



Six-monthly Report on Hong Kong 1 July – 31 December 2011

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

February 2012

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FOREWORD

This is the thirtieth in a series of reports to Parliament on the implementation of the Sino-British Joint Declaration on the Question of Hong Kong since July 1997. It covers the period 1 July to 31 December 2011.

The UK Government takes seriously its commitment to Hong Kong under the Sino-British Joint Declaration. This treaty guarantees the autonomy, rights and freedoms that make Hong Kong the successful and prosperous society it is today.

This reporting period highlighted again some of the distinct qualities of Hong Kong's way of life which are central to its success. A record number of people exercised their right to vote in November's District Council Elections. A free media contributed to the lively public debate on a wide range of issues. Tens of thousands of respondents engaged in the government's consultation on Legislative Council mid-term by-elections. And there was close press and public interest in the process to elect the Electoral Committee which will select Hong Kong's next Chief Executive in March 2012.

The forthcoming election for Chief Executive will be the last under the existing, limited franchise arrangements. I look forward to the developments which will pave the way for direct elections in 2017. 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.

The UK's relationship with Hong Kong has continued to develop and mature. The trade and investment partnership has grown strongly. I was delighted to receive the Chief Executive of Hong Kong Special Administrative Region Government in London in September 2011 on his last official visit to the UK. I congratulate him for his personal contribution to Hong Kong's continuing economic and political development and look forward to developing an equally productive relationship with his successor.

Hong Kong will continue to be important to the UK. It is important for our shared prosperity and values that Hong Kong's high degree of autonomy is maintained and that its basic rights and freedoms are safeguarded. I am pleased that we can conclude in this report that these continue to be respected.

William Hague
Foreign Secretary

SIX-MONTHLY REPORT ON THE IMPLEMENTATION OF THE SINO-BRITISH JOINT DECLARATION ON THE QUESTION OF 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.

Our assessment is that, in general, over this reporting period, the rights and freedoms and the 'One Country, Two Systems' principle guaranteed in the Joint Declaration continue to be respected. The following report considers aspects of Hong Kong's autonomy, rights and freedoms in more detail.

CONSTITUTIONAL DEVELOPMENTS

During this reporting period, Hong Kong people went to the polls to elect new District Councils. In December, elections were also held for places on the Election Committee which will select the next Chief Executive of the Hong Kong SAR Government in March 2012.

District Council¹ Elections

On 6 November, Hong Kong held elections to elect 412 District Council (DC) members. Pro-Beijing candidates secured 47.3 percent of the votes (195 seats) compared with 20 percent (83 seats) for pan-democratic candidates and 32.5 percent (134 seats) for independent candidates and those with no political affiliation. There was a higher than usual turnout rate of 41.4 percent (38 percent in 2007).

¹ District Councils are local councils for the 18 Districts of Hong Kong. Under the supervision of the Home Affairs Bureau of the SAR Government, they are consultative bodies on the provision of services, facilities and administration at the district level.

As we have recorded in our last two reports, under new arrangements to take effect from this year, five new seats will be created in the Legislative Council to be filled by candidates from the District Councils, to be selected by direct election. The record number of voters (1.2 million) in the District Council election was attributed to this direct connection with the Legislative Council (LegCo) elections due in November 2012.

On 6 November, Secretary for Constitutional and Mainland Affairs, Raymond Tam said the DC election had offered the highest number of seats ever. It had drawn a record number of candidates and seen higher levels of participation from younger voters than previous DC elections.

The same day, the Electoral Affairs Commission (EAC) chairman Justice Barnabas Fung confirmed that the commission had received a total of 2,200 complaints about the DC elections, most of which related to election advertisements and campaigning activities. This compared with about 2000 complaints received in 2007. The Government said the authorities would review monitoring arrangements for election campaigns and submit proposals to LegCo after the election.

Appointed District Council seats

As we have noted previously, 102 out of the now 541 DC seats² are appointed by the Chief Executive of the SAR Government. When Chief Executive Donald Tsang tabled proposals in 2010 for constitutional reforms to the Chief Executive and LegCo elections, he also made a commitment to present proposals for the abolition of appointed District Council seats.

On 14 September, the SAR Government announced that the number of appointed DC members would be reduced by one-third from 102 to 68 when the fourth-term District Councils (2012-15) were established on 1 January 2012. The then Secretary for Constitutional and Mainland Affairs, Stephen Lam said the Government was prepared to consider abolishing the remaining 68 appointed seats over one term in 2016 or two terms by 2020.

On 23 December, the SAR Government duly announced the appointment of 68 DC members. Of these, 42 were re-appointed and four were appointed for the third term. Some Hong Kong media organisations said this violated the SAR Government's so-called "six-six" principle which stipulates that the same

² The 541 seats in the District Council are comprised of 102 appointed, 412 directly elected and 27 ex-officio members of the Rural Committee Chairmen in the New Territories.

person should not be appointed to the same post for more than six years or hold more than six public positions.

The same day, Secretary for Constitutional and Mainland Affairs, Raymond Tam said he was inclined to have the appointed seats scrapped in 2016 before the introduction of universal suffrage for the Chief Executive election in 2017. The Government would conduct a two-month public consultation after the Chinese New Year in January 2012 to seek views on whether the appointed seats should be abolished in 2016 or 2020.

We welcome this signal of commitment to further democratic development of the District Council election arrangements and will follow developments with interest.

Election Committee Subsector Elections

In our previous reports we have noted that, under the constitutional reforms agreed in 2010, Hong Kong's Chief Executive will be elected in March 2012 by an Election Committee, enlarged from 800 to 1,200 members.

A record number of 1,451 nominations were received for the 2011 Election Committee (EC) subsector elections to contest 1,044 of the 1,200³ seats drawn from various trade, professional and non-government groups ("sub-sectors").

On 11 December the Electoral Affairs Commission (EAC) announced that 65,500 registered voters had cast their votes in the EC subsector elections. This represented 10,000 more voters than in 2006. The turnout rate was 27.5 percent (27.4 percent in 2006).

On 12 December, EAC chairman Justice Barnabas Fung said the EC subsector elections had been successfully concluded. He recorded that the Commission had received 35 complaints, mainly about voting facilities and electoral arrangements.

The results of the subsector elections indicated that pan-democrat candidates had won 205 places, substantially increasing the chances that a pan-democrat candidate could secure the minimum 150 nominations required from the EC to run in the Chief Executive election.

³ The remainder are members nominated by the religious subsector, and ex-officio members from LegCo and the National People's Congress.

Electoral Registration and Vote-Rigging Allegations

Following the District Council elections, reports emerged of a number of cases of suspected vote-rigging. Most of the complaints appeared to relate to allegations of incorrect or incomplete voter registration information.

On 21 November, at a LegCo Panel Meeting on Constitutional Affairs, Democratic Party and Civic Party representatives said adult permanent residents should be required to provide proof of residence when registering as voters. They called on the SAR Government to ensure strict enforcement of the election regulations. The Democratic Alliance for the Betterment and Progress of Hong Kong (DAB) said their party had also been a victim of suspected vote-rigging. They saw a need to review the system to ensure fair and transparent elections.

Responding, Chief Executive Donald Tsang said there were bound to be uneasy feelings among some participants in every election. But he stressed that Hong Kong's electoral system was fair, open, just and transparent and that an established complaint mechanism was in place to handle accusations of fraud. Secretary for Constitutional and Mainland Affairs Raymond Tam pledged to follow up on complaints and to refer cases to the police if necessary.

On 7 December, Electoral Affairs Committee chairman Justice Barnabas Fung said the Registration and Electoral Office (REO) had sent 674 letters of inquiry to voters, demanding proof of their address. He added that people who failed to respond in time would be referred to law enforcement bodies. Justice Fung also said that it was the right time to review the voter registration system. The authorities needed to strike the right balance between upholding voting rights and prevention of election fraud.

On 8 December, the Independent Commission Against Corruption (ICAC) announced they had established a 20-man taskforce to tackle the growing number of complaints about the DC elections. The ICAC Commissioner Timothy Tong confirmed the Commission had received 421 complaints and of those 174 were of a serious nature involving corruption.

On 13 December, the Hong Kong SAR Government proposed new measures designed to plug the apparent loopholes in the voter registration system. They included a proof of address requirement as well as proposals to step up random checks on the voter register. The proposed measures also included penalties or imprisonment for electors who failed to report a change of address before the statutory deadline. Parties across the political spectrum welcomed the prospect of tighter controls but expressed concern that the proposed requirements and

penalties could deter the public from registering as voters and therefore decrease the level of voter participation in future elections.

On 14 December, Secretary for Constitutional and Mainland Affairs Raymond Tam acknowledged that some of the Government's proposals had been controversial and said that the new proposals would not be implemented without full consultation and broad consensus.

Legislative Council by-elections replacement mechanism

In our last report, we covered in detail the Government's legislative proposals for a new mechanism to fill mid-term vacancies in LegCo, and the public debate about these proposals.

The introduction of the Bill to address these issues had followed the resignation of five pan-democracy legislators on 29 January 2010, which had been designed to force territory-wide by-elections as a de facto referendum on democratic reforms.

On 4 July, the Government announced they were suspending legislative work on the by-election replacement mechanism and were instead launching a two-month public consultation exercise to run from July to September. The Hong Kong Bar Association (HKBA) and the Law Society of Hong Kong both issued statements welcoming this decision. The HKBA also encouraged the public to exercise their right to be heard by contributing to the discussion.

On 22 July, the Government duly launched the consultation. The Government proposed the following four options:

- Option 1: restricting resigning Members from participating in any by-election in the same parliamentary term
- Option 2: a replacement mechanism using the candidates from the same party's original list (see text box below) followed by a precedence list system (the Administration's revised proposal)
- Option 3: a replacement mechanism which would not cover vacancies arising from death, serious illness or other involuntary circumstances
- Option 4: a replacement mechanism using the same party's candidate list, followed by leaving the seat vacant when the list was exhausted

The system of proportional representation was adopted in 1998 to encourage and sustain the representation of multiple political parties in geographical constituencies in LegCo. It requires the numbers of votes for each candidate list to be divided by a quota representing the number of votes required for a seat. After a seat has been allocated to each party which has the required number of votes, the largest remainders are then each allocated one additional seat until they are all allocated.

During the consultation period, commentators including legislators, representatives of the legal sector, academics and the media contributed their thoughts on the Government's proposals. The debate around them focused on whether the proposals breached Hong Kong's constitution and would withstand judicial review. Many commentators urged the Government not to scrap by-elections for filling LegCo mid-term vacancies.

Chairman of the pro-government Democratic Alliance for the Betterment and Progress of Hong (DAB) Tam Yiu-chung said he would keep an open mind and listen to different opinions. The DAB would canvass public views and submit their own proposals to the Government before the conclusion of the consultation exercise.

On 14 December, the Secretary for Constitutional and Mainland Affairs Raymond Tam said the Government had received 31,000 written submissions in response to the consultation. There were no majority views on the options put forward. However, the Government's Option One, which restricted resigning legislators from participating in any by-election in the same term, had gained more support than others. Almost 70 percent of the submissions indicated that the Government should amend the law or take alternative measures to prevent abuse of the by-election mechanism. Mr Tam continued that proposals would be submitted to LegCo by June 2012.

We will cover further developments on the replacement mechanism in our next report.

Chief Executive 2011-12 Policy Address

On 12 October, Chief Executive Donald Tsang delivered his last Policy Address. He identified the wealth gap, ageing population and political reform as the main challenges ahead. On political reform, the Chief Executive said that

Hong Kong “should allow democracy to take root” and that by safeguarding core values such as freedom, the rule of law, equality, justice, integrity, pluralism and inclusiveness that Hong Kong would “ensure the lasting success of One Country, Two Systems”.

Next Chief Executive Candidates

Over the reporting period, there was much interest in Hong Kong in preparations for the March 2012 election for the next SAR Chief Executive.

On 11 July, in what was widely regarded in Hong Kong as an important signal from Beijing, Hong Kong and Macao Affairs Office Director Wang Guangya said the next-term Chief Executive should love the country and Hong Kong, have a strong governing ability and a high degree of acceptance among the public.

Four candidates from the pro-Beijing and pan-democratic camps declared their intention to compete in this election.

On 4 October, Democratic Party chairman Albert Ho was the first to announce that he intended to stand as a candidate.

On 26 November, former SAR Government Chief Secretary Henry Tang announced his candidacy.

The following day, former Executive Council Convenor Leung Chun-ying formally announced his candidacy.

On 10 December, former chairman of Hong Kong Association for Democracy and People’s Livelihood Frederick Fung secured enough support from his party members to join a pan-democratic camp ‘primary election’ planned for 8 January 2012 during which adults with permanent residency would vote online for their preferred pro-democracy candidate.

We will cover the outcome of the Chief Executive elections in our next report.

ONE COUNTRY, TWO SYSTEMS

There were a number of high-level visits and exchanges between senior members of the Central People's Government and Hong Kong government and non-government figures over the course of the reporting period. Most prominent among these was the 16-19 August visit to Hong Kong by Vice-Premier Li Keqiang.

During his visit Vice-Premier Li announced a well-received series of 32 economic measures to boost Hong Kong's economic growth through closer co-operation with the Mainland. The Vice-Premier also said that Hong Kong's role in the Mainland's economic reform and opening-up was irreplaceable. He praised Hong Kong society as open, pluralistic and vibrant, and encouraged the Hong Kong SAR Government to promote the importance of safeguarding and complying with the Basic Law.

Notwithstanding the positive response to the economic measures he announced, media coverage of Vice-Premier Li's visit was dominated by controversy over security arrangements surrounding his attendance at the University of Hong Kong's (HKU) centenary celebrations.

During the event, at least one student protester was reported to have been detained by police for an hour, and 100 other protesters were prevented from marching to the new Government Headquarters. A number of pan-democrat legislators complained the police had moved all protesters away from the sight of the Vice-Premier and had undermined people's rights of expression. Hong Kong Human Rights Monitor Director Law Yuk-kai said the tight security measures had muted protesters' voices. The Hong Kong Journalists Association criticised the police for limiting press coverage during the Vice-Premier's visit.

Hong Kong Police Chief Andy Tsang Wai-hung said he stood by the three days of tight security measures during the Vice-Premier's visit to Hong Kong: "Our top priority is to ensure the safety of visiting VIPs. There was no political consideration." Secretary for Security Ambrose Lee said he did not think the security measures for the Vice-Premier's visit had been tighter than usual. Commissioner of the Ministry of Foreign Affairs Lu Xinhua said he disagreed that press freedom during the Vice-Premier's visit had been tightened.

POLITICAL PARTIES

On 18 December, a group of trade unionists and social democrats including the Confederation of Trade Union's Lee Cheuk-yan, Forthright Caucus chairman Fernando Cheung, Civic Act-up's Cyd Ho and lawmaker for the welfare sector Cheung Kwok-che formally established the 'New' Labour Party.

BASIC RIGHTS AND FREEDOMS

The Sino British Joint Declaration Clause 3 (5) and Article 27 of the Basic Law provide for the rights of speech, assembly and demonstration. Hong Kong people continued to exercise their basic rights and freedoms throughout the reporting period, and marches and demonstrations continued to be a part of civic life in Hong Kong.

Most marches and demonstrations passed off peacefully. However, this reporting period was marked by a higher than usual number of arrests. There were also concerns from some quarters about the alleged increasing use of force by police on some occasions, and about infringements of press freedoms.

Marches and Demonstrations

We report below on some of the larger demonstrations and police and government reactions:

On 1 July, the annual Hong Kong Establishment Day march was marked by the largest number of people taking to the streets since the 1 July march in 2004. Organizers claimed 218,000 people turned out. Police put the number at 54,000. The march passed off peacefully. However, after the main rally ended, scuffles broke out between police and about 200 protesters. Police officers arrested several protest leaders. Police officers used pepper spray, handcuffs and hard plastic bands to restrain the protestors. The police said in a statement that 231 had been detained for illegal assembly and obstruction of public places.

On 4 September, 5,000 people protested against inadequate measures to curb inflation and called on the government to reinstate the Home Ownership Scheme.

On 24 September, 1,500 people marched from Causeway Bay to the new Government Headquarters to protest against the Government's proposed replacement mechanism to fill LegCo mid-term vacancies.

On 15 October, the "Occupy Wall Street" movement spread from the US to Central in Hong Kong. About 300 protesters gathered in protest. A semi-permanent Occupy camp also appeared in the Central Business District.

On 23 October, 1,500 people marched to the new Government headquarters protesting against the prospect of right of abode (ROA) for foreign domestic helpers (FDHs). (We cover this issue in more detail later in this report.)

Freedom of Expression

The Joint Declaration Clause 3 (5) and Article 27 of Hong Kong's Basic Law provides for freedom of the press and publication. Over the reporting period Hong Kong's print, broadcast and digital media carried full and lively coverage of political and economic stories in Hong Kong, Mainland China and internationally. In general, we assess freedom of press and publication was upheld. However, we note below a number of cases of potential concern:

On 1 July, the Hong Kong Journalists Association [HKJA] said police violated their own rules when they arrested a television intern as police broke up crowds during the annual 1 July march. She was held overnight for 10 hours and later released on police bail. HKJA chairwoman Mak Yin-ting said: "I can't see the reason for the arrest. We understand that journalists don't have the privilege in doing whatever they want to do...But according to police general procedures, cameramen and photographers have to be given a vantage position to cover events. So barring the reporter violates not just freedom of the press but also their own internal guidelines."

On 3 July, a police spokeswoman said that all those arrested were protesters who were sitting and unwilling to leave. "One of the arrested persons claimed herself to be a reporter. All the protesters, including this person, have been released. The police respect the public's freedom of speech and assembly and also press freedom. We arrested them for obstruction in a public area and unlawful assembly."

On the same day, the Hong Kong Journalists Association's annual report for 2011 - titled "Two Systems Compromised: Free Expression under Threat in Hong Kong" said their main finding was that the year from July 2010 to June 2011 had not been conducive to freedom of expression in Hong Kong. The report suggested the SAR Government was becoming more sensitive to Beijing's wishes, insofar as the police had become less tolerant of protesters,

particularly those staged outside the Central Government's Liaison Office. In the report, the HKJA also called on the SAR Government to take a more positive approach towards freedom of expression issues.

On 31 August, the then SAR Chief Secretary, Henry Tang met with the Hong Kong News Executives' Association (HKNEA) and the Hong Kong Journalists Association (HKJA) and said:

“At the meeting with HKNEA and HKJA, I emphasized the Government's determination to uphold the freedom of the press and freedom of expression as one of our core values.... The Government and the media share the same responsibility, which is to serve the public. It is important to maintain our continuing and effective dialogue. There is room to improve the press arrangements for official events. We will continue to discuss this with the media and make suitable adjustments in future as we move forward. We will review the security measures in relation to press coverage to ensure that these measures are reasonable and they are appropriate. We will seek to strike the right balance between security arrangements and the protection of civil rights as well as press freedom”.

On 14 October, the HKJA complained that LegCo set up unreasonable media arrangements during Chief Executive Donald Tsang's Policy Address on 12 October. According to the HKJA, the arrangements restricted reporters' access and prevented them from asking follow-up questions, speaking to legislators or taking photos in LegCo except in the public gallery. The HKJA said they found the arrangements unacceptable and criticised the Government for seriously infringing press freedom and depriving demonstrators and legislators of their freedom of expression.

On 12 November, at a special meeting of LegCo's Panel on Security, pan-democratic lawmakers and civic groups complained about restrictions on press and public access to the new Government Headquarters building which opened in September.

LEGAL AND JUDICIAL

Right of Abode

Three cases relating to right of abode (ROA) in Hong Kong came before the courts over the reporting period. The issue became the subject of intense media and public interest, including in the context of Hong Kong's relationship with Mainland China.

The legal cases concerned the right of abode of foreign domestic workers, who, unlike the majority of expatriate workers, do not currently qualify for right of abode after seven years' employment in Hong Kong.

On 1 August, the Government warned that around 100,000 Foreign Domestic Helpers (FDHs) and 300,000 of their family members could become permanent Hong Kong residents if three FDH families with cases before the courts won their legal battle for right of abode in Hong Kong. Despite pressure from some quarters to do so, the Government said they would not seek an interpretation of the relevant clause of the Basic Law (Hong Kong's mini constitution) from the National People's Congress Standing Committee (NPCSC) on the right of abode question until the legal and judicial processes had been concluded. Even then, they would only consider requesting an interpretation if the courts ruled in favour of the domestic helpers' application for right of abode.

On 30 September, in a landmark ruling, Court of First Instance Judge Johnson Lam declared that an Immigration Ordinance provision, which excluded FDHs from applying for right of abode after seven years of uninterrupted stay, was unconstitutional as it contravened the Basic Law.

In response, Secretary for Security Ambrose Lee said that: "The Government respects but is disappointed with the ruling of the Court of First Instance. The Government, with respect, firmly believes that the constitutionality of the relevant provision of the Immigration Ordinance should be upheld". Subsequently, the SAR Government lodged an appeal against the ruling, but did not refer to the NPCSC for an interpretation of the Basic Law during the reporting period.

During this reporting period, there were a number of calls for an amendment to the Basic Law so that babies born to Mainland women would no longer be granted permanent right of abode. The local media reported extensively on the increasing number of births in Hong Kong to expectant mothers from Mainland China, with estimates of around 40,000 births to Mainland women in 2010.

We will continue to monitor developments on the right of abode issues in the next reporting period.

FG Hemisphere/ Congo Case

In our last report, we covered the FG Hemisphere Associates sovereign immunity case in detail. We noted that the Court of Final Appeal (CFA) had rejected an application by the Democratic Republic of Congo to seek an

interpretation from the National People's Congress Standing Committee (NPCSC) on the case, preferring to consider it themselves. On 8 June, the CFA itself requested an interpretation from the NPCSC on Articles 13 and 19 of the Basic Law on points arising from the case. This was the first time such a request was made on the CFA's own initiative; and the fourth interpretation of the Basic Law since the establishment of the SAR.

On 26 August, the NPCSC passed an interpretation which, stipulated that the Hong Kong courts must follow Mainland law on state immunity rather than the restricted diplomatic immunity arrangements under the common law. Following this the Ministry of Foreign Affairs issued three letters to the Constitutional and Mainland Affairs Bureau of the SAR Government in which it said that "the doctrine of state immunity that China has consistently and firmly adhered to applies uniformly to the whole state, including the Hong Kong SAR". The letters further stated that Hong Kong's application of a principle of state immunity that is inconsistent with the position of the state would "prejudice the sovereignty of the state".

Article 13

The Central People's Government shall be responsible for the foreign affairs relating to the Hong Kong Special Administrative Region.

Article 19

The courts of the Hong Kong Special Administrative Region shall have no jurisdiction over acts of state such as defence and foreign affairs.

On 8 September, the CFA handed down its final judgment, in conformity with the NPCSC interpretation of the Basic Law which confirmed the provisional ruling by the CFA in June that a state's commercial activities were immune from litigation in Hong Kong. The judgment confirmed the NPCSC's interpretation that absolute immunity must be given to all states and the Hong Kong SAR Government must follow Mainland law concerning foreign affairs. Justice Patrick Chan Siu-oi, Justice Roberto Ribeiro and Justice Anthony Mason said it was in line with the interpretation made by the National People's Congress Standing Committee on 26 August. Justice Kemal Bokhary and Justice Barry Mortimer, who in a minority opinion had opposed the referral to Beijing, said: "Now that the Standing Committee has given an interpretation, we recognize that these appeals must be decided in conformity with that".

HONG KONG – ECONOMY

Following the strong growth during the first half of 2011, Hong Kong's growth moderated to 4.3 percent in the third quarter and 3 percent in the fourth quarter, compared with a year earlier. The economy grew at 5 percent in 2011 as a whole. The deterioration in the external economic environment also started to affect Hong Kong's merchandise exports. The growth in total exports of goods slowed sharply to 3.6 percent in 2011. Compared with a year earlier, total exports of goods declined slightly in the third quarter, recovering to grow 2.2 percent in the fourth quarter. However, inbound tourism and cross-border commercial and financial activities supported exports of services, which grew 6.3 percent in 2011 as a whole.

Consumer price inflation reached a high of 6.4 percent (year on year) in the third quarter. For the whole of 2011, inflation was 5.3 percent. External factors such as higher imported food and commodity prices and domestic factors such as higher wages and an earlier surge in private housing rentals contributed to the increase. Higher wages were supported by a tight labour market: unemployment hit a 13-year low of 3.2 percent in the third quarter.

Hong Kong continued to strengthen its position as the leading offshore renminbi (RMB) centre. According to the Hong Kong Monetary Authority, RMB deposits stood at RMB 589 billion (£60 billion) in December. RMB trade settlement amounted to RMB 239 billion (£24 billion) in December (compared with RMB134 billion (£14 billion) in the first half of 2011), with over 80 percent of the Mainland's trade that is settled in RMB going through banks in Hong Kong. On 20 October, the State Council gave approval to the first Mainland non-financial enterprise (Baosteel) to issue RMB bonds in Hong Kong, which totalled RMB 6.5 billion (£656 million).

On 12 October, the Chief Executive Donald Tsang gave his final Policy Address in which he announced a series of social and economic policies intended to support the future development of Hong Kong. These included the launch of a new Home Ownership Scheme in response to the increased demand for affordable housing.

On 13 December, Supplement VIII to the Closer Economic Partnership Agreement (CEPA) was signed between the Hong Kong SAR Government and the Central People's Government. The aim of the agreement was to deepen and accelerate the liberalisation of trade in goods and services and increase cooperation between Hong Kong and Mainland China.

UK/HONG KONG – BILATERAL

Bilateral ties between Hong Kong and the UK remained in excellent shape throughout the reporting period. The strength of the relationship was reflected in an intensive programme of visits and exchanges in both directions.

HRH The Duke of York and HRH The Earl of Wessex visited Hong Kong in this period, the latter to support the Hong Kong Award for Young People. Visits by British Ministers included those of the then Transport Secretary Philip Hammond, Parliamentary Under Secretary of State for Energy and Climate Change Lord Marland, and Further Education Minister John Hayes.

Chief Executive Donald Tsang made a high profile visit to the UK in September, which included meetings with the Prime Minister, Foreign Secretary and Chancellor of the Exchequer. The visit was part of a major series of promotional events including a large scale business conference, a film festival and cultural events and was the biggest Hong Kong promotion in the UK since the Handover.

Legal and Judicial ties also continued to flourish. In September, Lord Phillips, Chief Justice of the UK Supreme Court, led a delegation of judges from the UK Supreme Court to Hong Kong. Hong Kong Chief Justice Geoffrey Ma Tao-li paid an official visit to the UK in November.

The House of Commons Select Committee for Culture, Media and Sport paid a short visit to Hong Kong in December. At a working level, exchanges between officials continued on policy issues including offshore renminbi internationalisation, social development, climate change, financial service regulation, education policy and law enforcement co-operation.

EDUCATION LINKS

The academic year 2011-12 was an important one for UK-Hong Kong relations in education. In 2012 the first students will complete the new school-leaving qualification, the Hong Kong Diploma of Secondary Education. The new academic structure will mean that Hong Kong students will now leave school one year earlier than under the previous UK-style model that prepared students for GCSE and A-level equivalent examinations, and move instead to a four year undergraduate system.

As a result of continued strong relations between Hong Kong and the UK, new pathways have been agreed for students to continue to have access to UK higher

education, despite the changes to secondary education arrangements. Numbers of Hong Kong students applying to the UK through the Universities and Colleges Admission Service (UCAS) have sharply increased, and were up 37 percent on the same period last year for 2012 entry. The number of Hong Kong students studying in UK further education colleges increased by 17 percent in 2011, while UCAS applications for the 2011/12 academic year were up by 18 percent at the end of June 2011. The number of new Hong Kong students enrolled at independent schools in the UK had increased by 21 percent by September 2011, bringing the total to 5,859.

Education links between the UK and Hong Kong have been further strengthened through UK participation in the Ministerial Roundtable and International Education Expo, which was organised by Hong Kong's Education Bureau to celebrate the reforms. The event was attended by the UK's Further Education Minister John Hayes, and facilitated by Sir Michael Barber, Chief Education Advisor at Pearson.

BRITISH COUNCIL

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

- 220,582 people visited the British Council website
- 101,299 visited / contacted their customer services centre
- 24,004 students took exams with the British Council
- 10,015 learners were engaged in English learning services
- 157 Arts, Education and Science events took place

TRADE AND INVESTMENT

Bilateral trade between Hong Kong and the UK in goods in 2011 amounted to £12.4bn. Hong Kong was the UK's 13th largest export market for goods and the 3rd largest in Asia, after Mainland China and India. Exports of goods in 2011 amounted to £5bn, an increase of 20.5percent compared with 2010.

During the reporting period, UK Trade & Investment (UKTI) supported six Trade Missions to Hong Kong, and the UK participated at four international trade fairs in Hong Kong. Hong Kong continued to be an important market for inward investment into the UK. UKTI's pipeline of projects from Hong

Kong was strong, with two inward investment project successes and a further 9 new investment projects added to the pipeline.

CONCLUSION

The Foreign Secretary's six-monthly reports to Parliament reflect the UK Government's continued 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 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, in general, the "One Country, Two Systems" principle enshrined in the Joint Declaration continues to work well and that the rights and freedoms guaranteed in the Joint Declaration have been respected.