



Six-monthly Report on Hong Kong
1 January-30 June 2007



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*Presented to Parliament
by the Secretary of State for Foreign and Commonwealth Affairs
by Command of Her Majesty
July 2007*

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FOREWORD

This is the twenty-first in a series of reports to Parliament on the implementation of the Sino-British Joint Declaration on the Question of Hong Kong and my first as Foreign Secretary. It covers the period from 1 January to 30 June 2007. In marking the 10th anniversary of the handover of sovereignty of Hong Kong from Britain to China, it also takes a look back over the past ten years.

One of my first tasks as Foreign Secretary was the pleasant one of sending a message of congratulations on the tenth anniversary of the handover. Hong Kong's situation now, ten years on from 1997, is a real testament both to the arrangements which Britain and China negotiated before the handover, and to the people of Hong Kong who have worked to make a reality of "One Country, Two Systems". It is also a reflection of the strength of Hong Kong's underlying systems - an independent judiciary, an impartial and meritocratic civil service and a free and open society. These attributes have allowed Hong Kong's entrepreneurial spirit to flourish and underpinned Hong Kong's position as the region's pre-eminent financial and business centre.

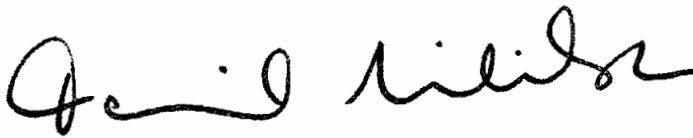
During the ten years Hong Kong has faced some difficult times. In large part these were for reasons that few, if any, foresaw in 1997: including the Asian Financial Crisis and SARS. The people of Hong Kong faced these challenges with resilience and resourcefulness. However, some of the difficulties have been the direct result of actions which relate to the constitutional and legal framework, especially with regard to the interpretations of the Basic Law by the National People's Congress Standing Committee and the drafting of legislation under Article 23 of the Basic Law. There is no doubt that these issues will remain sensitive.

In spite of the unforeseen economic challenges, Hong Kong has adapted, recovered and continued to prosper. Hong Kong's economy has grown 35% over the last 10 years. Hong Kong has continued to integrate economically with mainland China, to the benefit of both parties. In particular the financial services industry is burgeoning; Hong Kong was second only to London in terms of funds raised by Initial Public Offerings (IPOs) last year.

This report covers the March 2007 election for Chief Executive, won by Donald Tsang. For the first time, a pro-democracy candidate, Alan Leong, made it through the nomination round to take part in the election. And for the first time, an incumbent Chief Executive had to go to a full vote of the election committee. There was wide participation in the debate and engagement in the issues. Both candidates deserve credit for participating fully in an election campaign and engaging with the wider public. But, it remains a regrettable fact that the vast majority of Hong Kong's citizens did not get to vote in the election.

Constitutional development is one area in which Hong Kong's progress has been disappointing. On 11 July, just after the end of the period covered by the present report, the SAR Government launched a Green Paper on Constitutional Reform for a three-month public consultation. The consultation exercise is a chance for the people of Hong Kong to express a clear view on the territory's future political development. I hope they take the opportunity to do so, and that the SAR Government then identifies a clear roadmap which reflects the wishes of the community. Our own position on the matter is well known. We are convinced that the best way to safeguard Hong Kong's stability and prosperity is for it to advance to a system of universal suffrage, as envisaged in the Basic Law, as soon as possible.

Ten years ago, in the first report in this series, the then Foreign Secretary, the late Robin Cook, promised that the end of British sovereignty and administration in Hong Kong would not mean the end of British commitment to Hong Kong. He said that we retained a strong political and moral responsibility towards its people, as well as an important stake in Hong Kong's continuing success. Today, I repeat that commitment. Britain's obligations to Hong Kong endure. We remain a committed partner for the SAR and its people.

A handwritten signature in black ink, appearing to read "David Miliband". The signature is fluid and cursive, with a large initial "D" and a long, sweeping underline.

David Miliband
Secretary of State
For Foreign & 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 to issue these reports to Parliament, which assess the success of those arrangements. This extended report covers not just the six-month period in question, but also looks back briefly at selected aspects of the ten-year period since the handover.

CONSTITUTIONAL ARRANGEMENTS

2. *The Joint Declaration guarantees an independent legislative system and provides that the Chief Executive and Legislative Council be elected. In the past ten years, we have paid close attention to a number of relevant aspects: electoral arrangements for the Chief Executive and Legislative Council and in particular to the debate on universal suffrage. We have followed developments in the civil service and the debate about reform of the government structure, including executive-legislative relations and the move towards a Cabinet system of government.*
3. *The issue of how and how fast Hong Kong should advance to a system of universal suffrage has been the predominant political question the SAR has grappled with over the past ten years.*
4. *The Chinese Government decided in 1995 that, because it had not agreed to the arrangements for the 1995 Legislative Council elections, the 60 members of the Legislative Council could not automatically continue in office after 30 June 1997. At the handover, the elected Legislative Council was replaced by an unelected provisional legislature but the Hong Kong SAR Government moved quickly to prepare for elections to a new legislature, which were held in May 1998. We welcomed these elections as a step towards a legislature elected entirely through universal suffrage. The record turn-out was a positive affirmation of Hong Kong's growing democratic awareness.*
5. *For the second and third set of Legislative Council elections in September 2000 and 2004, the electoral framework remained essentially the same. But in accordance with the Basic Law, the proportion of Legislative Council members directly elected in geographical constituencies rose steadily (from 33% in 1998 to 40% in 2000 and 50% in 2004). Further welcome steps were made towards democracy with reform at municipal and local government level. In all these elections there were high levels of participation by the electorate.*
6. *The Basic Law contained no further specific provisions outlining steps towards the ultimate aim of universal suffrage but it had been widely expected that further steady progress would be continued at subsequent elections. We expressed surprise and concern at the April 2004*

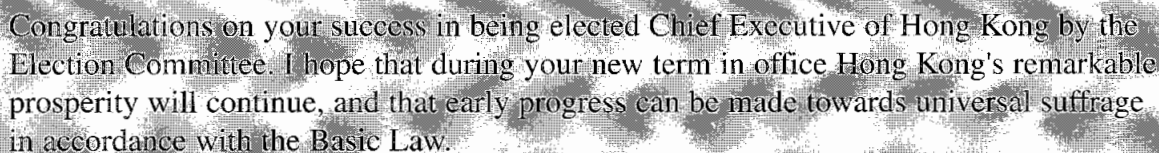
intervention by the National People's Congress (NPC) Standing Committee when it issued its interpretation of the Basic Law as it relates to the election of the Chief Executive and Legislature. The interpretation and the Standing Committee Decision that followed ruled out universal suffrage for the election of the Chief Executive in 2007 and ruled that the arrangements for Legislative Council elections, whereby half its members were to be returned from functional constituencies, should remain unchanged for 2008. In our view, this imposed limits to constitutional development in Hong Kong which were not required by the Basic Law.

7. *At the same time, we recognised the ultimate authority of the Standing Committee to interpret the Basic Law. We expressed the hope that early progress could be made towards the Basic Law's ultimate aims of the election of the Chief Executive and all members of the Legislative Council by universal suffrage, at a pace in line with the wishes of the people of Hong Kong. We welcomed the Hong Kong SAR Government Constitutional Development Task Force's October 2005 proposals for constitutional reform. Although the proposals were ultimately rejected by the Legislative Council, we made clear that in our view they represented an incremental step in the right direction and the best way in the short term of making progress.*
8. *While there have been a number of welcome and important steps forward on constitutional reform over the past ten years, it is clear that progress towards universal suffrage has been slower than many would have wished. Hong Kong has responded constructively to the changes that have occurred, and people have exercised their voting rights in a responsible and mature way. The periodic large scale demonstrations since 2003 in support of faster moves towards a more representative government are impressive examples of Hong Kong people peacefully exercising their political and civil rights, and they further underline the widespread desire among people in Hong Kong for greater participation in the political process. The wide interest and positive public engagement in the recent Chief Executive election are further indications of the political maturity of Hong Kong people and their desire for greater democratic participation.*

Election of Chief Executive

9. In the six-month period of this report, the principal event in the constitutional process was the election for Chief Executive. On 19 January the Electoral Affairs Commission (EAC) announced that the election for the third term Chief Executive would be held on 25 March, with the nomination period taking place from 14 February to 1 March. The Chief Executive would take office on 1 July. The EAC noted that a candidate's nomination should be supported by not less than 100 members of the 795 Election Committee.
10. On 1 March the Returning Officer of the Chief Executive election, Mr Justice Barnabas Fung Wah, announced that he had received two valid nominations for the election for Chief Executive from Mr Alan Leong Kah Kit, the pro-democracy candidate from the Civic Party, and Mr Donald Tsang Yam Kuen, the incumbent Chief Executive, on 14 and 16 February respectively. Alan Leong received 132 nominations; Donald Tsang received 641.
11. On 1 and 15 March Donald Tsang and Alan Leong took part in two televised election debates, a first in Hong Kong's electoral history. Members of the Electoral Committee attended the debates. Approximately two million people watched, and the candidates also answered a number of questions from members of the public. During the election campaign both candidates produced manifestos and campaigned in local districts.

12. Donald Tsang was elected Chief Executive for a second term on 25 March by the 795-member Election Committee. Of the 789 votes cast in a secret ballot Donald Tsang secured 649 whilst Alan Leong received 123. There were 17 spoiled votes.
13. Mr Tsang said: "I have debated with Mr Alan Leong, putting our different manifestos to the people of Hong Kong. We stimulated public discussion of Hong Kong's priorities for the next five years. But most important of all, the community has treated the process seriously. The public has been thoroughly engaged throughout. All the important issues have been laid out for public discussion, properly scrutinised and debated... The maturity of Hong Kong people has been demonstrated throughout the electoral process. This has made this election very special and has laid out a solid foundation for moving toward universal suffrage."
14. Donald Tsang's appointment as Chief Executive was formally approved by the Central People's Government on 2 April. He was subsequently sworn in for a five-year term on 1 July 2007.
15. On 2 April the Prime Minister Tony Blair wrote to Donald Tsang:



Congratulations on your success in being elected Chief Executive of Hong Kong by the Election Committee. I hope that during your new term in office Hong Kong's remarkable prosperity will continue, and that early progress can be made towards universal suffrage in accordance with the Basic Law.

Hong Kong SAR Government

16. On 13 June this year the Legislative Council approved the reorganisation of the Government's Policy Bureaux, with effect from 1 July. The number of bureaux has increased from 11 to 12 with the formation of a Development Bureau to oversee planning, land use and heritage conservation. The Food, Health and Welfare Bureau will lose the welfare portfolio to the Labour and Welfare Bureau. The present Commerce, Industry and Technology Bureau will be merged with closely related areas of the present Economic Development and Labour Bureau and expanded to cover matters relating to tourism, consumer protection, creative industry and competition policy. The new bureau will be the Commerce and Economic Development Bureau. The Constitutional Affairs Bureau will take over the Home Affairs Bureau's responsibilities for human rights and access to information, and will be called the Constitutional and Mainland Affairs Bureau. Other changes are a new Transport and Housing Bureau and a new Environment Bureau. Legislators from the pan-democrat camp voted against the Government's proposals in opposition to the relocation of the Legal Aid office to the Home Affairs Bureau. They were concerned that access to legal aid would be restricted.
17. On 23 June the Chief Executive announced the new appointments to his governing team, with effect from 1 July, following their approval by the State Council of the Central People's Government. The new line up is as follows: Henry Tang, Chief Secretary for the Administration; John Tsang, Financial Secretary; Wong Yan-lung, Secretary for Justice; Denise Yue, Secretary for the Civil Service; Stephen Lam, Secretary for Constitutional and Mainland Affairs; Michael Suen, Secretary for Education; Edward Yau, Secretary for the

Environment; York Chow, Secretary for Health and Food; Tsang Tak-sing, Secretary for Home Affairs; Matthew Cheung, Secretary for Labour and Welfare; Ambrose Lee, Secretary for Security; Eva Cheng, Secretary for Transport and Housing; Chan Ka-keung, Secretary for Financial Services and the Treasury; Frederick Ma, Secretary for Commerce and Economic Development; Carrie Lam, Secretary for Development. Norman Chan was appointed Director of the Chief Executive's Office. Timothy Tong was appointed Commissioner of the Independent Commission Against Corruption.

18. This team includes many highly experienced officials who have served Hong Kong well over many years. **We continue to believe that an impartial and meritocratic civil service is essential for Hong Kong and that the quality and integrity of the civil service have been major factors in Hong Kong's success. We support the aim of increased accountability in senior posts, which is an effective means of improving democratic supervision of the executive.**

Constitutional development

19. In the six-month period covered by this report, Donald Tsang stated on a number of occasions during his campaign to be re-elected Chief Executive: "I will resolve the question of universal suffrage totally, completely, within my next term."
20. On 2 March, 21 legislators from the pan-democrat camp released proposals for reforming the election of the Chief Executive and Legislature. They recommended that the Chief Executive should be elected by universal suffrage in 2012. Candidates should first be nominated through an election committee expanded from the current 800 to 1200 by including the directly elected District Councillors. The threshold for nomination would fall from 100 to 50 members. In the long term, the nomination committee should be abolished (which would require an amendment to the Basic Law). For the election for the Legislative Council in 2012 all functional constituencies should be abolished and replaced with legislators elected through a community-wide list system.
21. On 5 March, Mrs Anson Chan, the former Chief Secretary, and her Core Group released a paper entitled "The Road to Universal Suffrage". Amongst other things, the paper made proposals for the timescale by which universal suffrage should be achieved and for extending the franchise. In April Ronald Arculli, a non-official member of the Executive Council, Legislator Albert Cheng and Sir David Akers Jones, President of the Business and Professionals Federation of Hong Kong, spoke separately to the press about their proposals for the election of the Chief Executive by universal suffrage. Many other figures, including Maria Tam, an NPC delegate, and Alan Hoo, Chairman of the Basic Law Institute, also submitted proposals to the Commission on Strategic Development.
22. On 3 April the Secretary for Constitutional Affairs, Stephen Lam, issued two papers for discussion by the Committee on Governance and Political Development of the Commission on Strategic Development on returning the Chief Executive and the Legislative Council by universal suffrage. The papers summarised proposals for the two elections. The paper on the election for Chief Executive included proposals ranging from the 60 members of the Legislative Council forming the nominating committee, to expanding the existing nominating committee to 3,200. The paper on the election for the Legislative Council focussed on the future role of the 30 functional constituencies in the Legislative Council. The proposals ranged

from replacing functional seats with geographical seats, either in one go or over a number of elections, to functional constituencies nominating candidates who are then put to a universal vote.

23. On 12 April the Committee on Governance and Political Development met to discuss the two papers. Speaking after the meeting the Secretary for Constitutional Affairs said: "Among members of the Commission, there is a clear recognition that we can make more progress with regard to implementation of universal suffrage for the Chief Executive, but that it is relatively more difficult to achieve such consensus for implementing universal suffrage for the Legislative Council. And, therefore, the clear conclusion is perhaps we should go for implementation of universal suffrage for the Chief Executive first and that for the Legislative Council can follow later."
24. The Secretary for Constitutional Affairs noted that a Green Paper on constitutional reform would issue in mid 2007. The Green Paper would include three types of model for implementing universal suffrage. He set out four criteria for the models: they must be consistent with the Basic Law (and require no amendment of it); they should attract majority support among Hong Kong's people; they should stand a reasonable chance of securing a two-thirds majority in the Legislative Council; and they should stand a good chance of being considered seriously by the Central Government. (The Green Paper was subsequently published on 11 July.)
25. On 15 April a Constitutional Affairs Bureau spokesperson said: "Following the end of the three-month public consultation period [on the Green Paper], we will submit a report to the Central Authorities, which will reflect any mainstream views formed during the public consultation and other views expressed."
26. On 15 May the Chairman of the Democratic Alliance for the Betterment and Progress of Hong Kong (DAB), Ma Lik, is reported to have commented in a closed door discussion with the media that Hong Kong would not be ready for universal suffrage until around 2022 because the people lacked national identity and many still believed there was a massacre in Tiananmen Square in 1989. His alleged comments drew an angry reaction from democrats and in the media.
27. On 27 June the Chief Executive appointed 67 non-official members, representing professionals, academics, businessmen, politicians, and prominent labour and media personalities, and four official members to the Commission on Strategic Development. The Commission's term will start on 1 July and last two years. The new Commission will sit as a single forum, as opposed to the original four, and will be chaired by the Chief Executive. Mr Tsang said: "The commission will continue to reflect and gauge a wide range of community views early in response to calls for new Government policy initiatives."
28. **We welcome the Chief Executive's commitment to resolve the question of universal suffrage and look forward to the issue being fully discussed in Hong Kong. We believe that the people of Hong Kong have demonstrated both their political maturity and their desire for further reform. We hope that the publication of the Green Paper and subsequent consultation process will enable all parties to work together constructively to meet the goal of universal suffrage, as set out in the Basic Law.**

Democratic legislators

29. Twelve elected legislators in Hong Kong continue to be prevented from travelling freely to mainland China. As we said in our nineteenth report, **the inability of some legislators to travel to the mainland is a barrier to open dialogue between the three parties - the Chief Executive, the Legislature and the NPC Standing Committee - that the Basic Law, as interpreted by the NPC Standing Committee, requires to agree 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.**
30. On 17 March, the Secretary for Security, Mr Ambrose Lee and 14 Legislative Council members went on a study visit to Shenzhen Bay Port in Shekou to see the facilities at the Hong Kong-Shenzhen Western Corridor. A Legislative Council Bills Committee was scrutinising a Bill that would provide a legal basis for the setting up of a Hong Kong Port Area inside the Shenzhen Bay Port. Included in the group were pan-democrat legislators who do not have home return permits and are prevented from visiting mainland China: Andrew Cheng, Emily Lau, Leung Kwok-hung and James To.
31. On 8 May, Tsang Yok-sing, a legislator from the DAB, wrote in an article: “Mistrust of the democrats is shared, if not generated, by Beijing officials, who have persistently refused to engage in direct dialogue with leaders of the democrats. This tactic is aimed at marginalising the democrats, but it brings the Chinese Government more harm than good... Without direct dialogue, the Central Government and the Hong Kong democrats can only deduce the intentions of the other side by ‘interpreting their statements made in public.’”
32. **It is encouraging that the Shekou visit took place. We continue to hope that full return home permits will be granted soon to those legislators who still do not have them.**

Relations between the Central People's Government and Hong Kong SAR Government

33. On 5 March Chinese Premier Wen Jiabao gave a speech at the opening of the fifth session of the 10th National People's Congress. He said: “We continue to unswervingly uphold the principle of one country, two systems under which the Hong Kong people administer Hong Kong and Macau people administer Macau; with a high degree of autonomy. We will strictly comply with the Basic Laws of the Hong Kong and Macau Special Administrative Regions and give our full support to their Chief Executives and Governments in administering the two regions in accordance with the law, promoting economic development, improving the lives of their populace and strengthening harmony. We will increase exchanges and cooperation between the mainland and Hong Kong and Macau in areas including the economy, trade, science, technology, education, culture, health, and sports. Let us work together with people from all sectors of society in Hong Kong and Macau, to safeguard the long term prosperity and stability of the two regions.”
34. On 7 March Wu Bangguo, a member of the Chinese Communist Party Central Committee Political Bureau Standing Committee and Chairman of the NPC Standing Committee, encouraged NPC deputies from Hong Kong and Macau to play a more active role in local politics and to set an example for implementing the Basic Laws of the two regions.

35. On 6 June Wu Bangguo gave a speech to a forum to mark the 10th anniversary of the implementation of the Basic Law. During his speech he said: "The high degree of autonomy enjoyed by the Hong Kong SAR is granted by the Central Government. Our country is a single-system state, and the high degree of autonomy enjoyed by the Hong Kong SAR is not intrinsic to Hong Kong but was granted by the Central Government... The SAR shall only have as much power as granted by the Central Government to the Hong Kong SAR. The Central Government may grant those powers that are not clearly stipulated in accordance with the provisions of Article 20 of the Basic Law, and there is no issue of so-called 'residual power'."
36. He went on to say: "The greatest feature of the Hong Kong SAR's political system is the dominance of the executive branch. During the process of drafting the Basic Law, some people proposed "separating the three branches of power" under the Hong Kong SAR's political system. At a meeting with members of the Basic Law Drafting Committee in April 1987, Comrade Deng Xiaoping pointed out: "Hong Kong's system cannot be completely Westernized, and the Western model cannot be copied mechanically... It might not be appropriate for us to mechanically copy other models in their entirety - for example, separating the three branches of power and practising the British and US parliamentary systems and using this to judge whether there is democracy." In keeping with this important thinking of Comrade Deng Xiaoping's, the Basic Law proceeded from the Hong Kong SAR's legal status and reality and established an executive-led political system. The most important feature is the Chief Executive's dominant status in the establishment and operation of organs of political power in the SAR. The Basic Law expressly states that the Chief Executive is both the head of the Hong Kong SAR and the head of the SAR Government and that he or she shall be accountable to the SAR as well as the Central Government."
37. Mr Wu's comments gave rise to concerns in Hong Kong that the Central People's Government was attempting to restrict the autonomy of Hong Kong and impose further limits on the process of constitutional reform. Leading figures in Hong Kong sought to defuse the controversy. The Chief Executive said in an interview with the Financial Times on 15 June: "We have to work within the framework of the Basic Law. Mr Wu Bangguo merely repeated what is spelled out in the Basic Law. There's nothing more to it." On 15 June the Chief Justice Andrew Li said: "The independence of the judiciary is fully guaranteed in the Basic Law and is a pillar of Hong Kong's society. The exercise of judicial power by the courts is not subject to any interference by the executive, by the legislature or by anybody else...there is no doubt that judicial independence and its separation from the branches of government are fully guaranteed by the Basic Law. No one has questioned this."
38. **In the Joint Declaration, an international treaty registered with the UN to which the Chinese and British Governments are both signatories, the Chinese Government undertook that the Hong Kong SAR would enjoy a high degree of autonomy except in foreign and defence affairs. The Basic Law enacts this principle in Chinese law. The Basic Law also establishes an executive-led government whilst enshrining the separation of powers through an independent judiciary which acts as a constitutional check on the legislative and executive branches of government. We believe that this system has served the people of Hong Kong well in terms of ensuring that their rights and freedoms are protected. We look forward to the different roles of each of these branches to act as a constitutional check being strengthened through the election of the Chief Executive and Legislature through universal suffrage.**

LEGAL AND JUDICIAL

39. *The Joint Declaration vests the Hong Kong SAR with independent judicial power, including that of final adjudication. During the ten years since the establishment of the SAR, the judiciary has demonstrated the highest standards of independence and impartiality. This has played a major role in maintaining international confidence in Hong Kong. The Court of Final Appeal has built a strong operating foundation, and it is vital for Hong Kong that the Court is able to maintain its independence and authority.*
40. *The Hong Kong SAR Government has, during the ten years since the handover, twice called for an interpretation of the Basic Law by the National People's Congress Standing Committee: once in 1999 on provisions related to the right of abode in Hong Kong and once in 2005 on the length of term C H Tung's successor should serve as Chief Executive. The first case was especially controversial since it overrode a judgement of the Court of Final Appeal. In both these cases, we understand the pressure that the Hong Kong SAR Government felt to dispel uncertainty and resolve matters quickly. And we recognise that power to interpret the Basic Law is vested in the Standing Committee of the National People's Congress. But we continue to believe that it would be best for such requests to remain exceptional and for the Hong Kong SAR Government to follow common law precedents, thus underpinning confidence in the judicial system in Hong Kong.*
41. *The UK has four Law Lords sitting on the Court of Final Appeal, members of the Privy Council: Lord Hoffman, Lord Woolf of Barnes, Lord Scott of Foscote and Lord Millett.*
42. *Our view is that Hong Kong continues to conduct its legal and judicial affairs with independence and integrity.*
43. On 22 January the Hon Mr Justice Hartmann, in the Court of First Instance, handed down his judgment on the case brought by Legislator Leung Kwok-hung against the President of the Legislative Council and the Secretary for Justice. Leung Kwok-hung's case was that the Legislative Council rule of procedure, 57(6), which effectively prevents members from proposing committee stage amendments to bills which have a charging effect, is inconsistent with the Basic Law. Article 74 of the Basic Law does not permit members of the Legislative Council to introduce bills which have a charging effect but is silent on the question of whether, once a bill is introduced, members may propose committee stage amendments which will have the same effect.
44. Leung Kwok-hung's case flowed from the second reading in August 2006 of the Interception of Communications and Surveillance Bill when a substantial number of committee stage amendments were proposed by members. On 1 August 2006, the President of the Legislative Council, Rita Fan, ruled that a number of proposed amendments had a charging effect and, in light of r.57(6) of the Rules of Procedure, could not go forward for consideration.
45. Mr Justice Hartmann rejected the application for judicial review on the grounds that r.57(6) was consistent with Article 74 of the Basic Law. Mr Justice Hartmann further noted that the restriction on the Legislative Council to initiate and amend bills which may cause a charge on public expenditure was reflected in legislatures around the world.

46. In our last report covering the period July to December 2006, paragraph 37, we erroneously referred to a decision of the Court of Appeal as a decision of the Court of Final Appeal. The decision had upheld a ruling by the Court of First Instance that the law prohibiting men aged under 21 from engaging in homosexual acts was unconstitutional.

BASIC RIGHTS AND FREEDOMS

47. *The Joint Declaration vests in the Hong Kong SAR Government the power to protect the rights and freedoms of inhabitants and other persons in the Hong Kong SAR according to the law. In the first six-monthly report after the handover, we noted that Hong Kong had retained a free and dynamic press, although healthy debate about the extent of self-censorship has continued to this day. Political parties had remained active and continued to play an essential role in leading and informing popular debate. Demonstrations and public protests had continued on a regular basis, without recourse to controversial provisions on national security. Non-Government Organisations had continued to operate freely. Full continuity had been achieved in the legal system and the rule of law remained strong and durable. That encouraging picture has by and large continued to the present time. We hope that this record will continue and that basic rights and freedoms will continue to be properly protected in Hong Kong. We hope that Hong Kong will pass legislation to fulfil its obligations under the International Convention on the Elimination of all forms of Racial Discrimination (ICERD).*
48. *During the ten-year period the most sensitive development in this area concerned the SAR Government's plan to legislate to give effect to Article 23 of the Basic Law. This calls on the Hong Kong SAR amongst other things to enact laws to prohibit any act of treason, secession, sedition or subversion against the Central People's Government. Even before the publication of a consultation document in September 2002, this was a very sensitive issue to which we devoted much attention. Once draft legislation was brought forward, the issue greatly increased in sensitivity. We welcomed the fact that ultimately the SAR Government listened to the concerns of the people of Hong Kong and of the international community and on 5 September 2003 decided to delay passage of legislation to allow more time for further discussion. This remains our view. We expressed our hope that there would be the widest possible consultation before legislation under Article 23 is reintroduced into the Legislative Council. We continue to see it as vital that final legislation neither undermines, nor is perceived to undermine, the basic rights and freedoms of the people of Hong Kong.*
49. *During these last ten years we have also commented on particular issues related to and debates about freedom of speech, the media, academia, and on decisions relating to immigration by certain individuals or groups, where we have felt it appropriate to do so.*

Journalism, media and RTHK

50. On 10 February the Hong Kong Journalists Association published the results of a survey it had commissioned from the Public Governance Programme at Lingnan University. 60% of the journalists interviewed felt that self-censorship was more serious than ten years ago. Among the interviewees, 30% admitted to having committed self-censorship over the past 12 months. 40% believed either their colleagues or supervisors did so. However only 13.1% of the respondents regarded self-censorship as the biggest problem they were facing. 27.6% felt that superficial reporting was a bigger problem, with 16.5% citing low salary and insufficient welfare provision for the journalists and 16.3% suggesting that the press was becoming overly sensational.

51. In our report for the period January to June 2006 we covered the establishment of the Committee on Review of Public Service Broadcasting which was tasked by the Hong Kong SAR Government to examine the justification for Public Service Broadcasting in Hong Kong's broadcasting market, as well as its role and purpose with regard to the resources required for such broadcasting. On 28 March the Committee submitted its report.
52. The Chairman of the Committee, Raymond Wong, said it had concluded that there was a genuine need for public service broadcasting in Hong Kong. The Committee recommended in its report that a new public broadcaster be constituted as a statutory body and funded primarily from the public purse to provide public service broadcasting. The Committee argued in the report that: "The status and structure of Radio Television Hong Kong (RTHK) as a government department allows no room for a governance regime which enables independent strategy setting, a high degree of financial and operational autonomy, and direct public accountability based on a specific public mandate." The Committee recommended against the transformation of RTHK into a public broadcaster but for the establishment of a new broadcaster.
53. The Secretary for Commerce, Industry and Technology, Joseph Wong, said: "The Government will study all the recommendations of the Committee carefully and in the second half of 2007 will issue a public consultation document which will set out the Government's views on the way forward."
54. Both the Hong Kong Human Rights Monitor and the Hong Kong Journalists Association issued statements critical of the report, arguing that RTHK should be transformed into a new public service broadcaster independent of government. On 20 April 200 members of RTHK staff staged a protest against the report by the Committee on Review of Public Service Broadcasting.
55. **Freedom of expression is essential to the development of a modern, stable and sustainable society. Independent media is the best guarantee of the right to freedom of expression. We trust that Hong Kong's diverse and open media, one of its major strengths, will be protected, including quality public service broadcasting as has been provided by RTHK.**

Academic freedom

56. On 4 February Professor Bernard Luk Hung-kay posted an essay on the intranet of the Hong Kong Institute of Education (HKIED) in which he made a number of allegations regarding possible infringement of the academic freedom of the HKIED by the Education and Manpower Bureau (EMB), including that EMB threatened to cut the number of students at the Institute if the Institute did not initiate a merger with the Chinese University of Hong Kong, and that EMB requested two members of the Institute's staff be dismissed after they published articles in local newspapers criticising education policy.
57. On 15 February the Chief Executive appointed a Commission of Inquiry into the allegations of improper interference with the academic freedom or the institutional autonomy of the HKIED by government officials. The Hon Mr Justice Woo, Vice President of the Court of Appeal of the High Court, was appointed Chairman and Commissioner of the Inquiry and Mr Lee Jark-pui Commissioner.

58. Establishing the Commission, the Chief Executive said: “We treasure academic freedom in Hong Kong. Academic freedom is a core value of ours that must not be eroded. These allegations are indeed very serious for the concerned government officials, and should not be taken lightly.”
59. On 20 June the Commission of Inquiry published its report. The Commission concluded that there was no concerted effort by the EMB to force HKIEd to agree to a merger with the Chinese University of Hong Kong by reducing the student numbers of HKIEd in order to render it “unviable”. The Commission judged there was insufficient evidence to show any improper interference by the Secretary for Education and Manpower or other government officials with the institutional autonomy of HKIEd. However, the Commission concluded that the former Permanent Secretary for Education, Fanny Law, had requested that HKIEd Professor Morris try to curb two of his employees’ criticisms of government education policy, although she did not demand their dismissal. It found that Mrs Law’s complaints, even if well intended, were improper and constituted an improper interference with those employees’ academic freedom.
60. Mrs Law, who when the report was issued held the position of Commissioner for the Independent Commission Against Corruption (ICAC), resigned from the civil service on 20 June.

Immigration and asylum

61. On 23 March the Hon Mr Justice Hartmann in the Court of First Instance handed down his judgment in the case of Chu Woan Chyi and others vs the Director of Immigration. The applicants’ case was that in February 2003 four Falun Gong followers from Taiwan, each in possession of valid multiple entry permits issued by the Hong Kong immigration authorities, were refused permission to enter Hong Kong to participate in a Falun Gong Conference. The applicants claimed that they were denied permission to enter Hong Kong solely or substantially because of their religious or spiritual beliefs, denying them the constitutional protection of freedom of conscience and religious belief. Although declared to be an illegal cult in the mainland in 1999, the Falun Gong movement has not been declared illegal in Hong Kong. In total some 80 Falun Gong adherents were refused permission to enter Hong Kong to attend the Conference.
62. The Director for Immigration contended that the applicants were refused entry because, acting on an intelligence assessment by the security agencies of the Government, he determined that to grant them entry would not have been in the public interest. He argued that membership of or association with the Falun Gong alone is not a reason for placing any individual on an immigration watchlist or for denying them entry to the Hong Kong SAR. He noted that of the 800 participants taking part in the conference, approximately 600 were Falun Gong practitioners who were admitted into the Hong Kong SAR for such purpose.
63. The ability of the court to determine the matter was hampered by the earlier routine destruction of all government files relating to the case and the executive’s decision not to disclose information relating to intelligence. Mr Justice Hartmann concluded: “I do not find the Director’s assertion that the intelligence agencies of Government acted entirely on issues of security to be inherently improbable. Indeed, in my view, the weight of the evidence, in so far as it is possible to assess that weight in the absence of oral testimony and cross-

examination, supports the Director in his contention that issues of religious or spiritual affiliation were entirely incidental to the decisions made in respect of the first four applicants.” The application for judicial review was dismissed.

64. On 15 June the Hon Mr Justice Hartmann in the Court of First Instance handed down his judgment in the case of four asylum seekers appealing against their detention by the Department for Immigration. The 1951 UN Convention relating to the Status of Refugees is not applicable to Hong Kong. The 1984 Convention Against Torture applies to Hong Kong, although it has not been incorporated into domestic law. Hong Kong applies the policy of not deporting a person to a country where that person's claim that he would be subjected to torture in that country is considered to be well-founded. In March 2007 some 860 persons who were subject to deportation or removal orders under the Immigration Ordinance had made claims under the Convention. All of those claims await final determination. In March 2007 about 130 claimants remained in custody. The applicants in the case argued that the Immigration Ordinance allowed for detention pending removal but that, as they were awaiting judgment on their applications under the Convention Against Torture, they were not being detained ‘pending removal’ and that the Immigration Ordinance did not apply. Mr Justice Hartmann rejected the contention.

Protests and demonstrations

65. The Alliance in Support of Patriotic Democratic Movements in China organised its annual candlelight vigil to commemorate the 1989 shootings in Tiananmen Square on 4 June. The organisers claimed 55,000 attended whilst the police put the number at 27,000.
66. On 30 May the Legislative Council voted down a motion calling for “the June 4 incident not to be forgotten and the 1989 pro-democracy movement be vindicated.” During the debate pan-democracy legislators took it in turns to read out the names of 186 of those killed in the 1989 Tiananmen Square crackdown. The original motion proposed by Legislator Leung Kwok-hung said: “That this Council condemns the prime culprits of the bloody crackdown on the pro-democracy movement in 1989, and demands that the Chinese Communist Government thoroughly investigates the 4 June massacre to ascertain who should be held responsible, as well as release political prisoners, end one-party dictatorship and return political power to the people”. Legislative Council President Rita Fan rejected the original motion on the grounds that the Legislative Council had no constitutional right to criticise the central government.

ECONOMY, TRADE AND THE ENVIRONMENT

67. *The Joint Declaration states that the Hong Kong SAR shall maintain the capitalist economic and trade systems previously practised in Hong Kong. And that the Hong Kong SAR Government shall decide its economic and trade policies on its own. The preservation of the capitalist system was a key objective of the Joint Declaration and a benchmark for "One Country, Two Systems".*
68. *In the ten years since the handover, Hong Kong has overcome some severe shocks which have afflicted the region: a short respite after the Financial Crisis (during which it fought off a speculative attack on the Hong Kong dollar) was ended by the global slowdown following the terrorist attacks on the US in September 2001 and then Severe Acute Respiratory Syndrome in early 2003 during which unemployment reached an unprecedented 8.7%. However, the recovery began in the second half of that year and has continued ever since.*

69. *The speed of Hong Kong's recovery was due in no small part to the Hong Kong SAR Government's prudent policies and to the openness and flexibility of its economy which remains well-managed and transparent. In March 2006, Premier Wen Jiabao described Hong Kong as "the freest and most open economy in the world". International surveys such as that of the International Heritage Foundation have consistently supported this assessment over the past 10 years. Under-pinning this strength, China has consistently offered support for the Hong Kong SAR Government, but has avoided interference.*
70. *On 29 June 2003, China and the Hong Kong SAR signed the Closer Economic Partnership Arrangement (CEPA). Building on an ambitious start, this Arrangement has been refined several times such that all Hong Kong origin products (except prohibited articles) have been granted tariff-free treatment since 1 January 2006. Such agreements have also given Hong Kong firms greater access to the mainland's service sector. **We welcomed proposals for a free trade arrangement in 2003 and maintain our view that a non-discriminatory closer economic partnership with the mainland, conforming to WTO rules and the principle of "one country, two systems", should be beneficial to Hong Kong.***
71. *Additionally, the introduction of the Individual Visit Scheme in 2003 assisted Hong Kong through an increase in tourist trade from the mainland. The total tourism expenditure associated with inbound mainland visitors increased from HK\$30 billion in 2003 to HK\$39.7 billion in 2006, a rise of 33%. And Hong Kong's financial sector has been boosted through arrangements allowing it to conduct renminbi business in Hong Kong.*
72. *Begun during the British administration, Hong Kong's new international airport was completed in July 1998, together with its supporting railway connections. After the handover, further infrastructure projects have increased access to and from the mainland, most recently with the completion of the Hong Kong-Shenzhen Western Corridor, the fourth boundary crossing for vehicles. Together with an expansion of port facilities, all this reinforces Hong Kong's status as pre-eminent business hub in the region.*
73. *During those ten years, whilst the economies in Hong Kong and Southern China have grown, the quality of the environment has deteriorated. Air pollution in particular has become a significant issue of public concern and political debate. We understand that top priorities of the Hong Kong SAR Government and of many businesses are to reduce pollution, to minimise the impact on people's health and to maintain Hong Kong's competitive edge as an international business centre in Asia.*
74. *Hong Kong's economy continued to experience strong growth during the six-month reporting period, with real GDP growth of 5.6% in the first quarter of 2007. Unemployment fell continuously to a 9-year record low of 4.3% between March-May 2007, and inflation stood at 1.2% year-on-year from May 2006.*
75. *The stock market continued to stage a strong rally in the first half of 2007. China Citic Bank was the second bank to list its shares simultaneously in Hong Kong and in Shanghai on 27 April 2007 following the listing of Industrial and Commercial Bank of China in 2006. Of the US\$5.4 billion raised, approximately 70% was raised in Hong Kong. Market capitalisation of the Hong Kong Stock Exchange hit a record high of more than HK\$15 trillion on 23 May. On 12 March, two large H shares (Hong Kong-listed companies that are incorporated in the mainland), China Life Insurance and the ICBC, became new constituents of the Hang Seng Index.*

76. Financial Secretary Henry Tang unveiled his budget for 2007-08 on 28 February. The consolidated account in 2006-07 showed a surplus of HK\$58.6 billion, despite the original estimate of a surplus of HK\$5.6 billion. This was mainly due to exceptional gains on investment returns on foreign exchange reserves and increase in tax revenue.
77. On 12 June, Henry Tang released the final report on tax reform after a nine-month public consultation. He concluded that a goods and services tax was not acceptable to the public but committed the Government to continue to study options for broadening the tax base.
78. Following a three-month consultation, the Government released a report on 19 March on a possible competition policy. The report concluded that there was significant support for a cross-sector competition law and the establishment of a competition commission to enforce such law despite concerns about its impact on small and medium enterprises. The Government expects to table a draft bill to the Legislative Council by the end of 2007.

Economic co-operation with the Mainland

79. On 15 January, the Hong Kong SAR Government released the official reports from the Economic Summit on 'China's 11th Five Year Plan and the Development of Hong Kong' held in September 2006. Written by four focus groups (covering Trade and Business; Financial Services; Maritime, Logistics and Infrastructure; and Professional Services, Information & Technology and Tourism), these reports explored how Hong Kong should best react to the opportunity presented by the mainland's economic development. The four focus groups outlined an 'Action Agenda' of over 200 specific proposals to inform the Government's future economic strategy. Convenor of the focus group on financial services, Dr David Li, highlighted the need for Hong Kong to grasp quickly the opportunities presented by the Five-Year Plan in order for Hong Kong to become "an international financial centre of global significance for the country".
80. On 10 January, the People's Bank of China announced that mainland financial institutions would be allowed to issue renminbi-denominated bonds in Hong Kong. Hong Kong and mainland China signed a supplementary memorandum of co-operation on 16 January. Rules governing the issuance of the bonds were released on 8 June, allowing issuers and underwriters to decide freely the pricing of the bonds.
81. The China Banking Regulatory Commission announced on 11 May it would widen the scope of investment instruments by commercial banks to include stocks and structured products under the Qualified Domestic Institutional Investor (QDII) scheme.
82. Chief Executive Donald Tsang led a delegation of senior government officials to attend the Fourth Pan-Pearl River Delta (PPRD) Regional Co-operation and Development Forum in Hunan Province from 8-12 June. He pledged to establish an information exchange platform between Hong Kong and the PPRD region to facilitate industrial upgrading, restructuring and relocation.

The environment

83. Hong Kong and Guangdong launched the implementation framework of the emission trading pilot scheme for thermal power plants in the Pearl River Delta region in January 2007.

The pilot scheme allows thermal power plants in both Hong Kong and Guangdong Province to participate on a voluntary basis in emission trading. An Emission Trading Management Panel will be set up by authorities of both sides to assist in: managing the transfer and write-off of emission credits; the announcement of the distribution of emission credits; and drafting the proposed operational rules of emission trading.

84. Hong Kong has been operating a voluntary Energy Efficiency Labelling Scheme for household and office appliances, equipment and vehicles since 1995. In April, the Energy Efficiency Bill, which provides for a mandatory Labelling Scheme was introduced. The initial phase of the mandatory Labelling Scheme covers room air-conditioners, refrigerators and compact fluorescent lamps.
85. Hong Kong hosted the three-day International Conference on Climate Change (ICCC) in May, which attracted over 300 participants from 26 countries. It featured presentations of findings by three ICCC working group co-chairs and a keynote address by a Chinese Vice-Minister. In his closing speech, the Hong Kong SAR Chief Executive spoke about the responsibility of the developed world to show leadership and referred to the UK Climate Change Bill as an example. He also commented that Hong Kong had an advantage over most other developed cities in that there was no major energy-consuming heavy industry locally. Instead, he argued, Hong Kong's economy was based on the low energy, high value-added service sector.
86. During her visit to Hong Kong in May, Margaret Beckett, Foreign Secretary, discussed climate change with the Chief Executive and also launched a booklet on the subject: A Low Carbon Future. At the launch, she explained the effect that climate change would have globally and how Hong Kong would be affected, not least through rising sea levels and stronger typhoons. She outlined the need for the world to build a low-carbon, energy efficient economy, creating new markets and huge new opportunities for investment. The Foreign Secretary said that Hong Kong would need to put itself firmly at the front of this wave if it wanted to be a global finance centre. As the biggest investor in most provinces in China, Hong Kong had a special part to play.

UK-HONG KONG BILATERAL RELATIONS

87. *On the eve of the handover in Hong Kong His Royal Highness the Prince of Wales said: "The solemn pledges made before the world in the 1984 Joint Declaration guarantee the continuity of Hong Kong's way of life. For its part the United Kingdom will maintain its unwavering support for the Joint Declaration. Our commitment and our strong links to Hong Kong will continue and will, I am confident, flourish, as Hong Kong and its people themselves continue to flourish." Britain remains committed to ensuring that the Joint Declaration remains fully implemented in Hong Kong. Our own relationship with Hong Kong is a deep and long-standing one, and we take pride in the positive legacy from Britain that Hong Kong enjoys in many areas. Our current relationship is multifaceted and goes far beyond economic and commercial exchange. In the decade since the handover Government and Parliamentary interest has remained intense. At least 60 UK Ministers have visited Hong Kong, including all three Foreign Secretaries and the former Prime Minister Tony Blair. At least 12 Parliamentary Committees have visited Hong Kong. And the close bilateral relationship between the United Kingdom and Hong Kong has continued to express itself in the thousands of visits and exchanges still undertaken every year by government representatives, parliamentarians and legislators, civil servants, business people, lawyers, students and others.*

Visits

88. The Foreign Secretary Margaret Beckett's visit to Hong Kong from 19 to 21 May has already been mentioned. As well as her meeting with the Chief Executive, and her launch of a booklet on climate change, she gave a speech to the British Chamber of Commerce to mark the tenth anniversary of the handover.
89. Lord Adonis, the Minister for Schools, visited Hong Kong from 29 to 31 May to learn more about secondary education in Hong Kong. He met the Secretary for Education, Arthur Li, education experts from the University of Hong Kong and the Chinese University of Hong Kong and visited a number of schools.
90. A delegation from the All Party Parliamentary China Group visited Hong Kong as guests of the SAR government from 26 May to 2 June. They met representatives from government and the Legislature, as well as the British Chamber of Commerce.
91. The Parliamentary Education and Skills Select Committee visited Hong Kong from 9 to 11 June as part of their inquiry into higher education. They met senior officials from the Education and Manpower Bureau, the University Grants Committee, education experts from the University of Hong Kong and senior staff from the Hong Kong University School of Professional and Continuing Education.
92. HRH the Duke of Gloucester visited Hong Kong from 24 to 30 June in his capacity as Grand Prior of The Order of St. John.
93. In the opposite direction Joseph Wong, Secretary for Commerce, Industry and Technology, visited the UK on 29 and 30 January and met Alistair Darling, Secretary of State for Trade and Industry, exchanging views on a number of trade and investment related issues. He also met Shaun Woodward, Minister for Creative Industries and Tourism, and the Chairman of the UK Film Council to discuss support for creative industries, in particular the film industry. He paid a further visit to London from 20 to 21 June to take part in celebrations organised by the Hong Kong Economic and Trade Office for the 10th anniversary of the handover of Hong Kong.

Education

94. Educational links between Hong Kong and the UK have remained strong, despite an increased capacity in Hong Kong's own education system at school and tertiary level. Overseas education remains attractive to a percentage of Hong Kong parents and the UK continues to have the largest market share despite strong competition from the USA and Australia.
95. In the academic year 2005/06, there were at least 17,820 students from Hong Kong studying in the UK. 7,650 were in independent schools, 600 in further education colleges, 6,930 were enrolled on higher diploma or undergraduate programmes and 2,640 on postgraduate courses. The figures for 2006/07 have not yet been released.
96. The trend is for Hong Kong students to stay in Hong Kong to study an overseas qualification. There are 636 UK programmes of study registered in Hong Kong, and an estimated 47,000 enrolments. UK has 57% of the market share of this increasingly important trans-national education.

97. Hong Kong's aspiration is to become a regional education hub. Since 1995, the British Council has been encouraging UK students to visit Hong Kong as part of their credited programme of undergraduate study. In 2005/06, there were 103 UK students in Hong Kong from 26 UK institutions.
98. Education reform started in Hong Kong in 2000 and will be complete in 2016. A new secondary school diploma will be introduced in 2009 and universities will offer four-year degree programmes from 2012. The British Council has arranged professional dialogues for visiting UK vice-chancellors and for UK head teachers in 2005 and 2006. More professional visits and exchanges are planned.
99. In 2007, there are 29 Hong Kong Chevening scholars in the UK, studying a wide range of courses. The British Government's Chevening Scholarship Scheme has operated in Hong Kong since 1996. The generosity of Dr Li Ka-Shing (Chairman of Cheung Kong Holdings and Hutchison Whampoa Ltd), and that of Cambridge University, matched by the Foreign & Commonwealth Office, has made this number of scholarships possible.
100. Hong Kong remains an important centre of activity for the British Council. The Council's Teaching Centre in Hong Kong provides courses to over 46,000 students a year, complemented by an extensive community based programme of English which involves many thousands more. It is the Council's largest English language teaching operation in the world. In 2006-07, the British Council also administered 38,600 examinations, primarily those which assess English language levels.

Trade and inward investment

101. Bilateral trade between the UK and Hong Kong continues to be significant. UK exports to Hong Kong between January and April were valued at £747 million, a drop of 24.5% compared with the same period in 2006. We believe that this decline is partly due to the increasing capacity of ports in southern China to handle imports direct from other countries, and reflects the decreasing proportion of UK exports to China which are transshipped via Hong Kong (now around 14% of the total). The decline is also due to the effective work being done by HM Revenue and Customs to reduce Missing Trader Intra-Community (MTIC) fraud activity (an organised criminal attack on the VAT system) through Hong Kong. UK imports of goods from Hong Kong between January and April were valued at £1.96 billion, a decline of 10.3%.
102. Over the course of the reporting period, UK Trade and Investment (UKTI) has supported six Trade Missions to Hong Kong and ten British Groups at international trade fairs in Hong Kong. In May, UKTI supported an Outward Mission led by the Climate Change Projects Office, DTI, in which six UK-based climate change companies participated. The aim of the Mission was to promote UK expertise in carbon trading and Clean Development Mechanism project development and UK policy on climate change. UKTI also works to support around 180 Hong Kong investors in the UK and to promote the UK to new potential investors. UKTI assisted two new successful investments into the UK during the reporting period and is awaiting confirmation that two other projects have been completed successfully.

British Nationals (Overseas)

103. There are nearly 3.5 million British Nationals (Overseas) (BN(O)), the vast majority of whom live in Hong Kong. British National (Overseas) status is for life, and a BN(O) passport can be renewed at any time in the future even when the passport validity lapses. The British National (Overseas) passport has the benefit of visa free access to the UK and 111 countries including the Schengen group of countries within the EU. In addition, BN(O) passport holders are eligible to apply for United Kingdom Residence Permits (UKRPs) for study and work permit purposes. The UKRP is issued gratis to British Nationals (Overseas).
104. We remain fully committed to providing the highest standard of consular and passport services to British National (Overseas) passport holders. We offer an identical level of consular service to BN(O) passport holders in third countries to that we offer to all British Nationals.

CONCLUSION

105. The Foreign Secretary's six-monthly reports to Parliament reflect the UK Government's commitment to the faithful implementation of the Sino-British Joint Declaration on Hong Kong, an international treaty to which the UK is a party. We will continue to comment on matters relating to this treaty as and when we judge it appropriate to do so.
106. The decade just ended is one worth celebrating. Ten years on, Hong Kong continues to be a success story. At the end of the six month reporting period covered by this report we conclude that the 'One Country, Two Systems' principle has generally worked well in practice. The rights and freedoms guaranteed in the Joint Declaration have been respected. The Hong Kong SAR is a vibrant, dynamic, open and liberal society founded on an independent judiciary, a free press and the rule of law. In order to protect this important foundation we believe Hong Kong must advance to a system of universal suffrage as soon as possible.
107. We are fully committed to Hong Kong's continued prosperity and stability and will continue to issue reports to Parliament to fulfil our obligations under the Joint Declaration.

ANNEX

On 28 June the Presidency of the European Union issued the following statement to mark the 10th Anniversary of the establishment of the Hong Kong Special Administrative Region:

The European Union expresses its sincere congratulations to the Hong Kong Special Administrative Region on the occasion of the 10th anniversary of its establishment. The principle of one country, two systems has generally worked well in practice and Hong Kong today remains a success.

The relationship between the European Union and the HKSAR has continued to develop positively in all fields since Hong Kong's return to Chinese sovereignty in 1997. People-to-people contacts were supported by granting visa-free access to the EU for Hong Kong residents. Moreover, the EUHKSAR Customs Co-operation Agreement of 1999 also helped to underpin the independent functioning of the HKSAR economy.

In the view of the European Union, applying the principle of "one country, two systems", as set out in the Sino-British Joint Declaration of 1984, has ensured the continued stability and prosperity of Hong Kong.

Furthermore, the European Union supports the respect for human rights and individual freedoms set out in the Joint Declaration and enshrined in the Basic Law of the HKSAR, particularly in relation to the autonomy and independence of the executive, legislature and judiciary of the HKSAR.

The European Union also expresses confidence that the high degree of autonomy, guaranteed to Hong Kong in the Joint Declaration and enacted by the Basic Law, will be maintained in the future, and that substantial progress will be made soon towards universal suffrage.

In order to contribute further to Hong Kong's political, economic and social development, the European Union will continue to develop and deepen its cooperation and dialogue with the HKSAR.



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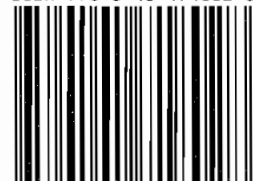
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