



**THE SIX-MONTHLY REPORT ON HONG KONG
1 JULY TO 31 DECEMBER 2012**

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

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FOREWORD

This is the 32nd 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 from 1 July to 31 December 2012.

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 stable and prosperous society it is today.

The second half of 2012 was a busy period for the Government and people of Hong Kong. The reporting period opened with the inauguration of Chief Executive Leung Chun-ying and his new administration in a ceremony attended by Chinese President Hu Jintao. I congratulate the new SAR Government on their appointment. My colleagues and I look forward to working with them.

In his inauguration speech, Mr Leung pledged, “To uphold justice, protect the rights of the people, and safeguard the rule of law, clean government, freedom and democracy which are amongst the core values of Hong Kong”. I welcome Mr Leung’s commitment to defend Hong Kong’s freedoms and values.

The Legislative Council elections in September saw for the first time more than half the seats in Hong Kong’s legislature directly elected by the people of Hong Kong – a significant step forward in Hong Kong’s democratic development. Record numbers of voters turned out to cast their ballots in what was generally recognised as a well-managed electoral process, although we noted some media reports of concern regarding possible interference in the election by the Chinese Central Government Liaison Office in Hong Kong.

In October Mr Leung used the occasion of his first major address to the Legislative Council to set out his vision and priorities for Hong Kong. We welcome his strong

focus on important livelihood issues including increasing housing supply, the introduction of an old age allowance and measures to tackle poverty.

Mr Leung's administration has faced some challenges in its first months in office including widespread public opposition to plans to introduce Moral and National Education (MNE) to Hong Kong schools and opposition in the Legislative Council to proposals for an old age living allowance.

I believe that the process of delivering change for Hong Kong will be smoother once the Chief Executive enjoys a popular mandate. I look forward to learning more about the administration's plans for constitutional reforms to pave the way for direct elections for the Chief Executive in 2017 and a fully elected Legislative Council in 2020.

On the UK-Hong Kong bilateral relationship, I am pleased that we continue to have regular exchanges across the range of our common interests, including the important co-operation between London and Hong Kong on internationalisation of the Renminbi (RMB); the sporting ties we deepened through the participation of Hong Kong teams in the London 2012 Games; and our interest in supporting Hong Kong's visionary infrastructure and development projects. I am confident that our ties in all these areas will continue to flourish and deepen over the coming months and years.

Rt Hon William Hague MP
Foreign Secretary

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

INTRODUCTION

This series of 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 matters related to defence and foreign affairs, and that the continuation of Hong Kong's social and economic systems, lifestyle, rights and freedoms would be guaranteed.

CONSTITUTIONAL DEVELOPMENTS

This reporting period commenced on 1 July, which marked both the 15th Anniversary of the Handover of Hong Kong and the inauguration of the fourth term SAR Government. The second key event in the constitutional calendar during this period was the election of the expanded Legislative Council on 9 September. The report considers these and other aspects of Hong Kong's democratic development, autonomy, rights and freedoms in more detail.

Inauguration of the new Chief Executive

On 1 July, Chinese President Hu Jintao presided over the inauguration ceremony for the fourth term SAR Government in which the newly appointed Chief Executive Leung Chun-ying (CY Leung), 20 Principal Officials and the 13 members of the Executive Council took their oaths of office. In his speech during the ceremony,

President Hu set out four specific expectations for the new Chief Executive and his administration, to: promote social harmony and stability; uphold the authority of the Basic Law; enhance the city's competitiveness; and nurture political talents who could *“inherit the traditions of patriotism and succeed in the business of one country, two systems.”* In a later meeting with the Chief Executive and his new cabinet, President Hu was reported to have asked him to run a *“clean and effective”* Government.

In his inauguration speech, Chief Executive CY Leung pledged to tackle pressing livelihood issues as a priority, including tackling poverty and housing issues. He said *“my goal is to develop the economy, improve people's livelihood, promote democracy and build a more prosperous, progressive and righteous society.”*

On Hong Kong's core values, the Chief Executive said:

“I will honour the pledges I have made - to uphold justice, protect the rights of the people, safeguard the rule of law, clean government, freedom and democracy which are amongst the core values of Hong Kong, and take an inclusive approach towards different opinions and views. I will do my utmost to safeguard human rights and make sure that press freedom and the independence of the media are respected....I will promote the development of a democratic political system in accordance with the provisions of the Basic Law and the relevant decisions of the Standing Committee of the National People's Congress.”

Speaking about the inauguration during his visit to Hong Kong on 6 July, Jeremy Browne MP, the then Foreign and Commonwealth Office Minister of State, said:

“Hong Kong's continuing prosperity and success under One Country, Two Systems is important to the UK. I welcome the progress made under the last Administration on Hong Kong's democratic development and look forward to the realisation of the goal of full universal suffrage for the election of Chief Executive in 2017 and to the Legislative Council in 2020.”

Hong Kong Special Administrative Region (SAR) Government

The first six months in office for the new Chief Executive and his administration were eventful and, at times, challenging. The period was marked by lively and occasionally difficult exchanges between the SAR Government and legislators, the media and the public on a range of issues including the Government's proposals for re-organisation of Bureaux and Departments (Ministry-equivalents), the introduction of Moral and National Education and an old age living allowance.

The new Chief Executive also faced allegations about unauthorised building works and illegal structures in properties owned by him. A similar issue forced the Secretary for Development Mak Chai-kwong to resign less than a month after taking office.

Chief Executive's Policy Address in the Legislative Council

On 17 October, Chief Executive Leung made his first policy address to the Legislative Council. He focused on what he identified as the four deep-rooted problems affecting Hong Kong: housing; poverty; an ageing population; and the environment. His proposals are covered in more detail later in this report under the section on Hong Kong's economy. In a relatively short passage on constitutional development, the Chief Executive said he would work with different sectors to forge a consensus to achieve the goal of universal suffrage though a timetable had not yet been fixed.

Legislative Council Election

Another major event during this reporting period was the election of the fifth Legislative Council on 9 September. This election was particularly important as, for the first time, more than half the seats were directly elected.

As part of the arrangements agreed under the 2010 Constitutional Reform Package, the number of Legislative Council seats increased from 60 to 70. A nominal 50:50 split was maintained between seats returned by the Geographical Constituencies (GCs) and Functional Constituencies (FCs).

The GCs expanded to 35, with the FCs comprising the existing 30 seats – elected by limited groups, mostly representing professional or business interests – together with five newly-created territory-wide FC “super-seats”. Up to 3.2 million people were eligible to vote for these “super-seats”. This meant that 40 of the 70 members of the Legislative Council were directly elected.

Of the 70 Legislative Council seats, pro-government parties won 43 and pan-democrat parties won 27. This meant the pan-democrats secured one third of the 70 seats and retain their blocking minority on key aspects of the government’s agenda in the newly expanded Legislative Council. 1.83 million of the 3.46 million registered electors cast their votes in the Legislative Council election. This represented a 53% turnout, up from 45% in 2008, though lower than the 56% turnout in 2004.

The Legislative Council election was generally perceived to have been well-managed. However, there were a number of allegations of interference in the process by representatives of the Central Government Liaison Office (CGLO).

On 2 August, Ming Pao newspaper reported that the CGLO had approached a number of Legislative Council election candidates before they signed up for the race. The newspaper also noted that some candidates had been approached by the CGLO before the nomination period.

On 16 September, Ming Pao carried a story claiming that the CGLO had arranged for 29 mainland organisations to field 533 voluntary workers to canvass votes for pro-government candidates. CGLO spokesman Hao Tiechuan said the office

would not interfere with the Legislative Council election, which was an internal matter for the SAR.

On 30 December, in an interview with Hong Kong TV channel TVB (Television Broadcasts Limited), new lawmaker Paul Tse Wai-chun said the CGLO had assisted him in the Legislative Council election by introducing social groups and important figures to him. In response, on 31 December, the CGLO, through the China News Services, said any statement that it had helped Mr Tse canvass votes in the Legislative Council election was “*totally groundless*”.

Separately, the Constitution and Mainland Affairs Bureau (CMAB) recommended abolishing the remaining 68 appointed District Council (DC) seats over one term and proposed that legislative work should start at the beginning of the SAR Government’s fourth-term to ensure no appointed DC seats remained in the fifth term of the DCs commencing on 1 January 2016.

On 10 September, commenting on the Legislative Council elections, Foreign and Commonwealth Office Minister of State, Rt Hon Hugo Swire MP said:

“I welcome the elections...which represent an important step towards full universal suffrage in Hong Kong. I look forward to deepening and developing the parliamentary links between Westminster and the Legislative Council; and to having an opportunity to visit Hong Kong myself before too long.”

BASIC RIGHTS AND FREEDOMS

Throughout the reporting period, Hong Kong people continued to exercise their basic rights and freedoms, and protests and demonstrations remained a routine part of civic life in Hong Kong. Recurring themes of protest included discontent with the SAR Government, concerns about the circumstances surrounding the death of mainland activist Li Wangyang, the introduction of Moral and National

Education and support for China's claims of sovereignty over the disputed Diaoyu/Senkaku Islands. Most marches and demonstrations passed off peacefully. We note below some of the larger demonstrations together with police and government handling.

Marches and Demonstrations

On 1 July, tens of thousands of protesters gathered in Hong Kong for the annual SAR Establishment Day rally. Protestors covered a broad range of issues including concern about the human rights situation in the mainland and the slow pace of democratization in Hong Kong. The media also reported calls at the rally from legislators and the public for Chief Executive Leung to quit on his first day in office after the discovery of illegal structures at his home, which had led to questions being raised about his integrity. Rally organiser Eric Lai Yan-ho, of the Civil Human Rights Front claimed a turnout of 400,000, with police placing the figure much lower at a maximum of 63,000.

On 2 July, the Chief Executive said that regardless of the format people took to express their views and the number of people in the rally, he and his team would *"humbly listen and continue to heed the aspirations of the public"*, be it about politics, society or livelihood issues.

During the reporting period, there were also marches in connection with reports about the detention of Apple Daily reporter Rex Hon Yiu-ting, who had asked President Hu a question about the 1989 Tian'anmen Square protests during his visit to Hong Kong. In a statement on 3 July, the police expressed regret at the incident and said it would review security arrangements for future visits in the light of events during President Hu's visit. A spokesman for the police said:

"The police respect press freedom and the right of media reporting...[and] fully understands the importance of facilitating the work of the media and maintaining effective communication with the media."

On 30 December, pro-government organization Caring Hong Kong Power held a rally in support of the Chief Executive. Organisers claimed about 30,000 to 40,000 people joined the rally, while the police estimated a much lower turnout of 2,600 people at its peak.

Li Wangyang

In our previous report we covered the marches and demonstrations in Hong Kong following the death of Tian'anmen Square dissident Li Wangyang. During this reporting period, there were a number of smaller scale marches and regular media coverage about his case. Following publication of the findings of an investigation into Mr Li's death, the SAR Government said:

"The HKSAR Government notes that the Hunan Provincial Public Security Bureau has released the investigation results. The HKSAR Government will not make any comment under the principle of 'One Country, Two Systems'. We understand the concerns expressed by the people of Hong Kong on the Li Wangyang incident, and have conveyed the public's concerns and opinions to the Central Government and relevant Mainland authorities. The HKSAR Government will continue to safeguard the freedom of speech and people's right to express their views."

The demonstration of public interest in Mr Li's death reflected the importance Hong Kong people attached to the protection of basic rights and freedoms, and the opportunity to speak out on issues of concern.

Freedom of the Press

As we reported previously, the perceived deterioration of press freedoms is of concern. During the reporting period, there was speculation among journalists that under the new administration of Chief Executive Leung, press freedoms would become further restricted and self censorship would become more prevalent.

On 24 October, the Hong Kong University's (HKU) Public Opinion Programme published results of a survey on local news media and press freedoms. The survey revealed that almost one in four people were dissatisfied with press freedoms in Hong Kong. Almost half of those surveyed thought that the local news media was practising self-censorship.

On 6 December, during a speech at the Foreign Correspondents' Club, the Chief Executive reiterated his pledge to preserve press freedoms in Hong Kong. He said:

"I strongly believe in the importance of free speech and a free and open media in Hong Kong. These are core values of Hong Kong and a competitive advantage. I pledge to uphold these core values along with others so important to Hong Kong people such as human rights, liberty, and the rule of law, democracy, equality and justice."

We welcome the pledges by the Chief Executive to safeguard press freedoms. It is important for Hong Kong's continued success that its vibrant news media continues to enjoy the full measure of freedom.

Freedom of Movement

On 2 August, former Tian'anmen Square student leader Wang Dan – one of the high profile figures in the 1989 Chinese democracy movement – made an unexpected visit to Hong Kong after his Taiwan-bound flight was forced to land due to Typhoon Saola. While at the airport, Mr Wang met members of the League of Social Democrat Party and gave interviews to the media. Asked about the political environment in Hong Kong, he told the South China Morning Post, *"I still see hope. Many young people have stood up. They are concerned about society very much. It is very good."*

“ONE COUNTRY, TWO SYSTEMS”

During his three-day visit between 29 June and 1 July, President Hu called on Hong Kong people to unite in support of the new Chief Executive and his administration. He said: *“Hong Kong people from all walks of life should take the overall situation into consideration to achieve unity under the flag of patriotism.”* He added that it is important to uphold the principle of *“one country”*, respect the differences of *“two systems”* and a high degree of autonomy for the city in order to *“guard against the intervention of external forces”*.

On 1 October, speaking at a reception celebrating the National Day of the People’s Republic of China, Chief Executive Leung said that increasing integration with the mainland could boost Hong Kong's economy and help solve the city's social problems. This was one of many speeches by the Chief Executive setting out his approach to *“One Country, Two Systems”*, marking a stronger emphasis than that of his predecessors on economic integration with the mainland.

There were increasing levels of anti-mainland sentiment expressed during the reporting period. Much of the anti-mainland sentiment stemmed from an increase in mainland visitors to Hong Kong and the perceived slowness in response from the SAR Government in implementing immigration controls. There was particular resentment towards cross-border parallel traders – mainland visitors engaging in the re-importation of goods from Hong Kong at discounted prices and accused of distorting the local economy. This led to numerous confrontations between Hong Kong residents and mainland visitors in border towns in the New Territories. Following discussions between the SAR Government and mainland authorities, the SAR Government took action to curb parallel trading by limiting the number of entry permits issued.

The plans for New Development Areas in the north eastern part of the New Territories also proved controversial with Hong Kong residents fearing eventual amalgamation of the emerging cross border SAR. Such tensions resulted in a

number of changes in SAR Government policy, including the shelving of earlier proposals for a new visa-free commercial zone for mainlanders in parts of the New Territories close to the Hong Kong-Shenzhen border.

Further antagonism was generated by a perception that mainland buyers were exacerbating Hong Kong's housing problems by pushing up local property prices to unaffordable levels, through greater demand and their enhanced purchasing power. We report measures announced by the SAR Government to stabilise the housing market under the Hong Kong Economy section. Anti-mainland sentiment was also evident in relation to mainland mothers and in public protests about the introduction of Moral and National Education (MNE), on which we report further below.

During the reporting period, there was press speculation about possible dissatisfaction within the Central Government concerning the performance of the Chief Executive. On 9 November, the Director of the Hong Kong and Macau Affairs Office, Wang Guangya, said reports of Beijing replacing Chief Executive Leung were “*nonsense*” and urged Hong Kongers to “*give Leung a chance to do his job.*” It was Beijing's first public statement in support of the Chief Executive since he took office. Referring to anti-mainland sentiment in the city, Mr Wang claimed such feelings stemmed from misunderstandings. He said, “*Of course, since the mainland and Hong Kong have different traditions, there might be some misunderstandings... I do hope both sides can give more respect to each other and have more understanding for different traditions and living habits, and can therefore be more accommodating.*”

On 18 December, former Hong Kong and Macao Affairs Office Deputy Director Zhang Xiaoming was appointed Director of the Central Government Liaison Office in Hong Kong, succeeding Peng Qinghua.

On 20 December a press release issued by Xinhua News Agency covering Chief Executive Leung's meeting with the Chinese leadership in Beijing, reported Xi

Jinping, the new General Secretary of the Communist Party of China, to have commented that the central authorities' policies on Hong Kong and Macao and adherence to the "one country, two systems" principle and the Basic Laws of both Hong Kong and Macau would not change after the transition of power. At the same meeting, General Secretary Xi was reported to have reiterated his continued support for Chief Executive Leung and the SAR Government.

Moral and National Education (MNE)

As we reported previously, the SAR Government's plan to introduce Moral and National Education (MNE) into school curriculums was the source of much public concern and political debate. Plans to introduce the subject were originally proposed by the previous SAR Government under former Chief Executive Donald Tsang.

Hostility toward the introduction of the subject cut across many sections of Hong Kong society, with opposition groups representing students, parents, and teachers. Common to their concern was that the curriculum might in some way lead to the "brainwashing" of Hong Kong students with Chinese Communist Party propaganda.

After a series of large scale protests and a prolonged sit-in outside the SAR Government headquarters, on 8 September – the eve of the Legislative Council election – the SAR Government announced that they would not make MNE mandatory and confirmed schools could decide whether or not to include the subject in their curriculums. After a further review, the SAR Government announced in October that they had accepted the recommendation of a Special Committee on the Initiation of Moral and National Education to formally shelve the Curriculum Guide of the MNE subject.

Article 23 of the Basic Law

In our last report, we covered the SAR Government's messages on national security legislation, Article 23 of the Basic Law. During this reporting period, senior figures in the SAR Government reiterated that legislating on Article 23 was not on their working agenda.

RULE OF LAW

The principles of rule of law and judicial independence have long been instrumental components of Hong Kong's continued success and prosperity. Support for these principles remains broad across Hong Kong society and any suggestion of interference is seized upon by members of the legal profession, legislators and the media. We detail below some examples of the debate during the reporting period which have given rise to concern.

On 6 October, the former Justice Secretary and Basic Law Committee Deputy Chairwoman Elsie Leung Oi-sie said that Hong Kong judges had misinterpreted the Basic Law by using the common law in the ruling on right of abode case in 1999. She criticised the legal profession, including judges, for failing to understand the relationship between the Central People's Government (CPG) and Hong Kong, arguing that the CPG should not be viewed as intervening in Hong Kong affairs as it had a role in the SAR. She highlighted that under the Basic Law, the Central Government has a role in Hong Kong affairs, and *"to [read] everything that the Central Government does as intervention ... is negligence in reading the Basic Law."*

In response, on 7 October, Chief Secretary Carrie Lam Cheng Yuet-ngor said, *"Hong Kong is a law-abiding community and judicial independence is its core value."* Former legislator for the legal sector Dr Margaret Ng Ngoi-yee criticized Ms Leung for *"trampling on the judicial independence of Hong Kong."*

In response to the ongoing debate, on 27 October, Justice Secretary Rimsky Yuen Kwok-keung said, “*the judicial system of Hong Kong, especially our judicial independence, has always been firmly in place, and would not be easily damaged because different people give opinions. But whatever the situation is, as the Secretary for Justice, I and my colleagues in the Department of Justice will always try our best to safeguard Hong Kong's judicial independence and the rule of law.*”

LEGAL ISSUES

Children Born to Mainland Mothers

During this reporting period, the issue of right of abode for children born to mainland mothers continued to give rise to lively debate. In response, the SAR Government announced measures to stop mainland women giving birth in Hong Kong, including limiting the number of deliveries by non-local pregnant women in 2012. From 2013, all beds for obstetric services in public hospitals would be reserved for local pregnant women and urgent cases referred by private hospitals; no bookings from non-local pregnant women would be accepted.

At a media event on 13 December, the Secretary for Justice Rimsky Yuen Kwok-keung said, “*the Department of Justice invites the Court of Final Appeal (CFA) to consider seeking the Standing Committee of the National People's Congress (NPCSC) interpretation under Basic Law 158 to clarify the legal effect of the NPCSC's interpretation made in 1999 and to resolve the problems created by babies born in Hong Kong to mainland couples who have no resident status in Hong Kong.*”

He also said the CFA would make the final decision on the matter. However, the legal profession and legislators raised concerns over the SAR Government's role

in suggesting referral to the NPCSC and the implication of potential interference in judicial due process.

On 18 December, the Hong Kong Bar Association (HKBA) expressed concern over the high-profile coverage of the issue and warned of unnecessary pressure on all concerned and of possible interference with judicial independence as a result of such a debate. The HKBA also stated that it believed the CFA would come to a view on all the arguments independently and impartially in accordance with the law.

HONG KONG ECONOMY

The Hong Kong economy continued to expand at a modest rate, growing 1.3% in the third quarter compared to a year earlier. Hong Kong avoided a technical recession, with quarter-on-quarter growth of 0.6% in the third quarter after a decline of 0.1% in the second quarter. The SAR Government adjusted the 2012 GDP forecast to 1.2% from the 1-2% predicted in August this year. On 12 December, the International Monetary Fund (IMF) projected GDP to slow to 1.25% in 2012.

Domestic demand remains resilient, and trade rebounded somewhat in the third quarter. Goods exports rose 4% in the third quarter after a decline of 0.2% in the second quarter, while Private Consumption Expenditure grew at 2.8% year-on-year, compared to 3.7% in the second quarter. Unemployment remained low at 3.4% (September to November).

Hong Kong's inflation eased further with underlying consumer price inflation down to 3.8% in November (from 5.9% in the first quarter). The SAR Government explained that easing import prices and slower increases in housing rents helped reduce inflation. However, with global food prices and housing rents both picking up in recent months, the SAR Government expected inflation to rise and revised

its consumer price inflation forecast for the whole of 2012 from 3.7-4.3% to 3.9-4.5%.

In response to capital inflows and in accordance with the Currency Board system (by which the Hong Kong dollar is pegged to the US dollar at a fixed rate), the Hong Kong Monetary Authority (HKMA) sold a cumulative total of HK\$71.7 billion (up to 12 December).

Renminbi (RMB) Internationalisation

Hong Kong continued to develop its position as the leading offshore Renminbi (RMB) centre. According to the Hong Kong Monetary Authority, RMB deposits stood at RMB 571 billion (£56 billion) in November. RMB trade settlement amounted to RMB 243 billion (£24 billion) in November compared with RMB156 billion (£12 billion) in January 2012), with over 80% of the mainland's trade settled in RMB going through banks in Hong Kong. Total RMB bonds issued reached RMB 94 billion from 59 issuers during the first nine months of this year. The first dual counter dual currency security was listed in the Hong Kong Stock Exchange in October.

Economic Policy Developments

Chief Executive Leung has said housing will be at the top of the SAR Government's agenda. He acknowledged that there is an affordability problem and said the government would boost land supply to help stabilise property prices. He argues that the SAR's future lay in greater cross-boundary integration and lamented commentators describing the development of the North East New Territories New Development Areas as "*turning Hong Kong red*" and "*selling out Hong Kong*." The Chief Executive assured the public that Hong Kong's core values would not be eroded because of closer links with the mainland and overseas nations. Saying that the principle of "*big market, small government*" was out of date, he argued that the SAR Government should take a more proactive role in

economic development. He also pledged to strike a balance between development and conservation in putting forward infrastructure projects.

Housing Market

According to the SAR Government, property prices increased 20% during the first nine months of 2012. The IMF's annual report on the Hong Kong economy released on 12 December cited the property market as a key source of domestic risk for Hong Kong's economy. Since the Chief Executive took office on 1 July, he announced a series of measures to stabilise the property market.

The measures included increasing land supply and public housing, the implementation of "Hong Kong land for Hong Kong people", measures to improve mortgage lending, the introduction of Buyers' Stamp Duty and extension of Special Stamp Duty, development of the North East New Territories, and the formation of the Long Term Housing Strategy Steering Committee to look into long-term housing policies for Hong Kong.

Ageing Population

On 31 July, the SAR Government published a report on "Hong Kong's Population Projections 2012-2041". The report projected that Hong Kong's population would reach 8.47 million by 2042. The report also said that the pace of ageing among the population was projected to accelerate in the next 20 years.

The issue of poverty among Hong Kong's ageing population was also high on the SAR Government's policy agenda. On 16 July, the government announced the introduction of the old age living allowance, which would supplement the living expenses of those aged 65 and above.

On 7 December, after seven rounds of debate and filibustering tactics by the more radical pan-democrat legislators, the Legislative Council approved the government's application for funding.

Poverty

The SAR Government reported Hong Kong's 2011 Gini coefficient of inequality for monthly household income as 0.537, an increase from 0.533 in 2006.

On 9 November, the SAR Government announced the establishment of a Commission on Poverty. At the Commission's first meeting on 10 December, the Chief Executive called for the establishment of a poverty line applicable to Hong Kong to allow a better understanding of Hong Kong's poverty problem.

The Minimum Wage Commission submitted a report to the SAR Government at the end of October to review the minimum wage rate as required at least once every two years. On 12 December, the Chief Executive and the Executive Council accepted the Commission's proposal of HK\$30 per hour. Pending approval from Legislative Council, the new statutory rate will take effect on 1 May 2013. The Secretary for Welfare and Labour Matthew Cheung Kin-chung said that over 220,000 employees would benefit from the revised rate.

Environmental Issues

The Chief Executive also identified improving the environment as one of his priorities. During his speech on 17 October, Chief Executive Leung pledged to *“sustain a stable development of land and building space, while attaching importance to conservation....We also need to promote green buildings, adopt low-carbon amenities and transport, and open up more usable land to turn Hong Kong into a new green city.”*

UK-HONG KONG BILATERAL LINKS

Bilateral ties between Hong Kong and the UK have continued to go from strength to strength, as evidenced by numerous Ministerial visits in both directions throughout the reporting period. Speaking at a Hong Kong Association event in December, Foreign and Commonwealth Office Minister of State Rt Hon Hugo Swire MP emphasised the *“friendly, productive relationship that we have established [with the SAR Government] – working in co-operation to ensure our mutual prosperity and stability in the years ahead.”*

There were also regular working level exchanges between officials on a range of policy issues including global economic developments, social development, climate change, financial service regulation, education policy and law enforcement co-operation.

Jeremy Browne MP, the then Foreign and Commonwealth Minister of State, visited Hong Kong on 6 July. During his visit, he met the new Chief Secretary for Administration of the SAR Government Carrie Lam Cheng Yuet-ngor to congratulate her on her appointment and discuss political and economic developments. He also delivered a keynote speech to business leaders on business and human rights; met Home Affairs Secretary Tsang Tak-sing and members of the Hong Kong Olympic and Paralympic Teams; called on the West Kowloon Cultural District Authority to discuss the opportunities for UK businesses arising from the major infrastructure project; and re-launched the UK’s flagship Chevening scholarship programme.

Tsang Tak-sing, Secretary for Home Affairs in the SAR Government visited the UK in August for the Paralympic Games. During his visit he met cultural organizations and Rt Hon Jeremy Hunt MP, the then Secretary of State for Culture, Olympics, Media and Sport, to discuss the promotion of culture and sports; and had a further meeting with Jeremy Browne MP.

The then Lord Mayor of the City of London, Sir David Wootton, visited Hong Kong on 13 and 14 September to forge ever stronger financial ties between London and Hong Kong. A key focus of the visit was discussion of the opportunities for the City of London and Hong Kong authorities to work together to support the development of London as a western hub for the RMB market, to complement Hong Kong. The Lord Mayor met Chief Executive CY Leung, Julia Leung Fung-yee, Under Secretary of Financial Services and Treasury Bureau; and Ashley Alder, CEO of the Securities and Futures Commission. He also met Dr Christine Loh Kung-wai, Under-Secretary for the Environment and addressed a Green Finance event.

Martin Donnelly, Permanent Secretary of the Department for Business, Innovation and Skills, visited Hong Kong on 8 and 9 October. During his visit he met the Permanent Secretary for Commerce and Economic Development Andrew Wong Ho-yuen to further business between the UK and Hong Kong and discuss Hong Kong's role as a platform for trade and investment with mainland China.

On 3-6 November, Lord Marland, the then Parliamentary Under Secretary of State for Business, Innovation and Skills, and British Business Ambassador, visited Hong Kong. During his visit he launched the inaugural GREAT Week of Creativity, showcasing British fashion, luxury, design and craftsmanship. Around 350 exhibitors and 60 guest speakers across more than 30 events, including fashion shows, gala ceremonies, product launches, exhibitions and networking events, offered Hong Kong audiences the chance to celebrate Britain with some of the UK's leading brands. It also included the largest trade delegation of UK companies to visit Hong Kong since the Handover, to build stronger ties with local businesses and better understand the opportunities in the market and across Asia.

On 9 November, Lord Coe, the Prime Minister's Adviser on Olympic and Paralympic Legacy, visited Hong Kong. During his visit he met Tsang Tak-sing, Secretary for Home Affairs to discuss Olympic legacy issues. He also attended the closing event during the GREAT Week of Creativity – a James Bond "Skyfall" show-case.

Carrie Lam Cheng Yuet-ngor, Chief Secretary for Administration of the SAR Government visited the UK on 12-14 November. During her visit, the Chief Secretary met Rt Hon George Osborne MP, Chancellor of the Exchequer to exchange views on broad areas of co-operation between Hong Kong and the UK. She also met the All Party Parliamentary China Group (APPCG), business leaders and social entrepreneurs to provide them with an update on Hong Kong's development; and called on Rt Hon Vince Cable MP, Secretary of State for Business, Innovation and Skills; the Lord Mayor of the City of London, Roger Gifford, and leaders from the creative industries and education sectors. She joined Lord Green of Hurstpierpoint, Minister of State for Trade and Investment, as Guest of Honour at the Annual Dinner of the Hong Kong Trade Development Council (TDC).

Rt Hon Owen Paterson MP, Secretary of State for Environment, Food and Rural Affairs, also visited Hong Kong on 16 November. He led a delegation from the British beef industry aimed at increasing exports of UK beef to Hong Kong. He also called on Dr Christine Loh Kung-wai, Under-Secretary for the Environment of the SAR Government, to discuss UK-Hong Kong co-operation on environmental issues including the opportunities for UK companies to become more closely involved in projects in Hong Kong and the wider Pearl River Delta.

Northern Ireland First Minister, Rt Hon Peter Robinson MLA, and Deputy First Minister, Martin McGuinness MLA, visited Hong Kong on 16-18 November. During their first joint visit, they led a delegation to promote trade and investment links with Northern Ireland. They met John Tsang Chun-wah, Financial Secretary of the SAR Government; launched Northern Irish Connections (NIC), aimed at establishing a formal network for Northern Ireland diaspora in the region; and met with Wrightbus, an export success story for Northern Ireland.

EDUCATION LINKS

The last six months has seen a smooth transition to Hong Kong's new academic structure. In the summer, the first students completed the Hong Kong Diploma of Secondary Education (HKDSE) alongside the last cohort completing the Hong Kong Advanced Level. Secondary schooling has been reduced by one year, with students proceeding to new four-year undergraduate courses in Hong Kong, instead of three years.

As part of the transition, Hong Kong's universities admitted two cohorts of students in September. Despite logistical concerns, this has happened smoothly, and positive feedback from universities was received on the academic abilities and learning skills of students who completed the HKDSE.

Pathways between Hong Kong's New Academic Structure and UK education are now secure, with British universities able to recruit HKDSE students who achieved grades comparable to General Certificate of Education (GCE) "A-levels" using the Universities and Colleges Admissions Service (UCAS) Tariff, and other students able to access foundation and diploma courses. The HKDSE is one of the few overseas qualifications in the UCAS Tariff, with UCAS having been commissioned by the Hong Kong Examinations and Assessment Authority (HKEAA) to conduct the tariff study, completed in 2010. This facilitates admissions to UK universities and is indicative of the continued importance for Hong Kong of its education links with the UK. Close to 10,000 Hong Kong students are studying in UK universities.

The new system, which unlike the previous model allows all students to complete senior secondary education rather than just one third, has resulted in increased demand for higher education and a continued shortfall of places in the publicly-funded sector. UK universities and colleges have benefited from this. By the end of June, UCAS applications from Hong Kong were up 37%. The fact that the top UK universities were able to offer places to HKDSE students is regarded by the SAR

Government as important for securing public confidence in the new system. Furthermore, the UK now has the obvious attraction that Hong Kong students can complete their degrees there in three years, one fewer than in Hong Kong.

Links between UK and Hong Kong education were supported in this period by a new collaboration between the Scottish Government and Hong Kong's Research Grants Council, the Hong Kong-Scotland Post-Doctoral Research Scheme, launched in September. Each side has invested £50,000 to fund post-doctoral research exchange, aimed at strengthening institutional partnerships in the areas of renewable and new energies; healthcare and life sciences; sustainable development; and economics and finance. The scheme is managed by the British Council.

In September, the British Council's Global Education Dialogue helped promote bilateral and multilateral collaboration in research. As a result, new links were established between Hong Kong and the Higher Education Funding Council and the Research Councils UK.

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 English learning and examination services, and a wide range of arts, education and science partnerships.

- 348,083 people visited the British Council Hong Kong website
- 79,392 visited / contacted their customer services centre
- 25,780 students took exams with the Council
- 10,361 learners were engaged in English learning services
- 178 Arts, Education and Science events took place

TRADE AND INVESTMENT

Bilateral trade between Hong Kong and the UK in goods for the period January to September 2012 amounted to £8.8 billion. Hong Kong was the UK's 14th largest export market for goods and the 2nd largest in Asia Pacific, after mainland China. Exports of goods amounted to £3.6 billion, an increase of 0.8% compared with the same period in 2011. Total trade in services for 2011 amounted to £3.4 billion, an increase of 21.7% compared to 2010.

For the period July-December, UK Trade & Investment (UKTI) supported two trade missions to Hong Kong, and the UK participated at seven international trade fairs in Hong Kong. Hong Kong continued to be an important market for inward investment into the UK. In promoting inward investment, UKTI supported events in Hong Kong such as the Chinese Overseas Investment Summit, InnoAsia and Deloitte Fast 500 Asia Pacific.

High Value Opportunities

Another major focus of FCO and UKTI work during the reporting period has been on major infrastructure projects, also known as High Value Opportunities (HVOs). The SAR Government is investing heavily in infrastructure and has ten major projects underway with a value of over £29 billion. Our work has focused on four projects that are currently underway in Hong Kong:

- Development of the former Kai Tak Airport site including a planned Multi Purpose Stadium Complex (with a 50,000 seat stadium). The project will also comprise a cruise terminal, commercial, residential, hospital, tourism and community facilities together with supporting infrastructure and includes £8 billion capital funding.
- West Kowloon Cultural District (WKCD) project. WKCD is to be developed as a world class integrated arts and cultural district on a prominent 42 hectare

harbour front site. The core arts and cultural facilities in the WKCD will comprise 15 performing arts venues and has £1.7 billion in public funding.

- Hong Kong-Zhuhai-Macao Bridge. A strategic cross-boundary transport infrastructure project to enhance economic integration between Hong Kong and the mainland with a budget of £6 billion.
- Shatin to Central Link (SCL) railway project. This will link the most heavily populated district in New Territories to the Central Business District in Hong Kong Island. Project funding of £5.6 billion remains as yet unallocated.

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 consider that, in general, "One Country, Two Systems" continues to work well in practice and that the rights and freedoms enshrined in the Joint Declaration continue to be upheld. As we have recorded, concerns have been expressed in Hong Kong about the exercise of its autonomy, and aspects of its basic rights and freedoms. It is important that confidence in "One Country, Two Systems" is safeguarded and that Hong Kong continues to enjoy the full measure of autonomy, rights and freedoms which have been central to its continued success, stability and prosperity, and which underpin its international standing.

GLOSSARY OF TERMS

Sino British Joint Declaration: is the negotiated settlement on the question of Hong Kong co-signed by the Governments of the United Kingdom of Great Britain and Northern Ireland and the People's Republic of China in 1984.

“One Country, Two Systems”: is the principle that after Hong Kong returned to China on 1 July 1997, Hong Kong's existing social and economic systems, lifestyle, rights and freedoms would remain unchanged for 50 years and that Hong Kong is entitled to a high degree of autonomy over its affairs, with the exception of foreign and defence matters.

The Basic Law of Hong Kong: was drafted and signed by the UK and Chinese Governments in accordance with the Joint Declaration. It stipulates the basic policies of the Chinese Government towards the Hong Kong SAR. The Basic Law is the SAR's mini-constitution.

The Basic Law Article 23: refers to the obligation that the Hong Kong SAR Government has to “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”. An effort to introduce legislation in 2003 was dropped by the SAR Government after strong domestic opposition unprecedented levels of protest.

The Basic Law Article 27: refers to Hong Kong people's right to freedom of speech; of the press and of publication; freedom of association, of assembly, of procession and of demonstration; and the right and freedom to form and join trade unions, and to strike.

The Basic Law Article 45: refers to the method for selecting the Chief Executive, who is elected by the Election Committee or through consultations held locally and appointed by the Central People's Government. The ultimate aim is to elect the Chief Executive by full universal suffrage in 2017.

The Basic Law Article 68: refers to the method by which the Legislative Council should be formed.

The Basic Law Article 72: refers to the President of the Legislative Council's powers and functions. These include presiding over meetings and deciding the agenda; giving priority to government bills for inclusion in the agenda; deciding on the time of meetings; calling special sessions during the recess; calling emergency sessions at the request of the Chief Executive; and exercising other powers and functions as prescribed in the rules of procedure of the Legislative Council.

The Basic Law Article 82: refers to the power vested in the Court of Final Appeal, which may invite judges from other common law jurisdictions to sit on the Court of Final Appeal.

The Basic Law Article 88: refers to the appointment of judges by the Chief Executive on the recommendation of an independent commission comprising local judges, members of the legal profession and distinguished members of other professions.

The Basic Law Article 158: refers to the courts of the Hong Kong Special Administrative Region (SAR), which may also interpret other provisions of this Law in adjudicating cases. However, if the courts of the SAR, in adjudicating cases, need to interpret the provisions of this Law concerning affairs which are the responsibility of the Central People's Government, or concerning the relationship between the Central Authorities and the SAR, and if such interpretation will affect the judgments on the cases, the courts of the SAR shall, before making their final judgments which are not appealable, seek an interpretation of the relevant

provisions from the Standing Committee of the National People's Congress (NPCSC) through the Court of Final Appeal of the SAR. When the NPCSC makes an interpretation of the provisions concerned, the courts of the SAR, in applying those provisions, shall follow the interpretation of the NPCSC. However, judgments previously rendered shall not be affected.

District Councils: are the 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. There are 507 seats in the district councils comprised of 68 appointed, 412 directly elected and 27 ex-officio members who are chairpersons of rural committees in the New Territories.

District Council elections: are held every four years to elect the 412 directly elected members of the district councils. The elections are conducted by simple plurality.

Heung Yee Kuk: is a statutory advisory and consultative body for the New Territories comprising representatives of rural committees and their interests.

2010 Constitutional Reform Package: proposed measures which included that in 2012, the Chief Executive will be elected by an enlarged Election Committee of 1,200 (up from the previous 800); the Legislative Council will be enlarged from 60 seats to 70; and all ten new seats will be directly-elected to enhance the democratic elements of the Legislative Council. Of the ten new Legislative Council seats, five will be directly elected from each of the SAR's geographical constituencies, and the other five 'super seats' will be elected from District Councils, but sit as 'functional members'. The ultimate aim is to elect all members of the Legislative Council by universal suffrage in 2020. The constitutional reform package was endorsed by the Standing Committee of the National People's Congress.

The Election Committee: consists of 1,200 members for the purpose of electing the Chief Executive. The term of office of the Election Committee is five years and ties in with the electoral cycle and five year term of the Chief Executive.

Legislative Council (LegCo): is the Hong Kong SAR's legislature. The number of seats in the Legislative Council increased to 70 in 2012, with 35 seats returned by geographical constituencies through direct elections and 35 seats returned by functional constituencies.

Legislative Council election: is held every four years at the expiry of a Legislative Council term or if the Chief Executive dissolves the legislature and calls a new election.

Super seats: are five new seats in Legislative Council to be filled by candidates from the District Council Functional Constituency which, unlike the other functional constituency seats, will be directly elected by the general public.

Geographical Constituencies: there are five in the SAR, from which 35 representatives are directly elected to the Legislative Council using a party-list proportional representation voting system, with seats allocated by the largest remainder method.

Functional Constituencies: are professional, special interests or trade-based groups involved in the electoral process. Eligible voters in a functional constituency may include individuals, organisations and corporations. There are 35 functional constituency seats in the Legislative Council. 30 are returned under the existing arrangements of a simple plurality system, and five are directly elected.

Replacement Mechanism: refers to proposals to fill mid-term vacancies in Legislative Council, whereby elected Legislative Councillors who resigned mid-term would be prevented from standing in a by-election for six months. The

Legislative Council (Amendment) Bill 2012 was introduced to address the issue following the resignation of five pan-democrat legislators in January 2010, which had been designed to force territory-wide by-elections as a de facto referendum on democratic reforms.

Pan Democrats: refers to legislators from pro-democracy political parties or groups.

LIST OF ABBREVIATIONS

CFA	Court of Final Appeal
CGLO	Central Government's Liaison Office
CPG	Central People's Government
CPPCC	Chinese People's Political Consultative Conference
DC	District Council
EC	Election Committee
FC	Functional Constituency
FDHs	Foreign Domestic Helpers
GC	Geographical Constituency
HKJA	Hong Kong Journalists Association
HKMAO	Hong Kong and Macao Affairs Office of the State Council
LegCo	Legislative Council
NPC	National People's Congress
NPCSC	Standing Committee of the National People's Congress
RMB	Renminbi
RTHK	Radio Television Hong Kong
SAR	Special Administrative Region
UKTI	UK Trade & Investment