



Six-monthly Report on Hong Kong

January - June 2006

*Presented to Parliament
by the Secretary of State for Foreign and Commonwealth Affairs
by Command of Her Majesty
July 2006*

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FOREWORD

This is the nineteenth 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 January to 30 June 2006.

I am pleased to present this, my first such report to Parliament, and to affirm HM Government's continuing strong interest in Hong Kong and our commitment to the development of our already flourishing relationship.

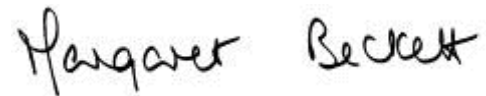
I am no stranger to Hong Kong. I had the pleasure of visiting there in 1997, 2004 and again last December for the WTO Ministerial meeting, together with the Secretary of State for Trade and Investment, the Secretary of State for International Development and the Minister for Trade. I hope to be able to visit again in my capacity as Foreign Secretary and renew my acquaintance with old friends, as well as make new ones.

During the reporting period we have enjoyed a particularly busy and productive exchange of senior visitors, besides those of us who attended the WTO meeting. The Deputy Prime Minister, the Duke of York in his capacity as Special Representative for UK Trade and Investment, the Lord Mayor of London and Ian Pearson when minister for Trade and Foreign Affairs all re-visited Hong Kong underlining the closeness and breadth of our relationship.

Collaboration in the field of education is a key element of our relationship. I was especially pleased therefore that during Bill Rammell's visit in May the UK and Hong Kong SAR Governments signed a Memorandum of Understanding to boost co-operation between the education communities.

The issue of constitutional reform and progress towards universal suffrage remains the dominant political issue in Hong Kong. For the moment the Hong Kong SAR Government, through the Commission on Strategic Development and in consultation with the people of Hong Kong, is considering how this might be achieved. The British Government's commitment to democratisation in Hong Kong remains as strong as ever. We believe that Hong Kong should advance to a system of universal suffrage, as envisaged in the Basic Law, as soon as possible. We shall continue to watch this crucial issue for Hong Kong's long term development very carefully, and urge the parties to work together and progress towards this commonly agreed objective.

Hong Kong's recent economic growth has been remarkable. In March this year, Premier Wen Jiabao described Hong Kong as 'the freest and most open economy in the world'. This is indeed Hong Kong's great strength, and it is vital for Hong Kong's continued prosperity that business is seen to operate freely and without any distortion of the system of fair and transparent standards which has served Hong Kong and its partners so well.

A handwritten signature in black ink that reads "Margaret Beckett". The script is cursive and fluid, with the first name and last name clearly distinguishable.

Margaret Beckett
Secretary of State
for Foreign and Commonwealth Affairs

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

INTRODUCTION

1. 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. As a party to this international treaty the British Government continues issuing these reports to Parliament, which assess the success of those arrangements.

CONSTITUTIONAL DEVELOPMENT

2. Our last report recorded in detail the Hong Kong SAR Government's proposals to reform the methods to elect the Chief Executive in 2007 and Legislative Council in 2008. The proposals, which included expanding the Legislature and increasing the size of the Chief Executive Election Committee, were rejected by the Legislative Council on 21 December 2005. **Although the reforms were limited we considered that they offered an incremental step in the right direction.**
3. Following the defeat of the SAR Government's proposals, Legislators from the pan-Democratic camp called on the Government to produce a new set of proposals for consideration. On 8 January legislator Fernando Cheung said: "After the defeat of its proposal, the SAR Government has every bit of responsibility to come up with another proposal that would truly take Hong Kong down the path of democracy."
4. Speaking on Radio Television Hong Kong on 8 January, a government spokesman stated that: "The Government is fully aware of the public's aspirations for universal suffrage. The Commission on Strategic Development will continue to take forward the work relating to a roadmap for universal suffrage."
5. Vice President Zeng Qinghong commented on 11 January that the Central People's Government would continue to listen to the views and proposals of different sectors in Hong Kong and move the SAR's democratic development forward in accordance with its actual situation and the principle of gradual and orderly progress. Mr Zeng hoped that various sectors would "engage in a more rational discussion and forge a consensus on bringing about the SAR's democratic development."

6. On 12 January the Chief Executive, Donald Tsang, said: "I want to point out clearly that during my remaining term of office, the Government will not propose any further political reform measures". Instead, Mr Tsang said, the Government would focus on social and economic issues.
7. Human Rights Watch in its World Report 2006 which issued on 19 January said: "When Hong Kong became an SAR within the PRC in 1997 under the principle of 'one country, two systems,' it was promised a 'high degree of autonomy'. The Hong Kong Government's October 2005 proposal for constitutional reform, ostensibly an incremental step toward 'universal suffrage', failed to mention how and when Hong Kong's citizens would achieve that goal. There is no indication that Beijing, which reserves to itself the right to veto any proposed electoral change and to interpret the Basic Law will support any initiative to further 'one-person, one-vote' democracy in Hong Kong."
8. An SAR government spokesman responded that: "The Government's package of proposals for the 2007-08 elections, if approved by the Legislative Council, would have broadened substantially public participation in the Chief Executive and LegCo elections. It would have taken Hong Kong forward towards the ultimate goal of universal suffrage." The spokesman said that the Basic Law provided that the Central Authorities had the constitutional powers and responsibilities to determine the political structure of the Hong Kong SAR. Unlike sovereign states, Hong Kong could not decide its political structure on its own.
9. On 23 January thirty-five people, including 25 pro-democracy legislators, former Chief Secretary Anson Chan, Hong Kong Catholic Bishop Joseph Zen and NPC local deputy Allen Lee took out a full-page advertisement in a number of newspapers. The advertisement urged the Chief Executive to show courageous leadership to secure a clear timetable for universal suffrage for Hong Kong.
10. On 19 March the Article 45 Concern Group announced the launch of a new political party called the Civic Party. Audrey Eu Yuet-mee was named as leader of the Party and Professor Kuan Hsin-chi as Chairman. The Party has six seats in the Legislative Council. The party vowed to fight for democracy, social justice, universal suffrage and the introduction of a minimum wage and standard working hours. Ms Eu said: "Our manifesto and our policy agenda does not state a specific year or time for universal suffrage. We have always supported universal suffrage and we want to fight for early universal suffrage, as early as possible. As far as we are concerned Hong Kong is ready, any time, for universal suffrage. Now, yesterday, the day before yesterday. Any timetable, as far as we are concerned, is even too late."

11. Hong Kong SAR Officials and Legislators attended the UN Human Rights Committee hearing on 20 and 21 March 2006 where the Committee considered the Hong Kong SAR's second periodic report on its implementation of the International Covenant on Civil and Political Rights (ICCPR). The Committee considered that: "the electoral system in Hong Kong does not meet the requirements of article 25 of the Covenant." Article 25 b) states that every citizen shall have the right and the opportunity 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. The Committee recommended that: "All necessary measures should be taken whereby the Legislative Council is elected by universal and equal suffrage. It should be ensured that all interpretations of the Basic Law, including on electoral and public affairs issues, are in compliance with the Covenant." The Committee asked the Hong Kong SAR to submit within one year information on the follow-up given to the Committee's recommendation.
12. A SAR government spokesperson responded that: "Our position remains that, when ratifying the Covenant, the United Kingdom reserved the right not to apply that provision in so far as it might require the establishment of an elected Executive or Legislative Council in Hong Kong. With every respect due to the Committee, we have to strongly disagree with the Committee's view that this reservation lapsed once elections to the Legislative Council were introduced. It is our firm view that the reservation remains fully operative. Hong Kong's electoral system shall be determined in accordance with the Basic Law and the Decision of the NPCSC of April 2004. Our electoral system is appropriate to Hong Kong's circumstances and gives rise to no incompatibility with any of the provisions of the Covenant as applied to the HKSAR."
13. **We have taken note of the Committee's comments. The UK's established position is that findings by the Committee do not determine the legal status of reservations to the ICCPR. But this does not alter in any way our commitment to universal suffrage in Hong Kong, or our belief that Hong Kong should advance to a system of universal suffrage as soon as possible.**
14. On 10 May the Legislative Council passed the Chief Executive Election and Legislative Council Election (Miscellaneous Amendments) Bill 2006 by 31 votes for and 21 against. The Bill made some technical changes to the methods to elect the Chief Executive and Legislative Council including requiring an election to take place for the Chief Executive, even if there is only one candidate, and limiting the terms of a Chief Executive who is elected mid-term to that term and the following term. Two separate amendments were proposed by Yeung Sum, Democratic Party, and James Tien, leader of the Liberal Party, which would have removed any legal impediment to the next Chief Executive being politically affiliated. The move was intended to help encourage the maturation of party politics in Hong Kong. President of the Legislative Council, Rita Fan, following advice from the Constitutional Affairs Bureau, ruled that the two amendments were outside the scope of the bill, and therefore inadmissible. Some Legislators from the pan-democrats criticised the SAR

Government for not using the Bill as an opportunity to make aspects of the electoral system that did not require the amendment of the Basic Law and therefore the agreement of the PRC, more democratic.

15. The Committee on Governance and Political Development of the Commission on Strategic Development is tasked with advising the Chief Executive on the direction and strategy of political development, enhancing the quality of governance and conducting studies on political development and governance issues of strategic importance. It convened for the first time on 29 November 2005. During the reporting period it has met three times in January, March and May. These meetings focused on broad concepts and principles relating to universal suffrage. The Constitutional Affairs Bureau summarised the six months of discussion as concluding that in the process of attaining universal suffrage and in designing a model for universal suffrage the following four principles must be followed: meeting the interests of different sectors of society; facilitating the development of a capitalist economy; gradual and orderly progress; and, appropriate to the actual situation. The Committee will move on to discussion in the second half of this year on possible models for electing the Chief Executive and Legislative Council by universal suffrage with the aim of proposing a way forward by early 2007.
16. **We remain fully committed to democratisation and believe that Hong Kong should advance to a system of universal suffrage, as envisaged by the Basic Law, as soon as possible. If Hong Kong's free society is to endure, and fundamental freedoms are to be protected, Hong Kong needs a truly democratic system of government. The Commission on Strategic Development offers an opportunity to take a concrete step forward in obtaining universal suffrage. We hope that Government and Legislators will work together to ensure constructive and positive proposals emerge from the Commission. We continue to watch developments closely.**

HONG KONG SAR GOVERNMENT

17. On 24 January the Chief Executive announced his first "re-shuffle" since taking office last year. John Tsang Chun-wah moved from his position as the Secretary for Commerce, Industry and Technology to head the Chief Executive's office. Joseph Wong Wing-ping succeeded Mr Tsang as Commerce Secretary and Denise Yue Chung-yee, formerly Permanent Secretary for Commerce, Industry and Technology, succeeded Mr Wong as Secretary for the Civil Service.
18. In February the Chief Executive made a number of internal appointments as foreshadowed in his annual policy address. Mr Lau Sai-leung, former Democratic Party member, journalist and political commentator, was appointed as a full-time member of the Central Policy Unit; his term of appointment is to run from February to June 2007. Lau said that his role was to provide a political perspective to policy initiatives during their formulation. Andy Ho, former Chief Editor of Ming Pao and former Political Editor of the South China

Morning Post, was appointed information coordinator. Gary Chang, a former district co-ordination officer of the Democratic Alliance for the Betterment and Progress of Hong Kong (DAB), was appointed as an aide in the Chief Executive's office.

“ONE COUNTRY, TWO SYSTEMS”

19. The Chief Executive met the new Commissioner of the Office of the Ministry of Foreign Affairs of the PRC in Hong Kong, Mr Lu Xinhua, on 1 March. Mr Lu said the Commission would adhere strictly to the Basic Law and the principles of "One Country, Two Systems" and of Hong Kong people running Hong Kong. The Chief Executive said the SAR Government and the Hong Kong community would continue to support and provide assistance to the Commission.
20. Attending his first National People's Congress (NPC) in Beijing the Chief Executive said on 2 March that he would devote his five-day visit almost entirely to practical matters concerning Hong Kong's economic and social interests. During his visit the Chief Executive met several state leaders including President Hu Jintao, Premier Wen Jiabao and Vice-President Zeng Qinghong before the opening ceremony of the National People's Congress.
21. During the opening of the fourth session of the NPC in Beijing, Premier Wen Jiabao stressed that Beijing had strong confidence that Hong Kong and Macao would maintain their long-term stability and prosperity. Premier Wen said the country would continue to fully implement "One Country, Two Systems", and maintain Hong Kong's high degree of autonomy. On 14 March, at a press conference after the closing of the NPC, Premier Wen Jiabao praised Hong Kong for its "irreplaceable" contribution to the mainland's economic reforms and described it as "the freest and most open economy in the world."
22. Secretary for Justice Wong Yan-lung visited Beijing on 9 April, his first visit in his new capacity. Mr Wong met officials from a number of government departments and ministries during his five-day trip, including the Ministry of Justice, the Ministry of Foreign Affairs and the Hong Kong and Macao Affairs Office. Matters discussed included the scope for legal services to be provided by Hong Kong lawyers under the Closer Economic Partnership Arrangement and the reciprocal enforcement of judgements between the jurisdictions. Mr Wong said he believed the Central Government understood Hong Kong people's reservation about "casual" interpretations of Hong Kong's Basic Law.
23. On 2 May Vice-Chairwoman of the Basic Law Committee, Elsie Leung Oi-sie, formerly Hong Kong's Secretary for Justice, announced that the Basic Law Committee would meet twice a year to study the implementation of the Basic Law. The move by the 12-member committee marks a departure from the practice of previous years of convening shortly before the Standing Committee of the NPC was asked to interpret the Basic Law. Miss Leung, thought that a

possible topic for the committee's regular meetings might be the impact of Hong Kong court judgements relating to Basic Law provisions.

24. On 12 April the Secretary for Justice, Mr Wong, announced that an agreement had largely been reached between Hong Kong and the mainland on the reciprocal enforcement of judgements in commercial cases involving monetary compensation. He said: "We hope to sign an agreement within this year after going through some procedures in Hong Kong." The Deputy Solicitor-General said the agreement would strengthen Hong Kong's status as a legal services hub because overseas investors would be able to choose Hong Kong for litigation when they were involved in commercial disputes with mainlanders. Bar Association Chairman Philip Dykes said the Basic Law recognised the principle of judicial co-operation with other jurisdictions and there could be no objection to that principle.
25. Comments by a former member of the Basic Law Drafting Committee, Xu Chongde, during a seminar in Beijing on 27 April to mark the 16th anniversary of the promulgation of the Basic Law, were covered extensively by the Hong Kong media. Mr Xu said that it was a condition that a patriot would be elected for Hong Kong to have a system of universal suffrage. He also said, "American presidents are returned through universal suffrage, but in the past 200 years, most presidents are mediocre, few of them are of great talent and bold vision."
26. Eleven elected Legislators in Hong Kong continue to be prevented from travelling to mainland China. **The Basic Law, as interpreted by the NPCSC, requires three parties to agree, the Chief Executive, the Legislature and the NPCSC, in order for progress to be made in attaining the ultimate aim of the Basic Law, the election of the Legislature and the Chief Executive by universal suffrage. The inability of some Legislators to travel to the mainland is a barrier to open dialogue between the three parties. We hope that full home return permits will be granted soon to those Legislators who still do not have them. We also urge the three parties to truly engage in open dialogue with each other.**

BASIC RIGHTS AND FREEDOMS

27. On 17 January, the Chief Executive established the Committee on Review of Public Service Broadcasting to review the overall environment of public service broadcasting in Hong Kong and make recommendations on how it might be improved in the short, medium and long term. The public broadcaster in Hong Kong, Radio Television Hong Kong (RTHK), is currently a Government Department under the Secretary for Commerce. The Chief Executive appointed Raymond Roy Wong, a former TVB News Chief, to chair the seven-member committee. Mr Wong stressed that the review would be carried out with "transparency, fairness and independence."

28. On 22 January Frontier legislator Emily Lau Wai-hing expressed her concern that the review had been designed to limit RTHK. Ms Lau stated that, "in the past few years, RTHK has come under heavy political pressure for producing programmes which criticise the Government."
29. The Legislative Council passed a motion on 8 February urging the Government to respect the public broadcaster's editorial independence and the freedom of the press. Legislators also voted down an amendment by Li Kwok-ying (DAB) that the public broadcaster had: "The responsibility to comprehensively introduce and promote to the public various government policies." The new Secretary for Commerce, Industry and Technology Joseph Wong reiterated that the Government had no pre-established stance on public broadcasting.
30. Three members of the Legislative Council Panel on Information Technology and Broadcasting, Sin Chung-kai, Emily Lau and Albert Cheng visited the UK from 18 to 20 April to learn more about the regulatory framework of the BBC and Channel 4, their funding mechanism, governance and accountability. They also met representatives of the Office of Communications (OFCOM), the independent regulator and competition authority for the UK communications industries .
31. On 23 March the Committee on Review of Public Service Broadcasting reported preliminary views that there was a consensus that a public broadcaster should be outside the Government structure and staffed by non-civil servants. The Committee's summary of views also noted the consensus that a public broadcaster should be managed by an independent governing board outside the Government, which should focus on direction, strategy and accountability instead of daily operations. The Panel said that the majority believed that funding should come either exclusively or substantially from the public purse to avoid political or commercial pressure.
32. On 26 April the Director of Audit released a report that accused RTHK management of harbouring a culture of non-compliance among staff concerning government regulations, guidelines and procedures. He called on the station to strengthen its financial controls and safeguard against irregularities. The Secretary for Commerce said he had asked the Director of Broadcasting to submit a report on what action the station proposed to take in response to the auditor's findings. The Government said a high-level audit team would be set up within RTHK to monitor the broadcaster.
33. Some members of staff at RTHK speculated that the audit was being used to limit RTHK's editorial independence by requiring the broadcaster to implement the Audit Commission's recommendations in full. The Secretary for Commerce replied: "Don't talk about freedom of speech with me. Don't talk about editorial independence. They are entirely different issues. It's a question of compliance with government rules. What we are doing is entirely professional."

34. In our last report we recorded the arrests of a large number of protestors during the WTO Ministerial Conference held in Hong Kong in December. On 6 February, the Hong Kong's People's Alliance on WTO, the Asian Human Rights Commission and the Hong Kong Human Rights Monitor released a report on the WTO protests and called for an independent enquiry into alleged breaches of human rights. The report challenged the decision to arrest over 1000 people and highlighted ill treatment of the protesters at the hands of the police. On 7 February Mr Peter Yam, the Police's Director of Operations, conceded that the scale of the arrests had exceeded the Police's initial expectations but refuted accusations that the arrests were motivated by political considerations.
35. 14 of the initial group arrested were accused of unlawful assembly. 11 were released on 11 January, after prosecutors said they did not have evidence to justify the charges. Of the remaining three, one was discharged for lack of evidence on 17 February and another on 22 March. The last protester was found not guilty of unlawful assembly and released on 30 March, after the magistrate ruled that the identification of the protester had been flawed.
36. In our last report we recorded the controversy surrounding the Chief Executive's decision on 5 August 2005 to provide interim regulations, Law Enforcement (Covert Surveillance Procedures) Order, on the use of covert surveillance by law enforcement authorities. On 9 February Justice Michael Hartmann declared the Government's use of covert surveillance to have no valid legal basis, failing to meet Article 30 of the Basic Law which requires any breach of privacy for law enforcement reasons to be "in accordance with legal procedure". The court ruled that the 5 August Executive Order did not qualify as law. However, Justice Hartmann suspended the effect of his judgement for six months to allow the Government time to enact a law without rendering law enforcement agencies incapacitated by a total ban on covert surveillance in the interim. The judgement was appealed by both sides, the SAR Government and by pro-democracy legislator Leung Kowk-hung (Long Hair). Both appeals were heard together on 26 April and were rejected.
37. On 8 March the Government put the Interception of Communications and Surveillance Bill to the Legislative Council. Speaking at a Legislative Council meeting on 1 March, Secretary for Security, Ambrose Lee, said that it would be in the interest of more effectively protecting public security and law and order, as well as enhancing the statutory safeguards for privacy that the Bill should be enacted as soon as possible.
38. The legislation establishes a two-tier system for authorisation of interception of communication and surveillance. The legislation requires judicial authorisation for all cases of interception of communication, and for serious cases of surveillance. Permission is required from officials of superintendent level for less intrusive cases. For judicial authorisation, the legislation sets up a Judicial Panel of three to six High Court judges for a period of three years. The Judicial

Panel would be appointed by the Chief Executive on the recommendation of the Chief Justice.

39. Legislators have expressed concern that the appointment system for the panel of judges by the executive and the requirement for security vetting leaves the scrutiny of covert surveillance open to political interference. They have called for all High Court judges to be eligible to hear cases, rather than a panel of six. The SAR Government argues that it is important that not all judges are on the panel to allow the panel to be isolated from criminal cases, which may be related to cases the panel have heard. They also believe it will help to build up expertise amongst judges.
40. Some Legislators are calling for a notification system where a subject of a surveillance operation is not charged with any crime within 90 days of termination of the court order, the court shall notify the person that he has been subject to surveillance unless there are legitimate reasons to object. The Secretary for Security said that the authorities had strong reservations about informing the targets of covert surveillance lest it would seriously affect the ability of law enforcement agencies to conduct investigations.
41. In paragraph 12 we covered the UN Human Rights Committee hearing on 20 and 21 March 2006 when the Committee considered the Hong Kong SAR's second periodic report on its implementation of the ICCPR. The Committee welcomed initiatives to promote non-discrimination, the putting in place of procedures for the assessment of claims of torture made by persons facing deportation and the withdrawal of the National Security (Legislative Provisions) Bill under Article 23 of the Basic Law.
42. The Committee raised, among others, the following areas of concern: the limited mandate and powers of the ombudsman and Equal Opportunities Commission; investigations of police misconduct are carried out by the police themselves; the absence of adequate legal protection of individuals against deportation of those without the right of abode in Hong Kong to locations where they might be subjected to grave human rights violations; reports of intimidation and harassment against journalists and media personnel; the broad definition of the offences of treason and sedition in the Crimes Ordinance; right of abode policies that separate families; handling of domestic violence cases by police and social services; allegations of threats and acts of vandalism against some Legislators in the run up to the 2004 Legislative Council elections; and, the failure to adopt legislation to combat racial discrimination.
43. On 19 May, the Civic Party made public its members' names and addresses to comply with a requirement under the Companies Ordinance. Political parties in Hong Kong have, in the absence of being able to register as a political party, been incorporated under the Companies Ordinance to afford them legal protection. They have traditionally not registered under the Societies Ordinance as under the Ordinance the Government has the power to close down a society. The Liberal Party and the DAB followed suit. The Democratic Party

sought an agreement from the Department of Justice that would keep the group from being forced to open its membership roll to public inspection, arguing that rights protections contained in the ICCPR and in Hong Kong's Bill of Rights should take precedence over the Companies Ordinance. Democratic Party Vice-chairman Albert Ho said on 7 June: "We hold the view, as advised by our legal advisers, that our members are entitled to the right of privacy. And there is no need for the public to know the names and the addresses of each and every of our members who are not office bearers within our party and are not holding any position, public offices, in statutory bodies, in any public institutions. There is a question as to how the Companies Ordinance in this regard is compatible with the right to privacy or, at a deeper level, the right of freedom of association as protected under the Bill of Rights Ordinance." The Democratic Party is considering filing for a judicial review.

44. In the UK parties are protected and regulated under the Political Parties Elections and Referendums Act 2000. The Act introduced a regulatory framework governing the registration and finances of political parties; it does not require membership lists to be made public. **We believe that it is important that a proper regulatory framework exists specific to the unique role played by political parties which also adequately protects an individual's privacy.**
45. Our previous reports have recorded the case of Mr Ching Cheong, the Singapore *Straits Times* correspondent and Hong Kong resident and his continued detention in Guangzhou on suspicion of providing intelligence to a foreign agency. Mr Ching is a British National (Overseas) passport holder.
46. In an interview with Commercial Radio on 5 February, the Chief Executive stated that "Beijing has promised that the case will be handled according to the law." At a meeting with Vice-President Zeng Qinghong and the director of the Hong Kong and Macao Affairs Office Liao Hui on 21 April the Chief Executive raised local concerns about Ching Cheong's case. He quoted Mr Liao as saying that he understood the concerns and that the authorities were actively proceeding with the case in accordance with the legal process on the mainland. On 30 April, Security Bureau officials informed Ching Cheong's wife that her husband would face a trial shortly, the case having again been sent back to the Prosecutor's office.
47. **We continue to press the Chinese authorities for information on the circumstances of Mr Ching Cheong's detention, most recently in a demarche in March. We will continue to seek information and press the Chinese authorities for a response.**

ECONOMY

48. In the first quarter of 2006 Hong Kong saw very strong growth, with GDP growing by 8.2% (year on year), higher than the Government's forecast growth rate. The stronger-than-expected growth was mainly due to higher domestic

demand and solid exports. Owing to the volatility in financial markets and other uncertainties, the Government left its economic growth forecast unchanged at 4-5% for 2006 as a whole despite the strong pace of growth.

49. Unemployment stabilised over the reporting period, ending at a 57-month low of 4.9% in March-May. Inflationary pressure remained mild, with the Consumer Price Index rising 2.1% in May (year on year).
50. Strong performance of the Hong Kong stock market continued in the first half of 2006. Several large mainland Chinese firms launched initial public offerings (IPOs), most notably the Bank of China, which listed successfully on 1 June. Market capitalisation of the Hong Kong Stock Exchange hit a record high of more than HK\$10 trillion on 3 May for the first time. Hong Kong ranked eighth in terms of global market capitalisation by 31 March 2006.

ECONOMIC COOPERATION WITH THE MAINLAND

51. The People's Bank of China announced measures on 13 April to relax controls on foreign exchange outflows that would help boost Hong Kong's financial development. Under the rules, mainland banks are allowed to convert yuan deposits into foreign currencies to invest overseas. The move was described as "one step towards" the implementation of the mainland's Qualified Domestic Institutional Investor (QDII) scheme.
52. Chief Executive Donald Tsang attended the third Pan-Pearl River Delta (PRD) Regional Co-operation and Development Forum from 5 to 8 June 2006 in Yunnan. He pledged to make use of Hong Kong's strengths as well as its international experience and network to promote regional development in collaboration with the Pan-PRD provinces and entities.
53. China's Vice Minister of Commerce Liao Xiaoqi and Hong Kong Financial Secretary Henry Tang signed Supplement III to the Closer Economic Partnership Arrangement (CEPA) on 27 June 2006. The new extension set out 15 more measures to liberalise trade in ten service areas and brought 37 more Hong Kong products under zero-tariff. The two sides also agreed to enhance co-operation on intellectual property protection under CEPA's section on trade and investment facilitation.
54. The Chairman of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), Jia Qinlin, visited Hong Kong between 27-29 June to mark the third anniversary of the signing of CEPA. He announced that the State Council was studying the expansion of renminbi business in Hong Kong. The State Council was considering allowing Hong Kong importers to settle direct import trade (exclude re-exports to Hong Kong) from China in renminbi and allowing financial institutions in China to issue renminbi - dominated bonds in Hong Kong.

BILATERAL RELATIONS

Visits

55. There continues to be a high number of British Ministerial and senior visitors to Hong Kong. The period covered by this report has been particularly busy and productive which once again demonstrates the depth and range of our bilateral relationship.
56. The Deputy Prime Minister visited Hong Kong on 20 February. He met the Chief Executive, the Financial Secretary and a representative group of Legislators from across the political spectrum. Underlining the UK's continued commitment to our business relationship with Hong Kong, Mr Prescott met leading members of the British Chamber of Commerce.
57. Reinforcing the strong links between the City of London and Hong Kong the Lord Mayor of the City of London, the Rt Hon David Brewer, visited Hong Kong from 28 February to 2 March. In a very busy schedule the Lord Mayor called on the Chief Secretary, the Secretary for Financial Services and the Treasury, Invest Hong Kong, the Chairman of the Securities & Futures Commission, and the Chief Executive of the Hong Kong Monetary Authority. He addressed a British Chamber of Commerce lunch, delivered a key note speech at a UK Trade & Investment seminar entitled 'Accession Global Funding' and met Chevening scholarships alumni. The Lord Mayor also attended a reception where he met a broad cross-section of leading Hong Kong people from the financial services, alumni members of the University of London SOAS and other academics from Hong Kong universities.
58. The Rt Hon Rhodri Morgan, First Minister for Wales, visited Hong Kong on 3-4 March. Although his programme was curtailed owing to delayed arrival, he was able to meet the Secretary for Commerce, Industry & Technology, and the Chairman of HKTDC. He was also able to visit a Wales Showcase and attended a dinner where he met a broad cross-section of leading Hong Kong people from government, politics and business.
59. HRH the Duke of York visited Hong Kong from 30 March to 1 April in his role as Special Representative for UK Trade and Investment. This was the Duke's first visit to Hong Kong since 1996 and the most senior royal visitor since the Handover in 1997. During his visit he met the Chief Executive, addressed the British Chamber of Commerce and met senior Hong Kong business people.
60. The UK Minister for Trade, Investment and Foreign Affairs, Ian Pearson MP, held a series of high-level meetings in Hong Kong on 3 April at the start of a five day visit to the Pearl River Delta and Beijing. This was the third visit Mr Pearson made to Hong Kong since coming to office in May 2005. Mr Pearson held meetings with the Secretary of Commerce, Industry and Technology Bureau, Joseph Wong, and Mr Fred Lam, Executive Director of the Hong Kong Trade Development Council. Mr Pearson also met key members of the British

Chamber of Commerce in Hong Kong, and high-level trade and investment business contacts. Mr Pearson had lunch with Legislators from all main parties and discussed economic and livelihood issues as well as constitutional reform.

61. As part of its East Asia Inquiry the Foreign Affairs Committee visited Hong Kong from 8 to 10 May. The Committee held meetings with the Chief Executive, the Secretary for Justice, Legislators with an interest in constitutional reform and workers rights, the British Chamber of Commerce, journalists based in Hong Kong and NGOs working on human rights in Hong Kong and on the mainland. The Committee also looked at the customer service operation at the British Consulate General.
62. Bill Rammell MP visited Hong Kong on 10 and 11 May in his new capacity as Minister for Further and Higher Education and Lifelong Learning. Accompanied by a high level delegation from Liverpool, Nottingham and Salford universities. He visited Tsing Yi Institute of Vocational Training, Hong Kong University. Mr Rammell met Professor Arthur Li, Secretary for Education and Manpower, building on the already strong educational relationship. Professor Li and Mr Rammell signed a Memorandum of Understanding to boost education collaboration amongst the education community.
63. Senior visitors to the UK from Hong Kong included Mr Anthony Wong, Commissioner for Innovation and Technology, Mr York Chow, Secretary for Health, Welfare and Food, Mr Wong Yan-lung, Secretary for Justice, and Mr Joseph Wong Secretary for Commerce Industry and Technology.

Trade and Inward Investment

64. Over the period of the report, bilateral trade has continued to expand healthily. UK exports of goods to Hong Kong from January to April 2006 amounted to £0.988 billion, an increase of over 14% over the same period of 2005. UK imports from Hong Kong for January to April 2006 were £2.181 billion, an increase of 18.9% over the same period in 2005.
65. During the reporting period, UK Trade & Investment (UKTI) has supported 7 trade missions to Hong Kong and 9 British groups at international trade fairs, in the process working with some 325 British companies looking to develop their business in Hong Kong. UKTI has also continued to work with over 180 existing Hong Kong investors in the UK to promote the UK to new potential investors.

Education

66. Educational links between the UK and Hong Kong remain very strong. There are currently around 20,000 students from Hong Kong studying in universities, schools and colleges in the UK.

67. The British Government's Chevening Scholarship Scheme has operated in Hong Kong since 1996. This year there are 35 Chevening scholars from Hong Kong in the UK, studying a wide range of courses. The generosity of Dr Li Ka-Shing (Chairman of Cheung Kong Holdings and Hutchison Whampoa Ltd), and Cambridge University, with a matching contribution from the Foreign and Commonwealth Office, has made this significant number of scholarships possible. In November 2003 Dr Li Ka-Shing pledged a further £2 million over three years, matched by the British Government under its Dorothy Hodgkin Postgraduate Awards scheme, to support mainland and Hong Kong scholars in doctoral studies in the UK.
68. Hong Kong remains a major centre of activity for the British Council. The British Council's Teaching Centre in Hong Kong engaged with 39,670 students last year. It is the Council's largest English-language teaching operation in the world. During 2005/6 it also administered 34,000 examinations and attracted 363,837 visitors to its website. The British Consulate-General works closely with the British Council in promoting better awareness of the UK's educational and training credentials, its creativity, cultural diversity and recent achievements. Further information can be obtained from the British Council Hong Kong web site www.britishcouncil.org.hk.

BRITISH NATIONALS (OVERSEAS)

69. There are nearly 3.5 million British Nationals (Overseas), most of whom live in Hong Kong. The British Government remains fully committed to providing the highest standard of consular and passport services to the holders of the British National (Overseas) (BN(O)) passport. We continue to offer the same level of consular service to BN(O) passport holders in third countries as we do to other British Nationals and regularly remind all our overseas missions of their obligations towards BN(O)s. The Passport Section of the British Consulate-General in Hong Kong continues to be one of the largest passport issuing operations outside the UK. Starting from May the Consulate-General has introduced biometric passports.
70. We continue to lobby other European countries and the European Commission to ensure that BN(O) passport holders enjoy the same access within Europe as SAR passport holders. The Foreign Secretary has written to the EU Commission to take this forward and we are working hard to secure early and positive progress.

CONCLUSION

71. This has been a busy and productive period in terms of bilateral contact between our two Governments. At the end of this reporting period we assess that, generally, the "One Country, Two System" principle has been working

well in practice and that the rights and freedoms promised in the Joint Declaration and the Basic Law continue to be upheld.

72. There are many challenges ahead for Hong Kong, in particular the unresolved issue of how Hong Kong's political system will develop from its current form to one based on universal and equal suffrage. Little or no visible progress on the issue has been made in the reporting period. It is important that the Government and the Legislature establish a constructive dialogue to realise the wishes of the people for a more representative and accountable Government. We believe that a system of universal suffrage is the best way to create stable, accountable and transparent government, of protecting rights and freedoms, and of upholding the rule of law. Such a system gives Government the mandate needed to govern efficiently, effectively and strongly and to allow difficult decisions to be taken.
73. We shall continue to follow developments closely and take appropriate action, when necessary, to fulfil our obligations under the terms of the Joint Declaration.



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