



# **Six-monthly Report on Hong Kong**

## **1 July – 31 December 2008**





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*Presented to Parliament  
by the Secretary of State for Foreign and Commonwealth Affairs  
by Command of Her Majesty  
March 2009*

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## FOREWORD

This is the twenty-fourth 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 2008.

The period under review will no doubt be remembered for two events of global significance: the 2008 Olympics and the turmoil that has affected world markets since the collapse of Lehman Brothers in September.

Hong Kong can be proud of the role it played in the 2008 Olympic Games. The organisation of the equestrian events was flawless. Visiting British participants, officials and spectators were immensely impressed. We were delighted that the British Museum was able to bring its spectacular exhibition of artefacts relating to the Ancient Olympic Games to the Hong Kong Heritage Museum at the time of the equestrian events. My colleague, Gerry Sutcliffe, Minister for Sport, attended the opening. HRH The Princess Royal visited Hong Kong to watch the equestrian events of the Olympic Games, and HRH The Earl of Wessex to watch the equestrian events of the Paralympics.

Hong Kong has also risen to the challenge of the global economic crisis, including by taking part in China's delegation to the G20 Summit in December. The Prime Minister was pleased to discuss the response to the crisis with Chief Executive Donald Tsang when he visited London in November. We look forward to working with Hong Kong in carrying forward the international response to the crisis, including in the run up to the London Summit in April.

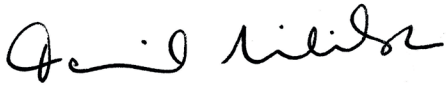
Aside from these momentous events, we have continued to observe closely Hong Kong's political development. The number and diversity of candidates from across the political spectrum in September's Legislative Council elections was evidence of Hong Kong's growing political maturity. The elections were very well run. All the candidates are to be congratulated for the manner in which they conducted their campaigns.

2009 will be an important year for Hong Kong's political development. I discussed constitutional reform with the Chief Executive in London in November. FCO Minister of State Bill Rammell MP also discussed constitutional reform with senior members of the SAR Government when he visited Hong Kong in January. During his meetings, he made particular reference to the postponement of the consultation on electoral reform, which was announced the previous week, and made clear our concern that there should be no further slippage in the timetable.

In this report, we welcome this clear commitment that 2012's elections will be progressively more democratic, in preparation for the attainment of universal suffrage for the Chief Executive Election in 2017 and the Legislative Council in 2020. We believe that this is important in ensuring Hong Kong's democratic development. We look forward to the timely conclusion of the consultation period and to seeing the Government's proposals following it.

In this report, we also note the Chief Executive's clear commitment to building a low carbon economy. This is another area on which we have developed our bilateral dialogue with Hong Kong and we look forward to co-operating with Hong Kong to meet the challenge of climate change.

I will continue to take an interest in Hong Kong and to report to Parliament, in line with the British Government's responsibilities to the people of Hong Kong in the Sino-British Joint Declaration.

A handwritten signature in black ink, appearing to read 'David Miliband', written in a cursive style.

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

### The Legislative Council elections

1. On 7 September, Hong Kong's voters elected the Fourth SAR Legislative Council (LegCo). As with the Third LegCo, this comprises 60 members: 30 returned from geographical constituencies through direct elections and 30 from functional constituencies representing different sectors of the community. In the 2008 elections, the geographical constituencies had a total electorate of around 3.37 million registered voters. The functional constituencies had a total of 229,861.
2. Of these, a total of 1.52 million exercised their right to vote in the geographical constituencies, representing a turnout of 45.2% (the turnout in the 2004 LegCo elections was 55.6%). In response to a media question on the morning following the elections, Secretary for Constitutional and Mainland Affairs Stephen Lam said, "I believe that in overall terms, the turnout rate of 45% and the actual voter participation of 1.52 million is acceptable and would provide an adequate basis for us to roll forward Hong Kong's democratic development in future".
3. A record number of 204 candidates ran: 144 in the geographical constituencies; and 45 candidates in the 16 functional constituencies that were contested.
4. The Democratic Alliance for the Betterment and Progress of Hong Kong (DAB) again emerged as the largest single party, winning 10 seats (a decrease of two from 2004). The Democratic Party won eight seats (down from nine). The Liberal Party won seven seats (down from 10). All of the Liberal Party's seven seats were returned from the functional constituencies. (Their number of seats subsequently fell to three, following the departure of four legislators from the Party.) The Civic Party won five seats and the League of Social Democrats (LSD) won three seats. These results left the balance of power between the main parties in LegCo essentially unchanged. The consensus among observers was that the elections were clean and well run.
5. Local media however reported some allegations of interference by the Central Government Liaison Office (CGLO) in certain functional constituencies during the campaign. For example, Mandy Tam, the Civic Party's candidate for the Accounting functional constituency was quoted as saying on 3 August that, "There are Liaison Office people who contacted members of the Accountancy sector asking them to support pro-Government candidates". Allegations of CGLO involvement were also made in the Medical functional constituency and the Kowloon West geographical constituency.

6. Following the elections, a spokesperson from the British Consulate-General was quoted in the local media congratulating all of the successful candidates.

## Democratic development

7. The debate in Hong Kong on constitutional development continued during this reporting period, in particular on progress towards the introduction of full universal suffrage in 2017 and 2020, as envisaged by the National People's Congress Standing Committee's decision in December 2007. On 21 September, a spokesperson from the Constitutional and Mainland Affairs Bureau said, "Between 2008 and 2012, we should endeavour to roll forward Hong Kong's electoral methods to a mid-way point... Our aim is to determine the two electoral methods for 2012 within the tenure of the third-term Hong Kong SAR Government. This would lay a firm foundation for attaining universal suffrage for the Chief Executive in 2017, and for the LegCo (Legislative Council) in 2020". **We welcome this clear commitment that 2012's elections will be progressively more democratic in preparation for the introduction of full universal suffrage in 2017 and 2020.**
8. A particular focus of debate has been the role of functional constituencies in future electoral arrangements. In an interview on Commercial Radio on 28 September, Under Secretary for Constitutional and Mainland Affairs, Raymond Tam said that the key to deciding if functional constituencies conformed to the principle of universal suffrage was whether they were "universal and equal". He defined this as "everyone having a share" and "everyone having the same share". Mr. Tam said that if people only have one vote, then everyone should only have one vote. If some people have two, then everyone should have two. Representatives of the pan-democrat parties have however made clear their views that functional constituencies are not compatible with a system of full democracy, or with Article 25 of the International Covenant on Civil and Political Rights<sup>1</sup>.
9. On 18 November, in a speech at the Hong Kong Trade and Development Council's (TDC's) dinner in London in honour of Hong Kong Chief Executive Donald Tsang, the Rt Hon Baroness Scotland QC, Attorney General for England and Wales said,

"..we are following with great interest the debate in Hong Kong on further democratic development, and look forward to the proposals your administration will be putting forward next year for the 2012 elections. As I commented during my last visit to Hong Kong in September last year, you have a rare opportunity – perhaps a once in a generation chance – of making government more relevant to today's society and the future challenges it faces".

10. On 15 December, in response to a media question after attending the LegCo Constitutional Affairs Panel, Secretary for Constitutional and Mainland Affairs, Stephen Lam said, "We have already said that we will conduct the relevant public consultation [on electoral arrangements for 2012] in the first half of 2009".

<sup>1</sup> Article 25 of the ICCPR states that "Every citizen shall have the right and the opportunity, without any of the distinctions mentioned in article 2 and without unreasonable restrictions:

- a) To take part in the conduct of public affairs, directly or through freely chosen representatives;
- b) To vote and to be elected at genuine periodic elections which shall be by universal and equal suffrage and shall be held by secret ballot, guaranteeing the free expression of the will of the electors;
- c) To have access, on general terms of equality, to public service in his country".



## THE LEGISLATIVE COUNCIL, LEGISLATION, AND THE CIVIL SERVICE

### The Legislative Council

11. Following the LegCo elections, legislators voted for the new President of the Council, to replace Rita Fan. On 8 October, DAB Legislative Councillor Jasper Tsang Yok-Sing defeated Fred Li of the Democratic Party by 36 votes to 24. Mr. Tsang is the first LegCo President to be a member of a political party. Some legislators alleged that Mr. Tsang was also a current member of the Chinese Communist Party. Mr. Tsang declined to confirm or deny such allegations and following his election he said, “Where my priorities lie will show when I begin my work. I will prove my impartiality with my work so that I can gain my colleagues’ trust and support”. Following his election, Mr. Tsang resigned from the Executive Council, and was replaced by DAB legislator Lau Kong-Wah.
12. Twelve elected legislators in Hong Kong continue to be prevented from travelling freely to Mainland China. On 4 July, four pan-democratic legislators who have been denied home-return permits since June 1989 – Yeung Sum, James To, Lee Wing-tat and Lee Cheuk-yan – were issued single entry permits to join a LegCo delegation to the areas of Sichuan affected by the 12 May earthquake. However, Mainland authorities refused to issue a fifth legislator, Leung Kwok-hung with a permit to cross the border. Speaking about that refusal, Chief Executive Donald Tsang said, “The Mainland authorities said this [his political intentions of the trip] did not coincide with the reason why the Legislative Council delegation is visiting the worst hit zones, thus it refused to issue him a home-return permit”. Mr. Leung said that he had prepared a letter for Sichuan officials “expressing concern over substandard construction in the province”.
13. On 6 October, in a debate in LegCo ahead of the elections for the position of LegCo President, Civic Party Chair Audrey Eu asked Jasper Tsang Yok-Sing to pledge to build good relations between LegCo and the Mainland authorities. In his response, Mr. Tsang said, “I will do my utmost to deal with it. But it is the Mainland authorities who make decisions... I believe the question could be solved to break the ice. It would be good for the Mainland if lawmakers were allowed entry to the country”. As we have said in previous reports, **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 Standing Committee of the National People’s Congress. We hope that the Chinese authorities will allow all legislators who wish to visit the Mainland to do so, to further develop dialogue and understanding.**

### Legislation

14. In our last report, we reported the progress of the SAR Government’s proposed Race Discrimination Bill and the various concerns that members of Hong Kong’s community and others had expressed about the draft bill. In a response to our report, a spokesperson from the SAR Government said, “In resuming [the] second reading debate on the Race Discrimination Bill, we proposed a number of amendments (including provisions regarding the application to the Government and the definition of race discrimination) to address the views received from LegCo Members and other parties”. Several legislators believed that these amendments did not adequately address their concerns. On 9 July, the Chair of the LegCo Race Discrimination Bill Committee, Margaret Ng, proposed a number of further amendments, which were subsequently defeated. The SAR Government sought an amendment exempting “language discrimination” from the scope of the Bill but LegCo rejected this. The Legislative Council passed the Race Discrimination Ordinance (RDO) on 10 July. It was gazetted on 18 July.

15. In response to a media question on 10 July, Secretary for Constitutional and Mainland Affairs Stephen Lam said, “The passage of the Race Discrimination Bill marks a major milestone in the provision of services and statutory provisions regarding anti-discrimination protection for ethnic minorities in Hong Kong”. **We welcome the passing of this legislation in Hong Kong to outlaw discrimination on the grounds of race.**
16. On 13 October, the Equal Opportunities Commission (EOC) published a proposed Code of Practice on Employment (the Code) for public consultation. The purpose of the Code is “to help employers to understand and comply with the RDO and to promote racial equality in the workplace by encouraging good practice”. The Code is expected to be tabled in LegCo in March 2009 and (subject to LegCo’s agreement), to come into effect in April 2009.
17. In his 15 October Policy Address, Chief Executive Donald Tsang announced that the SAR Government would introduce legislation on a statutory minimum wage to LegCo in the 2008-09 session.

### **The Civil Service**

18. During this period, significant controversy arose over the SAR Government’s approval of the appointment by Hong Kong property group New World Development of former Permanent Secretary for Housing, Planning and Lands, Leung Chin-man, as the Executive Director of their Mainland subsidiary. The appointment had been approved by the Advisory Committee on Post-service Employment and the Secretary for the Civil Service, Denise Yue.
19. As Permanent Secretary for Housing, Planning and Lands, Mr. Leung had approved the controversial sale in 2004 of the government-owned Hung Hom housing estate to New World Development. Several legislators questioned whether the appointment might lead to potential conflicts of interest.
20. After investigating the procedures relating to Mr. Leung’s appointment, Secretary for the Civil Service, Denise Yue said that Mr. Leung’s involvement in the Hung Hom case had “not been considered” during the approval process.
21. On 1 October, the Chief Executive appointed an 11-member committee chaired by Executive Councillor Ronald Arculli and comprising legislators, academics and business representatives, as well as the Secretary for the Civil Service, to review the policy on former senior civil servants applying for new jobs in the private sector. It will report its findings in 2009. LegCo passed a motion on 10 December to establish a separate select committee to investigate the Leung case.
22. In our last report, we covered the expansion of the political appointment system to include eight Under Secretaries and nine Political Assistants. On 8 December, the Secretary for the Civil Service, Denise Yue, published an open letter to Hong Kong civil servants in which she invited their views on a draft Civil Service Code. She said that the Civil Service Bureau would also be inviting views from serving politically appointed officials, the Public Service Commission and the LegCo Panel on Public Service before the end of February with the aim of finalising the Code in the first half of 2009.

## LEGAL AND JUDICIAL

23. On 7 July in a meeting with Chief Executive Donald Tsang and principal Executive, Legislative and Judiciary officials in Hong Kong, Chinese Vice President Xi Jinping delivered a speech in which he said, “There should be mutual understanding and support among the executive authorities, the legislature and the judiciary”.
24. On 9 July, the Hong Kong Bar Association (HKBA) issued a statement in which it said, “These remarks have caused debates and concerns, especially in respect of the call for mutual understanding and support amongst the Executive, the Legislature and the Judiciary. The Bar does not attribute to Vice President Xi any intention to interfere with the independence of our Judiciary... However, the Bar believes it is important to recognise, reiterate and affirm the importance of an independent Judiciary in the Hong Kong SAR, which is of vital importance to the maintenance of the Rule of Law in the Hong Kong SAR as well as its long term stability and prosperity. The Judiciary in Hong Kong has always been, and under the Basic Law it shall remain, separate and independent from the Executive and the Legislature”.
25. In an opening speech at a legal conference on 10 December, Chief Justice Andrew Li said, “Having regard to their proper role on judicial review, the courts cannot provide a solution to any of the various political, economic and social problems which have to be dealt with by society in modern times. Within the limits of legality as determined by the courts, the appropriate solution to any political, economic or social problem can only be found through the political process”.
26. During a visit by a delegation of the Hong Kong Bar Association (HKBA) to Beijing between 11 and 15 December, the HKBA delegation met Deputy Secretary General of the NPC Standing Committee, Qiao Xiaoyang. According to a HKBA press release of 17 December, “Mr. Qiao reiterated that judicial independence is guaranteed under the Basic Law. Members of the Bar’s delegation expressed the view that it would be desirable to enhance the transparency of certain aspects concerning the interpretation of the Basic Law, especially the questions of when and how the NPC Standing Committee would exercise its power to interpret the Basic Law”.
27. On 8 December, Hong Kong’s Court of First Instance passed a judgement on three judicial review cases regarding prisoners’ voting rights. The applicants were two current prisoners – Mr. Chan Kin-sum and Mr. Choi Chuen-sun – and League of Social Democrats legislator Leung Kwok-hung. In his concluding remarks, Mr. Justice Andrew Cheung said, “...the disenfranchisement provisions relating to voting and registration contravene the right to vote constitutionally guaranteed under Article 26 of the Basic Law and Article 21 of the Hong Kong Bill of Rights, so far as they affect prisoners... Arrangements should be made to enable prisoners to vote on election day”. In response, a spokesperson for the Constitutional and Mainland Affairs Bureau said, “We are carefully studying the judgement and will consider the way forward, including whether we shall lodge an appeal. If we follow the Court’s judgement, we shall consult the public on prisoners’ voting arrangements and amend the relevant electoral legislation accordingly”.

## “ONE COUNTRY TWO SYSTEMS”

### Budgetary independence

28. Following the Sichuan earthquake in May, the Chinese Central People’s Government ordered 19 Mainland provinces and cities to donate one per cent each of their fiscal revenue per year for three years to contribute to the rebuilding of areas affected by the earthquake. Several legislators and legal professionals in Hong Kong expressed concern that linking Hong Kong’s proposed donation to a certain percentage of income or tax revenue in a similar way (which was projected to cost around HK\$10.5 billion) might give the impression that it constituted a levy and could therefore be in contravention of Article 106 of the Basic Law<sup>2</sup>.
29. On 18 July, LegCo’s Finance Committee approved the injection of HK\$2 billion into a Trust Fund in Support of the Reconstruction in the Sichuan Earthquake Stricken Areas. In proposing this donation, a spokesperson for the Hong Kong SAR Government had said, “Taking into account the overall expenditure required for the construction work, the proposed mode of Hong Kong SAR’s participation in the reconstruction work and the government’s affordability, and on the prerequisite that our work to improve Hong Kong’s economy and livelihood will not be affected, we have proposed to the Finance Committee to create a financial commitment of \$2 billion. Our preliminary assessment is that the overall commitment should not exceed \$10 billion and the commitment will be reduced correspondingly after offsetting donation (sic) from the public”.

### BASIC RIGHTS AND FREEDOMS

30. On 7 November, the United Nations (UN) Committee Against Torture began its review of Hong Kong’s second report on progress made in effecting the Convention Against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment. In advance of this, the Hong Kong Human Rights Commission submitted a report stating that despite new police guidelines on searching detained persons introduced on 1 July, the “Immigration Department and Correctional Services Department still conducted routine strip searches” in which “abusive and degrading treatment takes place”.
31. In a 7 November press release, the SAR Government said it was monitoring the “more stringent requirements” set out in the new police guidelines in order “to ensure that frontline officers give due regard to the privacy and dignity of the detainees when conducting searches”. In its Concluding Observations of 21 November, the UN Committee welcomed the guidelines but expressed concern at the “Police Commissioner’s determination that every person in police custody has to be searched every time he or she enters a detention facility”. The Committee expressed further concern at “allegations of abusive strip searches” and “allegations of routine practice of body cavity searches”.
32. In a press release on 28 November, the Hong Kong Bar Association urged the SAR Government to “seriously consider” the UN Committee’s Concluding Observations. It added, “the Commissioner of Police’s determination sanctioning the routine search of a person in police custody every time he or she enters a police detention facility must be reviewed with a view to its abolition”.

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<sup>2</sup> Article 106 states that “The Hong Kong SAR shall use its financial reserves exclusively for its own purposes, and they shall not be handed over to the Central People’s Government. The Central People’s Government shall not levy taxes in the Hong Kong Special Administrative Region”.

33. The UN Committee also highlighted the enactment of the Independent Police Complaints Council Ordinance and of procedures for asylum applications. The Committee welcomed the former but said of the latter that it was “concerned there was still no legal regime governing asylum and establishing a fair and efficient refugee status determination procedure”.
34. On 23 December, the SAR Government published a report submitted under the Universal Periodic Review (UPR) mechanism of the United Nations Human Rights Council (UNHRC). The report constitutes part of Mainland China’s report submitted earlier to the UNHRC, which is conducting a UPR on the human rights situation of all 192 member states of the UN. An SAR Government spokesperson said, “The report describes the framework and measures for promotion and protection of human rights in Hong Kong. It also sets out the developments, achievements and challenges faced in various human right issues. The Government conducted a public consultation during the drafting of the report in September. The report has taken into account the comments received during the period”.
35. The report itself said: “[The SAR Government] attached great importance to promotion of human rights through public education and publicity”.

### **Article 23 of the Basic Law**

36. On 22 October, the Macao SAR Government announced a draft security bill. Article 23 of both the Basic Laws of Macao and Hong Kong state that the SARs “shall enact laws... to prohibit any act of treason, secession, sedition, subversion against the Central People’s Government...”. The decision raised concerns in the media and among some legislators that the Hong Kong SAR Government would revive plans shelved in 2003 to introduce similar laws in Hong Kong. The Hong Kong SAR Government issued a press release on the same day in which it said, “At the present stage, the Hong Kong SAR Government has no plan to embark on the BL23 [Article 23] legislative work. The most pressing commitments of the government are to tackle economic and people’s livelihood issues”. Xinhua News Agency reported on the same day that the Central Government Liaison Office (CGLO) said they agreed with the SAR Government’s stance. However, several pan-democratic legislators continued to express their concerns that the Hong Kong SAR Government might re-introduce the controversial legislation in Hong Kong.
37. On 23 October, in response to a question from a local reporter regarding the introduction of Article 23 legislation in Macao, a spokesperson from the British Consulate-General Hong Kong said, “**We hope there will be the widest possible consultation before legislation is introduced. It is important that the legislation will not undermine basic human rights and freedoms. We have seen no signs that Article 23 legislation is on the Government’s current agenda here**”.
38. On 20 December, nine legislators and fifteen other Hong Kong residents who intended to join a protest against the introduction of national security legislation in Macao were denied entry to Macao. Hong Kong’s Secretary for Security Ambrose Lee was quoted in local media as saying that the Hong Kong SAR Government respected the Macao SAR Government’s decision. Macao SAR Government’s Public Security Police issued a press release, saying that it “has the responsibility according to law to bar any non-Macao resident who is in violation of the immigration regulations from entering, to preserve public safety and social order”.

## Freedom of expression

39. In our last report, we noted that the Hong Kong authorities had denied entry to a number of campaigners in the run-up to the Olympic and Paralympic Games. On 1 August, two campaigners with German passports from the Paris-based “Federation for a Democratic China” were not permitted to leave the airport when transiting Hong Kong and were detained overnight. The following day, two more campaigners, holding respectively, Australian and New Zealand passports were refused entry. On 6 August, three further human rights activists were refused entry. On 24 August, a British passport holder and Falun Gong practitioner who said he was travelling to Hong Kong on business and had no plans to conduct any protest activities was refused entry. As we said in our last report, **we have expressed our concern that such exclusions risk giving the impression that freedom of expression is being compromised in Hong Kong, and that this could damage Hong Kong’s international reputation.**
40. Also in our last report, we noted the removal by police of Hong Kong University student, Christina Chan, during the Olympic Torch relay after unfurling a Tibetan flag. Ms. Chan subsequently filed for judicial review arguing that the Commissioner of Police had had a legal duty to protect her and her fellow demonstrators to enable them to complete a peaceful demonstration, rather than removing them from the scene. On 21 November, Mr. Justice Andrew Cheung agreed in the Court of First Instance that Ms. Chan’s claims that her constitutional rights were violated should be heard in a substantive hearing. No date had been set at the time of writing.

## Media

41. On 12 December, the SAR Government won an appeal over the constitutional status of the radio licensing system. The Appeal Court set aside a ruling by a magistrate on 8 January 2008, who upheld a challenge by legislator Leung Kwok-hung and four others that provisions in the Telecommunication Ordinance were contrary to the Basic Law. The five had earlier faced prosecution for making illegal broadcasts on Citizens’ Radio. Mr. Leung said they would appeal. The SAR Government welcomed the court ruling. It said the office of the Telecommunications Authority would continue to enforce the relevant law.

## Marches and demonstrations

42. On 1 July, the annual march to mark the 11th anniversary of the Handover took place. Police estimated 15,500 people took part; organisers put the figure at over 47,000. Amongst the broad range of issues that marchers were highlighting were rising inflation, universal suffrage, the minimum wage, and poverty reduction in the SAR. Some campaigners also called for the introduction of race discrimination legislation and others protested against the new political appointments.

## THE OLYMPICS AND PARALYMPICS

43. Hong Kong hosted the equestrian events of the Beijing 2008 Olympic and Paralympic Games between 9 and 21 August and 7 and 11 September respectively. Following the Games, on 14 September Chinese Vice President Xi sent a congratulatory telegram to the SAR Government, noting the positive feedback from athletes, coaches, officials and spectators in which he said, “I would like to extend my warm congratulations on the successful games”. And in her speech in London on 18 November at the Hong Kong Trade Development Council annual dinner, the Rt Hon Baroness Scotland QC said,

“You hosted a fantastic Games: your organisation of the equestrian events was superb and much praised by those competing. You did an equally impressive job during the Paralympics; and your 11 medals – 5 of them gold – during those Games were extremely well-deserved. Like Mainland China, Hong Kong has set the bar extremely high for London in 2012”.

44. A small number of pro-Tibet and human rights protests took place in Hong Kong during the Olympic equestrian events. Most of the protestors conducted their protests within the designated protest zones a few hundred metres from the venues.

## **ECONOMY, CLIMATE CHANGE, ENERGY AND PUBLIC HEALTH**

### **Economy**

45. On 29 July, the SAR Government and the Chinese Ministry of Commerce signed the next supplement of the Closer Economic Partnership Arrangement (CEPA), effective from 1 January 2009. A total of 29 measures were included in the package, which focused on service industries, and covered 17 sectors. Also included were 25 pilot measures to boost trade and economic co-operation with Guangdong.
46. During most of the reporting period however, Hong Kong's economy was affected by the turbulence in global financial markets. In the third quarter of 2008, Gross Domestic Product (GDP) decreased on a seasonally adjusted quarter-to-quarter basis by 0.5% in real terms, after a contraction of 1.4% in the second quarter. Hong Kong therefore entered into technical recession for the first time since 2003.
47. Following Lehman Brothers' liquidation on 15 September, Hong Kong's Hang Seng Index (HSI) plunged heavily, hitting its lowest point of the reporting period at 10,676 on 27 October. The stock market exhibited extreme volatility, sometimes fluctuating by more than 10% in a single day.
48. Immediately following the liquidation of Lehman Brothers, many investors who had suffered significant losses on complex financial products (so-called “mini-bonds”) linked to Lehman Brothers, protested at alleged misleading sales practices of local banks when marketing the products to retail investors, and complained about insufficient regulatory monitoring of banks' practices. Holders of mini-bonds asked for government intervention to help recuperate their financial losses from banks.
49. In response, on 6 October the SAR Government offered to help mini-bond holders by proposing that banks buy back mini-bonds held by retail investors. In view of widespread public concern, the Legislative Council appointed a subcommittee to study the issue. The Hong Kong Monetary Authority (HKMA) also led its own investigation into complaints of mis-selling against banks.
50. On 24 September, there was a run on the Bank of East Asia (BEA). Thousands of concerned depositors queued up outside BEA branches to demand their deposits back. Panic had spread as a result of text message rumours that BEA was unstable because of its links to troubled

investments made by Lehman Brothers and American International Group (AIG). On 25 September the HKMA injected nearly HK\$4 billion (£330 million) into the banking system, whilst officials continued to offer reassurance about the stability of the banking system. The panic subsided the next day.

51. On 14 October, the SAR Government announced two new measures to restore public confidence within the banking system; a temporary 100% guarantee of all bank deposits held in Hong Kong incorporated banks (to be reviewed at the end of 2010) and the use of the Exchange Fund to establish a Contingent Bank Capital Facility (CBCF) to provide additional capital to banks if necessary. The HKMA also announced five additional temporary measures to ease bank liquidity.
52. On 28 October, the Legislative Council approved two measures to improve the existing Small and Medium Enterprises (SME) Funding Schemes. These included an increase in the grant ceiling of SME Export Marketing Fund (EMF) and four measures to extend the SMEs Loan Guarantee Scheme. And on 10 November, the SAR Government set up an additional, short term, Special Loan Guarantee Scheme to make available an extra HK\$1 million to each SME with a 70% guarantee on the loan.
53. Following a meeting of the Chief Executive's Taskforce on Economic Challenge on 8 December, the Chief Executive announced further measures to tackle the economic slowdown. For SMEs, the SAR Government proposed to increase its overall commitment to the loan guarantee scheme to HK\$100 billion, to increase the maximum loan for each SME from HK\$1million to HK\$6 million and to allow the loan to be used for a wider range of purposes. The SAR Government also said it would aim to create more than 60,000 jobs through expediting infrastructure projects, advancing civil servant recruitment and creating temporary positions.
54. The Chief Executive paid a duty visit to Beijing between 17 and 19 December. Mr. Tsang reported that, amongst other measures, the Central Government would allow eligible firms to perform renminbi trade payment in Hong Kong. It also agreed that the People's Bank of China should sign a currency exchange pact with the Hong Kong Monetary Authority and provide capital support to Hong Kong if necessary. In addition, to ease the burden on Hong Kong's SMEs on the Mainland, the Central Government would further adjust and refine the export tax rebate rate and the labour system.
55. On 15 November, leaders of the G20 met for the Washington Summit to discuss the financial crisis and international co-operation to resolve it. Hong Kong's Financial Secretary, John Tsang and the HKMA's Joseph Yam attended as part of the Chinese delegation.

### **Climate change and Energy**

56. During the reporting period, the SAR Government reiterated its commitment to tackling environmental issues. In his annual Policy Address on 15 October, the Chief Executive called for Hong Kong to move towards a low carbon economy. He said, "We will make early preparations to meet the challenge of climate change. In particular, we will enhance energy efficiency, use clean fuels, rely less on fossil fuel, and promote a low carbon economy – an economy based on low energy consumption and low pollution". The SAR Government also committed to legislate on mandatory building energy codes to improve energy efficiency in new and existing buildings as soon as possible.



57. To supplement this, the SAR Government proposed reserving HK\$150 million under the Environment and Conservation Fund to partially subsidise building owners to conduct comprehensive energy and carbon audits. It proposed reserving another HK\$300 million to offer building owners partial subsidies for energy efficiency projects. The SAR Government also drew up a set of guidelines for reporting greenhouse gas emissions in buildings.
58. Hong Kong Exchange and Clearing (HKEx), Hong Kong's stock market, decided in August this year to introduce a futures contract on Certified Emissions Reductions (CERS) in HKEx's derivatives market as a first step into the emissions trading business. Their tentative timeframe for the launch of CER futures is mid-2009.
59. On 26 September, the UK's Special Representative for Climate Change, John Ashton, visited Hong Kong. During his visit, Mr. Ashton met Hong Kong's Secretary for the Environment, Edward Yau and a number of business leaders to discuss, amongst other things, the development of a low carbon economy in Hong Kong and the Pearl River Delta.
- 60. We welcome and support the SAR's commitment to developing a low carbon economy in Hong Kong. This is an area where we are already increasing our bilateral dialogue. Hong Kong is well-placed to influence the debate on climate change in Mainland China.**
61. On 28 August, the Chief Executive signed a Memorandum of Understanding (MOU) with the Head of China's National Energy Administration, Zhang Guobao, on the continued supply of nuclear energy and natural gas to Hong Kong from the Mainland. This effectively halted a HK\$10 billion plan for China Light and Power (CLP) to build an environmentally contentious LNG terminal on South Soko Island (part of Hong Kong SAR). At the signing ceremony, the Chief Executive said, "The sustained supply of clean energy from the Mainland will greatly reduce the need for Hong Kong to build an LNG terminal within its territory. The resulting reduction in capital investment by the power company concerned will relieve the pressure for electricity tariff increases".

## **Public Health**

62. On 14 September, following the disclosure that milk powder in Mainland China had been found to be contaminated with the chemical melamine, Hong Kong's Centre for Food Safety (CFS) issued a statement quoting the Mainland authorities that "the product concerned was not exported to Hong Kong". Over the following few days, several babies and young children in Hong Kong were diagnosed with kidney stones believed to have been caused by consuming powdered milk products from the Mainland contaminated with melamine.
63. On 23 September, an amendment to the Harmful Substances in Food Regulations came into force to limit the maximum concentration of melamine allowed in food.
64. By the end of December, around 39 products had been detected in Hong Kong containing unsatisfactory levels of melamine. On 31 December, the Centre for Health Protection reported that the number of children in Hong Kong who had developed kidney stones as a result of melamine contamination had risen to 13 (with no fatalities).

65. On 9 December, Secretary for Health and Food Dr. York Chow announced that 60 chickens at a farm near the Mainland border had died from the virulent H5N1 strain of avian influenza. In response, around 80,000 chickens were culled and imports of live birds were banned for 21 days.

## **UK-HONG KONG BILATERAL RELATIONS**

### **Visits**

66. Nigel Evans MP and Stephen Pound MP visited Hong Kong from 16 to 22 July. While the main purpose of their visit was to act as judges in the Hong Kong Parliamentary Debating Society Summer Workshop, they also met local legislators from the DAB, Democratic Party and Liberal Party and a number of business leaders during their stay.
67. HRH The Princess Royal The Princess Anne visited Hong Kong from 9 to 13 August to attend the Equestrian Events of the Beijing 2008 Olympics.
68. HRH The Earl of Wessex The Prince Edward KG KCVO visited Hong Kong from 9 to 11 September to attend the Equestrian Events of the Beijing 2008 Paralympics.
69. Angela Smith MP visited Hong Kong between 28 September and 4 October. During her visit, she met a number of senior SAR Government officials.
70. Philip Dunne MP paid a visit to Hong Kong from 9 to 10 October during which he met the Chief Executive of HKMA, Joseph Yam.
71. Hong Kong Secretary for Constitutional and Mainland Affairs, Stephen Lam, visited the UK on 3 and 4 July. During his visit, he met Foreign and Commonwealth Office Minister Lord Malloch Brown and members of the All-Party Parliamentary China Group, amongst others.
72. Chief Executive Donald Tsang visited London from 18 to 20 November. He had meetings with the Prime Minister, the Foreign Secretary, and was the Hong Kong Guest of Honour at the Hong Kong Trade and Development Council's annual dinner in London.

### **Education**

73. The British Government's Chevening Scholarship Scheme has operated in Hong Kong since 1996. Since then, 496 people have benefited from the Scholarships. In 2008, 16 Scholars were selected. The generosity of Dr. Li Ka-Shing (Chairman of Cheung Kong Holdings and Hutchison Whampoa Ltd), and that of Cambridge University, match funded by the Foreign and Commonwealth Office, has made this number of scholarships possible.
74. Hong Kong remains an important centre of activity for the British Council. The Teaching Centre in Hong Kong is the largest in the British Council's worldwide network with over 48,000 registrations a year, complemented by an extensive community-based programme of English language teaching, which involves many thousands more. One of its key areas of activity is the work it does for the Hong Kong Education Bureau, training teachers in preparation for the roll out of the new senior secondary curriculum in English. It has trained around 1,500 teachers face-to-face and is preparing to deliver training to the remaining 2,000 via a virtual learning platform in the New Year.

75. The British Council's 60th anniversary celebrations culminated on 29 November with its gala dinner co-hosted by the Friends of British Council, a locally registered charity separate from the British Council, which was attended by 600 alumni, partners and stakeholders. This honoured the many relationships the British Council has built over its 60 years in Hong Kong.

### **Trade and inward investment**

76. Bilateral trade between the UK and Hong Kong has grown significantly year-on-year. UK exports to Hong Kong in 2008 amounted to £3.5 billion, an increase of 31% compared with the same period in 2007. Hong Kong is currently the UK's fourth largest export market in the Asia Pacific region, after Mainland China, India and Japan. UK imports of goods from Hong Kong in 2008 amounted to £7.6 billion, an increase of 10%.
77. Over the course of the reporting period, UK Trade & Investment (UKTI) has supported seven Trade Missions to Hong Kong and five 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 three new successful investments into the UK during the reporting period.

### **British Nationals (Overseas)**

78. There are nearly 3.5 million British Nationals (Overseas) (BN(O)), the vast majority of whom live in Hong Kong. We remain fully committed to providing the highest standard of consular and passport services to BN(O) 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**

79. 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 continuing 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.
80. 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 has worked well in practice and that the rights and freedoms guaranteed in the Joint Declaration have been respected.











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