



Six-monthly Report on Hong Kong 1 July – 31 December 2010

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

March 2011

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FOREWORD

This is the twenty-eighth 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 1 July to 31 December 2010.

The UK takes seriously our commitment to Hong Kong under the Sino-British Joint Declaration. This treaty guarantees the autonomy, rights and freedoms that make Hong Kong the vibrant, secure and prosperous place it is today.

Events over the reporting period highlighted the value Hong Kong people place on their rights and freedoms. The press, public and Legislature continued to speak out regularly on human rights issues, including issues of concern in mainland China. Such freedom of expression was particularly evident in the marches, demonstrations and blanket media coverage of the Nobel Peace Prize award to Liu Xiaobo. The case of jailed Chinese activist Zhao Lianhai also attracted high profile press coverage and cross-party interest in the Legislative Council.

Hong Kong's unique place in China was also evident in economic and trade developments. Hong Kong's voice has continued to be heard in support of open markets, trade liberalisation, and resistance to protectionism. Businesses in Hong Kong have benefitted from the continuing commitment to the rule of law and the effectiveness of its legal system.

The UK's bilateral ties with this unique part of China are about much more than our legal and historic obligations under the Sino-British Joint Declaration. Hong Kong's prosperity and that of the UK are inextricably intertwined.

We are also bound together by the shared values, rights and freedoms that have so successfully underpinned Hong Kong's prosperity and security. I am delighted we can conclude in this report that those rights and freedoms continue to be respected.

William Hague
Secretary of State
For Foreign and 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 DEVELOPMENTS

In our last report, we recorded in detail the events leading up to the passage in June 2010 by the Legislative Council (LegCo) of the Hong Kong SAR Government's proposals for changes to electoral arrangements for 2012.

Under the proposals, in 2012, Hong Kong's Chief Executive will be elected by an enlarged Election Committee of 1,200 (up from the previous 800). The Legislative Council will be enlarged in 2012, from 60 seats to 70. There will be five new members directly elected from each of Hong Kong's geographical constituencies. The other five will be drawn from Hong Kong's District Councils, and will sit as 'functional members' (thus maintaining the 50/50 ratio between directly elected and functional constituency seats). However, in a significant departure from previous arrangements for the functional members, the five additional 'functional members', following nomination by elected District Council members, will be elected by the general public.

Arrangements were finalised with the endorsement of the Standing Committee of the National People's Congress (NPCSC) at their 23-28 August meeting.

Over the July-December reporting period, debate turned to the detail of the new constitutional arrangements ahead of the introduction of enabling legislation. Attention focused in particular on eligibility criteria for candidates for the five new District Council (DC) functional member seats.

On 4 July, the Democratic Party proposed that, in addition to serving District Councillors, former District Council members and co-opted members of the District Councils should be allowed to run for the new District Council (DC) functional constituency seats so as to widen the pool of eligible candidates. Democratic Alliance for the Betterment of Hong Kong (DAB) party Chairman Tam Yiu-Chung was reported to have said his party agreed the election criteria for the five new seats should be extended. Liberal Party Chairwoman Miriam Lau was reported to have said that “the relaxation of criteria would help solicit capable people to run.”

The government also came under pressure from political parties to lower the threshold for nomination for the new DC functional constituency seats. On 31 October, representatives from the Democratic Party, Liberal Party, Association for Democracy and People’s Livelihood (ADPL) and DAB parties agreed the nomination threshold should be reduced from 15 to 10 nominations by elected District Councillors. They argued that the government’s higher proposed figure would block out smaller parties.

On 15 July, Central Government Liaison Office Deputy Director Li Gang was reported to have said at a function that the passage of the constitutional reform package was “meaningful to achieving the objective of implementing universal suffrage under the Basic Law and National People’s Congress Standing Committee’s decision”. He called on the community to shift their focus to Hong Kong’s economic development and people’s livelihood issues. In his Policy Address on 13 October, Hong Kong Chief Executive Donald Tsang said:

“The task before us is to enact local legislation on the two electoral methods. We plan to put forward proposals later this month and consult this Council. We hope that the bills will be passed in a few months to allow political parties and prospective candidates to make early preparations. We hope that the community will adopt a rational, pragmatic and accommodating attitude, and take this hard-earned opportunity to promote the constitutional development of Hong Kong, paving the way for universal

suffrage for the Chief Executive in 2017 and for the Legislative Council in 2020.”

On 8 December, the SAR Government announced that the Chief Executive (CE) Election (Amendment) Bill 2010 and the Legislative Council (LegCo) (Amendment) Bill 2010 would be introduced to the Legislative Council. Notwithstanding sustained lobbying against the measures, the draft provided that “only elected District Council members can register as voters, nominate candidates and be nominated as candidates in the DC subsectors” and that “Candidates must be nominated by no less than 15 elected District Council members.”

The same press statement continued that “In respect of the traditional functional constituencies, the Government’s general policy is that there should be no substantial change.”

On 9 December, the Law Society of Hong Kong published a submission critical of the Government’s proposals. On the method for selecting the Chief Executive (CE), they noted “The Administration’s current proposal barely widens public participation in the selection of the CE...The proposal to allocate only 75 of the new 400 [Election Committee] seats to elected District Council members is a very limited step to increase public participation in the election of the CE. In our opinion, this proposal fails to comply with the provisions of BL45.” On the method for forming the LegCo, “Under the Administration’s current proposal, candidates for the new DC functional constituency must themselves be elected DC members....This proposal is another “small circle election” and fails to increase the representativeness of these new seats. The Administration should explain how these proposals comply with the principle of gradual and orderly progress of BL68.”

As we noted in our last report, the UK firmly believes that Hong Kong’s stability and prosperity are underpinned by its rights and freedoms and that the best way of guaranteeing these is by Hong Kong moving to a system of full universal suffrage in line with the promised timetable and international standards. We welcome the milestones reached in 2010 and look forward to further substantive progress towards full universal and equal suffrage for the election of the Chief Executive in 2017 and Legislative Council in 2020. The 2012 elections are an opportunity for Hong Kong to take an important step forward towards these goals.

BASIC LAW ARTICLE 23

Article 23 of Hong Kong's Basic Law provides that "The Hong Kong Special Administrative Region shall enact laws on its own to prohibit any act of treason, secession, sedition, subversion against the Central People's Government, or theft of state secrets, to prohibit foreign political organizations or bodies from conducting political activities in the Region, and to prohibit political organizations or bodies of the Region from establishing ties with foreign political organizations or bodies."

In previous reports, we have covered in detail the SAR Government's attempts to introduce national security legislation to meet its obligations under Article 23 of the Basic Law (BL23). Draft legislation was withdrawn in September 2003 following demonstrations on 1 July 2003.

In August and September 2010, a number of Hong Kong's newspapers carried reports suggesting the introduction of BL23 legislation was again on the Government's agenda. On 11 August, Apple Daily reported that the Central People's Government had asked the SAR Government to re-launch the BL23 legislative exercise, in the hope the legislative process could be completed by the end of the current administration's term in office. A Security Bureau spokesman told the paper the Government had no timetable for BL23 legislation for the time being. On 16 August, Ming Pao ran a similar story reporting the central Government was inclined to enact the law before July 2011, ahead of elections in November 2011 and 2012.

On 22 August, a Government spokesman repeated that legislation on BL23 was not a priority for the Government at present and there was no timetable for implementation.

On 24 August, the press reported remarks by NPCSC Deputy Secretary-General Qiao Xiaoyang that "the Standing Committee meeting this week was not a suitable platform to discuss reintroducing a national security law for Hong Kong".

On 7 September, Hong Kong Chief Secretary for Administration Henry Tang was reported to have discussed BL23 with Hong Kong and Macao Affairs Office Director Liao Hui during a visit to Beijing on 2 September. Press coverage reported that the central Government had no confidence in getting majority support from the new Legislative Council (LegCo) in 2012; and that it was studying the impact on the Chief Executive election in 2017 if the BL23 legislative process were carried out by the next term Government.

In his 13 October Policy Address to LegCo, Chief Executive Donald Tsang laid the matter to rest. He said:

“I am aware of the diverse opinions about the enactment of legislation to implement BL23. The majority view is that the current-term Government should, in the remaining one year or so of its term, focus its efforts on promoting economic development, improving people’s livelihood and maintaining the prosperity, stability and development of our society, and that legislative work for implementing BL23 could be deferred. **After repeated deliberations, we have decided not to legislate under BL23 during the current term.** That said, I must reiterate that it is both a constitutional duty of the Hong Kong SAR Government and the collective responsibility of the whole community to enact legislation under BL23. I believe that different sectors of the community will eventually arrive at a consensus and complete this task in due course.”

We welcome the Government’s decision to reflect the views of a broad range of stakeholders in their timetable for BL23 legislation.

ONE COUNTRY, TWO SYSTEMS

On 8 July, a six-member working team from the Democratic Party (DP) released a full account of the party's negotiations with the Central People’s Government on the constitutional reform package passed in June 2010. Democratic Party Chairman Albert Ho said the DP had made public all the details of their exchanges to make clear there had been no under-the-table dealings with the central Government.

The working team confirmed the DP had written three letters to President Hu Jintao, who was believed to have endorsed the party's "one person, two votes" proposal for returning the five new District Council Functional

Constituency seats. The report also confirmed that DP representatives had met Central Government Liaison Office officials four times, including two sessions with Deputy Director Li Gang. Basic Law Committee Deputy Director Elsie Leung, was authorised by the central Government leadership to take the role of middleman negotiating with the party.

On 18 July, about 80 DP members met to discuss the party's future positioning. Albert Ho said the DP would not join the Government's ruling team unless there was a democratic system. Until then, the party would remain a "pragmatic opposition". DP Vice-Chairman Sin Chung-kai said that once there was universal suffrage, the party would try to join the Government and might send someone to run in the CE election in 2017.

On 20 July, National People's Congress Standing Committee Deputy Secretary Qiao Xiaoyang met 30 National People's Congress Hong Kong deputies to explain why Central People's Government (CPG) had changed the stance to accept DP's District Council proposal. He was reported to have noted that the DP reduced their requests from three points to just one. He also said the CPG did not want to see progress on Hong Kong's political development halted.

On 1 August, Oriental Daily newspaper reported that the CPG's Hong Kong and Macao Co-ordination Unit had held a general meeting to review approaches to constitutional reform in Hong Kong. Vice President Xi Jinping was reported to have endorsed the work of Hong Kong Special Administrative Region Government and the effect of their ice-breaking with the Democratic Party; and to have said he believed that the CPG would need to widen and deepen their relationship with the pan-democracy camp in Hong Kong in the future.

On 8 October, Chief Executive, Mr Donald Tsang, issued a statement regarding the appointment of Mr Wang Guangya as Director of Hong Kong and Macao Affairs Office (HKMAO) of the State Council. He said "I congratulate Mr Wang Guangya on his assumption of the post of Director of HKMAO. As the office responsible for Hong Kong affairs in the Central Government, HKMAO has a close relationship with the Hong Kong SAR Government. I look forward to co-operating closely with Mr Wang to continue the successful implementation of "One Country, Two Systems" in Hong Kong and to maintain Hong Kong's prosperity and stability. I am also grateful for Mr Liao Hui's work in HKMAO over the years."

Speaking to Hong Kong journalists on 4 November, Mr Wang said his priority would be to understand better what was happening in Hong Kong and how people thought. He was aware that Chief Executive Donald Tsang's latest policy blueprint had mentioned issues including housing and people's livelihood. He was confident that Hong Kong's economy would maintain good development as long as the SAR Government governed the city according to the law, with the support from different sectors of the community. The National 12th Five-Year Plan would consider enhanced co-operation between Hong Kong and the mainland.

On 20 December, **Chief Executive Donald Tsang began a 4-day annual duty visit to Beijing**. Among his engagements were meetings with President Hu Jintao, Premier Wen Jiabao, Foreign Minister Yang Jiechi, and China Banking Regulatory Commission Chairman Liu Mingkang.

President Hu Jintao was reported to have welcomed the work the Chief Executive and the SAR Government had done, particularly in their response to the global financial crisis and the passage of the 2012 electoral reform package. Mr Tsang also met Hong Kong and Macao Affairs Office director Wang Guangya for the first time since Mr Wang's appointment. He invited the new director to visit Hong Kong. On 29 December, Mr Wang confirmed he had accepted the invitation and expected to come to Hong Kong in Spring 2011.

POLITICAL PARTIES

The reporting period marked a period of change for Hong Kong's political parties. On 18 November, senior **Liberal Party** member Michael Tien Puk-sun resigned from the party. He said he planned to run for a seat in the 2012 Legco election and did not rule out either starting a new political party or joining another. He told reporters he had reached an understanding with the Liberals not to compete for seats they planned to target. Liberal Party Chairman Miriam Lau said "the parting was mutually beneficial".

On 16 December, Michael Tien's elder brother, James Tien, and former party Vice-Chairman Selina Chow returned to the Liberal Party leadership. James Tien was appointed honorary chairman - a post he had previously declined following his defeat in the 2008 LegCo election. Selina Chow assumed responsibility for co-ordinating the party's district work and engaging the community in party policy positions.

Meanwhile, on 30 November, Hong Kong's papers reported that independent legislator Regina Ip proposed to set up a new political party - the **New People's Party**, in partnership with former Liberal party member Michael Tien.

On 12 December, **Civic Party** legislator Alan Leong announced that party leader Audrey Eu and Chair Professor Kwun Hsin-chi would step down in the party election in January 2011. Mr Leong confirmed he was keen to run for the party leader. He noted that the new party chief would have to co-operate well with other pan-democratic parties, in particular the Democratic Party to ensure the best results in District Council and Electoral Committee elections in 2011 (and LegCo and Chief Executive elections in 2012).

On 19 December, a 28-member group of so-called "Young Turks" left the Democratic Party. The group had disagreed with the party's vote in favour of the Government's electoral reforms in 2012 and the decision not to take part in the May 2010 by-election which had been billed as a "de facto referendum" on democratisation. The split ended a feud between mainstream and reformist factions dating to the 1990s. The resignations, which they handed in at the party's annual general meeting on 19 December, deprived the Democrats of seven district councillors - leaving them with 53 - and of a former vice-chairman, Chan King-ming. **Sai Kung district councillor Gary Fan Kwok-wai**, a core member of the reformist faction, said the vote for the electoral reforms was the trigger for their departure. **Party leaders** said the move by the Young Turks would not deal a serious blow to the Democrats' work. Party chairman Albert Ho Chun-yan said more than 80% of members backed its decision to support the electoral reforms. "We have respected and accommodated minority voices. There is nothing we can do if they still want to quit," he said. "Their departure will affect our district work ... But I don't think the impact will be too big."

We welcome the continuing dynamism and pluralism in Hong Kong politics and their contribution to a lively and inclusive public and civil society agenda.

BASIC RIGHTS AND FREEDOMS

MARCHES AND DEMONSTRATIONS

Hong Kong people continued to exercise their rights of freedom of speech and association throughout the reporting period. Among the larger events was a march to the Central Government Offices on 1 July of about 20,000 pro-democracy supporters. The same day saw 5000 Hong Kong-ers gather for a parade to celebrate the establishment of the Hong Kong Special Administrative Region. Both events passed off peacefully. The period October-December saw a series of protests to mark the continued detention of **Nobel Peace Prize Laureate Liu Xiaobo**. On 1 October, about 100 protestors from the League of Social Democrats clashed with police outside the Central Government Liaison Office (CGLO). Police officers used pepper spray and detained several participants.

On 10 October, protester Ip Ho-ye was arrested outside the CGLO for common assault. She was alleged to have sprayed a security guard with champagne during a celebration to mark Liu Xiaobo's Nobel Prize. Commenting on the incident, CGLO Deputy Director Li Gang said "No matter whether it is a demonstration, rally or protest, everything should be done according to the law....We do not wish to see any violent or illegal acts happen in Hong Kong since it is not conducive to the construction of a peaceful society. As to whether it is violence, it should be interpreted through the laws of Hong Kong." On 29 November, the police dropped the charges against Ms Ip.

On 17 October, protesters led by the Hong Kong Alliance in Support of Patriotic Democratic Movements of China marched on the CGLO to demand Liu Xiaobo's release and permission for him to travel to the Nobel Award ceremony in Oslo. Police blocked protesters' attempts to cross police barriers, burn paper offerings and throw placards into the CGLO premises.

On 5 December, about 500 people marched from the Central Government Office to the CGLO demanding Liu Xiaobo's release and the return of human rights to the people. Hong Kong Alliance in Support of Patriotic Democratic Movements in China criticised the police for deploying up to 700 officers to protect the CGLO. Declining to comment on numbers, a police spokesman said the police would "act according to past experience to ensure a smooth and peaceful parade."

There were a further series of demonstrations and celebrations over the weekend of the Nobel Prize ceremonies: on 10 December, 150 people gathered in Chater Garden to watch a live broadcast of the prize ceremony. On 11 December, about 500 people held a celebratory dinner to mark the occasion. And on 12 December, about 400 activists from 30 human rights organisations marched through central Hong Kong to mark International Human Rights Day and call for Liu Xiaobo's release. All three events passed off peacefully.

In November, the case of mainland campaigner **Zhao Lianhai** became a further focus for cross-party activism in Hong Kong. (On 10 November, Zhao received a two-and-a half year jail sentence for his part in campaigning on behalf of the parents of children who fell ill after drinking melamine tainted milk.) Hong Kong National People's Congress Deputies Fanny Law and Miriam Lau said they would raise the case at the October meeting of the National People's Congress. On 11 November, pan-democrats led by the Hong Kong Alliance in Support of Patriotic Democratic Movements of China staged a protest outside CGLO. And in an adjournment debate in LegCo on 17 November, legislators from across the political spectrum spoke out in support of Mr Zhao. Further protests took place on 22 November and 27 November, passing without incident.

FREEDOM OF THE PRESS

Article 27 of Hong Kong's Basic Law provides for freedom of the press and publication. In general we assess those freedoms were upheld during the reporting period. They were particularly evident in the saturation media coverage of Liu Xioabo's Nobel Prize. Media analysis revealed a total of 2822 print reports, 1123 TV and radio reports and 673 web articles covering the story.

Zhao Lianhai's case was also covered widely. The story resulted in 1181 print reports, 579 TV and radio reports and 287 web articles. Hong Kong's print and broadcast media also continued to report comprehensively and accurately on a wide range of other local, regional and international political, economic and public interest stories.

Nonetheless, in their 4 July annual report on freedom of speech, the Hong Kong Journalists' Association warned that freedom of speech was in

jeopardy. The report criticized the Government's use of "off the record" background briefings and called for a freedom of information Bill. In response, a Government spokesman said "The Basic Law protected the human rights and freedoms of Hong Kong residents, including freedom of press and publication. Hong Kong was one of the freest regions in Asia."

There was also criticism of remarks made by Hao Tiechuan, Director General of the Department of Publicity, Cultural and Sports Affairs at the CGLO. Speaking at a lunch with members of the Hong Kong Journalists' Association on 19 August, Mr Hao said: "Assisting the government in crisis management measures is the top priority of the media [at times of crisis] and monitoring the government comes second." The Hong Kong Human Rights Monitor issued a statement condemning the comments: "Mr Hao's remarks were unacceptable and demonstrated he did not have a good understanding of and commitment to the protection of press freedom as enshrined in the ICCPR and Basic Law."

On 13 August, the Government announced the appointment of a broad-based Board of Advisors for Radio Television Hong Kong (RTHK) and the promulgation of the RTHK Charter regarding the operation of RTHK as a public service broadcaster. The Board of Advisors would comprise a non-official chairman, nine non-official members and an ex-officio member (the Director of Broadcasting) appointed by the Chief Executive for a term of two years from 1 September 2010. The role of the Board of Advisors was to advise the Director of Broadcasting on a range of issues relating to the services of RTHK, including editorial principles, programme standards, performance evaluation, service improvements and community participation in broadcasting. It would also receive reports on complaints.

On 12 September, the Hong Kong Journalists' Association (HKJA) issued a report critical of the Hong Kong Police. They said the police had undermined press freedom and people's right to know by releasing just over one per cent of data on crime, accidents and incidents. In their response to the report, a police spokesman said the force had attached grave importance to press freedom and would assist media coverage whenever possible. But the police also had to consider privacy of the individual and that any news released should not affect the judicial process. The police would consider if there was any room for improvement. Democratic Party legislator James To accused the force of lacking sincerity in releasing data to the public, and thus

seriously undermining press freedom. Police management should review the data release system.

FREEDOM OF MOVEMENT

As we have noted in our previous reports, twelve elected legislators in Hong Kong continue to be prevented from travelling freely to mainland China.

We hope that the Chinese Government will allow all legislators who wish to travel to do so. The continued inability of legislators to travel to the mainland remains a barrier to open dialogue and mutual understanding.

There were also a handful of instances of Hong Kong passport holders facing restrictions on travel to Macao. On 31 July Democratic Party District Councillor Leung Li was detained for four hours at the Macao Ferry Port before returning voluntarily to Hong Kong. On 1 October, social worker Nano Yeung Pui-yan was also refused entry. Neither received an explanation for the authorities' decision to bar them.

LEGAL AND JUDICIAL

On 31 August, Chief Justice Andrew Li stepped down after 13 years of service. In an interview with the Law Society of Hong Kong publication ahead of his departure from office, the outgoing Chief Justice said the main challenge facing Hong Kong's judicial system was to ensure fairness for all strata of the community. On the balance between judicial independence and interpretations of the Basic Law by the National People's Congress Standing Committee (NPCSC), Mr Justice Li said that, while the Court of Final Appeal had maintained that NPCSC interpretations were part of Hong Kong's legal system, the majority view was that this authority should only be exercised under exceptional circumstances. He added that the Basic Law was a "lively constitution" and should be "adjusted" to meet different circumstances and environment.

On 1 September, Mr Justice Geoffrey Ma succeeded Mr Justice Li as Chief Justice of Hong Kong. In his first media session since assuming office, Mr Justice Ma said in upholding the rule of law and protecting individual rights and liberties, it was essential that there was in place an independent

judiciary. Judges and the courts would deal with the law and the legal aspects arising from cases but could not deal with political, social and economic problems. He continued that, public access to justice and succession of experienced judges would be his main challenges. He hoped the streamlining of judicial procedures and provision of mediation services would help unrepresented litigants. On the NPCSC's role in interpreting the provisions of the Basic Law, Mr Justice Ma said that the standing committee was empowered to do so but such interpretations should happen only in extraordinary circumstances.

We welcome Mr Justice Ma's comments on the role of an independent judiciary in protecting individual rights and freedoms. And we congratulate him on his appointment.

In our last report, we commented on the FG Hemisphere Associates sovereign immunity case. We noted the Court of Appeal had granted leave to appeal to the Court of Final Appeal on the question of whether restrictive (as opposed to absolute) sovereign immunity applied in Hong Kong.

On 26 October, the Democratic Republic of Congo (defendants in the case) asked the Court of Final Appeal (CFA) to seek an interpretation on the question from the Standing Committee of the National People's Congress (NPCSC). The CFA rejected the application, preferring to consider the question themselves first before possible referral to the NPCSC. The CFA is due to hear the case in March 2011. Should they decide to seek an interpretation on the Basic Law from the NPCSC, this would be the first such direct application to the NPCSC from Hong Kong's judiciary.

HONG KONG – ECONOMY

Hong Kong bounced back strongly from the global economic and financial crisis. The economy is thought to have grown 6.8% in 2010. The IMF predicts growth of nearly 5% in 2011.

The Hong Kong Government emerged from the reporting period in a strong fiscal position. It is expected to report a surplus in FY2010/2011, as it did in FY2009/2010. The Government has come under pressure to use the surplus to address widening income disparities which have been exacerbated by a recent rise in property prices.

On 17 July, LegCo passed Hong Kong's first Minimum Wage Bill. Secretary for Labour and Welfare Matthew Cheung said the Bill had "opened a new chapter in Hong Kong's socio-economic history." Following a wide and lively public debate over the appropriate level of the minimum wage on 10 November, Hong Kong's Executive Council (ExCo), accepted the recommendation of the Provisional Minimum Wage Commission to set the initial statutory minimum wage at HK\$28 per hour.

On 19 November, the Financial Secretary, John Tsang, introduced a Special Stamp Duty (SSD) to help curb speculation in the property market and reduce the risk of an asset bubble. The stamp duty, of between 5% and 15%, would be applied to properties in addition to the current ad valorem property transaction stamp duty, when a property is resold within 24 months. In parallel, the HKMA introduced additional credit tightening measures to lower the loan-to-value ratio for residential properties. The Financial Secretary said "This will help promote prudent lending and reduce the excess liquidity in our market".

The reporting period also saw a rapid acceleration in the circulation of the Chinese currency, the Renminbi (RMB), in the Hong Kong off-shore market. By the end of 2010, RMB deposits had increased to RMB315bn, a five-fold increase on a year earlier. RMB bond issuances in Hong Kong more than doubled in 2010, pushing outstanding RMB bonds to RMB65bn. 2010 saw major milestones in RMB bond issuance in Hong Kong, including the first RMB bond issued by a multinational corporation (McDonald's Corporation in July 2010) and the first RMB bond listed on the Hong Kong Stock Exchange (the Asia Development Bank in October 2010).

On 19 July, the Hong Kong Monetary Authority (HKMA) and the People's Bank of China (PBoC) signed a MOU on Co-operation on Renminbi Business. This agreement allowed Hong Kong banks to offer RMB accounts to financial institutions and expanded the financial products that could be denominated in the RMB. A further agreement in August 2010 launched a pilot scheme under which some Hong Kong banks could conduct trading in the Mainland's interbank bond market upon approval by the PBoC. The Chief Executive of the HKMA, Mr Norman Chan, said, "The launch of the scheme has opened up a channel for RMB funds and financial institutions in Hong Kong to invest in the Mainland. This will further promote the development of RMB trade settlement in Hong Kong, and enhance the attractiveness of RMB offshore business in Hong Kong."

On 20 December 2010 the Agreement between the UK and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion came into force.

UK/HONG KONG – BILATERAL

Bilateral ties between Hong Kong and the UK have continued to go from strength to strength.

Over the reporting period, the UK's Chancellor of the Exchequer (Finance Minister), the Secretary of State for Education and Ministers of State for Trade and Foreign Affairs paid visits to Hong Kong. In the other direction, Hong Kong Secretaries for Finance, Treasury, Development and Education visited the UK. There were also regular working level exchanges between officials on policy issues including global economic developments, climate change, financial service regulation, education policy and law enforcement co-operation.

EDUCATION LINKS

The Hong Kong Government has made investment in education and education reform a priority. School policy reform is focused on implementing a new academic structure - the three-year senior secondary programme leading to the Hong Kong Diploma of Secondary Education (HKDSE) (replacing GCSE and A-level equivalents), and four-year bachelor degrees. The new structure is being phased in from 2009. In 2012, the first students will complete the HKDSE and proceed to four-year degrees, along with the last students completing Hong Kong A-levels. The new qualification has been benchmarked by UCAS against GCE A-levels, and compares favourably in the UCAS Tariff with the GCE A-level. This is now being used by UK universities to accept the new diploma as a qualification for direct undergraduate entry.

The OECD's Programme for International Student Assessment 2009 global rankings published in December 2010, placed Hong Kong fourth overall for student performance in reading, science and mathematics.

The Hong Kong SAR Government is also working to position Hong Kong as a regional education hub, with a focus on "internationalisation and diversification". Six new campus sites are being offered to the self-financed

sector. UK universities are active in delivering programmes through transnational education in Hong Kong, with more than 21,000 students enrolled.

Hong Kong has the third highest rate in the world for overseas study. The UK remains the leading destination for school and higher education. Hong Kong continues to be the leading source of students for UK boarding schools (24 per cent) and state boarding schools, and the third largest for first degrees. In 2009/10, 15,846 students from Hong Kong went to study in the UK. Around 30,000 Hong Kong people studied for a UK qualification in Hong Kong.

The visit to Hong Kong in November by UK Education Secretary Michael Gove was an opportunity to support and develop the range of education links between the UK and Hong Kong and to understand the background to Hong Kong's high rates of academic attainment.

BRITISH COUNCIL

In addition to their work on education links between the UK and Hong Kong, over the course of the reporting period the British Council delivered programmes to support a wide range of arts and science partnerships. In 2009/10:

- 615,171 people visited their website
- 154,602 visited / contacted our customer services centre
- 38,326 students took exams with the British Council
- 23,121 learners were engaged in English learning services
- 60 Arts, Education and Science events took place

TRADE AND INVESTMENT

Bilateral trade between Hong Kong and the UK in goods amounted to almost £11.8bn in 2010. In 2010, Hong Kong was the UK's 13th largest export market for goods and the second biggest in Asia, after mainland China. Exports of goods for 2010 amounted to £4.2 bn, an increase of 20% compared with 2009. UK exports to Hong Kong were greater than those to Singapore, Indonesia and Philippines combined. Hong Kong is the major

entrepot for China: 10% of UK exports of goods to the mainland pass through Hong Kong.

During the reporting period, UK Trade & Investment (UKTI) supported twelve Trade Missions to Hong Kong and UK participation at three international trade fairs in Hong Kong. UKTI also assisted three confirmed new successful investments into the UK (with six further investment projects pending confirmation of success).

CONCLUSION

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 party. We remain fully committed to Hong Kong's continued prosperity and security and we will continue to comment on matters relating to this treaty as and when we judge it appropriate to do so.

At the end of the six month reporting period covered by this report, we are able to conclude that the "One Country, Two Systems" principle of the Joint Declaration has worked well and that the rights and freedoms guaranteed in the Joint Declaration have been respected.



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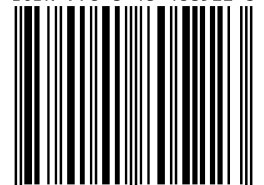
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