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This announcement and the listing document attached hereto are for information purposes only and do not constitute an invitation or an offer to acquire, purchase or subscribe for securities.

This announcement does not constitute an offer to sell or the solicitation of an offer to buy any securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. Any notes that may be issued under the Programme will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. There will be no public offering of securities in the United States.

This announcement and the listing document attached hereto have been published for information purposes only as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and do not constitute an offer to sell nor a solicitation of an offer to buy any securities. Neither this announcement nor anything referred to herein (including the listing document attached hereto) forms the basis for any contract or commitment whatsoever. For the avoidance of doubt, the publication of this announcement and the listing document attached hereto shall not be deemed to be an offer of securities made pursuant to a prospectus issued by or on behalf of the Issuer (as defined below) for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) nor shall it constitute an advertisement, invitation or document containing an invitation to the public to enter into or offer to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities for the purposes of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

Notice to Hong Kong investors: With respect to the Programme listed on the SEHK, the Issuer confirms that any notes that may be issued under the Programme will be intended for purchase by professional investors (as defined in Chapter 37 of the Listing Rules) only and will be listed on the SEHK on that basis. Accordingly, the Issuer confirms that any notes that may be issued under the Programme will not be appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

**NOTICE OF LISTING ON
THE STOCK EXCHANGE OF HONG KONG LIMITED**

**THE GOVERNMENT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION
OF THE PEOPLE’S REPUBLIC OF CHINA (the “Issuer”)**

HK\$100,000,000,000 Global Medium Term Note Programme (the “Programme”)

Arrangers for the Programme

CRÉDIT AGRICOLE CIB

HSBC

Dealers

ANZ	BANK OF CHINA (HONG KONG)
BANK OF COMMUNICATIONS	BARCLAYS
BNP PARIBAS	BOFA SECURITIES
CITIGROUP	CRÉDIT AGRICOLE CIB
GOLDMAN SACHS (ASIA) L.L.C.	HSBC
ICBC (ASIA)	J.P. MORGAN
MIZUHO SECURITIES	MORGAN STANLEY
SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT BANKING	STANDARD CHARTERED BANK
UBS	

This announcement is issued pursuant to Rule 37.39A of the Listing Rules.

Reference is made to the notice of listing of the Programme on The Stock Exchange of Hong Kong Limited dated 21 January 2021 published by the Issuer.

The Offering Memorandum dated 21 January 2021 in relation to the Programme is appended to this announcement.

Hong Kong

22 January 2021

Appendix 1 – Offering Memorandum

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER: (1) QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED BELOW) OR (2) OUTSIDE OF THE UNITED STATES (THE "U.S.") AND, IN CERTAIN CIRCUMSTANCES, ARE NON-U.S. PERSONS (AS DEFINED BELOW)

IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum (the "**Offering Memorandum**") following this notice, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, any time you receive any information from the Issuer and/or the Arrangers and the Dealers (each as defined in the Offering Memorandum) as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED IN THE OFFERING MEMORANDUM HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTIONS OF THE U.S. AND MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**")) OR, IN CERTAIN CIRCUMSTANCES, TO, OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS (AS DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE OFFERING MEMORANDUM IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of your representation: In order to be eligible to view the Offering Memorandum or make an investment decision with respect to the securities described in the Offering Memorandum, investors must be either: (1) Qualified Institutional Buyers ("**QIBs**") (within the meaning of Rule 144A under the Securities Act) or (2) outside the United States and, in certain circumstances, are non-U.S. persons as defined in Regulation S. The Offering Memorandum is being sent to you at your request and by accepting the email and accessing the Offering Memorandum, you shall be deemed to have represented to the Issuer, the Arrangers and the Dealers that (1) you and any customers you represent are either: (a) QIBs or (b) outside the U.S. and, in certain circumstances, are non-U.S. persons as defined in Regulation S, (2) unless you are a QIB, the electronic mail address that you gave us and to which this transmission has been delivered is not located in the U.S., (3) you are a person who is permitted under applicable law and regulation to receive the Offering Memorandum and (4) you consent to delivery of such Offering Memorandum by electronic transmission. If this is not the case, you must return the Offering Memorandum to us immediately.

You are reminded that the Offering Memorandum has been delivered to you on the basis that you are a person into whose possession the Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Memorandum to any other person.

The Offering Memorandum does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that an offering of securities described herein be made by a licensed broker or dealer and any Dealer (as defined below) or any affiliate of any Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Dealer or such affiliate on behalf of the Issuer or holders of the applicable securities in such jurisdiction. The Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Issuer, the Arrangers, the Dealers, nor any person who controls them nor any director, officer, employee nor agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the Issuer, the Arrangers or the Dealers.

Please ensure that your copy is complete. You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk, and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



The Government of the Hong Kong Special Administrative Region of the People's Republic of China

HK\$100,000,000,000

Global Medium Term Note Programme

Under the Global Medium Term Note Programme described in this Offering Memorandum (the "Programme"), the Government of the Hong Kong Special Administrative Region of the People's Republic of China (the "Issuer") may from time to time issue medium term notes (the "Notes") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). The aggregate nominal amount of Notes outstanding at any time under the Programme will not exceed HK\$100,000,000,000 (or its equivalent in other currencies), subject to any increases as described herein.

This Offering Memorandum comprises neither a prospectus pursuant to Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 (as amended, the "Prospectus Regulation") or Regulation (EU) 2017/1129 as it forms part of United Kingdom ("UK") domestic law by virtue of the European Union (Withdrawal) Act 2018 ("EUWA") (the "UK Prospectus Regulation"), nor listing particulars given in compliance with the listing rules made under Part VI of the UK Financial Services and Markets Act 2000 ("FSMA") by the Financial Conduct Authority in its capacity as competent authority under the FSMA (the "FCA"). This Offering Memorandum has been prepared on the basis that the Issuer is not required to publish a prospectus pursuant to Article 1(2)(b) of the UK Prospectus Regulation. This Offering Memorandum has also been prepared on the basis that all offers of the Notes in the European Economic Area (the "EEA") will be made pursuant to an exemption under the Prospectus Regulation from the requirement to produce a prospectus in connection with offers of the Notes. Accordingly, this Offering Memorandum does not purport to meet the format and the disclosure requirements of the UK Prospectus Regulation or the Prospectus Regulation as regards the format, content, scrutiny and approval of a prospectus and it has not been, and will not be, submitted for approval to any competent authority. The FCA has neither approved nor reviewed information contained in this Offering Memorandum.

Application may be made to the FCA for Notes issued under the Programme to be admitted to the official list of the FCA (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Notes to be admitted to trading on the London Stock Exchange's main market. The London Stock Exchange's main market is a UK regulated market for the purposes of Regulation (EU) No 600/2014 on markets in financial instruments as it forms part of UK domestic law by virtue of the EUWA ("UK MiFIR").

Application has been made to The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for the listing of the Programme by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (together, "Professional Investors") only during the period of 12 months from the date of this Offering Memorandum on the Hong Kong Stock Exchange. Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this Offering Memorandum, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Offering Memorandum to Professional Investors only have been reproduced in this Offering Memorandum. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or the quality of disclosure in this Offering Memorandum. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Memorandum, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Memorandum.

The relevant pricing supplement (a "Pricing Supplement") in respect of the issue of any Notes will specify whether or not such Notes will be listed on the London Stock Exchange's main market, the Hong Kong Stock Exchange or any other stock exchange. Unlisted Notes may be issued pursuant to the Programme.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "Summary of the Programme" and any other Dealer appointed under the Programme from time to time by the Issuer (each, a "Dealer" and together, the "Dealers"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Memorandum to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes. The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the terms and conditions of the Notes (the "Conditions") described herein. The price and amount of Notes to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

The aggregate nominal amount of the Notes, interest (if any) payable in respect of the Notes, the issue price of the Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined herein) of Notes will be set out in a Pricing Supplement. This Offering Memorandum must be read and construed together with any amendment or supplement to it, as well as the Pricing Supplement relating to the relevant Tranche of Notes.

The Issuer has been assigned sovereign credit ratings of AA+ by S&P Global Ratings, a division of S&P Global Inc. ("S&P"), AA- by Fitch (Hong Kong) Ltd. ("Fitch") and Aa3 by Moody's. The Programme has been assigned a long term issue credit rating of AA+ and short term issue credit rating of A-1+ by S&P and a rating of AA- by Fitch. Each Tranche of Notes issued under the Programme may be rated or unrated. The rating of certain Tranches of Notes to be issued under the Programme may be specified in the applicable Pricing Supplement. When a Tranche of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or with any securities regulatory authority of any State or other jurisdiction of the United States, and Notes in bearer form ("Bearer Notes") may be subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person except in certain transactions permitted by U.S. tax regulations. Subject to certain exceptions, the Notes may not be offered or sold or, in the case of Bearer Notes, delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes may be offered and sold (A) in bearer form or registered form outside the United States in reliance on Regulation S ("Regulation S") under the Securities Act and, in the case of Bearer Notes, only to non-U.S. Persons as defined in Regulation S or (B) in registered form within the United States only to persons reasonably believed to be "qualified institutional buyers" ("QIBs") in reliance on Rule 144A under the Securities Act ("Rule 144A"). Prospective purchasers of the Notes are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a summary of certain restrictions on resale, see "Transfer Restrictions" and "Subscription and Sale".

Each Tranche of Notes in bearer form ("Bearer Notes") will initially be represented by interests in a temporary global Note, or by a permanent global Note, in either case in bearer form (each a "Temporary Global Note" and a "Permanent Global Note", respectively) (collectively, the "Global Notes"), without interest coupons, which may be deposited on the relevant date of issue (the "Issue Date") with a common depository on behalf of Clearstream Banking S.A. ("Clearstream") and Euroclear Bank SA/NV ("Euroclear") (the "Common Depository"), a sub-custodian for the Central Moneymarkets Unit Service (the "CMU") operated by the Hong Kong Monetary Authority (the "HKMA"), or any other agreed clearance system compatible with Euroclear and Clearstream and will be sold in an "offshore transaction" within the meaning of Regulation S under the Securities Act. The provisions governing the exchange of interests in Temporary Global Notes and Permanent Global Notes (each, a "Bearer Global Note") for other Bearer Global Notes and individual definitive Bearer Notes ("Definitive Notes") are described in "Summary of Provisions Relating to the Notes while in Global Form". Definitive Notes will only be available in the limited circumstances as described in the relevant Global Note or Global Certificate.

Notes of each Series to be issued in registered form ("Registered Notes") sold in an offshore transaction will initially be represented by interests in a global unrestricted Note, without interest coupons (each an "Unrestricted Global Certificate"), which may be deposited on the issue date with the Common Depository or with a sub-custodian for the CMU unless otherwise specified in the applicable Pricing Supplement. Beneficial interests in an Unrestricted Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by, Euroclear, Clearstream or CMU unless otherwise specified in the applicable Pricing Supplement. Notes of each Series sold to a QIB within the meaning of Rule 144A, as referred to in, and subject to the transfer restrictions described in, "Subscription and Sale" and "Transfer Restrictions" will initially be represented by interests in a global restricted Note, without interest coupons (each a "Restricted Global Certificate" and together with any Unrestricted Global Certificate, the "Global Certificates"), which Restricted Global Certificate will be deposited on the relevant issue date with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("DTC"). Beneficial interests in a Restricted Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "Clearing and Settlement".

INVESTING IN THE NOTES ISSUED UNDER THE PROGRAMME INVOLVES RISKS. SEE "RISK FACTORS" FOR A DISCUSSION OF CERTAIN FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE NOTES.

ARRANGERS

CRÉDIT AGRICOLE CIB

HSBC

DEALERS

ANZ	BANK OF CHINA (HONG KONG)	BANK OF COMMUNICATIONS	BARCLAYS	BNP PARIBAS
BOFA SECURITIES	CITIGROUP	CRÉDIT AGRICOLE CIB	GOLDMAN SACHS (ASIA) L.L.C.	HSBC
ICBC (ASIA)	J.P. MORGAN	MIZUHO SECURITIES	MORGAN STANLEY	
SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT BANKING		STANDARD CHARTERED BANK		UBS

Offering Memorandum dated 21 January 2021

IMPORTANT NOTICES

This Offering Memorandum includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this Offering Memorandum and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading. The Programme provides that Notes may be listed or admitted to trading, as the case may be, on the London Stock Exchange's main market, the Hong Kong Stock Exchange or such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

Any person making or intending to make any offer within the EEA of Notes which are the subject of any offering contemplated in this Offering Memorandum should only do so in circumstances in which no obligation arises for the Issuer or any of the Dealers to produce a prospectus for such offers.

This Offering Memorandum does not constitute an offer of, or an invitation by or on behalf of the Issuer, or any Dealer to subscribe for or purchase any Notes. The distribution of this Offering Memorandum or any Pricing Supplement and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Neither the Issuer nor any of the Arrangers or the Dealers represents that this Offering Memorandum may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arrangers or the Dealers which is intended to permit a public offering of any Notes or distribution of this Offering Memorandum in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any advertisement nor other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Memorandum or any Pricing Supplement comes are required by the Issuer, the Arrangers and the Dealers to inform themselves about and to observe any such restrictions on the distribution of this Offering Memorandum or any Pricing Supplement and the offering and sale of any Notes under the Programme. For a description of certain further restrictions on offers and sales of Notes and distribution of this Offering Memorandum and any Pricing Supplement, see "*Subscription and Sale*" and the applicable Pricing Supplement.

No person is authorised in connection with the offering of the Notes to give any information or to make any representation regarding the Issuer, Hong Kong or the Notes not contained in this Offering Memorandum and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Arrangers, the Dealers, the Trustee (as defined in the Conditions) or the Agents (as defined in the Conditions) or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers.

Neither this Offering Memorandum nor any other information supplied in connection with the Programme or any Notes is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by the Issuer, the Arrangers, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers that any recipient of the Offering Memorandum should purchase any of the Notes. A potential investor should carefully evaluate the information provided herein in light of the total mix of information available to it, recognising that none of the Issuer, the Arrangers, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any other person can

provide any assurance as to the reliability of any information not contained in this document. Each prospective investor contemplating purchasing any Notes should make its own independent investigation and analysis of the condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment.

Neither the delivery of this Offering Memorandum nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Offering Memorandum has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Offering Memorandum has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Dealers expressly do not undertake to review the condition, financial, economic or otherwise, or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

No comment is made or advice given by the Issuer, the Arrangers, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers in respect of taxation matters relating to the Notes or the legality of the purchase of the Notes by an investor under any applicable law.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS TAX ADVISER, LEGAL ADVISER AND BUSINESS ADVISER AS TO TAX, LEGAL AND BUSINESS-RELATED MATTERS CONCERNING THE PURCHASE OF THE NOTES.

None of the Arrangers, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers has separately verified the information contained in this Offering Memorandum. To the fullest extent permitted by law, none of the Arrangers, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers accept responsibility whatsoever for the contents of this Offering Memorandum or for any other statement made or purported to be made by any of them or on its behalf in connection with the Issuer or the issue and offering of the Notes. Each of the Arrangers, the Dealers, the Trustee, the Agents and each of their respective affiliates, directors, officers, employees, representatives, agents and advisers accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Memorandum or any such statement. The Trustee and the Agents and each of their respective affiliates, directors, officers, employees, representatives, agents and advisers make no representation regarding this Offering Memorandum or the Notes.

The Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission, any State securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Notes or the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary may be a criminal offence in the United States.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States. The Notes may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws.

Any Bearer Notes issued under the Programme are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to or for the account of U.S. persons except in certain transactions permitted by U.S. Treasury regulations (the “**U.S. Treasury Regulations**”). Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and the U.S. Treasury Regulations promulgated thereunder.

The Notes may be offered and sold (A) in bearer form or registered form outside the United States in reliance on Regulation S and, in the case of Bearer Notes, only to non-U.S. Persons as defined in Regulation S or (B) in registered form within the United States in reliance on Rule 144A only to persons reasonably believed to be QIBs. Prospective purchasers are hereby notified that sellers of the Rule 144A Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of this Offering Memorandum, see “*Subscription and Sale*” and “*Transfer Restrictions*”.

The maximum aggregate nominal amount of Notes outstanding at any one time under the Programme will not exceed HK\$100,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into U.S. dollars at the date of the agreement to issue such Notes (calculated in accordance with the provisions of the Programme Agreement). The maximum aggregate nominal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Programme Agreement as defined under “*Subscription and Sale*”.

IN ORDER TO FACILITATE THE OFFERING OF ANY TRANCHE OF NOTES, ONE OR MORE DEALERS NAMED AS STABILISATION MANAGER(S) (THE “**STABILISATION MANAGER(S)**”) (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER(S)) IN THE APPLICABLE PRICING SUPPLEMENT, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, MAY OVER-ALLOT NOTES OR ENGAGE IN TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE RELEVANT NOTES DURING AND AFTER THE OFFERING OF THE TRANCHE AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF SUCH NOTES. ANY STABILISATION ACTION OR OVER ALLOTMENT SHALL BE CONDUCTED BY THE STABILISATION MANAGERS (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGERS) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

IN CONNECTION WITH SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE, AS MODIFIED OR AMENDED FROM TIME TO TIME (THE “SFA”) AND THE SECURITIES AND FUTURES (CAPITAL MARKETS PRODUCTS) REGULATIONS 2018 OF SINGAPORE (THE “CMP REGULATIONS 2018”), UNLESS OTHERWISE SPECIFIED BEFORE AN OFFER OF NOTES, THE ISSUER HAS DETERMINED, AND HEREBY NOTIFIES ALL RELEVANT PERSONS (AS DEFINED IN SECTION 309(A)(1) OF THE SFA), THAT THE NOTES ARE PRESCRIBED CAPITAL MARKETS PRODUCTS (AS DEFINED IN THE CMP REGULATIONS 2018) AND EXCLUDED INVESTMENT PRODUCTS (AS DEFINED IN MAS NOTICE SFA 04-N12: NOTICE ON THE SALE OF INVESTMENT PRODUCTS AND MAS NOTICE FAA-N16: NOTICE ON RECOMMENDATIONS ON INVESTMENT PRODUCTS).

MIFID II PRODUCT GOVERNANCE/TARGET MARKET

The Pricing Supplement in respect of any Notes may include a legend entitled “MiFID II Product Governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, “**MiFID II**”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination may be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

UK MIFIR PRODUCT GOVERNANCE/TARGET MARKET

The Pricing Supplement in respect of any Notes may include a legend entitled “UK MiFIR Product Governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the “**UK MiFIR Product Governance Rules**”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

EEA RETAIL INVESTORS

If the Pricing Supplement in respect of any Notes includes a legend entitled “Prohibition of Sales to EEA Retail Investors,” the Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

UK RETAIL INVESTORS

If the Pricing Supplement in respect of any Notes includes a legend entitled “Prohibition of Sales to UK Retail Investors,” the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the “UK”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (the “EUWA”); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the “FSMA”) and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by the PRIIPs Regulation as it forms part of UK domestic law by virtue of the EUWA (the “UK PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

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PRESENTATION OF ECONOMIC AND OTHER INFORMATION

Financial data and statistical information provided in this Offering Memorandum may be subsequently revised in accordance with the ongoing review by the HKSAR Government of its economic data and statistical information, and the HKSAR Government is not obligated to distribute revised data or statistical information to any investor. Financial statements prepared on a cash basis for the fiscal year ending 31 March 2020, and all prior periods, have been audited by the Director of Audit. Financial statements prepared on an accrual basis are not subject to audit. Unless otherwise indicated, financial data derived from the HKSAR Government's accounts are derived from the accounts prepared on a cash basis and all statistical information prepared by or on behalf of the HKSAR Government contained in this Offering Memorandum excludes information with respect to the Mainland, the Macau Special Administrative Region of the People's Republic of China and Taiwan.

Financial data and statistical information for calendar year 2020, including periods therein, may be subject to revision as financial statements relating to those periods and any subsequent period have not yet been audited. In addition, some financial data and statistical information for calendar year 2020, and all financial data and statistical information for fiscal year 2019-20 contained herein are actual data, provisional data or estimates based on the latest available data. Such data is subject to revisions due to new or more complete information becoming available.

Unless otherwise indicated, estimates contained in this Offering Memorandum are estimates of the HKSAR Government. Unless otherwise indicated, references to a year refer to the relevant calendar year ended 31 December and references to "**fiscal year**" or to parts of two calendar years (for example, 2019-20) refer to the fiscal year of the HKSAR Government, which spans the period from 1 April to the following 31 March. Unless otherwise indicated, references to "**quarters**" refer to quarters of the calendar year (for example, "**Q3**" means the months of July, August and September).

Unless otherwise indicated, all information contained herein is given as of the date of this Offering Memorandum. Certain figures included in this Offering Memorandum have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Some statistical information has been derived from information publicly made available by third parties such as the International Monetary Fund. Where such third-party information has been so sourced, the source is stated where it appears in this Offering Memorandum. Such third party information has not been independently verified by the Issuer, the Arrangers, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers and none of the Issuer, the Arrangers, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers makes any representation as to the accuracy or completeness of that information. Such information may not be consistent with other information compiled within or outside Hong Kong. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Memorandum:

- (a) all supplements or amendments to the Issuer's green bond framework ("**Green Bond Framework**") attached hereto as Appendix A which are available on the Issuer's website: <https://www.hkgb.gov.hk/en/greenbond/greenbondintroduction.html>; and
- (b) all supplements or amendments to this Offering Memorandum circulated by the Issuer from time to time.

Any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Memorandum to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Memorandum. Nothing in the Issuer's website above, other than the Green Bond Framework as amended from time to time thereby, is incorporated by reference into, or made a part of, this Offering Memorandum.

CERTAIN DEFINED TERMS AND CONVENTIONS

References to “**Hong Kong**” and the “**HKSAR**” herein are to the Hong Kong Special Administrative Region of the People’s Republic of China. All references to “**China**” or the “**PRC**” herein are references to the People’s Republic of China and all references to the “**Mainland**” or the “**Mainland China**” are to the mainland of the PRC.

References to the “**HKSAR Government**” herein are to the government of the HKSAR.

References to the “**HKMA**” herein are to the office of the Monetary Authority, which was established on 1 April 1993. The Monetary Authority is the Chief Executive of the HKMA and the HKMA is Hong Kong’s central banking institution.

References to “**HK\$**” and “**Hong Kong dollars**” are to the lawful currency of Hong Kong, all references to “**RMB**” and “**Renminbi**” are to the lawful currency of the People’s Republic of China, and all references to “**U.S. dollars**” and “**U.S.\$**” are to the lawful currency of the United States. Since 1983, the Hong Kong dollar has been linked to the U.S. dollar at HK\$7.80 = U.S.\$1.00.

References to the “**Monetary Authority**” herein are to the Monetary Authority appointed pursuant to section 5A(1) of the Exchange Fund Ordinance (Cap. 66).

References to tons herein are to metric tons, each of which equals approximately 2,205 pounds or 1.102 short tons. Measures of distance referred to herein are stated in kilometres, each of which equals approximately 0.62 miles.

Unless otherwise specified, percentage increases or decreases stated for periods or dates in a particular year represent increases or decreases as compared with the relevant amount for the corresponding period or date in the immediately preceding year.

ENFORCEMENT

The Issuer is a Special Administrative Region of the People's Republic of China and a substantial portion of the assets of the Issuer are therefore located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuer or to enforce against it in United States courts judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or the securities laws of any state or territory within the United States.

In the Trust Deed expected to be dated the date hereof (such trust deed as modified and/or supplemented and/or restated from time to time, the "**Trust Deed**"), the courts of the HKSAR are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes, the Trust Deed, the Programme Agreement and the Agency Agreement (the "**Transaction Documents**") and any disputes relating to any non-contractual obligations arising out of or in connection with the Transaction Documents. Section 3 of the Crown Proceedings Ordinance (Cap. 300) (the "**CPO**") enables civil proceedings (as defined in the CPO) to be commenced against the HKSAR Government in the courts of the HKSAR. However, there are certain restrictions as to the rights and remedies available against the HKSAR Government. The HKSAR courts have no power to grant an injunction or to order specific performance, but may instead make an order declaratory of the rights of the parties. Section 21 of the CPO provides that if an order is made against the HKSAR Government, the proper officer of the HKSAR courts will, upon application, issue to the successful plaintiff a certificate containing particulars of the order. If the order provides for payment of money, the certificate will state the amount payable and the Director of Accounting Services shall pay the sum shown to be due, subject to appeal. No process of execution or attachment can be carried out to enforce satisfaction against the HKSAR Government of any judgment.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes forward-looking statements. All statements other than statements of historical facts included in this Offering Memorandum regarding, among other things, Hong Kong's economy, fiscal condition, debt or prospects may constitute forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue" or similar terminology. Although the HKSAR Government believes that the expectations reflected in its forward-looking statements are reasonable at this time, there can be no assurance that these expectations will prove to be correct.

These statements are based on the Issuer's current plans, objectives, assumptions, estimates and projections. Investors should therefore not place undue reliance on those statements. Forward-looking statements speak only as of the date that they are made and the Issuer does not undertake to update any forward-looking statements in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. The Issuer cautions that a number of important factors, including but not limited to those discussed under "*Risk Factors*", could cause actual results to differ materially from those contained in any forward-looking statement.

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Memorandum and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in the “Terms and Conditions of the Notes” (the terms and conditions set out therein, the “Conditions”) shall have the same meanings in this summary.

Issuer The Government of the Hong Kong Special Administrative Region of the People’s Republic of China.

Legal Entity Identifier (“LEI”) of the Issuer 549300DSMAD69T7GGN13

Description Global Medium Term Note Programme.

Risk Factors Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the ability of the Issuer to fulfil its obligations under the Notes are discussed under “*Risk Factors*” below.

Size Up to HK\$100,000,000,000 (or the equivalent in other currencies at the date of issue) in aggregate nominal amount of Notes outstanding at any one time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

Arrangers Crédit Agricole Corporate and Investment Bank and The Hongkong and Shanghai Banking Corporation Limited.

Dealers Australia and New Zealand Banking Group Limited, Bank of China (Hong Kong) Limited, Bank of Communications Co., Ltd. Hong Kong Branch, Barclays Bank PLC, BNP Paribas, Merrill Lynch (Asia Pacific) Limited, Citigroup Global Markets Inc., Crédit Agricole Corporate and Investment Bank, Goldman Sachs (Asia) L.L.C., The Hongkong and Shanghai Banking Corporation Limited, Industrial and Commercial Bank of China (Asia) Limited, J.P. Morgan Securities plc, Mizuho Securities Asia Limited, Morgan Stanley & Co. International plc, Société Générale, Standard Chartered Bank and UBS AG Hong Kong Branch

The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Memorandum to “**Permanent Dealers**” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to “**Dealers**” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.

Trustee	The Hongkong and Shanghai Banking Corporation Limited
Issuing and Paying Agent	The Hongkong and Shanghai Banking Corporation Limited (in respect of each Series of Notes (other than each Series of Notes cleared through DTC or the CMU, each as defined below)).
Exchange Agent	The Hongkong and Shanghai Banking Corporation Limited (in respect of each Series of Notes cleared through DTC).
Calculation Agent	The Hongkong and Shanghai Banking Corporation Limited (where appointed as such in respect of a Series of Notes).
Registrar and Transfer Agent	The Hongkong and Shanghai Banking Corporation Limited (in respect of each Series of Notes (other than each Series of Notes cleared through DTC)).
CMU Lodging and Paying Agent	The Hongkong and Shanghai Banking Corporation Limited (in respect of Notes cleared through the CMU).
U.S. Paying Agent, U.S. Registrar and U.S. Transfer Agent	HSBC Bank USA, National Association (in respect of each Series of Notes cleared through DTC).
Distribution	The Notes may be distributed by way of a private or public placement and in each case on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “ Series ”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), to the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “ Tranche ”) on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and principal amount of the Tranche will be identical to the terms of other Tranches of the same Series) will be set out in a Pricing Supplement.
Issue Price	Notes may be issued at their principal amount or at a discount or premium to their principal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more installments. The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealers at the time of issue in accordance with prevailing market conditions.

Clearing Systems

Euroclear Bank SA/NV (“**Euroclear**”), Clearstream Banking S.A. (“**Clearstream**”), the Central Moneymarkets Unit Service (the “**CMU**”), The Depository Trust Company (“**DTC**”) and/or, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the relevant Paying Agent, the relevant Registrar, the Trustee and the relevant Dealer.

Form of Notes

The Notes may be issued in bearer form or in registered form only. Registered Notes will not be exchangeable for Bearer Notes and vice versa.

Bearer Notes

Each Tranche of Bearer Notes will initially be represented by interests in a Temporary Global Note or a Permanent Global Note, as specified in the applicable Pricing Supplement. Interests in Temporary Global Notes generally will be exchangeable for interests in Permanent Global Notes, or if so stated in the applicable Pricing Supplement, definitive Notes (“**Definitive Notes**”), after the date falling 40 days after the later of the commencement of the offering and the relevant issue date of such Tranche upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury Regulations. Bearer Notes will only be delivered outside the United States and its possessions. Interests in Permanent Global Notes will be exchangeable for Definitive Notes in whole but not in part as described under “*Summary of Provisions Relating to the Notes while in Global Form*”. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons.

Registered Notes

Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Registered Notes sold in an “offshore transaction” within the meaning of Regulation S (“**Unrestricted Notes**”) will initially be represented by an Unrestricted Global Certificate. Registered Notes sold in the United States to QIBs in reliance on Rule 144A (“**Restricted Notes**”) will initially be represented by a Restricted Global Certificate.

Initial Delivery of Notes

Each Note represented by an Unrestricted Global Certificate will be registered in the name of the Common Depositary (or its nominee) for Euroclear and/or Clearstream, registered in the name of Cede & Co., as nominee for DTC, if such Unrestricted Global Certificate will be held for the benefit for Euroclear and/or Clearstream through DTC, registered in the name of a sub-custodian for the CMU and/or any other relevant clearing system and the relevant Unrestricted Global Certificate will be deposited on or about the Issue Date with the Common Depositary or deposited with a sub-custodian for the CMU or such other nominee or custodian.

Each Note represented by a Restricted Global Certificate will be registered in the name of Cede & Co. (or such other entity as specified in the applicable Pricing Supplement), as nominee for DTC, and the relevant Restricted Global Certificate will be deposited on or about the Issue Date with a custodian for DTC. Beneficial interests in Notes represented by a Restricted Global Certificate may only be held through DTC at any time.

Status of Notes

The Notes, the Receipts and the Coupons relating to them will constitute the direct, general, unconditional and (subject to Condition 4 of the Conditions, unsecured and unsubordinated obligations of the Issuer and shall at all times rank *pari passu* without preference among themselves and at least *pari passu* with all other unsecured External Debt (as defined in the Conditions) of the Issuer, from time to time outstanding, *provided*, however, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Debt and, in particular, the Issuer shall have no obligation to pay other External Debt at the same time or as a condition of paying sums due under the Notes, Receipts and/or Coupons, and vice versa.

Currencies

Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the relevant Dealers and the Issuing and Paying Agent. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to any currency or currencies other than the currency in which such Notes are denominated.

Maturities

Subject to compliance with all relevant laws, regulations and directives, the Notes may have any maturity as agreed between the Issuer, the Trustee and the relevant Dealers.

Denomination

Definitive Notes will be in denominations as may be specified in the applicable Pricing Supplement, save that unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the FSMA will have a minimum denomination of £100,000 (or its equivalent in other currencies). In the case of any Notes which are to be sold in the United States in reliance on Rule 144A, the minimum Specified Denomination shall be U.S.\$200,000 (or its equivalent in any other currencies as of the date of the relevant Notes) and integral multiples of U.S.\$1,000 (or its equivalent in any other currencies) in excess thereof. In the case of any Notes which are to be offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Regulation, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

Fixed Rate Notes

Fixed interest will be payable in arrear on the date or dates in each year specified in the applicable Pricing Supplement.

Floating Rate Notes

Floating Rate Notes will bear interest determined separately for each Series as follows:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or
- (ii) by reference to LIBOR, EURIBOR or HIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin; or
- (iii) on such other basis as agreed between the Issuer and the relevant Dealers.

Interest periods will be specified in the applicable Pricing Supplement.

Zero Coupon Notes

Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.

Change of Interest Basis

Notes may be converted from one interest basis to another in the manner specified in the relevant Pricing Supplement.

Index Linked Notes

Payments of principal in respect of Index Linked Redemption Notes or interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the applicable Pricing Supplement. Interest on Index Linked Notes in respect of each Interest Period, as agreed prior issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

Dual Currency Notes

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be based on such rates of exchange as may be specified in the applicable Pricing Supplement.

Redemption of the Notes

The Pricing Supplement issued in respect of each issue of Notes will indicate either that the Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable (in whole or in part) at the option of the Issuer and/or the Noteholders (upon giving notice to the Noteholders), on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Pricing Supplement.

The applicable Pricing Supplement will specify the basis for calculating the redemption amounts payable.

Redemption by Instalments

The Pricing Supplement issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.

Negative Pledge

So long as any Note or Coupon remains outstanding, the Issuer will not create or permit to subsist any Encumbrance on the whole or any part of the Exchange Fund as security for any HKSAR Government Public External Debt unless, at the same time or prior thereto, or promptly thereafter, all amounts payable by the Issuer under the Notes and the Coupons are secured at least equally and rateably with such HKSAR Government Public External Debt, or the Issuer provides such other security for its obligations under the Notes, as approved by the holders of the Notes in accordance with the Trust Deed.

For the avoidance of doubt, any Encumbrance created on the assets or revenues of any corporate entity in which the Issuer has a direct or indirect equity interest or other stake (other than any entity established to own or manage any part of the Exchange Fund) shall not be considered to be an Encumbrance on the Exchange Fund or any part thereof.

Where:

“Encumbrance” means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or arrangement any of which has the practical effect of constituting a security interest with respect to the payment of any obligations with or from the proceeds of any property, assets or revenues of any kind (including, without limitation, any equivalent created or arising under the laws of Hong Kong), it being expressly understood and agreed that bonds, alternative bonds, promissory notes or other instruments issued by the Issuer, including the Notes, pursuant to the Loans Ordinance of Hong Kong or the Loans (Government Bonds) Ordinance of Hong Kong or any re-enactment thereof, in respect of which the repayment of principal and payment of the financial charges and other amounts thereon are charged on and made payable out of the general revenues and assets of Hong Kong pursuant to those ordinances (and not otherwise), including any sinking fund arrangement as provided in such bonds, will not be construed or deemed to create any Encumbrance on the whole or any part of the Exchange Fund;

“Exchange Fund” means the fund established and maintained pursuant to the Exchange Fund Ordinance of Hong Kong;

“External Debt” means all obligations of any person, and all guarantees or indemnities by any person (whether by contract, statute or otherwise), for or in respect of borrowed money or evidenced by bonds, trust certificates, debentures, notes or similar instruments which, in each case, (1) have an original maturity in excess of one year; and (2) are denominated or payable, or which, at the option of the holder thereof, may be payable in a currency other than the currency of Hong Kong or by reference to a currency other than the currency of Hong Kong;

“HKSAR Government Public External Debt” means Public External Debt undertaken directly by and in the name of the Issuer and backed by the full faith and credit of the Issuer. Obligations, guarantees and indemnities undertaken “directly by and in the name of the Issuer” do not include obligations, guarantees and indemnities undertaken by any corporate entity in which the Issuer has a direct or indirect equity interest or other stake; and

“Public External Debt” means any External Debt which is publicly offered or privately placed in one or more securities markets and which is in the form of, or represented by, notes, bonds, trust certificates or other securities that are or may be quoted, listed or ordinarily purchased or sold on any stock exchange, automated trading system or over-the-counter or other securities market (including, without limitation, securities eligible for resale under Rule 144A).

Events of Default

Events of Default for the Notes are set out in Condition 10 of the Conditions.

Rating

The following ratings have been assigned to the Programme:

- a long term issue credit rating of AA+ and short term issue credit rating of A-1+ by S&P; and
- a rating of AA- by Fitch.

Each Tranche of Notes issued under the Programme may be rated or unrated. When a Tranche of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, revision, downgrade or withdrawal at any time by the assigning rating agency.

Withholding Tax

All payments of principal and interest, by or on behalf of the Issuer in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of Hong Kong or any political sub-division or authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law. In such event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction, except that no such additional amount shall be payable in relation to any payment in respect of any Note in certain circumstances, as further described in Condition 8 of the Conditions.

Meetings of Noteholders

The Conditions will contain a “collective action” clause which permits defined majorities to bind all Noteholders.

If the Issuer issues future debt securities which contain collective action clauses in substantially the same form as the collective action clause in the Conditions, the Notes would be capable of aggregation with any such future debt securities, thereby allowing “cross-series” modifications to the terms and conditions of all affected series of Notes (even, in some circumstances, where majorities in certain series did not vote in favour of the modifications being voted on). See “*Risk Factors – Risks related to the Notes issued under the Programme generally – The Notes contain collective action clauses under which the terms of any one series of securities and/or multiple series of securities may be modified without the consent of all the holders of the securities of that series or all the holders of any other series of securities being aggregated, as the case may be*”.

A summary of the provisions for convening meetings of Noteholders to consider matters relating to their interests as such is set out in Condition 11 of the Conditions.

Governing Law

The Notes and any non-contractual obligations arising out of or in connection with them will be governed by, and construed in accordance with, English law.

The courts of Hong Kong are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Notes and any non-contractual obligations.

Listing

Application may be made to the FCA for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange’s main market.

Application has been made to the Hong Kong Stock Exchange for the listing of the Programme by way of debt issues to Professional Investors only during the period of 12 months from the date of this Offering Memorandum on the Hong Kong Stock Exchange.

The Notes may also be listed on such other or further stock exchange(s) as may be agreed in relation to each Series. Unlisted Notes may also be issued.

Selling Restrictions

There are restrictions on the offer, sale and transfer of the Notes in the United States, the EEA, the United Kingdom, the Republic of Italy, Singapore, Japan, Korea, the Kingdom of Bahrain, Kuwait, Brunei and Malaysia and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See the section entitled “*Subscription and Sale*”.

Notes in bearer form will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”)) (“TEFRA D”) unless (i) the applicable Pricing Supplement states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (“TEFRA C”) or (ii) the Notes are issued other than in compliance with TEFRA D or TEFRA C but in circumstances in which the Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“TEFRA”), which circumstances will be referred to in the applicable Pricing Supplement as a transaction to which TEFRA is not applicable.

Transfer Restrictions

The Notes have not been and will not be registered under the Securities Act and are subject to certain restrictions on transfer. See “*Transfer Restrictions*”.

ERISA Considerations

Unless otherwise provided in the applicable Pricing Supplement, the Notes may be purchased and held by an employee benefit plan subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), a plan subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), and any entity whose underlying assets include “plan assets” by reason of any such employee benefit plan’s or plan’s investment in the entity, subject to consideration of the issues described in “*Certain ERISA Considerations*”. A fiduciary of an employee benefit plan subject to ERISA must ensure that the purchase and holding of a Note is consistent with its fiduciary duties under ERISA. The fiduciary of an employee benefit plan subject to ERISA, as well as any other plan subject to Section 4975 of the Code or any similar law, must also determine that its acquisition, holding and subsequent disposition of the Notes (or any interest therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of any similar law. Each purchaser and transferee of a Note (or any interest therein) who is subject to ERISA and/or Section 4975 of the Code or any similar law will be deemed to have represented by its acquisition and holding of the Notes (or any interest therein) that its acquisition, holding and disposition of the Notes (or any interest therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of any similar law. See “*Certain ERISA Considerations*”.

Use of Proceeds

The Issuer intends to use the proceeds from the issue of each Tranche of Notes exclusively (unless otherwise specified in the relevant Pricing Supplement) to finance and/or refinance projects that fall under one or more of the “Eligible Categories” in the table set out in the Issuer’s Green Bond Framework attached hereto as Appendix A, as amended from time to time on the Issuer’s website: <https://www.hkgb.gov.hk/en/greenbond/greenbondintroduction.html>. Nothing in the Issuer’s website, other than the Green Bond Framework as amended from time to time thereby, is incorporated by reference into, or made a part of, this Offering Memorandum.

RISK FACTORS

An investment in Notes issued under the Programme involves certain risks. Prospective investors should carefully consider, in the light of their own financial circumstances and investment objectives the following factors, in addition to the matters set forth elsewhere in this Offering Memorandum, prior to investing in the Notes. The HKSAR Government believes that the factors described below represent the principal risks inherent in investing in the Notes. The HKSAR Government does not represent that the statements below regarding the risks of holding any Notes are exhaustive or that the statements below relate to any other risks not described therein. There may also be other considerations, including some which may not be presently known to the HKSAR Government or which the HKSAR Government currently deems immaterial, that may impact on any investment in the Notes.

Prospective investors should also read the detailed information set out elsewhere in this Offering Memorandum and reach their own views prior to making any investment decision. Words and expressions defined elsewhere in this Offering Memorandum shall have the same meanings in this section.

Risks related to recent developments

In recent times, global economic conditions have weakened as a result of the disruptions to economic activity and market volatility caused by the outbreak of a novel strain of coronavirus (“**COVID-19**”) in December 2019. Governments across the world, including the HKSAR Government, imposed various measures in an effort to contain the spread of COVID-19, including mandatory business closures, travel restrictions, quarantines and limitations on public gatherings. These measures have had and may continue to have a negative impact on the Hong Kong economy.

In 2019 and 2020, there were protests and disruptions to businesses across many industry sectors in Hong Kong, which had a dampening effect on business and consumer sentiments in Hong Kong. These protests caused a decrease in consumer spending, disruptions to transportation networks in various parts of Hong Kong and had a major impact on inbound tourism to Hong Kong. The above-mentioned social unrest in Hong Kong has abated since the second quarter of 2020. Future political or social developments in Hong Kong may affect Hong Kong’s economic growth and the financial conditions in which Hong Kong businesses and markets operate.

Economic growth and stability in Hong Kong may be impacted by geopolitical developments and tensions, including trade disputes. Although initial steps have been taken towards resolving such trade disputes, the impacts any trade tensions may have on the global economy and Hong Kong’s trade flows remain uncertain. The above, and other recent developments (for more information, see “*Recent Developments – Recent Developments*”), may affect the landscape in which Hong Kong’s economy and markets operate and impact both domestic and foreign businesses that conduct economic activities with or within Hong Kong. Persons participating in the offering of the Notes should consult their own advisers on the potential impact to them.

Risks related to the Notes issued under the Programme generally

Notes issued under the Programme may not be a suitable investment for all investors seeking exposure to green assets.

In connection with the issue of Notes under the Programme, the HKSAR Government has obtained from Vigeo Eiris (“**Vigeo**”) a second party opinion on the Green Bond Framework dated 28 March 2019 (attached hereto as Appendix A) (the “**Second Party Opinion**”). The HKSAR Government may also request the Hong Kong Quality Assurance Agency (the “**HKQAA**”) to issue an independent certification (a “**HKQAA Pre-issuance Stage Certificate**”) for certain issues of Notes under the Programme, confirming that those issues of Notes will be in compliance with the requirements of the Green Finance Certification Scheme operated by the HKQAA (the “**HKQAA Green Finance Certification Scheme**”). The Second Party Opinion and the HKQAA Pre-issuance Stage Certificate, and the parties providing such certificate and opinion, may be updated or amended from time to time. The relevant certification and opinion applicable to each issuance of Notes may be specified in the applicable Pricing Supplement.

There is currently no market consensus on what precise attributes are required for a particular project to be defined as “green”, and therefore no assurance can be provided to potential investors that the relevant eligible green assets will continue to meet the relevant eligibility criteria. Although applicable green projects are expected to be selected in accordance with the categories recognised by the HKQAA Green Finance Certification Scheme and Vigeo, or later iterations thereof, or by other certification schemes and/or other second party opinion providers and are expected to be developed in accordance with applicable legislation and standards, there can be no guarantee that adverse environmental and/or social impacts will not occur during the design, construction, commissioning and/or operation of any such green projects. Where any negative impacts are insufficiently mitigated, green projects may become controversial, and/or may be criticised by activist groups or other stakeholders.

Potential investors should be aware that the HKQAA Pre-issuance Stage Certificate, the Second Party Opinion and any other certification and opinion will not be incorporated into, and will not form part of, this Offering Memorandum or the terms and conditions relating to the Notes. The HKQAA Pre-issuance Stage Certificate, the Second Party Opinion and any other certification and opinion may not reflect the potential impact of all risks related to the Notes, their marketability, trading price or liquidity or any other factors that may affect the price or value of the Notes. The HKQAA Pre-issuance Stage Certificate, the Second Party Opinion and any other certification and opinion are not recommendations to buy, sell or hold securities and are only current as of their date of issue.

Further, while it is the intention of the HKSAR Government to apply the proceeds of any Notes in the manner described in the “*Use of Proceeds*” section of this Offering Memorandum and the relevant Pricing Supplement and the Issuer may agree at the time of each issue of Notes to certain reporting and use of proceeds, it would not be an event of default under the Notes if (i) the HKSAR Government were to fail to comply with such obligations or were to fail to use the proceeds in the manner specified in the relevant terms and conditions and/or (ii) the HKQAA Pre-issuance Stage Certificate, the Second Party Opinion and/or any other certification and/or opinion were to be withdrawn. Any failure to use the net proceeds of the Notes in connection with green projects, and/or any failure to meet, or to continue to meet, the investment requirements of certain environmentally focused investors with respect to the Notes may affect the value and/or trading price of the Notes, and/or may have consequences for certain investors with portfolio mandates to invest in green assets.

None of the HKSAR Government, the Arrangers or the Dealers make any representation as to the suitability for any purpose of the HKQAA Pre-issuance Stage Certificate, the Second Party Opinion, or any other certification or opinion or whether the Notes fulfil, in whole or in part, the relevant environmental criteria or any present or future investor expectations or requirements. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Memorandum and in the terms and conditions relating to the Notes regarding the use of proceeds and its purchase of the Notes should be based upon such investigation as it deems necessary.

The credit ratings of the Issuer and the Programme may be changed at any time and may adversely affect the market value of any Notes issued under the Programme.

The Issuer has been assigned sovereign credit ratings of AA+ by S&P, AA- by Fitch and Aa3 by Moody's. The Programme has been assigned a long term issue credit rating of AA+ and short term issue credit rating of A-1+ by S&P and a rating of AA- by Fitch. The rating of certain Tranches of Notes to be issued under the Programme may be specified in the applicable Pricing Supplement. When a Tranche of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme. Any adverse changes in the Issuer's credit rating or the credit rating of the Programme could negatively affect the market value of any Notes issued under the Programme. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

In general, European regulated investors are restricted under the Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**") from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the European Union (the "**EU**") and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and publication of an updated ESMA list.

The Notes contain collective action clauses under which the terms of any one series of securities and/or multiple series of securities may be modified without the consent of all the holders of the securities of that series or all the holders of any other series of securities being aggregated, as the case may be.

The Conditions contain provisions regarding modifications commonly referred to as "collective action" clauses. Such clauses permit defined majorities to bind all Noteholders, including Noteholders who did not vote and Noteholders who voted in a manner contrary to the majority. The relevant provisions also permit, in relation to reserved matters, multiple series of securities (including, without limitation, any trust certificates, notes (such as the Note), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year ("securities")) to be aggregated for voting purposes (provided that each such series also contains the collective action clauses in the terms and conditions of the securities).

The Issuer expects that all series of securities it issues in future will include such collective action clauses, thereby giving the Issuer the ability to request modifications (including in respect of Reserved Matters (as defined in the Conditions)) across multiple series of securities. This means that a defined majority of the holders of such series of securities (when taken in the aggregate) would be able to bind all holders of securities in all the relevant aggregated series. Any modification relating to Reserved Matters (as defined herein), including in respect of payments and other important terms (such as, without limitation, changes to the Maturity Date or any other date for payment of amounts in respect of the Notes), may be made to a single Series of Notes with the consent of the holders of at least 75 per cent. of the aggregate principal amount outstanding of such Notes, and to multiple series of securities with the consent of both (i) the holders of at least 66 2/3 per cent. of the aggregate principal amount of the outstanding securities of all affected series of securities being aggregated and (ii) the holders of more than 50 per cent. in aggregate principal amount of the outstanding of the securities in each affected series of securities capable of being aggregated or the consent of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding securities of all affected series of securities being aggregated.

Any modification proposed by the Issuer may, at the option of the Issuer, be made in respect of some series of securities only and, for the avoidance of doubt, the provisions may be used for different groups of two or more series of securities simultaneously. At the time of any proposed modification, the Issuer will be obliged, inter alia, to specify which method or methods of aggregation will be used by the Issuer.

There is a risk therefore that the terms and conditions of a Series of Notes may be modified in circumstances whereby the holders of securities voting in favour of modification may be holders of a different series of securities and as such, less than 75 per cent. of the holders of such Notes would have voted in favour of such modification. In addition, there is a risk that the provisions allowing for aggregation across multiple series of securities may make the Notes less attractive to purchasers in the secondary market on the occurrence of an Event of Default or in a distress situation. Further, any such modification in relation to any Notes may adversely affect their trading price.

There are certain restrictions as to the rights and remedies available against the HKSAR Government.

In relation to the Trust Deed, the Notes, the Receipts, the Coupons, the Talons and the other Transaction Documents, the courts of the HKSAR are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Transaction Documents and any disputes relating to any non-contractual obligations arising out of or in connection with the Transaction Documents.

Section 3 of the CPO enables civil proceedings (as defined in the CPO) to be commenced against the HKSAR Government in the courts of the HKSAR. However, there are certain restrictions as to the rights and remedies available against the HKSAR Government. The HKSAR courts have no power to grant an injunction or to order specific performance, but may instead make an order declaratory of the rights of the parties. Section 21 of the CPO provides that if an order is made against the HKSAR Government, the proper officer of the HKSAR courts will, upon application, issue to the successful plaintiff a certificate containing particulars of the order. If the order provides for payment of money, the certificate will state the amount payable and the Director of Accounting Services shall pay the sum shown to be due, subject to appeal. No process of execution or attachment can be carried out to enforce satisfaction against the HKSAR Government of any judgment. See “*Enforcement*” and “*Terms and Conditions of the Notes – Governing Law and Jurisdiction*”.

The Issuer is not required to effect equal or rateable payment(s) with respect to its other External Debt pursuant to the Conditions, and is not required to pay other External Debt at the same time or as a condition of paying sums on the Notes and vice versa.

The Notes will at all times rank at least *pari passu* with all other unsecured and unsubordinated obligations of the Issuer. However, the Issuer will have no obligation to effect equal or rateable payment(s) at any time with respect to any other unsecured and unsubordinated External Debt of the Issuer and, in particular, will have no obligation to make payments under the Notes at the same time or as a condition of paying sums due under other unsecured and unsubordinated External Debt of the Issuer. Accordingly, the Issuer may choose to grant preferential treatment to, and therefore prioritise payment obligations under, other unsecured and unsubordinated External Debt of the Issuer as payments fall due.

Change of law

The Conditions are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Memorandum;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Noteholders will be reliant on Euroclear, Clearstream, the CMU and DTC procedures to exercise certain rights under the Notes.

Notes issued under the Programme will be represented on issue by one or more Global Notes or Global Certificates that may be deposited with a common depository for Euroclear, Clearstream or the CMU, in the case of Global Notes or Global Certificates to be issued in reliance on Regulation S, or deposited with a nominee for DTC, in the case of Global Certificates to be issued in reliance on Rule 144A. Except in the circumstances described in each Global Note and/or Global Certificate, investors will not be entitled to receive Notes in definitive form. Each of DTC, Euroclear and Clearstream and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note or Global Certificate held through it. While the Notes are represented by a Global Note or Global Certificate, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes or Global Certificates, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note or Global Certificate.

Holders of beneficial interests in a Global Note or Global Certificate will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

The Trustee may request that the Noteholders provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances (including, without limitation, the giving of notice to the Issuer or the taking of action pursuant to Conditions 10 and 13 of the Conditions), the Trustee may (at its sole discretion) request the Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Noteholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to any indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed constituting the Notes and/or the Conditions, and in such circumstances, or where there is uncertainty or dispute as to the applicable laws or regulations, to the extent permitted by the agreements and the applicable law, it will be for the Noteholders to take such actions directly.

Notes where denominations involve integral multiples

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in its account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a nominal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features.

Notes subject to optional redemption by the Issuer

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Partly Paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of such investor's investment.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than the prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than the prevailing rates on its Notes.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (a) the market price of such Notes may be volatile;
- (b) they may receive no interest;
- (c) payment of principal or interest may occur at a different time or in a different currency than expected;
- (d) they may lose all or a substantial portion of their principal;

- (e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (f) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and
- (g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

A potential investor should not invest in the Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The regulation and reform of benchmarks may adversely affect the value of Floating Rate Notes which reference such benchmarks.

Reference rates and indices, including interest rate benchmarks used to determine the amounts payable under financial instruments or the value of such financial instruments (including LIBOR and EURIBOR) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, or to disappear entirely and may have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes referencing such a benchmark.

Regulation (EU) 2016/1011 (the “**Benchmark Regulation**”) applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU (which, for these purposes, includes the United Kingdom).

The Benchmark Regulation could have a material impact on any Notes linked to or referencing a benchmark, in particular if the methodology or other terms of the benchmark are changed in order to comply with the requirements of the Benchmark Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant benchmark.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

Specifically, the United Kingdom Financial Conduct Authority has publicly announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021, and accordingly the continuation of LIBOR on the current basis will not be guaranteed after 2021. As a result, there is significant regulatory scrutiny of continued use of LIBOR and other inter-bank offered rates and increasing pressure and momentum for banks and other financial institutions to transition relevant products to replacement rates.

Different currency LIBORs are expected to transition to different rates which, in contrast to LIBOR rates (which include an interbank lending risk margin) may be (or may be derived from) risk-free rates, which may perform very differently from the relevant LIBOR rate. In addition, although EURIBOR has been reformed in order to comply with the terms of the Benchmark Regulation, it remains uncertain as to how long it will continue in its current form, or whether it will be further reformed or replaced with the new Euro Short-term Rate known as €STR or an alternative benchmark.

It is not possible to predict with certainty whether, and to what extent, LIBOR and/or EURIBOR and/or other benchmarks will continue to be supported going forwards. This may cause LIBOR and/or EURIBOR and/or other benchmarks to perform differently than they have done in the past and may have other consequences which cannot be predicted. The potential transition away from or the elimination of LIBOR, EURIBOR or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the Conditions, or result in other consequences, in respect of any Notes referencing such benchmark. Such factors may have (without limitation) the following effects on certain benchmarks: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark; and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to, referencing, or otherwise dependent (in whole or in part) upon, a benchmark. Investors should be aware that, if a benchmark rate were discontinued or otherwise unavailable, the rate of interest on Floating Rate Notes which reference such benchmark rate will be determined by the fallback provisions applicable to such Notes. In certain circumstances, the ultimate fallback of interest for a particular Interest Accrual Period may result in the rate of interest for the last preceding Interest Accrual Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page.

Any such consequences could have a material adverse effect on the value of and return on any such Notes. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant rate could affect the ability of the Issuer to meet its obligations under the Floating Rate Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes.

Investors should consider all of these matters when making their investment decision with respect to the relevant Floating Rate Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks related to the market generally

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include

the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes. If the Notes are denominated in a currency other than the currency of the country in which the Noteholder is resident, the Noteholder is exposed to the risk of fluctuations in the exchange rate between the two aforementioned currencies. The Noteholder may also be exposed to a foreign exchange risk if the reference obligation is denominated, or based on prices, in a currency other than the currency in which the relevant Note is denominated.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal at all.

The liquidity of the Notes may be limited.

There may not be an active secondary market or any secondary market at all for the Notes and it may not be possible for Noteholders to sell the Notes prior to maturity or the sale price may be lower than the amount the Noteholders had invested.

There may be credit risks related to the Issuer.

The Notes are not secured. When the Noteholders buy the Notes, the Noteholders will be relying on the creditworthiness of the Issuer. Adverse changes in the wider economic conditions in Hong Kong and the world and/or the creditworthiness of the Issuer may reduce the market value of the Notes and may affect the Issuer's ability to make payments of principal of and interest on the Notes. In the worst case scenario, the Noteholders could lose all of their investment.

The Notes are unsecured obligations of Hong Kong and there is no limitation on Hong Kong's ability to issue guarantees, pari passu securities or to incur additional indebtedness in the future.

The Noteholders will not have the benefit of security and as a result will not have a claim to those assets that secure the debt held by secured creditors of Hong Kong. Hong Kong has in the past issued guarantees and securities and incurred indebtedness and intends to continue to do so from time to time in the future. In addition, there is no restriction on the amount of guarantees or securities which Hong Kong may issue and which rank *pari passu* with the Notes. The issue of any such guarantees, securities and the incurrence of any such additional indebtedness may reduce the amount recoverable by the Noteholders in certain scenarios.

The Notes may be subject to restrictions on transfer which may adversely affect the value of the Notes.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States or any other jurisdiction. Notes issued under the Programme may not be offered, sold or otherwise transferred in the United States except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. Bearer Notes generally may not be offered or sold in the United States or to U.S. persons. The Notes and the Agency Agreement will contain provisions that will restrict the Notes from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Regulation S and Rule 144A, or other exemptions, under the Securities Act. Furthermore, the Issuer has not registered the Notes under any other country's securities laws. Investors must ensure that their offers and sales of the Notes within the United States and other countries comply with applicable securities laws. See "*Transfer Restrictions*".

The trading market for the Notes may be volatile and may be adversely impacted by many events.

The market for the Notes is expected to be influenced by economic and market conditions and, to varying degrees, interest rates, currency exchange rates and inflation rates in Hong Kong, the United States, Europe and other industrialised countries. There can be no assurance that events in Hong Kong, the United States, Europe or elsewhere will not cause market volatility or that such volatility will not adversely affect the price of the Notes or that economic and market conditions will not have any other adverse effect.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Prospective investors should consult their legal advisers to determine whether and to what extent: (1) the Notes are legal investments for such prospective investors; (2) the Notes can be used as collateral for various types of borrowing; and (3) other restrictions apply to their purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk based capital or similar rules.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or Global Certificate(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in the Conditions will have the meanings given to them in the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to “Notes” are, unless the context requires otherwise, to the Notes of one Series only, not to all Notes that may be issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under the section of the Offering Memorandum headed “Summary of Provisions Relating to the Notes while in Global Form.”

The Notes are constituted by a Trust Deed (as amended, restated or supplemented as at the date of issue (the “**Issue Date**”) of the Notes, the “**Trust Deed**”) dated 21 January 2021 between the Government of the Hong Kong Special Administrative Region of the People’s Republic of China (the “**HKSAR Government**” or the “**Issuer**”) and The Hongkong and Shanghai Banking Corporation Limited (the “**Trustee**”, which expression shall include its successor(s) and all other persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions (these “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Receipts, Coupons and Talons referred to below. An Agency Agreement (as amended, restated or supplemented as at the Issue Date, the “**Agency Agreement**”) dated 21 January 2021 has been entered into in relation to the Notes between the Issuer, the Trustee, The Hongkong and Shanghai Banking Corporation Limited as initial principal paying agent and the other agents named in it. The issuing and paying agent, the CMU lodging and paying agent, the U.S. paying agent, the other paying agents, the registrars, the transfer agents, and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Issuing and Paying Agent**”, the “**CMU Lodging and Paying Agent**”, the “**U.S. Paying Agent**”, the “**Paying Agents**” (which expression shall include the Issuing and Paying Agent, the CMU Lodging and Paying Agent and the U.S. Paying Agent), the “**Registrars**”, the “**Transfer Agents**” (which expression shall include the Registrars) and the “**Calculation Agent(s)**”, which expressions shall include any of their successors appointed from time to time in connection with the Notes. “**Agent**” or “**Agents**”, as the case may be, means each of the Issuing and Paying Agent, the CMU Lodging and Paying Agent, the U.S. Paying Agent, the Paying Agents, the Registrars, the Transfer Agents and the Calculation Agent(s) and any other paying agent or transfer agent and any other agent appointed pursuant to the Agency Agreement. Copies of the Trust Deed and the Agency Agreement are available for inspection at all reasonable times during usual business hours (being between 9:00 a.m. (Hong Kong time) and 3:00 p.m. (Hong Kong time) from Monday to Friday (other than public holidays)) at the principal office of the Trustee (being at the Issue Date at Level 24, HSBC Main Building, 1 Queen’s Road Central, Hong Kong) following prior written request and proof of holding and identity to the satisfaction of the Trustee.

The Noteholders, the holders of the interest coupons (the “**Coupons**”) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the “**Talons**”) (the “**Couponholders**”) and the holders of the receipts (the “**Receipts**”) for the payment of instalments of principal (the “**Receiptholders**”) relating to Notes in bearer form of which the principal is payable in instalments are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions

of the Trust Deed and the relevant Pricing Supplement and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

As used in these Conditions, “**Tranche**” means Notes which are identical in all respects. Each Tranche is the subject of a pricing supplement (each, a “**Pricing Supplement**”) which supplements and/or completes these Conditions.

1 FORM, DENOMINATION AND TITLE

The Notes are issued in bearer form (“**Bearer Notes**”) or in registered form (“**Registered Notes**”) in each case in the Specified Denomination(s) shown hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

*All Registered Notes shall have the same Specified Denomination. Unless otherwise permitted by the then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies). Notes sold in reliance on Rule 144A under the United States Securities Act of 1933, as amended (the “**Securities Act**”) will be in minimum denominations of U.S.\$200,000 (or its equivalent in other currencies) and integral multiples of U.S.\$1,000 (or its equivalent in other currencies) in excess thereof, subject to compliance with all legal and/or regulatory requirements applicable to the relevant currency. In the case of any Notes which are to be offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under Regulation (EU) 2017/1129 (as amended or superseded), the minimum Specified Denomination shall be EUR100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).*

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, “**Noteholder**” means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), “**holder**” (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

*For so long as any of the Notes are represented by a Global Note or Global Certificate held on behalf of Euroclear Bank SA/NV (“**Euroclear**”) and/or Clearstream Banking S.A. (“**Clearstream**”), each person (other than Euroclear or Clearstream) who is for the time being shown in the records of Euroclear and/or Clearstream as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear and/or Clearstream as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note or the registered holder of the relevant Global Certificate shall be treated by the Issuer, the Trustee and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note or Global Certificate and the expressions “**Noteholder**” and “**holder of the Notes**” and related expressions shall be construed accordingly.*

For so long as DTC or its nominee is the registered owner or holder of a Global Certificate, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Certificate for all purposes under the Trust Deed and the Agency Agreement and those Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

References in these Conditions to Coupons, Talons, Couponholders, Receipts and Receiptholders relate to Bearer Notes only.

2 NO EXCHANGE OF NOTES AND TRANSFERS OF REGISTERED NOTES

- (a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.
- (b) **Transfer of Registered Notes:** Subject to the Agency Agreement and Condition 2(f), one or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer, duly completed and executed and any other evidence as the Registrar or the relevant Transfer Agent may require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred (which shall be not less than the minimum Specified Denomination) and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor; *provided, however*, that part of a Registered Note may not be transferred unless the principal amount of the part

transferred, and (where not all of the Notes held by a Noteholder are being transferred) the principal amount of the balance not transferred, are Specified Denominations. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee, and by the Registrar, with the prior written consent of the Trustee and the Issuer. A copy of the current regulations will be made available by the Registrar to any Noteholder following prior written request and proof of holding and identity to the satisfaction of the Registrar.

Any transfer of interests in Notes evidenced by a Global Note or a Global Certificate will be effected in accordance with the rules of the relevant clearing systems. Transfers of a Global Certificate registered in the name of a nominee for DTC shall be limited to transfers of such Global Certificate, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

- (c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer's or a Noteholder's option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.
- (d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) or (c) shall be available for delivery within five business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the Registrar or, as the case may be, the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- (e) **Transfers Free of Charge:** Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge to the relevant Noteholder by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon (i) payment by the relevant Noteholder of any tax, duty, assessment or other governmental charges that may be imposed in relation to such transfer (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require), (ii) the Registrar or the relevant Transfer Agent being satisfied in its absolute discretion with the documents of title or identity of the person making the application, and (iii) the Registrar or the relevant Transfer Agent being satisfied that the regulations concerning transfers of Notes have been complied with.

- (f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days prior to (and including) any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(b)).
- (g) **Forced Transfer:** If at any time the Issuer determines that any beneficial owner of Notes, or any account for which such owner purchased Notes, who is required to be a qualified institutional buyer (“**QIB**”) as defined in Rule 144A under the Securities Act is not a QIB, the Issuer may (i) compel such beneficial owner to sell its Notes (A) to a person who is a QIB and that is, in each case, otherwise qualified to purchase such Notes in a transaction exempt from registration under the Securities Act or (B) in an offshore transaction within the meaning of Regulation S under the Securities Act or (ii) compel the beneficial owner to sell such Notes to the Issuer or an affiliate thereof at a price equal to the lesser of (x) the purchase price paid by the beneficial owner for such Notes, (y) 100 per cent. of the nominal amount thereof and (z) the fair market value thereof. The Issuer has the right to refuse to honour the transfer of interests in a Restricted Global Certificate or any Restricted Note (each as defined in the Trust Deed) to a person within the United States who is not a QIB other than in an offshore transaction.

3 STATUS

The Notes, the Receipts and the Coupons relating to them constitute direct, general, unconditional and (subject to Condition 4) unsecured and unsubordinated obligations of the Issuer and shall at all times rank *pari passu* without any preference among themselves and at least *pari passu* with all other unsecured External Debt of the Issuer, from time to time outstanding, provided, however, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Debt of the Issuer and, in particular, the Issuer shall have no obligation to pay other External Debt of the Issuer at the same time or as a condition of paying sums due under the Notes, Receipts and/or Coupons, and *vice versa*.

4 NEGATIVE PLEDGE

So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), the Issuer will not create or permit to subsist any Encumbrance on the whole or any part of the Exchange Fund as security for any HKSAR Government Public External Debt unless, at the same time or prior thereto, or promptly thereafter, all amounts payable by the Issuer under the Notes and the Coupons are secured at least equally and rateably with such HKSAR Government Public External Debt, or the Issuer provides such other security for its obligations under the Notes, as approved by the holders of the Notes in accordance with the Trust Deed.

For the avoidance of doubt, any Encumbrance created on the assets or revenues of any corporate entity in which the Issuer has a direct or indirect equity interest or other stake (other than any entity established to own or manage any part of the Exchange Fund) shall not be considered to be an Encumbrance on the Exchange Fund or any part thereof.

For the purposes of this Condition 4:

“**Encumbrance**” means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or arrangement any of which has the practical effect of constituting a security interest with respect to the payment of any obligations with or from the proceeds of any property, assets or revenues of any kind (including, without limitation, any equivalent created or arising under the laws of Hong Kong), it being expressly understood and agreed that bonds, alternative bonds, promissory notes or other instruments issued by the Issuer, including the Notes, pursuant to the Loans Ordinance of Hong Kong or the Loans (Government Bonds) Ordinance of Hong Kong or any re-enactment thereof, in respect of which the repayment of principal and payment of the financial charges and other amounts thereon are charged on and made payable out of the general revenues and assets of Hong Kong pursuant to those ordinances (and not otherwise), including any sinking fund arrangement as provided in such bonds, will not be construed or deemed to create any Encumbrance on the whole or any part of the Exchange Fund;

“**Exchange Fund**” means the fund established and maintained pursuant to the Exchange Fund Ordinance of Hong Kong;

“**External Debt**” means all obligations of any person, and all guarantees or indemnities by any person (whether by contract, statute or otherwise), for or in respect of borrowed money or evidenced by bonds, trust certificates, debentures, notes or similar instruments which, in each case, (1) have an original maturity in excess of one year; and (2) are denominated or payable, or which, at the option of the holder thereof, may be payable in a currency other than the currency of Hong Kong or by reference to a currency other than the currency of Hong Kong;

“**HKSAR Government Public External Debt**” means Public External Debt undertaken directly by and in the name of the Issuer and backed by the full faith and credit of the Issuer. Obligations, guarantees and indemnities undertaken “directly by and in the name of the Issuer” do not include obligations, guarantees and indemnities undertaken by any corporate entity in which the Issuer has a direct or indirect equity interest or other stake; and

“**Public External Debt**” means any External Debt which is publicly offered or privately placed in one or more securities markets and which is in the form of, or represented by, notes, bonds, trust certificates or other securities that are or may be quoted, listed or ordinarily purchased or sold on any stock exchange, automated trading system or over-the-counter or other securities market (including, without limitation, securities eligible for resale under Rule 144A).

5 INTEREST AND OTHER CALCULATIONS

- (a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).
- (b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**
 - (i) *Interest Payment Dates:* Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate

of Interest, such interest being payable in arrear on each Interest Payment Date, subject to the provisions of Condition 7. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

- (ii) *Business Day Convention*: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.
- (iii) *Rate of Interest for Floating Rate Notes*: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to any one or more of ISDA Determination or Screen Rate Determination or Linear Interpolation shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon;
- (y) the Designated Maturity is a period specified hereon; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11:00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR or EURIBOR or HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

(y) if the Relevant Screen Page is not available or if sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall promptly inform the Issuer and the Issuer shall use its best endeavours to appoint an Independent Investment Bank to request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks or, if the Reference Rate is HIBOR, the principal Hong Kong office of each of the Reference Banks, to provide the Independent Investment Bank with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11:00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11:00 a.m. (Brussels time), or if the Reference Rate is HIBOR, at approximately 11:00 a.m. (Hong Kong time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Independent Investment Bank with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Independent Investment Bank and notified to the Calculation Agent and the Issuer; and

(z) if paragraph (y) above applies and the Independent Investment Bank determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Independent Investment Bank by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11:00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11:00 a.m. (Brussels time), or if the

Reference Rate is HIBOR, at approximately 11:00 a.m. (Hong Kong time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR, the Hong Kong inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Independent Investment Bank with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11:00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11:00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11:00 a.m. (Hong Kong time) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Independent Investment Bank suitable for such purpose) informs the Independent Investment Bank it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR, the Hong Kong inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period), in each case as notified by the Issuer to the Calculation Agent.

For the purposes of this Condition 5, “**Independent Investment Bank**” means an independent financial institution of international repute or an independent financial adviser with appropriate expertise (which shall not be the Calculation Agent) appointed by (and at the expense of) the Issuer for the purposes of this Condition 5 and notified in writing by the Issuer to the Calculation Agent and the Trustee.

(C) Linear Interpolation

Where Linear Interpolation is specified hereon as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the Applicable Maturity (as defined below) were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Accrual Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

“**Applicable Maturity**” means: (x) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (y) in relation to ISDA Determination, the Designated Maturity.

- (iv) *Rate of Interest for Index Linked Interest Notes*: The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.
- (c) **Zero Coupon Notes**: Where a Note the Interest Basis of which is specified to be “**Zero Coupon**” is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).
- (d) **Dual Currency Notes**: In the case of “**Dual Currency Notes**”, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.
- (e) **Partly Paid Notes**: In the case of “**Partly Paid Notes**” (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.
- (f) **Accrual of Interest**: Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).
- (g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding**:
 - (i) If any Margin is specified hereon (either (A) generally, or (B) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
 - (ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
 - (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 of a percentage point being rounded up), (y) all figures shall be rounded to seven significant figures (provided that if the eighth significant figure is a 5 or greater, the seventh significant shall be rounded up) and (z) all currency amounts that fall due and

payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes, “unit” means the lowest amount of such currency that is available as legal tender in the country or countries, as the case may be, of such currency.

- (h) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

The amount payable in respect of the aggregate nominal amount of Notes represented by a Global Certificate or Global Note (as the case may be) shall be made in accordance with the methods of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate principal amount of the Notes represented by a Global Certificate or a Global Note (as the case may be), together with such other sums and additional amounts (if any) as may be payable under the Conditions.

- (i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:** The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition 5 but no

publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

- (j) **Determination or Quotation:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Issuer shall appoint another agent on its behalf to do so and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, such agent shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by an agent of the Issuer pursuant to this Condition 5(j) shall (in the absence of manifest error) be final and binding upon all parties.
- (k) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“Business Day” means:

- (i) in the case of Notes denominated in a currency other than Euro and Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of Notes denominated in Euro, a day on which the TARGET System is operating (a **“TARGET Business Day”**); and/or
- (iii) in the case of Notes denominated in Renminbi, a day (other than Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong; and/or
- (iv) in the case of Notes denominated in a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres;

“CMU” means the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (the **“HKMA”**);

“Day Count Fraction” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the **“Calculation Period”**):

- (i) if **“Actual/Actual”** or **“Actual/Actual – ISDA”** is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

- (ii) if “**Actual/365 (Fixed)**” is specified hereon, the actual number of days in the Calculation Period divided by 365;
- (iii) if “**Actual/365 (Sterling)**” is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “**Actual/360**” is specified hereon, the actual number of days in the Calculation Period divided by 360;
- (v) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (vi) if “**30E/360**” or “**Eurobond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D₁** will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case **D₂** will be 30;

- (vii) if “**30E/360 (ISDA)**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case **D₁** will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case **D₂** will be 30;

- (viii) if “**Actual/Actual-ICMA**” is specified hereon:

- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

- (b) if the Calculation Period is longer than one Determination Period, the sum of:
- (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

“Determination Period” means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

“Determination Date” means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s);

“Euro-zone” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended;

“Hong Kong” means the Hong Kong Special Administrative Region of the People’s Republic of China;

“Hong Kong dollars” means the lawful currency of Hong Kong;

“Interest Accrual Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date;

“Interest Amount” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period;

“Interest Commencement Date” means the Issue Date or such other date as may be specified hereon;

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or Hong Kong dollars or Renminbi or (ii) the day falling two Business Days in the relevant Financial Centre for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor Euro nor Hong Kong dollars nor Renminbi or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is Euro;

“Interest Period” means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date unless otherwise specified hereon;

“Interest Period Date” means each Interest Payment Date unless otherwise specified hereon;

“ISDA Definitions” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon;

“Rate of Interest” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon;

“Reference Banks” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market and, in the case of a determination of HIBOR, the principal Hong Kong office of four major banks in the Hong Kong inter-bank market, in each case selected by the Calculation Agent or as specified hereon;

“Reference Rate” means the rate specified as such hereon;

“Relevant Screen Page” means such page, section, caption, column or other part of a particular information service as may be specified hereon (or any successor or replacement page, section, caption, column or other part of a particular information service);

“Renminbi” means the lawful currency of the People’s Republic of China;

“Specified Currency” means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated;

“Sterling” means pound sterling, the lawful currency of the United Kingdom; and

“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

- (1) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under these Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with prior notification to the Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. The Calculation Agent shall not be responsible to the Issuer, the Noteholders or any third party for any failure of the Reference Banks to provide quotations as requested of them or as a result of the Calculation Agent having acted on any quotation or other information given by any Reference Bank which subsequently may be found to be incorrect or inaccurate in any way.

6 REDEMPTION, PURCHASE AND OPTIONS

(a) **Redemption by Instalments and Final Redemption:**

- (i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.
- (ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount) or, in the case of a Note falling within Condition 6(a)(i) above, its final Instalment Amount.

(b) **Early Redemption:**

(i) *Zero Coupon Notes:*

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10 shall be the “**Amortised Face Amount**” (calculated as provided below) of such Note unless otherwise specified hereon.

- (B) Subject to the provisions of sub-paragraph (C) below of this Condition 6(b)(i), the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above of this Condition 6(b)(i), except that such sub-paragraph (C) shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

- (ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in Condition 6(b)(i) above), upon redemption of such Note pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.
- (c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note) or at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders and in writing to the Trustee and the Issuing and Paying Agent (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if the Issuer satisfies the Trustee immediately before the giving of such notice that (i) it has or will become obliged to pay additional amounts as described under Condition 8 as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or, in each case, any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Trustee (A) a certificate in English signed by an Authorised Signatory of the Issuer stating that the obligation referred to in (i) above of this Condition 6(c) cannot be avoided by the Issuer taking reasonable

measures available to it and (B) an opinion addressed to the Trustee of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment, and the Trustee shall be entitled (but shall not be obliged) to accept and rely conclusively upon such certificate and opinion as sufficient evidence of the satisfaction of the condition precedent set out in (i) and (ii) above of this Condition 6(c) without further enquiry and without liability to any Noteholder and Couponholder, in which event the same shall be conclusive and binding on Noteholders and Couponholders.

- (d) **Redemption at the Option of the Issuer:** If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to but excluding the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(d).

In the case of a partial redemption, the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

For so long as the Notes are represented by a Global Note or Global Certificate and such Global Note or Global Certificate is held on behalf of Euroclear, Clearstream, the CMU, DTC or its nominee or any Alternative Clearing System (as defined in the form of the Global Note or Global Certificate), the selection of Notes for partial redemption under this Condition 6(d) shall be effected in accordance with the rules of the relevant clearing system.

- (e) **Redemption at the Option of Noteholders:** If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to but excluding the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice (an "**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

- (f) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.
- (g) **Purchases:** The Issuer (itself or acting through an agent) may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. The Notes so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of meetings of Noteholders or for the purposes of any Written Resolution (as defined in Condition 11), all as more particularly set out in Condition 11(i), or for other purposes as set out in the Trust Deed. Notes so purchased may be held or resold (provided that such resale is outside the United States as defined in Regulation S under the Securities Act, or, in the case of any Notes resold pursuant to Rule 144A under the Securities Act is only made in accordance with that Rule and otherwise in compliance with all applicable laws) or surrendered for cancellation, at the option of the Issuer.
- (h) **Cancellation:** All Notes purchased by or on behalf of the Issuer may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7 PAYMENTS AND TALONS

- (a) **Bearer Notes**
 - A. **Bearer Notes not held in the CMU:** Payments of principal and interest in respect of Bearer Notes not held in the CMU shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be:
 - (i) In the case of Notes denominated in a currency other than Renminbi, by transfer to an account denominated in such currency with, a Bank; and
 - (ii) In the case of Notes denominated in Renminbi, by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong.
- B. **Bearer Notes held in the CMU:** Payments of principal and interest in respect of Bearer Notes held in the CMU will be made to the person(s) for whose account(s) interests in the

relevant Bearer Note are credited as being held with the CMU in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time.

(b) **Registered Notes:**

A. Registered Notes not held in the CMU:

- (i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in Condition 7(b)(ii) below.
- (ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (in each case, the “**Record Date**”). Payments of interest on each Registered Note shall be made:
 - (i) in the case of Notes denominated in a currency other than Renminbi, by transfer to an account denominated in such currency with a Bank; and
 - (ii) in the case of Notes denominated in Renminbi, by transfer to the registered account of the Noteholder.

For these purposes, a “**Bank**” means a bank in the principal financial centre for such currency or, in the case of Euro, in a city in which banks have access to the TARGET System.

For these purposes “**registered account**” means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifteenth business day before the due date for payment.

- B. Registered Notes held in the CMU:** Payments of principal and interest in respect of Registered Notes held in the CMU will be made to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU in accordance with the CMU Rules at the relevant time.

- (c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.
- (d) **Payments subject to Laws:** All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders, Receiptholders or Couponholders in respect of such payments.
- (e) **Appointment of Agents:** The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the U.S. Paying Agent, the other Paying Agents, the Registrars, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the U.S. Paying Agent, the other Paying Agents, the Registrars, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Issuing and Paying Agent, the CMU Lodging and Paying Agent, the U.S. Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where these Conditions and/or applicable Pricing Supplement so require, (v) a CMU Lodging and Paying Agent in relation to Notes cleared through the CMU, (vi) a U.S. Paying Agent in relation to Notes cleared through DTC and (vii) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Trustee.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(c) above.

Notice of any such change or any change of any specified office of any Agent shall promptly be given by the Issuer to the Noteholders in accordance with Condition 17.

- (f) **Unmatured Coupons and Receipts and unexchanged Talons:**
- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index linked Notes), such Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or

Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
 - (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
 - (iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
 - (v) Where any Bearer Note that provides that the relevant unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
 - (vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.
- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).
- (h) **Non-Business Days:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Financial Centres**” hereon and:
- (i) (in the case of a payment in a currency other than Euro and Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

- (ii) (in the case of a payment in Euro) which is a TARGET Business Day; or
- (iii) (in the case of payment in Renminbi) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

8 TAXATION

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hong Kong or any political sub-division or authority therein or thereof having power to tax (“**Taxes**”), unless such withholding or deduction of the Taxes is required by law. In such event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) presented for payment (where presentation is required) by or on behalf of a holder who is liable for such Taxes in respect of such Note, Receipt or Coupon by reason of having some connection with Hong Kong or any political sub-division or authority thereof or therein having power to tax other than the mere holding of such Note; or
- (b) presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact a business day under Condition 7.

As used in these Conditions, “**Relevant Date**” in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) “**principal**” shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) “**interest**” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) “**principal**” and/or “**interest**” shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

For the avoidance of doubt, neither the Trustee nor any Agent shall be responsible for paying any taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature referred to in this Condition 8 or otherwise in connection with the Notes or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, any Noteholder, Receiptholder, Couponholder or any third party to pay such taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature in any jurisdiction or to provide any notice or information in relation to the Notes in connection with payment of such taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature imposed by or in any

jurisdiction, including without limitation any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Notes without deduction or withholding for or on account of any taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature imposed by or in any jurisdiction.

9 PRESCRIPTION

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 EVENTS OF DEFAULT

Upon the occurrence and continuation of any of the following events (each an “**Event of Default**”):

- (a) a default is made in the payment of any principal or interest in respect of the Notes and such default is not cured within 30 days of the due date for payment; or
- (b) the failure by the Issuer to observe or perform any other provision of these Conditions or the Trust Deed if, where it is not clearly impossible to remedy such failure, it is not remedied within 60 days following delivery to the Issuer of written notice from the Trustee to remedy such; or
- (c) the failure by the Issuer to make any payment when due of principal or financial charge in excess of U.S.\$50,000,000 (or its equivalent in other currencies) (whether upon maturity, acceleration or otherwise) on or in connection with the HKSAR Government Public External Debt, and such failure by the Issuer continues for 30 days or more after the expiry of any applicable grace period following the date on which such payment became due;
- (d) the Issuer declares a suspension of, or a moratorium with respect to, the payments of the HKSAR Government Public External Debt generally; or
- (e) at any time it becomes unlawful for the Issuer to perform or comply with any of its payment obligations under the Notes or any of the payment obligations of the Issuer under the Notes ceases to be legal, valid, binding and enforceable on it,

the Trustee shall promptly, following it having actual knowledge or being expressly notified thereof, give notice of the occurrence of such Event of Default to the Noteholders in accordance with Condition 17 with a request to such holders to indicate if they wish the Notes to be redeemed, provided, however, that in the case of an event described in paragraph (b) above, such notice may only be given if the Trustee is of the opinion that the event is materially prejudicial to the interests of the Noteholders. If so directed or requested to do so (i) by an Extraordinary Resolution or (ii) in writing by the holders of not less than 25 per cent. of the aggregate principal amount of the Notes then outstanding, the Trustee shall (subject in any such case to being indemnified and/or secured and/or prefunded to its satisfaction) by notice to the Issuer, declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality.

11 MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

- (a) **Convening Meetings of Noteholders, Conduct of Meetings of Noteholders and Written Resolutions**
- (i) The Issuer or the Trustee may convene a meeting of the Noteholders at any time in respect of the Notes in accordance with the Trust Deed. If the meeting is convened by the Issuer, the Issuer will determine the time and place of the meeting, and will notify the Trustee and the Noteholders of the time, place and purpose of the meeting not less than 21 days and not more than 45 days before the meeting.
 - (ii) The Trustee (subject to its being indemnified and/or secured and/or prefunded to its satisfaction by the Noteholders) shall convene a meeting of Noteholders if the holders of at least 10 per cent. in principal amount of the outstanding Notes (as defined in the Trust Deed and described in Condition 11(i)) have delivered a written request to the Trustee, setting out the purpose of the meeting. The Trustee will agree the time and place of the meeting with the Issuer promptly. The Trustee or the Issuer, as the case may be, will notify the Noteholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 days and not more than 45 days after the date on which such notification is given.
 - (iii) The Issuer, with the agreement of the Trustee, will set the procedures governing the conduct of any meeting in accordance with the Trust Deed. If additional procedures are required, the Issuer and the Trustee will agree such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of securities issued by it.
 - (iv) The notice convening any meeting will specify, *inter alia*;
 - A. the date, time and location of the meeting;
 - B. the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;
 - C. the record date for the meeting, which shall be no more than five business days before the date of the meeting;
 - D. the documentation required to be produced by a Noteholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Noteholder's behalf at the meeting;
 - E. any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;
 - F. whether Condition 11(b), Condition 11(c) or Condition 11(d) shall apply and, if relevant, in relation to which other series of securities it applies;
 - G. if the proposed modification or action relates to two or more series of securities issued by it and contemplates such series of securities being aggregated in more than one group of securities, a description of the proposed treatment of each such group of securities;

- H. such information that is required to be provided by the Issuer in accordance with Condition 11(f);
 - I. the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 11(g); and
 - J. any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of securities.
- (v) In addition, the Trust Deed contains provisions relating to Written Resolutions and Electronic Consents. All information to be provided pursuant to Condition 11(a)(iv) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions and Electronic Consents.
- (vi) A “**record date**” in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.
- (vii) An “**Extraordinary Resolution**” means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.
- (viii) A “**Written Resolution**” means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.
- (ix) Any reference to “**securities**” means any trust certificates, notes (including, without limitation, the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year.
- (x) “**Securities Capable of Aggregation**” means those securities which include or incorporate by reference this Condition 11 and Condition 12 or provisions substantially in these terms which provide for the securities which include such provisions to be capable of being aggregated for voting purposes with other series of securities. For the avoidance of doubt, “**Securities Capable of Aggregation**” shall include the Notes.
- (b) **Modification of the Notes**
- (i) Any modification of any provision of, or any action in respect of, these Conditions, the Trust Deed or the Agency Agreement in respect of the Notes may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.

- (ii) A “**Single Series Extraordinary Resolution**” means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the procedures prescribed by the Issuer and the Trustee pursuant to Condition 11(a) by a majority of:
 - A. in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or
 - B. in the case of a matter other than a Reserved Matter, more than 66 2/3 per cent. of the aggregate principal amount of the outstanding Notes.
- (iii) A “**Single Series Written Resolution**” means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:
 - A. in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or
 - B. in the case of a matter other than a Reserved Matter more than 66 2/3 per cent. of the aggregate principal amount of the outstanding Notes.

Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders.

- (iv) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

(c) **Multiple Series Aggregation – Single limb voting**

- (i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, provided that the Uniformly Applicable condition is satisfied.
- (ii) A “**Multiple Series Single Limb Extraordinary Resolution**” means a resolution considered at combined or separate meetings of the holders of each affected series of Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Trustee pursuant to Condition 11(a), as supplemented if necessary, which is passed by a majority of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Securities Capable of Aggregation (taken in aggregate).
- (iii) A “**Multiple Series Single Limb Written Resolution**” means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Securities Capable of Aggregation, in accordance with the applicable securities documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding securities of all affected series of

Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Securities Capable of Aggregation.

- (iv) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be.
- (v) The “**Uniformly Applicable**” condition will be satisfied if:
 - A. the holders of all affected series of Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (A) the same new instrument or other consideration or (B) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or
 - B. the amendments proposed to the terms and conditions of each affected series of Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance).
- (vi) Any modification or action proposed under Condition 11(c)(i) may be made in respect of some series only of the Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 11(c) may be used for different groups of two or more series of Securities Capable of Aggregation simultaneously.

(d) **Multiple Series Aggregation – Two limb voting**

- (i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.
- (ii) A “**Multiple Series Two Limb Extraordinary Resolution**” means a resolution considered at combined or separate meetings of the holders of each affected series of Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Trustee pursuant to Condition 11(a), as supplemented if necessary, which is passed by a majority of:
 - A. at least 66 2/3 per cent. of the aggregate principal amount of the outstanding securities of affected series of Securities Capable of Aggregation (taken in aggregate); and

- B. more than 50 per cent. of the aggregate principal amount of the outstanding securities in each affected series of Securities Capable of Aggregation (taken individually).
- (iii) A “**Multiple Series Two Limb Written Resolution**” means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Securities Capable of Aggregation, in accordance with the applicable securities documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:
- A. at least 66 2/3 per cent. of the aggregate principal amount of the outstanding securities of all the affected series of Securities Capable of Aggregation (taken in aggregate); and
 - B. more than 50 per cent. of the aggregate principal amount of the outstanding securities in each affected series of Securities Capable of Aggregation (taken individually).

Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Securities Capable of Aggregation.

- (iv) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be.
 - (v) Any modification or action proposed under Condition 11(d)(i) may be made in respect of some series only of the Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 11(d) may be used for different groups of two or more series of Securities Capable of Aggregation simultaneously.
- (e) **Reserved Matters**

In these Conditions, “**Reserved Matter**” means any proposal:

- (i) to change the date, or the method of determining the date, for payment of the principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;
- (ii) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;

- (iii) to change the majority required to pass an Extraordinary Resolution, a Written Resolution, an Electronic Consent or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;
- (iv) to change this definition, or the definition of “Extraordinary Resolution”, “Single Series Extraordinary Resolution”, “Multiple Series Single Limb Extraordinary Resolution”, “Multiple Series Two Limb Extraordinary Resolution”, “Written Resolution”, “Single Series Written Resolution”, “Multiple Series Single Limb Written Resolution”, “Electronic Consent” or “Multiple Series Two Limb Written Resolution”;
- (v) to change the definition of “securities” or “Securities Capable of Aggregation”;
- (vi) to change the definition of “Uniformly Applicable”;
- (vii) to change the definition of “control”, “public sector instrumentality”, “outstanding” or to modify the provisions of Condition 11(i);
- (viii) to change the legal ranking of the Notes;
- (ix) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, set out in Condition 10;
- (x) to change the law governing the Notes, the courts to the jurisdiction of which the Issuer has submitted in the Notes, any of the arrangements specified in the Notes to enable proceedings to be taken, in respect of actions or proceedings brought by any Noteholder, set out in Condition 19;
- (xi) to impose any condition on or otherwise change the Issuer’s obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;
- (xii) to modify the provisions of this Condition 11(e);
- (xiii) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security; or
- (xiv) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in these Conditions as so modified being less favourable to the Noteholders which are subject to these Conditions as so modified than:
 - A. the provisions of the other obligations or securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or
 - B. if more than one series of other obligations or securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of securities having the largest aggregate principal amount.

(f) **Information**

Prior to or on the date that the Issuer proposes any Extraordinary Resolution, Written Resolution or Electronic Consent pursuant to Condition 11(b), Condition 11(c) or Condition 11(d), the Issuer shall publish in accordance with Condition 12, and provide the Trustee with the following information:

- (i) a description of the Issuer's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Issuer's existing debts;
- (ii) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement. Where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;
- (iii) a description of the Issuer's proposed treatment of external securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other securities and its other major creditor groups; and
- (iv) if any proposed modification or action contemplates securities being aggregated in more than one group of securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Noteholders in Condition 11(a)(iv)(G).

(g) **Claims Valuation**

For the purpose of calculating the par value of the Notes and any affected series of securities which are to be aggregated with the Notes in accordance with Condition 11(c) and Condition 11(d), the Issuer may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par value of the Notes and such affected series of securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of securities for these purposes, and the same methodology will be promulgated for each affected series of securities.

(h) **Manifest error, etc.**

The Notes, these Conditions and the provisions of the Trust Deed and the Agency Agreement may be amended without the consent of the Noteholders to correct any error which in the opinion of the Trustee is a manifest error. In addition, the parties to the Trust Deed and the Agency Agreement may agree to modify any provision thereof, but neither the Issuer nor the Trustee shall agree, without the consent of the Noteholders, to any such modification unless, in the opinion of the Trustee, it is (i) of a formal, minor or technical nature or (ii) not materially prejudicial to the interests of the Noteholders.

(i) **Notes controlled by the Issuer**

For the purposes of (i) determining the right to attend and vote at any meeting of Noteholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution and (ii) this Condition 11 and (iii) Condition 10, any Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality shall be disregarded and be deemed not to remain outstanding.

A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

In advance of any meeting of Noteholders, or in connection with any Written Resolution or Electronic Consent, the Issuer shall provide to the Trustee a copy of the certificate prepared pursuant to Condition 12(d), which includes information on the total number of Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Noteholders or the right to sign, or authorise the signature of, any Written Resolution or vote in relation to any Electronic Consent in respect of any such meeting. The Trustee shall make any such certificate available for inspection by Noteholders at all reasonable times during normal business hours (being between 9:00 a.m. (Hong Kong time) and 3:00 p.m. (Hong Kong time) from Monday to Friday (other than public holidays)) at its principal office of the Trustee (being at the Issue Date at Level 24, HSBC Main Building, 1 Queen's Road Central, Hong Kong) following prior written request and proof of holding and identity to the satisfaction of the Trustee.

In these Conditions:

“**public sector instrumentality**” means the Hong Kong Monetary Authority, any other department, ministry or agency of the Issuer or any corporation, trust, financial institution or other entity owned or controlled by the Issuer or any of the foregoing; and

“**control**” means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

(j) **Publication**

The Issuer shall publish all Extraordinary Resolutions, Written Resolutions and Electronic Consents which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 12(g).

(k) **Exchange and Conversion**

Any Extraordinary Resolutions, Written Resolutions or Electronic Consents which have been duly passed and which modify any provision of, or action in respect of, these Conditions may be implemented at the option of the Issuer by way of a mandatory exchange or conversion of the Notes and each other affected series of securities, as the case may be, into new securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders.

(l) **Written Resolutions and Electronic Consents**

A Written Resolution may be contained in one document or in several documents in like form, each signed by or on behalf of one or more of the Noteholders.

For so long as any of the Notes are represented by a Global Note or Global Certificate held on behalf of one or more of Euroclear, Clearstream, the CMU, DTC or its nominee or any Alternative Clearing System (the “**relevant clearing system(s)**”), then the approval of a resolution proposed by the Issuer or the Trustee given by way of electronic consent communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures:

- A. by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders; or
- B. (where such holders have been given at least 21 days’ notice of such resolution) by or on behalf of:
 - (i) in respect of a proposal pursuant to Condition 11(b), the persons holding at least 75 per cent. of the aggregate principal amount of the outstanding Notes in the case of a Reserved Matter or more than $66\frac{2}{3}$ per cent. of the aggregate principal amount of the outstanding Notes, in the case of a matter other than a Reserved Matter;
 - (ii) in respect of a proposal pursuant to Condition 11(c), the persons holding at least 75 per cent. of the aggregate principal amount of the outstanding securities of all the affected series of Securities Capable of Aggregation (taken in aggregate);
 - (iii) in respect of a proposal pursuant to Condition 11(d), (x) the persons holding at least $66\frac{2}{3}$ per cent. of the aggregate principal amount of the outstanding securities of all the affected series of Securities Capable of Aggregation (taken in aggregate); and (y) the persons holding more than 50 per cent. of the aggregate principal amount of the outstanding securities of all the affected series of Securities Capable of Aggregation (taken individually),

(in the case of (i), (ii) and (iii), each an “**Electronic Consent**”) shall, for all purposes (including Reserved Matters) take effect as (A) a Single Series Extraordinary Resolution (in the case of (i) above), (B) a Multiple Series Single Limb Extraordinary Resolution (in the case of (ii) above) or (C) a Multiple Series Two Limb Extraordinary Resolution (in the case of (iii) above), as applicable.

The notice given to Noteholders shall specify, in sufficient detail to enable Noteholders (in the case of a proposal pursuant to Condition 11(b) or holders of each affected series of Securities Capable of Aggregation (in the case of a proposal pursuant to Condition 11(c) or Condition 11(d) to give their consents in relation to the proposed resolution, the method by which their consents may be given (including, where applicable, blocking of their accounts in the relevant clearing system(s)) and the time and date (the “**Relevant Consent Date**”) by which they must be received in order for such consents to be validly given, in each case subject to and in accordance with the operating rules and procedures of the relevant clearing system(s).

If, on the Relevant Consent Date on which the consents in respect of an Electronic Consent are first counted, such consents do not represent the required proportion for approval, the resolution shall, if the party proposing such resolution (the “**Proposer**”) so determines, be deemed to be defeated. Alternatively, the Proposer may give a further notice to Noteholders (in the case of a proposal pursuant to Condition 11(b) or holders of each affected series of Securities Capable of Aggregation (in the case of a proposal pursuant to Condition 11(c) or Condition 11(d) that the resolution will be proposed again on such date and for such period as shall be agreed with the Issuer (unless the Issuer is the Proposer). Such notice must inform Noteholders (in the case of a proposal pursuant to Condition 11(b) or holders of each affected series of Securities Capable of Aggregation (in the case of a proposal pursuant to Condition 11(c) or Condition 11(d) that insufficient consents were received in relation to the original resolution and the information specified in the previous paragraph. For the purpose of such further notice, references to Relevant Consent Date shall be construed accordingly.

An Electronic Consent may only be used in relation to a resolution proposed by the Issuer which is not then the subject of a meeting that has been validly convened above, unless that meeting is or shall be cancelled or dissolved. Where Electronic Consent has not been sought, for the purposes of determining whether a Written Resolution has been validly passed, the Issuer and the Trustee shall each be entitled to rely on consent or instructions given in writing directly to the Issuer or the Trustee (a) by accountholders in the relevant clearing system(s) with entitlements to any Global Note or Global Certificate and/or (b) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer and the Trustee shall each be entitled to rely on any certificate or other document issued by, in the case of (a) above, the relevant clearing system(s) and, in the case of (b) above, the relevant clearing system(s) and the accountholder identified by the relevant clearing system(s). Any such certificate or other document (i) shall be conclusive and binding for all purposes and (ii) may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. The Issuer and the Trustee shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

All information to be provided pursuant to Condition 11(a)(iv) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions and Electronic Consents.

A Written Resolution and/or Electronic Consent (i) shall take effect as an Extraordinary Resolution and (ii) will be binding on all Noteholders, whether or not they participated in such Written Resolution and/or Electronic Consent, even if the relevant consent or instruction proves to be defective.

12 AGGREGATION AGENT AND AGGREGATION PROCEDURES

(a) **Appointment**

The Issuer will appoint an aggregation agent (an “**Aggregation Agent**”) to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Notes, and, in the case of a multiple series aggregation, by the required principal amount of outstanding securities of each affected series of securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Trust Deed in respect of the Notes and in respect of the terms and conditions or securities documentation in respect of each other affected series of securities. The Aggregation Agent shall be independent of the Issuer.

(b) **Extraordinary Resolutions**

If an Extraordinary Resolution has been proposed at a duly convened meeting of Noteholders to modify any provision of, or action in respect of, these Conditions and other affected series of securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

(c) **Written Resolutions**

If a Written Resolution has been proposed under the terms of these Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

(d) **Certificate**

For the purposes of Condition 12(b), Condition 12(c) and Condition 12(e), the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 11(b), Condition 11(c) or Condition 11(d), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution and, with respect to an Electronic Consent, the date arranged for voting on the Electronic Consent.

The certificate shall:

- (i) list the total principal amount of Notes and, in the case of a multiple series aggregation, the total principal amount of each other affected series of securities outstanding on the record date; and
- (ii) clearly indicate the Notes and, in the case of a multiple series aggregation, securities of each other affected series of securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 11(i) on the record date identifying the holders of the Notes and, in the case of a multiple series aggregation, securities of each other affected series of securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

(e) **Electronic Consents**

If approval of a resolution proposed under the terms of these Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of securities, as the case may be, is proposed to be given by way of Electronic Consent, the Aggregation Agent will, as soon as reasonably practicable after the relevant Electronic Consent has been given, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of securities, have consented to the resolution by way of Electronic Consent such that the resolution is approved. If so, the Aggregation Agent will determine that the resolution has been duly approved.

(f) **Notification**

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 12 to be notified to the Trustee, the Issuing and Paying Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given by the Issuer to the Noteholders.

(g) **Binding nature of determinations; no liability**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 12 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Trustee and the Noteholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(h) Manner of publication

The Issuer will publish all notices and other matters required to be published pursuant to the Trust Deed including any matters required to be published pursuant to Condition 10, Condition 11 and this Condition 12:

- (i) in such other places and in such other manner as may be required by applicable law or regulation;
- (ii) in such other places and in such other manner as may be customary; and
- (iii) through Euroclear, Clearstream, DTC and/or any other clearing system in which the Notes are held.

(i) Notice of adjourned meetings

Notice of any adjourned meeting shall be given in the same manner as notice of an original meeting but as if 10 were substituted for 21 in Condition 11(a)(ii) and such notice shall state the required quorum.

13 ENFORCEMENT

At any time after the Notes become due and payable, the Trustee may (but shall not be obliged to), at its discretion and without further notice, take such steps and/or actions and/or institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed, the Agency Agreement, the Notes, the Receipts and the Coupons, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 25 per cent. of the aggregate principal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder, Receiptholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound so to so proceed, fails to do so within a reasonable time and such failure is continuing.

14 INDEMNIFICATION OF THE TRUSTEE

The Trustee and the Agents may each rely conclusively without liability to the Noteholders or Couponholders on any report, confirmation, information or certificate from or any opinion or advice of any lawyers, accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee, any Agent or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, information, certificate, opinion or advice and, in such event, such report, confirmation, information, certificate, opinion or advice shall be binding on the Noteholders, the Receiptholders and the Couponholders. The Trustee shall not be responsible or liable to and the Noteholders, the Receiptholders, the Couponholders or any other person for any loss occasioned by acting on or refraining from acting on such report, confirmation, information, certificate, opinion or advice.

None of the Trustee or the Agents shall have any obligation to monitor compliance with the provisions of the Trust Deed, the Agency Agreement or these Conditions, or ascertain whether an Event of Default or Potential Event of Default has occurred or may occur, and they shall not be liable to the Noteholders, the Receiptholders, the Couponholders or any other person for not doing so.

Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Agency Agreement or these Conditions to exercise any discretion or power, take or refrain from taking any action, make

any decision or give any direction or certification, the Trustee is entitled, prior to its exercising any such discretion or power, taking or refraining from any such action, making any such decision, or giving any such direction or certification, to seek directions from the Noteholders or the Couponholders by way of an Extraordinary Resolution or clarification of any directions, and the Trustee shall be entitled to rely on any such directions or clarifications and shall not be responsible or liable for any loss or liability incurred by the Noteholders, the Receiptholders, the Couponholders or any other person as a result of any delay in it exercising such discretion or power, taking or refraining from such action, making such decision, or giving such direction where the Trustee is seeking such directions or clarification of any directions from the Noteholders, the Receiptholders, the Couponholders or in the event that no such directions or clarifications are received by the Trustee.

None of the Trustee or any Agent shall be liable to any Noteholder, Receiptholder, Couponholder or any other person for any action taken by the Trustee or such Agent in accordance with the instructions, direction or request of the Noteholders, the Receiptholders and/or the Couponholders. The Trustee shall be entitled to rely on any instruction, direction, request or resolution of the Noteholders and/or the Couponholders holding the requisite principal amount of Notes outstanding or passed at a meeting of Noteholders, Receiptholders or Couponholders convened and held in accordance with or otherwise passed in accordance with the Trust Deed.

Each Noteholder, Receiptholder and Couponholder shall be solely responsible for making and continuing to make its own independent appraisal and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer, and the Trustee shall not at any time have any responsibility for the same and each Noteholder, Receiptholder and Couponholder shall not rely on the Trustee in respect thereof.

15 REPLACEMENT OF NOTES, CERTIFICATES, RECEIPTS, COUPONS AND TALONS

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

16 FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with an outstanding Series. References in these Conditions to the Notes include (unless the context requires otherwise) any other notes issued pursuant to this Condition and forming a single series with the Notes.

17 NOTICES

Bearer Notes

Notices required to be given to holders of Bearer Notes shall be valid if published in a leading English language daily newspaper with general circulation in Hong Kong or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Asia (and it is expected that such publication will be made in the *Asian Wall Street Journal*) and, so long as the Notes are listed on The Stock Exchange of Hong Kong Limited and the rules of the exchange so require, the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). Any such notice shall be deemed to have been given on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

Registered Notes

Notices required to be given to holders of Registered Notes shall be valid if mailed to them by first class pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation. Any notice shall be deemed to have been given on the day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

So long as the Notes are represented by one or more Global Notes or Global Certificates held on behalf of Euroclear, Clearstream, DTC or the CMU or any Alternative Clearing System, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled holders in substitution for publication as required by the Conditions. Any such notice shall be deemed to have been given to the holders of the Notes on the day on which the said notice was given to Euroclear, Clearstream, DTC, the CMU and/or the Alternative Clearing System, as the case may be.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

18 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this shall not affect any right or remedy which exists or is available apart from such Act and is without prejudice of the rights of the Noteholders, the Receiptholders and the Couponholders as contemplated in Condition 13.

19 GOVERNING LAW AND JURISDICTION

- (a) **Governing Law:** The Trust Deed, the Agency Agreement, the Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.
- (b) **Jurisdiction:** All parties irrevocably agree that the courts of Hong Kong are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Trust Deed, the Agency Agreement, the Notes, the Receipts, the Coupons and the Talons and any dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts, the Coupons and the Talons (for the purpose of this clause, a “**Dispute**”). All parties irrevocably submit to the jurisdiction of such courts and waives any objection to the courts of Hong Kong on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

INITIAL ISSUE OF NOTES

The Notes will be issued in series (each a “**Series**”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest and their issue price), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “**Tranche**”) on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in a Pricing Supplement to this Offering Memorandum.

Global Notes and Global Certificates may be delivered on or prior to the original issue date of the Tranche to a Common Depository or the CMU or, in respect of Global Certificates, a custodian for DTC.

Upon the initial deposit of a Global Note with a Common Depository, a sub-custodian for the CMU or an Alternative Clearing System or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream or the HKMA as operator of the CMU and delivery of the relevant Global Certificate to such Common Depository or the CMU (as the case may be), Euroclear and/or Clearstream or the CMU (as the case may be) will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. Upon the initial deposit of a Global Certificate in respect of, and registration of, Registered Notes in the name of a nominee for DTC and delivery of the relevant Global Certificate to the Custodian for DTC, DTC will credit each participant with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depository may also be credited to the accounts of subscribers with (if indicated in the applicable Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and/or Clearstream or the CMU held by such other clearing systems. Conversely, Notes that are initially deposited with any Alternative Clearing System may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, the CMU or other clearing systems.

While any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date will be made against presentation of the Temporary Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury Regulations, has been received (in the case of a Temporary Global Note delivered to the Common Depository for Euroclear and Clearstream) by Euroclear and/or Clearstream and Euroclear and/or Clearstream, as applicable, has given a like certification (based on the certifications it has received) to the Issuing and Paying Agent or (in the case of Notes cleared through the CMU) has been received by the CMU Lodging and Paying Agent and the CMU has given a like certificate (based on the certification it has received) to the CMU Lodging and Paying Agent.

RELATIONSHIP OF ACCOUNTHOLDERS WITH CLEARING SYSTEMS

Each of the persons shown in the records of Euroclear, Clearstream, DTC or an Alternative Clearing System as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, DTC or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, DTC or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against us in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and the Issuer's obligations will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

If a Global Note or a Global Certificate is lodged with a sub-custodian for or registered with the CMU, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in accordance with the CMU Rules shall be the only person(s) entitled, or in the case of Registered Notes, directed or deemed by the CMU as entitled, to receive payments in respect of Notes represented by such Global Note or Global Certificate and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in respect of each amount so paid. Each of the persons shown in the records of the CMU as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Certificate must look solely to the CMU for his share of each payment so made by the Issuer in respect of such Global Note or Global Certificate.

TRUSTEE'S POWERS

In considering the interests of Noteholders, while any Global Note is held on behalf of, or any Global Certificate is registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Global Certificate and may consider such interests as if such accountholders were the holders of the Notes represented by such Global Note or Global Certificate.

EXCHANGE

Temporary Global Notes

Each Temporary Global Note will be exchangeable, in whole or in part, free of charge to the holder, on or after its Exchange Date:

- (i) if the applicable Pricing Supplement indicates that such Global Note is issued in compliance with TEFRA C or in a transaction to which TEFRA is not applicable (as to which, see "*Summary of the Programme – Selling Restrictions*"), in whole, but not in part, for the Definitive Notes defined and described below; and
- (ii) otherwise, in whole or in part (provided that the relevant clearing system's rules so permit) upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement dated for interests in a Permanent Global Note or, if so provided in the applicable Pricing Supplement, for Definitive Notes.

Permanent Global Notes

Each Permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under “– *Partial Exchange of Permanent Global Notes*”, in part for Definitive Notes, if the Permanent Global Note is held on behalf of Euroclear or Clearstream or the CMU or an any other Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so, by the holder giving notice to the Issuing and Paying Agent of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a nominal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a nominal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Notes which are represented by a Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream or the CMU or an Alternative Clearing System, as the case may be.

For so long as a Permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such Permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes if so provided in, and in accordance with, the Conditions (which will be set out in the applicable Pricing Supplement) relating to Partly Paid Notes.

GLOBAL CERTIFICATE

Unrestricted Global Certificates

If the Pricing Supplement states that the Notes are to be represented by an Unrestricted Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear, Clearstream, the CMU, DTC or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system while they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system. Transfers of the holding of Notes represented by any Unrestricted Global Certificate pursuant to Condition 2(b) of the Conditions may be made:

- (i) in whole or in part, if the Unrestricted Global Certificate is held on behalf of Euroclear, Clearstream, the CMU or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so;
- (ii) in whole or in part, if principal in respect of any Notes is not paid when due;
- (iii) in whole but not in part, if such Notes are held on behalf of a Custodian for DTC and if DTC notifies us that it is no longer willing or able to discharge properly its responsibilities as depository with respect to that Unrestricted Global Certificate or DTC ceases to be a “clearing agency” registered under the U.S. Exchange Act of 1934, as amended (the “**Exchange Act**”), or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC; or
- (iv) in whole or in part, with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraphs (i) to (iii) above, the Registered Holder has given the Registrar not less than 30 days’ notice at its specified office of the Registered Holder’s intention to effect such transfer.

Restricted Global Certificates

If the Pricing Supplement states that the Restricted Notes are to be represented by a Restricted Global Certificate on issue, the following will apply in respect of transfers of Notes held in DTC. These provisions will not prevent the trading of interests in the Notes within a clearing system while they are held on behalf of DTC, but will limit the circumstances in which the Notes may be withdrawn from DTC. Transfers of the holding of Notes represented by that Restricted Global Certificate pursuant to Condition 2(b) of the Conditions may only be made:

- (i) in whole but not in part, if such Notes are held on behalf of a Custodian for DTC and if DTC notifies us that it is no longer willing or able to discharge properly its responsibilities as depository with respect to that Restricted Global Certificate or DTC ceases to be a “clearing agency” registered under the Exchange Act or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC; or
- (ii) in whole or in part, with the Issuer’s consent,

provided that, in the case of any transfer pursuant to paragraph (i) above, the relevant Registered Holder has given the relevant Registrar not less than 30 days’ notice at its specified office of the Registered Holder’s intention to effect such transfer. Individual Certificates issued in exchange for a beneficial interest in a Restricted Global Certificate shall bear the legend applicable to such Notes as set out in “Transfer Restrictions”.

PARTIAL EXCHANGE OF PERMANENT GLOBAL NOTES

For so long as a Permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such Permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes if so provided in, and in accordance with, the Conditions (which will be set out in the applicable Pricing Supplement) relating to Partly Paid Notes.

DELIVERY OF NOTES

On or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the relevant Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a Temporary Global Note exchangeable for a Permanent Global Note, deliver, or procure the delivery of, a Permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a Temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a Permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes. Global Notes and Definitive Notes will be delivered outside the United States and its possessions. In this Offering Memorandum, “**Definitive Notes**” means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Installment Amounts that have not already been paid on the Global Note and, if applicable, a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each Permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

EXCHANGE DATE

“**Exchange Date**” means, in relation to a Temporary Global Note, the day falling after the expiry of 40 days after its Issue Date and, in relation to a Permanent Global Note, a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the relevant Paying Agent is located and in the city in which the relevant clearing system is located.

AMENDMENT TO CONDITIONS

The Temporary Global Notes, Permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the Conditions set out in this Offering Memorandum. The following is a summary of certain of those provisions:

Payments

Except in the case of Definitive Notes where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the rate of interest to:

- (A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction.

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a Permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any Temporary Global Note issued in compliance with TEFRA D before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of “Business Day” set out in Condition 5(k) of the Conditions.

All payments made in respect of Notes represented by a Global Certificate held on behalf of Euroclear or Clearstream will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where “**Clearing System Business Day**” means Monday to Friday inclusive except December 25 and January 1.

In respect of a Global Note or a Global Certificate representing Notes held through the CMU, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Note or Global Certificate are credited (as set out in the records of the CMU) at the close of business on the Clearing System Business Day immediately prior to the date for payment and, save in the case of final payment, no presentation of the relevant bearer Global Note or Global Certificate shall be required for such purpose.

So long as the Notes are represented by a Global Note or Global Certificate and the Global Note or, as the case may be, the Global Certificate is held on behalf of a clearing system, the Issuer has promised, *inter alia*, to pay interest in respect of such Notes from the Interest Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Notes represented by the Global Note, or as the case may be, the Global Certificate.

All amounts payable to DTC or its nominee as registered holder of a Global Certificate in respect of Notes denominated in a specified currency other than U.S. dollars shall be paid by transfer by the Issuer to an account in the relevant specified currency of the Exchange Agent or the U.S. Paying Agent on behalf of DTC or its nominee for payment in such specified currency or conversion into U.S. dollars in accordance with the provisions of the Agency Agreement and in accordance with the rules and procedures for the time being of DTC.

Prescription

Claims against us in respect of Notes that are represented by a Permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8 of the Conditions).

Meetings

The holder of a Permanent Global Note or of the Notes represented by a Global Certificate shall (unless such Permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders, as the case may be, and, at any such meeting, the holder of a Permanent Global Note shall be treated as having one vote in respect of each minimum Specified Denomination of Notes for which such Global Note may be exchanged. All holders of Registered Notes are entitled to one vote in respect of each Note comprising such Noteholder's holding, whether or not represented by a Global Certificate.

Cancellation

Cancellation of any Note represented by a Permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant Permanent Global Note.

Purchase

Notes represented by a Permanent Global Note may only be purchased by the Issuer if they are purchased together with the rights to receive all future payments of interest and Installment Amounts (if any) thereon.

Issuer's Option

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a Permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, in accordance with the rules and procedures of Euroclear and Clearstream and any Alternative Clearing System, as applicable, except that the notice shall not be required to contain the serial numbers of Bearer Notes drawn, in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any of our options are exercised in respect of some but not all of the Notes of any Series, the rights of account holders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream (to be reflected in the records of Euroclear and Clearstream as either a pool factor or a reduction in nominal amount, at their discretion), the CMU, DTC or any Alternative Clearing System (as the case may be).

Noteholders' Options

Any option of the Noteholders provided for in the relevant Conditions of any Notes while such Notes are represented by a Permanent Global Note or Global Certificate may be exercised by the holder of the Permanent Global Note or Global Certificate giving notice to the Issuing and Paying Agent (or, in the case of Notes cleared through DTC, the U.S. Paying Agent or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Bearer Notes, or in the case of Registered Notes shall not be required to specify the nominal amount of Registered Notes and the holder(s) of such Registered Notes, in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised. The exercise of any option of the Noteholders provided for in the relevant Conditions of any Notes while such Notes are represented by one or more Global Notes or Global Certificates held on behalf of Euroclear, Clearstream, the CMU, DTC or any Alternative Clearing System shall be subject to the rules and procedures for the time being of Euroclear, Clearstream, the CMU, DTC or such Alternative Clearing System, as the case may be.

Notices

Bearer Notes: Notices to holders of Bearer Notes shall be valid if published in a leading English language daily newspaper with general circulation in Hong Kong (and it is expected that such publication will be made in the Asian Wall Street Journal). Any such notice shall be deemed to have been given on the date of publication or, if so published more than once or on different dates, on the date of the first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes.

Registered Notes: Notices to holders of Registered Notes shall be valid if mailed to them by first class pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the register maintained by the Registrar (the "**Register**"). Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

So long as the Notes are represented by one or more Global Notes or Global Certificates held on behalf of Euroclear, Clearstream, DTC or the CMU, or any Alternative Clearing System, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled holders in substitution for publication as required by the Conditions. Any such notice shall be deemed to have been given to the holders of the Notes on the day on which the said notice was given to Euroclear, Clearstream, DTC, the CMU and/or the alternative clearing system, as the case may be.

Partly Paid Notes

The provisions relating to Partly Paid Notes are not set out in this Offering Memorandum, but will be contained in the applicable Pricing Supplement and thereby in the Global Notes or the Global Certificates. While any installments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note or a Global Certificate representing such Notes may be exchanged for an interest in a Permanent Global Note, for Definitive Notes or for Certificates (as the case may be). If any Noteholder fails to pay any installment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

FORM OF PRICING SUPPLEMENT

The Pricing Supplement in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Pricing Supplement but denotes directions for completing the Pricing Supplement.

[MiFID II product governance/target market – *[appropriate target market legend to be included]*

Legend for issuances involving one or more MiFID Firm manufacturers

[MiFID II product governance/Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, “**MiFID II**”)] [MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

Legend for issuances where there are no MiFID Firm manufacturers

[MiFID II product governance/Professional investors and ECPs only target market – For the purposes of Directive EU 2014/65/EU (as amended, “**MiFID II**”), the target market in respect of the Notes is expected to be eligible counterparties and professional clients only, each as defined in MiFID II. Any person offering, selling or recommending the Notes (a “**distributor**”) should take into consideration such target market; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes and determining appropriate distribution channels.]

Legend for issuances involving one or more UK Investment Firm manufacturers

[UK MiFIR PRODUCT GOVERNANCE/Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook, and professional clients, as defined in Regulation (EU) No 600/2014 (the “**UK MiFIR**”) as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (the “**EUWA**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the “**UK MiFIR Product Governance Rules**”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

[PRIIPs Regulation – PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article

4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II[●]/[; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the “**Prospectus Regulation**”)]. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[UK PRIIPs REGULATION – PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the “**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the EUWA; (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the “**FSMA**”) and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA[; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA].

Consequently no key information document required by the PRIIPs Regulation as it forms part of UK domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]

[Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the “**SFA**”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are [“prescribed capital markets products”]/[capital markets products other than “prescribed capital markets products”] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).]¹

[This Pricing Supplement is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) (together, “**Professional Investors**”) only. **Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.**

The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) has not reviewed the contents of this Pricing Supplement, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Pricing Supplement to Professional Investors only have been reproduced in this Pricing Supplement. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or quality of

¹ For any Notes to be offered to Singaporean investors, the Issuer needs to consider whether the Notes should be re-classified pursuant to Section 309B of the SFA prior to the launch of the offer.

disclosure in this Pricing Supplement. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Pricing Supplement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Pricing Supplement.

This Pricing Supplement includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this Pricing Supplement and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.]²

Pricing Supplement dated [●]

**The Government of the Hong Kong Special Administrative Region of the
People’s Republic of China**

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under its HK\$100,000,000,000**

Global Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Notes (the “**Conditions**”) set forth in the Offering Memorandum dated 21 January 2021 [and the supplemental Offering Memorandum dated [●]]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Memorandum [as so supplemented].

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Memorandum with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the “Conditions”) set forth in the Offering Memorandum dated 21 January 2021. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Memorandum dated 21 January 2021, save in respect of the Conditions which are extracted from the Offering Memorandum dated 21 January 2021 and are attached hereto.]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

1 Issuer: [●]

2 (i) Series Number: [●]

(ii) Tranche Number: [●]

[(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]

² Applicable for Notes to be listed on the Hong Kong Stock Exchange only.

3	Specified Currency or Currencies:	[●] ³
4	Aggregate Nominal Amount:	
	(i) Series:	[●]
	(ii) Tranche:	[●]
5	(i) Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date]] (<i>in the case of fungible issues only, if applicable</i>)
	(ii) [Net Proceeds:	[●] (<i>Required for listed issues</i>)
	(iii) Use of Proceeds:	[For Eligible Projects as defined in the Offering Memorandum/ <i>give details if different</i>] ⁴
6	(i) Specified Denominations:	[●] ⁵
	<i>(in the case of Registered Notes, this means the minimum integral amount in which transfers can be made)</i>	
	(ii) Calculation Amount:	[●] <i>(If there is only one Specified Denomination, insert the Specified Denomination.</i> <i>If there is more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)</i>
7	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[Specify a date/Issue Date/Not Applicable]
8	Maturity Date:	[Fixed rate Notes – Specify date] [Floating Rate Notes – Interest Payment Date falling in or nearest to <i>[the relevant month and year]</i>]

³ For Renminbi denominated Notes, consider whether there are any specific risk factors relating to Renminbi denominated Notes that may need to be included.

⁴ Consider referencing any updates to the Green Bond Framework as provided on the Issuer’s website and attaching the latest Green Bond Framework to this Pricing Supplement.

⁵ Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies). If the Specified Denomination is expressed to be €100,000 or its equivalent and multiples of a lower nominal amount (for example €1,000), insert the following: “€100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No notes in definitive form will be issued with a denomination above [€199,000]”.

- 9 Interest Basis: [[●] per cent. Fixed Rate]
 [[*specify reference rate*] +/- [●] per cent.
 Floating Rate]
 [Zero Coupon]
 [Index Linked Interest]
 [Dual Currency Interest]
 [Other (*specify*)]
 (further particulars specified below)
- 10 Redemption/Payment Basis: [Redemption at par]
 [Index Linked Redemption]
 [Dual Currency]
 [Partly Paid]
 [Installment]
 [Other (*specify*)]
- 11 Change of Interest or Redemption/Payment Basis: [*Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis*]
- 12 Put/Call Options: [Investor Put]
 [Issuer Call]
 [(further particulars specified below)]
- 13 Listing: [Hong Kong/London/Other (*specify*)/None]
- 14 Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 15 Fixed Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [●] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Center(s) for the definition of "Business Day"*]/not adjusted]⁶

⁶ Note that for certain Renminbi or Hong Kong dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. For these purposes, "Business Day" means a day, other than a Saturday or a Sunday on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and currency deposits) in Hong Kong and [●]".

(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount ⁷
(iv)	Broken Amount[(s)]:	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
(v)	Day Count Fraction:	[30/360/Actual/Actual (ICMA/ISDA)/Actual/365 (Fixed) ⁸ /Specify other]
(vi)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/give details]
16	Floating Rate Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
(i)	Interest Period(s):	[●]
(ii)	Specified Interest Payment Dates:	[●]
(iii)	Interest Period Date:	[●] <i>(Not applicable unless different than Interest Payment Date)</i>
(iv)	First Interest Payment Date:	[●]
(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other <i>(give details)</i>]
(vi)	Business Center(s):	<i>(insert New York City for U.S. dollar denominated Notes to be held through DTC and for non-U.S. dollar denominated Notes where exchange into U.S. dollars is contemplated for DTC participants holding through Euroclear and Clearstream)</i>
(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other <i>(give details)</i>]
(viii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Calculation Agent]):	[●]

⁷ For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification, the following alternative wording is appropriate: “Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure, in the case of Renminbi denominated Fixed Rate Notes, to the nearest RMB0.01, RMB0.005 being rounded upwards or, in the case of Hong Kong dollar denominated Fixed Rate Notes, to the nearest HK\$0.01, HK\$0.005 being rounded upwards”.

⁸ Applicable to Renminbi and Hong Kong dollar denominated Fixed Rate Notes.

- (ix) Screen Rate Determination:
- Reference Bank:
 - Reference Rate:
 - Interest Determination Dates:
 - Relevant Screen Page:
 - Party responsible for calculation of Rate of Interest: (*Specify where this is not the Calculation Agent*)
- (x) ISDA Determination:
- Floating Rate Option:
 - Designated Maturity:
 - Reset Date:
 - ISDA Definitions: [2000/2006[, as amended or supplemented from time to time]]
- (xi) Linear Interpolation: Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)
- (xii) Margin(s): [+/-] per cent. per annum
- (xiii) Minimum Rate of Interest: per cent. per annum
- (xiv) Maximum Rate of Interest: per cent. per annum
- (xv) Day Count Fraction:
- (xvi) Interest Determination Date(s): in each year [*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual-ICMA.*]
- (xvii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different than those set out in the Conditions:

17	Zero Coupon Note Provisions	[Applicable/Not Applicable]
		<i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
	(i) Amortisation Yield:	[●] per cent. per annum
	(ii) Reference Price:	[●]
	(iii) Any other formula/basis of determining amount payable:	[●]
	(iv) Day Count Fraction in relation to Early Redemption Amounts and late payment:	[[30/360][Actual/360][Actual/365] [Actual-Actual-ICMA]][specify other]
18	Index Linked Interest Note Provisions	[Applicable/Not Applicable]
		<i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
	(i) Index/Formula:	[Give or annex details]
	(ii) Calculation Agent responsible for calculating the Rate of Interest and/or Interest Amount(s) (if not the [Calculation Agent]):	[●]
	(iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[●]
	(iv) Determination Date(s):	[●]
	(v) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted:	[●]
	(vi) Interest Period(s):	[●]
	(vii) Specified Interest Payment Dates:	[●]
	(viii) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
	(ix) Business Centre(s):	[●]
	(x) Minimum Rate of Interest:	[●] per cent. per annum
	(xi) Maximum Rate of Interest:	[●] per cent. per annum
	(xii) Day Count Fraction:	[●]

19	Dual Currency Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
	(i) Rate of Exchange/Method of calculating Rate of Exchange:	[Give details]
	(ii) Calculation Agent responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Calculation Agent]):	[●]
	(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv) Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

20	Call Option	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv) Notice period:	[●] days
21	Put Option	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) Notice period:	[●] days
22	Final Redemption Amount of each Note	[●] per Calculation Amount

23 Early Redemption Amount

Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or an event of default (Condition 10) and/or the method of calculating the same (if required or if different than that set out in the Conditions): [●]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24 Form of Notes:

[Bearer Notes:]

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes/Certificates in the limited circumstances specified in the Permanent Global Note]

[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice]

[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]

(N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 above includes language to the following effect: “[and integral multiples of [●] in excess thereof, up to and including [●]]”. In addition, the “limited circumstances specified in the Permanent Global Note” option may have to be amended to permit such Specified Denomination construction. Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)

[Registered Notes:]

[Regulation S Global Note (U.S.\$[●] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream]].

[Rule 144A Global Note (U.S.\$[●] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream]].

- 25 Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details.] (*insert New York City for U.S. dollar denominated Notes to be held through DTC*)
- (*Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which items 15(ii) and 16(v) relate*)
- 26 Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
- 27 Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details]
- 28 Details relating to Instalment Notes: amount of each Instalment, date on which each payment is to be made: [Not Applicable/give details]
- 29 Other terms or special conditions: [Not Applicable/give details]

DISTRIBUTION

- 30 (i) If syndicated, names of Managers: [Not Applicable/give names]
- (ii) Stabilisation Manager (if any): [Not Applicable/give name]
- 31 If non-syndicated, name of Dealer: [Not Applicable/give name]
- 32 Whether TEFRA D or TEFRA C was applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable] (*TEFRA not applicable for Bearer Notes with a maturity of one year or less or Registered Notes*) (*Where TEFRA D is applicable, a Bearer Note must be issued in the form of a Temporary Note exchangeable upon a U.S. tax certification for a Permanent Global Note or a Definitive Note*)
- 33 U.S. Selling Restrictions: [Regulation S [Category 1]/[Category 2]/[Rule 144A]
- 34 Additional selling restrictions: [Not Applicable/give details]

- 35 Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]
- (If the Notes clearly do not constitute “packaged” products or the Notes do constitute “packaged” products and a key information document will be prepared in the EEA, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no key information document will be prepared, “Applicable” should be specified.)*
- 36 Prohibition of Sales to UK Retail Investors: [Applicable/Not Applicable]
- (If the Notes clearly do not constitute “packaged” products or the Notes do constitute “packaged” products and a key information document will be prepared in the UK, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no key information document will be prepared, “Applicable” should be specified.)*

OPERATIONAL INFORMATION

- 37 ISIN Code: [●]
- 38 Common Code: [●]
- 39 CUSIP: [●]
- 40 CMU Instrument Number: [●]
- 41 Legal Entity Identifier (LEI): 549300DSMAD69T7GGN13
- 42 Any clearing system(s) other than Euroclear and Clearstream, the CMU and/or DTC and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- 43 Delivery: Delivery [against/free of] payment
- 44 Additional Paying Agent(s) (if any): [●]
- 45 The Agents appointed in respect of the Notes are: [●]

GENERAL INFORMATION

- | | | |
|----|--|---|
| 46 | The aggregate principal amount of Notes issued has been translated into Hong Kong dollars at the rate of [●], producing a sum of Notes (in Hong Kong dollars): | [Not Applicable/HK\$[●]] |
| 47 | Governing law of Notes: | English law |
| 48 | [Ratings: | The Notes to be issued have been rated: [●]] |
| 49 | [Green bond certification/second party opinion provider: | [HKQAA Pre-issuance Stage Certificate/Vigeo Eiris/other]] |

[LISTING APPLICATION

This Pricing Supplement comprises the pricing supplement required for the issue of Notes described herein pursuant to the HK\$100,000,000,000 Global Medium Term Note Programme of the Government of the Hong Kong Special Administrative Region of the People's Republic of China.]

[STABILISING

In connection with the issue of the Notes, [insert name of Stabilisation Manager(s)] (or persons acting on their behalf) (the “**Stabilisation Manager(s)**”) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the Issue Date. However, there is no obligation on such Stabilisation Manager(s) to do this. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the Notes is made. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end no later than the earlier of 30 days after the Issue Date of the Notes and 60 days after the date of the allotment of the Notes. Such stabilising shall be in compliance with all applicable laws, regulations and rules.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

Duly authorised

RATINGS

The Issuer has been assigned sovereign credit ratings of AA+ by S&P, AA- by Fitch and Aa3 by Moody's Investors Service Ltd. The Programme has been assigned a long term issue credit rating of AA+ and short term issue credit rating of A-1+ by S&P and a rating of AA- by Fitch.

A rating is not a recommendation to buy, sell or hold the Notes (or beneficial interests therein). Ratings do not address the likelihood or timing of payment and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. A suspension, reduction or withdrawal of the ratings assigned to the Notes may adversely affect the market price of the Notes. See *“Risk Factors – Risks relating to the Notes issued under the Programme generally – The credit ratings of the Issuer and the Programme may be changed at any time and may adversely affect the market value of any Notes issued under the Programme”*.

USE OF PROCEEDS

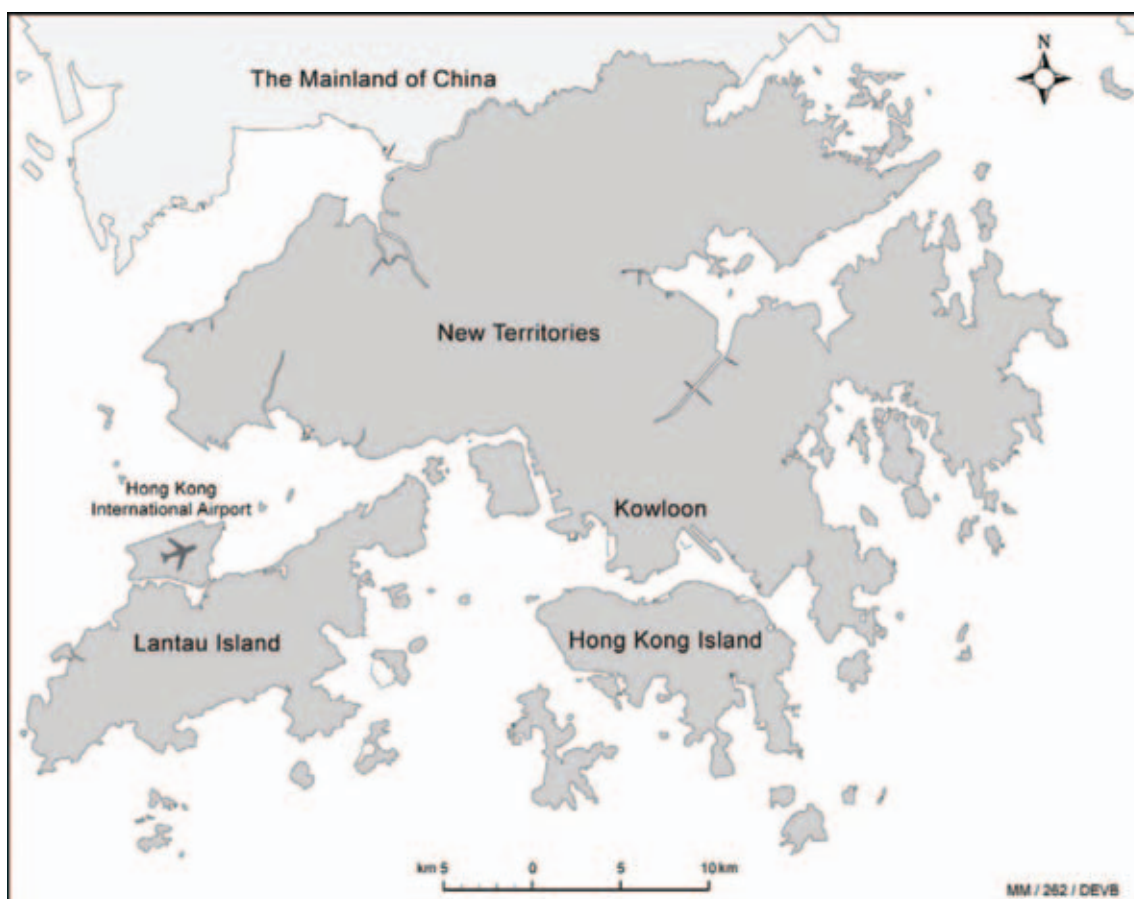
The proceeds of Notes issued under the Programme will be used exclusively (unless otherwise specified in the relevant Pricing Supplement) to finance and/or refinance projects that fall under one or more of the “Eligible Categories” in the table set out in the Issuer’s Green Bond Framework attached hereto as Appendix A, as amended from time to time on the Issuer’s website: <https://www.hkgb.gov.hk/en/greenbond/greenbondintroduction.html>. Such projects are defined as “Eligible Projects” under the Green Bond Framework and will provide environmental benefits and support the sustainable development of Hong Kong. Nothing in the Issuer’s website, other than the Green Bond Framework as amended from time to time thereby, is incorporated by reference into, or made a part of, this Offering Memorandum.

THE HONG KONG SPECIAL ADMINISTRATIVE REGION

OVERVIEW

Hong Kong is one of the world's leading trade and financial centres and a major gateway to Mainland China. Situated on the southeast coast of China, Hong Kong is positioned at the centre of East Asia. With a total land area of 1,106.81 square kilometres, Hong Kong is comprised of Hong Kong Island, Lantau Island, the Kowloon Peninsula and the New Territories (including 262 outlying islands).

On 1 July 1997, Hong Kong became a Special Administrative Region of the PRC in accordance with Article 31 of the Constitution of the PRC. In accordance with the Constitution of the PRC, the National People's Congress (the "NPC") enacted the Basic Law (the "**Basic Law**") of the Hong Kong Special Administrative Region (the "**HKSAR**"), which came into effect on 1 July 1997. The Basic Law prescribes the systems to be practised in the HKSAR. Hong Kong benefits from a relatively stable political environment with strong institutions. It has one of the highest levels of governance in the world, underscored by the World Bank's Worldwide Governance Indicators project which ranked Hong Kong in the 90th percentile or higher in each of its aggregate indicators for Control of Corruption, Rule of Law, Regulatory Quality and Government Effectiveness in 2019.



POPULATION AND SOCIETY

Hong Kong is one of the most densely-populated regions in the world. Hong Kong had a total population of more than 7.5 million as at 31 December 2019, and a population density of approximately 6,930 persons per square kilometre as at mid-2019.

The official languages in Hong Kong are Chinese and English. Hong Kong is largely a biliterate (for written Chinese and English) and trilingual (for Cantonese, Putonghua and spoken English) society.

The population enjoys religious freedom as a fundamental right protected by the Basic Law. The various religious traditions practised in Hong Kong include, among others, Buddhism, Christianity, Islam, Taoism, Confucianism, Hinduism, Sikhism and Judaism. Many religious bodies have established schools and provided health and welfare facilities.

With respect to education, the HKSAR Government provides 12 years of free primary and secondary education through public-sector schools, which form the majority in the school system. For the 2020-21 academic year, Hong Kong had approximately 1,046 kindergartens, 589 primary schools, 506 secondary schools, 62 special education schools, one institute of vocational education and 29 post-secondary institutions (including eight University Grants Committee-funded institutions).

Hong Kong has a dual-track system for public and private healthcare. The HKSAR Government provides comprehensive public medical and healthcare services, which patients receive either for free or at a relatively low cost. As at 30 June 2020, healthcare professionals registered with their respective boards and councils amounted to: 15,002 doctors, 2,616 dentists, 10,129 listed and registered traditional Chinese medicine practitioners and 59,342 registered and enrolled nurses. As at 30 June 2020, there were approximately 41,740 hospital beds in the territory, representing approximately 5.6 beds per thousand persons. Given the location and climate of Hong Kong, the number of travellers and the density of its population, Hong Kong is in close liaison with Mainland health authorities and other countries as well as with the World Health Organisation for the detection, prevention and control of communicable diseases.

According to the Census and Statistics Department's statistics, the gross national income per capita of Hong Kong in 2019 was HK\$400,857, and nominal GDP of Hong Kong was HK\$2,865.7 billion. Life expectancy at birth for male and female were 82.2 years and 88.1 years respectively in 2019.

CONSTITUTION AND GOVERNMENT

The HKSAR was formally established on 1 July 1997 and the Basic Law came into force on the same day. The NPC enacted the Basic Law in accordance with the Constitution of the PRC. The Basic Law prescribes the systems to be practised in the HKSAR to ensure the implementation of the basic policies of the PRC regarding Hong Kong. Under the "one country, two systems" principle and as stipulated in the Basic Law, the Mainland's socialist system and policies shall not be practised in Hong Kong and the previous capitalist system and way of life shall remain unchanged for 50 years. The Basic Law provides that the NPC authorises the HKSAR to exercise a high degree of autonomy and enjoy executive, legislative and independent judicial power, including that of final adjudication, in accordance with the provisions of the Basic Law. The power of amendment of the Basic Law is vested in the NPC. The Standing Committee of the NPC (the "NPCSC") has the power of interpretation of the Basic Law. It authorises the courts of the HKSAR to interpret, on their own in adjudicating cases, the provisions of the Basic Law which are within the limits of the autonomy of the HKSAR. The courts of the HKSAR may also interpret other provisions of the Basic Law in adjudicating cases, although the Court of Final Appeal would need to seek an interpretation from the NPCSC if the relevant Basic Law provisions concern affairs which are the responsibility of the CPG or concern the relationship between the Central Authorities of the PRC and the HKSAR.

Government Structure

According to the overall framework of the Basic Law, the political structure of the HKSAR is an executive-led structure headed by the Chief Executive. Under Article 43 of the Basic Law, the Chief Executive is the head of the HKSAR and represents the HKSAR. The Chief Executive is accountable to the CPG and the HKSAR. The Chief Executive is also responsible for implementing the Basic Law. The Chief Executive's power is derived from the authorisation by the NPC through the Basic Law. Under the Basic Law, the Chief Executive is elected by a broadly representative election committee consisting of members from various sectors of society, and is appointed by the CPG. The term of office of the Chief Executive is five years, and he or she may serve for not more than two consecutive terms. The current Chief Executive is Mrs. Carrie Lam, whose term of office began in July 2017.

The HKSAR Government, led by the Chief Executive, comprises policy bureaux and departments. The policy bureaux formulate policies and initiate legislative and financial proposals. Departments implement laws and policies and provide direct services to the public. There are currently 13 policy bureaux, each headed by a Director of Bureau, collectively forming the HKSAR Government Secretariat, and 56 departments, most of which are responsible to the relevant bureau secretaries.

The Chief Secretary for Administration, the Financial Secretary and the Secretary for Justice, and the 13 Directors of Bureaux are principal officials and are accountable to the Chief Executive. They are appointed to the Executive Council (described below).

The Executive Council

The Executive Council (“ExCo”) assists the Chief Executive in formulating HKSAR Government policy. ExCo has 32 members, comprising 16 principal officials and 16 non-official members. All ExCo members are appointed by the Chief Executive.

Under the Basic Law, except for the appointment, removal and disciplining of officials and the adoption of measures in emergencies, the Chief Executive shall consult the ExCo before making important policy decisions, introducing bills into the Legislative Council (“LegCo”), making subordinate legislation or dissolving the LegCo. The Chief Executive in Council also determines appeals, petitions and objections under those ordinances conferring a statutory right of appeal. If the Chief Executive does not accept a majority opinion of the ExCo, he or she shall put the specific reasons on record.

The Legislative Council

LegCo is the legislature of Hong Kong and has the following powers and functions, as provided in the Basic Law:

- to enact, amend or repeal laws in accordance with the provisions of the Basic Law and legal procedures;
- to examine and approve budgets introduced by the HKSAR Government;
- to approve taxation and public expenditure;
- to receive and debate the policy addresses of the Chief Executive;
- to raise questions on the work of the HKSAR Government;

- to debate any issue concerning public interests;
- to endorse the appointment and removal of the judges of the Court of Final Appeal and the Chief Judge of the High Court;
- to receive and handle complaints from Hong Kong residents;
- if a motion initiated jointly by one-fourth of all the members of the LegCo charges the Chief Executive with serious breach of law or dereliction of duty and if he or she refuses to resign, the LegCo may, after passing a motion for investigation, give a mandate to the Chief Justice of the Court of Final Appeal to form and chair an independent investigation committee. The committee shall carry out the investigation and report its findings to the LegCo. If the committee considers the evidence sufficient to substantiate such charges, the LegCo may pass a motion of impeachment by a two-thirds majority of all its members and report it to the CPG for decision; and
- to summon, as required when exercising the above-mentioned powers and functions, persons concerned to testify or give evidence.

The Basic Law states that LegCo shall be constituted by election and that each term of office of the LegCo shall be four years, except the first term which shall be two years. The election for the sixth (and current) term of LegCo (the “**sixth-term LegCo**”) was held in September 2016. The term of office for the sixth-term LegCo was originally four years beginning on 1 October 2016 and ending on 30 September 2020. The sixth-term LegCo comprises 70 members, with 35 members returned by geographical constituencies through direct elections and 35 members returned by functional constituencies. Among the 35 functional constituency seats, 30 are traditional functional constituency seats which represent substantial and important sectors of community. The other five seats are nominated by no fewer than 15 other elected District Council members and are elected on a “one person, one vote” basis by all registered geographical constituency voters who are not registered in other functional constituencies.

On 31 July 2020, the Government announced that the Chief Executive-in-Council had decided to postpone the general election for the seventh-term of the LegCo, originally scheduled for 6 September 2020, for one year to 5 September 2021 having regard to the severe COVID-19 epidemic situation. On 11 August 2020, the NPCSC decided that after 30 September 2020, the sixth-term LegCo is to continue to discharge its duties for not less than one year until the seventh-term of office of the LegCo begins. After the seventh-term LegCo is formed in accordance with the law, its term of office remains to be four years.

District Administration

The Basic Law provides that district organisations, which are not organs of political power, may be established in the HKSAR. Their powers and functions and method for formation are prescribed by law. At present, a total of 18 District Councils have been established in Hong Kong to advise the HKSAR Government on, amongst others, matters affecting the well-being of their local residents and on the provision and use of their public facilities and services, undertake improvement projects and to promote recreational, cultural and community activities within the districts. District Councils are comprised of elected and, in rural areas, ex-officio members.

LEGAL SYSTEM

The legal system of the HKSAR differs from that of the Mainland, and is based on the common law.

The constitutional framework of the HKSAR is provided by the Basic Law, enacted by the NPC of the PRC under Article 31 of the Constitution of the PRC.

Since the establishment of the HKSAR, legal arguments based on the Basic Law have been raised in a wide variety of cases. The gradual development of a body of jurisprudence on the Basic Law reinforces its effectiveness in determining the rights and freedoms guaranteed to the people of Hong Kong.

The Basic Law guarantees the continuance of the common law legal system after China resumed the exercise of sovereignty over Hong Kong on 1 July 1997.

The laws in force in Hong Kong before 1 July 1997 continue to apply in the HKSAR except for those which contravened the Basic Law or are amended by the LegCo. Some ordinances were adapted to bring them into line with the Basic Law and to reflect Hong Kong's new status as a Special Administrative Region of the PRC.

The judicial system was maintained except for those changes consequent upon the establishment of the Hong Kong Court of Final Appeal on 1 July 1997, which replaced the Judicial Committee of the Privy Council as the appellate court exercising the power of final adjudication for Hong Kong. Pursuant to the Basic Law, judges from other common law jurisdictions have been invited to sit on the Court of Final Appeal since 1 July 1997.

The laws in force in the HKSAR are:

- the Basic Law;
- the national laws listed in Annex III to the Basic Law and as applied to the HKSAR by way of promulgation or legislation;
- the laws in force before 1 July 1997 (including the common law, rules of equity and customary law as well as statutory law), other than those not adopted as laws of the HKSAR by the NPCSC because they contravened the Basic Law; and
- laws enacted by the LegCo.

National laws that may be added to Annex III to the Basic Law are confined to those relating to defence and foreign affairs, as well as other matters outside the HKSAR's autonomy. On 30 June 2020, the NPCSC passed the Hong Kong National Security Law, which was added to Annex III to the Basic Law in accordance with Article 18 of the Basic Law and promulgated on the same day.

The Judiciary

A key element in the success and continuing attraction of the HKSAR is that its judicial system operates on the principle, fundamental to the common law system, of the independence of the judiciary from the executive authorities and legislature. The courts make their own judgments, whether disputes before them involve private citizens, corporate bodies or the government itself. The HKSAR Government is advised

on matters relating to pay and conditions of service of judicial officers by an independent Standing Committee on Judicial Salaries and Conditions of Service. The Chief Justice is the head of the Judiciary, assisted in its overall administration by the Judiciary Administrator.

The Court of Final Appeal, headed by the Chief Justice, is the HKSAR's highest appellate court. The High Court, comprising the Court of Appeal and Court of First Instance, is headed by the Chief Judge of the High Court. The Court of Appeal hears civil and criminal appeals from the Court of First Instance, District Court and Lands Tribunal. The Court of First Instance has unlimited jurisdiction in all civil and criminal matters. Civil matters are usually tried by Court of First Instance judges sitting without juries, although there is a rarely used provision for jury trials in certain cases, including defamation. Criminal offences in the Court of First Instance are tried by a judge with a jury of seven, or when a judge so orders, a jury of nine. The Court of First Instance also hears appeals from the Magistrates' Courts, Minor Employment Claims Adjudication Board, Labour Tribunal and Small Claims Tribunal. The Competition Tribunal has primary jurisdiction to hear and adjudicate competition-related cases. The District Court is one level below the Court of First Instance. The Family Court, comprising 10 courts, is part of the District Court. It hears applications pertaining to divorce, separation and related family and matrimonial matters such as applications concerning children and financial relief. The seven Magistrates' Courts process about 90 per cent. of criminal cases. There are five specialised tribunals. The Lands Tribunal is led by a President who is a High Court Judge and comprises presiding officers who are District Judges and members who may be experienced professional surveyors. The tribunal handles tenancy claims, building management matters, rating and valuation appeals, applications for compulsory sale of land for redevelopment, and compensation assessments when land is resumed by the government or reduced in value by development. The Labour Tribunal handles claims arising from employment contracts and the Employment Ordinance. The Small Claims Tribunal handles civil claims of up to HK\$75,000. The Obscene Articles Tribunal determines whether articles are obscene or indecent. It also classifies articles submitted by authors and publishers. The Coroner's Court conducts inquests into the causes and circumstances of a death.

Proceedings against the HKSAR Government

The CPO sets out the manner in which civil proceedings (as defined in the CPO) may be taken in the courts of Hong Kong for the purpose of enforcing claims against the HKSAR Government.

Ordinary principles of contract law are applicable to contracts entered into by the HKSAR Government. The CPO enables civil proceedings against the HKSAR Government to be brought in the courts of the HKSAR for matters such as the recovery of a debt or liquidated sum due under a contract or statute, an unliquidated sum due under a statute and damages for breach of contract.

The CPO contains various limitations as to the rights and remedies available against the HKSAR Government in civil proceedings, including the following:

- an order for the payment of money cannot be enforced against the HKSAR Government by usual modes of enforcing a judgment. Section 21 of the CPO provides that if an order is made against the HKSAR Government, the proper officer of the court of the HKSAR shall, upon application, issue to the successful plaintiff a certificate containing particulars of the order. If the order provides for payment of money, the certificate shall state the amount payable and the Director of Accounting Services shall pay the sum shown to be due, subject to appeal. No process of execution or attachment can be carried out to enforce satisfaction against the HKSAR Government of any judgment;
- in civil proceedings against the HKSAR Government, the HKSAR courts have no power to:
 - (i) grant an injunction or to make an order for specific performance but may, instead, make an order declaratory of the rights of the parties; or

- (ii) make an order for the recovery of land or the delivery of other property but may, instead, make an order declaring that the plaintiff is entitled as against the HKSAR Government to the land or property or to the possession of the same;
- no default judgments can be entered against the HKSAR Government, except with the permission of the court;
- no third party proceedings can be commenced against the HKSAR Government, except with the permission of the court; and
- no summary judgments can be entered against the HKSAR Government.

INDEPENDENT COMMISSION AGAINST CORRUPTION

The Independent Commission Against Corruption (“ICAC”) was established by the ICAC Ordinance (Cap. 204) in 1974 to fight corruption using a three-pronged approach through law enforcement, prevention and education. Under the Basic Law, the ICAC is guaranteed independence and is headed by a Commissioner who is directly responsible to the Chief Executive. The ICAC comprises the office of the Commissioner and three functional departments – Operations, Corruption Prevention and Community Relations. The ICAC derives its legal powers to investigate and pursue corruption crimes under three specific ordinances – the ICAC Ordinance (Cap. 204), the Prevention of Bribery Ordinance (Cap. 201) and the Elections (Corrupt and Illegal Conduct) Ordinance (Cap. 554).

INTERNATIONAL ORGANISATIONS AND CONFERENCES

Hong Kong participates in international organisations and conferences in various capacities. As part of the Mainland delegation, representatives from the HKSAR Government participate in certain international organisations and conferences limited to sovereign states, such as the International Monetary Fund, the World Intellectual Property Organisation, the International Civil Aviation Organisation and the International Telecommunication Union. Using the name “Hong Kong, China”, Hong Kong also participates on its own as a full member in certain international organisations and conferences not limited to states, including the World Trade Organization (“WTO”), the World Customs Organisation, the Asia-Pacific Economic Cooperation (“APEC”), the Asian Development Bank and the Asian Infrastructure Investment Bank (“AIIB”).

RELATIONSHIP WITH THE MAINLAND

Defence and Foreign Affairs

The Basic Law provides that the CPG shall be responsible for the defence of and the foreign affairs relating to the HKSAR. The HKSAR Government shall be responsible for the maintenance of public order in the Region. Military forces stationed by the CPG in Hong Kong for defence shall not interfere in the local affairs of the Region. In addition to abiding by national laws of the PRC, members of the garrison shall abide by the laws of the HKSAR. Expenditure for the garrison shall be borne by the CPG.

The Office of the Commissioner of the Ministry of Foreign Affairs of the People’s Republic of China in the HKSAR was established by the CPG to deal with foreign affairs relating to the HKSAR. The CPG also authorises the HKSAR to conduct relevant external affairs on its own in accordance with the Basic Law.

Economic Affairs

Hong Kong's relationship with the Mainland with respect to economic matters has continued to strengthen since 1 July 1997. The implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") has fostered the economic integration between Hong Kong and the Mainland, bringing significant benefits to Hong Kong's economy. For more information regarding CEPA, please see "*– External Economy – Mainland and Hong Kong Closer Economic Partnership Arrangement*" below.

In recent decades, Hong Kong has benefited from its growing economic relations with the Mainland. The Mainland has long been Hong Kong's largest trading partner, and Hong Kong continues to be the largest external investor in the Mainland as well as a key conduit of outward investments from the Mainland. According to Mainland statistics, the cumulative value of Hong Kong's realised direct investment in the Mainland at the end of 2019 exceeded U.S.\$1 trillion, accounting for more than half of the total inward direct investment to the Mainland; in terms of the Mainland's outward foreign direct investment, Hong Kong accounted for 66.1 per cent. of the stock of such investment at the end of 2019.

Hong Kong is the key intermediary platform for the Mainland's trade with the rest of the world, benefiting from the continued growth in the Mainland's external trade. According to Mainland statistics, the Mainland's total trade in goods increased by more than 13 times in U.S. dollar terms between 1997 and 2019, and Hong Kong was the third-largest trading partner of the Mainland in 2019, following the United States and Japan, accounting for about 6 per cent. of the Mainland's total trade value. According to the Census and Statistics Department's statistics, the value of visible trade between Hong Kong and the Mainland in 2019 was approximately 4 times that in 1997, representing an average annual growth of 6.3 per cent.

Financial links between Hong Kong and the Mainland have strengthened substantially over the years, on the back of the increasing cross-boundary economic activities and the CPG's policy to enhance Hong Kong's position as an international financial centre.

THE ECONOMY

OVERVIEW

The HKSAR Government maintains one of the world's most open economies and a business-friendly environment characterised by a relatively high degree of free trade and free flow of information, an established financial regulatory regime and legal system, and developed transportation and telecommunications infrastructure. Hong Kong was ranked the world's eighth-largest trading economy by the WTO in terms of value of total merchandise trade in 2019 and was home to one of the world's busiest container ports and airports in terms of container and air freight throughput in 2019. Hong Kong is an important hub for trade and business. Hong Kong is consistently rated as the world's freest economy by Fraser Institute's Economic Freedom of the World report since its launch in 1996 based on five areas of assessment, namely size of government, legal system and property rights, sound money, freedom to trade internationally, and regulation. In the latest Global Financial Centres Index report published by Z/Yen Group Limited in September 2020, Hong Kong was also ranked as one of the top global financial centres in the world based on five broad areas of competitiveness: business environment, financial sector development, infrastructure, human capital and reputation. As for competitiveness, Hong Kong was ranked the world's fifth-most competitive economy by the International Institute for Management Development in 2020 and the third-most competitive economy by the World Economic Forum in 2019. The World Bank's Doing Business report also consistently ranked Hong Kong as one of the world's top five easiest places to do business.

Over the past two decades, the Hong Kong economy, as measured by real GDP, has nearly doubled in size. Hong Kong's real GDP contracted 1.2 per cent. in 2019, the first annual decline since 2009. In 2019, Hong Kong's GDP at current market prices reached HK\$2.9 trillion and its per capita GDP of HK\$381,714 was among the highest in Asia. However, in the first quarter of 2020, Hong Kong's economy, in terms of real GDP, contracted by 9.1 per cent. compared to the same period in 2019, 9.0 per cent. in the second quarter of 2020 compared to the same period in 2019 and 3.5 per cent. in the third quarter of 2020 compared to the same period in 2019.

As at 30 September 2020, the stock market in Hong Kong was the fifth in the world and third in Asia as measured by market capitalisation. With strong market access and financing flexibility underpinned by deep and liquid capital markets, Hong Kong is a well-established international financial centre.

As at the date of this Offering Memorandum, the HKSAR Government has been assigned long-term local currency credit ratings of "AA+" by S&P, "Aa3" by Moody's and "AA-" by Fitch.

Key Economic Events from 2015 to 2020

During 2015, the Hong Kong economy grew modestly against a backdrop of slow global economic recovery from the global financial crisis that emerged in 2008. Hong Kong's real GDP grew by 2.4 per cent. in 2015. The U.S. Federal Reserve raised the range of its target federal funds rate in December 2015, marking a turning point of its super-low interest rate policy. The Greek debt crisis escalated in the middle of 2015. Amid a subdued global economic picture, external demand weakened further in 2015. Domestic demand was the key force propelling Hong Kong's economic growth which showed moderation in the second half of 2015.

In 2016, the year-on-year growth of Hong Kong's real GDP picked up successively after the first quarter of the year alongside the relative stabilisation of the external environment, averaging 2.2 per cent. for the year as a whole. The U.S. economy strengthened in the second half of 2016 and the Mainland economy

continued its solid expansion, though uncertainties associated with the Brexit vote and political developments in the major advanced economies lingered on. Along with the general recuperation of Asia's trade flows and the more benign global economic environment, exports of goods improved during the year. Domestic demand stayed resilient.

The Hong Kong economy saw a full-fledged upturn in 2017, with real GDP growth at 3.8 per cent. This was mainly supported by the broad-based global economic upswing, which in turn gave rise to more vibrant global trade flows. External demand turned stronger amid the increased global growth momentum. Domestic demand was likewise robust.

The Hong Kong economy grew by 2.8 per cent. for 2018 as a whole. Growth remained strong at 3.9 per cent. on a year-on-year basis in the first half of the year. Yet, alongside moderating global economic growth and increasing external uncertainties, particularly those stemming from the U.S.-Mainland trade conflict and U.S. interest rate hikes, the pace of year-on-year growth decelerated to 2.6 per cent. in the third quarter and further to 1.1 per cent. in the fourth quarter. Exports grew moderately for the year as a whole, but the year-on-year growth slowed sharply in the latter part of the year. Domestic demand was broadly resilient.

The Hong Kong economy contracted by 1.2 per cent. for 2019 as a whole, the first annual decline since 2009. Continuing the deceleration that started in the second half of 2018, the economy grew only modestly by 0.5 per cent. year-on-year in the first half of 2019 amid softening global economic growth and elevated U.S.-Mainland trade tensions. The economy then worsened abruptly and recorded sharp contractions of 2.8 per cent. and 3.0 per cent., respectively in the third and fourth quarters from a year earlier, as the local social incidents involving violence dealt a heavy blow to economic sentiment and consumption-and tourism-related activities. Hong Kong's total exports of goods switched to a fall in 2019 and exports of services registered the biggest annual decline on record. Domestic demand retreated, with private consumption expenditure posting the first annual decline since 2003, and overall investment expenditure recording the biggest drop in two decades.

The Hong Kong economy slipped into a deep recession in the first quarter of 2020 and remained very weak in the second quarter, contracting sharply by 9.0 per cent. year-on-year for the first half as a whole, as the COVID-19 pandemic inflicted severe impacts on global and local economic activities. Total exports of goods declined. Exports of services plunged as inbound tourism remained at a standstill since February. Domestic demand took a big hit, with private consumption expenditure recording the steepest ever decline in the second quarter.

The Hong Kong economy saw some improvement in the third quarter of 2020, driven by an improved external environment led by the accelerated growth of the Mainland economy, the stabilisation of the local epidemic situation in the latter part of the third quarter, and stronger financial market activity. Real GDP continued to fall by 3.5 per cent. year-on-year, though visibly narrower than the 9.0 per cent. contraction in the second quarter of 2020. Exports of services continued to plummet as inbound tourism remained at a standstill while cross-boundary transport and business services stayed sluggish. As regards domestic demand, private consumption expenditure posted a smaller though still notable decline, as local consumption sentiment revived somewhat after the third wave of local COVID-19 infections was contained, while outbound tourism remained at a standstill amid widespread travel restrictions.

ECONOMIC POLICY

Under the “one country, two systems” principle, the HKSAR Government continues to adopt economic policies that create a business-friendly environment and respect the functions of a market economy. There are no import tariffs. Wine duty has been exempted since early 2008 and revenue duties are levied only on locally manufactured or imported tobacco, alcoholic liquors, methyl alcohol and some hydrocarbon oils. There is also a tax payable on first registration of motor vehicles.

Although it provides economic infrastructure both through direct services and by co-operation with public utility enterprises, the HKSAR Government’s major role is to provide a suitable and stable framework for commerce and industry to function efficiently and effectively.

In February 2020, the Financial Secretary presented the 2020-21 Budget Speech, stating the goals of supporting enterprises, safeguarding jobs, stimulating the economy, and relieving people’s burden. The key areas for future development include the financial services, innovation and technology, transport and logistics, tourism, trade, professional services, cultural and creative industries and the construction industry. In November 2020, the Chief Executive revealed wide-ranging strategies in her Policy Address to make full use of the city’s advantages under the “One Country, Two Systems” principle, reboot Hong Kong’s economy, create new opportunities in the Guangdong-Hong Kong-Macao Greater Bay Area (“**Greater Bay Area**”) and further promote innovation and technology.

GROSS DOMESTIC PRODUCT

The table below shows Hong Kong’s GDP and its main expenditure components for the periods indicated:

Gross Domestic Product and Its Main Expenditure Components at Current Market Prices

	For the year ended 31 December					Q1 ⁽²⁾	Q2 ⁽²⁾	Q3 ⁽²⁾
	2015	2016	2017	2018 ⁽²⁾	2019 ⁽²⁾	2020	2020	2020
	(HK\$ million)							
Private consumption expenditure	1,593,091	1,649,941	1,784,148	1,936,122	1,967,322	447,890	440,237	430,541
Government consumption expenditure	231,263	247,973	261,447	281,438	308,924	89,334	82,282	84,925
Gross domestic fixed capital formation . .	537,205	535,216	575,977	612,458	547,167	120,441	106,663	119,575
Changes in inventories	-20,580	447	10,973	11,204	-6,434	21,795	4,132	6,428
Export of goods ⁽¹⁾	3,889,225	3,892,886	4,212,774	4,453,350	4,292,589	901,776	1,000,437	1,158,925
Exports of services	808,948	764,660	811,295	886,883	792,916	143,891	105,596	121,471
Imports of goods ⁽¹⁾	4,066,527	4,022,579	4,391,306	4,706,347	4,418,627	950,767	1,020,663	1,127,459
Imports of services	574,345	578,106	605,924	639,947	618,178	112,770	81,824	96,089
Gross Domestic Product	2,398,280	2,490,438	2,659,384	2,835,161	2,865,679	661,590	636,860	698,317

Notes:

- Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchandising under the standards stipulated in the *System of National Accounts 2008*. The figures of exports and imports of goods are different from those external merchandise trade statistics which are not compiled based on the change of ownership principle. Besides, imports and exports of goods are valued on free on board (f.o.b.) basis, instead of on cost insurance freight (c.i.f.) basis.
- Revised figures. In Hong Kong, the first released figures on GDP by expenditure component in respect of a period are called “advance estimates”. For GDP by economic activity, the first released figures are called “preliminary figures”. When more data become available, both sets of GDP figures will be revised. All those figures published subsequently, after the advance or preliminary figures, are called “revised figures”. These “revised figures” are still subject to further regular revision later on when more data are incorporated. This routine revision is in accordance with the international practice to compile and release GDP figures at the earliest possible time by using only partial data. In general, the figures are finalised when finalised data from all regular sources are incorporated. GDP series for years 2018 and onwards is subject to routine revision as more data become available.

Source: Census and Statistics Department.

The table below shows the year-on-year rate of change of Hong Kong's real GDP and its main expenditure components for the periods indicated:

Rate of Change in Real GDP by Main Expenditure Component

	For the year ended 31 December					Q1 ⁽²⁾	Q2 ⁽²⁾	Q3 ⁽²⁾
	2015	2016	2017	2018 ⁽²⁾	2019 ⁽²⁾	2020	2020	2020
	(year-on-year percentage change)							
Private consumption expenditure	4.8	2.0	5.5	5.3	-1.1	-10.6	-14.2	-8.2
Government consumption expenditure	3.4	3.4	2.8	4.2	5.1	8.8	9.7	7.0
Gross domestic fixed capital formation . .	-3.2	-0.1	3.1	1.7	-12.3	-15.8	-21.4	-11.1
Export of goods ⁽¹⁾ . . .	-1.7	1.6	6.5	3.5	-4.6	-9.7	-2.2	3.9
Exports of services . .	0.3	-3.5	2.8	4.6	-10.2	-37.4	-45.6	-34.6
Imports of goods ⁽¹⁾ . .	-2.7	0.7	7.3	4.7	-7.3	-11.1	-6.7	1.8
Imports of services . .	5.0	2.0	2.0	2.8	-2.4	-24.5	-44.5	-36.8
Gross Domestic Product	2.4	2.2	3.8	2.8	-1.2	-9.1	-9.0	-3.5

Notes:

- Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*. The figures of exports and imports of goods are different from those external merchandise trade statistics which are not compiled based on the change of ownership principle. Besides, imports and exports of goods are valued on f.o.b. basis, instead of on c.i.f. basis.
- Revised figures. In Hong Kong, the first released figures on GDP by expenditure component in respect of a period are called "advance estimates". For GDP by economic activity, the first released figures are called "preliminary figures". When more data become available, both sets of GDP figures will be revised. All those figures published subsequently, after the advance or preliminary figures, are called "revised figures". These "revised figures" are still subject to further regular revision later on when more data are incorporated. This routine revision is in accordance with the international practice to compile and release GDP figures at the earliest possible time by using only partial data. In general, the figures are finalised when finalised data from all regular sources are incorporated. GDP series for years 2018 and onwards is subject to routine revision as more data become available.

Source: Census and Statistics Department.

Hong Kong's real GDP grew by 2.4 per cent., 2.2 per cent., 3.8 per cent. and 2.8 per cent. respectively in 2015, 2016, 2017 and 2018. In 2019, Hong Kong's real GDP contracted 1.2 per cent., the first annual decline since 2009. The Hong Kong economy slipped into a deep recession in the first quarter of 2020 and remained very weak in the second quarter, as the COVID-19 pandemic inflicted severe impacts on global and local economic activities. In the first and second quarters of 2020, Hong Kong's real GDP contracted by 9.1 per cent. and 9.0 per cent. on a year-on-year basis, respectively. The Hong Kong economy saw some improvement in the third quarter of 2020, driven by an improved external environment led by the accelerated growth of the Mainland economy, the stabilisation of the local epidemic situation in the latter part of the third quarter, and stronger financial market activity. In the third quarter of 2020, Hong Kong's real GDP contracted by 3.5 per cent., on a year-on-year basis.

Private consumption expenditure (“PCE”) fell 1.1 per cent. in real terms in 2019, marking its first annual decline since 2003. The fall in PCE widened sharply in the first quarter of 2020 and recorded the steepest ever decline in the second quarter of 2020, as the local consumption activities were severely disrupted by the threat of COVID-19 and the resulting social distancing measures and outbound tourism came to a halt amid stringent travel restrictions, while the sharp deterioration of labour market conditions dealt a heavy blow to consumer sentiment. In the first and second quarters of 2020, PCE contracted by 10.6 per cent. and 14.2 per cent., respectively. PCE posted a smaller though still notable decline in the third quarter, as local consumption sentiment revived somewhat in the latter part of the quarter when the third wave of local COVID-19 infections was contained. In the third quarter of 2020, PCE contracted by 8.2 per cent.

Government consumption expenditure (“GCE”) grew solidly by 5.1 per cent. in real terms in 2019. In the first, second and third quarters of 2020, GCE grew by 8.8 per cent., 9.7 per cent. and 7.0 per cent., respectively, amid the government’s anti-epidemic measures including the Anti-epidemic Fund.

Overall investment spending, as represented by gross domestic fixed capital formation (“GDFCF”), plummeted 12.3 per cent. in real terms in 2019, the biggest annual drop since 1999. In the first, second and third quarters of 2020, GDFCF contracted by 15.8 per cent., 21.4 per cent. and 11.1 per cent., respectively, amid subdued business sentiment, difficult business environment and weak construction activity.

INFLATION

The table below shows the year-on-year rate of change in the Composite Consumer Price Index (“CCPI”) and the underlying CCPI, net of the effects of the HKSAR Government’s one-off relief measures (mainly comprising the HKSAR Government’s payment of public housing rentals, rates concession, subsidies for household electricity charges and waiver of examination fees) for the periods indicated:

RATE OF CHANGE IN COMPOSITE CONSUMER PRICE INDICES

	For the year ended 31 December					Q1	Q2	Q3
	2015	2016	2017	2018	2019	2020	2020	2020
	(year-on-year percentage change)							
Composite Consumer Price Index	3.0	2.4	1.5	2.4	2.9	2.0	1.3	-1.7
Underlying Composite Consumer Price Index	2.5	2.3	1.7	2.6	3.0	2.9	1.8	0.3

Source: Census and Statistics Department.

The underlying inflation rate as measured by the change in underlying CCPI drifted downwards from 2.5 per cent. in 2015 to 1.7 per cent. in 2017. In 2018, the underlying inflation rate rebounded to 2.6 per cent. as the economy recorded another year of above-trend growth. In 2019, the underlying inflation rate went up from an average of 2.6 per cent in 2018 to 3.0 per cent in 2019, primarily due to a sharp increase in pork prices amid a reduced supply of fresh pork since May. In the first quarter of 2020, the underlying inflation rate edged down to 2.9 per cent. despite the larger increases in prices of pork and some other basic foodstuffs, as price pressures on many major consumer price index components showed easing of varying degrees. In the second quarter of 2020, the underlying inflation rate further eased to 1.8 per cent. amid subdued economic conditions. In the third quarter of 2020, the underlying inflation rate went down

to 0.3 per cent. The sharp deceleration was attributed to a notably smaller year-on-year rise in prices of basic foodstuffs, particularly pork, due mainly to the high base effects, the fall in charges for meals-out, as well as softening price pressures on many other major consumer price index components amid austere economic conditions.

EMPLOYMENT AND EARNINGS

Unemployment Rate

The table below shows the labour force, employment and unemployment rates for the periods indicated:

LABOUR FORCE, EMPLOYMENT AND UNEMPLOYMENT⁽¹⁾

	For the year ended 31 December					Q1	Q2	Q3
	2015	2016	2017	2018	2019	2020	2020	2020
Total labour force (in thousands).	3,903.2	3,920.1	3,946.6	3,979.0	3,966.2	3,882.2	3,861.1	3,884.6
Labour force participation rate (per cent.).	61.1	61.1	61.1	61.2	60.6	59.5	59.4	59.6
Number of employed persons (in thousands).	3,773.8	3,787.1	3,823.2	3,867.0	3,849.9	3,720.0	3,620.4	3,624.8
Number of unemployed persons (in thousands).	129.4	133.0	123.4	112.0	116.3	162.2	240.7	259.8
Unemployment rate (per cent) ⁽²⁾	3.3	3.4	3.1	2.8	2.9	4.2	6.2	6.4

Note:

1. Annual figures are compiled based on data collected in the General Household Survey from January to December of the year concerned as well as mid-year population estimates.
2. Quarterly unemployment rates are seasonally adjusted.

Source: General Household Survey, Census and Statistics Department.

The unemployment rate remained relatively low from 2015 to 2019. However, the labour market faced increasing pressure during 2019, especially in the second half when the economy fell into recession. The seasonally adjusted unemployment rate rose from 2.8 per cent. in the second quarter of 2019 to 3.3 per cent. in the fourth quarter of 2019. In the first half of 2020, as the COVID-19 pandemic disrupted a wide range of economic activities, the seasonally adjusted unemployment rate surged to 4.2 per cent. in the first quarter of 2020 and 6.2 per cent. in the second quarter of 2020. In the third quarter of 2020, the seasonally adjusted unemployment rate increased to 6.4 per cent., the highest in close to 16 years.

Employment by Sector

The table below sets forth the percentage share by sector for the periods indicated:

Employment by Economic Sector

	For the year ended 31 December				
	2015	2016	2017	2018	2019
	(percentage of total)				
Manufacturing	2.7	2.6	2.5	2.3	2.3
Construction	8.4	8.6	8.8	8.9	8.6
Import/export, wholesale and retail trades, and accommodation ⁽¹⁾ and food services	30.9	30.4	29.9	29.7	28.2
Transportation, storage, postal and courier services, and information and communications	11.3	11.1	11.1	10.8	10.9
Financing and insurance, real estate, and professional and business services	20.1	20.4	20.6	20.8	21.4
Public administration, and social and personal services	26.1	26.5	26.6	27.0	28.0
Other sectors	0.5	0.5	0.5	0.5	0.5
All sectors⁽²⁾	100.0	100.0	100.0	100.0	100.0

Notes:

1. Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short term accommodation.
2. The total for all sectors may not equal the sum of each sector due to rounding.

Source: Composite Employment Estimates, Census and Statistics Department.

Hong Kong's services sector is among the most developed in Asia. Of those employed in 2019, 88.6 per cent. were engaged in the services sectors, including 28.2 per cent. in import/export, wholesale and retail trades, and accommodation and food services; 28.0 per cent. in public administration, and social and personal services; 21.4 per cent. in financing and insurance, real estate, and professional and business services; and 10.9 per cent. in transportation, storage, postal and courier services, and information and communications. Only 2.3 per cent. worked in the manufacturing sector and 8.6 per cent. in the construction sector.

Earnings

The table below shows the movement of earnings in real terms as measured by the real indices of payroll per person engaged by economic sector for the periods indicated:

RATE OF CHANGE IN EARNINGS IN REAL TERMS BY ECONOMIC SECTOR⁽¹⁾⁽²⁾⁽³⁾

	For the year ended 31 December					Q1	Q2	Q3
	2015	2016	2017	2018	2019	2020	2020	2020
	(year-on-year percentage change)							
Manufacturing	2.1	1.0	2.0	1.6	0.9	-0.2	-2.2	0.4
Import/export and wholesale trades . .	0.7	-0.1	1.4	0.8	-0.5	-0.7	-0.7	1.6
Retail trade	0.5	*	1.8	0.6	-0.5	-1.4	-1.2	1.4
Transportation, storage, postal and courier services . . .	1.3	0.9	1.9	1.6	1.0	-3.0	-5.2	-3.9
Accommodation [^] and food service activities	2.7	2.6	3.2	2.8	1.8	-3.3	-4.0	-2.5
Information and communications . . .	1.4	1.0	1.9	0.8	0.9	1.2	0.9	3.4
Financial and insurance activities	0.7	0.3	1.6	0.7	0.3	-0.1	0.3	3.3
Real estate activities .	2.0	1.7	2.8	1.9	1.2	0.3	0.3	2.9
Professional and business services . .	2.8	2.6	2.7	2.2	0.9	0.7	*	3.0
Social and personal services	3.6	0.1	1.6	1.8	-0.5	8.1	3.2	6.3
All selected industry sections ⁽³⁾	1.5	1.3	2.3	1.5	0.5	1.2	0.8	3.6

Notes:

- Earnings refer to data of payroll collected in the Labour Earnings Survey, which include all regular and guaranteed payments such as basic pay and stipulated bonuses and allowances, and other irregular payments to workers, such as non-guaranteed or discretionary cash bonuses and allowances, overtime payment and back-pay, except severance pay and long service payment.
 - As from 2016, the real indices of payroll per person engaged are derived by deflating the nominal indices of payroll per person engaged by the 2014/15-based Composite CPI. To facilitate comparison, real indices of payroll per person engaged prior to 2016 have been recompiled using the 2014/15-based Composite CPI.
 - Refers to all industries covered by the payroll enquiry, including the mining and quarrying industry, the sewerage, waste management and remediation activities industry and the electricity and gas supply industry, the statistics of which are not separately shown.
- * Change within ± 0.05 per cent.
- [^] Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

Source: Labour Earnings Survey, Census and Statistics Department.

Earnings stayed on the rise in real terms in 2018 and 2019, but the pace of increase decelerated. Earnings continued to increase in real terms in the first quarter and second quarter of 2020. The Statutory Minimum Wage rate of HK\$37.5 per hour has been effective since 1 May 2019.

Employment Benefits

The Employment Ordinance of Hong Kong provides for various employment-related benefits and entitlements for employees. These include, among other things, provisions regarding wage protection, rest days, paid statutory holidays, paid annual leave, sickness allowance, maternity protection, paternity leave, severance payment, long service payment, employment protection, termination of employment contract and protection against anti-union discrimination.

Mandatory Provident Fund (“MPF”)

The MPF system is a mandatory, privately managed, fully funded contribution system. Since December 2000, the Mandatory Provident Fund Schemes Ordinance has required all employers to enrol their relevant employees, and self-employed persons to enrol themselves in MPF schemes, which are regulated by the Mandatory Provident Fund Schemes Authority. Employees and employers are required to contribute five per cent. of the employee’s relevant income as mandatory contributions, subject to a maximum relevant income level of HK\$30,000 per month or HK\$1,000 per day. Employees with income less than HK\$7,100 per month or HK\$280 per day are not required to contribute. As at 30 September 2020, approximately 100 per cent. of employers, 100 per cent. of relevant employees and 77 per cent. of self-employed persons have enrolled in MPF schemes.

Trade Unions

Trade unions must be registered under the Trade Unions Ordinance of Hong Kong (“**TUO**”), which is administered by the Registry of Trade Unions. Once registered, a trade union becomes a body corporate and enjoys immunity from certain civil suits. As at 30 June 2020, 1,252 unions (comprising 1,188 employee unions, 12 employers’ associations and 41 mixed organisations of employees and employers and 11 trade union federations) were registered under the TUO.

Small and Medium Sized Enterprises

Small and medium sized enterprises (“**SMEs**”) are an important pillar of Hong Kong’s economy and employment market. As at September 2020, approximately 340,000 enterprises in Hong Kong were SMEs. They accounted for over 98 per cent. of the total number of enterprises and provided jobs to over 1.2 million persons, about 44.5 per cent. of total employment (excluding civil service). Most of the SMEs were in the import/export trade and wholesale industries, followed by the professional and business services industry. SMEs in these industries accounted for about 46 per cent. of the SMEs in Hong Kong and represented approximately 44 per cent. of the employment among SMEs.

GROSS DOMESTIC PRODUCT

Overview

The following table shows the percentage contribution to GDP by economic sector at basic prices for the periods indicated:

GDP BY ECONOMIC SECTOR

	For the year ended 31 December			
	2016	2017	2018 ⁽¹⁾	2019 ⁽¹⁾
	(percentage of total GDP)			
Agriculture, fishing, mining and quarrying . .	0.1	0.1	0.1	0.1
Manufacturing	1.1	1.1	1.0	1.1
Electricity, gas and water supply, and waste management	1.4	1.4	1.3	1.2
Construction	5.2	5.1	4.5	4.2
Services	92.2	92.4	93.1	93.4
Import/export, wholesale and retail trades . .	21.7	21.5	21.3	19.5
Accommodation and food services ⁽²⁾	3.3	3.3	3.4	2.8
Transportation, storage, postal and courier services	6.2	6.0	5.9	5.5
Information and communications	3.5	3.4	3.4	3.5
Financing and insurance	17.7	18.8	19.8	21.2
Real estate, professional and business services	11.0	10.8	10.4	10.1
Public administration, social and personal services	18.1	18.2	18.5	19.6
Ownership of premises	10.7	10.4	10.5	11.3
Gross Domestic Product at basic prices . . .	100	100	100	100

Notes:

1. Revised figures. In Hong Kong, the first released figures on GDP by expenditure component in respect of a period are called “advance estimates”. For GDP by economic activity, the first released figures are called “preliminary figures”. When more data become available, both sets of GDP figures will be revised. All those figures published subsequently, after the advance or preliminary figures, are called “revised figures”. These “revised figures” are still subject to further regular revision later on when more data are incorporated. This routine revision is in accordance with the international practice to compile and release GDP figures at the earliest possible time by using only partial data. In general, the figures are finalised when finalised data from all regular sources are incorporated. GDP series for years 2018 and onwards is subject to routine revision as more data become available.
2. Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

Source: Census and Statistics Department.

The following table shows the percentage change in real GDP by economic sector for the years indicated:

RATE OF CHANGE IN REAL GDP BY ECONOMIC SECTOR

	For the year ended 31 December					Q1 ⁽¹⁾	Q2 ⁽¹⁾
	2015	2016	2017	2018 ⁽¹⁾	2019 ⁽¹⁾	2020	2020
	(year-on-year percentage change)						
Agriculture, fishing, mining and quarrying	-6.8	-2.0	-5.2	-1.8	-0.4	2.3	7.7
Manufacturing	-1.5	-0.4	0.4	1.3	0.4	-4.6	-5.1
Electricity, gas and water supply, and waste management	-2.6	-0.8	0.9	0.1	-0.2	-14.3	-12.2
Construction	5.4	5.1	-1.3	3.3	-6.0	-12.1	-3.5
Services	1.7	2.3	3.5	3.1	-0.3	-9.0	-9.0
Import/export, wholesale and retail trades	-1.1	0.6	4.2	4.2	-6.2	-21.5	-18.7
Accommodation and food services	-1.9	0.5	2.0	5.9	-9.2	-47.6	-44.5
Transportation, storage, postal and courier services	3.3	3.0	4.8	2.5	-1.6	-32.3	-49.4
Information and communications	4.0	4.1	4.0	4.1	4.7	1.6	0.9
Financing and insurance	6.1	4.2	5.3	4.0	2.8	2.7	3.0
Real estate, professional and business services	0.7	2.8	2.1	-0.4	1.0	-4.6	-5.9
Public administration, social and personal services	2.5	3.0	3.2	3.6	2.9	-3.2	-3.0
Ownership of premises	0.6	0.5	1.0	0.9	0.6	-0.2	-0.2

Notes:

1. Revised figures. In Hong Kong, the first released figures on GDP by expenditure component in respect of a period are called “advance estimates”. For GDP by economic activity, the first released figures are called “preliminary figures”. When more data become available, both sets of GDP figures will be revised. All those figures published subsequently, after the advance or preliminary figures, are called “revised figures”. These “revised figures” are still subject to further regular revision later on when more data are incorporated. This routine revision is in accordance with the international practice to compile and release GDP figures at the earliest possible time by using only partial data. In general, the figures are finalised when finalised data from all regular sources are incorporated. GDP series for years 2018 and onwards is subject to routine revision as more data become available.
2. Accommodation services cover hotels, guesthouses, boarding house and other establishments providing short term accommodation.

Source: Census and Statistics Department.

Primary production (including agriculture, fisheries, mining and quarrying) is insignificant in Hong Kong in terms of value-added contribution to GDP, as Hong Kong is a predominantly city economy.

Secondary production comprises manufacturing, construction and supply of electricity, gas and water. In 2019, the value-added contribution from the manufacturing sector accounted for only 1.1 per cent. of GDP, and that of the electricity, gas and water supply, and waste management sector stood at 1.2 per cent., while that of the construction sector stood at 4.2 per cent.

The services sector is the mainstay of the Hong Kong economy, making up 93.4 per cent. of GDP in 2019. The largest services sector continued to be financing and insurance, real estate, professional and business services, accounting for 31.3 per cent. of GDP. This was followed by import/export, wholesale and retail trades, accommodation and food services (22.2 per cent.), public administration, social and personal services (19.6 per cent.), transportation, storage, postal and courier services, and information and communications (9.0 per cent.).

PRINCIPAL ECONOMIC AREAS

Hong Kong's economy comprises a diverse range of fields. Among them, financial services, tourism, trading and logistics, and professional and producer services are regarded as the traditional four key industries in the Hong Kong economy.

Trade

Many factors contribute to Hong Kong's international status as a major trade centre in Asia. These include an economic policy of free enterprise and free trade and a sophisticated commercial infrastructure. The cornerstone of Hong Kong's external trade policy is the rules-based multilateral trading system under the WTO. Given the externally-oriented and open nature of Hong Kong's economy, trade contributes significantly to Hong Kong's economic growth. See “– *External Economy – Foreign Trade*” below for more information.

Business and Financial Services

To build on Hong Kong's strengths as a global financial centre, the HKSAR Government has been working to enhance the quality of the local financial markets and increase their depth and breadth, to keep abreast of local and international developments and to further optimise Hong Kong's regulatory framework. The financial services industry also provides a catalyst for the growth of related sectors such as professional and commercial services. High quality financial services underpin Hong Kong's position as an international business hub, helping local enterprises to seize business opportunities and attracting Mainland and overseas companies to use Hong Kong as a platform for raising funds and developing regional business.

Banking

The banking sector remained resilient with robust capital and liquidity to withstand potential shocks. The total capital adequacy ratio of Hong Kong incorporated authorized institutions (“AIs”) stayed high at 20.7 per cent. at the end of June 2020, well above the minimum international standard of 8 per cent.. The classified loan ratio of retail banks increased to 0.71 per cent. at the end of June 2020 from 0.55 per cent. at the end of the preceding quarter. For a more detailed discussion regarding the banking system, the performance of the banking sector and its supervision, see “– *The Financial and Monetary System – Banking System.*”

Money Markets

The Hong Kong money market consists primarily of the interbank market, which is mostly participated by banks at the wholesale level. The Hong Kong Interbank Offered Rate (“**HIBOR**”) reflects the supply of and demand for funds among market players and, therefore, is one of the most important indicators for the pricing of short-term funds in Hong Kong. The daily Hong Kong dollar interbank transactions averaged approximately HK\$502 billion and HK\$471 billion in 2019 and in the eleven months ended 30 November 2020 respectively.

HKSAR’s monetary policy is underpinned by a currency link of HK\$7.80 to U.S.\$1.00 introduced in 1983. For a discussion of the currency link and Hong Kong’s monetary system, see “– *The Financial and Monetary System – Monetary System.*”

Securities and Futures Markets

The Hong Kong Stock Exchange and Hong Kong Futures Exchange Limited (the “**Hong Kong Futures Exchange**”) operate the securities market and the futures market in Hong Kong, respectively. The total market capitalisation of the securities market, including the Main Board of the Hong Kong Stock Exchange (the “**Main Board**”) and the Growth Enterprise Market (“**GEM**”) of the Hong Kong Stock Exchange, as at 31 December 2020 was HK\$47,523.0 billion.

As at 31 December 2020, there were a total of 2,538 companies listed on the Main Board and GEM. Of these, 1,319 were Mainland enterprises, constituting 80 per cent. by market capitalisation and 85 per cent. by annual equity turnover value. During 2020, there were 154 newly listed companies on the Main Board and GEM, including transfers of listings from GEM to Main Board. For a discussion of the performance of the securities and futures market and its regulation and supervision, see “– *The Financial and Monetary System – Securities and Futures Markets.*”

Asset and wealth management

According to the Asset and Wealth Management Activities Survey 2019 conducted by the Securities and Futures Commission (“**SFC**”) on the asset and wealth management activities among licensed corporations, registered institutions and insurance companies, Hong Kong’s asset and wealth management business amounted to HK\$28,769 billion as at the end of 2019, 64 per cent of which came from non-Hong Kong investors. Of the total asset and wealth management business, HK\$20,040 billion was from asset management and fund advisory business, and HK\$9,058 billion from private banking and private wealth management business. As at 31 December 2019, there were 1,808 companies licensed or registered to carry out asset management business in Hong Kong. As at 30 June 2020, there were 2,152 unit trusts and mutual funds authorised by the SFC.

Insurance

As at 30 September 2020, there were 165 authorised insurers in Hong Kong, of which 91 were pure general insurers, 53 were pure long-term insurers and the remaining 21 were composite insurers. As at the same date, there were 127,105 licensed insurance intermediaries, comprising 86,351 licensed individual insurance agents, 26,777 licensed technical representatives (agent), 10,780 licensed technical representatives (broker), 2,365 licensed insurance agencies and 832 licensed insurance broker companies. According to the provisional statistics for the first three quarters of 2020, total gross premiums of the Hong Kong insurance industry increased by 5.5 per cent. over the corresponding period in 2019 to HK\$461.1 billion.

Real Estate

The real estate sector plays an important role in Hong Kong's economy, as developments in the property market affect other sectors. Fluctuations of property prices in Hong Kong also affect the wealth of the community and, consequently, consumer and investor behaviours.

RESIDENTIAL PROPERTY PRICES AND RENTALS

The residential property market was generally active during 2015 to 2019, notwithstanding the aberration from October 2015 to March 2016 as well as the consolidation in the second half of 2018 and in the second half of 2019. The residential property market quietened visibly at the outset of 2020 amid the outbreak of the COVID-19 pandemic, but showed some revival since the second quarter. The residential property was broadly steady in 2020, notwithstanding some moderate fluctuations in individual months. According to the Rating and Valuation Department's provisional figures, flat prices and rentals in November 2020 have on average surged by 37 per cent. and 7 per cent. respectively over December 2014. Trading activities were also generally active in 2020, though showing fluctuations from time to time and also retreating from the hectic levels in earlier periods following the introduction of various demand-side management measures concerning residential properties by the HKSAR Government. The number of sale and purchase agreements for residential property received by the Land Registry averaged at 4,850 per month in January 2015 to December 2020, compared with the monthly average of 6,934 in the preceding five-year period of 2010-2014.

Raising flat supply through increasing land supply is a key policy of the HKSAR Government. The HKSAR Government has also implemented several rounds of demand-side management measures to stabilise the residential property market. These measures have been effective in reducing external demand, short-term speculative demand and investment demand on residential properties. In addition, the HKMA has introduced eight rounds of macro-prudential measures to reduce the possible risks to financial stability arising from an exuberant property market.

Land Supply Policy

All land in Hong Kong is state property. The HKSAR Government is responsible for its management, use and development, and for its leasing or granting for use or development. Under Article 7 of the Basic Law, the revenue derived therefrom is exclusively at the disposal of the HKSAR Government.

Government land planned for private development is usually sold by public auction or tender. Land may also be disposed of by private treaty grant in certain circumstances in accordance with government policies.

To meet the housing demands and various needs of the Hong Kong community, the HKSAR Government has adopted a multi-pronged strategy to increase land supply in the short, medium and long term, through the continued and systematic implementation of a series of measures, including the optimal use of developed land as far as practicable and identification of new land for development. Short- and medium-term measures include land use reviews for rezoning suitable sites, increasing development intensity as appropriate and urban renewal. Long-term land supply initiatives include new development areas, new town extensions, reviews of brownfield sites and deserted agricultural land in the New Territories, planning for the development of the New Territories North and Lantau, exploring reclamations outside Victoria Harbour and development of caverns and underground space.

Tourism

Tourism is one of the main economic sectors for Hong Kong. Expenditures of inbound visitors to Hong Kong recorded overall moderate growth in the past decade. Total tourism expenditure associated with inbound tourism decreased by 22.7 per cent. to HK\$256.2 billion in 2019 over 2018. Per capita spending by same-day inbound visitors was HK\$2,202 in 2018. In 2019, per capita spending by same-day inbound visitors decreased by 9.0 per cent. to HK\$2,004 over 2018. Starting from 2020, the COVID-19 pandemic and the associated travel restrictions and border/boundary control measures implemented by governments worldwide brought the tourism sector to a standstill.

By comparison, per capita spending of overnight visitors recorded overall moderate decline in the last decade. The figure was HK\$6,614 in 2018. In 2019, the figure decreased by 12.0 per cent. over 2018 to HK\$5,818.

In 2019, Mainland arrivals amounted to 43.8 million, accounting for 78.3 per cent. of total arrivals. The number of non-Mainland visitor arrivals edged down to approximately 12.1 million in 2019. In the eleven months ended November 2020, Mainland and non-Mainland arrivals dropped by 93.5 per cent. and 92.4 per cent. year-on-year, respectively, reflecting the impact of COVID-19 on Hong Kong tourism.

The table below sets out selected statistics relating to the tourism sector for the periods indicated:

KEY TOURISM INDICATORS

	For the year ended 31 December					For the eleven months ended 30 November
	2015	2016	2017	2018	2019	2020
Total visitor arrivals						
(in thousands)	59,308	56,655	58,472	65,148	55,913	3,564
The Mainland	45,842	42,778	44,445	51,038	43,775	2,704
North Asia	2,293	2,485	2,718	2,709	2,121	90
Southeast and South						
Asia	3,559	3,702	3,626	3,572	3,041	190
Europe, Africa and the						
Middle East	2,167	2,226	2,202	2,232	1,985	178
The Americas	1,728	1,773	1,782	1,873	1,601	123
Australia, New Zealand						
and South Pacific	681	684	687	704	612	57
Taiwan	2,016	2,011	2,011	1,925	1,539	105
Macao SAR/Not						
identified	1,021	995	1,001	1,095	1,239	118
Average length of stay of						
overnight visitors						
(nights)	3.3	3.3	3.2	3.1	3.3	N/A
Hotel occupancy rate (per						
cent.)	86	87	89	91	79	45
Total tourism expenditure						
associated with inbound						
tourism (HK\$ billion)	329.4	293.7	297.5	331.7	256.2	N/A

Source: Hong Kong Tourism Board.

Transport and Logistics

Transport and logistics is an important sector of the economy and Hong Kong is home to a leading container port and a large international airport. In 2019, a network of container line services with approximately 300 weekly sailings connects the port of Hong Kong with approximately 420 destinations worldwide. There are around 120 airlines operating over 1,100 passenger and cargo flights every day.

Container Port

Hong Kong is one of the few major international ports in the world where port facilities are wholly privately-owned and operated.

Hong Kong has been a container port for more than four decades. In 2019, Hong Kong was one of the world's busiest container ports, handling around 18.3 million twenty-foot equivalent units during the year. The port is a vital aspect of the economic infrastructure, handling some 90 per cent of Hong Kong's total cargo throughput. In 2019, 322,600 vessels, comprising both sea-going vessels and river-trade vessels for cargo and passenger traffic, visited the port of Hong Kong.

Container terminals are situated in the Kwai Chung-Tsing Yi basin. There are nine terminals operated by five different operators, namely Modern Terminals Ltd, Hongkong International Terminals Ltd, COSCO-HIT Terminals (Hong Kong) Ltd, Goodman DP World Hong Kong Ltd and Asia Container Terminals Ltd. They occupy 279 hectares of land, providing 24 berths and 7,794 metres of deep water frontage.

To reinforce Hong Kong's position as an international maritime centre, the HKSAR Government established the Hong Kong Maritime and Port Board in April 2016 with a view to formulating maritime and port-related strategies and measures together with the shipping industry, thereby promoting the long-term growth of Hong Kong's high value-added maritime services and port industry.

The Hong Kong International Airport

The Hong Kong International Airport (the "**HKIA**") is operated and maintained by the Airport Authority Hong Kong (the "**AA**"), a statutory corporation established in December 1995 under the Airport Authority Ordinance. The AA is required to conduct business in accordance with prudent commercial principles. The AA is wholly-owned by the HKSAR Government.

In 2020, the HKIA handled approximately 8.8 million passengers, representing a decrease of 87.6 per cent. compared to 2019. The significant drop in the HKIA's passenger traffic was largely due to the entry restrictions, travel bans and quarantine measures implemented across the globe since the outbreak of COVID-19 has had a profound negative impact on the aviation and travel industry across the world.

The table below shows the passenger and freight throughput at the HKIA for the periods indicated:

KEY INDICATORS OF HKIA

	For the year ended 31 December					
	2015	2016	2017	2018	2019	2020 ⁽¹⁾
Passenger throughput ⁽²⁾ (million persons)	68.1	70.1	72.5	74.4	71.3	8.8
Freight throughput ⁽³⁾ (million tons)	4.4	4.5	4.9	5.0	4.7	4.4

Notes:

1. Provisional figures
2. Arrival and departure passengers include transfer but exclude transit
3. The amount of freight excludes air mail

Source: Civil Aviation Department.

Rail Network

Railways play a vital role in serving the transport needs of Hong Kong. They account for approximately 41 per cent. of daily public transport passenger travel and approximately 54 per cent. of the land-based passenger trips by the end of 2019. As high speed off-road mass carriers, railways provide fast, reliable and comfortable services, reduce the pressure on the road network, and avoid many of the environmental problems associated with road traffic.

The existing railway network in Hong Kong has a total route length of about 263 kilometres (track length of 759 kilometres), as of February 2020. In June 2007, LegCo passed the Rail Merger Ordinance, which provides the legal framework for the merger between the MTR Corporation Limited (“**MTRCL**”) and the Kowloon-Canton Railway Corporation. Following the merger, the post-merger corporation, the MTRCL, operates both the Mass Transit Railway (“**MTR**”) system and Kowloon-Canton Railway (“**KCR**”) system. The MTRCL was granted a 50-year franchise to operate the MTR and KCR systems with effect from 2 December 2007.

Aside from the railway network operated by the MTRCL, other fixed track systems in Hong Kong include the Tramway and the Peak Tram. The latter has been essentially a tourist and recreational facility since the 1980s.

Cross-boundary links

The Hong Kong-Zhuhai-Macao Bridge (“**HZMB**”) was commissioned on 24 October 2018. Spanning over Lingdingyang, the HZMB serves as the unprecedented cross-boundary transport infrastructure connecting Guangdong, Hong Kong and Macao. The HZMB is the longest bridge-cum-tunnel sea-crossing in the world. The HZMB enables the Western Pearl River Delta (“**PRD**”) to fall within a reachable three-hour commuting radius of Hong Kong. Various sectors in Hong Kong, such as economic, tourism and logistics, stand to benefit from the opening of the HZMB. The HZMB will enhance Hong Kong’s position as a trade and logistics hub, and also accelerate the economic integration of the PRD and its neighbouring provinces.

The Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (“**XRL**”) is about 26 kilometres long. The XRL runs along a dedicated underground rail corridor from the West Kowloon Station and connects with the national high speed rail network. The construction works commenced in 2010. The XRL commenced operation on 23 September 2018. It aims to reduce travelling time and foster greater social, cultural and economic integration between Hong Kong and the Mainland.

Kai Tak Cruise Terminal

The Kai Tak Cruise Terminal is built on the former runway of the Kai Tak Airport. It is built by the HKSAR Government with a capital investment of HK\$6.6 billion, aiming to promote the development of cruise tourism in Hong Kong. The terminal building is designed to enable efficient circulation of passengers and offer space as a venue for non-cruise events during off-peak seasons. Construction of the Kai Tak Cruise Terminal commenced in May 2010. The first berth of the terminal went into operation in June 2013, which can accommodate the existing largest cruise vessels in the world. The second berth commenced operation in September 2014.

Construction

Building and construction activity has registered a decline. In 2019, the gross value of construction work, in real terms performed by main contractors amounted to HK\$131.1 billion, a 8.4 per cent. year-on-year decrease. According to the provisional statistics for the third quarter of 2020, the gross value of construction work, in real terms performed by main contractors amounted to HK\$31.7 billion, a 3.3 per cent. year-on-year decrease.

Public Sector Land Development

Housing

The HKSAR Government’s housing policy objectives are set out in the Long Term Housing Strategy (“**LTHS**”) promulgated in 2014. LTHS’ vision is to help all households in Hong Kong gain access to adequate and affordable housing. LTHS seeks to achieve progressive changes in accordance with the “supply-led” and “flexible” principles. It also adopts a supply-led strategy with three major strategic directions–

- provide more public rental housing (“**PRH**”) units for grassroots families who are unable to afford private rental accommodation and ensure the rational use of existing resources;
- provide more subsidised sale flats and expand the forms of subsidised home ownership and facilitate market circulation of existing stock; and
- stabilise the residential property market through steady land supply and appropriate demand-side management measures, and promote good sales and tenancy practices for private residential properties.

According to LTHS, the HKSAR Government annually projects the ten-year housing demand which captures the latest social, economic and market changes as the basis for formulating and updating the rolling ten-year housing supply target. This annual update serves as an important policy tool to enable the HKSAR Government to continually plan ahead on developing land and housing in order to meet the long-term housing needs of the community. As announced in the 2020 Policy Address, based on the LTHS Annual Progress Report 2020 published in December 2020, the Government has identified all of the 330

hectares of land required for providing 316,000 public housing units to meet the demand for about 301,000 public housing units in the coming 10 years (i.e. from 2021-22 to 2030-31). Based on the latest projection announced in December 2019, the total housing supply target for the ten-year period from 2020/21 to 2029/30 is 430,000 units. With a 70:30 public/private split of new housing supply, the public and private housing supply targets for the above ten-year period are 301,000 units and 129,000 units respectively.

The main agency involved in the implementation of the public housing programme is the Hong Kong Housing Authority (“HA”). The HA is a statutory body established in 1973 under the Housing Ordinance of Hong Kong. The HA is responsible for, among other things, planning, building managing and maintaining different types of public housing, including rental housing, interim housing and transit centres. Besides housing, the HA owns and operates a number of flatted factories and ancillary commercial and other non-domestic facilities.

Public housing is built on land provided by the HKSAR Government normally at a nominal land premium but the HA has to pay to the HKSAR Government a percentage of the development costs for subsidised sale flats sold as contribution for site formation and services. As at the third quarter of 2020, there were a total of 2.67 million households in Hong Kong, among which approximately 814,000 households lived in PRH. Furthermore, approximately 400,200 households lived in subsidised home ownership housing, most of which are Home Ownership Scheme flats provided by the HA. In total, almost half of the households in Hong Kong are living in housing units with HKSAR Government subsidies. The vast majority of those households live in housing units provided by the HA.

Urban Renewal

Hong Kong’s building stock is ageing rapidly. As at end of 2018, there were 8,083 private buildings aged 50 years or above in Hong Kong.

The Urban Renewal Authority (“URA”) was established in May 2001 under the Urban Renewal Authority Ordinance of Hong Kong as the statutory body to undertake, encourage, promote and facilitate the regeneration of the older urban areas of Hong Kong. The URA implements an urban renewal programme as set out in its annual business plan and five-year corporate plan approved by the Financial Secretary. When preparing its corporate plan, the URA must follow the guidelines of the Urban Renewal Strategy (“URS”) published by the HKSAR Government from time to time. To provide the URA with the financial resources to take forward the urban renewal programme, which aims to be self-financing in the long run, the HKSAR Government injected HK\$10 billion into the URA by five tranches from 2002-03 to 2006-07. As at 31 March 2019, the Authority had received all five tranches of capital injection of HK\$10 billion in total. The HKSAR Government also supports the URA financially through a waiver of land premiums for redevelopment sites.

To better meet the changing public aspirations for urban renewal, the HKSAR Government promulgated a new URS on 24 February 2011 based on a broad consensus reached during an extensive two-year public consultation exercise conducted by the Development Bureau to replace the 2001 URS.

One of the new initiatives under the 2011 URS is the establishment of the Urban Renewal Fund. With an endowment of HK\$500 million from the URA, the Urban Renewal Fund was established in August 2011 to: (i) provide an independent funding source to support the operation of social service teams to provide assistance for residents affected by urban redevelopment projects implemented by the URA, (ii) to support social impact assessments and other related planning studies to be proposed by the District Urban Renewal Forum and (iii) to support heritage preservation and district revitalisation projects to be proposed by non-governmental organisations and other stakeholders in the overall context of urban renewal. The Urban Renewal Fund is managed by an independent board and its members are nominated by the Secretary for Development.

Since 2017, the URA has been conducting a district planning study to explore ways of enhancing the efficiency of existing land use and the redevelopment potential in Yau Ma Tei and Mong Kok, with a view to adopting feasible ideas of urban renewal in other districts. The study is expected to complete in early 2021. A final report will be submitted to the Government and further consultation with stakeholders will be conducted.

Telecommunications

The Communications Authority (“CA”) regulates the telecommunications and broadcasting industries in Hong Kong in accordance with the Broadcasting Ordinance, the Telecommunications Ordinance, the Communications Authority Ordinance and the Broadcasting (Miscellaneous Provisions) Ordinance. It shares concurrent jurisdiction respectively with the Customs and Excise Department in enforcing the fair trading sections of the Trade Descriptions Ordinance, and with the Competition Commission in enforcing the Competition Ordinance in the telecommunications and broadcasting sectors. It also enforces the Unsolicited Electronic Messages Ordinance. The Office of the Communications Authority (“OFCA”), as the CA’s executive arm and secretariat, assists the CA in administering and enforcing the relevant ordinances governing the broadcasting and telecommunications sectors. Since 2000, the HKSAR Government has opened to competition all sectors of the telecommunications market – local and external, services-based and facilities-based.

In 2018, the gross output of the telecommunications sector amounted to approximately HK\$96 billion and employed approximately 19,900 persons. In 2019, the gross output of the telecommunications sector amounted to approximately HK\$102 billion and employed approximately 20,000 persons. All sectors of Hong Kong’s telecommunications market have been liberalised with no foreign ownership restrictions. The HKSAR Government’s objectives are to provide a level playing field in the telecommunications market and ensure that consumers get the best services available in terms of capacity, quality and price.

The local fixed carrier services market is fully liberalised. There is no pre-set limit on the number of licences issued, nor deadline for applications. Furthermore, there is no specific requirement on network rollout or investment. The level of investment will be determined by the market. As at September 2020, there were 27 licensees permitted to provide local fixed carrier services on a competitive basis.

Fixed broadband Internet access services are very popular in Hong Kong. With the increased competition and coverage of broadband service using asymmetric digital subscriber line, fibre-to-the-building/fibre-to-the-home, hybrid fibre coaxial cable and other technologies, broadband networks cover virtually all commercial buildings and households. As at September 2020, there were 261 Internet service providers licensed to provide broadband services, and approximately 2.86 million registered customers using fixed broadband services with speeds up to 10 Gigabits per second. As at September 2020, in the residential market, 95 per cent. of households are using fixed broadband service. Internationally, Hong Kong’s fixed broadband penetration rate and average broadband speed are among the highest in the world.

BELT AND ROAD INITIATIVE

“Belt and Road” (“B&R”) refers to the land-based “Silk Road Economic Belt” and the seafaring “21st Century Maritime Silk Road”. The B&R Initiative was first brought up by President Xi Jinping in 2013, and carries strong emphasis on connectivity and international co-operation in the spheres of enhancing policy co-ordination, strengthening infrastructural facilities connectivity, facilitating unimpeded trade, deepening financial integration and building people-to-people bond.

Hong Kong has firmly established itself as the prime platform and a key link for the B&R Initiative. Riding on Hong Kong's various unique advantages, and in view of the opportunities and challenges, the HKSAR Government has adopted a whole-government approach and formulated a five-pronged B&R key strategy on continuous engagement with the Mainland and B&R-related countries and regions. These themes include (i) enhancing policy co-ordination; (ii) fully leveraging Hong Kong's unique advantages; (iii) making the best use of Hong Kong's position as a professional services hub; (iv) promoting project participation; and (v) establishing partnership and collaboration. The Commerce and Economic Development Bureau ("**CEDB**") plays a leading and co-ordinating role in promoting the B&R Initiative. The Commissioner for Belt and Road assumed office in June 2019 and has been the focal point of contact between the HKSAR Government and stakeholders of the B&R Initiative.

To tap the vast opportunities arising from the B&R Initiative, Hong Kong signed an arrangement (the "**Arrangement**") with the National Development and Reform Commission ("**NDRC**") in December 2017, focusing on six key areas: finance and investment; infrastructure and maritime services; economic and trade facilitation; people-to-people bond; taking forward the Greater Bay Area Development; and enhancing collaboration in project interfacing and dispute resolution services. The joint conference mechanism has been set up as a direct communication platform between Hong Kong and the relevant Mainland authorities on the implementation of the Arrangement. In addition, the Mainland and Hong Kong Belt and Road Task Group was established in 2018 to co-ordinate related matters in the trade and economic co-operation areas by the HKSAR Government and the Ministry of Commerce. The HKSAR Government has been earnestly promoting Hong Kong enterprises' and professional services sector's partnership and participation under the B&R initiative with a view to fully leveraging Hong Kong's advantages, including the organisation of the annual Belt and Road Summit as well as a host of exchange and sharing sessions, and related capacity building programmes.

The HKSAR Government's other areas of work on the B&R Initiative includes, but is not limited to:

Trade and Economic Ties

The Chief Executive and principal officials have led delegations to visit countries and regions related to B&R, including countries of the Association of Southeast Asian Nations ("**ASEAN**"), the Middle East, Central Asia and Europe, to learn more about these places and to discuss with local governments and businesses to strengthen co-operation in various areas, including trade, industry, and finance; arts and culture; and research and development, etc.

The Economic and Trade Offices ("**ETOs**") set up by the HKSAR Government in the Mainland and overseas will further promote economic ties and exchanges with B&R countries. In the Mainland, the HKSAR Government has set up a comprehensive network of offices comprising five Mainland offices and 11 liaison units. Overseas, there are 17 ETOs located in major economies with the latest one opened in Bangkok, Thailand, in February 2019. Preparatory work is also underway for setting up the Dubai ETO in the United Arab Emirates.

Hong Kong has so far signed eight Free Trade Agreements and 22 Investment Promotion and Protection Agreements with other economies, including those along the B&R. Negotiations will commence or continue with other B&R economies.

The "Professional Services Advancement Support Scheme" was launched in November 2016 to provide funding support for implementing non-profit-making industry-led projects aimed at increasing exchanges and co-operation of Hong Kong's professional services with their counterparts in external markets, promoting relevant publicity activities and enhancing the standards and external competitiveness of Hong Kong's professional services.

Financial Services

The HKMA established the Infrastructure Financing Facilitation Office (“**IFFO**”) in July 2016. The mission of IFFO is to facilitate investments and financing of sustainable infrastructure and green development by working together with a cluster of key stakeholders through: providing a platform for information exchange and experience sharing, building capacity and knowledge, promoting market and product development, and facilitating investment and financing flows.

In May 2019, the HKMA announced the setup of the Centre for Green Finance under IFFO. The objectives are to promote both Hong Kong as the hub for green finance in Asia and the importance of sustainability within infrastructure investment and financing.

Hong Kong is the world’s largest offshore Renminbi business hub, providing diversified investment, financing and risk management products and handling over 70 per cent. of all offshore Renminbi transactions. The HKSAR Government will continue to develop Hong Kong’s Renminbi services, providing a platform for enterprises and financial institutions all over the world to raise RMB funds and to drive the internationalisation of RMB.

In 2016, the HKSAR Government amended legislation to allow, subject to specified conditions, interest expenses deduction in calculating profits tax for intra-group financing business of corporations operating in Hong Kong, and to reduce profits tax rate by half for specified treasury activities for qualifying corporate treasury centres, to attract multinational and Mainland corporations to centralise their treasury functions in Hong Kong.

Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect were launched in November 2014 and December 2016, respectively, to enhance connectivity between the Mainland and Hong Kong capital markets. Northbound Trading of Bond Connect was launched in July 2017 to enable eligible overseas investors to access the Mainland interbank bond market through a market infrastructure linkage in Hong Kong. In June 2020, the People’s Bank of China, the HKMA and the Monetary Authority of Macao made a joint announcement to implement the two-way cross-boundary wealth management connect pilot scheme in the Greater Bay Area, under which residents in Hong Kong, Macao and nine cities in Guangdong Province can carry out cross-boundary investment in wealth management products distributed by banks in the area.

Hong Kong officially became a member of the AIIB on 7 June 2017, which is a multilateral development bank and invests in sustainable infrastructure and other productive sectors in Asia and beyond, including in B&R countries.

International Logistics, Shipping and Transport

Hong Kong has signed air services agreements or air services transit agreements with around 50 B&R countries as at the end of 2019, while the Hong Kong Port maintains marine cargo movements with over 90 countries along the B&R as at the end of 2019. Hong Kong will continue to carry out negotiations with trading partners along B&R regions for more agreements or enhancements of existing agreements.

Construction works are now underway to expand HKIA into a Three-Runway System (“**3RS**”). With the 3RS, the capacity of HKIA will be substantially enhanced, with its annual cargo handling capacity expected to increase to around 9 million tonnes, further consolidating Hong Kong’s position as an international logistics centre.

For a discussion of the HZMB and XRL, see “– *Principal Economic Areas – Cross-boundary links*” above. To link up with Mainland China’s high-speed rail network that stretches 35,000 km (as at end of 2019), the 26 km high-speed rail link, XRL, significantly shortens the travel time between Hong Kong and major Mainland cities to further consolidate Hong Kong’s strategic position as China’s southern gateway. It also strengthens Hong Kong’s socio-economic ties with the Mainland and injects new vigour into Hong Kong’s medium and long-term development by creating new opportunities. Furthermore, to promote long-term economic growth and regional co-operation, Hong Kong will continue to seek to improve cross-boundary transport infrastructure with the Mainland.

People-to-people Exchanges

The Hong Kong Scholarship for B&R Students has been set up to attract outstanding students from B&R economies to study in universities in Hong Kong. A subsidy scheme has also been implemented to encourage and support local students to go on exchanges in B&R regions.

The HKSAR Government will continue to organise exchange programmes for Hong Kong students to interact with students in Mainland cities along the B&R, and to explore with the Hong Kong Examinations and Assessment Authority the provision of more B&R language tests in international examinations to encourage students to learn these languages. There will also be financial support for non-government organisations to organise B&R exchange and learning activities to raise the awareness among students.

The “Funding Scheme for Exchange in Belt and Road Countries” was launched in 2016 to support non-government organisations to organise exchange programmes in B&R economies for young people in Hong Kong. Starting from 2018-19, the scheme has been incorporated into the Funding Scheme for International Youth Exchange which covers exchange programmes in B&R economies.

The HKSAR Government will continue to pursue new working holiday scheme arrangements with potential economies, including B&R economies, to broaden the horizons of Hong Kong’s young people through experiencing local culture and customs on a short stay basis.

Memorandums of understanding on cultural co-operation with B&R economies have been signed to promote exchange and co-operation in arts and culture. To promote the arts and culture of Hong Kong, performances, exhibitions, seminars and forums are organised in Hong Kong, the Mainland and other countries. Artists and art groups from around the world (including those in B&R economies) are invited to perform, exhibit and participate in seminars, forums and other cultural and arts exchange activities in Hong Kong.

The HKSAR Government will continue to work with Mainland cities to promote multi-destination tourism products to attract tourists from B&R economies. Regional co-operation will be encouraged for the cruise industry to create synergy to attract more international cruise liners to call at the ports in the region. In addition, a variety of activities will be organised to encourage Hong Kong’s travel industry to tap into the tourist markets of B&R economies.

THE GUANGDONG – HONG KONG – MACAO GREATER BAY AREA

The Greater Bay Area comprises the HKSAR, the Macao SAR, as well as nine municipalities in Guangdong, namely Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing. The Greater Bay Area development is not just a key national development strategy in the country’s reform and opening up in the new era, but also a further step in enriching the practice of the “one country, two systems” principle.

The Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (“**ODP**”) was promulgated by the Central Government in February 2019 and sets out clearly the guiding principles and directions for the development of the Greater Bay Area. Under the ODP, Hong Kong is one of the core cities which will serve as core engines for regional development in the Greater Bay Area. The ODP also clearly provides that through further deepening co-operation among Guangdong, Hong Kong and Macao, the objectives of the development of the Greater Bay Area are to promote co-ordinated economic development in the Greater Bay Area, leverage the complementary advantages of the three places, and develop an international first-class bay area for living, working and travelling.

The Central Government has set up a high-level Leading Group for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area (“**Leading Group**”) chaired by Vice Premier Han Zheng to co-ordinate and steer the development of the Greater Bay Area. The Chief Executive of the HKSAR, the Party Secretary and Governor of Guangdong, and the Chief Executive of Macao SAR, as well as senior representatives of Central Ministries are members of the Leading Group. The Leading Group has held three plenary meetings so far, on 15 August 2018, 1 March 2019 and 6 November 2019, respectively. After the two plenary meetings held in March and November 2019, a total of 24 policy measures have been announced, which not only facilitate the convenient flow of people and goods within the Greater Bay Area, but also enable Hong Kong residents, businesses and professionals to embrace the development opportunities brought about by the Greater Bay Area development.

The HKSAR Government attaches great importance to economic recovery and considers that the development of the Greater Bay Area will provide the much-needed impetus to drive Hong Kong’s economy in different areas as we gradually recover from COVID-19. The Chief Executive announced in her 2020 Policy Address on 25 November 2020 that the Central Government supported, inter alia, expediting the implementation of the cross-boundary wealth management connect scheme, the joint development of the Shenzhen-Hong Kong Innovation and Technology Co-operation Zone, and the collaboration of the Guangdong Province with the Hong Kong Trade Development Council and relevant chambers of commerce in providing policy advisory, training and business matching services to Hong Kong enterprises, thereby enabling them to expand their domestic sales channels and establish interface with the e-commerce platforms in the Mainland market.

The HKSAR Government will seize the opportunities brought about by the development of the Greater Bay Area, integrate the needs of the country with the strengths of Hong Kong and leverage the market-driven mechanism, thereby enabling Hong Kong to take advantage of the development prospects while integrating into the overall national development.

EXTERNAL ECONOMY

BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION

The following table sets out Hong Kong's balance of payments for the periods indicated:

Balance of Payments

	For the year ended 31 December					Q1 ⁽⁴⁾	Q2 ⁽⁴⁾	Q3 ⁽⁴⁾
	2015	2016	2017	2018 ⁽⁴⁾	2019 ⁽⁴⁾	2020	2020	2020
	(HK\$ billions, except percentages)							
Current Account								
Balance⁽¹⁾	79.6	98.5	121.8	105.9	170.8	-8.9	59.4	96.5
Balance on goods	-177.3	-129.7	-178.5	-253.0	-126.0	-49.0	-20.2	31.5
Balance on services	234.6	186.6	205.4	246.9	174.7	31.1	23.8	25.4
Primary income	44.4	62.6	115.6	134.8	143.7	16.0	60.8	44.8
Secondary income	-22.1	-21.0	-20.6	-22.8	-21.6	-7.0	-4.9	-5.1
Capital and Financial Account Balance⁽¹⁾	-128.6	-101.1	-76.5	-175.1	-237.4	38.2	-88.8	-127.3
Capital account	-0.2	-0.4	-0.6	-1.6	-0.7	-0.1	-0.1	-0.1
Financial account	-128.4	-100.7	-75.8	-173.5	-236.8	38.4	-88.7	-127.2
Financial non-reserve assets ⁽²⁾	153.6	-91.9	174.7	-165.9	-245.6	64.2	-104.2	-108.0
Direct investment	794.8	447.8	186.9	172.8	160.7	-87.7	1.4	64.8
Portfolio investment	-970.9	-469.6	264.2	-616.4	-215.8	114.3	-231.3	7.4
Financial derivatives	99.2	36.3	61.8	33.2	1.2	-10.9	20.4	2.4
Other investment	230.5	-106.4	-338.1	244.5	-191.8	48.5	105.4	-182.7
Reserve assets ⁽²⁾	-282.0	-8.9	-250.5	-7.6	8.9	-25.8	15.5	-19.3
Net Errors and Omissions⁽³⁾	49.1	2.6	-45.4	69.1	66.6	-29.4	29.4	30.8
Overall Balance of Payments	282.0	8.9	250.5	7.6	-8.9	25.8	-15.5	19.3
Overall Balance of Payments as percentage of GDP	11.8	0.4	9.4	0.3	-0.3	3.9	-2.4	2.8

Notes:

1. In accordance with the accounting rules adopted in compiling balance of payments, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. In the capital and financial account, a positive value indicates a net financial inflow while a negative value indicates a net outflow. As increases in external assets are debit entries and decreases are credit entries, a negative value for the reserve assets represents a net increase while a positive value represents a net decrease.
2. The estimates of reserve and non-reserve assets under the balance of payments framework are transaction figures. Effects of valuation changes (including price changes and exchange rate changes) and reclassifications are not taken into account.
3. In principle, the net sum of credit entries and debit entries is zero. In practice, discrepancies between the credit and debit entries may occur for various reasons as the relevant data are collected from many sources. Equality between the sum of credit entries and that of debit entries is brought about by the inclusion of a balancing item which reflects net errors and omissions.
4. Figures are subject to revision at later stage as more data become available.

Source: Census and Statistics Department. The balance of payments statistics of Hong Kong are compiled in accordance with the international standards as stipulated in the Sixth Edition of the Balance of Payments and International Investment Position Manual released by the International Monetary Fund (IMF) in 2009.

Hong Kong recorded an overall balance of payments surplus during most of the five years from 2015 to 2019. In 2019, there was a balance of payments deficit of HK\$8.9 billion, or -0.3 per cent. of GDP, compared to a surplus of HK\$7.6 billion, or 0.3 per cent. of GDP, in 2018. In the first, second and third quarter of 2020, overall balance of payment recorded a surplus of HK\$25.8 billion (or 3.9 per cent. of GDP), a deficit of HK\$15.5 billion (or 2.4 per cent. of GDP) and a surplus of HK\$19.3 billion (or 2.8 per cent. of GDP), respectively.

Hong Kong's net international investment position ("IIP") was strong during 2015 to 2019. IIP is a balance sheet showing the stock of external financial assets and liabilities of an economy at a particular point in time. The difference between the external financial assets and liabilities is the net IIP of the economy, which represents either its net claim on or net liability to the rest of the world. External financial assets consist of financial claims on non-residents and gold bullion held as reserve. External financial liabilities refer to financial claims of non-residents on residents of the economy.

The table below shows Hong Kong's net IIP for the periods indicated:

Net International Investment Position

	As at end of					As at
	2015	2016	2017	2018	2019	30 September 2020 ⁽¹⁾
	(HK\$ billions, except percentages)					
Net IIP	7,774.7	8,946.8	11,105.0	10,047.3	12,297.2	15,054.2
Ratio to GDP (percentage)	324	359	418	354	429	549

Note:

1. Figures are subject to revision at later stage as more data become available.

Source: Census and Statistics Department.

Hong Kong's external financial assets and liabilities stood at a very high level throughout 2015 to 2019. As at 30 September 2020, Hong Kong's external financial assets and liabilities amounted to HK\$45,937.4 billion and HK\$30,883.2 billion, respectively, resulting in a net IIP of HK\$15,054.2 billion, or 549 per cent. of GDP.

Current Account

The current account measures the flows of goods, services, primary income and secondary income between residents and non-residents. The primary income account shows the amounts receivable and payable abroad in return for providing or obtaining use of labour, financial resources or natural resources to or from non-residents. The secondary income account records current transfers between residents and non-residents. Current transfers are transactions in which real or financial resources that are likely to be consumed immediately or shortly are provided without the receipt of equivalent economic values in return. Examples include workers' remittances, donations, official assistance and pensions.

For the five years from 2015 to 2019, the current account surplus increased from HK\$79.6 billion in 2015 to HK\$170.8 billion in 2019.

The current account recorded a surplus of HK\$170.8 billion (as a ratio of 6.0 per cent. to GDP), in 2019. This implies that Hong Kong continues to save more than invest, enabling Hong Kong to accumulate external financial assets (such as equity securities or debt securities) as a buffer against global financial volatilities. Compared with the current account surplus of HK\$105.9 billion (as a ratio of 3.7 per cent. to GDP) in 2018, the increase in surplus was mainly due to a decrease in the goods deficit, an increase in the net inflow of primary income and a decrease in the secondary income deficit, partly offset by a decrease in the services surplus. In the first, second and third quarters of 2020, the current account recorded a deficit of HK\$8.9 billion (as a ratio of 1.3 per cent. to GDP), a surplus of HK\$59.4 billion (as a ratio of 9.3 per cent. to GDP) and a surplus of HK\$96.5 billion (as a ratio of 13.8 per cent. to GDP), respectively.

Capital and Financial Account

During 2015 to 2019, Hong Kong recorded a net outflow in capital and financial account. Nevertheless, direct investment recorded a net inflow during the five-year period.

In 2019, a net outflow of HK\$0.7 billion was recorded in the capital account, compared with a net outflow of HK\$1.6 billion in 2018. An overall net outflow of financial non-reserve assets amounting to HK\$245.6 billion was recorded in 2019, an increase from an overall net outflow of HK\$165.9 billion in 2018. The overall net outflow recorded in 2019 was the result of a net outflow of portfolio investment and a net outflow of other investment, partly offset by a net inflow of direct investment and a net inflow due to the cash settlement of financial derivatives. In the first three quarters of 2020, a net outflow of HK\$0.4 billion was recorded in the capital account. For financial non-reserve assets, there was a net inflow of HK\$64.2 billion in the first quarter of 2020, a net outflow of HK\$104.2 billion in the second quarter of 2020, and a net outflow of HK\$108.0 billion in the third quarter of 2020.

FOREIGN TRADE

Merchandise Trade

The table below shows the values of merchandise trade in imports and total exports for the years shown:

Merchandise Trade

	For the year ended 31 December					For the eleven months ended 30 November	
	2015	2016	2017	2018	2019	2019	2020
	(HK\$ billions)						
Imports	4,046.4	4,008.4	4,357.0	4,721.4	4,415.4	4,031.9	3,832.2
Total Exports.	3,605.3	3,588.2	3,875.9	4,158.1	3,988.7	3,637.9	3,535.6

Source: Census and Statistics Department.

The value of merchandise exports declined by 1.8 per cent. in 2015 and 0.5 per cent. in 2016, followed by an increase of 8.0 per cent. in 2017 and 7.3 per cent. in 2018, a decrease of 4.1 per cent. in 2019, and a decrease of 2.8 per cent. in the eleven months ended 30 November 2020 as compared with the eleven months ended 30 November 2019.

Hong Kong's merchandise imports followed a broadly similar pattern as the exports. The value of imports decreased by 4.1 per cent. in 2015 and 0.9 per cent. in 2016, followed by an increase of 8.7 per cent. in 2017 and 8.4 per cent. in 2018, a decrease of 6.5 per cent. in 2019, and a decrease of 5.0 per cent. in the eleven months ended 30 November 2020 as compared with the eleven months ended 30 November 2019.

Total Exports by Commodity Division

The table below shows the value of goods exported from Hong Kong by ten principal commodity divisions for the periods indicated:

Value of Total Exports of Goods by Commodity Division

	For the year ended 31 December					For the eleven months ended 30 November	
	2015	2016	2017	2018	2019	2019	2020
	(HK\$ billions)						
Total Exports	3,605.3	3,588.2	3,875.9	4,158.1	3,988.7	3,637.9	3,535.6
Electrical machinery, apparatus and appliances, and electrical parts thereof	1,141.3	1,236.2	1,387.7	1,585.6	1,570.2	1,425.6	1,528.6
Telecommunications and sound recording and reproducing apparatus and equipment	750.7	739.2	759.0	777.3	736.1	674.7	600.1
Office machines and automatic data processing machines	394.0	365.1	404.1	448.3	400.3	362.2	387.7
Miscellaneous manufactured articles	210.1	187.8	206.8	234.9	223.4	207.0	167.8
Non-metallic mineral manufactures	164.1	179.1	201.8	173.6	155.4	143.6	110.9
Photographic apparatus, equipment and supplies, optical goods, watches and clocks	109.9	104.8	101.5	105.6	105.0	96.5	75.7
Articles of apparel and clothing accessories	142.6	121.6	112.9	108.5	96.2	88.7	58.4
Professional, scientific and controlling instruments and apparatus	75.5	78.7	90.6	97.6	92.9	84.0	88.1
Power generating machinery and equipment	44.8	49.1	50.8	57.8	80.6	70.6	73.7
Textile yarn, fabrics, made-up articles and related products	70.6	61.3	59.3	57.9	50.1	46.4	39.0

Source: Census and Statistics Department.

Total Exports of Goods by Main Market

The table below shows total exports of goods by main market for the periods indicated:

Value of Total Exports of Goods by Main Market

	For the year ended 31 December					For the eleven months ended 30 November	
	2015	2016	2017	2018	2019	2019	2020
	(HK\$ billions)						
Total Exports	3,605.3	3,588.2	3,875.9	4,158.1	3,988.7	3,637.9	3,535.6
The Mainland	1,936.5	1,943.5	2,105.8	2,287.3	2,210.9	2,005.2	2,083.1
The United States of America	342.2	324.0	330.2	356.8	304.0	281.4	235.5
Japan	122.8	116.7	128.5	129.3	121.0	111.1	99.2
India	101.8	116.7	158.6	134.3	118.2	108.1	89.5
Taiwan	65.0	74.5	89.4	86.2	88.3	80.2	88.0
Asia-Pacific Economic Co-operation ⁽¹⁾	2,894.1	2,878.3	3,101.8	3,349.1	3,210.7	2,924.2	2,905.4
Association of Southeast Asian Nation ⁽²⁾	271.2	263.9	284.0	308.2	310.7	285.3	258.2
European Union ⁽³⁾	335.1	330.6	347.1	380.7	357.6	282.2	253.3

Notes:

1. The Asia-Pacific Economic Cooperation is composed of Australia, Brunei Darussalam, Canada, Chile, the Mainland of China, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Taiwan, Thailand, the United States of America and Viet Nam.
2. Association of Southeast Asian Nations (A.S.E.A.N.) is composed of Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.
3. Starting from February 2020, the United Kingdom is no longer a member of European Union, leaving the 27 original members, viz.: Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden. Statistics on merchandise trade with European Union are compiled based on the new coverage starting from February 2020 and are thus not comparable with historical figures for 2015 to 2019 presented in the above table.

Source: Census and Statistics Department.

Retained Imports

The table below shows the value of retained imports for the periods indicated:

Value of Retained Imports

	For the year ended 31 December				
	2015	2016	2017	2018	2019 ⁽¹⁾
	(HK\$ billions)				
Total Retained Imports	1,039.9	997.1	1,098.0	1,215.6	1,003.9

Source: Census and Statistics Department.

The table below shows the imports of goods by source for the periods indicated:

Value of Imports of Goods by Source

	For the year ended 31 December					For the eleven months ended 30 November	
	2015	2016	2017	2018	2019	2019	2020
	(HK\$ billions)						
Total Imports	4,046.4	4,008.4	4,357.0	4,721.4	4,415.4	4,031.9	3,832.2
The Mainland	1,984.0	1,916.8	2,030.1	2,186.3	2,058.1	1,880.1	1,719.3
Taiwan	274.4	292.1	329.7	338.4	330.5	299.5	363.8
Singapore	245.9	261.7	288.1	314.1	290.7	265.9	284.0
Japan	260.3	246.7	253.4	260.0	252.6	230.3	215.6
Korea	172.1	196.2	252.1	278.3	220.1	200.3	219.2
Asia-Pacific Economic Co-operation ⁽¹⁾	3,500.4	3,476.5	3,784.0	4,112.4	3,842.8	3,503.6	3,405.6
Association of Southeast Asian Nation ⁽²⁾	552.1	569.4	652.7	761.5	707.1	642.9	678.0
European Union ⁽³⁾	278.5	267.0	284.9	312.0	304.3	216.1	177.9

Notes:

1. The Asia-Pacific Economic Cooperation is composed of Australia, Brunei Darussalam, Canada, Chile, the Mainland of China, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Taiwan, Thailand, the United States of America and Viet Nam.
2. Association of Southeast Asian Nations (A.S.E.A.N.) is composed of Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.
3. Starting from February 2020, the United Kingdom is no longer a member of European Union, leaving the 27 original members, viz.: Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden. Statistics on merchandise trade with European Union are compiled based on the new coverage starting from February 2020 and are thus not comparable with historical figures for 2015 to 2019 presented in the above table.

Source: Census and Statistics Department.

Trade in Services

The following table shows trade in services:

Trade in Services

	For the year ended 31 December					Q1 ⁽¹⁾	Q2 ⁽¹⁾	Q3 ⁽¹⁾
	2015	2016	2017	2018 ⁽¹⁾	2019 ⁽¹⁾	2020	2020	2020
	(HK\$ billions)							
Exports of services	808.9	764.7	811.3	886.9	792.9	143.9	105.6	121.5
Imports of services	574.3	578.1	605.9	639.9	618.2	112.8	81.8	96.1
Total trade in services	1,383.3	1,342.8	1,417.2	1,526.8	1,411.1	256.7	187.4	217.6
Net exports of services	234.6	186.6	205.4	246.9	174.7	31.1	23.8	25.4

Source: Census and Statistics Department.

Note:

1. Revised figures. In Hong Kong, the first released figures on GDP by expenditure component in respect of a period are called "advance estimates". When more data become available, the figures will be revised. All those figures published subsequently, after the advance figures, are called "revised figures". These "revised figures" are still subject to further regular revision later on when more data are incorporated. This routine revision is in accordance with the international practice to compile and release GDP figures at the earliest possible time by using only partial data. In general, the figures are finalised when finalised data from all regular sources are incorporated.

The following table shows exports and imports of services by the largest service groups:

Value of Exports and Imports of Services by Major Service Group

	For the year ended 31 December					Q1 ⁽¹⁾	Q2 ⁽¹⁾	Q3 ⁽¹⁾
	2015	2016	2017	2018 ⁽¹⁾	2019 ⁽¹⁾	2020	2020	2020
	(HK\$ billions)							
Total Exports of								
Services	808.9	764.7	811.3	886.9	792.9	143.9	105.6	121.5
Travel	280.2	255.0	259.8	289.0	227.6	14.6	2.0	1.3
Transport	230.9	218.7	237.4	258.8	235.9	41.5	38.5	40.8
Financial services	148.7	138.3	157.0	174.1	167.4	51.3	31.7	43.6
Other services	149.2	152.7	157.0	165.0	162.1	36.5	33.4	35.7
Total Imports of								
Services	574.3	578.1	605.9	639.9	618.2	112.8	81.8	96.1
Travel	178.8	187.4	197.9	207.2	210.6	25.2	3.9	6.4
Transport	134.2	131.4	136.3	145.3	138.0	26.4	24.4	29.0
Manufacturing services	90.0	88.2	91.3	93.2	80.4	15.3	14.3	17.0
Financial services	37.3	36.6	42.3	48.6	47.6	13.5	9.9	11.9
Other services	134.1	134.5	138.2	145.7	141.6	32.4	29.4	31.9

Source: Census and Statistics Department.

Note:

1. Revised figures. In Hong Kong, the first released figures on GDP by expenditure component in respect of a period are called "advance estimates". When more data become available, the figures will be revised. All those figures published subsequently, after the advance figures, are called "revised figures". These "revised figures" are still subject to further regular revision later on when more data are incorporated. This routine revision is in accordance with the international practice to compile and release GDP figures at the earliest possible time by using only partial data. In general, the figures are finalised when finalised data from all regular sources are incorporated.

In 2019, travel and transport contributed HK\$227.6 billion and HK\$235.9 billion, respectively, to total exports of services. Their shares in total exports of services were 28.7 per cent. and 29.7 per cent., respectively. Other components in exports of services were financial services and other services, contributing HK\$167.4 billion, or 21.1 per cent., and HK\$162.1 billion, or 20.4 per cent., respectively, to total exports of services. In the first half of 2020, transport and financial services contributed HK\$80.0 billion and HK\$83.0 billion, respectively, to total exports of services. Their shares in total exports of services were 32.1 per cent. and 33.3 per cent., respectively. Other components in exports of services were travel services and other services, contributing HK\$16.6 billion, or 6.7 per cent., and HK\$69.8 billion, or 28.0 per cent., respectively, to total exports of services. In the third quarter of 2020, transport and financial services contributed HK\$40.8 billion and HK\$43.6 billion, respectively, to total exports of services. Their shares in total exports of services were 33.6 per cent. and 35.9 per cent., respectively. Other components in exports of services were travel services and other services, contributing HK\$1.3 billion, or 1.1 per cent., and HK\$35.7 billion, or 29.4 per cent., respectively, to total exports of services.

In 2019, travel, transport and manufacturing services contributed HK\$210.6 billion, HK\$138.0 billion and HK\$80.4 billion, respectively, to total imports of services. Their contributions to total imports of services were 34.1 per cent., 22.3 per cent. and 13.0 per cent., respectively. Other components in imports of services were financial services and other services, contributing HK\$47.6 billion, or 7.7 per cent., and HK\$141.6 billion, or 22.9 per cent., respectively to total imports of services. In the first half of 2020, travel, manufacturing and transport services contributed HK\$29.1 billion, HK\$29.5 billion and HK\$50.8 billion, respectively, to total imports of services. Their contributions to total imports of services were 14.9 per cent., 15.2 per cent. and 26.1 per cent., respectively. Other components in imports of services were

financial services and other services, contributing HK\$23.5 billion, or 12.1 per cent., and HK\$61.8 billion, or 31.7 per cent., respectively to total imports of services. In the third quarter of 2020, travel, manufacturing and transport services contributed HK\$6.4 billion, HK\$17.0 billion and HK\$29.0 billion, respectively, to total imports of services. Their contributions to total imports of services were 6.6 per cent., 17.7 per cent. and 30.1 per cent., respectively. Other components in imports of services were financial services and other services, contributing HK\$11.9 billion, or 12.3 per cent., and HK\$31.9 billion, or 33.2 per cent., respectively to total imports of services.

In 2018, the Mainland and the United States were the major destinations of exports of services, with values at HK\$340.1 billion, or 40.4 per cent. of total exports of services (excluding financial intermediation services indirectly measured), and HK\$120.0 billion, or 14.2 per cent., respectively. They were followed by the United Kingdom, Japan and Singapore, with values at HK\$68.8 billion, or 8.2 per cent., HK\$35.7 billion, or 4.2 per cent., and HK\$34.2 billion, or 4.1 per cent., respectively.

For imports of services, the Mainland and the United States were also the major sources, with values at HK\$237.5 billion, or 37.9 per cent. of total imports of services (excluding financial intermediation services indirectly measured), and HK\$69.9 billion, or 11.1 per cent., respectively. They were followed by Japan, the United Kingdom and Singapore, with values at HK\$52.0 billion, or 8.3 per cent., HK\$37.6 billion, or 6.0 per cent., and HK\$27.2 billion, or 4.3 per cent., respectively.

Foreign Direct Investment

The table below shows the direct investment inflow by major investor country or territory during the periods indicated:

Total Direct Investment Inflow by Major Investor Country/Territory⁽¹⁾

	Direct investment inflow during the year ⁽²⁾			
	2016	2017	2018	2019
	(HK\$ billion)			
Direct investment liabilities ⁽³⁾⁽⁴⁾	1,034.1	979.6	760.5	456.7
Total of all countries/territories ⁽³⁾	911.2	862.6	817.1	577.6
British Virgin Islands	240.7	329.9	281.1	259.1
The Mainland	256.8	179.2	296.6	320.5
Cayman Islands	136.0	161.8	-10.1	38.6
United Kingdom	64.9	-14.8	80.0	25.6
Bermuda	14.9	17.6	50.3	41.3

Notes:

- Country/Territory here refers to the immediate source economy. It does not necessarily reflect the country/territory from which the funds are initially mobilised.
- Negative inflow does not necessarily relate to equity withdrawal. It may be the result of repayment of loans owed to non-resident affiliates.
- The total of all countries/territories is different from the aggregate direct investment liabilities due to the adoption of different presentation principles, with the former compiled based on the “directional principle” and the latter based on the “asset/liability principle” in accordance with the international statistical standards. The total of all countries/territories should be referred to in calculating the shares of individual investor countries/territories, while the direct investment liabilities should be referred to in the analyses on aggregate statistics.
- For the first, second and third quarters of 2020, direct investment liabilities amounted to HK\$174.3 billion, HK\$148.9 billion and HK\$258.4 billion respectively. The aforementioned figures are subject to revision later on as more data becomes available.

Source: Census and Statistics Department.

The table below shows the direct investment inflow by major economic activity of Hong Kong enterprise groups during the periods indicated:

Direct Investment Inflow by Major Economic Activity of Hong Kong Enterprise Groups⁽¹⁾⁽²⁾

	Total direct investment inflow during the year			
	2016	2017	2018	2019
	(HK\$ billion)			
Direct investment liabilities ⁽³⁾⁽⁴⁾	1,034.1	979.6	760.5	456.7
Total of all economic activities ⁽³⁾	911.2	862.6	817.1	577.6
Investment and holding, real estate, professional and business services	509.2	537.9	479.7	235.8
Banking	143.3	128.1	137.4	136.6
Import/export, wholesale and retail trades	98.3	88.4	129.4	113.2
Financing (except banking, investment and holding companies)	60.8	54.8	3.7	29.8
Construction	27.5	28.1	44.9	36.9

Notes:

1. A Hong Kong enterprise group (“HKEG”) mainly consists of a Hong Kong parent company, its Hong Kong subsidiaries, associates and branches.
2. For an enterprise group, economic activity refers to the major economic activity of the whole enterprise group in Hong Kong. If an HKEG is engaged in a wide variety of activities, the economic activity is determined on the basis of the economic activity in respect of which the operating revenue is predominant.
3. The total of all economic activities is different from the aggregate direct investment liabilities due to the adoption of different presentation principles, with the former compiled based on the “directional principle” and the latter based on the “asset/liability principle” in accordance with the international statistical standards. The total of all economic activities should be referred to in calculating the shares of individual economic activities, while the direct investment liabilities should be referred to in the analyses on aggregate statistics.
4. For the first, second and third quarters of 2020, direct investment liabilities amounted to HK\$174.3 billion, HK\$148.9 billion and HK\$258.4 billion respectively. The aforementioned figures are subject to revision later on as more data becomes available.

Source: Census and Statistics Department.

In 2019, total direct investment (“DI”) inflow amounted to HK\$456.7 billion compared to HK\$760.5 billion in 2018. The inflow was mainly concentrated in investment and holding, real estate, professional and business services, but also covered sectors such as banking; import/export, wholesale and retail trades; and construction.

HONG KONG’S ECONOMIC RELATIONSHIP WITH THE MAINLAND

The Mainland is Hong Kong’s largest trading partner and, since the Mainland’s “Reform and Opening-up” policy was implemented in 1978, Hong Kong has established close economic links with the Mainland, particularly in the Pearl River Delta area. The HKSAR Government has maintained contact with the Mainland authorities at different levels through various government bureaux and departments, the offices of the HKSAR Government in the Mainland, as well as quasi-government bodies such as the Hong Kong Trade Development Council. Communication is also achieved through mechanisms such as the Mainland and Hong Kong Economic and Trade Co-operation Committee and government-to-government co-operation mechanisms such as the Hong Kong/Guangdong Co-operation Joint Conference, the Hong

Kong/Shenzhen Co-operation Meeting, the Hong Kong/Macao Co-operation High-level Meeting, the Hong Kong/Beijing Co-operation Conference, the Hong Kong/Shanghai Co-operation Conference, the Hong Kong/Fujian Co-operation Conference, the Hong Kong/Sichuan Co-operation Conference, as well as regional co-operation including the Pan-Pearl River Delta Regional Co-operation and Development Forum (“PPRD”). Participants in the annual PPRD include the HKSAR, the Macao Special Administrative Region, Guangdong Province, Fujian Province, Jiangxi Province, Hunan Province, Guangxi Province, Hainan Province, Sichuan Province, Guizhou Province and Yunan Province. The most recent regional co-operation amongst HKSAR, Macao SAR and nine Guangdong cities is the Greater Bay Area development (“GBA development”), which is accorded the status of key strategic planning in the country’s development blueprint, having great significance in the country’s implementation of innovation-driven development and commitment to reform and opening-up. The objectives of the GBA development are to further deepen co-operation amongst Guangdong, Hong Kong and Macao, fully leverage the composite advantages of the three places, facilitate in-depth integration within the region, and promote co-ordinated regional economic development, with a view to developing an international first-class bay area ideal for living, working and travelling. A high-level co-ordinating body chaired by Vice Premier Han Zheng, with the Chief Executive of Hong Kong and Macao SARs, the Party Secretary and Governor of Guangdong Province, as well as senior representatives of Ministries at Central level as its members, has been set up to co-ordinate the efforts to strive for policy breakthroughs with an innovative and open mind.

Hong Kong as an International Capital Formation Centre for the Mainland

Hong Kong imposes no restrictions on foreign currency exchange or participation in its stock market. In the past decade, Hong Kong has become one of the most important international fund-raising centres for Mainland enterprises. From 1993 to end-June 2020, Mainland enterprises raised a total of HK\$7 trillion on the Hong Kong Stock Exchange. As at 31 December 2020, the combined market capitalisation of Mainland enterprises amounted to HK\$38,073 billion.

Apart from the equity market, Mainland enterprises raise capital in Hong Kong through the issuance of bonds, project financing and loan syndication. Mainland enterprises also have access to investment banking services in Hong Kong such as corporate finance, mergers and acquisitions and restructuring advice.

Hong Kong as the dominant gateway to Mainland China and the global offshore Renminbi business hub

Hong Kong plays an indispensable role in facilitating international investors’ allocation of Renminbi assets, with its unparalleled access to the onshore markets through the Stock Connect and Bond Connect schemes.

Since it was launched in July 2017, Bond Connect has served as a major channel for international investors to trade in the Mainland bond market using the market infrastructure and financial services in Hong Kong. For example, the number of registered investors under Bond Connect rose from 247 at the end of 2017 to 2,352 as at 31 December 2020. Daily turnover amounted to RMB10.7 billion in 2019 and RMB19.8 billion in 2020.

International investors’ allocation of their resources to Renminbi assets is expected to continue to gather pace, with a large part of the inflows continuing to take place through the Stock Connect and Bond Connect schemes. In order to capitalise on this trend, the HKMA will continue to work closely with Mainland authorities to enhance and expand the existing channels.

In June 2020, the HKMA, the People's Bank of China, and the Monetary Authority of Macao jointly announced the launch of Wealth Management Connect, a cross-boundary wealth management connect pilot scheme in the Guangdong-Hong Kong-Macao Greater Bay Area and unveiled the framework of the scheme. The HKMA is now working closely with relevant stakeholders to formulate the implementation details based on the framework, with a view to rolling out the scheme as soon as practicable.

On the other hand, Hong Kong maintains a firm position as the global hub for offshore Renminbi business. Average daily turnover of Hong Kong's Renminbi Real Time Gross Settlement system stood at a high of RMB1.13 trillion in 2019 and RMB1.22 trillion in the first half of 2020. According to the statistics of Society for Worldwide Interbank Financial Telecommunication, over 70 per cent. of global Renminbi payments were consistently handled in Hong Kong. Renminbi trade settlement handled by Hong Kong banks reached RMB5.38 trillion in 2019 and RMB3.14 trillion in the first half of 2020. With the world's deepest offshore Renminbi liquidity pool of over RMB600 billion and the huge volume of Renminbi financial activities, Hong Kong continued to be the largest offshore Renminbi foreign exchange market globally, according to the Bank for International Settlements Triennial Survey of Foreign Exchange and Derivatives Market Turnover. The average daily turnover of Renminbi foreign exchange transactions in Hong Kong rose 39.6 per cent. from U.S.\$77.1 billion in April 2016 to U.S.\$107.6 billion in April 2019, maintaining the lead over other Renminbi centres. Renminbi financing activities also progressed steadily. Offshore Renminbi bond issuance totalled RMB49.4 billion in 2019 and RMB12.6 billion in the first half of 2020. Renminbi lending amounted to RMB163.1 billion at end of June 2020.

The CPG promulgated the outline development plan (the “**Outline**”) for the Greater Bay Area in February 2019. Amongst other things, the Outline reaffirmed Hong Kong's status as an international financial centre, a global offshore Renminbi business hub, an international asset management centre, and a risk management centre. Subsequently, the Mainland authorities announced in May 2020 a series of supportive measures to promote financial development in the Greater Bay Area. To follow up, the HKMA will continue to work closely with Mainland authorities to develop measures to further facilitate cross-border access of financial and banking services in the Greater Bay Area and help Greater Bay Area corporates and financial institutions operate across the border taking advantage of Hong Kong's financial platform.

Mainland and Hong Kong Closer Economic Partnership Arrangement

CEPA is the Free Trade Agreement concluded by the Mainland and Hong Kong. The main text of CEPA was signed on 29 June 2003 and came into full implementation on 1 January 2004. To achieve progressive liberalisation and facilitation of trade and investment, the two sides have since 2004 continuously expanded the scope and content of CEPA. CEPA is now a modern and comprehensive Free Trade Agreement, covering four areas, namely trade in goods, trade in services, investment, as well as economic and technical co-operation.

Under CEPA, Hong Kong service suppliers can enjoy preferential treatment in most service sectors when accessing the Mainland market. On trade in goods, the Mainland has fully implemented zero tariff on imported goods of Hong Kong origin. Hong Kong investments and investors can enjoy investment facilitation and protection in the Mainland. On economic and technical co-operation, the two sides have agreed to enhance development and co-operation in 22 areas.

Stock Connect

The Shanghai-Hong Kong Stock Connect (“**Shanghai Connect**”), the first initiative under the mutual market access scheme between Mainland China and Hong Kong launched on 17 November 2014, offers a brand new official channel for overseas investors to invest in the Mainland stock market and for Mainland investors to invest in the Hong Kong stock market. The channel enables closed-loop Renminbi funds flow across the border in an orderly manner, thereby reducing the potential financial risk impact on the Mainland domestic market. The extended initiative – Shenzhen-Hong Kong Stock Connect (“**Shenzhen Connect**”), with an expanded scope of eligible securities – was launched on 5 December 2016. The “Mutual Market” model across Shanghai, Shenzhen and Hong Kong has been basically formed. The Mutual Market model between Mainland China and Hong Kong is a symbolic breakthrough in the capital account opening process of Mainland China, under which global investment opportunities will be increasingly opened up to Mainland investors and more Mainland investment opportunities will be opened up to global investors.

Experience of the Shanghai Connect shows that Mainland investors have an increasing appetite for investment in Hong Kong stocks through Southbound trading. In Northbound trading, global investors also show considerable interest in Mainland stocks of diversified industries. The Shenzhen Connect covers more small-sized stocks to meet the needs of both Mainland and global investors. Regulators on both sides had reached consensus on, extending the Mutual Market Access scheme to cover exchange-traded funds, for which specific schedule will be separately announced. Subject to regulatory approval, the scheme can possibly be extended to other securities in the future. Through Southbound trading under the “Mutual Market” model, Mainland investors are open to global asset allocation opportunities for potentially better returns and an increasingly diversified scope of investment and risk management instruments than in the domestic market.

EXTERNAL TRADE RELATIONS

Under Article 116 of the Basic Law, Hong Kong is a separate customs territory and may, using the name “Hong Kong, China,” participate in relevant international organisations and international trade agreements (including preferential trade agreements). Article 151 of the Basic Law also provides that Hong Kong may on its own maintain and develop relations and conclude and implement agreements with foreign states and regions and relevant international organisations in the economic, trade, financial and monetary and other appropriate fields under the name of “Hong Kong, China”. Hong Kong is open-minded about entering into Free Trade Agreements with other economies so long as they are in Hong Kong’s interests and are consistent with WTO rules.

Hong Kong’s Participation in the WTO

Hong Kong is a founding member of the WTO. Its separate membership reflects Hong Kong’s autonomy in the conduct of its external trade relations.

The WTO aims to provide a fair, predictable and rules-based multilateral trading system for trade in goods, services and trade-related intellectual property rights. It promotes the liberalisation of international trade and serves as a forum for multilateral trade negotiations and dispute settlement among its members. The rule based multilateral trading system under the auspices of the WTO is the cornerstone of Hong Kong’s external trade policy.

Hong Kong's participation in the WTO is guided by two key objectives:

- to foster progressive global trade liberalisation; and
- to strengthen the rules of the multilateral trading system so as to provide an effective framework to promote trade liberalisation, as well as to protect Hong Kong against any arbitrary and discriminatory actions taken by its trading partners.

The latest WTO Trade Policy Review of Hong Kong was conducted in November 2018. WTO members commended Hong Kong again for its free and open trade policies and its unwavering support for the multilateral trading system, including its continuous efforts in maintaining a liberal trade and investment regime, its achievements in trade facilitation as well as its strong engagement in various aspects of WTO work.

Regional Economic Cooperation

APEC is a regional forum established in 1989 for high-level government-to-government dialogue and cooperation on trade and economic issues. Hong Kong joined APEC in 1991.

From 2015 to 2018, the average annual growth rate in bilateral trade between Hong Kong and other APEC economies was approximately 5.3 per cent. In 2018, such bilateral trade increased by approximately 8.4 per cent. to HK\$7,461 billion from HK\$6,886 billion in 2017 (compared with an increase of approximately 7.9 per cent. for Hong Kong's total trade in 2018 against 2017). Hong Kong is also an important trading hub between the Mainland and other APEC economies. From 2015 to 2018, the average annual growth rate for re-export trade between the Mainland and other APEC economies through Hong Kong was approximately 6.7 per cent., whereas in 2018, such re-export trade increased by 10.2 per cent. to HK\$1,961 billion from HK\$1,780 billion in 2017 (compared with an increase of 7.3 per cent. for Hong Kong's total re-exports in 2018 against 2017).

The Pacific Economic Cooperation Council ("PECC"), founded in 1980, is a non-governmental regional forum comprised of government officials, business leaders and academics working in their personal capacity to enhance trade, investment and economic development in the Asia-Pacific region. Hong Kong joined PECC in May 1991.

INTERNATIONAL RESERVES

Hong Kong's foreign currency reserves, which are held in the Exchange Fund, totalled U.S.\$445.9 billion not including unsettled foreign exchange contracts as at 30 June 2020. The day-to-day management of the Exchange Fund is conducted by the HKMA. See "*Financial and Monetary System – The Exchange Fund.*"

Although Hong Kong participates in IMF activities under the PRC's membership, it is not a member of the IMF. In accordance with Article 106 of the Basic Law, the HKSAR Government will use its financial revenues exclusively for its own purpose, and these revenues will not be remitted to the CPG. In addition, under Article 113 of the Basic Law, the Exchange Fund will be managed and controlled exclusively by the HKSAR Government.

FINANCIAL AND MONETARY SYSTEM

THE HONG KONG MONETARY AUTHORITY

The HKMA, established in 1993, functions as Hong Kong's central banking institution. The HKMA has four main functions: maintaining the stability of the Hong Kong dollar within the framework of the Linked Exchange Rate System; promoting the stability and integrity of Hong Kong's financial system, including the banking system; managing Hong Kong's Exchange Fund; and helping to maintain Hong Kong's status as an international financial centre, including maintaining and developing Hong Kong's financial infrastructure.

The Exchange Fund Ordinance of Hong Kong (the “**Exchange Fund Ordinance**”) empowers the Financial Secretary to appoint the Monetary Authority (the “**MA**”) (who is the Chief Executive of the HKMA) to assist the Financial Secretary in performing his functions under the Exchange Fund Ordinance and to perform such other functions as are assigned by other ordinances or by the Financial Secretary. The powers, functions and responsibilities of the MA are set out in the Exchange Fund Ordinance, the Banking Ordinance of Hong Kong (the “**Banking Ordinance**”), the Anti-Money Laundering and Counter-Terrorist Financing Ordinance of Hong Kong, the Payment Systems and Stored Value Facilities Ordinance of Hong Kong, and other relevant ordinances.

Functions and Responsibilities

An exchange of letters dated 25 June 2003 (the “**Exchange of Letters**”) sets out the division of functions between the Financial Secretary and the MA as well as the delegations made by the Financial Secretary to the MA under the Exchange Fund Ordinance and other ordinances. The Exchange of Letters states that the Financial Secretary should determine the monetary policy objective and the structure of the monetary system of Hong Kong, namely currency stability, defined as a stable exchange value at around HK\$7.80 to U.S.\$1.00, maintained by currency board arrangements (as described further below). The MA is responsible for achieving the monetary policy objective, including determining the strategy, instruments and operational means for doing so. The MA is also responsible for maintaining the stability and integrity of the monetary system of Hong Kong.

In addition, the Financial Secretary, assisted by the Secretary for Financial Services and the Treasury, determines the policies for maintaining the stability and integrity of Hong Kong's financial system and the status of Hong Kong as an international financial centre. Accordingly, the MA is responsible for:

- promoting the general stability and effectiveness of the banking system;
- developing the debt market, in co-operation with other relevant bodies;
- matters relating to issuing and circulating legal tender notes and coins;
- promoting the safety and efficiency of the financial infrastructure through the development of payment, clearing and settlement systems and, where appropriate, the operation of these systems; and
- promoting, in co-operation with other relevant bodies, confidence in Hong Kong's monetary and financial systems, and appropriate market development initiatives to help strengthen the international competitiveness of Hong Kong's financial services.

The Exchange Fund is under the control of the Financial Secretary. The MA, under delegation from the Financial Secretary, is responsible to the Financial Secretary for the use and investment management of the Exchange Fund.

Governance Arrangements

The Exchange Fund Advisory Committee (“**EFAC**”), which was established under Section 3(1) of the Exchange Fund Ordinance, advises the Financial Secretary in relation to his exercise of control of the Exchange Fund. The Financial Secretary is ex-officio chairman of EFAC. Other members, including the MA, are appointed in a personal capacity by the Financial Secretary under the delegated authority of the Chief Executive. EFAC advises the Financial Secretary on investment policies and strategies for the Exchange Fund. Among other things, the EFAC also advises the Financial Secretary on the HKMA’s annual administration budget as the operating and staff costs of the HKMA are paid for by the Exchange Fund.

The Banking Advisory Committee, established under Section 4(1) of the Banking Ordinance, advises the Chief Executive of Hong Kong on matters relating to the Banking Ordinance, in particular banks and the carrying on of banking business. The Deposit-Taking Companies Advisory Committee, established under Section 5(1) of the Banking Ordinance, performs similar functions to the Banking Advisory Committee in relation to deposit-taking companies and restricted licence banks.

MONETARY SYSTEM

The overriding objective of Hong Kong’s monetary policy is currency stability. This is defined as a stable external exchange value of Hong Kong’s currency, in terms of its exchange rate in the foreign-exchange market against the U.S. dollar, within a band of HK\$7.75-7.85 to U.S.\$1. The structure of the monetary system is characterised by Currency Board arrangements, requiring the “**Monetary Base**” (as described below) to be at least 100 per cent. backed by U.S. dollar reserves held in the Exchange Fund, and changes in the Monetary Base to be 100 per cent. matched by corresponding changes in U.S. dollar reserves.

The Monetary Base comprises:

- Certificates of Indebtedness, which provide full backing to the banknotes issued by the three note-issuing banks;
- Government-issued notes and coins in circulation;
- the “**Aggregate Balance**”, which is the sum of the balances of the clearing accounts kept with the HKMA; and
- “**Exchange Fund Bills and Notes**”, which are Hong Kong dollar debt securities issued by the HKMA on behalf of the Government.

The stability of the Hong Kong dollar exchange rate is maintained through an automatic interest rate adjustment mechanism and the firm commitment by the HKMA to honour the Convertibility Undertaking (“**CU**”). When the demand for Hong Kong dollars is greater than the supply and the market exchange rate strengthens to the strong-side CU of HK\$7.75 to one U.S. dollar, the HKMA stands ready to sell Hong Kong dollars to banks for U.S. dollars upon request. The Aggregate Balance will then expand to push down Hong Kong dollar interest rates, creating monetary conditions that move the Hong Kong dollar away from the strong-side limit to within the “**Convertibility Zone**” of 7.75 to 7.85. Conversely, if the supply of

Hong Kong dollars is greater than demand and the market exchange rate weakens to the weak-side CU of HK\$7.85 to one U.S. dollar, the HKMA stands ready to buy Hong Kong dollars from banks upon request. The Aggregate Balance will then contract to drive Hong Kong dollar interest rates up, pushing the Hong Kong dollar away from the weak-side limit to stay within the Convertibility Zone of 7.75 to 7.85.

Despite uncertainties in the external environment and a slowdown in the domestic economy, the Hong Kong dollar remained stable and traded in a smooth and orderly manner in 2019. In the beginning of the year, the widening negative Hong Kong dollar-U.S. dollar interest rate spreads attracted carry trade activities of selling Hong Kong dollars for U.S. dollars, pushing the Hong Kong dollar exchange rate towards the weak-side CU of 7.85. As the weakening of the Hong Kong dollar exchange rate continued, the weak-side CU was eventually triggered eight times in March. Thereafter, the Hong Kong dollar continued to stay near the weak-side CU rate of 7.85. Since late May, the strong Hong Kong dollar demand arising from sizeable initial public offering (“**IPO**”) activities, corporates’ demand for dividend payment and the half-year closing had led the Hong Kong dollar to strengthen. While the Hong Kong dollar drifted lower after the half-year mark, it regained momentum from late October and stayed in the strong side of the Convertibility Zone towards the end of the year. This reflected partly equity-related demand including IPOs, and partly the unwinding of short Hong Kong dollar positions due to tightened liquidity near the year end. Overall, the Hong Kong dollar exchange market functioned normally throughout 2019.

Stepping into 2020, Hong Kong’s monetary environment stayed accommodative along with the substantial easing measures adopted by various central banks amid the COVID-19 pandemic. Due to the repeated triggering of the strong-side CU and the reduced issuance of Exchange Fund Bills, the Aggregate Balance increased from HK\$54 billion in March 2020 to over HK\$450 billion in December 2020. The Monetary Base expanded from HK\$1,663 billion at the end of 2019 to HK\$2,099 billion at the end of December 2020. Broader definition of money supply and deposits remained sizeable and continued to register growth.

During 2019, the Hong Kong dollar interbank interest rates remained largely steady at the longer end, while short-term rates broadly picked up. Short-term rates also experienced more fluctuations driven by IPO-related funding demand and seasonal liquidity needs. The reduction in the Aggregate Balance since April 2018 may have led to a higher sensitivity of the Hong Kong dollar interbank rates to changes in the supply and demand of Hong Kong dollar funding in the local market.

Stepping into 2020, as global investors sought more U.S. dollars under risk-off sentiment amid the COVID-19 outbreak, U.S. dollar funding costs tightened in March. The HIBORs were elevated as influenced by the U.S. dollar funding stress under the Linked Exchange Rate System and local factors such as IPO-related and quarter-end funding demand. To help ensure continued smooth operation of the Hong Kong dollar interbank market amid a volatile global macro environment stemming from the COVID-19 pandemic, the HKMA made available more Hong Kong dollar liquidity in the banking system by reducing the issue size of 91-day Exchange Fund Bills in late April and early May. Along with improved liquidity due to the expansion of the Aggregate Balance through the triggering of the strong-side CU and the reduced issuance of Exchange Fund Bills, HIBORs have declined noticeably since April 2020. Overall, the HIBORs continued to remain steadily low stepping into the second half of 2020.

Unlike many central banks worldwide, the HKMA has a limited role with respect to the following functions:

- *Banknote Issue.* This function is principally undertaken by three commercial banks: Bank of China (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank (Hong Kong) Limited. The HKSAR Government has issued HK\$10 currency notes since 2002 and all denominations of coins in circulation.
- *Banker to the HKSAR Government.* Other than managing the fiscal reserves which are held by the Exchange Fund, the HKMA does not provide ordinary banking services to the HKSAR Government, a function historically performed by commercial banks.

Hong Kong's "**Base Rate**" is the interest rate forming the foundation upon which the Discount Rates for repurchase transactions through the Discount Window are computed. The Base Rate is currently set at either 50 basis points above the lower end of the prevailing target range for the U.S. federal funds rate or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever is the higher. The HKMA announces the Base Rate every day before the interbank market opens in Hong Kong.

BANKING SYSTEM

Structure of the Banking System

Hong Kong maintains a three-tier system of deposit-taking institutions, namely, licensed banks, restricted licence banks and deposit-taking companies. These are collectively known as AIs under the Banking Ordinance. AIs may operate in Hong Kong as either locally incorporated companies or branches of foreign banks. The MA is the licensing authority for all three types of AIs.

- Licensed banks may operate current and savings accounts, accept deposits of any size and maturity from the public, pay or collect cheques drawn by or paid in by customers and use the name "bank" without restriction.
- Restricted licence banks are principally engaged in merchant banking and capital markets activities. They may take deposits of any maturity of at least HK\$500,000 from the public.
- Many of the deposit-taking companies are owned by, or otherwise associated with licensed banks, or banks incorporated outside Hong Kong. They engage in a range of specialised activities, including consumer finance, commercial lending and securities business. These companies take deposits of at least HK\$100,000, with an original term to maturity of at least three months.

The authorization criteria for licenced banks, restricted licence banks and deposit-taking companies are intended to ensure that only fit and proper institutions are entrusted with public deposits. The HKMA conducts periodic reviews of the authorization criteria and, when necessary, introduces amendments to reflect the changing needs of the regulatory environment in light of new international standards.

Hong Kong has one of the highest concentrations of banking institutions in the world. As at the end of 2019, 78 of the largest 100 banks in the world have a presence in Hong Kong. As at the end of 2020, Hong Kong had 161 licensed banks, 17 restricted licence banks and 12 deposit-taking companies. There were also 43 representative offices of banks incorporated outside Hong Kong.

Overseas banks may establish local representative offices in Hong Kong. A local representative office is not allowed to engage in any banking business. Its role is confined mainly to representational activities and liaison work between the bank and its customers in Hong Kong.

Performance of the Banking Sector

The tables below set out the performance ratios of the banking sector for the periods indicated:

PERFORMANCE RATIOS OF THE BANKING SECTOR⁽¹⁾

	ALL AIs				
	For the year ended 31 December				For the nine months ended
	2016	2017	2018	2019	30 September 2020
	(in percentages)				
Asset Quality⁽²⁾					
As a percentage of total credit exposures ⁽³⁾					
Total outstanding provisions/impairment allowances	0.49	0.48	0.49	0.49	N/A
Classified ⁽⁴⁾ exposures:					
Gross	0.58	0.48	0.39	0.39	N/A
Net of specific provisions/individual impairment allowances					
	0.35	0.26	0.19	0.19	N/A
Net of all provisions/impairment allowances					
	0.09	0.00	(0.10)	(0.10)	N/A
As a percentage of total loans ⁽⁵⁾					
Total outstanding provisions/impairment allowances	0.76	0.71	0.70	0.70	N/A
Classified ⁽⁴⁾ loans:					
Gross	0.85	0.68	0.55	0.57	0.84
Net of specific provisions/individual impairment allowances					
	0.51	0.36	0.26	0.28	0.47
Net of all provisions/individual impairment allowances					
	0.10	(0.04)	(0.15)	(0.13)	N/A
Overdue for over 3 months and rescheduled loans	0.67	0.52	0.36	0.34	0.56
Profitability					
Return on assets (operating profit)	0.81	0.91	0.97	0.95	N/A
Return on assets (post-tax profit)	1.00	0.83	0.84	0.83	N/A
Net interest margin	1.04	1.12	1.20	1.23	N/A
Cost-income ratio	50.4	47.0	45.0	45.6	N/A
Bad debt charge to total assets	0.10	0.10	0.06	0.08	N/A
Liquidity					
Loan to deposit ratio (all currencies)	68.4	73.0	72.6	75.3	74.7
Loan to deposit ⁽⁶⁾ ratio (Hong Kong dollar)	77.1	82.7	86.9	90.3	85.2

Notes:

1. Figures relate to Hong Kong office(s) only except where otherwise stated.
2. Figures relate to Hong Kong office(s) and for the locally incorporated AIs included therein, also their overseas branches.
3. Credit exposures include loans and advances, acceptances and bills of exchange held, investment debt securities issued by others, accrued interest, and commitments and contingent liabilities to or on behalf of non-banks.
4. Denotes loans or exposures graded as “substandard”, “doubtful” or “loss”.
5. Figures are related to Hong Kong offices. For locally incorporated AIs, figures include their overseas branches and major overseas subsidiaries.
6. Includes swap deposits.

Source: HKMA.

LOANS TO CUSTOMERS INSIDE HONG KONG BY ECONOMIC SECTOR (ALL AIs)

	As at 31 December				As at
	2016	2017	2018	2019	30 June
	(HK\$ billions)				
Manufacturing	247	293	300	303	309
Transport and transport equipment	295	342	332	326	344
Building, construction and property development and investment	1,260	1,471	1,527	1,632	1,629
Wholesale and retail trade	413	409	390	378	373
Financial concerns (other than authorized institutions)	546	821	858	908	962
Individuals: To purchase flats in the Home Ownership Scheme, the Private Sector Participation Scheme and the Tenants Purchase Scheme	43	51	58	78	81
To purchase other residential property. Other purposes	1,122	1,208	1,314	1,435	1,517
Others	519	618	681	801	761
Total⁽¹⁾	740	805	860	945	994
Total⁽¹⁾	5,185	6,019	6,320	6,806	6,970

Note:

1. Figures may not add up to total due to rounding.

Source: HKMA.

DEPOSITS FROM CUSTOMERS (ALL AIs)

	As at 31 December				As at
	2016	2017	2018	2019	30 November
	(HK\$ billions)				
Hong Kong Dollar (including swap deposits)					
Demand	1,038	1,160	1,093	1,036	1,480
Savings	2,715	3,067	2,806	2,641	3,376
Time	2,055	2,258	2,817	3,207	2,488
Total	5,809	6,485	6,715	6,884	7,344
Foreign Currency					
Demand	785	833	874	952	1,279
Savings	2,224	2,263	2,118	2,295	3,006
Time	2,909	3,172	3,678	3,641	3,016
Total	5,918	6,268	6,671	6,887	7,301

Source: HKMA.

The Hong Kong's banking sector has remained resilient with strong capital and liquidity positions since 2016. The banking sector is well-positioned to withstand the potential negative impact that may arise from volatility in financial markets and global fund flows.

As part of efforts to strengthen the resilience of the banking system, the Banking (Amendment) Ordinance 2018 was enacted by the LegCo in early 2018 for the purposes of implementing the latest Basel standards on the financial exposure limits of AIs, as well as the recovery planning requirements promulgated by the Financial Stability Board. A set of comprehensive Banking (Exposure Limits) Rules came into effect on 1 July 2019 to implement the latest Basel standards on AIs' large exposures and update other local risk concentration limits. The Banking (Liquidity) (Amendment) Rules 2019 were introduced to expand the scope of high quality liquid assets under the Liquidity Coverage Ratio and implement a required stable funding requirement on total derivative liabilities under the Net Stable Funding Ratio effective from 1 January 2020. The Banking (Capital) Rules were also amended in 2019 to implement, among others, capital requirements on sovereign concentration risk to complement the Basel standards on large exposures. Further amendments to the Banking (Capital) Rules were made in 2020 to implement the latest Basel capital standards on counterparty credit risk with effect from 30 June 2021.

The asset quality of the banking sector deteriorated modestly in the first half of 2020 amid the COVID-19 outbreak and widespread economic downturn. That said, the liquidity positions of AIs remained robust, and locally incorporated AIs continued to be well capitalised. At the end of November 2020, total deposits and total loans and advances of AIs amounted to HK\$14,646 billion and HK\$10,544 billion respectively, marking increases of 6.3 per cent. and 1.6 per cent. from the end of 2019. As at 30 November 2020, total assets rose 6.1 per cent. to HK\$25,951 billion from the end of 2019.

Statistics on AIs⁽¹⁾

	As at 31 December				As at
	2016	2017	2018	2019	30 November 2020
AIs	195	191	186	194	190
<i>Of which:</i>					
Licensed banks	156	155	152	164	164
Restricted licence banks	22	19	18	17	17
Deposit-taking companies	17	17	16	13	12
Total deposits (HK\$ billion)	11,727	12,753	13,386	13,772	14,646
Total loans and advances (HK\$ billion)	8,023	9,314	9,723	10,377	10,544
Total assets (\$ billion)	20,652	22,697	24,043	24,462	25,951

Note:

1. As at 31 December 2020, there were 191 AIs, 161 licensed banks, 17 restricted licence banks and 12 deposit-taking companies.

Source: HKMA.

The HKMA keeps a vigilant watch on the property mortgage business of AIs. It has introduced various rounds of countercyclical macroprudential measures since 2009 to strengthen the risk management of AIs' mortgage lending business and the resilience of the Hong Kong banking sector to cope with a possible downturn in the local property market.

Following the establishment of the Fintech Facilitation Office (“**FFO**”) in 2016, the HKMA stepped up its efforts in promoting Hong Kong as a fintech hub in Asia. On the research and application front, it conducted a holistic review of the Cybersecurity Fortification initiative (“**CFI**”) to cope with the fast-changing cybersecurity landscape; published a report on artificial intelligence; completed the first phase of a research project on the application of Central Bank Digital Currency to cross-border payments, which was conducted in collaboration with the Bank of Thailand, and developed a Distributed Ledger Technology (“**DLT**”)–based Proof-of-Concept (“**PoC**”) prototype together with ten participating banks from Hong Kong and Thailand; implemented the Open Application Programming Interface (“**Open API**”) Framework to facilitate the development and adoption of Open API in the banking sector, and facilitated the PoC between eTradeConnect, which is a DLT-based trade finance platform and the result of a PoC conducted by the HKMA, and the People’s Bank of China Trade Finance Platform, which explores connecting the two platforms. In terms of industry liaison, since 2016, the FFO has organised over 50 and spoken at over 210 events, and held over 900 meetings with other stakeholders. In addition, the HKMA and the Hong Kong Science and Technology Parks jointly launched the Fin+Tech Collaboration Platform to support fintech development in a technology-centric approach. On talent development, the HKMA was the main organiser of the Fintech Career Accelerator Scheme (“**FCAS**”) and FCAS 2.0, which have nurtured more than 530 students since launch. On cross-border collaboration, the HKMA has entered into fintech co-operation agreements with the United Kingdom, Singapore, Dubai International Financial Centre, Switzerland, Poland, Abu Dhabi Global Market, Brazil, Thailand and France. The HKMA seeks to strengthen fintech collaboration with Shenzhen. For example, it sponsored the Shenzhen Summer Internship Programme, which enabled Hong Kong students to work in renowned firms in Shenzhen for six weeks to experience the fintech ecosystem there; and co-organised with the Shenzhen Municipal Financial Regulatory Bureau the Shenzhen-Hong Kong Fintech Award. Other cross-border initiatives include the establishment of the world’s first Bank for International Settlements Innovation Hub Centre in Hong Kong, as well as the HKMA’s participation in the Global Financial Innovation Network as a co-ordination group member.

The HKMA continued to work with the banking industry on the seven Smart Banking initiatives to promote fintech development in Hong Kong. On the supervisory front, a revised Guideline on Authorization of Virtual Banks was published in May 2018. The HKMA granted 8 banking licences for operating a virtual bank by May 2019. The virtual banks subsequently commenced pilot trial under the HKMA’s Fintech Supervisory Sandbox. As of the end of June 2020, 2 out of the 8 virtual banks had officially commenced operations. As of November 2020, 7 out of the 8 virtual banks had officially commenced operations. Under the Banking Made Easy initiative, the HKMA streamlined regulatory requirements in relation to remote onboarding, online finance and online wealth management. These enhancements better enabled banks to offer improved user experience in the online banking environment. The scope of the Banking Made Easy initiative was expanded in September 2018 to facilitate the adoption of regulatory technology (“**Regtech**”) by banks. Furthermore, the HKMA published a white paper on Regtech in November 2020, outlining a roadmap to further promote Regtech adoption with the objective of building a more diverse and interactive Regtech ecosystem in Hong Kong.

Given Hong Kong’s close economic relationship with the Mainland, Hong Kong banking sector’s exposures to the Mainland economy is growing. These exposures result from Mainland and overseas corporates seeking financing in Hong Kong to support the expansion of their cross-border trade and investment activities.

Banking Supervision

The legal framework for banking supervision in Hong Kong is established by the Banking Ordinance. Under the Banking Ordinance, the MA is the licensing authority responsible for the authorization, suspension and revocation of licenses for all three types of AIs. Checks and balances are provided in the Banking Ordinance with the requirement that the MA consults the Financial Secretary on important authorization decisions, such as suspension or revocation. The Chief Executive in Council (being the Chief Executive of Hong Kong acting after consultation with the Executive Council) is the appellate body for hearing appeals against decisions made by the MA. In addition, there are two statutory committees, the Banking Advisory Committee and the Deposit-Taking Companies Advisory Committee, established to advise on matters relating to banking and deposit-taking business. Moreover, it is the HKMA’s general policy to consult widely on matters affecting its supervisory approach, and public consultations are generally undertaken on significant matters, such as deposit protection and banking reform.

AIs must comply with the provisions of the Banking Ordinance which, among other things, require them to maintain minimum liquidity and capital adequacy ratios, to submit periodic returns to the HKMA on required financial information, to adhere to limitations on loans to any one customer or to directors and employees and to seek approval for the appointment of controllers, directors and senior management.

The HKMA seeks to maintain a regulatory framework that is consistent with international standards, especially those recommended by the Basel Committee on Banking Supervision (“**Basel Committee**”).

The HKMA’s supervisory approach is based on a policy of “continuous supervision” through a combination of on-site examinations, off-site reviews, prudential meetings, and co-operation with external auditors and meetings with boards of directors. Since 2000, the HKMA has been using a risk-based supervisory framework for all AIs. Under this approach, the HKMA puts emphasis on evaluation of the effectiveness of risk governance framework, risk management systems and internal controls of AIs and prioritises its supervisory resources having regard to the risks faced by the banking sector. Amid increased uncertainties in the global economy and the financial markets owing to the uncertain pace of U.S. monetary policy normalisation, U.S.-Mainland trade conflict and other geopolitical events, the HKMA continued to focus its supervisory efforts on reviewing the effectiveness of AIs’ liquidity and credit risk

management systems to enhance the resilience of the banking sector against any abrupt changes in the macroeconomic environment. In view of growing cybersecurity threats and the adoption of fintech by AIs, the HKMA conducted a comprehensive review of the CFI to reflect the latest trends in technology and incorporate recent developments in global cyber practices. After extensive consultation with the banking industry, the HKMA launched the CFI 2.0 in November 2020. In October 2019, the HKMA issued a revised Supervisory Policy Manual module on “Risk Management of E-banking”. The revision sought to provide the industry with greater flexibility to meet changing customer expectations on electronic banking services. The HKMA also published a set of high-level principles on the use of artificial intelligence in November 2019 in order to provide guidance for the industry.

In conducting supervision, the HKMA has regard to all the activities of a locally-incorporated AI in Hong Kong and overseas. In addition to regulating and supervising banking business, the HKMA is also responsible for day-to-day supervision of AIs’ securities business (if such business is carried out in an AI’s subsidiary which itself is a non-AI, the Securities and Futures Commission (the “SFC”) is responsible for the supervision) according to the standards set by the SFC, the lead regulator of the securities market. Taken into account the unique circumstances of banking environment, the HKMA may promulgate additional investor protection measures and requirements in respect of AIs’ wealth management business. Meanwhile, the HKMA is the frontline regulator of AIs’ insurance and MPFs intermediaries businesses and monitors the AIs’ compliance with the applicable regulatory requirements promulgated by relevant regulatory authorities. However, irrespective of whether or not the HKMA regulates or supervises an AI’s non-banking activities, its supervisory approach is intended to ensure that the risks that such activities, and other activities within the group, may pose to the financial position or reputation of the AI are taken into account.

The HKMA also supervises overseas offices of Hong Kong incorporated banks. In the case of institutions incorporated outside Hong Kong and operating in Hong Kong in branch form, overall responsibility for ensuring the safety and soundness of these institutions rests with the relevant home country supervisor, but the HKMA extends applicable prudential standards to the Hong Kong operation (generally, all standards except those relating to capital adequacy), while also endeavouring to maintain close contact with the home supervisor to ensure the full and timely exchange of relevant information.

One of the statutory functions of the HKMA is to promote and encourage proper standards of conduct and sound and prudent business practices amongst AIs. In April 2010, the HKMA established a Banking Conduct Department to provide greater focus to its work in this area. The HKMA cooperates closely with the SFC, the IA and the Mandatory Provident Fund Schemes Authority in supervising AIs’ businesses related to securities, investment products, insurance and MPFs.

Banking Resolution

To mitigate the risks which a failing financial institution may pose to the stability and effective working of the Hong Kong financial system, the Financial Institutions (Resolution) Ordinance (Cap 628) (“**FIRO**”) came into operation on 7 July 2017, under which the HKMA is the resolution authority for AIs, amongst others. The FIRO establishes the legal basis for a cross-sectoral resolution regime in Hong Kong. As part of the HKMA’s efforts to make the resolution regime operational for the Hong Kong banking sector, the Resolution Office was established in 2017. To operationalise the FIRO, one of the important workstreams is to put in place resolution legislation and policy standards. In this regard, in December 2018, the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules (“**LAC Rules**”) came into operation. The primary purpose of loss-absorbing capacity requirements is to ensure that a relevant AI has sufficient financial resources in place so that should it become non-viable, its failure can be managed by the HKMA in an orderly way. To facilitate the compliance with the LAC

rules by resolution entities and material entities, the HKMA issued a FIRO Code of Practice chapter LAC-1 “Resolution Planning – LAC requirements” on 20 March 2019 and published the standard disclosure templates for resolution entities and material subsidiaries under the LAC Rules on 31 October 2019. The other workstreams for the operationalisation of the resolution regime include undertaking resolution planning to remove the impediments to AIs’ resolvability and developing the HKMA’s operational capability to resolve a failing AI.

Prudential Supervisory Policies

In addition to these reform measures, the HKMA has taken steps with the aim of improving the quality of its supervision. In 2019, 196 off-site reviews were conducted covering a broad range of issues, including CAMEL ratings, corporate governance, risk management of AIs, as well as their business strategies in response to fintech development. As part of the HKMA’s continued efforts to promote stronger risk governance, 26 meetings were held with the boards of directors or board-level committees of AIs. The HKMA also followed up on AIs’ progress in adopting the guidance on corporate governance. 32 tripartite meetings among the HKMA, AIs and their external auditors were held.

Apart from off-site activities, the HKMA continued to conduct regular on-site examinations supplemented with thematic reviews on areas assessed to be of higher risk. A total of 405 on-site examinations and thematic reviews were conducted during the year. Credit risk management remained a key focus of these examinations and reviews. Other major focuses were technology risk and operational risk management. The HKMA also increased the number of on-site examinations and thematic reviews targeted at liquidity and market risk management as well as the implementation of the Basel capital adequacy framework. On-site examinations of AIs’ activities in securities, investment products, insurance and MPF-related businesses were also conducted by specialist teams.

SECURITIES AND FUTURES MARKETS

The Hong Kong Stock Exchange and Futures Exchange

The securities market and the futures market in Hong Kong are operated by the Hong Kong Stock Exchange and the Hong Kong Futures Exchange Limited (“**HKFE**”), respectively. Both the Hong Kong Stock Exchange and the Hong Kong Futures Exchange are wholly-owned subsidiaries of the Hong Kong Exchanges and Clearing Limited (“**HKEX**”), which is a recognised exchange controller under the Securities and Futures Ordinance (“**SFO**”).

The Hong Kong Stock Exchange is a recognised exchange company under the SFO. It operates and maintains a stock market in Hong Kong and is the primary regulator of stock exchange participants with respect to trading matters and of companies listed on the Main Board and the Growth Enterprise Market (“**GEM**”) of the Hong Kong Stock Exchange.

The HKFE is also a recognised exchange company under the SFO. It operates and maintains a futures market in Hong Kong and is the primary regulator of futures exchange participants with respect to trading matters.

The HKEX also owns and operates the clearing houses of the Hong Kong Stock Exchange and the HKFE, namely Hong Kong Securities Clearing Company Limited (“**HKSCC**”), HKFE Clearing Corporation Limited (“**HKCC**”) and the Hong Kong Stock Exchange Options Clearing House Limited (“**SEOCH**”). HKSCC and SEOCH provide services for the clearing and settlement of securities and stock option transactions, respectively, including trades and transactions effected on, or subject to the rules of, the Hong Kong Stock Exchange. HKCC provides services for the clearing and settlement of transactions on the HKFE.

Apart from the stock market and the futures market, there is also an active over-the-counter (“OTC”) market which is mainly operated and used by professional institutions and trades swaps, forwards and options in relation to equities, interest rates and currencies. OTC Clearing Hong Kong Limited, a subsidiary of the HKEX, commenced operation in November 2013 to provide clearing services for certain types of OTC derivative products. It now offers clearing services for inter-dealer interest rate swaps and non-deliverable forwards.

The HKSCC, a wholly-owned subsidiary of the HKEX, operates the Central Clearing and Settlement System (the “CCASS”) for securities trading on the Hong Kong Stock Exchange. The CCASS is an automated book-entry system that handles the settlement of securities. In addition to brokers and custodians, CCASS services are also available to retail investors.

Hong Kong’s stock market capitalisation totalled about HK\$41.6 trillion as at the end of September 2020, fifth in the world and third in Asia. As at the end of December 2020, the market capitalisation of Hong Kong’s stock market rose to HK\$47.5 trillion. At the end of December 2020, 2,538 public companies were listed on the Hong Kong Stock Exchange, representing a wide range of industries from finance and property to consumer goods, information technology and telecommunications. The Hong Kong Stock Exchange ranked second in 2020 and had ranked first for seven out of the past 12 years since 2009 in terms of equity funds raised via IPOs. In 2019 and 2020, over HK\$310 billion and over HK\$390 billion was raised through IPOs respectively. In addition to new share issues, another HK\$346 billion was raised via post IPOs. The HKEX again took the crown as the world’s largest structured products market in terms of turnover of securitised derivatives for the 14th consecutive year since 2007.

The HKFE operates a futures market. Total turnover of futures and options contracts in 2020 (as at 31 December 2020) reached 282.2 million contracts. Open interest at the end of December 2020 reached 11.3 million contracts.

The Performance of the Hong Kong Stock Exchange

The table below shows the total market capitalisation and daily trading volume of the Hong Kong Stock Exchange and the Hang Seng Index, an index of the leading stocks listed on the Hong Kong Stock Exchange, for the periods indicated:

Market Statistics of the Hong Kong Stock Exchange

	For the year ended 31 December					
	2015	2016	2017	2018	2019	2020
Market Capitalisation						
(HK\$ billion)						
Mainboard						
Total.	24,426	24,450	33,718	29,723	38,058	47,392
Red-chips	5,138	4,899	5,727	5,375	5,444	N/A
H-shares	5,157	5,316	6,759	5,937	6,424	N/A
GEM						
Total.	258	311	281	186	107	131
Red-chips	13.0	13.4	12.4	2.3	2.2	N/A
H-shares	7.5	7.0	8.9	4.7	3.0	N/A

For the year ended 31 December

	2015	2016	2017	2018	2019	2020
Turnover (HK\$ billion)						
Mainboard						
Total.	25,836	16,280	21,560	26,295	21,390	32,110
Red-chips	2,416	1,565	1,916	2,168	1,757	N/A
H-shares	6,882	3,983	5,572	6,637	4,995	N/A
GEM						
Total.	255	117	149	127	50	86
Red-chips	4.9	1.6	1.6	1.8	0.1	N/A
H-shares	8.6	5.7	7.4	2.5	2.1	N/A
Hang Seng Index (index value).						
	21,914.40	22,000.56	29,919.15	25,845.7	28,189.8	27,231.13

Source: HKEX

The total market capitalisation of the securities market as at 31 December 2020 was HK\$47.5 trillion, an increase of approximately 24 per cent. compared to 31 December 2019. The Hang Seng Index ended 2020 at 27,231.13, representing a year-on-year decrease of 3 per cent. The average daily securities market turnover was HK\$129.5 billion in 2020, an increase of approximately 49 per cent. from HK\$87.2 billion in 2019. The average daily securities market turnover of CBBCs in 2020 was HK\$9.4 billion, an increase of 16 per cent. from HK\$8.1 billion in 2019. There were 154 newly listed companies in 2020 (including any transfers of listing from GEM to Main Board), a decrease of 16 per cent. from 183 (including any transfers from listing from GEM to Main Board) in 2019. Funds raised through IPOs in 2020 were HK\$397.5 billion, an increase of 27 per cent. from HK\$314.2 billion in 2019.

The average daily derivatives market turnover of futures and options in 2020 was 1,133,435 contracts, an increase of 6 per cent. from 1,068,641 contracts in 2019. The average daily derivatives market turnover of equity index futures in 2020 was 448,629 contracts, a decrease of 1.6 per cent. from 456,071 contracts in 2019. The average daily derivatives market turnover of Stock Futures in 2020 was 4,585 contracts, an increase of 23 per cent. from 3,729 contracts in 2019. The average daily derivatives market turnover of Stock Options in 2020 was 526,191 contracts, a decrease of 19 per cent. from 442,333 contracts in 2019. The average daily derivatives market turnover of RMB Currency Futures in 2020 was 7,117 contracts, a decrease of 11.5 per cent. from 8,042 contracts in 2019. The period end of the open interest of Hang Seng China Enterprises Index Futures in 2020 was 290,518 contracts, a decrease of 11 per cent. from 325,907 contracts in 2019.

Fund-raising Centre

In 2020, the Hong Kong Stock Exchange ranked second worldwide in terms of the IPO equity funds raised, at over HK\$397 billion, representing an increase of 26.5 per cent. from 2019.

To facilitate listings of companies from emerging and innovative sectors, the Hong Kong Stock Exchange has revised its listing rules since 30 April 2018 to expand the existing listing regime to facilitate the listing of companies from emerging and innovative sectors, subject to appropriate safeguards. The listing regime for companies from emerging and innovative sectors will allow the listing on the Main Board of pre-revenue/pre-profit biotech companies and high growth and innovative companies that have weighted voting rights structures. It also creates a new concessionary route to allow secondary listing of qualifying issuers from emerging and innovative sectors. The listing regime caters for fund-raising needs in the new

economic environment and makes Hong Kong’s listing platform more attractive to issuers from different jurisdictions, thereby strengthening the city’s overall competitiveness vis-à-vis other major international listing venues. As at the end of 2020, 39 companies were listed successfully on the Hong Kong Stock Exchange under the new regime.

Regulation of Hong Kong’s Securities and Futures Markets

The SFC is the statutory regulator of Hong Kong’s securities and futures markets. It is an independent statutory body established in 1989 under the Securities and Futures Commission Ordinance (“SFCO”). The SFCO and nine other securities and futures related ordinances were consolidated into the SFO, which came into operation on 1 April 2003. The SFC is responsible for administering the laws governing the securities and futures markets in Hong Kong and facilitating and encouraging the development of these markets. The regulatory objectives of the SFC, as set out in the SFO, are:

- to maintain and promote the fairness, efficiency, competitiveness, transparency and orderliness of the securities and futures industry;
- to promote the understanding by the public of the operation and function of the securities and futures industry;
- to provide protection for members of the public investing in or holding financial products;
- to minimise crime and misconduct in the securities and futures industry;
- to reduce systemic risks in the securities and futures industry; and
- to assist the Financial Secretary in maintaining the financial stability of Hong Kong by taking appropriate steps in relation to the securities and futures industry.

Recent Developments

At the end of September 2020, there were 46,935 licensed entities, including securities brokers, futures dealers, investment and corporate finance advisers and fund managers as well as their representatives, and 113 registered institutions, such as banks, engaging in regulated activities such as dealings in and advising on securities and futures.

Statistics on licensing for SFC-regulated activities

	As at the end of					As at
	2015	2016	2017	2018	2019	30 September 2020
Registered institutions	119	121	119	117	114	113
Licensed entities	41,347	42,544	44,050	46,254	47,323	46,935
<i>Of which:</i>						
Licensed corporations.	2,172	2,411	2,660	2,905	3,084	3,122
Licensed individuals.	39,175	40,133	41,390	43,349	44,239	43,813

The SFC implemented a new Manager-in-Charge regime in 2017 to enhance the accountability of the senior management of licensed corporations to better align with the responsible officer regime and to promote awareness of their existing obligations and liabilities. One of the key measures under the regime is to require licensed corporations and corporate licence applicants to submit their up-to-date management structure and organisational charts to the SFC on an ongoing basis. Starting from April 2018, a registered institution is also required to submit to the HKMA and the SFC relevant information on certain members of its management team and an organisational chart depicting management and governance structure of its business in regulated activities.

In September 2017, the SFC and the Hong Kong Stock Exchange published the conclusions to their joint consultation on proposed enhancements to Hong Kong Stock Exchange's decision-making and governance structure for listing regulation. The conclusions clarified the role of the SFC as the statutory regulator which administers the SFO and the Securities and Futures (Stock Market Listing) Rules ("SMLR"), and which supervises, monitors and regulates the activities carried out by Hong Kong Stock Exchange, as well as Hong Kong Stock Exchange's role as the regulator administering the Listing Rules. Under the SFC's new front-loaded regulatory approach, it engages in targeted intervention at an early stage to protect markets and investors and has increased its direct presence in more serious listing matters which fall within the scope of the SFO or the SMLR.

In addition, the SFC published a guidance note on the duties of directors of listed companies and a circular to financial advisers regarding valuations in corporate transactions in May 2017; a statement on the liability of valuers for disclosure of false or misleading information in May 2017; and guidelines on the standards of conduct expected of sponsors, underwriters and placing agents for the listing and placing of new GEM stocks in January 2017.

In view of the B&R initiative, the SFC issued a statement in April 2017 outlining factors it would take into account when reviewing the proposed listing of infrastructure project companies.

Separately, the SFC enhanced the position limit regime for futures and options contracts in June 2017 following the conclusion of a public consultation and the amendment to the subsidiary legislation.

To promote Fintech development, the SFC launched its Regulatory Sandbox in September 2017 to provide a confined regulatory environment for firms to conduct regulated activities utilising Fintech. Further, the SFC signed Fintech cooperation agreements with the United Kingdom Financial Conduct Authority, Australian Securities and Investments Commission, Dubai Financial Services Authority, Securities Commission Malaysia, Swiss Financial Market Supervisory Authority, Abu Dhabi Global Market Financial Services Regulatory Authority and Israel Securities Authority.

On the enforcement front, the SFC took enforcement actions to maintain market integrity. From 1 January to 30 June 2020, the SFC disciplined nine licensed corporations and 11 licensed individuals, with fines totalling over HK\$79.1 million. Separately, four individuals were prosecuted for criminal offences including false trading, obstruction of SFC employees in the execution of a search warrant, holding out as carrying on a business in asset management without an SFC licence and holding out as carrying on a business in dealing in futures contracts without an SFC licence.

Bond Market

Hong Kong has a developed bond market. International investors are free to invest in debt instruments issued in Hong Kong. Companies in Hong Kong can finance their business by issuing various kinds of debt, either in Hong Kong dollars or foreign currencies. In the Hong Kong dollar bond market, public sector bonds include Exchange Fund Bills and Notes, the HKSAR Government bonds issued under the Government Bond Programme (“**GB Programme**”) and bonds issued by statutory bodies and government-owned entities. Other bonds include those issued by Hong Kong entities such as AIs and non-bank corporations, and overseas entities such as the World Bank group and Asian Development Bank.

The following table shows the outstanding amount of Hong Kong dollar debt instruments for the years 2016 to 2019 and as at 30 September 2020:

OUTSTANDING AMOUNT OF HONG KONG DOLLAR DEBT INSTRUMENTS⁽¹⁾

	As at 31 December				As at
	2016	2017	2018 ⁽⁴⁾	2019	30 September
	(HK\$ million)				
Exchange Fund ⁽²⁾	963,098	1,048,479	1,062,715	1,082,062	1,068,063
Fixed rate paper ⁽³⁾ /fixed rate debt securities ⁽⁴⁾	642,777	655,444	922,773	921,286	984,826
Floating rate paper ⁽⁵⁾ /floating rate debt securities ⁽⁶⁾	124,692	98,166	133,581	162,515	144,623
Total	<u>1,730,566</u>	<u>1,802,089</u>	<u>2,119,069</u>	<u>2,165,863</u>	<u>2,197,512</u>

Notes:

1. Data sources include Bloomberg, Central Moneymarkets Unit, Dealogic and Reuters. There is a break in data series in 2018 due mainly to the inclusion of more short-term debt securities. Data prior to 2018 are not strictly comparable to more recent data.
2. As at 31 December 2020, the outstanding amount of Exchange Fund amounted to HK\$1,068,130 million.
3. Fixed rate papers include fixed rate certificates of deposit, commercial papers and straight bonds. For 2016 and 2017, fixed rate papers was used as the reporting item.
4. Fixed rate debt securities include all kinds of fixed rate instruments normally traded in the financial markets that serve as evidence of a debt. Since 2018, fixed rate debt securities was used as the reporting item. Data prior to 2018 are not strictly comparable to more recent data.
5. Floating rate papers include floating rate certificates of deposit, floating notes and floating rate asset-backed-securities. For 2016 and 2017, floating rate papers was used as the reporting item.
6. Floating rate debt securities include all kinds of floating rate instruments normally traded in the financial markets that serve as evidence of a debt. Since 2018, floating rate debt securities was used as the reporting item. Data prior to 2018 are not strictly comparable to more recent data.

Source: HKMA.

Over these years, the Hong Kong dollar debt market has expanded steadily. As at 30 September 2020, the outstanding amount of Hong Kong dollar debt securities stood at \$2,197.5 billion, which was equivalent to 21.8 per cent. of Hong Kong dollar-denominated assets of the banking sector. Exchange Fund made up 48.6 per cent. of the total. Excluding Exchange Fund, fixed rate debt securities and floating rate debt securities accounted for 44.8 per cent. and 6.6 per cent. of Hong Kong dollar debt securities respectively.

For more information on bonds issued under the GB Programme and the Government Green Bond Programme (“**GGB Programme**”), see “*Public Finance – Government Bond Programme*” and “*Public Finance Government Green Bond Programme*” below.

Green Finance

Hong Kong's green bond market has experienced significant growth over the past few years. In 2019, green bonds arranged and issued in Hong Kong reached U.S.\$10 billion, with cumulative issuance amounting to U.S.\$26 billion by the end of 2019. In May 2019, the HKMA launched three sets of measures to support the development of green and sustainable finance in Hong Kong, namely a three-phased approach to promote green and sustainable banking, adoption of responsible investment and the setup of the Centre for Green Finance under the IFFO for capacity building and experience sharing. The Green and Sustainable Finance Cross-Agency Steering Group was also established in May 2020 and is co-chaired by the HKMA and the SFC. It released in December 2020 its green and sustainable finance strategy for Hong Kong, setting out six key focus areas and five nearer-term actions to address some of the most pressing issues that are hindering further development of the sector. The HKMA has also become the founding member and first regional anchor for the Asia Chapter of the Alliance for Green Commercial Banks, a new initiative launched by International Finance Corporation, a member of the World Bank Group, to help develop green commercial banks and encourage more green finance in order to address climate change.

ASSET AND WEALTH MANAGEMENT

Hong Kong is well-equipped for the asset and wealth management business in terms of market access, investor base and supporting hard and soft infrastructure. As of end-December 2019, there were 43 banks offering private banking services to clients in Hong Kong, representing an addition of 16 private banks since 2009. Fund domiciliation builds up Hong Kong's fund manufacturing capabilities by driving demand for professional services along the whole service chain, including fund management, investment advice, legal and accounting services, and sales and marketing. This allows the city to develop into an all-rounded asset and wealth management hub. At the end of 2019, the asset and wealth management business was valued at HK\$28,769 billion, of which 64 per cent. came from non-local investors, indicating that investors outside Hong Kong see the city as a preferred investment platform. At the end of June 2020, there were 2,152 SFC-authorized unit trusts and mutual funds, of which 781 were domiciled in Hong Kong, up 28.7 per cent. from five years ago.

On the policy front, Hong Kong has been making efforts in sharpening its competitive edge on asset and wealth management through: (a) expanding the fund distribution network by reaching mutual recognition of funds (“**MRF**”) arrangements with other jurisdictions. As at the end of 2019, Hong Kong has MRF arrangements with Mainland China, Switzerland, France, the United Kingdom, Luxembourg and the Netherlands; (b) diversifying the fund management platform by introducing new fund structures in the forms of open-ended fund company and limited partnership fund for private equity funds; and (c) providing a more facilitating tax environment by giving profits tax exemption to publicly and privately offered eligible funds regardless of their location of central management and control, subject to meeting certain conditions.

Hong Kong is a centre for private equity firms, hedge funds, private banks and exchange traded funds. It has also been a testing ground for the liberalisation of the Mainland's financial markets through schemes such as the Qualified Domestic Institutional Investors, Qualified Foreign Institutional Investors and the RMB Qualified Foreign Institutional Investors.

FINANCIAL INFRASTRUCTURE

The HKMA plays a key role in developing a safe and efficient financial infrastructure in Hong Kong, which is essential to the stability and integrity of the monetary and financial systems. Hong Kong has developed a sound financial infrastructure expediting economic transactions and financial intermediation in the region based on a multi-currency, multi-dimensional platform, and introduced a number of improvements to further facilitate payment flows and enable banks to use liquidity more efficiently. The platform, which handles real-time transactions in major foreign currencies and the Hong Kong dollar, and covers diverse financial intermediation channels including banking, equity and debt, helps consolidate Hong Kong's position as an international financial centre. Hong Kong's financial infrastructure meets current best international standards, and closely supports the city's economic development.

In response to industry demands and international developments, new components have been added to broaden the scope and increase the depth of the financial infrastructure in Hong Kong. For example, order routing and money settlement for investment funds, a trade repository for OTC financial derivatives and retail payment infrastructure.

Financial infrastructure in Hong Kong fall into three broad types:

- payment systems for the settlement of interbank payments;
- debt securities settlement system for the settlement and custody of debt securities; and
- domestic and external system links to provide payment-versus-payment (“**PvP**”) and delivery-versus-payment (“**DvP**”) services, locally and across the border respectively.

Hong Kong Dollar Interbank Payment System

Introduced in 1996, the Hong Kong dollar Real Time Gross Settlement (“**RTGS**”) system, also known as the Hong Kong dollar Clearing House Automated Transfer System (“**CHATS**”), enables safe and efficient settlement of interbank payments denominated in the Hong Kong dollar. Interbank payments are settled continuously on a deal-by-deal basis across the book of the HKMA without netting. In addition to settling large-value payments between banks, the system also handles bulk clearing and settlement of cheques, stock market-related payments and other small-value bulk electronic payments, such as Easy Pay System (“**EPS**”), auto-credit and auto-debit transactions, and automatic teller machine transfers. Besides providing interbank payment services, payments arising from the HKMA's monetary operations are also conducted through the Hong Kong dollar RTGS system.

The Hong Kong dollar RTGS system has a single-tier membership structure. With the Exchange Fund Ordinance providing the legal basis for access to the system, licensed banks in Hong Kong are required to join the system and maintain Hong Kong dollar settlement accounts with the HKMA. Restricted licence banks in Hong Kong may also apply to the HKMA for access to the system, and applications will be assessed against the access criteria set out in the HKMA circulars “Access to the Real Time Gross Settlement System” issued on 29 December 1999 and 19 May 2000. As an on-going effort of the HKMA to eliminate settlement risks for foreign exchange transactions, with the Financial Secretary's approval, the HKMA allowed the CLS Bank International to have limited access to the system in late 2004 to facilitate the inclusion of the Hong Kong dollar in the foreign exchange transactions to be settled through the Continuous Linked Settlement system on a PvP basis. In addition, with the Financial Secretary's endorsement, the HKMA also allowed the Hong Kong Securities Clearing Company Limited (“**HKSCC**”) to open a settlement account with the HKMA in late 2020 to settle Hong Kong dollar money transactions

in relation to its role as a central counterparty (“CCP”). HKSCC’s use of the Hong Kong dollar CHATS Account for processing its CCP-related Hong Kong dollar money transactions will strengthen its risk management and align its operation with international practice and International Monetary Fund Financial Sector Assessment Program’s recommendations.

To further enhance the efficiency of retail payment services, Hong Kong dollar Faster Payment System (“FPS”) was launched on 17 September 2018 as an extension of Hong Kong dollar CHATS.

Central Moneymarkets Unit

The Central Moneymarkets Unit (“CMU”) was established in 1990 to provide computerized clearing and settlement facilities for Exchange Fund Bills and Notes. In December 1993, the HKMA extended the service to other Hong Kong dollar debt securities. The CMU offers an efficient, safe and convenient clearing and custodian system for Hong Kong dollar debt instruments. Since December 1994 and gradually over the years, the CMU has developed external links with regional Central Securities Depositories (“CSDs”) (in Australia, the Mainland and South Korea) and with international CSDs (“ICSDs”, i.e. Euroclear and Clearstream) to assume a more global reach. These links allow overseas investors to hold and settle debt securities lodged with the CMU, and local investors to hold and settle debt securities lodged with overseas CSDs or ICSDs.

The CMU service was further extended to non-Hong Kong dollar debt securities in January 1996. In December 1996, a seamless interface between the CMU and the Hong Kong dollar RTGS interbank payment system was established. This enables the CMU system to provide real-time and batch DvP services to its members. The CMU was further linked to the U.S. dollar, Euro and Renminbi RTGS systems in December 2000, April 2003 and March 2006, respectively, to provide real time DvP capability for debt securities and also intraday and overnight repo facilities for the U.S. dollar and Euro and Renminbi payment systems in Hong Kong.

Bond Connect

In May 2017, the People’s Bank of China (“PBoC”) and the HKMA jointly announced their approval for Mainland and Hong Kong Financial Infrastructure Institutions to collaborate in establishing mutual bond market access between Mainland China and Hong Kong under the scheme known as Bond Connect. Bond Connect is an arrangement that will enable Mainland and overseas investors to trade, settle and hold bonds tradable in the Mainland and Hong Kong bond markets through connection between the Mainland and Hong Kong Financial Infrastructure Institutions. Bond Connect is implemented on a phased approach with Northbound Trading launched in July 2017, while Southbound Trading will also be explored in due course.

Bond Connect consists of a trading link and a settlement link. Under the settlement link of Northbound Bond Connect, the CMU has opened nominee accounts with two Mainland CSDs, namely the China Central Depository & Clearing Co. Ltd. and Shanghai Clearing House, to settle Northbound Bond Connect transactions and hold CIBM bonds on behalf of CMU members, whom in turn are providing services directly or indirectly to overseas investors using Bond Connect.

Over-the-counter Derivatives Market Reforms

The 2008 Global Financial Crisis triggered a global movement to improve transparency and reduce counterparty risks in the OTC derivatives markets, resulting in reforms to the OTC derivatives markets on various fronts. The reform measures adopted by the international regulatory community include requiring all OTC derivatives transactions be reported to trade repositories and all standardized OTC derivatives transactions be cleared through central counterparty (“CCP”) clearing facilities.

A trade repository is a centralised registry that maintains an electronic database of records of OTC derivatives transactions. By collecting and providing OTC derivatives transaction information to regulatory authorities, a trade repository plays a vital role in supporting authorities to carry out their market surveillance responsibilities, which will help maintain financial stability. It also helps improve market transparency, promotes standardisation and ensures availability and quality of transaction data.

To meet international standards, the HKMA announced in December 2010 to develop a trade repository in Hong Kong (the “**HKTR**”). The HKMA worked in concert with the Government and the SFC to build a regulatory regime for the OTC derivatives markets (OTC Regulatory Regime) under the SFO, including requirements for mandatory reporting to the HKTR and mandatory clearing at designated CCPs. In August 2013, the HKMA introduced interim reporting requirements to require licensed banks to report OTC derivatives transactions with another LB to the HKTR. The LegCo enacted the Securities and Futures (Amendment) Ordinance 2014 (the “**Amendment Ordinance**”) on 26 March 2014. The Amendment Ordinance serves as a regulatory framework for the OTC derivatives market in Hong Kong. A set of Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping Obligations) Rules (the “**Reporting Rules**”) came into effect on 10 July 2015, introducing mandatory reporting in respect of certain interest rate swaps and non-deliverable forwards. The interim reporting requirements was ceased upon the commencement of the Reporting Rules. Following the passage of the relevant rules by the Legislative Council in February 2016, the first phase of mandatory clearing and the second phase of mandatory reporting took effect in 1 September 2016 and 1 July 2017 respectively. The first phase mandatory clearing covered certain transactions of standardised interest rate swaps in Hong Kong dollar or one of the G4 currencies (i.e. U.S. dollar, Euro, British pound or Japanese yen). The second phase mandatory reporting covered OTC derivatives under all five key asset classes (i.e. interest rates, foreign exchange, equities, credit and commodities). To cope with evolving international and local reporting and regulatory standards, further enhancements will be made to the HKTR.

A set of Securities and Futures (OTC Derivative Transactions – Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules came into effect on 1 September 2016, introducing mandatory clearing in respect of certain standardised interest rate swaps under certain circumstances.

Cross-border Payments

In addition to the foreign currency payment systems within Hong Kong, linkages have been developed in recent years to facilitate payment flows between Hong Kong and the Mainland, as well as other countries.

Guangdong Province of the Mainland. Launched in phases since January 1998, these links cover cross-border RTGS payments in Hong Kong dollars and U.S. dollars, and cheque clearing in Hong Kong dollars, U.S. dollars and Renminbi, with Guangdong Province including Shenzhen. The use of these links, which helps expedite payments and remittances between Hong Kong and Guangdong, has been rising gradually with the increasing economic integration between Hong Kong and the Mainland.

Mainland. Cross-border payment arrangements involving the Mainland’s Domestic Foreign Currency Payment System were established in March 2009 to facilitate foreign currency funding and liquidity management of Mainland banks and commercial payments. The cross-border payment arrangements currently cover four currencies, namely the Hong Kong dollar, U.S. dollar, Euro and British pound.

Macao. The one-way joint clearing facility for Hong Kong dollar and U.S. dollar cheques between Hong Kong and Macao was launched in August 2007 and June 2008, respectively, reducing the time required for clearing Hong Kong dollar and U.S. dollar checks drawn on banks in Hong Kong and presented in Macao from four or five days to two days.

Malaysia. A link between the Ringgit RTGS system in Malaysia (the “**RENTAS system**”) and the U.S. dollar RTGS system in Hong Kong came into operation in November 2006. The link helps eliminate settlement risk by enabling PvP settlements of foreign exchange transactions in Ringgit and U.S. dollars during Malaysian and Hong Kong business hours. This is the first cross-border PvP link between two RTGS systems in the region.

Indonesia. The PvP link between Hong Kong’s U.S. dollar RTGS system and Indonesia’s Rupiah RTGS system was launched in January 2010. The link helps eliminate settlement risk by enabling PvP settlements of foreign exchange transactions in Rupiah and U.S. dollars during Indonesian and Hong Kong business hours.

Thailand. The PvP link between Hong Kong’s U.S. dollar RTGS system and Thailand’s Thai Baht RTGS system was launched in July 2014. The link helps eliminate settlement risk by enabling PvP settlements of foreign exchange transactions in Thai Baht and U.S. dollars during Thai and Hong Kong business hours.

Continuous Linked Settlement (“CLS”) system. The CLS system, operated by CLS Bank International, is a global clearing and settlement system for cross-border foreign exchange transactions. It removes settlement risk in these transactions by settling them on a PvP basis. The Hong Kong dollar joined the CLS system in 2004.

Regional CHATS. This is an extension of the RTGS systems in Hong Kong in the regional context. Regional payments in Hong Kong dollars, U.S. dollars, Euros and Renminbi can use the RTGS platform in Hong Kong to facilitate cross border or cross bank transfers in those currencies.

International Cooperation

BIS Committee on Payments and Market Infrastructures – The HKMA is a member of the Bank for International Settlements (BIS) and its Committee on Payments and Market Infrastructures (“**CPMI**”). The CPMI is an international standard setter that promotes, monitors and makes recommendations about the safety and efficiency of payment, clearing, settlement and related arrangements, thereby supporting financial stability and the wider economy. The CPMI also serves as a forum for central bank cooperation in related oversight, policy and operation matters, including the provision of central bank services.

EMEAP Working Group on Payments and Market Infrastructures (“WGPMI”) and Working Group on Financial Markets (“WGFM”) – The HKMA is a member of the Executives’ Meeting of East Asia-Pacific Central Banks (“**EMEAP**”), a cooperative organisation of central banks and monetary authorities in the East Asia and Pacific region. The HKMA participates in, among others, the EMEAP WGPMI, which studies the development and regulatory/supervisory/oversight issues in domestic and cross-border payments and market infrastructures in the region. The HKMA also chairs the EMEAP WGFM, which coordinates studies on central bank operations and the developments of foreign exchange, money and bond markets, as well as plays a key role in forming the Asian Bond Fund.

Retail Payment Development

Throughout the years, the HKMA continues its effort to enhance the retail payment infrastructure in Hong Kong with a view to providing the public with a wider choice of safe and efficient retail payment instruments and services to suit varying needs. These include, among others, the implementation of Electronic Cheque (“**e-Cheque**”) and Electronic Bill Presentment and Payment services.

Electronic cheque

In view of the increasing popularity of Internet banking, the HKMA and the banking sector initiated the development of e-Cheques to provide a more convenient way for bank customers to issue and deposit cheques online. The e-Cheque service was launched on 7 December 2015.

e-Cheque is an electronic counterpart of paper cheque. It provides an efficient and convenient alternative for bank customers to make and receive payments without depriving their rights to use paper cheques or other payment methods. It retains all the basic features and benefits of paper cheques, provides enhanced security features and saves the need for physical delivery and physical presentment. Payment with e-Cheques will become faster, easier and entirely paperless.

To expand the scope of e-Cheque to cover cross-boundary payments, the HKMA cooperated with the Guangzhou Branch and Shenzhen Central Sub-branch of the PBoC to implement joint e-Cheque clearing between Guangdong province (including Shenzhen) and Hong Kong on 20 July 2016. Under the arrangement, e-Cheques issued by banks in Hong Kong and deposited with banks in Guangdong province (including Shenzhen) will be settled on the next business day.

Faster Payment System

To address the increasing market needs for more efficient retail payment services, the HKMA has launched the FPS on 17 September 2018. Both banks and stored value facilities (“SVF”) in Hong Kong may participate in the FPS. It enables their customers to make cross-bank/SVF payments easily, by entering the mobile phone number or the email address of the recipient, with funds available to the recipient almost immediately. The FPS operates on 24x7 basis and supports payments in the Hong Kong dollar and the Renminbi.

THE EXCHANGE FUND

The Exchange Fund, which is under the control of the Financial Secretary, was established by the Exchange Fund Ordinance in 1935. Under the delegated authority of the Financial Secretary and within the terms of the delegation, the HKMA is responsible to the Financial Secretary for the management of the Exchange Fund. Since its establishment in 1935, the Exchange Fund has held the backing to the banknotes issued in Hong Kong. In 1976, the backing for coins issued and the bulk of the foreign currency assets held in the HKSAR Government’s General Revenue Account were also transferred to the Exchange Fund. As at 30 September 2020, the Exchange Fund had total assets of HK\$4,186.7 billion and an accumulated surplus of HK\$770.4 billion.

The Exchange Fund’s statutory use, as provided in the Exchange Fund Ordinance, is primarily to affect, either directly or indirectly, the exchange value of the currency of Hong Kong. Its functions were extended with the enactment of the Exchange Fund (Amendment) Ordinance 1992 by introducing a secondary use of maintaining the stability and integrity of Hong Kong’s monetary and financial systems, with a view to maintaining Hong Kong as an international financial centre.

The fiscal reserves are deposited with the Exchange Fund to allow for centralised investment management of public funds. As such, the Exchange Fund and fiscal reserves are managed and invested together but remain two separate and distinct funds. Fiscal reserves assets may be used to enhance the resources available to the Exchange Fund though those amounts represent money borrowed for the account of the Exchange Fund and will have to be repaid on demand.

Similarly, the Bond Fund is also placed with the Exchange Fund for investment purposes. For more information, please see “*Public Finance – Government Bond Programme*” below.

The HKMA manages the Exchange Fund. Apart from ensuring that the fund meets its statutory roles, one of the HKMA’s principal day-to-day activities is the active management of the fund’s assets. These are held mainly in the form of marketable interest-bearing instruments and equities in certain foreign currencies. To meet the operational needs of the HKSAR Government, part of the Exchange Fund is also held in Hong Kong dollar denominated securities.

The HKMA regularly reviews its investment strategy and operations. In line with the statutory purposes for which the Exchange Fund was created and maintained, the investment style and strategy are similar to those of comparable central banks and monetary authorities. An investment strategy appropriate for a long-term fund, such as a benchmark approach and use of the long term capital markets, has been adopted, and a wide range of currencies and instruments has been used.

To meet the objectives of preserving capital, providing U.S. dollar backing to the Monetary Base, providing liquidity to maintain financial and currency stability and generating an adequate long-term return, the Exchange Fund is broadly managed under three major portfolios, namely the backing portfolio (“**Backing Portfolio**”), the investment portfolio (“**Investment Portfolio**”) and the long-term growth portfolio (“**Long-Term Growth Portfolio**”). The Backing Portfolio holds highly liquid U.S. dollar-denominated assets to provide full backing to the Monetary Base as required under the currency board arrangements. The Investment Portfolio is invested primarily in the bond and equity markets of the member countries of the Organisation for Economic Co-operation and Development to preserve the value and long-term purchasing power of the assets. The Long-Term Growth Portfolio holds private equity and real estate investments.

In 2007, a strategic portfolio (“**Strategic Portfolio**”) was established to hold shares in the HKEX acquired by the HKSAR Government for the account of the Exchange Fund for strategic purposes. Because of the unique nature of this portfolio, it is not included in the assessment of the investment performance of the Exchange Fund.

Based on the audited financial statements for the year ended 31 December 2019, the Exchange Fund recorded an investment income of HK\$262.2 billion (mainly comprising gains on bonds of HK\$114.5 billion, gains on equities of HK\$122.8 billion, net exchange loss of HK\$13.0 billion and gains on other investments of HK\$37.9 billion, but excluding a gain of HK\$2.5 billion in the Strategic Portfolio). After deducting all expenses and fees, the accumulated surplus of the Exchange Fund recorded an increase of HK\$139.0 billion. Based on the unaudited figures for the first three quarters of 2020, the Exchange Fund recorded an investment income of HK\$62.4 billion (mainly comprising gains on bonds of HK\$83.2 billion, loss on equities of HK\$5.4 billion, net exchange loss of HK\$9.7 billion and loss on other investments of HK\$5.7 billion, but excluding valuation changes in the Strategic Portfolio).

The investment return of the Exchange Fund was 6.6 per cent. in 2019. The average return was 3.1 per cent. over the past five years, from 2015 to 2019.

The investment return of the Exchange Fund for 2018 and 2019, as well as the compounded annual investment return and domestic inflation rate, as measured by the compounded annual Hong Kong composite CPI, for the period from 1994 to 2019 are set out in the table below:

INVESTMENT RETURN OF THE EXCHANGE FUND⁽¹⁾

	2018	2019	Compounded Annual Investment Return (1994-2019) ⁽²⁾	Compounded Annual Hong Kong Composite CPI (1994-2019) ⁽³⁾
Investment return in Hong Kong dollar terms.....	0.3%	6.6%	4.8%	2.1%

Notes:

1. Investment return calculation excludes the holdings in the Strategic Portfolio.
2. The investment returns for 2001 to 2003 are in U.S. dollar terms.
3. Composite CPI is calculated based on the 2014/2015-based CPI series.

Source: HKMA.

As at 30 September 2020, the Exchange Fund's assets amounted to HK\$4,186.7 billion.

The accumulated surplus of the Exchange Fund (the “**Accumulated Surplus**”) is the total net profit earned by the Exchange Fund over the years. Accordingly, when a loss is incurred in the use of the Exchange Fund, it can be offset with the Accumulated Surplus. The Accumulated Surplus as at 30 September 2020, 31 December 2019, 2018, 2017, 2016 and 2015 was HK\$770.4 billion, HK\$748.7 billion, HK\$609.7 billion, HK\$713.1 billion, HK\$546.5 billion and HK\$544.9 billion, respectively.

The currency mix of the Exchange Fund's assets as at 31 December 2019 (including forward transactions) is set out in the table below:

CURRENCY MIX OF THE EXCHANGE FUND'S ASSETS

	<u>As at 31 December 2019</u>	
	(HK\$ billions)	(percentage of total)
U.S. dollar	3,482.4	82.8
Hong Kong dollar	303.7	7.2
Others ⁽¹⁾	420.6	10.0
Total	<u>4,206.7</u>	<u>100.0</u>

Note:

- Other currencies included mainly Euro, Renminbi, British pound and Japanese yen.

Source: HKMA.

The foreign currency reserve assets of Hong Kong amounted to U.S.\$358.8 billion, U.S.\$386.3 billion, U.S.\$431.4 billion, U.S.\$424.6 billion and U.S.\$441.4 billion as at 31 December 2015, 2016, 2017, 2018 and 2019, respectively.

PUBLIC FINANCE

OVERVIEW

The principles underlying the HKSAR Government's management of public finances are set forth in the Basic Law, which stipulates that:

- The HKSAR shall have independent finances, and shall use its revenues exclusively for its own purposes.
- The HKSAR shall practise an independent taxation system, taking the low tax policy previously pursued in Hong Kong as reference.
- The HKSAR shall follow the principle of keeping expenditure within the limits of revenues in drawing up its budget and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its GDP.
- LegCo shall exercise the power to approve the budget of the HKSAR Government.

The HKSAR Government implements these constitutional provisions by striving to maintain a low and simple tax regime and exercising fiscal prudence. Consistent with these constitutional provisions, the Public Finance Ordinance (“**PFO**”) stipulates a system for the control and management of Hong Kong's public finances and defines the respective powers and functions of the legislature and the executive. Pursuant to the PFO, the Financial Secretary submits to the LegCo an annual set of estimates of revenue and expenditure. The estimates are developed against the background of a medium-range forecast to ensure that full regard is given to the longer-term trends in the economy. The financial year starts from 1 April and ends on 31 March.

A government department can only incur expenditure up to the amounts stated in the expenditure estimates and for the purposes approved by the LegCo. If during the financial year a department needs to change the expenditure estimates and spend more money, it must obtain authorisation from the LegCo or relevant authorities with delegated powers.

The HKSAR Government has a prudent fiscal policy, demonstrated by more than 10 consecutive years of budget surpluses and an accumulation of significant fiscal reserves. However, the HKSAR Government ran a fiscal deficit in 2019-20, the first time over the past 15 years.

Public expenditure comprises government expenditure and expenditure by other public bodies. In 2018-19, public expenditure totalled HK\$567.6 billion, an increase of 11.8 per cent. over the previous year.

Government's Financial Accounts

The HKSAR Government uses the General Revenue Account for revenue collection and day-to-day departmental expenditure. In addition, the HKSAR Government controls its other finances through a series of fund accounts established under Section 29 of the PFO of Hong Kong. The HKSAR Government also transfers amounts as necessary to and from the funds listed below.

- The Capital Works Reserve Fund is funded mainly by land premium proceeds and finances mainly public works projects, land acquisitions, capital subventions, major systems and equipment items and computerisation projects. The Financial Secretary may transfer any surplus funds to the General Revenue Account. LegCo may also approve appropriations from general revenue to the Capital Works Reserve Fund.
- The Capital Investment Fund finances the HKSAR Government's investments through equity injections and provision of loans. It is funded by dividend, interest income and loan repayments and, where necessary, appropriation from the General Revenue Account.
- The Civil Service Pension Reserve Fund is a reserve fund for meeting payment of civil service pensions in the unlikely event that the HKSAR Government cannot meet its liabilities for such payment from the General Revenue Account. It is funded by investment income and, where necessary, appropriation from the General Revenue Account.
- The Disaster Relief Fund finances grants for humanitarian aid in relief of disasters that occur outside Hong Kong. Its funding is derived from appropriations from the General Revenue Account and investment income.
- The Innovation and Technology Fund finances projects to help promote innovation and technology upgrading in manufacturing and service industries in order to increase productivity and enhance competitiveness, to further the long-term economic development of Hong Kong. It is funded mainly from investment income and, where necessary, appropriation from the General Revenue Account.
- The Land Fund was established at the time of the establishment of the HKSAR to receive and hold all of the assets transferred from the then HKSAR Government Land Fund which was set up in 1986 by the Chinese side of the Joint Liaison Group for the purpose of holding land premium income in trust for the benefit of the HKSAR Government. With the establishment of the HKSAR Government, the HKSAR Government Land Fund assets were handed over to the HKSAR Government, which determines how the Fund's assets should be expended. The fund's income is derived from investment income.
- The Loan Fund finances loans and advances, such as student loans, made available by the HKSAR Government. It is funded by repayment of principal and interest payment from its loan portfolio and, where necessary, appropriation from the General Revenue Account.
- The Lotteries Fund finances social welfare services through grants, loans and advances. Its income is derived mainly from the proceeds of the Mark Six Lottery and investment income.
- The Bond Fund was established in connection with the GB Programme to promote the development of the bond market in Hong Kong by providing more diversified investment products. The Bond Fund is not part of the fiscal reserves and is managed separately from other HKSAR Government accounts.

In accounting terms, public expenditure is taken to include the HKSAR Government's expenditure plus expenditure by the HA and trading funds. The HA, with Housing Department as its executive arm, is financially autonomous. The HKSAR Government provides the HA with capital and land on concessionary terms to build public housing for rent and for sale. The trading funds include entities such as the post office which are self-financing and allowed to retain revenue generated to meet expenditure in providing services and to finance future expansion. The HKSAR Government subventions (grants and payments) to institutions in the private or quasi-private sectors are included, but not spending by organisations in which the HKSAR Government only has an equity stake (such as MTRCL and the AA). Similarly, debt repayments and equity payments are excluded as they do not reflect the actual consumption of resources by the HKSAR Government.

MANAGEMENT OF EXPENDITURE AND REVENUE

The HKSAR Government manages its finances in light of its rolling five-year, medium-range forecast of expenditure and revenue. This provides a model for the HKSAR Government's overall consolidated financial position.

The HKSAR Government aims to manage public finance in order to ensure that government expenditure, over time, does not grow faster than the economy as a whole. The budget presented by the Financial Secretary to LegCo in February of each year is developed against the background of the medium-range forecast to ensure that the budget reflects this goal in light of the longer-term trends of the economy.

Actual revenue and expenditure amounts have largely been consistent with budget forecasts. In the February 2018 Budget Speech, the Financial Secretary forecasted that government expenditure would be HK\$569.6 billion and revenue would be HK\$604.5 billion in 2018-19. Actual expenditure amounted HK\$531.8 billion and actual revenue amounted to HK\$599.8 billion for 2018-19. In the February 2019 Budget Speech, the Financial Secretary forecasted that government expenditure (after repayment of bonds and notes) would be HK\$609.3 billion and revenue would be HK\$626.1 billion in 2019-20. Actual expenditure amounted HK\$609.3 billion (after repayment of bonds and notes) and actual revenue (including net proceeds from issuance of bonds and notes) amounted to HK\$598.8 billion for 2019-20.

The relevant figures are summarized below:

HKSAR GOVERNMENT CONSOLIDATED BALANCE

	Fiscal Year	
	2018-19	2019-20
	(HK\$ billions)	
Government Expenditure after repayment of bonds and notes	531.8	609.3
Government Revenue including net proceeds from issuance of bonds and notes	599.8	598.8
Surplus/(deficit) after issuance/repayment of bonds and notes	68.0	(10.6)

Source: Financial Services and the Treasury Bureau (The Treasury Branch).

ACCRUAL AND CASH-BASED ACCOUNTS

The HKSAR Government's budget and core accounts are prepared on a cash basis. In addition, accrual-based consolidated accounts are made publicly available. The reporting entities in the accrual-based accounts include not only the General Revenue Account and the funds established under the PFO of Hong Kong, but also other funds established by the HKSAR Government for specific purposes, such as the Quality Education Fund, the HA, government business enterprises (such as the AA and MTRCL) and the Exchange Fund, through which most of the HKSAR Government's financial assets are held.

Under the Audit Ordinance of Hong Kong, the Director of Accounting Services is required to submit to the Director of Audit, within five months from the fiscal year end, a statement of the assets and liabilities as well as an annual statement of the receipts and payments in respect of the General Revenue Account and each of the funds established under Section 29 of the PFO of Hong Kong other than the Lotteries Fund, which is audited separately. The Director of Audit issues his report on the financial statements prepared on a cash basis in October of each year. The accounts prepared on an accrual basis are not subject to an audit.

THE HKSAR GOVERNMENT REVENUE AND EXPENDITURE

The HKSAR Government's revenues are principally derived from taxes, while its expenditures are principally for economic, social welfare, education and health. Since the onset of the COVID-19 pandemic, a heightened portion of the HKSAR Government's expenditures have related to various relief measures of an unprecedented scale implemented to support enterprises and individuals and to safeguard jobs, including the HK\$10,000 Cash Payout Scheme and the provision of wage subsidies through the Employment Support Scheme. As of 31 December 2020, the HKSAR Government has committed over HK\$300 billion, equivalent to about 11% of Hong Kong's GDP, for the four rounds of Anti-Epidemic Fund relief measures and the implementation of the one-off relief measures announced in the 2020-21 Budget.

The following table sets out the cash-based accounts of the HKSAR Government revenues and expenditures for the fiscal years indicated:

HKSAR GOVERNMENT REVENUES AND EXPENDITURES

	Fiscal Year				
	2015-16	2016-17	2017-18	2018-19	2019-20
	(HK\$ millions)				
Revenue					
Operating revenue					
Internal revenue					
Earnings and profits tax	205,883	206,907	208,729	236,353	214,119
Stamp duties	62,680	61,899	95,173	79,979	67,198
Bets and sweeps tax	20,127	21,119	21,959	22,194	22,012
Air passenger departure tax	2,516	2,598	2,737	2,881	2,347
Utilities, fees and charges	19,159	16,975	20,266	20,668	16,028
General rates	22,733	21,250	22,203	17,167	20,980
Duties	10,712	10,254	10,701	10,636	11,391
Motor vehicle taxes	9,311	7,814	8,594	9,432	7,219
Other revenue	28,411	62,911	52,397	55,106	72,560
Total Operating					
Revenue	<u>381,532</u>	<u>411,727</u>	<u>442,759</u>	<u>454,416</u>	<u>433,854</u>
Capital revenue (including net proceeds from issuance of bonds and notes) . . .	<u>68,475</u>	<u>161,397</u>	<u>177,078</u>	<u>145,358</u>	<u>164,901</u>
Total revenue (including net proceeds from issuance of bonds and notes) . . .	<u>450,007</u>	<u>573,124</u>	<u>619,837</u>	<u>599,774</u>	<u>598,755</u>
Expenditure					
Operating expenditure					
Recurrent Expenditure					
Personal emoluments	68,152	71,775	74,567	79,264	87,490
Personal-related expenses	5,979	6,725	7,445	8,335	9,412
Pensions	29,433	31,948	34,410	36,784	38,648
Departmental expenses	28,567	30,163	31,366	34,725	40,818
Other charges	63,565	69,052	69,307	83,295	84,432
Subventions	128,836	134,975	144,717	160,587	177,960
Non-recurrent expenditure	22,833	8,618	9,085	29,455	84,451
Total operating expenditure	<u>347,365</u>	<u>353,256</u>	<u>370,897</u>	<u>432,445</u>	<u>523,211</u>
Capital expenditure (after repayment of bonds and notes)	<u>88,268</u>	<u>108,796</u>	<u>99,966</u>	<u>99,380</u>	<u>86,119</u>
Total expenditure (after repayment of bonds and notes)	<u>435,633</u>	<u>462,052</u>	<u>470,863</u>	<u>531,825</u>	<u>609,330</u>

Source: Financial Services and the Treasury Bureau (The Treasury Branch).

PUBLIC EXPENDITURE

As set out in the Appendix to the 2020-21 Budget Speech, the general principle of expenditure policy is that, over time, the growth rate of expenditure should be commensurate with the growth rate of the economy.

REVENUE SOURCES

The major sources of revenue are profits tax, land premium, stamp duties on stock and property transactions and salaries tax. Other significant sources include revenue from bets and sweeps tax, rates and investment returns.

The HKSAR Government earns tax revenue as well as non-tax revenue, all as shown in the table below:

HKSAR GOVERNMENT REVENUES BREAKDOWN

	Fiscal Year				
	2015-16	2016-17	2017-18	2018-19	2019-20
	(percentage of total)				
Tax Revenue	76.6	60.7	61.6	65.1	59.0
Earnings and profits tax	45.8	36.1	33.7	39.4	35.8
Profits tax	31.2	24.3	22.4	27.8	26.0
Salaries tax	12.8	10.3	9.8	10.0	8.4
Personal assessment	1.1	0.9	0.9	1.0	0.8
Property tax	0.7	0.6	0.6	0.6	0.5
Indirect Tax	30.8	24.6	27.9	25.7	23.3
Air passenger departure tax	0.5	0.5	0.4	0.5	0.4
Bets and sweeps tax	4.5	3.7	3.6	3.7	3.7
Duties	2.4	1.8	1.7	1.8	1.9
Estate Duty	–	–	–	–	–
Fees and charges (tax-loaded)	1.7	0.9	1.3	1.3	0.8
General rates	5.1	3.7	3.6	2.9	3.5
Motor vehicle taxes	2.1	1.4	1.4	1.6	1.2
Royalties and Concessions	0.6	1.8	0.5	0.6	0.5
Stamp duties	13.9	10.8	15.4	13.3	11.2
Non-Tax Revenue	23.4	39.3	38.4	34.9	41.0
Asset sales	0.1	–	–	–	–
Fees and charges (non tax-loaded)	1.7	1.3	1.2	1.4	1.2
Investment income and interest	–	3.6	3.5	6.7	6.7
Land premium	13.5	22.3	26.6	19.5	23.7
Properties and investments	4.4	5.3	4.5	3.1	3.9
Utilities	0.9	0.8	0.7	0.7	0.7
Other income ⁽¹⁾	2.8	6.0	1.9	3.5	4.8
Total revenue	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Note:

1. Other income includes fines, forfeitures and penalties; and loans, reimbursements, contributions and other receipts of General Revenue Account, and also revenue from various funds.

Source: *Financial Services and the Treasury Bureau (The Treasury Branch)*.

Profits Tax

Profits tax is charged on all profits (excluding profits arising from the sale of capital assets) arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong. The two-tiered profits tax regime has taken effect from the year of assessment 2018/19. The tax rate for the first HK\$2 million of assessable profits of corporations is lowered from 16.5 per cent. to 8.25 per cent. Profits above that amount will continue to be subject to the tax rate of 16.5 per cent. For unincorporated businesses, the two-tiered tax rates are correspondingly set at 7.5 per cent. and 15 per cent. Assessable profits are determined from the profits made in the relevant accounting year for each year of assessment. There is no withholding tax on dividends paid by corporations, and dividends received from corporations are exempt from tax.

In 2018-19, the HKSAR Government received approximately HK\$166.6 billion in profits tax, or approximately 27.8 per cent of total revenue. In 2019-20, the HKSAR Government received approximately HK\$155.9 billion in profits tax, or approximately 26.0 per cent of total revenue.

Land Premium

Land premium consists of revenue generated from (i) sales by public auction and tender, (ii) modification of existing leases, exchanges and extensions, (iii) private treaty grants and (iv) fees received in respect of short term waivers of land use restrictions. Land premium is credited to the Capital Works Reserve Fund. Land premium contributed HK\$116.9 billion, or 19.5 per cent. of total revenue in 2018-19 and HK\$141.7 billion, or 23.7 per cent. of total revenue in 2019-20.

Salaries Tax

Salaries tax is charged on most but not all incomes from employment, offices and pension arising in or derived from Hong Kong. Tax payable is calculated on a sliding scale which varies from 2 per cent. to 17 per cent. on every HK\$50,000 increment of income (after deductions and allowances) in the year of assessment 2018/19 onwards until superseded. The total tax is restricted to a maximum of 15 per cent. standard rate of net income (before deduction of allowances). Salaries tax contributed HK\$60.1 billion, or 10.0 per cent of total revenue, in 2018-19, or HK\$50.4 billion, or 8.4 per cent. of total revenue, in 2019-20.

Stamp Duties

Stamp duty is imposed on different types of documents relating to transactions of immovable property, leases and share transfers. For the sale or transfer of immovable property, stamp duties are based on the consideration or value of the property (whichever is the higher) and consist of (i) an ad valorem stamp duty, (ii) an additional special stamp duty introduced in November 2010 for residential properties bought and resold within 24 or 36 months and (iii) a buyer's stamp duty introduced in October 2012 for the acquisition of residential properties. Stamp duties on leases depend upon the term of the lease and the amount of rent. Stamp duties for transfers of Hong Kong stock vary depending on the consideration or value of the stock (whichever is the higher). The revenue from stamp duties accounted for HK\$80.0 billion, or 13.3 per cent. of total revenue, in 2018-19 and HK\$67.2 billion, or 11.2 per cent. of total revenue, in 2019-20.

Other Revenue

Other tax revenue sources include, among others, property tax, personal assessment, bets and sweeps tax, duties assessed on certain commodities, general rates, and motor vehicles taxes. The HKSAR Government also derives revenue from non-tax sources. These include, among others, fees and charges, investment income and interest, properties and investments and utilities.

GOVERNMENT INDEBTEDNESS AND CONTINGENT LIABILITIES

Indebtedness

Government debt does not include bonds issued under the GB Programme. For more information see “*Public Finance – Government Bond Programme*” below.

On an accrual basis, the HKSAR Government held HK\$2,134.2 billion in consolidated net assets as at 31 March 2019. These net assets were represented by three reserves: General Reserve of HK\$901.7 billion, Exchange Fund Reserve of HK\$715.8 billion and Capital Expenditure Reserve of HK\$516.7 billion.

HKSAR has not defaulted on the payment of any principal of and any interest on any external or internal indebtedness.

Government Bond Programme

The GB Programme is an initiative of the HKSAR Government to promote the further and sustainable development of the local bond market. Through the GB Programme, the HKSAR Government aims to increase the breadth and depth of the local bond market so that the bond market can complement the equity market and the banking sector to serve as an effective channel of financial intermediation. The development of a mature local bond market will also help promote the efficient allocation of funds, thereby promoting financial stability, strengthening Hong Kong’s status as an international financial centre and promoting economic development. Pursuant to a resolution passed by LegCo in May 2013, the HKSAR Government is authorised to borrow up to a maximum principal amount outstanding at any time of HK\$200 billion or equivalent under the GB Programme. Further increases to the maximum amount would require LegCo approval.

The HKSAR Government maintains a strong fiscal position. The GB Programme is designed to issue government bonds in a systematic and consistent manner. Under the GB Programme, the HKSAR Government is not subject to any rigid issuance target and can flexibly determine the size and tenor of individual government bond issues, subject to prevailing market conditions and demand.

The HKMA, as representative of the HKSAR Government in the implementation of the GB Programme, is tasked with coordinating the offering of government bonds and managing the investment of the sums raised under the GB Programme, which are credited to the Bond Fund. The Bond Fund is placed with the Exchange Fund for investment purposes and receives investment income based on a fixed rate sharing arrangement in order to preserve capital and generate reasonable investment returns to cover financial obligations and liabilities under the GB Programme. Any shortfall of funds for fulfilling the financial obligations and liabilities of the HKSAR Government under the GB Programme will be financed from the general revenues and assets of the HKSAR Government.

Outstanding Bonds under the Government Bond Programme (as at end of December 2020)

Expected maturity date	Original maturity	Coupon	Outstanding size
		(per cent. p.a.)	(HK\$ bn)
August 2021	10-year	2.46	14.5
December 2021	3-year	Floating	2.9
May 2022	5-year	1.16	9.0
July 2022	3-year	Floating	3.0
January 2023	10-year	1.10	17.8
October 2023	3-year	0.51	4.0
November 2023	3-year	Floating	15.0
December 2023	3-year	Floating	15.0
August 2024	10-year	2.22	9.5
January 2026	10-year	1.68	8.4
June 2027	10-year	1.25	3.6
January 2029	10-year	1.97	4.7
July 2030	15-year	2.13	3.5
March 2032	15-year	1.89	2.4
March 2034	15-year	2.02	3.2
Total			116.5

Source: HKMA.

Note: In addition, the HKSAR Government issued three Islamic bonds under the GB Programme, each with an issuance size of U.S.\$1 billion in 2014 (matured in September 2019), 2015 (matured in June 2020) and 2017. The 2014 and 2015 issuances were 5-year tenors while the 2017 issuance was a 10-year tenor. As at 31 December 2020, the 2017 issuance was outstanding.

Government Green Bond Programme

The GGB Programme is an initiative of the HKSAR Government to promote the development of green finance in Hong Kong by encouraging issuers to arrange financing for their green projects through Hong Kong's capital markets. Sums raised under the GGB Programme will be credited to the Capital Works Reserve Fund for funding public works projects with environmental benefits to demonstrate the HKSAR Government's support for sustainable development and its determination to combat climate change, and promote the development of green finance. Pursuant to a resolution passed by LegCo in November 2018, the HKSAR Government is authorised to borrow up to a maximum principal amount outstanding at any time of HK\$100 billion or equivalent under the GGB Programme. The Notes are issued under the GGB Programme.

Contingent Liabilities

As at 31 March 2020, the HKSAR Government had the following contingent liabilities:

(HK\$ millions)

Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	36,968
Guarantees provided under the SME Financing Guarantee Scheme – Special Concessionary Measures	23,592
Guarantees provided under the SME Financing Guarantee Scheme – 90% Guarantee Coverage	3,329
Legal claims, disputes and proceedings	6,353
Subscription to callable shares in the Asian Development Bank	5,915
Subscription to callable shares in the Asian Infrastructure Investment Bank	4,768
Guarantees provided under the SME Loan Guarantee Scheme	4,169
Guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation	975
Guarantees provided under the Special Loan Guarantee Scheme	144
Total	<u>86,213</u>

FISCAL RESERVES

The total balance of the General Revenue Account and the eight funds (Capital Works Reserve Fund, Capital Investment Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund) constitute the fiscal reserves. Fiscal reserves stood at HK\$1,160.3 billion and HK\$841.9 billion as at 31 March 2020 and 30 November 2020 respectively.

Fiscal reserves are placed with the Exchange Fund for investment purposes. Effective from 1 April 2007, the investment income of the fiscal reserves for any given year is calculated on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year Exchange Fund Notes for the previous year subject to a minimum of zero per cent, whichever is the higher.

The following table sets forth the fiscal reserves for the periods indicated:

HKSAR GOVERNMENT FISCAL RESERVES

	Fiscal Year				
	2015-16	2016-17	2017-18	2018-19	2019-20
	(HK\$ billions, except percentages)				
Fiscal reserves as at					
31 March	842.9	954.0	1,102.9	1,170.9	1,160.3
Fiscal reserves (as percentage of					
GDP)	35.1	38.3	41.5	41.3	40.5

Source: *Financial Services and the Treasury Bureau (The Treasury Branch)*.

RECENT DEVELOPMENTS

Recent Developments

After entering into a deep recession in the first quarter of 2020, the Hong Kong economy has seen some improvement since the third quarter of 2020, but is expected to continue to face considerable challenges in the foreseeable future. The speed and strength of its recovery will hinge on a number of external and internal factors, with the development of the COVID-19 pandemic being the most critical uncertainty. For more information, see “*Risk Factors – Risks related to recent developments.*”

The HKSAR Government has also publicly denounced the following:

- Between August 2020 and January 2021, the U.S. Department of the Treasury’s Office of Foreign Assets Control identified several officials of the HKSAR Government as persons on the Specially Designated Nationals And Blocked Persons List pursuant to The President’s Executive Order EO 13936.

Financial results for the eight months ended 30 November 2020

Expenditure for the period April to November 2020 amounted to HK\$557.2 billion and revenue HK\$238.8 billion, resulting in a cumulative year-to-date deficit of HK\$318.4 billion.

The cumulative year-to-date deficit for the period was mainly due to the fact that some major types of revenue, including salaries and profits taxes, are mostly received towards the end of a financial year, and the payments in respect of the Cash Payout Scheme and various measures under the Anti-epidemic Fund.

The fiscal reserves stood at HK\$841.9 billion as at 30 November 2020.

CONSOLIDATED ACCOUNT⁽¹⁾

	Month ended 30 November	Eight months ended 30 November	
	2020	2019	2020
		(HK\$ millions)	
Revenue	49,760.0	218,223.4	238,800.8
Expenditure	(55,658.8)	(369,728.6)	(557,206.5)
Deficit ⁽²⁾	(5,898.8)	(145,176.5)	(318,405.7)
Financing			
Domestic			
Banking Sector ⁽³⁾	7,650.5	144,171.3	319,968.7
Non-Banking Sector	(1,751.7)	1,005.2	(1,563.0)
External	–	–	–
Total	5,898.8	145,176.5	318,405.7

Notes:

1. This account consolidates the General Revenue Account and the following eight funds: Capital Works Reserve Fund, Capital Investment Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund. It excludes the Bond Fund, the balance of which is not part of the fiscal reserves. The Bond Fund balance as at 30 November 2019 and 30 November 2020 amounted to HK\$134,685 million and HK\$131,354 million respectively.
2. The 2019 deficit figure represents the deficit after issuance and repayment of government bonds and notes.
3. Includes transactions with the Exchange Fund and resident banks.

	As at 30 November	
	2019	2020
	(HK\$ millions)	
Government Debt	7,828 ⁽¹⁾	7,751 ⁽²⁾
Debts Guaranteed by Government ⁽³⁾	28,241	67,604.4

Notes:

- These were the green bonds of US\$1,000 million (equivalent to HK\$7,828 million as at 30 November 2019) which were denominated in US dollars with maturity in May 2024. They do not include the outstanding bonds with nominal value of HK\$100,141 million and alternative bonds with nominal value of US\$2,000 million (equivalent to HK\$15,656 million as at 30 November 2019) issued under the Government Bond Programme (with proceeds credited to the Bond Fund). Of these bonds under the Government Bond Programme (including Silver Bonds with nominal value of HK\$8,841 million, which may be redeemed before maturity upon request from bond holders), bonds with nominal value of HK\$31,769 million and alternative bonds with nominal value of US\$1,000 million (equivalent to HK\$7,828 million as at 30 November 2019) will mature within the period from December 2019 to November 2020 and the rest within the period from December 2020 to March 2034.
- These were the Green Bonds of US\$1,000 million (equivalent to HK\$7,751 million as at 30 November 2020) which were denominated in US dollars with maturity in May 2024. They do not include the outstanding bonds with nominal value of HK\$101,515 million and alternative bonds with nominal value of US\$1,000 million (equivalent to HK\$7,751 million as at 30 November 2020) issued under the Government Bond Programme (with proceeds credited to the Bond Fund). Of these bonds under the Government Bond Programme (including Silver Bonds with nominal value of HK\$5,915 million, which may be redeemed before maturity upon request from bond holders), bonds with nominal value of HK\$14,500 million will mature within the period from December 2020 to November 2021 and the rest within the period from December 2021 to March 2034.
- Includes guarantees provided under the SME Loan Guarantee Scheme launched in 2001, the Special Loan Guarantee Scheme launched in 2008, the SME Financing Guarantee Scheme launched in 2012 and a commercial loan of the Hong Kong Science and Technology Parks Corporation.

	Month ended 30 November	Eight months ended 30 November	
	2020	2019	2020
	(HK\$ millions)		
Fiscal Reserves at start of period	847,800.9	1,170,882.5	1,160,307.8
Consolidated Deficit	(5,898.8)	(145,176.5)	(318,405.7)
Fiscal Reserves at end of period	841,902.1	1,025,706.0 ⁽¹⁾	41,902.1 ⁽²⁾

Notes:

- Includes HK\$219,730 million being the balance of the Land Fund held in the name of “Future Fund” as from 1 January 2016, for long-term investments initially up to 31 December 2025. As from 1 July, 2016, the Future Fund also includes HK\$4,800 million, being one-third of the actual surplus in 2015-16 as top-up.
- Includes HK\$219,691 million being the balance of the Land Fund held in the name of “Future Fund”, for long-term investments initially up to 31 December 2025. The Future Fund also includes HK\$4,800 million, being one-third of the actual surplus in 2015-16 as top-up.

TAXATION

HONG KONG TAXATION

This is a summary of current Hong Kong tax law and practice as at the date of this Offering Memorandum. It is not complete and does not constitute tax advice. You should consult your own tax adviser about the tax consequences of investing in the Notes, particularly if you are subject to special tax rules.

- No profits tax or withholding tax is payable in Hong Kong on any payments made by the Issuer on any Notes.
- No stamp duty is payable in Hong Kong on the issue or transfer of any Notes.
- No capital gains tax is payable in Hong Kong on any capital gains arising from resale of any Notes.

Any issue or transfer of the Notes is exempt from stamp duty in Hong Kong.

CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES

The following is a summary of certain U.S. federal income tax consequences of the purchase, ownership and disposition of Notes by a U.S. Holder and Non-U.S. Holders (each as defined below). This summary does not address the material U.S. federal income tax consequences of every type of Note which may be issued under the Programme, and the relevant Pricing Supplement may contain additional or modified disclosure concerning certain U.S. federal income tax consequences relevant to such type of Note, as appropriate. This summary deals only with initial purchasers of Notes that will hold the Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the purchase, ownership or disposition of Notes by particular investors, and does not address any U.S. federal estate, gift or net investment income tax consequences, alternative minimum tax consequences, or state, local, non-U.S. or other tax laws. This summary does not address, except as set forth below, all of the tax considerations that may be relevant to investors that are subject to special tax rules such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, partnerships or other pass-through entities (or investors in such entities), individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes as part of a straddle, hedging transaction or conversion transaction for U.S. federal income tax purposes, certain U.S. expatriates, U.S. Holders who are required to include certain items of revenue in income no later than when such item is taken into account in their financial statements, U.S. Holders who hold their Notes through non-U.S. intermediaries, or holders whose functional currency is not the U.S. dollar.

As used herein, the term “**U.S. Holder**” means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any state thereof, including the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes. A “**Non-U.S. Holder**” is a beneficial owner of Notes that is neither a U.S. Holder nor a partnership.

The U.S. federal income tax treatment of a partner in an entity (or arrangement) treated as a partnership for U.S. federal income tax purposes that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities (or arrangements) treated as partnerships for U.S. federal income tax purposes should consult their tax advisers concerning the U.S. federal income tax consequences to them and their partners of the purchase, ownership and disposition of Notes by the partnership.

This overview is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended (the “**Code**”), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

Notes in bearer form are not being offered to U.S. Holders. A U.S. Holder who owns a Bearer Note may be subject to limitations under United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Code.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

U.S. Federal Income Tax Characterisation of the Notes

The characterisation of a Series or Tranche of Notes may be uncertain and will depend on the terms of those Notes. The determination of whether an obligation represents debt, equity, or some other instrument or interest is based on all the relevant facts and circumstances. There may be no statutory, judicial or administrative authority directly addressing the characterisation of some of the types of Notes that are anticipated to be issued under the Programme or of instruments similar to the Notes. As a consequence, it may be unclear how a Series or Tranche of Notes should be properly characterised for U.S. federal income tax purposes. The Issuer generally intends to treat Notes issued under the Programme as debt, unless otherwise indicated in the applicable Pricing Supplement. The following summary applies to Notes that are properly treated as debt for U.S. federal income tax purposes.

Payments of Interest

General

Interest on a Note, whether payable in U.S. dollars or a currency, composite currency or basket of currencies other than U.S. dollars (a “**foreign currency**”), other than interest on a “Discount Note” that is not “qualified stated interest” (each as defined below under “– *Original Issue Discount – General*”), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on such U.S. Holder’s method of accounting for U.S. federal income tax purposes, reduced by the allocable amount of any amortisable bond premium, subject to the discussion below. Interest paid by the Issuer on the Notes and original issue discount (“**OID**”), if any, accrued with respect to the Notes (as described below under “– *Original Issue Discount*”) generally will constitute income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

Original Issue Discount

General

The following is a summary of the principal U.S. federal income tax consequences of the ownership of Notes issued with OID. The following summary does not discuss Notes that are characterised as contingent payment debt instruments for U.S. federal income tax purposes. In the event the Issuer issues contingent payment debt instruments the applicable Pricing Supplement or a supplement to this Offering Memorandum may describe the material U.S. federal income tax consequences thereof.

A Note, other than a Note with a term of one year or less (a “**Short-Term Note**”), will be treated as issued with OID (a “**Discount Note**”) if the excess of the Note’s “stated redemption price at maturity” over its issue price is equal to or more than a de minimis amount (0.25 per cent. of the Note’s stated redemption price at maturity multiplied by the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an “**installment obligation**”) will be treated as a Discount Note if the excess of the Note’s stated redemption price at maturity over its issue price is equal to or greater than 0.25 per cent. of the Note’s stated redemption price at maturity multiplied by the weighted average maturity of the Note. A Note’s weighted average maturity is the sum of the following amounts determined for each payment on a Note (other than a payment of qualified stated interest): (i) the number of complete years from the Issue Date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Note’s stated redemption price at maturity. Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Note is the total of all payments provided by the Note that are not payments of “qualified stated interest”. A qualified stated interest payment is generally any one of a series of stated interest payments on a Note that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or a variable rate (in the circumstances described below under “*Variable Interest Rate Notes*”), applied to the outstanding principal amount of the Note. Solely for the purposes of determining whether a Note has OID, the Issuer will be deemed to exercise any call option that has the effect of decreasing the yield on the Note, and the U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the Note. U.S. Holders of Discount Notes must include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note. The daily portion is determined by allocating to each day in any “accrual period” a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Discount Note’s adjusted issue price at the beginning of the accrual period and the Discount Note’s yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Note allocable to the accrual period. The “adjusted issue price” of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

Original Issue Discount on Certain Notes with an Issuer Call Option

The rules governing the calculation of OID in the case of Notes where (i) interest is payable at more than one rate of interest during the life of the Notes; (ii) at least one such rate is a variable rate; and (iii) the Issuer has an option to call the Notes, are not entirely clear. The Issuer believes that the following paragraph is a reasonable interpretation of the application of the OID rules to such a Series or Tranche of Notes. However, there is no assurance that the U.S. Internal Revenue Service (the “**IRS**”) will agree with this treatment. Each U.S. Holder should consult its own tax adviser about the proper application of the OID rules to any such Series or Tranche of Notes.

In the case of Notes that provide for a fixed rate of interest up to the first call date, for the purpose of application of the OID rules, these Notes must be converted into an “equivalent” fixed rate debt instrument (as described under “– *Original Issue Discount – Variable Interest Rate Notes*”). If, using the rates applicable on the Issue Date, the initial interest rate on the “equivalent” fixed rate debt instrument is less than the interest rate from the first call date through to the maturity date of the Notes, the Issuer will be presumed to call the Notes at the first call date and the general rules pertaining to OID would apply. If, using the rates applicable on the Issue Date, the initial interest rate on the “equivalent” fixed rate debt instrument is greater than the interest rate from the first call date through to the maturity date of the Notes, the Issuer will be presumed to extend the Notes at the first call date and the Notes should be treated as “variable rate debt instruments” that do not provide for stated interest at either a single qualified floating rate or a single objective rate (as described under “– *Original Issue Discount – Variable Interest Rate Notes*”).

Acquisition Premium

A U.S. Holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being “**acquisition premium**”) and that does not make the election described below under “– *Election to Treat All Interest as Original Issue Discount*”, is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder’s adjusted basis in the Note immediately after its purchase over the Note’s adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note’s adjusted issue price.

Short-Term Notes

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short-Term Note. This election will apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

Market Discount

A Note, other than a Short-Term Note, generally will be treated as purchased at a market discount (a "**Market Discount Note**") if the Note's stated redemption price at maturity or, in the case of a Discount Note, the Note's "revised issue price", exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25 per cent. of the Note's stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Note's maturity (or, in the case of a Note that is an installment obligation, the Note's weighted average maturity). If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes "de minimis market discount". For this purpose, the "revised issue price" of a Note generally equals its issue price, increased by the amount of any OID that has accrued on the Note and decreased by the amount of any payments previously made on the Note that were not qualified stated interest payments.

Any gain recognised on the sale and retirement of a Market Discount Note (including any payment on a Note that is not qualified stated interest) generally will be treated as ordinary income to the extent that the gain does not exceed the accrued market discount on the Note. Alternatively, a U.S. Holder of a Market Discount Note may avoid such treatment by electing to include market discount in income currently over the life of the Note. This election applies to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year for which the election is made. This election may not be revoked without the consent of the IRS.

A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently may be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note. Such interest is deductible when paid or incurred to the extent of income from the Note for the year. If the interest expense exceeds such income, such excess is currently deductible only to the extent that such excess exceeds the portion of the market discount allocable to the days during the taxable year on which such Note was held by the U.S. Holder.

Market discount will accrue on a straight-line basis unless the U.S. Holder elects to accrue the market discount on a constant-yield method. This election applies only to the Market Discount Note with respect to which it is made and is irrevocable.

Variable Interest Rate Notes

Notes that provide for interest at variable rates ("**Variable Interest Rate Notes**") generally will bear interest at a "qualified floating rate" and thus will be treated as "variable rate debt instruments" under Treasury regulations governing accrual of OID. A Variable Interest Rate Note will qualify as a "variable rate debt instrument" if (a) its issue price does not exceed the total non-contingent principal payments due under the Variable Interest Rate Note by more than a specified de minimis amount, (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate, and (c) it does not provide for any principal payments that are contingent (other than as described in (a) above).

A “**qualified floating rate**” is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Note is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Note (e.g., two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Note’s Issue Date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate.

An “**objective rate**” is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g., one or more qualified floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of the Issuer (or a related party) or that is unique to the circumstances of the Issuer (or a related party), although a rate does not fail to be an objective rate merely because it is based on the credit quality of the Issuer. Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Note will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Note’s term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Interest Rate Note’s term. A “qualified inverse floating rate” is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Note’s Issue Date is intended to approximate the fixed rate (e.g., the value of the variable rate on the Issue Date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a “current value” of that rate. A “current value” of a rate is the value of the rate on any day that is no earlier than 3 months prior to the first day on which that value is in effect and no later than 1 year following that first day.

If a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a “variable rate debt instrument”, then any stated interest on the Note which is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a “variable rate debt instrument” will generally not be treated as having been issued with OID unless the Variable Interest Rate Note is issued at a “true” discount (i.e., at a price below the Note’s stated principal amount) in excess of a specified de minimis amount. OID on a Variable Interest Rate Note arising from “true” discount is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating

rate, the value, as of the Issue Date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note.

In general, any other Variable Interest Rate Note that qualifies as a “variable rate debt instrument” will be converted into an “equivalent” fixed rate debt instrument for the purposes of determining the amount and accrual of OID and qualified stated interest on the Variable Interest Rate Note. Such a Variable Interest Rate Note must be converted into an “equivalent” fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Note’s Issue Date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note. In the case of a Variable Interest Rate Note that qualifies as a “variable rate debt instrument” and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Note provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Note as of the Variable Interest Rate Note’s Issue Date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Note is converted into an “equivalent” fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Note is converted into an “equivalent” fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the “equivalent” fixed rate debt instrument by applying the general OID rules to the “equivalent” fixed rate debt instrument and a U.S. Holder of the Variable Interest Rate Note will account for the OID and qualified stated interest as if the U.S. Holder held the “equivalent” fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the “equivalent” fixed rate debt instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Note during the accrual period.

If a Variable Interest Rate Note, such as a Note the payments on which are determined by reference to an index, does not qualify as a “variable rate debt instrument”, then the Variable Interest Rate Note will be treated as a contingent payment debt obligation. The proper U.S. federal income tax treatment of Variable Interest Rate Notes that are treated as contingent payment debt obligations will be more fully described in the applicable Pricing Supplement or supplement to this Offering Memorandum.

Occurrence of a Benchmark Event for Notes Linked to or Referencing a Benchmark

If a Benchmark Event occurs, it is possible that the Benchmark Event will be treated as a deemed exchange of old notes for new notes under Section 1001 of the Code, which may be taxable to U.S. Holders. Recently released proposed U.S. Treasury Regulations, which are not yet in effect but upon which taxpayers may rely, provide that in certain circumstances, the replacement of LIBOR with a qualifying reference rate would not result in a deemed exchange under Section 1001 of the Code. U.S. Holders should consult with their own tax advisers regarding the potential consequences of a Benchmark Event.

Notes Purchased at a Premium

A U.S. Holder that purchases a Note for an amount in excess of its principal amount, or for a Discount Note, its stated redemption price at maturity, may elect to treat the excess as “amortisable bond premium”, in which case the amount required to be included in the U.S. Holder’s income each year with respect to interest on the Note will be reduced by the amount of amortisable bond premium allocable (based on the Note’s yield to maturity) to that year.

Any election to amortise bond premium will apply to all bonds (other than bonds the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. See also “*Original Issue Discount – Election to Treat All Interest as Original Issue Discount*”.

Election to Treat All Interest as Original Issue Discount

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant-yield method described above under “*Original Issue Discount – General*”, with certain modifications. For the purposes of this election, interest includes stated interest, OID, de minimis OID, market discount, de minimis market discount and unstated interest, as adjusted by any amortisable bond premium (described above under “*Notes Purchased at a Premium*”) or acquisition premium. This election will generally apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant-yield method to all interest on a Note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election discussed above under “*Original Issue Discount – Market Discount*” to include market discount in income currently over the life of all debt instruments having market discount that are acquired on or after the first day of the first taxable year to which the election applies. U.S. Holders should consult their tax advisers concerning the propriety and consequences of this election.

Purchase, Sale and Retirement of Notes

A U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the U.S. Holder’s adjusted tax basis of the Note. A U.S. Holder’s adjusted tax basis in a Note will generally be its cost, increased by the amount of any OID or market discount included in the U.S. Holder’s income with respect to the Note and the amount, if any, of income attributable to de minimis OID and de minimis market discount included in the U.S. Holder’s income with respect to the Note, and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium applied to reduce interest on the Note. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Except to the extent described above under “– *Original Issue Discount – Market Discount*” or “– *Original Issue Discount – Short Term Notes*” or attributable to changes in exchange rates (as discussed below), gain or loss recognised on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder’s holding period in the Notes exceeds one year. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source.

Foreign Currency Notes

Interest

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year).

Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a foreign currency, the U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

OID

OID for each accrual period on a Discount Note that is denominated in, or determined by reference to, a foreign currency, will be determined in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment on the Note or a sale or disposition of the Note), a U.S. Holder may recognise a U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Market Discount

Market discount on a Note that is denominated in, or determined by reference to, a foreign currency, will be accrued in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognise U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income currently will recognise, upon the sale or retirement of the Note, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

Bond Premium

Bond premium (including acquisition premium) on a Note that is denominated in, or determined by reference to, a foreign currency, will be computed in units of the foreign currency, and any such bond premium that is taken into account currently will reduce interest income (or OID) in units of the foreign currency. On the date bond premium offsets interest income (or OID), a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the amount offset multiplied by the difference between the spot rate in effect on the date of the offset, and the spot rate in effect on the date the Notes were acquired by the U.S. Holder. A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account currently will recognise a market loss when the Note matures.

Sale or Retirement

As discussed above under "*Purchase, Sale and Retirement of Notes*", a U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and its tax basis in the Note, in each case as determined in U.S. dollars. U.S. Holders should consult their own tax advisers about how to account for proceeds received on the sale or retirement of Notes that are not paid in U.S. dollars.

A U.S. Holder will recognise U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Note (as adjusted for amortised bond premium, if any) (a) on the date of sale or retirement and (b) on the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss will be realised only to the extent of total gain or loss realised on the sale or retirement (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest).

Disposition of Foreign Currency

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time the foreign currency is received. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

Reportable Transactions

A U.S. taxpayer that participates in a “reportable transaction” will be required to disclose its participation to the IRS. Under the relevant rules, if the Notes are denominated in a foreign currency, a U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if this loss exceeds the relevant threshold in the regulations (U.S.\$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders), and to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of U.S.\$10,000 in the case of a natural person and U.S.\$50,000 in all other cases is generally imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules.

Non-U.S. Holders

Subject to the discussion below under “*Backup withholding and information reporting*”, a Non-U.S. Holder generally should not be subject to U.S. federal income or withholding tax on any payments on the Notes and gain from the sale, redemption or other disposition of the Notes unless: (i) that payment and/or gain is effectively connected with the conduct by that Non-U.S. Holder of a trade or business in the U.S.; (ii) in the case of any gain realised on the sale or exchange of a Note by an individual Non-U.S. Holder, that Holder is present in the U.S. for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met; or (iii) the Non-U.S. Holder is subject to tax pursuant to provisions of the Code applicable to certain expatriates.

Backup withholding and information reporting

Payments of principal and interest and accruals of OID on, and the proceeds of sale or other disposition of Notes, by a U.S. paying agent or other U.S. intermediary will generally be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise fails to comply with applicable certification requirements.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will generally be allowed as a refund or credit against a U.S. Holder’s U.S. federal income tax liability provided the holder timely submits the required information to the IRS.

Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption, as well as other reporting obligations that may apply to the ownership and disposition of Notes, including requirements related to the holding of certain “specified foreign financial assets”.

In general, payments of principal and the proceeds of a sale, redemption or other disposition of, the Notes, payable to a Non-U.S. Holder by a U.S. paying agent or other U.S. intermediary will not be subject to backup withholding and information reporting requirements if appropriate certification (an applicable IRS Form W-8 or other appropriate form) is provided by the Non-U.S. Holder to the payor and the payor does not have actual knowledge that the certificate is false.

CERTAIN ERISA CONSIDERATIONS

The Notes should be eligible for purchase by employee benefit plans and other plans subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), or the provisions of Section 4975 of the Code, and by governmental, church and non-U.S. plans that are subject to any federal, state, local or non-U.S. law or regulation that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code (each a “**Similar Law**”) subject to consideration of the issues described in this section. ERISA imposes certain requirements on “employee benefit plans” (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, on entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, “**ERISA Plans**”), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA’s general fiduciary requirements, including the requirements of investment prudence and diversification and the requirement that an ERISA Plan’s investments be made in accordance with the documents governing the ERISA Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan’s particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed under “*Risk Factors*”.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, the “**Plans**”) and certain persons (referred to as “parties in interest” or “disqualified persons”) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person, including a Plan fiduciary, who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The Issuer, the Arrangers, the Dealers, the Trustee, the Agents or any other party to the transactions referred to in this Offering Memorandum may be parties in interest or disqualified persons with respect to many Plans. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any of the Notes is acquired or held by a Plan, including but not limited to where the Issuer, Arrangers, the Dealers, the Trustee, the Agents or any other party to such transactions is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire any Notes and the circumstances under which such decision is made. Included among these exemptions are Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code (relating to transactions between a person that is a party in interest (other than a fiduciary or an affiliate that has or exercises discretionary authority or control or renders investment advice with respect to assets involved in the transaction) solely by reason of providing services to the plan, provided that there is adequate consideration for the transaction), Prohibited Transaction Class Exemption (“**PTCE**”) 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a qualified professional asset manager), PTCE 95-60 (relating to transactions involving insurance company general accounts), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by in-house asset managers). Prospective investors should consult with their advisers regarding the prohibited transaction rules and these exceptions. There can be no assurance that any of these exemptions or any other exemption will be available with respect to any particular transaction involving any Notes.

Governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA), while not subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code, may nevertheless be subject to any Similar Law. Fiduciaries of any such plans should consult with their counsel before purchasing the Notes to determine the need for, if necessary, and the availability of, any exemptive relief under any Similar Law.

In addition, the U.S. Department of Labor has promulgated a regulation, 29 C.F.R. Section 2510.3-101, as modified by Section 3(42) of ERISA (the “**Plan Asset Regulation**”), describing what constitutes the assets of a Plan with respect to the Plan’s investment in an entity for purposes of certain provisions of ERISA, including the fiduciary responsibility provisions of Title I of ERISA, Section 406 of ERISA and Section 4975 of the Code. Under the Plan Asset Regulation, if a Plan invests in an equity interest of an entity that is neither a publicly-offered security nor a security issued by an investment company registered under the United States Investment Company Act of 1940, the Plan’s assets include both the equity interest and an undivided interest in each of the entity’s underlying assets, unless one of the exceptions to such treatment described in the Plan Asset Regulation applies. Under the Plan Asset Regulation, a security which is in the form of debt may be considered an equity interest if it has substantial equity features. If the Issuer was deemed under the Plan Asset Regulation to hold plan assets by reason of a Plan’s investment in any of the Notes, such plan assets would include an undivided interest in the assets held by the Issuer and transactions by the Issuer would be subject to the fiduciary responsibility provisions of Title I of ERISA and the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code. The Plan Asset Regulation provides, however, that if equity participation in any entity by “Benefit Plan Investors” is not significant, then the “look-through” rule will not apply to such entity. The term “Benefit Plan Investors” is defined in the Plan Asset Regulation to include (1) any employee benefit plan (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, (2) any plan described in Section 4975(e)(1) of the Code to which Section 4975 of the Code applies, and (3) any entity whose underlying assets include “plan assets” by reason of any such employee benefit plan’s or plan’s investment in the entity. Equity participation by Benefit Plan Investors in any entity is significant if, immediately after the most recent acquisition of any equity interest in the entity, 25 per cent. or more of the total value of any class of equity interests in the entity (excluding the value of any interests held by certain persons, other than Benefit Plan Investors, having or exercising control over the assets of the entity or providing investment advice to the entity for a fee (direct or indirect) or any “affiliates” (as defined in the Plan Asset Regulation) of such persons) is held by Benefit Plan Investors. If, as a result of any investment, 25 per cent. or more of the total value of any class of equity interests in the Issuer is being held by Benefit Plan Investors, the applicable Notes may be redeemed by the Issuer. While there is little pertinent authority in this area and no assurance can be given, the Issuer believes that the Notes should not be treated as equity interests for the purposes of the Plan Asset Regulation and, therefore, the Plan Asset Regulation should not apply and any such redemptions would not be necessary.

Accordingly, each purchaser and subsequent transferee of any Notes (or any interest therein) will be deemed to represent and warrant, on each day from the date on which the purchaser or transferee acquires such Notes (or any interest therein) through and including the date on which the purchaser or transferee disposes of such Notes (or any interest therein), either that (a) it is not, and for so long as it holds such Notes (or any interest therein) will not be, and will not be acting on behalf of, a Plan or any entity whose underlying assets include, or are deemed for purposes of ERISA or the Code to include, the assets of any Plan, or a governmental, church or non-U.S. plan which is subject to any Similar Law or (b) its acquisition, holding and disposition of such Notes (or any interest therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or, in the case of a governmental, church or non-U.S. plan subject to any Similar Law, a violation of any Similar Law.

Each purchaser and subsequent transferee of any Notes (or any interest therein) that is a Benefit Plan Investor will be deemed to represent, warrant and agree that (i) none of the Issuer, the Arrangers, the Dealers, the Agents, the Trustee or any other party to the transactions, or other persons that provide marketing services, or any of their respective affiliates, has provided, and none of them will provide, any investment recommendation or investment advice on which it, or any fiduciary or other person investing the assets of the Benefit Plan Investor (“**Plan Fiduciary**”), has relied as a primary basis in connection with its decision to invest in the Notes, and they are not otherwise undertaking to act as a fiduciary, as defined in Section 3(21) of ERISA or Section 4975(e)(3) of the Code, to the Benefit Plan Investor or the Plan Fiduciary in connection with the Benefit Plan Investor’s acquisition of the Notes; and (ii) the Plan Fiduciary is exercising its own independent judgment in evaluating the investment in the Notes.

Each Plan fiduciary who is responsible for making the investment decisions whether to purchase or commit to purchase and to hold any of the Notes should determine whether, under the documents and instruments governing the Plan, an investment in such Notes is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan’s investment portfolio. Any Plan proposing to invest in such Notes (including any governmental, church or non-U.S. plan) should consult with its counsel to confirm that such investment will not constitute or result in a non-exempt prohibited transaction and will satisfy the other requirements of ERISA and the Code (or, in the case of a governmental, church or non-U.S. plan, any Similar Law).

The sale of any Notes to a Plan is in no respect a representation by the Issuer, the Arrangers, the Dealers, the Agents, the Trustee or any other party to the transactions that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

CLEARING AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear, Clearstream or the CMU currently in effect. The information in this section concerning such clearing systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer, the Arrangers, the Dealers, the Agents or the Trustee takes any responsibility for the accuracy of this section. The Issuer only takes responsibility for the correct extraction and reproduction of the information in this section. Investors wishing to use the facilities of any of the clearing systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant clearing system. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. The applicable Pricing Supplement will specify the Clearing System(s) applicable for each Series.

THE CLEARING SYSTEMS

DTC

DTC has advised us that it is a limited purpose trust company organised under the New York Banking Law, a “banking organisation” within the meaning of the New York Banking Law, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC holds and provides assets servicing for securities that its participants (“**Participants**”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. DTC is owned by a number of its direct participants (“**Direct Participants**”), which include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the “**Rules**”), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC’s book-entry settlement system (“**DTC Notes**”) as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the U.S. Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes (“**Owners**”) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC’s records. The ownership interest of each actual purchaser of each DTC Note (each a “**Beneficial Owner**”) is in turn to be recorded on the Direct and Indirect Participant’s records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction,

as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co, or such other nominee as may be requested by an authorised representative of DTC. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to DTC Notes, unless authorised by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to us as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy). Payments of principal and interest on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Restricted Note, will be legended as set forth under "*Transfer Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Beneficial Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream

Each of Euroclear and Clearstream holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Distributions of amounts payable with respect to book-entry interests in the Notes held through Euroclear or Clearstream will be credited, to the extent received by the Issuing and Paying Agent, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

Each of the persons shown in the records of Euroclear, Clearstream or an Alternative Clearing System as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream or any such Alternative Clearing System (as the case may be) for his share of each payment made by us to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against us in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and our obligations will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

Beneficial ownership in Notes will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream.

The aggregate holdings of book-entry interests in the Notes in Euroclear and Clearstream will be reflected in the book-entry accounts of each such institution. Euroclear and Clearstream, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the Notes, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interest in the Notes. The Issuing and Paying Agent will be responsible for ensuring that payments received by it from us for holders of interests in the Notes holding through Euroclear and Clearstream are credited to Euroclear or Clearstream, as the case may be.

The Issuer will not impose any fees in respect of the Notes, however, holders of book entry interests in the Notes may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream.

The CMU

The CMU is a central depository service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service ("**CMU Members**") of Exchange Fund Bills and Notes Clearing and Settlement Service securities and capital markets instruments

(together as “**CMU Instruments**”) which are specified in the CMU Reference Manual as capable of being held within the CMU. The CMU is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU is open to financial institutions regulated by Hong Kong Monetary Authority, Securities and Futures Commission, Insurance Authority or Mandatory Provident Fund Schemes Authority. For further details on the full range of the CMU’s custodial services, please refer to the CMU Reference Manual.

The CMU has an income distribution service which is a service offered by the CMU to facilitate the distribution of interest, coupon or redemption proceeds (collectively, the “**income proceeds**”) by CMU Members who are paying agents to the legal title holders of CMU Instruments via the CMU system. Furthermore, the CMU has a corporate action platform which allows an issuer (or its agent) to make an announcement/notification of a corporate action and noteholders to submit the relevant certification. For further details, please refer to the CMU Reference Manual.

An investor holding an interest through an account with either Euroclear or Clearstream in any Notes held in the CMU will hold that interest through the respective accounts which Euroclear and Clearstream each have with the CMU.

BOOK-ENTRY OWNERSHIP

Bearer Notes

The Issuer will make applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes issued under the Programme. The Issuer may also apply to have Bearer Notes accepted for clearance through the CMU. In respect of Bearer Notes, a Temporary Global Note and/or a Permanent Global Note in bearer form without coupons will be deposited with a common depository for Euroclear and Clearstream and/or a sub-custodian for the CMU. Transfers of interests in a Temporary Global Note or a Permanent Global Note will be made in accordance with the normal Euromarket debt securities operating procedures of Euroclear and Clearstream or the CMU. Each Global Note will have an ISIN and a Common Code or, if lodged with a sub-custodian for the CMU, will have a CMU Instrument Number. An ISIN and a Common Code may also be provided upon request.

Registered Notes

The Issuer will make applications to Euroclear and Clearstream and may make an application to the CMU for acceptance in their respective book-entry systems in respect of the Unrestricted Notes to be represented by each Unrestricted Global Certificate. Each Unrestricted Global Certificate will have an ISIN and a Common Code or, if lodged with a sub-custodian for the CMU, will have a CMU Instrument Number. An ISIN and a Common Code may also be provided upon request.

The Issuer will make applications to DTC for acceptance in its book-entry settlement system of the Unrestricted Notes and/or the Restricted Notes represented by each Global Certificate. Each Global Certificate accepted for clearance in DTC will have a CUSIP number. Each Restricted Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Certificate, as set out under “*Transfer Restrictions*”. In certain circumstances, as described below in “*Transfers of Registered Notes*”, transfers of interests in a Restricted Global Certificate may be made as a result of which such legend is no longer applicable.

The custodian with whom the Global Certificates are deposited (the “**Custodian**”) and DTC will electronically record the nominal amount of the individual beneficial interests represented by such Global Certificate to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Global Certificate will be limited to Direct Participants or Indirect Participants, including, in the case of any Unrestricted Global Certificate, the respective depositories of Euroclear and Clearstream. Ownership of beneficial interests in a Global Certificate accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments of the principal of, and interest on, each Global Certificate registered in the name of DTC’s nominee will be to or to the order of its nominee as the registered owner of such Global Certificate. The Issuer expects that the nominee, upon receipt of any such payment, will immediately credit DTC participants’ accounts with payments in amounts proportionate to their respective beneficial interests in the nominal amount of the relevant Global Certificate as shown on the records of DTC or the nominee. The Issuer also expects that payments by DTC participants to owners of beneficial interests in such Global Certificate held through such DTC participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC participants. None of the Issuer, the Trustee or any Agent or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Certificates or for maintaining, supervising or reviewing any records relating to such ownership interests.

All Registered Notes will initially be in the form of an Unrestricted Global Certificate and/or a Restricted Global Certificate. Individual definitive Registered Notes will only be available, in the case of Unrestricted Notes, in amounts specified in the applicable Pricing Supplement, and, in the case of Restricted Notes, in amounts of U.S.\$200,000 (or its equivalent in other currencies), or higher integral multiples of U.S.\$1,000 (or its equivalent in other currencies), in certain limited circumstances described below.

Individual Certificates

Registration of title to Registered Notes in a name other than a depository or its nominee for Euroclear and Clearstream or a sub-custodian for the CMU or for DTC will not be permitted unless (i) in the case of Restricted Notes, DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Restricted Global Certificate, or ceases to be a “clearing agency” registered under the Exchange Act, or is at any time no longer eligible to act as such and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC, (ii) in the case of Unrestricted Notes, Clearstream or Euroclear is or a sub-custodian for the CMU or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does, in fact, do so or (iii) the Issuer provides its consent.

In such circumstances, the Issuer will cause sufficient individual definitive Registered Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholder(s). A person having an interest in a Global Certificate must provide the Registrar with:

- (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual definitive Registered Notes; and

- (b) in the case of a Restricted Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange, or in the case of a simultaneous resale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Individual definitive Registered Notes issued pursuant to this paragraph (ii) shall bear the legends applicable to transfers pursuant to Rule 144A.

TRANSFER OF NOTES

Transfers of interests in Global Certificates within Euroclear, Clearstream, the CMU and DTC will be effected in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Restricted Global Certificate to such persons may be limited. Because DTC can only act on behalf of direct participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Restricted Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Beneficial interests in an Unrestricted Global Certificate will be effected only through records maintained by DTC and its direct or indirect participants, including Euroclear and Clearstream. In the case of Registered Notes to be cleared through Euroclear, Clearstream and/or DTC, transfers may be made at any time by a holder of an interest in an Unrestricted Global Certificate to a transferee who wishes to take delivery of such interest through the Restricted Global Certificate for the same Series of Notes provided that any such transfer, subject to the applicable procedures of Euroclear, Clearstream and/or DTC from time to time, will only be made upon receipt by the Registrar or any Transfer Agent of a written certificate from Euroclear or Clearstream, as the case may be, (based on a written certificate from the transferor of such interest) to the effect that such transfer is being made to a person that the transferor reasonably believes is a QIB within the meaning of Rule 144A purchasing the Notes for its own account or any account of a QIB, in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. Any such transfer made thereafter of the Notes represented by such Unrestricted Global Certificate will only be made upon request through Euroclear or Clearstream by the holder of an interest in the Unrestricted Global Certificate to the Trustee or other agent of details of that account at DTC to be credited with the relevant interest in the Restricted Global Certificate. Transfers at any time by a holder of any interest in the Restricted Global Certificate to a transferee who takes delivery of such interest through an Unrestricted Global Certificate will, subject to the applicable procedures of Euroclear, Clearstream and/or DTC from time to time, only be made upon delivery to any transfer agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account at Euroclear or Clearstream, as the case may be, and DTC to be credited and debited, respectively, with an interest in each relevant Global Certificates.

Subject to compliance with the transfer restrictions applicable to the Notes described above and under “*Transfer Restrictions*”, cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the custodian of the Global Notes, the Registrar, the Issuing and Paying Agent and other paying agents.

On or after the Issue Date for any Series of Registered Notes, transfers of Notes of such Series between accountholders in Euroclear and/or Clearstream and transfers of Notes of such Series between participants in DTC will generally have a settlement date two business days after the trade date (T+2). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Euroclear or Clearstream and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, on the other, transfers of interests between the Global Notes will be effected through the Issuing and Paying Agent and other paying agents, the custodian of the Global Certificates, the Registrar and any transfer agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) three business days after the trade date for the disposal of the interest in the relevant Global Certificate resulting in such transfer and (ii) two business days after receipt by the Issuing and Paying Agent or other paying agent or the Registrar, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

For a further description of restrictions on transfer of the Notes, see “*Transfer Restrictions*”.

DTC will take any action permitted to be taken by a holder of Registered Notes (including, without limitation, the presentation of Restricted Global Certificates for exchange as described above) only at the direction of one or more DTC participants in whose accounts with DTC interests in the Restricted Global Certificates are credited and only in respect of such portion of the aggregate nominal amount of the relevant Restricted Global Certificates as to which such DTC participant or participants has or have given such direction. However, in the limited circumstances described above, DTC will surrender the relevant Restricted Global Certificates for exchange for individual Definitive Notes (which will, in the case of Restricted Notes, bear the legend applicable to transfers pursuant to Rule 144A).

Although Euroclear, Clearstream and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Global Certificates among participants and accountholders of Euroclear, Clearstream and DTC they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

While a Restricted Global Certificate is lodged with DTC, Notes represented by individual Definitive Notes will not be eligible for clearing or settlement through Euroclear, Clearstream or DTC.

PRE-ISSUE TRADES SETTLEMENT

It is expected that delivery of Notes will be made against payment therefor on the relevant Issue Date, which could be more than two business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within two business days (“**T+2**”), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact the Notes initially will settle beyond T+2, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and purchasers of Notes who wish to trade Notes on the date of pricing or the next succeeding business day should consult their own adviser.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Notes.

RESTRICTED NOTES

Each purchaser of Restricted Notes within the United States pursuant to Rule 144A, by accepting delivery of this Offering Memorandum, will be deemed to have represented, agreed and acknowledged that:

- (i) it is (a) a QIB, (b) acquiring such Restricted Notes for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such Restricted Notes has been advised, that the sale of such Restricted Notes to it is being made in reliance on Rule 144A;
- (ii) it understands that such Restricted Notes have not been and will not be registered under the Securities Act and any other applicable U.S. state securities laws and (a) may not be offered, sold, pledged or otherwise transferred except (i) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (ii) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any state of the United States; (b) the purchaser will, and each subsequent purchaser is required to, notify any subsequent purchaser of such Restricted Notes from it of the resale restrictions referred to in (a) above; and (c) no representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for resale of the Notes.
- (iii) it understands that such Restricted Notes, unless the Issuer determines otherwise in compliance with applicable law, will bear a legend to the following effect:

THE NOTE EVIDENCED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “**SECURITIES ACT**”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“**RULE 144A**”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THIS NOTE. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A;

- (iv) it understands that such Restricted Notes, unless the Issuer determines otherwise in compliance with applicable law, will bear a legend to the following effect:

EACH PURCHASER AND SUBSEQUENT TRANSFEREE OF THIS NOTE (OR ANY INTEREST HEREIN) WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED, ON EACH DAY FROM THE DATE ON WHICH IT ACQUIRES THIS NOTE (OR ANY INTEREST HEREIN) THROUGH AND INCLUDING THE DATE ON WHICH IT DISPOSES OF THIS NOTE (OR ANY INTEREST HEREIN), EITHER THAT (X) IT IS NOT, AND FOR SO LONG AS IT HOLDS THIS NOTE (OR ANY INTEREST HEREIN) WILL NOT BE, AND WILL NOT BE ACTING ON BEHALF OF, (1) AN EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“**ERISA**”)) SUBJECT TO TITLE I OF ERISA, (2) A PLAN DESCRIBED IN SECTION 4975(e)(1) OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “**CODE**”), TO WHICH SECTION 4975 OF THE CODE APPLIES, (3) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” BY REASON OF ANY SUCH EMPLOYEE BENEFIT PLAN’S OR PLAN’S INVESTMENT IN THE ENTITY (EACH OF THE FOREGOING, A “**BENEFIT PLAN INVESTOR**”), OR (4) A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW OR REGULATION THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (EACH A “**SIMILAR LAW**”) OR (Y) ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE (OR ANY INTEREST HEREIN) WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR, IN THE CASE OF A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN SUBJECT TO SIMILAR LAW, A VIOLATION OF ANY SIMILAR LAW. ANY PURPORTED TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) TO A PURCHASER OR TRANSFEREE THAT DOES NOT COMPLY WITH THE ABOVE REQUIREMENTS WILL BE OF NO FORCE AND EFFECT AND SHALL BE NULL AND VOID AB INITIO.

EACH PURCHASER AND SUBSEQUENT TRANSFEREE OF THIS NOTE (OR ANY INTEREST HEREIN) THAT IS A BENEFIT PLAN INVESTOR WILL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT (I) NONE OF THE ISSUER, THE ARRANGERS, THE DEALERS, THE AGENTS, THE TRUSTEE OR ANY OTHER PARTY TO THE TRANSACTIONS, OR OTHER PERSONS THAT PROVIDE MARKETING SERVICES, OR ANY OF THEIR RESPECTIVE AFFILIATES, HAS PROVIDED, AND NONE OF THEM WILL PROVIDE, ANY INVESTMENT RECOMMENDATION OR INVESTMENT ADVICE ON WHICH IT, OR ANY FIDUCIARY OR OTHER PERSON INVESTING THE ASSETS OF THE BENEFIT PLAN INVESTOR (EACH A “**PLAN FIDUCIARY**”), HAS RELIED AS A PRIMARY BASIS IN CONNECTION WITH ITS DECISION TO INVEST IN THIS NOTE, AND THEY ARE NOT OTHERWISE UNDERTAKING TO ACT AS A FIDUCIARY, AS DEFINED IN SECTION 3(21) OF ERISA OR SECTION 4975(E)(3) OF THE CODE, TO THE BENEFIT PLAN INVESTOR OR THE PLAN FIDUCIARY IN CONNECTION WITH THE BENEFIT PLAN INVESTOR’S ACQUISITION OF THIS NOTE; AND (II) THE PLAN FIDUCIARY IS EXERCISING ITS OWN INDEPENDENT JUDGMENT IN EVALUATING THE INVESTMENT IN THIS NOTE;

- (v) either (a) it is not, and for so long as it holds a Note (or any interest therein) will not be, and will not be acting on behalf of, (i) an employee benefit plan (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, (ii) a plan described in Section 4975(e)(1) of the Code to which Section 4975 of the Code applies, (iii) any entity whose underlying assets include “plan assets” by reason of any such employee benefit plan’s or plan’s investment in the entity (each of the foregoing, a “**Benefit Plan Investor**”), or (iv) a governmental, church or non-U.S. plan which is subject to any federal, state, local or non-U.S. law or regulation that is substantially similar to the provisions of Section 406

of ERISA or Section 4975 of the Code (each a “**Similar Law**”) or (b) its acquisition, holding and disposition of the Note (or any interest therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or, in the case of a governmental, church or non-U.S. plan subject to Similar Law, a violation of any Similar Law). Any purported transfer of a Note (or any interest therein) to a purchaser or transferee that does not comply with the above requirements will be of no force and effect and shall be null and void *ab initio*;

- (vi) if it is a Benefit Plan Investor, (i) none of the Issuer, the Arrangers, the Dealers, the Trustee or any Agent or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any other party to the transactions, or other persons that provide marketing services, or any of their respective affiliates, has provided, and none of them will provide, any investment recommendation or investment advice on which it, or any fiduciary or other person investing the assets of the Benefit Plan Investor (each a “**Plan Fiduciary**”), has relied as a primary basis in connection with its decision to invest in the Notes, and they are not otherwise undertaking to act as a fiduciary, as defined in Section 3(21) of ERISA or Section 4975(e)(3) of the Code, to the Benefit Plan Investor or the Plan Fiduciary in connection with the Benefit Plan Investor’s acquisition of the Notes; and (ii) the Plan Fiduciary is exercising its own independent judgment in evaluating the investment in the Notes;
- (vii) it understands that the Restricted Notes offered in reliance on Rule 144A will be represented by a Restricted Global Certificate. Before any interest in the Restricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws; and
- (viii) it acknowledges that the Issuer, the Trustee, the Registrar, the other Agents, any Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Restricted Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Additional transfer restrictions may be set forth in the applicable Pricing Supplement with respect to a particular Tranche of a Registered Series.

UNRESTRICTED NOTES

Each purchaser of Unrestricted Notes outside the United States pursuant to Regulation S and, if Category 2 is specified in the applicable Pricing Supplement, each subsequent purchaser of such Unrestricted Notes in resales prior to the expiration of the Distribution Compliance Period, by accepting delivery of this Offering Memorandum and the Unrestricted Notes, will be deemed to have represented, agreed and acknowledged that:

- (i) it is, or at the time Unrestricted Notes are purchased will be, the beneficial owner of such Unrestricted Notes and (a) it is located outside the United States (within the meaning of Regulation S) and, if Category 2 is specified in the applicable Pricing Supplement, it is not a U.S. person and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate;

- (ii) it understands that such Unrestricted Notes have not been and will not be registered under the Securities Act and that it will not offer, sell, pledge or otherwise transfer such Unrestricted Notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States;
- (iii) it understands that the Unrestricted Notes, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT;

- (iv) it understands that any Notes, unless the Issuer determines otherwise in compliance with applicable law, will bear a legend to the following effect:

EACH PURCHASER AND SUBSEQUENT TRANSFEREE OF THIS NOTE (OR ANY INTEREST HEREIN) WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED, ON EACH DAY FROM THE DATE ON WHICH IT ACQUIRES THIS NOTE (OR ANY INTEREST HEREIN) THROUGH AND INCLUDING THE DATE ON WHICH IT DISPOSES OF THIS NOTE (OR ANY INTEREST HEREIN), EITHER THAT (X) IT IS NOT, AND FOR SO LONG AS IT HOLDS THIS NOTE (OR ANY INTEREST HEREIN) WILL NOT BE, AND WILL NOT BE ACTING ON BEHALF OF, AN EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA")) SUBJECT TO TITLE I OF ERISA, A PLAN DESCRIBED IN SECTION 4975(e)(1) OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), TO WHICH SECTION 4975 OF THE CODE APPLIES OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF ANY SUCH EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY (EACH OF THE FOREGOING, A "BENEFIT PLAN INVESTOR"), OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO FEDERAL, STATE, LOCAL OR NON-U.S. LAW OR REGULATION THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (EACH A "SIMILAR LAW") OR (Y) ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE (OR ANY INTEREST HEREIN) WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR, IN THE CASE OF A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN SUBJECT TO SIMILAR LAW, A VIOLATION OF ANY SIMILAR LAW. ANY PURPORTED TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) TO A PURCHASER OR TRANSFEREE THAT DOES NOT COMPLY WITH THE ABOVE REQUIREMENTS WILL BE OF NO FORCE AND EFFECT AND SHALL BE NULL AND VOID AB INITIO.

EACH PURCHASER AND SUBSEQUENT TRANSFEREE OF THIS NOTE (OR ANY INTEREST HEREIN) THAT IS A BENEFIT PLAN INVESTOR WILL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT (I) NONE OF THE ISSUER, THE ARRANGERS, THE DEALERS, THE AGENTS, THE TRUSTEE OR ANY OTHER PARTY TO THE TRANSACTIONS, OR OTHER PERSONS THAT PROVIDE MARKETING SERVICES, OR ANY OF THEIR

RESPECTIVE AFFILIATES, HAS PROVIDED, AND NONE OF THEM WILL PROVIDE, ANY INVESTMENT RECOMMENDATION OR INVESTMENT ADVICE ON WHICH IT, OR ANY FIDUCIARY OR OTHER PERSON INVESTING THE ASSETS OF THE BENEFIT PLAN INVESTOR (EACH A “**PLAN FIDUCIARY**”), HAS RELIED AS A PRIMARY BASIS IN CONNECTION WITH ITS DECISION TO INVEST IN THIS NOTE, AND THEY ARE NOT OTHERWISE UNDERTAKING TO ACT AS A FIDUCIARY, AS DEFINED IN SECTION 3(21) OF ERISA OR SECTION 4975(E)(3) OF THE CODE, TO THE BENEFIT PLAN INVESTOR OR THE PLAN FIDUCIARY IN CONNECTION WITH THE BENEFIT PLAN INVESTOR’S ACQUISITION OF THIS NOTE; AND (II) THE PLAN FIDUCIARY IS EXERCISING ITS OWN INDEPENDENT JUDGMENT IN EVALUATING THE INVESTMENT IN THIS NOTE

- (v) either (a) it is not, and for so long as it holds a Note (or any interest therein) will not be, and will not be acting on behalf of, (i) an employee benefit plan (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, (ii) a plan described in Section 4975(e)(1) of the Code to which Section 4975 of the Code applies, (iii) any entity whose underlying assets include “plan assets” by reason of any such employee benefit plan’s or plan’s investment in the entity (each of the foregoing, a “**Benefit Plan Investor**”), or (iv) a governmental, church or non-U.S. plan which is subject to any federal, state, local or non-U.S. law or regulation that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code (each a “**Similar Law**”) or (b) its acquisition, holding and disposition of the Note (or any interest therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or, in the case of a governmental, church or non-U.S. plan subject to Similar Law, a violation of any Similar Law). Any purported transfer of a Note (or any interest therein) to a purchaser or transferee that does not comply with the above requirements will be of no force and effect and shall be null and void *ab initio*;
- (vi) if it is a Benefit Plan Investor, (i) none of the Issuer, the Arrangers, the Dealers, the Agents, the Trustee or any other party to the transactions, or other persons that provide marketing services, or any of their respective affiliates, has provided, and none of them will provide, any investment recommendation or investment advice on which it, or any fiduciary or other person investing the assets of the Benefit Plan Investor (each a “**Plan Fiduciary**”), has relied as a primary basis in connection with its decision to invest in the Notes, and they are not otherwise undertaking to act as a fiduciary, as defined in Section 3(21) of ERISA or Section 4975(e)(3) of the Code, to the Benefit Plan Investor or the Plan Fiduciary in connection with the Benefit Plan Investor’s acquisition of the Notes; and (ii) the Plan Fiduciary is exercising its own independent judgment in evaluating the investment in the Notes;
- (vii) it understands that the Unrestricted Notes offered in reliance on Regulation S will be represented by an Unrestricted Global Certificate. If Category 2 is specified in the applicable Pricing Supplement, prior to the expiration of the Distribution Compliance Period, before any interest in the Unrestricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Restricted Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws; and
- (viii) the Issuer, the Trustee, the Registrar, the other Agents, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Additional transfer restrictions may be set forth in the applicable Pricing Supplement with respect to a particular Tranche of a Registered Series.

SUBSCRIPTION AND SALE

SUMMARY OF PROGRAMME AGREEMENT

Subject to the terms and on the conditions contained in a programme agreement dated 21 January 2021 (as modified, supplemented and/or restated from time to time, the “**Programme Agreement**”) between the Issuer, the Arrangers and the Permanent Dealers, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. Where the Issuer agrees to sell Notes to the Dealer(s), who agree to subscribe and pay for, or to procure subscribers to subscribe for, Notes at an issue price set forth in the applicable Pricing Supplement (less commissions, if any, in connection with such issue of Notes), the Notes may be reoffered and resold at a price different from their issue price, including (without limitation) at prevailing market prices or at prices related thereto, at the time of such reoffer and resale in each case as may be determined by the relevant Dealer(s). The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Programme Agreement also provides for Notes to be issued in syndicated Tranches that are underwritten by two or more Dealers.

The Issuer will pay each Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arrangers for certain of their expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme. The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

The relevant Dealers and certain of their respective affiliates may have performed certain investment banking and advisory services for the Issuer and/or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer and/or its affiliates in the ordinary course of their business.

The relevant Dealers and certain of their respective affiliates may place orders for, purchase and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution (and such order, purchase and allocation may represent a substantial or significant portion of the total orders or total amount of Notes issued). The relevant Dealers or certain of their respective affiliates may also enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Memorandum relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Dealer or its affiliate on behalf of the Issuer in such jurisdiction.

SELLING RESTRICTIONS

United States

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

- (a) the Notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States, and may not be offered or sold within the United States (or, in certain circumstances, to, or for the account or benefit of, U.S. persons (as defined in Regulation S)) except pursuant to an exemption from, or in a transaction not subject to the registration requirements of the Securities Act;
- (b) it has not offered or sold, and will not offer or sell, any Notes constituting part of its allotment within the United States except in accordance with Rule 144A or in offshore transactions in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes;
- (c) in connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Category 2 of Regulation S (“**Category 2 Notes**”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Category 2 Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Category 2 Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S of the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Category 2 Notes during the Distribution Compliance Period (as defined in Regulation S) a confirmation or other notice setting forth the restrictions on offers and sales of the Category 2 Notes within the United States or to, or for the account or benefit of, U.S. persons; and
- (d) until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

In addition, unless the Pricing Supplement, pricing term sheet or subscription agreement relating to one or more Tranches specifies that the applicable TEFRA exemption is either “TEFRA C” or “TEFRA not applicable” and except with respect to Notes for which the relevant Dealer and the Issuer agree, provided that such transaction is in accordance and compliance with applicable laws, that the following restrictions shall not apply, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will represent, warrant and agree, in relation to each Tranche of Bearer Notes that (terms used in this paragraph have the meanings given to them by the Code and regulations thereunder, including TEFRA D):

- (a) except to the extent permitted under U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (“**TEFRA D**”), (i) it has not offered or sold, and during the restricted period it will not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a U.S. person; and (ii) it has not delivered and agrees that it will not deliver within the United States or its possessions definitive Notes in bearer form that are sold during the restricted period;

- (b) it has and agrees that throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a U.S. person, except as permitted by TEFRA D;
- (c) if it is a U.S. person, that it is acquiring the Notes in bearer form from a dealer for the purposes of resale in connection with their original issue and if it retains Notes for its own account, it will only do so in accordance with the requirements of U.S. Treas. Reg. §1.163-5(c)(2)(i)(D)(6) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code);
- (d) with respect to each affiliate that acquires Notes in bearer form for the purpose of offering or selling such Notes during the restricted period, it either (i) repeats and confirms the representations, warranties and agreements contained in sub-paragraphs (a) to (c) above on behalf of such affiliate or (ii) agrees that it will obtain from such affiliate for the benefit of the Issuer the representations, warranties and agreements contained in sub-paragraphs (a) to (c) above; and
- (e) it has not, and agrees that it will not, enter into any written contract (as defined in U.S. Treas. Reg. §1.163-5(c)(2)(i)(D)(4) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code)) pursuant to which any other party to the contract (other than one of its affiliates or another Dealer) has offered or sold, or during the restricted period will offer or sell, any Notes, except where pursuant to the contract the Dealer has obtained or will obtain from that party, for the benefit of the Issuer and the relevant Dealers, the representations, warranties and agreements contained in, and that party's agreement to comply with, the provisions of sub-paragraphs (a) to (d) above.

Notes issued pursuant to TEFRA D (other than temporary Global Notes) and any talons, receipts or coupons appertaining thereto will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

In addition, to the extent that the Pricing Supplement, pricing term sheet or the subscription agreement relating to one or more Tranches of Bearer Notes specifies that the applicable TEFRA exemption is "TEFRA C", under U.S. Treas. Reg. §.1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) ("TEFRA C"), Notes in bearer form must be issued and delivered outside the United States and its possessions in connection with their original issuance. In relation to each such Tranche, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will represent, warrant and agree, that it has not offered, sold or delivered, and shall not offer, sell or deliver, directly or indirectly, Notes in bearer form within the United States or its possessions in connection with their original issuance. Further, in connection with the original issuance of Notes in bearer form, it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if either such purchaser or it is within the United States or its possessions or otherwise involve its U.S. office in the offer or sale of Notes in bearer form. Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder, including TEFRA C.

Notwithstanding anything above to the contrary, it is understood that Registered Notes may be offered and sold pursuant to a private placement in the United States, and in connection therewith each Dealer has represented, agreed and undertaken and each further Dealer appointed under the Programme will be required to represent, agree and undertake, that:

- (a) offers, sales, resales and other transfers of Notes made in the United States made or approved by a Dealer (including offers, resales or other transfers made or approved by a Dealer in connection with secondary trading) shall be made with respect to Registered Notes only and shall be effected pursuant to an exemption from the registration requirements of the Securities Act;
- (b) offers, sales, resales and other transfers of Notes made in the United States will be made only in private transactions to institutional investors that are reasonably believed to qualify as QIBs within the meaning of Rule 144A;
- (c) the Notes will be offered in the United States only by approaching prospective purchasers on an individual basis. No general solicitation or general advertising within the meaning of Rule 502(c) under the Securities Act will be used in connection with the offering of the Notes in the United States; and
- (d) no sale of Notes in the United States to any one QIB will be for less than U.S.\$200,000 principal amount or (in each case) its equivalent rounded upwards and no Note will be issued in connection with such a sale in a smaller principal amount. If such purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$200,000 principal amount of the Notes; and each Note sold as a part of a private placement in the United States and each Regulation S Global Note shall contain a legend in substantially the form set out on the face of such Note in the Trust Deed.

The Issuer has represented and agreed that any resale or other transfer, or attempted resale or other transfer of Notes sold as part of a private placement in the United States made other than in compliance with the restrictions set out in the preceding paragraph above shall not be recognised by the Issuer or any agent of the Issuer and shall be void.

Each issue of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issue and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement. Each Dealer has agreed that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

Prohibition of Sales to EEA Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies the “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Memorandum as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

- (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in the Prospectus Regulation; and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

If the Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, in relation to each Member State of the EEA (each, a “**Relevant State**”), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Memorandum as completed by the Pricing Supplement in relation thereto to the public in that Relevant State except that it may make an offer of such Notes to the public in that Relevant State:

- (a) if the Pricing Supplement in relation to the Notes specifies that an offer of those Notes may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Relevant State (a “**Non-exempt Offer**”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant State or, where appropriate, approved in another Relevant State and notified to the competent authority in that Relevant State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;
- (c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation, or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression “**Prospectus Regulation**” means Regulation (EU) 2017/1129, as amended.

United Kingdom

Prohibition of sales to UK Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to UK Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Memorandum as completed by the Pricing Supplement in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
 - (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the EUWA; or
 - (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA; or
 - (iii) not a qualified investor as defined in Article 2 of the UK Prospectus Regulation; and
- (b) the expression an “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

If the Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to UK Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Memorandum as completed by the Pricing Supplement in relation thereto to the public in the United Kingdom except that it may make an offer of such Notes to the public in the United Kingdom:

- (a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to section 86 of the FSMA (a “**Public Offer**”), following the date of publication of a prospectus in relation to such Notes which either (i) has been approved by the Financial Conduct Authority, or (ii) is to be treated as if it had been approved by the Financial Conduct Authority in accordance with the transitional provision in Regulation 74 of the Prospectus (Amendment etc.) (EU Exit) Regulations 2019, provided that any such prospectus has subsequently been completed by final terms contemplating such Public Offer, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable, and the Issuer has consented in writing to its use for the purpose of that Public Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;

- (c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within section 86 of the FSMA,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression “**an offer of such Notes to the public**” in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression “**UK Prospectus Regulation**” means Regulation (EU) 2017/1129 as it forms part of UK domestic law by virtue of the EUWA.

Other regulatory restrictions

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will represent, warrant and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Republic of Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* (“**CONSOB**”) pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Offering Memorandum or of any other document relating to any Notes be distributed in Italy, except, in accordance with any Italian securities, tax and other applicable laws and regulations.

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will represent, warrant and agree, it has not offered, sold or delivered, and will not offer, sell or deliver any Notes or distribute any copy of this Offering Memorandum or any other document relating to the Notes in Italy except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 2 of Regulation (EU) No. 1129 of 14 June 2017 (the “**Prospectus Regulation**”) and any applicable provisions of Legislative Decree no. 58 of 24 February 1998, as amended (the “**Financial Services Act**”) and Italian CONSOB regulations; or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 1 of the Prospectus Regulation, Article 34-ter of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time, and the applicable Italian laws.

In any event, any offer, sale or delivery of the Notes or distribution of copies of this Offering Memorandum or any other document relating to the Notes in Italy under paragraphs (a) or (b) above must:

- (i) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993, as amended (the “**Banking Act**”) and CONSOB Regulation No. 20307 of 15 February 2018, all as amended from time to time; and
- (ii) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to **Article** 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

Hong Kong

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will represent, warrant and agree, that it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “**SFO**”) and any rules made under the SFO.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore), as modified or amended from time to time (the “**SFA**”)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions

specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor) (as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “**Financial Instruments and Exchange Act**”). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Korea

The Notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act. Accordingly, the Notes may not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea (as such term is defined under the Foreign Exchange Transactions Act of Korea and the Presidential Decree and regulations under that Act and Decree), except as otherwise permitted under applicable Korean laws and regulations. In addition, during the first year after the issuance of the Notes, the Notes may not be transferred to any resident of Korea other than a Korean QIB who is registered with the Korea Financial Investment Association for Korean QIB bond trading. Furthermore, the Notes acquired by all Korean QIBs at the time of issuance must be no more than 20 per cent. of the aggregate principal amount of the Notes.

Kingdom of Bahrain

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell any Notes except on a private placement basis to persons in the Kingdom of Bahrain who are “accredited investors”.

For this purpose, an “**accredited investor**” means:

- (a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more;
- (b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$1,000,000; or
- (c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

Kuwait

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes have not been and will not be offered, sold, promoted or advertised by it in the State of Kuwait other than in compliance with the Decree Law No. 31 of 1990 and the implementing regulations thereto, as amended, and Law No. 7 of 2010 and the bylaws thereto, as amended governing the issue, offering and sale of securities.

No private or public offering of the Notes is being made in the State of Kuwait, and no agreement relating to the sale of the Notes will be concluded in the State of Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Notes in the State of Kuwait.

Brunei

This Offering Memorandum does not, and is not intended to constitute an invitation, offer, sale or delivery of Notes or other securities in Brunei Darussalam. This Offering Memorandum is not intended to be a prospectus. It is for information purposes only. This Offering Memorandum may not be distributed or redistributed to and may not be relied upon or used by any person in Brunei Darussalam. Any offers, acceptances, subscription, sales and allotments of Notes, shares or other securities shall be made outside Brunei Darussalam. This Offering Memorandum is neither registered with nor approved by the Brunei

Darussalam Registrar of Companies, Registrar of International Business Companies, the Brunei Darussalam Ministry of Finance, the Monetary Authority of Brunei Darussalam and the Shari'a Financial Supervisory Board. The Notes, shares or other securities are not registered, licensed or permitted by the authority designated under the Mutual Funds Order 2001, the Securities Order 2001, the Shari'a Financial Supervisory Board or by any other government agency or under any law in Brunei Darussalam.

Malaysia

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) this Offering Memorandum has not been registered as a prospectus with the Securities Commission Malaysia (the "SC") under the Capital Markets and Services Act 2007 of Malaysia (the "CMSA"); and
- (b) accordingly, the Notes have not been and will not be offered for subscription or purchase, nor will any invitation to subscribe for or purchase the Notes be made, directly or indirectly, nor may this Offering Memorandum, any application for the Notes or any document or other material in connection with the offering, this Offering Memorandum or the Notes be circulated or distributed in Malaysia, other than to persons falling within Schedule 6 or Section 229(1)(b) and Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3), read together with Schedule 9 or Section 257(3) of the CMSA, subject to any law, order, regulation or official directive of Central Bank of Malaysia, the SC and/or any other regulatory authority from time to time.

General

Each of the Dealers has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it will comply to the best of its knowledge and belief in all material respects with all applicable securities laws and regulations in force in any jurisdiction in which it offers or sells the Notes or possesses or distributes the Offering Memorandum and will obtain any consent, approval or permission required by it for the offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such offers or sales and no other Dealer shall have any responsibility therefor.

These selling restrictions may be modified by agreement between the Issuer and the relevant Dealers following a change in relevant law, regulation or directive. Any such modification will be set out in the Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Memorandum.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of the Notes, or possession or distribution of this Offering Memorandum, any Pricing Supplement or any other offering material in any country or jurisdiction where action for that purpose is required.

GENERAL INFORMATION

AUTHORISATION

The establishment and maintenance of the Programme was authorised under the Resolution of the Legislative Council of the Hong Kong Special Administrative Region of the People's Republic of China (Cap. 61F) made and passed under section 3(1) of the Loans Ordinance (Cap. 61) on 15 November 2018.

LISTING AND ADMISSION TO TRADING

Application has been made to the Hong Kong Stock Exchange for the listing of the Programme under which Notes may be issued by way of debt issues to Professional Investors only. The issue price of Notes listed on the Hong Kong Stock Exchange will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted for the listing of the Programme, commence on or about the date of listing of the Programme.

Application may be made to the FCA for the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the London Stock Exchange's main market.

NO SIGNIFICANT CHANGE

There has been no significant change in the financial or trading position of the Issuer since 31 March 2020.

LITIGATION

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Offering Memorandum which may have or has had in the recent past significant effects on the financial position of the Issuer.

LEGAL ENTITY IDENTIFIER ("LEI")

The Issuer's LEI is 549300DSMAD69T7GGN13.

BEARER NOTES

The following legend will appear on all Bearer Global Notes, Receipts, Coupons and Talons relating to such Notes where TEFRA D is specified in the applicable Pricing Supplement: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

CLEARING SYSTEMS

Notes have been accepted for clearance through the Euroclear and Clearstream systems (which are entities in charge of keeping the records). The Issuer may also apply to have Notes accepted for clearance through the CMU. The relevant CMU Instrument Number will be set out in the applicable Pricing Supplement. The Common Code and the International Securities Identification Number (“**ISIN**”) for each Series of Notes will be set out in the applicable Pricing Supplement. In addition, the Issuer will make an application with respect to each Series of Registered Notes intended to be eligible for sale pursuant to Rule 144A for such Notes to be accepted for trading in book entry form by DTC. Acceptance of each Series and the relevant Committee on the Uniform Security Identification Procedure (CUSIP) number applicable to a Series will be set out in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

THIRD-PARTY INFORMATION

Where information in this Offering Memorandum has been sourced from third parties, this information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third-party information is identified where used.

DOCUMENTS AVAILABLE FOR INSPECTION

For so long as Notes may be issued pursuant to this Offering Memorandum, copies (and English translations where the documents in question are not in English) of the following documents will be available in physical/electronic form, at all reasonable times during usual business hours (being between 9:00 a.m. and 3:00 p.m. on a business day) on any weekday (Saturdays, Sundays and public holidays excepted), for inspection following prior written request and with proof of holding and identity satisfactory to the Issuing and Paying Agent at the office of the Issuing and Paying Agent (subject, in the case of all the documents listed below other than the Agency Agreement, to the Issuing and Paying Agent having first been provided with copies of the same by the Issuer):

- the Trust Deed;
- the Programme Agreement;
- the Agency Agreement;
- this Offering Memorandum together with any supplement (including any Pricing Supplement save that a Pricing Supplement relating to an unlisted Series of Notes will only be available for inspection by a holder of any such Notes and such holder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of Notes and identity) to this Offering Memorandum or further Offering Memorandum;
- the documents incorporated by reference into this Offering Memorandum; and
- the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons.

APPENDIX A - GREEN BOND FRAMEWORK OF THE GOVERNMENT OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION



Green Bond Framework The Government of the Hong Kong Special Administrative Region

Dated

28 March 2019

Introduction

The Government of the Hong Kong Special Administrative Region of the People’s Republic of China (the “**HKSAR Government**”) is committed to developing the Hong Kong Special Administrative Region (the “**HKSAR**” or “**Hong Kong**”) into a more sustainable and liveable city.

The good health of our environment determines whether we and other species can be sustained and thrive in the longer term. The HKSAR Government has made efforts in improving the environment, including air quality, water quality, waste management, biodiversity conservation; promoting energy efficiency and conservation, green buildings and renewable energy; as well as making Hong Kong climate-resilient. This Green Bond Framework (“**GBF**” or the “**Framework**”) sets out how the HKSAR Government intends to issue Green Bonds to fund projects that will improve the environment and facilitate the transition to a low carbon economy.

1. Background on HKSAR’s commitments and/or environmental policies

Hong Kong’s Climate Actions

In January 2017, the Environment Bureau (“**ENB**”) published Hong Kong’s Climate Action Plan 2030+¹, which represents the outcome of the dedicated work of all bureaux and relevant departments, in support of the Steering Committee on Climate Change chaired by the Chief Secretary for Administration². The Action Plan sets out Hong Kong’s carbon emissions reduction target for 2030 and the concerted plans for achieving it.

The Paris Agreement, which came into force in November 2016, applies to the HKSAR. As such, Hong Kong will implement the Paris Agreement and will follow its reporting timeline. Hong Kong targets to reduce its carbon intensity (carbon per unit of Gross Domestic Product (GDP)) by between 65% and 70% by 2030 compared with 2005 level, which is equivalent to an absolute reduction of 26% to 36%, or a reduction in per capita emissions from 5.7 tonnes in 2016 to 3.3 - 3.8 tonnes by 2030.

In order to support the transition to a low carbon economy and minimise climate change’s impact on our environment, various Bureaux and Departments (“**B&Ds**”) have carried out a number of measures and published policy documents to address major

¹ <https://www.enb.gov.hk/sites/default/files/pdf/ClimateActionPlanEng.pdf>

² The Chief Secretary for the Administration is the most senior official in the HKSAR Government under the Chief Executive.

environmental issues in Hong Kong and to map out blueprints for low carbon and sustainable development. The following is a summary of these measures, blueprints and policies:

Pollution Prevention and Control

Clean Air for Hong Kong

ENB launched A Clean Air Plan for Hong Kong (“**CAP 2013**”)³ in March 2013 to set out comprehensive polices to control air emissions from various sources, including land and sea transport, and power plants. CAP 2013 also outlines measures for strengthening collaboration with Guangdong Province of the Mainland to address regional pollution. In June 2017, ENB released the Clean Air Plan for Hong Kong, 2013-2017 Progress Report⁴ to give an account of the results of CAP 2013.

Taking into account various possible measures (such as the use of low sulphur fuel in ocean-going vessels at berth and improvement of energy efficiency of buildings, etc.) and views from stakeholders, ENB and the Environmental Protection Department (“**EPD**”) are reviewing the Air Quality Objectives to identify possible scope for further tightening.

Water Quality Improvement

To safeguard public health and aquatic life, ENB and EPD are committed to improving water quality in Hong Kong. EPD has devised the Harbour Area Treatment Scheme (“**HATS**”) and Sewerage Master Plans (“**SMPs**”) to provide a blueprint of the sewerage infrastructure required to collect the sewage and direct it to treatment facilities before disposal into the sea in an environmentally acceptable manner. The HATS and recommendations of these SMPs are being carried out progressively to cater for the present and future development needs of Hong Kong. With the implementation of the HATS and SMPs, the sewerage network now covers 93% of our population with a total treatment capacity of 2.8 million cubic metres per day.

Waste Management / Resource Recovery

In order to tackle the imminent waste challenge, ENB has released the Hong Kong: Blueprint for Sustainable Use of Resources 2013-2022⁵ (the “**Blueprint**”) to map out

³ https://www.enb.gov.hk/en/files/New_Air_Plan_en.pdf

⁴ https://www.enb.gov.hk/sites/default/files/CleanAirPlanUpdateEng_W3C.pdf

⁵ <https://www.enb.gov.hk/sites/default/files/pdf/WastePlan-E.pdf>

comprehensive strategies with targets, policies and action plans for waste management. The Blueprint has recommended, as a sustainable and environmental waste disposal method, to build a network of integrated waste management facilities to turn municipal solid waste to energy and also to construct various facilities to handle large quantities of organic wastes being disposed of on a daily basis. The Blueprint also recommends the implementation of producer responsibility schemes as a major policy tool to promote resource recovery and the creation of a circular economy.

Nature Conservation/ Biodiversity

Country parks and nature reserves cover about 40% land area of Hong Kong. A total of 24 country parks have been designated for the purposes of nature conservation, countryside recreation and outdoor education. There are 22 special areas created mainly for the purpose of nature conservation. In December 2016, the HKSAR Government released the first city-level Biodiversity Strategy and Action Plan 2016-2021 (“**BSAP**”)⁶ for Hong Kong. The BSAP outlines the strategy and actions to be taken for conserving biodiversity within and outside Hong Kong as well as supporting sustainable development. It also sets out an action plan of 67 specific actions in four major areas, i.e. enhancing conservation measures, mainstreaming biodiversity, improving knowledge and promoting community involvement, so as to step up biodiversity conservation and support sustainable development in Hong Kong according to our own conditions and capabilities.

Green Buildings

As buildings account for about 90% of electricity consumption in Hong Kong, the HKSAR Government is working on multiple fronts to promote green buildings. In 2015, ENB and Development Bureau updated a joint circular entitled Green Government Building which states that all new government buildings of construction floor area above 5,000 square metres with central air-conditioning or those above 10,000 square metres should aim to obtain the second highest grade (i.e. “Gold” rating) or above under the Building Environmental Assessment Method (“**BEAM**”) Plus as far as practicable⁷. All new government buildings are also required to outperform the Building Energy Code under the Buildings Energy Efficiency Ordinance (Cap. 610) by 3% to 10%. As regards existing government buildings, B&Ds are also encouraged to seek green building certifications in particular those that are planned to undergo major renovation

⁶ https://www.afcd.gov.hk/tc_chi/conservation/Con_hkbsap/files/HKBSAP_ENG_2.pdf

⁷ Other internationally recognised building environmental assessment systems which are suitable for Hong Kong’s local use and the relevant building types may be considered with full justifications.

or retrofitting works to showcase the green achievements made. Please refer to the Appendix for details on the local green building certification.

Energy Efficiency and Conservation

In May 2015, ENB published the Energy Saving Plan for Hong Kong's Built Environment 2015-2025+⁸, which sets a target of reducing Hong Kong's energy intensity by 40% by 2025 compared to the 2005 level. The Plan sets out the strategy and policies measures to promote green buildings and energy efficiency on multiple fronts. The HKSAR Government is leading by example with a commitment to making both new and existing government buildings more energy efficient. The phased implementation of the District Cooling System (“DCS”) at the Kai Tak Development, the first of its kind in Hong Kong, is on track. The maximum annual saving in electricity consumption upon completion of this entire DCS project is estimated to reach 85 million kilowatt-hour (or about 35% reduction as compared with the original electricity consumption using traditional air-cooled air-conditioning system). The HKSAR Government will consider the provision of DCS in new development areas and redevelopment areas to foster low-carbon development.

Renewable Energy

The HKSAR Government has been taking the lead in promoting the development of renewable energy where technically and financially feasible. The HKSAR Government has also committed to applying renewable energy on a wider and larger scale in the coming years based on mature and commercially available technologies. To do so, the HKSAR Government has earmarked HK\$1 billion (US\$127 million) for the provision of small-scale renewable energy installations in government buildings, venues and community facilities. The HKSAR Government is also actively exploring the development of large-scale renewable energy projects, such as floating photovoltaic systems at impounding reservoirs and photovoltaic systems at suitable landfills.

Further to this, the HKSAR Government supports private development of renewable energy projects such as rooftop solar panels or wind systems by introducing the Feed-in tariff (“FiT”) rates at HK\$3-5/kWh (or US\$0.384 - 0.641/kWh)⁹ depending on the generation capacity, which is estimated to reduce the payback period of most renewable energy systems within 10 years.

⁸ <https://www.enb.gov.hk/sites/default/files/pdf/EnergySavingPlanEn.pdf>

⁹ The current residential tariff rates (excluding rebate) of the two power companies in Hong Kong are about US\$0.144 for the CLP Power Hong Kong Limited and US\$0.107 for the Hongkong Electric Company Limited.

Clean Transportation

In order to enhance the sustainability, connectivity, livability and mobility of our city, the HKSAR Government has been developing a comprehensive public transport system combined with different means of transport of which railway, a clean transportation, forms the backbone of the system. The HKSAR Government accords high priority in developing railway network to alleviate traffic congestion and attenuate air pollution. In September 2014, Transport and Housing Bureau announced “Railway Development Strategy 2014”¹⁰ which recommends seven new railway schemes¹¹ in new towns. On completion of the schemes, there will be over 300 kilometres of railways in Hong Kong covering areas inhabited by 75% of local population. The railways would bring environmental benefits of about 2% to 4% reduction of emissions of roadside air pollutants and greenhouse gases each year.

2. HKSAR’s Support for Green Bond Market

As an international trade, commercial and financial centre, Hong Kong plays a critical role in channelling global capital to green assets as a bridge between the Mainland as well as international enterprises and investors. Hong Kong has an important role to play in the global economy's transition towards a low carbon and sustainable economy and is well positioned to be primary leading centre for green finance in the region and around the world, especially given the HKSAR Government’s determination to continue moving forward in its efforts to protect the environment. To this end, the HKSAR Government is taking forward various initiatives to develop green finance in Hong Kong.

In considering the crucial importance to develop local expertise in green certification services, the HKSAR Government has been encouraging the Hong Kong Quality Assurance Agency (“**HKQAA**”) to develop a Green Finance Certification Scheme (“**GFCS**”), which provides third-party conformity assessment on green financial instruments by making reference to a number of international and national standards.

As announced in the Chief Executive’s 2017 Policy Address and the Financial Secretary’s 2018-19 Budget (the “**2018-19 Budget**”), the HKSAR Government will launch a Government Green Bond Programme (“**GGBP**”) with a borrowing ceiling of HK\$100 billion (US\$12.8 billion), to demonstrate our support for sustainable

¹⁰ <https://www.thb.gov.hk/eng/psp/publications/transport/publications/rds2014.pdf>

¹¹ The seven railway proposals are Northern Link (and Kwu Tung Station), Tuen Mun South Extension, East Kowloon Line, Tung Chung West Extension, Hung Shui Kiu Station, South Island Line (West) and North Island Line.

development and determination to improve the environment and combat climate change, as well as to promote the development of green finance in Hong Kong.

In June 2018, the HKSAR Government announced the launch of the Green Bond Grant Scheme (“**GBGS**”), as promulgated in the 2018-19 Budget, to subsidise eligible green bond issuers in obtaining certification under the GFCS established by the HKQAA. The full cost of obtaining certification under the GFCS for eligible green bond issuances will be granted, up to a maximum of HK\$800,000 (US\$102,564) per bond issuance. First time and repeated issuers with their green bonds of any tenor issued and listed in Hong Kong, and denominated in any currency at a minimum size of HK\$500 million (US\$64.1 million) (or the equivalent in foreign currency), are eligible to apply. The GBGS will be valid for a period of three years.

With the support of the HKSAR Government, the Hong Kong Green Finance Association (“**HKGFA**”) was launched in September 2018 with an aim and mission to gather industry experts and provide policy suggestions to the HKSAR Government and other regulators in developing green finance in the city and positioning Hong Kong as a leading international green finance centre.

3. Framework Overview

This Green Bond Framework sets out how the HKSAR Government intends to raise Green Bonds under the GGBP to fund new financing or the re-financing of works projects under the Public Works Programme of the HKSAR Government that are consistent with its vision to improve the environment, combat climate change and transition to a low carbon economy.

All Green Bond Transactions (“**GBT**”) will conform to the principles and conditions set out in this GBF. Green bonds issued under the GBF will be aligned with the Green Bond Principles 2018 (“**GBP**”)¹² or as they may be subsequently amended.

The GBT may be done in any currency or tenor and with other terms and conditions including covenants to reflect the financing strategy and plan of the HKSAR Government as updated from time to time and the outcome of the commercial discussions between the Issuer and Manager/Arranger.

¹² <http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-social-and-sustainability-bonds/green-bond-principles-gbp>

For each GBT, the HKSAR Government asserts that it will comply with the following principles, as set out in this GBF: (i) Use of Proceeds, (ii) Project Evaluation and Selection, (iii) Management of Proceeds and (iv) Reporting.

(i) Use of Proceeds

The proceeds of Green Bonds will be used exclusively to finance or refinance projects that fall under one or more of the “Eligible Categories” in the below table, which will provide environmental benefits and support the sustainable development of Hong Kong. Such projects are defined as “Eligible Projects” under this Framework.

Eligible Projects should be within the territory of HKSAR.

No.	Eligible Categories	Alignment with GBP 2018	Objective and benefits	Description
1.	Renewable energy	Renewable energy	<u>Climate change mitigation</u> <ul style="list-style-type: none"> • Reduction of GHG emissions • Increase of Hong Kong’s renewable energy installed capacity and generation. 	<ul style="list-style-type: none"> • Design, construction, installation, operation and connection of renewable energy systems, including solar (photovoltaic), wind and hydropower, at government buildings, venues, facilities and infrastructure.
2.	Energy efficiency and conservation	Energy efficiency	<u>Climate change mitigation</u> <ul style="list-style-type: none"> • Reduction of GHG emissions • Energy savings in the private and public sectors. 	<ul style="list-style-type: none"> • Design, construction, installation and operation of energy-efficient and energy-saving systems and installations in government buildings and properties; • Design, construction and operation of energy-efficient infrastructure, such as the development of DCS.

No.	Eligible Categories	Alignment with GBP 2018	Objective and benefits	Description
3.	Pollution prevention and control	Pollution prevention and control	<u>Pollution prevention and control</u> <ul style="list-style-type: none"> • Improvement of air quality through the reduction of air pollutant emissions 	<ul style="list-style-type: none"> • Monitoring, treatment systems and facilities for improvement of air quality.
4.	Waste management and resource recovery	Pollution prevention and control	<u>Pollution prevention and control</u> <ul style="list-style-type: none"> • Reduction in waste generation and improvement of the rate of resource recovery through recycling; ensuring proper treatment of waste for final disposal <u>Climate change mitigation</u> <ul style="list-style-type: none"> • Reduction of GHG emissions through renewable energy generation 	<ul style="list-style-type: none"> • Waste treatment, recycling and resource recovery projects; • Waste-to-energy projects such as power generation projects from solid waste and sewage sludge with 25% waste-to-energy efficiency¹³, • Recycling of organic waste, e.g. food waste into biogas/ renewable energy (i.e. biomass energy).

¹³ Part of the residual will be recycled while the remaining part not suitable for recycling will be disposed of at landfills

No.	Eligible Categories	Alignment with GBP 2018	Objective and benefits	Description
5.	Water and wastewater management	Sustainable water and waste water management	<p><u>Conservation and sustainable use of water resources</u></p> <ul style="list-style-type: none"> • Increase of the proportion of wastewater treated, reused and avoided • Reduction of water consumption <p><u>Climate change adaptation</u></p> <ul style="list-style-type: none"> • Strengthen resilience of the water infrastructure in case of severe weather (droughts, flood) and climate change events 	<ul style="list-style-type: none"> • Establishment of intelligent network management system with analytical tools and associated works to reduce water consumption; • Collection, treatment and recycling facilities for grey water, treated effluent and rainwater • Provision and rehabilitation of sewerage infrastructure for the collection and treatment of sewage; • Construction and maintenance of water infrastructure which help enhance climate resilience.
6.	Nature conservation/ biodiversity	Terrestrial and aquatic biodiversity conservation Environmentally sustainable management of living natural resources and land use	<p><u>Biodiversity conservation</u></p> <ul style="list-style-type: none"> • Conservation and sustainable use of terrestrial inland freshwater and marine ecosystems 	<ul style="list-style-type: none"> • Conservation and restoration of natural environment and biodiversity such as improvement projects at sites of high conservation value.

No.	Eligible Categories	Alignment with GBP 2018	Objective and benefits	Description
7.	Clean transportation	Clean transportation	<p><u>Climate change mitigation</u></p> <ul style="list-style-type: none"> • Reduction of GHG emissions through the promotion of low carbon transportation. • Improvement of air quality • Reduction of air pollutant emissions through the promotion of low carbon transportation 	<p>Development, construction and operation of low carbon transportation solutions, including investment in:</p> <ul style="list-style-type: none"> • projects to build or operate public, urban metro, heavy or light electric rail, non-motorized, multi-modal transportation; • Construction of infrastructure that supports low carbon transportation, such as ground preparation, stations, signalling equipment, network interfaces including passenger access, ancillary passenger services, facilities required for the safe, clean and efficient operation of the network, utilities and other enabling infrastructure; • Construction of infrastructure and related expenditure which facilitate cycling, such as construction of cycling tracks and bike storage.

No.	Eligible Categories	Alignment with GBP 2018	Objective and benefits	Description
8.	Green buildings	Green buildings	<u>Climate change mitigation</u> <ul style="list-style-type: none"> • Enhance the sustainability performance of a building, including reduction of GHG emissions through the development of Green Buildings. 	Construction of new government buildings/ facilities and renovation/ retrofitting of existing government buildings/ facilities that have received or are expected to receive a recognised green building certification, such as: <ul style="list-style-type: none"> • schemes under BEAM Plus with a provisional/ final rating at “Gold” or “Platinum”, or “Excellent” or “Good” under the Selective Scheme of BEAM Plus Existing Buildings; or • U.S. Leadership in Energy and Environmental Design (LEED) with a rating at “Gold” or “Platinum”.

For the avoidance of doubt, in any case, the Eligible Projects shall not include any project of fossil fuel-based electric power generation or improvement in the efficiency of fossil fuel-based electric power generation. The Eligible Projects shall exclude large scale hydropower plants (>20MW capacity) and concentrated solar power. Biomass generation feedstock will be limited to municipal solid waste, food waste and sewage sludge which will not deplete existing terrestrial carbon pools, such as agricultural or forestry resources.

(ii) Project Evaluation and Selection

The Steering Committee on the Government Green Bond Programme (the “SC”) chaired by the Financial Secretary and comprising the Secretary for Financial Services and the Treasury, the Secretary for the Environment and Deputy Chief Executive of the Hong Kong Monetary Authority among others have been set up to oversee the

implementation of the GGBP, to review and approve (a) each GBT under this Framework (b) the allocation of proceeds of each GBT issued to Eligible Projects (c) Eligible Projects continue to meet the eligibility criteria during the life of the bond and (d) reports prepared, in each case in accordance with the terms of this Framework. Senior officials of relevant B&Ds may be invited to join the SC on a need basis.

B&Ds of the HKSAR Government may submit Potential Eligible Projects to the SC for consideration against the eligibility criteria outlined in the Use of Proceeds section, based on the following:

- Description of the project and the technical/scientific approach setting out the environmental benefits to be obtained
- Preliminary, provisional or final certificates received in respect of compliance with relevant standards
- Where applicable, review of energy, water, waste management review data, against relevant standards or benchmarks

If such project is approved as an Eligible Project by the SC in accordance with this Framework, it may be earmarked for the use of proceeds under this GBF.

The secretariat of the SC will maintain notes and records of all approved Eligible Projects and the allocation of proceeds of any GBT.

The HKSAR Government may commission a qualified third party to investigate and report on the eligibility, or otherwise, of projects as Eligible Projects under this Framework.

(iii) Management of Proceeds

The proceeds of each Green Bond will be credited to the Capital Works Reserve Fund (“CWRF”), administered by the Financial Services and the Treasury Bureau (“FSTB”) pending earmarking to Eligible Projects.

The proceeds of each GBT will only be allocated to expenditures within the last two and next two financial years¹⁴ from the GBT issuance date. It is also expected that more than half of the proceeds will be allocated to future expenditures.

¹⁴ A financial year of the HKSAR Government runs from 1 April of a calendar year to 31 March of the next calendar year.

For each GBT issued, the FSTB will maintain an internal register to keep track of the following:

- (1) **Green Bond Transaction details:** key information including issuer entity, transaction date, principal amount of proceeds, maturity date, and interest or coupon, the International Securities Identification Number (ISIN) , etc.;
- (2) **Allocation of Proceeds:** Information including:
 - Confirmation of SC's approval that the project is considered to be an Eligible Project;
 - Summary detail of Eligible Projects to which the proceeds of the GBT have been allocated in accordance with this Framework;
 - Amount of GBT proceeds allocated to each Eligible Project;
 - Aggregate amount of proceeds of GBT allocated to Eligible Projects;
 - The remaining balance of unallocated proceeds;
 - Estimated environmental benefits;
 - Phase of the Eligible Projects (i.e. construction or operational);
 - Look-back period of Eligible Projects under re-financing;
 - Other necessary information.

Proceeds pending allocation will remain at the CWRF which, as part of the Operational and Capital Reserves of the fiscal reserves, and in accordance with the existing arrangement between the HKSAR Government and the Hong Kong Monetary Authority, is placed with the Exchange Fund at a fixed rate of return determined every year.

(iv) Reporting

The FSTB will provide information on the allocation of the net proceeds of GBT(s) via a Green Bond Report. Such information will be provided on an annual basis. The Green Bond Report will contain the following details:

(1) Summary:

A list of all GBT executed in the reporting period and outstanding at the reporting date and summary terms of each transaction. Key information to be provided will include issuer entity, transaction date, principal amount of proceeds, maturity date, and interest or coupon, the ISIN, etc.

(2) Allocation Reporting – for each GBT:

- Amount of proceeds allocated to the various Eligible Project categories;
- Description of major Eligible Projects;
- Aggregate amount of proceeds of GBT allocated that has been earmarked to Eligible Projects;
- The remaining balance of unallocated proceeds yet to be earmarked;
- Percentages of refinancing and financing of Eligible Projects.

(3) Impact Reporting – for each GBT:

Where possible, the FSTB will report on the environmental (and social impacts where relevant) resulting from Eligible Projects. Subject to the nature of Eligible Projects, availability of information and feasibility, the FSTB will report using impact indicators such as the following, and the relevant impact calculation methodologies and standards:

Eligible Categories	Impact Indicators
Renewable energy	<ul style="list-style-type: none"> • Installed capacity (MW) and renewable energy generated (MWh) • Carbon dioxide (CO₂) and other greenhouse gas (GHG) avoided, in CO₂e where appropriate (in tonnes)
Energy efficiency and conservation	<ul style="list-style-type: none"> • Annual reduction of energy consumption (% or MWh) CO₂ and other GHG avoided, in CO₂- equivalent (CO₂e) where appropriate (in tonnes)
Pollution prevention and control	<ul style="list-style-type: none"> • Reduction in NO_x, PM₁₀ and PM_{2.5} emissions (in tonnes)
Waste management/ resource recovery	<ul style="list-style-type: none"> • Waste that is reused, recycled, or otherwise treated (in tonnes) • Share of waste reused, recycled or otherwise treated (in % of total tonnes per year) • Waste diverted from landfills (in tonnes) • Reduction of waste sent to landfill (%) • CO₂ and other GHG avoided, in CO₂e where appropriate (in tonnes) • Renewable energy generated (MWh) • Waste-to-Energy efficiency (%)

Water and wastewater management	<ul style="list-style-type: none"> • Water and wastewater treated (in cubic meters) • Volume of leakage prevented • Annual volume (or population equivalence) of sewage / wastewater collected, conveyed, treated, reused and avoided (in cubic metres) • Population (number of people) with access to improved sanitation facilities
Nature conservation/ biodiversity	<ul style="list-style-type: none"> • Area conserved/restored/sustainably managed (in hectare) • Number of nature conservation/biodiversity facilities constructed
Clean transportation	<ul style="list-style-type: none"> • CO2 and other GHG avoided, in CO2e where appropriate (in tonnes) • Tracks built/repaired/modernized (in km) • Number of rolling stock, carriages/ locomotives bought or repaired • Number of passengers carried
Green buildings	<ul style="list-style-type: none"> • Number and types of green building certifications obtained • Rating level of certifications obtained • Total gross floor area (GFA) of buildings concerned • Amount of energy saved (MWh) • CO2 and other GHG avoided, in CO2e where appropriate (in tonnes)

The Green Bond Report will be reviewed and approved by the SC. The Green Bond Report will be available on the website of the HKSAR Government Green Bond Programme.

The FSTB will engage an independent, qualified third party to assure the contents of the Green Bond Report.

External Review

A Second Party Opinion has been obtained for the Framework from Vigeo Eiris, an independent international provider of Environmental, Social and Governance (ESG) research and services. This Second Party Opinion is available on the website of the HKSAR Government Green Bond Programme.

The inaugural transaction under the Framework is a green bond which has received the 'Green Finance Certificate' (Pre-issuance) from the HKQAA.

Appendix

Building Environmental Assessment Method (BEAM) Plus (“BEAM Plus”)

Recognised and certified by the Hong Kong Green Building Council, BEAM Plus offers a comprehensive set of performance criteria for a wide range of sustainability issues relating to the planning, design, construction, commissioning, management, operation and maintenance of a building. By providing a fair and objective assessment of a building’s overall performance throughout its life cycle, BEAM Plus enables organisations and companies of all sizes to demonstrate their commitment to sustainable development. For more information, please visit www.hkgbc.org.hk.

ISSUER

The Government of the Hong Kong Special Administrative Region of the People's Republic of China

**Government's Representative
Monetary Authority**
55/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong
Telephone Number: +852 2878 8196

**Financial Services Branch
Financial Services and the Treasury Bureau**
24/F, Central Government Offices
2 Tim Mei Avenue
Tamar
Hong Kong

ARRANGERS AND DEALERS

Crédit Agricole Corporate and Investment Bank
27/F, Two Pacific Place
88 Queensway
Hong Kong

**The Hongkong and Shanghai Banking
Corporation Limited**
Level 17
HSBC Main Building
1 Queen's Road Central
Hong Kong

DEALERS

Australia and New Zealand Banking Group Limited
22/F, Three Exchange Square
8 Connaught Place
Central
Hong Kong

Bank of China (Hong Kong) Limited
34/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

Bank of Communications Co., Ltd. Hong Kong Branch
20 Pedder Street
Central
Hong Kong

Barclays Bank PLC
5 The North Colonnade, Canary Wharf
London E14 4BB
United Kingdom

BNP Paribas
63/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Merrill Lynch (Asia Pacific) Limited
55/F, Cheung Kong Centre
2 Queen's Road Central
Hong Kong

Citigroup Global Markets Inc.
388 Greenwich Street
New York, NY10013
United States of America

Goldman Sachs (Asia) L.L.C.
68/F, Cheung Kong Centre
2 Queen's Road Central
Hong Kong

**Industrial and Commercial Bank of China
(Asia) Limited**
28/F, ICBC Tower
3 Garden Road
Central
Hong Kong

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

Mizuho Securities Asia Limited
14-15/F., K11 Atelier
18 Salisbury Road, Tsim Sha Tsui
Kowloon
Hong Kong

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

Société Générale
29, boulevard Haussmann
75009 Paris
France

Standard Chartered Bank
One Basinghall Avenue
London EC2V 5DD
United Kingdom

UBS AG Hong Kong Branch
52/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

TRUSTEE

The Hongkong and Shanghai Banking Corporation Limited
Level 24
HSBC Main Building
1 Queen's Road Central
Hong Kong

**ISSUING AND PAYING AGENT, REGISTRAR, CALCULATION AGENT,
EXCHANGE AGENT AND TRANSFER AGENT**

The Hongkong and Shanghai Banking Corporation Limited
Level 24
HSBC Main Building
1 Queen's Road Central
Hong Kong

U.S. PAYING AGENT, U.S. REGISTRAR AND U.S. TRANSFER AGENT

HSBC Bank USA, National Association
452 Fifth Avenue
New York, NY 10018
United States of America

CMU LODGING AND PAYING AGENT

The Hongkong and Shanghai Banking Corporation Limited
Level 24
HSBC Main Building
1 Queen's Road Central
Hong Kong

LEGAL ADVISERS

Legal Advisers to the Issuer
as to U.S., Hong Kong and English law

Allen & Overy
9/F Three Exchange Square
Central
Hong Kong

Allen & Overy LLP
50 Collyer Quay
09-01 OUE Bayfront
Singapore 049321

Legal Advisers to the Dealers
as to U.S., Hong Kong and English law

Linklaters
11th Floor, Alexandra House
18 Chater Road
Central
Hong Kong

Legal Advisers to the Trustee
as to Hong Kong and English law

Linklaters
11th Floor, Alexandra House
18 Chater Road
Central
Hong Kong