at 3.8% in December 2007.
46. The stock market continued to perform strongly, with the Hang Seng Index rising by over 30% between August and October, hitting a peak close of 31,638 on 30 October. This followed the initial announcement on 20 August, by China’s State Administration of Foreign Exchange (SAFE), of tentative plans for a so-called ‘through-train’ share purchase scheme for Mainland residents. On 3 November, Premier Wen announced a set of conditions that needed to be met before the scheme could be rolled-out. Secretary for Financial Services and the Treasury Professor KC Chan said that it would take time for the Central Government to finalise arrangements since the scheme involved many aspects including risk management and system protection.
47. Between 30 October and 7 November, Hong Kong hosted a visiting mission from the International Monetary Fund (IMF). The mission reported favourably on the Hong Kong SAR Government’s management of the economy, the flexibility of domestic markets and continued

integration with the Mainland. The mission reiterated its support for the Linked Exchange Rate System, and noted the Government's fiscal position was in line with moderating growth prospects. Over the medium term, the IMF staff saw challenges stemming from fiscal revenue volatility and demographic pressures.

48. During his Policy Address, delivered on 10 October, the Chief Executive announced a single percentage point cut in both salaries tax and profits tax, to take effect from April 2008. Analysts predicted this would continue to boost domestic demand, help support small and medium-sized enterprises and increase Hong Kong's attractiveness as a business centre when compared to other Asian cities. The Policy Address also announced plans to accelerate the implementation of ten infrastructure projects, estimated to contribute HK\$100bn to the economy and create a quarter of a million new jobs.
49. On 21 September the Hong Kong SAR Government and the Hong Kong Trade Development Council hosted the Asian Financial Forum. This event included policy-makers and attracted financial services practitioners from across the region to discuss the latest market developments. The Chief Executive, Donald Tsang, used the opportunity to restate Hong Kong's aspirations to be a global financial centre, although he warned of increasing volatility in financial markets. Earlier in the month (7 September) the Financial Secretary, John Tsang, announced that the SAR Government had extended its stake in Hong Kong Exchanges and Clearing to 5.88%, allowing it to contribute to the strategic development of the exchange.
50. Over the reporting period, the SAR Government has shown interest in developing Hong Kong as a market for Islamic finance in Asia. In July, the Finance Secretary, John Tsang, said that Hong Kong could continue to be a significant fund-raising platform for Chinese Mainland companies whilst also structuring investment products from such companies to be compatible with the Islamic market. He also added that Hong Kong could provide a gateway for Middle Eastern investment into China. In his Policy Address on 10 October, Chief Executive, Donald Tsang noted that Hong Kong should take the opportunity to tap into the development potential of Islamic finance. Following this, Hang Seng Bank launched Hong Kong's first Islamic Fund in November.

Economic co-operation with the Mainland

51. On 18 December, Financial Secretary, Henry Tang and Xu Zongheng, Mayor of Shenzhen, signed seven Cooperation Agreements enhancing ties between Hong Kong and Shenzhen on areas including tourism, environmental protection, urban planning and infrastructure development. The Agreements also covered joint work on trade, tourism, technology and medical services. The main thrust of future policy, according to Mr Xu, would be to take forward development of Hong Kong and Shenzhen in a sustainable manner, whilst also benefiting the competitiveness of both cities.

The environment

52. On 22 August 2007, workers began to dismantle Queen's Pier in Central. The Pier had been where Royal visitors and colonial governors had landed on Hong Kong Island under British rule. Its removal by the Government as part of plans to redevelop the Central waterfront area had been opposed by protestors, who saw it as part of Hong Kong's heritage.

53. During the 10 October Policy Address, the Chief Executive set out his agenda with regard to Hong Kong's environment. He sought to improve quality of life by improving the living environment, enhancing heritage protection and revitalising historic buildings, promoting cultural and creative industries and introducing new food safety laws and standards.
54. Specific measures contained in the Policy Address included linking the two power companies' permitted rate of return to their achievement of emission caps, and encouraging the use of clean fuels for power plants, industries and marine vessels. He also announced details of a HK\$93 million five-year Hong Kong Productivity Council-led programme, aimed at encouraging Hong Kong companies in the Pearl River Delta to switch to cleaner production, and pledged to promote greening work in densely populated urban areas and introduce a Product Eco-Responsibility Bill.
55. The Hong Kong SAR Government, as a member of the Asia Pacific Economic Cooperation (APEC), signed the APEC Leaders' Declaration on Climate Change, Energy Security and Clean Development in Sydney on 9 September 2007. This Declaration commits Hong Kong and other APEC members to an energy intensity reduction of at least 25% on 2005 levels by 2030. On 1 November, the Hong Kong SAR Government joined the C40 Large Cities Climate Leadership Group. This Group aims to promote collaboration among cities globally to reduce greenhouse gas emissions and enhance energy efficiency.
56. The SAR Government commissioned a study into the impacts of climate change in Hong Kong. This study, to be completed before 2010, will assess implications of climate change in Hong Kong, evaluate current practices and recommend additional strategies for mitigation and adaptation to a changing climate. The findings of this study will feed into the submission by the Central People's Government to the United Nations Framework Convention on Climate Change.

UK-HONG KONG BILATERAL RELATIONS

Visits

57. The Rt Hon Lord Malloch-Brown, Minister of State at the Foreign & Commonwealth Office, visited Hong Kong from 27 to 28 August. He called on the Chief Executive, the Financial Secretary, the Secretary for Constitutional and Mainland Affairs, members of the Legislative Council and the British Chamber of Commerce.
58. The Attorney General, the Rt Hon Baroness Scotland QC, visited Hong Kong from 19 to 22 September to take part in the International Association of Prosecutors annual conference. She also called on the Secretary for Justice, the Chief Justice, Legislators from the Panel of the Administration of Justice and Legal Services, the Hong Kong Bar Association and Law Society and gave a speech on "Protecting the Rule of Law: the importance of accountable Government."
59. The Rt Hon Lord Howe QC visited Hong Kong from 4 to 6 October in his capacity as President of the Great Britain China Centre. He called on the Chief Executive and representatives of the legal and political community. He also gave a speech on 'The Joint Declaration: Then and Now' to the British Chamber of Commerce and the Hong Kong General Chamber of Commerce.

60. The Rt Hon the Lord Mayor of the City of London, Mr Alderman John Stuttard, visited Hong Kong on 17 to 18 October and again on 24 October, as part of his ten-day official visit to North East Asia. His programme included meetings with the Chief Executive, the Secretary for Financial Services and the Treasury and the Secretary for Education as well as key players in financial, banking and insurance services. The Lord Mayor addressed a breakfast talk on “Global Financial Leadership: How to build on London’s success in partnership with Hong Kong” jointly organised by British Chamber and Hong Kong General Chamber of Commerce and gave a keynote speech on “London and Hong Kong - Two Great Financial Centres” to the Second Annual Institute of Chartered Accountants in England and Wales (ICAEW) and Hong Kong Institute of Certified Public Accountants (HKICPA) Hong Kong Conference.
61. British Parliamentarians who visited Hong Kong during this reporting period included: Andrew Tyrie MP, Nigel Evans MP, Stephen Pound MP, Derek Wyatt MP, Julia Goldsworthy MP, Andrew Rosindell MP, and Peter Luff MP.
62. The Chief Justice Hon Mr Andrew Li visited the UK to attend the opening of the legal year on 1 October. The Secretary for Justice, Mr Wong Yan-lung, visited London from 2 to 3 October as part of a wider visit to Europe. He met the Secretary of State for Justice and Lord Chancellor, the Rt Hon Jack Straw, along with the Chief Justice, and members of the Hong Kong Association. He was also called as a Master of the Bench of the Middle Temple, together with the former Commissioner of the Independent Commission Against Corruption and Solicitor General of the Department of Justice of Hong Kong, Mr Bertrand de Speville.
63. Mr John Tsang, the Financial Secretary, visited the UK from 15 to 17 October. He called on the Economic Secretary to the Treasury, the Governor of the Bank of England and held a roundtable discussion with representatives from the financial sector. He also attended the Chatham House Conference on Hong Kong. He attended a gala dinner hosted by the Hong Kong Trade Development Council to mark the 10th Anniversary of the Hong Kong SAR’s establishment, which was also attended by the Foreign Secretary who gave a keynote address.
64. Legislators Martin Lee and Sin Chung-kai from the Democratic Party visited the UK from 13 to 16 October. They met the Director General Europe & Globalisation at the Foreign & Commonwealth Office as well as a number of Members of Parliament on the All Party Parliamentary China Group.
65. A delegation from the Legislative Council Subcommittee to Study the Subject of Combating Poverty visited Spain and the UK from 16 to 22 September. The delegation met government officials and representatives of social enterprises in London and Liverpool.

Education

66. In the academic year 2005/06, there were at least 17,820 students from Hong Kong studying in the UK. There were 6,930 enrolled on higher diploma or undergraduate programmes, 2,640 on postgraduate courses and 600 in further education colleges. The figures for 2006/07 have not yet been released for higher and further education. In 2006-07, there were 6,210 students enrolled in UK independent schools.

67. The trend is for Hong Kong students to stay in Hong Kong to study an overseas qualification. At the end of December 2007 there were 667 UK programmes of study registered in Hong Kong, and an estimated 47,000 enrolments. The UK has a 57% share of this increasingly important trans-national education market.
68. Hong Kong's aspiration is to become a regional education hub. Since 1995, the British Council has been encouraging UK students to visit Hong Kong as part of their credited programme of undergraduate study. In 2005/06, there were 125 UK students in Hong Kong from 26 UK institutions.
69. In autumn 2007, there were 29 Hong Kong Chevening scholars in the UK, studying a wide range of courses. The British Government's Chevening Scholarship Scheme has operated in Hong Kong since 1996. The generosity of Dr Li Ka-Shing (Chairman of Cheung Kong Holdings and Hutchison Whampoa Ltd), and that of Cambridge University, matching funding by the Foreign & Commonwealth Office, has made this number of scholarships possible.
70. Hong Kong remains an important centre of activity for the British Council. The Council's Teaching Centre in Hong Kong provides courses to over 46,000 students a year, complemented by an extensive community-based programme of English which involves many thousands more. It is the Council's largest English language teaching operation in the world. In 2006-07, the British Council also administered 38,600 examinations, primarily those that assess English language levels.

Trade and inward investment

71. Bilateral trade between the UK and Hong Kong continues to be significant. UK exports to Hong Kong for 2007 were valued at £2,651 million, a drop of 7.6% compared with 2006. UK imports of goods from Hong Kong for 2007 were valued at £6,988 million, a decline of 6.8%.
72. Over the course of the reporting period, UK Trade & Investment (UKTI) has supported ten Trade Missions to Hong Kong and ten British groups at international trade fairs in Hong Kong. UKTI also works to support around 180 Hong Kong investors in the UK and to promote the UK to new potential investors. UKTI assisted two new successful investments into the UK from Hong Kong during the reporting period.

British Nationals (Overseas)

73. There are nearly 3.5 million British Nationals (Overseas) (BN(O)), the vast majority of whom live in Hong Kong. British National (Overseas) status is for life, and a BN(O) passport can be renewed at any time in the future even when the passport validity lapses. The British National (Overseas) passport has the benefit of visa-free access to the UK and 111 countries including the Schengen group of countries within the EU. In addition, BN(O) passport holders are eligible to apply for United Kingdom Residence Permits (UKRPs) for study and work permit purposes. The UKRP is issued gratis to British Nationals (Overseas).
74. We remain fully committed to providing the highest standard of consular and passport services to British National (Overseas) passport holders. We offer an identical level of consular service to BN(O) passport holders in third countries to that which we offer to all British Nationals.

CONCLUSION

75. The Foreign Secretary's six-monthly reports to Parliament reflect the UK Government's commitment to the faithful implementation of the Sino-British Joint Declaration on Hong Kong, an international treaty to which the UK is a party. We are fully committed to Hong Kong's continual prosperity and stability and we will continue to comment on matters relating to this treaty as and when we judge it appropriate to do so. As part of this we will continue to issue reports to Parliament.
76. At the end of the six-month reporting period covered by this report we conclude that the 'One Country, Two Systems' principle of the Joint Declaration continues generally to work. The rights and freedoms guaranteed in the Joint Declaration have been respected. This report covered a particularly significant period for Hong Kong's political development. The people of Hong Kong have clearly demonstrated their political maturity. We hope that their wish to see universal suffrage will be realised as soon as possible, and certainly no later than the timetable indicated by the SAR and Central People's Governments.

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID5757333 03/08 394903 195854

Printed on Paper containing 75% recycled fibre content minimum.