

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY: (1) TO QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED BELOW) OR (2) OUTSIDE OF THE UNITED STATES (THE “U.S.”)

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 Joint Global Coordinators and the Joint Lead Managers (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 THIS OFFERING MEMORANDUM HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (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**”)), 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 FOLLOWING 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 THIS 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 this 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. This Offering Memorandum is being sent to you at your request and by accepting the email and accessing this Offering Memorandum, you shall be deemed to have represented to the Issuer, the Joint Global Coordinators and the Joint Lead Managers that (1) you and any customers you represent are either: (a) QIBs or (b) outside the U.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 this Offering Memorandum and (4) you consent to delivery of such Offering Memorandum by electronic transmission. If this is not the case, you must return this Offering Memorandum to us immediately.

You are reminded that this Offering Memorandum has been delivered to you on the basis that you are a person into whose possession this 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 this Offering Memorandum to any other person.

This 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 Joint Lead Manager or any affiliate of any Joint Lead Manager is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Lead Manager or such affiliate on behalf of the Issuer or holders of the applicable securities in such jurisdiction. This 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 Joint Global Coordinators, the Joint Lead Managers 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 Joint Global Coordinators or the Joint Lead Managers.

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

U.S.\$1,000,000,000 2.500 per cent. Green Bond due 2024
Issue Price: 99.743 per cent.

The U.S.\$1,000,000,000 2.500 per cent. Green Bond due 2024 (the “Notes”) is being issued by the Government of the Hong Kong Special Administrative Region of the People's Republic of China (the “Issuer”).

The Issuer will pay interest on the Notes semi-annually in arrear on 28 May and 28 November in each year, commencing on 28 November 2019. The Notes mature on 28 May 2024. Payments on the Notes will be made without deduction for or on account of taxes imposed by the Hong Kong Special Administrative Region of the People's Republic of China (“Hong Kong”) or any political subdivision thereof or any authority therein or thereof having power to tax, to the extent described under “Terms and Conditions of the Notes – Taxation”.

The Notes will be the direct, unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank at least *pari passu*, without preference among themselves, with all other unsecured External Debt (as defined in “Terms and Conditions of the Notes”) 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, shall have no obligation to pay other External Debt at the same time or as a condition of paying sums due on the Notes and vice versa.

The Notes have 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 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.

The Notes will be offered and sold outside the United States in reliance on Regulation S under the Securities Act (“Regulation S”) and within the United States to qualified institutional buyers (“QIBs”) within the meaning of 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”.

Application will be made to the Financial Conduct Authority in its capacity as competent authority (the “UK Listing Authority”) for the Notes to be admitted to the official list of the UK Listing Authority (the “Official List”) and to the London Stock Exchange plc (the “London Stock Exchange”) for the Notes to be admitted to trading on the London Stock Exchange's regulated market. The London Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2014/65/EU).

Application will be made to The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) for the listing of the Notes 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 and in the Securities and Futures Ordinance (Cap. 571)) (together, “Professional Investors”) only. This Offering Memorandum is for distribution to Professional Investors only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

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 Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Notes or the Issuer or 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 Notes are expected to be rated AA+ by S&P Global Ratings, a division of S&P Global Inc. (“S&P”) and AA+ by Fitch (Hong Kong) Ltd. (“Fitch”). 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 will be offered and sold in registered form in denominations of U.S.\$200,000 or any amount in excess thereof which is an integral multiple of U.S.\$1,000. Each of the Notes that are offered and sold in reliance on Regulation S (the “Regulation S Notes”) will be represented by beneficial interests in one or more global notes (each a “Regulation S Global Note”) in registered form and will be deposited on or about 28 May 2019 (the “Closing Date”) with The Bank of New York Mellon as custodian (the “Custodian”) for, and registered in the name of Cede & Co. as nominee for, The Depository Trust Company (“DTC”) for the accounts of Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream, Luxembourg”). Each of the Notes that are offered and sold in reliance on Rule 144A (the “Rule 144A Notes”) will be represented by beneficial interests in one or more global notes (each a “Rule 144A Global Note”) in each case in registered form, which will be deposited on or about the Closing Date with the Custodian for, and registered in the name of Cede & Co. as nominee for, DTC. Interests in the Rule 144A Global Notes will be subject to certain restrictions on transfer. Beneficial interests in each of: (i) the Regulation S Global Notes and Rule 144A Global Notes relating to the Notes (together, the “Global Notes”) will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear, Clearstream, Luxembourg and their respective participants. Except in the limited circumstances as described herein, definitive notes will not be issued in exchange for beneficial interests in the Global Notes.

INVESTING IN THE NOTES INVOLVES RISKS. SEE “RISK FACTORS” FOR A DISCUSSION OF CERTAIN FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE NOTES.

JOINT GLOBAL COORDINATORS, JOINT LEAD MANAGERS AND JOINT BOOKRUNNERS

CRÉDIT AGRICOLE CIB

HSBC

Offering Memorandum dated 23 May 2019

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.

This Offering Memorandum comprises a prospectus for the purposes of Article 5.4 of the Prospectus Directive. When used in this Offering Memorandum, “**Prospectus Directive**” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the European Economic Area.

This Offering Memorandum does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Joint Global Coordinators or the Joint Lead Managers (as defined in “Subscription and Sale”) to subscribe for or purchase any of, the Notes in any jurisdiction where such an offer or invitation is not permitted by law. The distribution of this Offering Memorandum and the offering of the Notes in certain jurisdictions may be restricted by law. Neither the Issuer nor any of the Joint Global Coordinators or Joint Lead Managers 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 Joint Global Coordinators or the Joint Lead Managers 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 Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Memorandum and the offering and sale of the Notes. Persons into whose possession this Offering Memorandum comes are required to inform themselves about and to observe any such restrictions. For a description of further restrictions on offers and sales of Notes and distribution of this Offering Memorandum, see “Subscription and Sale”.

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 Joint Global Coordinators, the Joint Lead Managers, the Trustee or the Agents (as defined in the Terms and Conditions of the Notes) or their respective affiliates, directors, officers, employees, representatives, agents or advisers.

Neither this Offering Memorandum nor any other information supplied in connection with the Notes is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by the Issuer, the Joint Global Coordinators, the Joint Lead Managers, the Trustee or the Agents (as defined in the Terms and Conditions of the Notes) or 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 neither the Issuer nor the Joint Global Coordinators or the Joint Lead Managers nor 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.

No comment is made or advice given by the Issuer, the Joint Global Coordinators, the Joint Lead Managers, the Trustee or the Agents 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.

To the fullest extent permitted by law, none of the Joint Global Coordinators, the Joint Lead Managers, 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 Joint Lead Manager, the Trustee, the Agents and 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, the Registrar, the Paying Agents and the Transfer Agents referred to herein 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.

The Notes are being offered and sold outside the United States in reliance on Regulation S and 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”.

IN CONNECTION WITH THE ISSUE OF THE NOTES, CRÉDIT AGRICOLE CORPORATE AND INVESTMENT BANK AND THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED AS STABILISATION MANAGERS (THE “**STABILISATION MANAGERS**”) (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGERS) 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. 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”), 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).

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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 2018, 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, Macao Special Administrative Region and Taiwan.

Financial data and statistical information for calendar year 2018, including periods therein, and the fiscal year 2017-18 may, in particular, 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 2018, and all financial data and statistical information for fiscal year 2018-19 contained herein are provisional data or estimates based on the latest available data. These data are subject to revision.

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, 2017-18) 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 Joint Global Coordinators, the Joint Lead Managers, the Trustee, the Agents or their respective employees, affiliates, directors, advisors, agents or representatives and none of the Issuer, the Joint Global Coordinators, the Joint Lead Managers, the Trustee, the Agents or their respective employees, affiliates, directors, advisors, agents or representatives 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.

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**” 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 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

In the Trust Deed expected to be dated on the Closing Date (the “**Trust Deed**”), the Notes and the other Transaction Documents (as defined herein), 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 Crown Proceedings Ordinance (Cap. 300) (“**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 could cause actual results to differ materially from those contained in any forward-looking statement.

SUMMARY

This summary must be read as an introduction to this Offering Memorandum and any decision to invest in the Notes should be based on a consideration of this Offering Memorandum as a whole.

Overview of the Hong Kong Special Administrative Region

Hong Kong is one of the world's leading trade and financial centres and a gateway to the Mainland of the PRC. Situated on the southeast coast of China, Hong Kong is positioned at the centre of East Asia. With a total land area of 1,106.66 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 2017, amongst which Hong Kong ranked first for Regulatory Quality.

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 seventh-largest trading economy by the WTO in terms of value of total merchandise trade in 2018 and was home to one of the world's busiest container ports and airports in terms of container and air freight throughput.

Over the past two decades, the Hong Kong economy, as measured by real GDP, has more than doubled in size. Hong Kong's real GDP grew by 3.0 per cent. in 2018. In 2018, Hong Kong's GDP at current market prices reached HK\$2.8 trillion and its per capita GDP of HK\$381,870 was among the highest in Asia.

As at 31 December 2018, 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, "Aa2" by Moody's and "AA+" by Fitch.

The following tables set forth information on the Hong Kong economy.

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

	For the year ended 31 December				
	2014	2015	2016	2017	2018 ⁽²⁾
	(HK\$ million)				
Private consumption expenditure . .	1,502,768	1,593,091	1,649,941	1,785,340	1,945,011
Government consumption expenditure	214,216	231,263	247,973	261,307	280,797
Gross domestic fixed capital formation	530,916	537,205	535,216	576,013	610,912
Changes in inventories	7,473	-20,580	447	10,973	6,311
Export of goods ⁽¹⁾	3,986,769	3,889,225	3,892,886	4,212,774	4,457,931
Exports of services	829,085	808,948	764,839	812,937	892,259
Imports of goods ⁽¹⁾	4,237,700	4,066,527	4,022,579	4,391,306	4,711,981
Imports of services	573,522	574,345	578,106	605,506	635,923
Gross Domestic Product	2,260,005	2,398,280	2,490,617	2,662,532	2,845,317

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.
- Figures are subject to revision.

Source: Census and Statistics Department.

GDP by Economic Sector

	For the year ended 31 December			
	2014	2015	2016	2017 ⁽¹⁾
	(percentage of total GDP)			
Agriculture, fishing, mining and quarrying .	0.1	0.1	0.1	0.1
Manufacturing	1.3	1.1	1.1	1.1
Electricity, gas and water supply, and waste management	1.6	1.5	1.4	1.4
Construction	4.4	4.6	5.2	5.1
Services	92.7	92.7	92.2	92.4
Import/export, wholesale and retail trades	24.1	22.7	21.7	21.5
Accommodation and food services ⁽²⁾ . . .	3.6	3.4	3.3	3.3
Transportation, storage, postal and courier services	6.2	6.5	6.2	6.0
Information and communications	3.5	3.5	3.5	3.4
Financing and insurance	16.7	17.6	17.7	18.9
Real estate, professional and business services	10.9	10.9	11.0	10.8
Public administration, social and personal services	17.2	17.5	18.1	18.2
Ownership of premises	10.5	10.6	10.7	10.3
Gross Domestic Product at basic prices .	100	100	100	100

Notes:

- Figures for 2018 were not available as at the date of this Offering Memorandum.
- Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

Source: Census and Statistics Department.

THE OFFERING

Words and expressions defined in the “*Terms and Conditions of the Notes*” (the “**Conditions**”) shall have the same meanings in this overview.

Issuer	The Government of the Hong Kong Special Administrative Region of the People’s Republic of China
Issuer Legal Entity Identifier (LEI)	549300DSMAD69T7GGN13
Description of the Notes	U.S.\$1,000,000,000 2.500 per cent. Green Bond due 2024
Issue Price of the Notes	99.743 per cent. of the principal amount of the Notes
Issue Date	28 May 2019
Closing Date	28 May 2019
Joint Global Coordinators	Crédit Agricole Corporate and Investment Bank and The Hongkong and Shanghai Banking Corporation Limited
Joint Bookrunners and Joint Lead Managers	Crédit Agricole Corporate and Investment Bank and The Hongkong and Shanghai Banking Corporation Limited
Trustee	The Bank of New York Mellon
Principal Paying Agent, Transfer Agent and Registrar	The Bank of New York Mellon
Maturity	Unless previously purchased and cancelled, the Notes will be redeemed at their principal amount on 28 May 2024.
Interest	The Notes will bear interest on their outstanding principal amount from and including the Closing Date at the rate of 2.500 per cent. per annum, payable semi-annually in arrear on 28 May and 28 November in each year commencing on 28 November 2019.
Optional Redemption	There will be no optional redemption of the Notes by the Issuer or any Noteholder prior to their maturity.

Negative Pledge

So long as any Note 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 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

The Conditions will contain Events of Default, as further described under “*Events of Default*” in the Conditions.

Status of the Notes

The Notes are the direct, unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank at least *pari passu*, without preference among themselves, 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 and, in particular, shall have no obligation to pay other External Debt at the same time or as a condition of paying sums due on the Notes and vice versa.

Withholding Tax

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made 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 the HKSAR Government 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 “*Taxation*” in the Conditions.

Meetings of Noteholders

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

The Notes are capable of aggregation with other debt securities issued by the Issuer and will be capable of aggregation with future debt securities issued by the Issuer, in each case containing collective action clauses in substantially the same form as the collective action clause in the Conditions. See “*Risk Factors – 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 14.

**Purchase of the Notes
by the Issuer**

The Issuer may at any time purchase Notes in the open market or otherwise.

Listing and Admission to Trading

Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes on the Hong Kong Stock Exchange by way of debt issues to Professional Investors only.

Application will be made to the Financial Conduct Authority 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 regulated market.

Tax Considerations	See the section entitled “ <i>Taxation</i> ” for a description of certain tax considerations applicable to the Notes.
Governing Law and Jurisdiction	<p>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.</p> <p>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.</p>
Form and Denomination	The Notes are issued in registered form in face amounts of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. The Notes will initially be represented by Global Notes. One or more Rule 144A Global Notes will be issued in respect of each of the Notes offered and sold in reliance on Rule 144A. One or more Regulation S Global Notes will be issued in respect of each of the Notes offered and sold in reliance on Regulation S. See “ <i>Transfer Restrictions</i> ”.
Clearance and Settlement	The Regulation S Global Notes will be registered in the name of a nominee of, and deposited with a custodian for, The Depository Trust Company (“ DTC ”) for the accounts of Euroclear Bank SA/NV (“ Euroclear ”) and Clearstream Banking S.A. (“ Clearstream, Luxembourg ”). The Rule 144A Global Notes will be registered in the name of a nominee of, and deposited with a custodian for, DTC.
Further Issues	The Issuer may from time to time, without the consent of holders of the Notes, issue further securities which may form a single series with the Notes, subject to certain conditions set out in “ <i>Further Issues</i> ” in the Conditions.
Selling and Transfer Restrictions	<p>There are restrictions on the offer, sale and transfer of the Notes in the United States, the United Kingdom, Hong Kong, Singapore, Japan, Korea, the Kingdom of Bahrain, Kuwait, Brunei and Malaysia. See the section entitled “<i>Subscription and Sale</i>”.</p> <p>The Notes have not been and will not be registered under the Securities Act and are subject to certain restrictions on transfer. See “<i>Transfer Restrictions</i>”.</p>
Use of Proceeds	The proceeds of the Notes will be used exclusively to finance and/or refinance projects that fall under one or more of the “ <i>Eligible Categories</i> ” in the table set out in the Green Bond Framework (attached hereto as Appendix A), which will provide environmental benefits and support the sustainable development of Hong Kong. Such projects are defined as “ <i>Eligible Projects</i> ” under the Green Bond Framework.

Transaction Documents

The Trust Deed, the Agency Agreement and the Subscription Agreement and any other agreements, deeds, undertakings or documents designated as such by the parties to the Transaction Documents and which can be entered into by the parties from time to time (together, the “**Transaction Documents**”).

Ratings

The Notes are expected to be rated “AA+” by S&P and “AA+” by Fitch. The HKSAR Government has been assigned long-term local currency credit ratings of “AA+” by S&P, “Aa2” by Moody’s and “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.

Risk Factors

There are certain factors that may affect the Issuer’s ability to fulfil its obligations under the Notes. See “*Risk Factors*”.

**Rule 144A CUSIP/ISIN/
Common Code/CFI Code/
FISN Code for the Notes**

43858A AB6 / US43858AAB61 / 200133048 / DBFUFR / HONG KONG GOVT /BD 2024 UNSEC 144A

**Regulation S CUSIP/ISIN/
Common Code/CFI Code/
FISN Code for the Notes**

Y2836B AN4 / USY2836BAN48 / 200133064 / DBFUFR / HONG KONG GOVT /BD 2024 UNSEC

RISK FACTORS

An investment in the Notes 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.

The Notes may not be a suitable investment for all investors seeking exposure to green assets.

In connection with the issue of the Notes, the HKSAR Government has requested the Hong Kong Quality Assurance Agency (the “**HKQAA**”) to issue independent certification (a “**HKQAA Pre-issuance Stage Certificate**”) confirming that the Notes are in compliance with the requirements of the Green Finance Certification Scheme operated by the HKQAA (the “**HKQAA Green Finance Certification Scheme**”) and Vigeo Eiris (“**Vigeo**”) to provide a second party opinion on the Green Bond Framework (attached hereto as Appendix A) (the “**Second Party Opinion**”).

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 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 and the Second Party 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 and the Second Party 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 and the Second Party Opinion are not recommendations to buy, sell or hold securities and is only current as of its date of issue.

Further, although the HKSAR Government will use the net proceeds as described in “Use of Proceeds” below, 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 and/or the Second Party 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 Joint Global Coordinators or the Joint Lead Managers make any representation as to the suitability for any purpose of the HKQAA Pre-issuance Stage Certificate, the Second Party Opinion or whether the Notes fulfil the relevant environmental criteria. 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 ratings on the Notes may be changed at any time and may adversely affect the market value of the Notes.

The Notes are expected to be rated “AA+” by S&P and “AA+” by Fitch. A credit rating may not reflect all risks. The ratings may not reflect the potential impact of all risks related to the transaction structure, the market, the additional factors discussed above or any other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

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 of the Notes 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 of the Notes)) 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 the Notes with the consent of the holders of at least 75 per cent. of the aggregate principal amount outstanding of 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 Conditions of the 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 the 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 the Trust Deed, the Notes 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”.

Noteholders may be adversely affected by certain exchange rate risks and exchange controls.

The Issuer will make payments to Noteholders in U.S. dollars. 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 U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars 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 (as some have done in the past) that could adversely affect an applicable exchange rate. An appreciation in the value of the Investor’s Currency relative to U.S. dollars would decrease (i) the Investor’s Currency-equivalent yield on the Notes, (ii) the Investor’s Currency-equivalent value of the amounts payable on the Notes and (iii) the Investor’s Currency-equivalent market value of the Notes. As a result, the payments received by investors may be adversely affected.

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 and the Issuer has not undertaken to effect any exchange offer for the Notes in the future. The Notes may not be offered 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. 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, 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.

Noteholders will be reliant on DTC procedures to exercise certain rights under the Notes.

The Notes will be represented on issue by one or more Global Notes that will be deposited with a custodian for the DTC. Except in the circumstances described in the Global Notes, investors will not be entitled to receive Notes in definitive form. DTC and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg, will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through DTC and its respective participants.

While the Notes are represented by the Global Notes, 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 must rely on the procedures of the relevant clearing system and its participants to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interest in a Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the relevant Note. 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 Condition 10 "*Events of Default*" in 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 in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Noteholders to take such actions directly.

TERMS AND CONDITIONS OF THE NOTES

The following, subject to completion and amendment, and save for the paragraphs in italics, is the text of the Terms and Conditions of the Notes.

The U.S.\$1,000,000,000 2.500 per cent. Green Bond due 2024 (the “**Notes**”, which term shall include, unless the context requires otherwise, any further notes issued in accordance with Condition 16 and consolidated and forming a single series therewith) is issued by the Government of the Hong Kong Special Administrative Region of the People’s Republic of China (the “**HKSAR Government**” or the “**Issuer**”). The Notes are constituted by the trust deed (as amended and/or supplemented from time to time, the “**Trust Deed**”) dated on or about 28 May 2019 (the “**Closing Date**”) made between the Issuer and The Bank of New York Mellon as trustee for the holders of the Notes (the “**Trustee**”, which term shall, where the context so permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Deed).

Payments relating to the Notes will be made pursuant to an agency agreement dated on or about the Closing Date (as amended and/or supplemented from time to time, the “**Agency Agreement**”) made between the Issuer, the Trustee and The Bank of New York Mellon as principal paying agent (in such capacity, the “**Principal Paying Agent**” and, together with any further or other paying agents appointed from time to time in respect of the Notes, the “**Paying Agents**”), as registrar (in such capacity, the “**Registrar**”) and as transfer agent (in such capacity, the “**Transfer Agent**” and, together with the Registrar and any further or other transfer agents appointed from time to time in respect of the Notes, the “**Transfer Agents**”). The Paying Agents and the Transfer Agents are together referred to in these Conditions as the **Agents**. References to the Agents or any of them shall include their successors.

These Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which contains the form of the Notes, and the Agency Agreement (together with the Trust Deed, the “**Transaction Documents**”). In these Conditions, words and expressions defined and rules of construction and interpretation set out in the Trust Deed shall, unless defined herein or the context otherwise requires, have the same meanings herein. Copies of the Transaction Documents are available for inspection following prior written request and with proof of holdings satisfactory to the Principal Paying Agent at all reasonable times during normal business hours (being between 9:00 a.m. and 3:00 p.m. on a business day) at the specified office of the Principal Paying Agent. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of the provisions applicable to them which are contained in the Agency Agreement.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are issued in registered form in face amounts of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (each an “**Authorised Denomination**”).

A Definitive Note (as defined below) will be issued to each Noteholder in respect of its registered holding of Notes only in the limited circumstances as described in the Global Notes (as defined below). Such Definitive Notes may either be, in the case of Notes offered outside the U.S. in reliance on Regulation S of the United States Securities Act of 1933 (the “**Securities Act**”), a “**Regulation S Definitive Note**” and, in the case of Notes offered within the U.S. to qualified institutional buyers in compliance with the exemption from registration provided by Rule 144A of the Securities Act, a “**Rule 144A Definitive Certificate**” (the Regulation S Definitive Notes and the Rule 144A Definitive Notes together being “**Definitive Notes**”; each, a “**Definitive Note**”).

Each Definitive Note will be numbered serially with an identifying number which will be recorded on the relevant Definitive Note and in the register of Noteholders (the “**Register**”).

*Upon issue, the Notes offered outside the U.S. in reliance on Regulation S of the Securities Act will be represented by one or more Regulation S Global Notes (each, a “**Regulation S Global Note**”) registered in the name of a nominee of, and deposited with a custodian for, The Depository Trust Company (“**DTC**”) for the accounts of Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream, Luxembourg**”) and the Notes offered within the U.S. to qualified institutional buyers in compliance with the exemption from registration provided by Rule 144A of the Securities Act will be represented by one or more Rule 144A Global Note (each, a “**Rule 144A Global Note**”) and, together with the Regulation S Global Note, the “**Global Notes**”) registered in the name of a nominee of, and deposited with a custodian for, DTC. The Conditions are modified by certain provisions contained in the Regulation S Global Note and the Rule 144A Global Note. Except in certain limited circumstances, owners of interests in the Global Notes will not be entitled to receive Definitive Notes representing their holdings of Notes. See “Global Notes”.*

1.2 Title

The Issuer will cause the Registrar to maintain the register in respect of the Notes (the “**Register**”) outside the United Kingdom and in accordance with the provisions of the Agency Agreement, and the Registrar shall record in the Register the names and addresses of the Noteholders, particulars of the Notes and all transfers and redemptions thereof. Title to the Notes passes only by registration in the Register as set out in Condition 2. The persons in whose names any outstanding Notes are for the time being registered (as set out in the Register) as the holder of any Notes will (except as ordered by a court of competent jurisdiction or otherwise required by law) be treated as the absolute owner of the Notes for all purposes (whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the physical Definitive Note representing such Notes) and no person will be liable for so treating the holder of any Note. In these Conditions, “**Noteholder**” and (in relation to a Note) “**holder**” have the further meanings given thereto in the Trust Deed.

2. TRANSFERS OF NOTES

2.1 Transfers

Subject to Conditions 2.4 and 2.5, a Note may be transferred in an Authorised Denomination only by depositing the relevant Definitive Note, with the form of transfer on the back duly completed and signed, at the specified office of any of the Transfer Agents.

Transfers of interests in the Notes evidenced by either a Regulation S Global Note or a Rule 144A Global Note will be effected in accordance with the rules of the relevant clearing systems through which the interest is held.

2.2 Delivery of New Definitive Notes

Each new Definitive Note to be issued upon any transfer of Notes will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Definitive Note (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), be delivered at the specified office of the relevant Transfer Agent or mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition, “**business day**” shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Definitive Note is deposited in connection with a transfer is located.

Where some but not all of the Notes in respect of which a Definitive Note is issued are to be transferred, a new Definitive Note in respect of the Notes not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original Definitive Note, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

2.3 Formalities Free of Charge

Registration of any transfer of Notes will be effected without charge by or on behalf of the Issuer or any Transfer Agent but upon payment (or the giving of such indemnity and/or security and/or prefunding as the Issuer or any Transfer Agent may reasonably require) by the transferee in respect of any stamp duty, tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on (and including) the due date for redemption of that Note or during the period of 15 days ending on (and including) any Interest Payment Date (as defined in Condition 5).

2.5 Regulations

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer from time to time with the prior written approval of the Registrar and the Trustee and by the Registrar with the prior written approval of the Trustee and the Issuer. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations and provides proof of holding to the satisfaction of the Registrar.

The holder of Notes shall be entitled to receive, in accordance with Condition 2.2 only one Definitive Note in respect of his entire holding of Notes. In the case of a transfer of a portion of the face amount of a Note, a new Definitive Note in respect of the balance of the Notes not transferred will be issued to the transferor in accordance with Condition 2.2.

3. STATUS

The Notes are the direct, unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank at least *pari passu*, without preference among themselves, 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 and, in particular, shall have no obligation to pay other External Debt at the same time or as a condition of paying sums due on the Notes and vice versa.

4. NEGATIVE PLEDGE

So long as any Note 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 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 a 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

The Notes bear interest on their outstanding principal amount from and including the Closing Date at the rate of 2.500 per cent. per annum, payable semi-annually in arrear on 28 May and 28 November in each year (each an “**Interest Payment Date**”). Each Note will cease to bear interest from the due date for redemption unless, upon surrender, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note

up to that day are received by or on behalf of the relevant holder, and (b) the day which is seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including 28 May 2019 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 is called an “**Interest Period**”.

Interest in respect of any Note shall be calculated per U.S.\$1,000 in principal amount of the Notes (the “**Calculation Amount**”). The amount of interest payable per Calculation Amount for any period shall be equal to the product of the rate of interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

6. PAYMENT

6.1 Method of Payment

- (a) Payment of the principal and interest in respect of the Notes will be made by the Principal Paying Agent in U.S. dollars by wire transfer in same day funds to the registered account of each Noteholder. Payments of principal will only be made against surrender of the relevant Definitive Note at the specified office of any of the Paying Agents. Principal and interest will be paid to the holder shown on the Register at the close of business on the date (the “**record date**”) being the fifteenth day before the due date for payment thereof.
- (b) If the amount of principal being paid upon surrender of the relevant Definitive Note is less than the outstanding principal amount of such Definitive Note, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested by the Issuer or a Noteholder) issue a new Definitive Note with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of interest so paid.
- (c) For the purposes of this Condition 6, a Noteholder’s “**registered account**” means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the relevant record date, and a Noteholder’s “**registered address**” means its address appearing on the Register at that time.

6.2 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. No commission or expenses shall be charged to the Noteholders in respect of such payments.

6.3 Payment Initiation

Payment instructions (for value the due date, or if that is not a business day, for value the first following day which is a business day) will be initiated by the Principal Paying Agent on the due date for payment or, in the case of a payment of principal, if later, on the business day on which the relevant Definitive Note is surrendered at the specified office of a Paying Agent for value as soon as practicable thereafter.

6.4 Appointment of Agents

- (a) The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time, with the prior written approval of the Trustee (which approval shall not be unreasonably withheld) to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that it will at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity). Notice of any termination or appointment and of any changes in specified offices will be given to Noteholders by the Issuer in accordance with Condition 13 and the Trust Deed.
- (b) In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

6.5 Delay in Payment

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Note if the due date is not a business day, if the Noteholder is late in surrendering or cannot surrender its Definitive Note (if required to do so) or if a cheque mailed in accordance with Condition 6.1 arrives after the due date for payment.

6.6 Non-Business Days

If any date for payment in respect of any Note 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 Condition 6, “**business day**” means a day on which commercial banks and foreign exchange markets in New York City are open for general business and, in the case of presentation of a Note, in the place in which the Note is presented.

*For so long as the Notes are represented by Global Notes deposited with a custodian for DTC, payments of the principal and interest will be made to the person shown on the relevant Register as the registered Noteholder represented by such Global Notes at the close of business on the 15th Clearing System Business Day before the due date for such payment (where “**Clearing System Business Day**” means a day on which the Clearing System with which a Global Note is being held is open for business).*

7. TAXATION

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made 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 the HKSAR Government or any political sub-division or authority thereof or therein having

power to tax (“**Taxes**”), 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:

- (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 by reason of having some connection with the HKSAR Government 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 6.

In these Conditions “**Relevant Date**” means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to Noteholders by the Issuer in accordance with Condition 13.

8. PRESCRIPTION

Claims against the Issuer for payment in respect of the Notes 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.

9. REDEMPTION AND PURCHASE OF NOTES

9.1 Final Redemption

Unless previously purchased and cancelled, the Notes will be redeemed at their principal amount on 28 May 2024. The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition.

9.2 Purchases

The Issuer (itself or acting through an agent) may at any time purchase Notes in any manner and at any price. Such Notes may, at the option of the Issuer, be held, resold or surrendered to the Principal Paying Agent for cancellation. Any Notes so surrendered will forthwith be cancelled and accordingly may not be reissued or resold. The Notes so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 10, 14 or 15, all as more particularly set out in Condition 14.9.

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 as soon as reasonably practicable, following it becoming aware thereof, give notice of the occurrence of such Event of Default to the Noteholders in accordance with Condition 13 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 (a) by an Extraordinary Resolution or (b) 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 each case to being indemnified and/or secured and/or prefunded to its satisfaction) by notice to the Issuer and the Noteholders in accordance with Condition 13, 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. ENFORCEMENT

- 11.1** At any time after the Notes become due and payable, the Trustee may, 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 and the Notes, but it need not take any such steps and/or actions and/or institute such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by holders of not less than 25 per cent. of the aggregate principal amount of the Notes outstanding, and (b) it shall have been indemnified to its satisfaction. No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

12. REPLACEMENT OF NOTES

Should any Note be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

13. NOTICES

All notices to Noteholders will be valid if:

- (a) published in a leading English language daily newspaper with general circulation in Hong Kong as the Trustee may approve (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.hkex.com.hk); or
- (b) 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 registered addresses.

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 held on behalf of DTC or its nominee, notices to Noteholders may be given by delivery of the relevant notice to DTC for communication to entitled holders in substitution for notification as set out under (b) above. Any such notice shall be deemed to have been given to the Noteholders on the day on which such notice is delivered to DTC.

14. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

14.1 Convening Meetings of Noteholders, Conduct of Meetings of Noteholders and Written Resolutions

- (a) 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.
- (b) 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 14.9) 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.

- (c) 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.
- (d) The notice convening any meeting will specify, inter alia;
- (i) the date, time and location of the meeting;
 - (ii) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;
 - (iii) the record date for the meeting, which shall be no more than five business days before the date of the meeting;
 - (iv) 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;
 - (v) 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;
 - (vi) whether Condition 14.2, Condition 14.3 or Condition 14.4 shall apply and, if relevant, in relation to which other series of securities it applies;
 - (vii) 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;
 - (viii) such information that is required to be provided by the Issuer in accordance with Condition 14.6;
 - (ix) 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 14.7; and
 - (x) 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.
- (e) In addition, the Trust Deed contains provisions relating to Written Resolutions. All information to be provided pursuant to Condition 14.1(d) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.

- (f) 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.
- (g) 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.
- (h) 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.
- (i) 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.
- (j) “**Securities Capable of Aggregation**” means those securities which include or incorporate by reference this Condition 14 and Condition 15 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.

14.2 Modification of the Notes

- (a) Any modification of any provision of, or any action in respect of, these Conditions or the Trust Deed 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.
- (b) 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 14.1 by a majority of:
 - (i) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or
 - (ii) 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.
- (c) A “**Single Series Written Resolution**” means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:
 - (i) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or
 - (ii) 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.

- (d) 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.

14.3 Multiple Series Aggregation – Single limb voting

- (a) 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.
- (b) 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 14.1, 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).
- (c) 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.
- (d) 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.
- (e) The “**Uniformly Applicable**” condition will be satisfied if:
 - (i) 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
 - (ii) 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).
- (f) Any modification or action proposed under Condition 14.3(a) 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 14.3 may be used for different groups of two or more series of Securities Capable of Aggregation simultaneously.

14.4 Multiple Series Aggregation – Two limb voting

- (a) 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.
- (b) 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 14.1, as supplemented if necessary, which is passed by a majority of:
- (i) 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
 - (ii) 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).
- (c) 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:
- (i) 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
 - (ii) 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.
- (d) 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.
- (e) Any modification or action proposed under Condition 14.4(a) 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 14.4 may be used for different groups of two or more series of Securities Capable of Aggregation simultaneously.

14.5 Reserved Matters

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

- (a) 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;
- (b) 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;
- (c) to change the majority required to pass an Extraordinary Resolution, a Written Resolution 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;
- (d) 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” or “Multiple Series Two Limb Written Resolution”;
- (e) to change the definition of “securities” or “Securities Capable of Aggregation”;
- (f) to change the definition of “Uniformly Applicable”;
- (g) to change the definition of “control”, “public sector instrumentality”, “outstanding” or to modify the provisions of Condition 14.9;
- (h) to change the legal ranking of the Notes;
- (i) 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;
- (j) 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;
- (k) 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;
- (l) to modify the provisions of this Condition 14.5;
- (m) 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

- (n) 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 the Conditions as so modified being less favourable to the Noteholders which are subject to the Conditions as so modified than:
 - (i) 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
 - (ii) 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.

14.6 Information

Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 14.2, Condition 14.3 or Condition 14.4, the Issuer shall publish in accordance with Condition 15, and provide the Trustee with the following information:

- (a) 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;
- (b) 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;
- (c) 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
- (d) 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 14.1(d)(vii).

14.7 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 14.3 and Condition 14.4, 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.

14.8 Manifest error, etc.

The Notes, these Conditions and the provisions of the Trust Deed 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 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 (a) of a formal, minor or technical nature or (b) not materially prejudicial to the interests of the Noteholders.

14.9 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 14 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 of the Issuer shall be disregarded and be deemed not to remain outstanding, where:

- (a) “**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
- (b) “**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.

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, the Issuer shall provide to the Trustee a copy of the certificate prepared pursuant to Condition 15.4, 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 in respect of any such meeting. The Trustee shall make any such certificate available for inspection during normal business hours at its principal place of business.

14.10 Publication

The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 15.7.

14.11 Exchange and Conversion

Any Extraordinary Resolutions or Written Resolutions 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.

15. AGGREGATION AGENT AND AGGREGATION PROCEDURES

15.1 Appointment

The Issuer will appoint an aggregation agent (“**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.

15.2 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.

15.3 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.

15.4 Certificate

For the purposes of Condition 15.2 and Condition 15.3, 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 14.2, Condition 14.3 or Condition 14.4, as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

- (a) 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
- (b) 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 14.9 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.

15.5 Notification

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 15 to be notified to the Trustee and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given by the Issuer to the Noteholders.

15.6 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 15 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.

15.7 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 14 and this Condition 15:

- (a) through The Depository Trust Company and/or any other clearing system in which the Notes are held;
- (b) in such other places and in such other manner as may be required by applicable law or regulation; and
- (c) in such other places and in such other manner as may be customary.

15.8 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 14.1(b) and such notice shall state the required quorum.

16. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the issue date, the issue price and the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

17. INDEMNIFICATION AND LIABILITY OF TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment, unless first indemnified and/or secured and/or pre-funded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and/or any entity related (directly or indirectly) to the Issuer without accounting for any profit.

None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer and any other person appointed by the Issuer in relation to the Notes of the duties and obligations on their part expressed under the Transaction Documents or these Conditions and, unless it has express written notice from the Issuer to the contrary, the Trustee and each Agent shall be entitled to assume that the same are being duly performed. None of the Trustee or any Agent shall be liable to any Noteholder or any other person for any action taken by the Trustee or such Agent in accordance with the instructions or at the request of the Noteholders. The Trustee shall be entitled to rely on any direction, request or resolution of Noteholders given by holders of the requisite principal amount of Notes outstanding or passed at a meeting of Noteholders convened and held in accordance with the Trust Deed. Whenever the Trustee is required or entitled by the terms of the Transaction Documents or these Conditions to exercise any discretion or power, take or refrain from any action, make any decision or give any direction, 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, to seek directions from the Noteholders by way of an Extraordinary Resolution, and the Trustee is not responsible for any loss or liability incurred by any 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 in the event that no such directions are received. The Trustee shall not be under any obligation to monitor compliance with the provisions of the Transaction Documents or these Conditions.

The Trustee may rely without liability to Noteholders on any report, confirmation or certificate from or any advice or opinion of any legal advisers, 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 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, certificate, advice or opinion and, in such event, such report, confirmation, certificate, advice or opinion shall be binding on the Noteholders.

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.

19. GOVERNING LAW AND JURISDICTION

19.1 Governing Law

The Trust Deed and the Notes (including any non-contractual obligations arising out of or in connection with the Trust Deed and the Notes) are governed by, and will be construed in accordance with, English law.

19.2 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 and the Notes and any dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed and the Notes (for the purpose of this clause, a **Dispute**) and accordingly have submitted to the exclusive jurisdiction of the Hong Kong courts. All parties waive any objection to the courts of Hong Kong on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

GLOBAL NOTES

Each Global Note contains provisions which apply to the Notes in respect of which it is issued whilst they are represented by the relevant Global Note, some of which modify the effect of the Conditions. The following is a summary of those provisions. Unless otherwise defined, terms defined in the Conditions have the same meaning in paragraphs 1 to 8 below.

1. FORM OF THE NOTES

The Notes sold in offshore transactions in reliance on Regulation S (the “**Regulation S Notes**”) will be represented by one or more global Regulation S notes in fully registered form (each a “**Regulation S Global Note**”), which will be deposited with a custodian for and will be registered in the name of a nominee of DTC. Beneficial interests in the Regulation S Global Note may be held only through DTC and its direct or indirect participants including Euroclear and Clearstream, Luxembourg at any time. See “*Clearance and Settlement – Payments and relationship of participants with clearing systems*”.

The Notes sold within the United States to QIBs in reliance on Rule 144A (the “**Rule 144A Notes**”) will be represented by one or more global Rule 144A Notes in fully registered form (each a “**Rule 144A Global Note**”), which will be deposited with a custodian for and will be registered in the name of a nominee of DTC. Beneficial interests in the Rule 144A Global Notes may only be held through DTC and its direct or indirect participants including Euroclear and Clearstream, Luxembourg at any time. See “*Clearance and Settlement – Payments and relationship of participants with clearing systems*”. Subject to certain exceptions, beneficial interests in the Rule 144A Global Notes may only be held by persons who are QIBs, holding their interests for their own account or for the account of one or more QIBs. By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Rule 144A Global Notes while the Rule 144A Notes are represented by the Rule 144A Global Notes. See “*Transfer Restrictions*”.

The Regulation S Global Note and the Rule 144A Global Note are referred to herein as the “**Global Notes**”. Beneficial interests in the Rule 144A Global Notes will be subject to certain restrictions on transfer set out in the Rule 144A Global Notes and in the Agency Agreement while the Notes are represented by the Global Notes and such Rule 144A Global Notes will bear a legend as set out under “*Transfer Restrictions*”. Investors may hold interests in the Regulation S Global Notes through Euroclear or Clearstream, Luxembourg if they are participants in those systems. Investors may also hold such interests through organisations other than Euroclear and Clearstream, Luxembourg that are participants in the DTC system. Euroclear and Clearstream, Luxembourg will hold interests in the Regulation S Global Notes on behalf of their account holders through customers’ securities accounts in their respective names on the books of their respective depositories, which in turn will hold such interests in the Regulation S Global Notes in customers’ securities accounts in the depositories’ names on the books of DTC. Investors may hold their interests in the Rule 144A Global Notes directly through DTC, if they are DTC participants, or indirectly through organisations which are DTC participants.

No Regulation S Global Notes may be transferred to a person who takes delivery in the form of a Rule 144A Global Notes unless (i) the transfer is to a person reasonably believed to be a QIB, (ii) such transfer is made in reliance on Rule 144A, and (iii) the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transferee is a QIB purchasing the beneficial interest for its own account or any account of a QIB, in each case, in a transaction meeting the requirements of Rule 144A and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. No beneficial interest in the Rule 144A Global Notes may be transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S Global Note unless (i) the transfer is in an offshore transaction in reliance on Rule 904 of Regulation S and (ii) the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made in an offshore transaction in accordance with Regulation S.

Any Regulation S Global Note that is transferred to a person who takes delivery in the form of a Rule 144A Global Note will, upon transfer, cease to be represented by the Regulation S Global Note and become an interest in the Rule 144A Global Notes, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Notes for as long as it remains such an interest. Any Rule 144A Global Notes that is transferred to a person who takes delivery in the form of a Regulation S Global Note will, upon transfer, cease to be represented by the Rule 144A Global Note and become an interest in the Regulation S Global Notes and, accordingly, will thereafter be subject to all procedures applicable to the Regulation S Global Notes for so long as it remains represented by the Regulation S Global Note. No service charge will be made for any registration of transfer or exchange of Notes, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Upon receipt of the Global Notes, DTC or the custodian will credit, on its internal system, the respective face amount of the individual beneficial interests represented by each such Global Note to the accounts of persons who have accounts with DTC. Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC or persons who hold interests through direct or indirect participants, including Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in the Global Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes.

2. HOLDERS

For so long as all of the Notes are represented by a Global Note and such Global Note is held on behalf of DTC or its nominee, each person (other than another clearing system) who has for the time being a particular aggregate face amount of such Note credited to his securities account in the records of DTC (each, a “**Noteholder**”) (in which regard any certificate or other document issued by such clearing system as to the aggregate face 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 as the holder of such aggregate face amount of such Notes (and the expression “**Noteholders**” and references to “**holding of Notes**” and to “**holder of Notes**” shall be construed accordingly) for all purposes other than with respect to payments and/or deliveries on such Notes, for which purpose the registered holder of the relevant Global Note shall be deemed to be the holder of such face amount of Notes in accordance with and subject to its terms and the Trust Deed. Each Noteholder must look solely to DTC or its nominee, for its share of each payment made to the registered holder of the relevant Global Note.

3. CANCELLATION

Cancellation of any Note represented by a Global Note will be effected by reduction in the aggregate face amount of the Notes in the Register and by annotation of the appropriate schedule to the relevant Global Note, subject to the rules and procedures of DTC.

4. PAYMENTS

Payments of any principal and interest in respect of Notes represented by a Global Note will be made upon presentation or, if no further payment falls to be made in respect of the Notes against presentation and last dissolution, surrender of the relevant Global Note at the specified office of the Principal Paying Agent or to the order of the Registrar at such office specified by the Registrar, all subject to and in accordance with the Conditions and the Trust Deed.

Distributions of amounts with respect to book-entry interests in the Notes held through DTC or its nominee will be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system’s rules and procedures.

A record of each payment made in respect of the Notes will be entered into the Register by or on behalf of the Registrar and shall be *prima facie* evidence that payment has been made.

5. NOTICES

So long as all the Notes are represented by any of the Global Notes and each Global Note is held on behalf of DTC or its nominee, notices to Noteholders may be given by delivery of the relevant notice to DTC for communication to entitled holders in substitution for notification as required by the Notes except that, so long as the Notes are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given to the Noteholders on the day on which such notice is delivered to DTC.

6. REGISTRATION OF TITLE

The Registrar will not register title to the Notes in a name other than that of a nominee for the relevant clearing system for a period of seven calendar days preceding the due date for any payment of any interest or the principal in respect of the Notes.

7. TRANSFERS

Transfers of book-entry interests in the Notes will be effected through the records of DTC and its direct and indirect participants in accordance with their respective rules and procedures.

8. EXCHANGE FOR DEFINITIVE NOTES

Exchange

The Rule 144A Global Notes will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive form (the “**Rule 144A Definitive Notes**”) and the Regulation S Global Notes will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive form (the “**Regulation S Definitive Notes**”) and, together with the Rule 144A Definitive Notes, the “**Definitive Notes**”) upon the occurrence of an Exchange Event.

For these purposes, “**Exchange Event**” means that in the case of the Global Notes, if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Global Notes 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 not able to locate a qualified successor within 90 days of receipt of such notice from DTC.

In exchange for the relevant Global Note, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of an equal aggregate face amount of duly executed Definitive Notes in or substantially in the form set out in the Trust Deed.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (i) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Definitive Notes and (ii) in the case of the Rule 144A Global Notes 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 simultaneous sale pursuant to Rule 144A, a written certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB purchasing the beneficial interest for its own account or any account of a QIB, in each case, in a transaction meeting the requirements of Rule 144A and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Definitive Notes issued in exchange for a beneficial interest in the Rule 144A Global Notes shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under “*Transfer Restrictions*”.

Legends and transfers

The holder of a Definitive Note may transfer the Notes represented thereby in whole or in part in the applicable Authorised Denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Definitive Note bearing the legend referred to under “*Transfer Restrictions*”, or upon specific request for removal of the legend on a Definitive Note, the Issuer will deliver only Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act. Rule 144A Definitive Notes will bear the same legend as the legend for the Rule 144A Global Notes set out under “*Transfer Restrictions*”. The Rule 144A Definitive Notes may not at any time be held by or on behalf of U.S. persons (as defined in Regulation S) that are not QIBs. Before any Regulation S Definitive Notes may be resold or otherwise transferred to a person who takes delivery in the form of a Rule 144A Definitive Note, the transferor and/or transferee, as applicable, will be required to provide the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transfer is (i) to a person that is a QIB purchasing the beneficial interest for its own account or any account of a QIB and (ii) in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of United States or any other jurisdiction. Before any Rule 144A Definitive Note may be resold or otherwise transferred to a person who takes delivery in the form of a Regulation S Definitive Note, the transferor and/or transferee, as applicable, will be required to provide the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made to a person in an offshore transaction in accordance with Rule 904 of Regulation S.

RATINGS

It is a condition of the issuance of the Notes that the Notes are, upon issue, assigned a rating of “AA+” by S&P and “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 – The ratings on the Notes may be changed at any time and may adversely affect the market value of the Notes”.

USE OF PROCEEDS

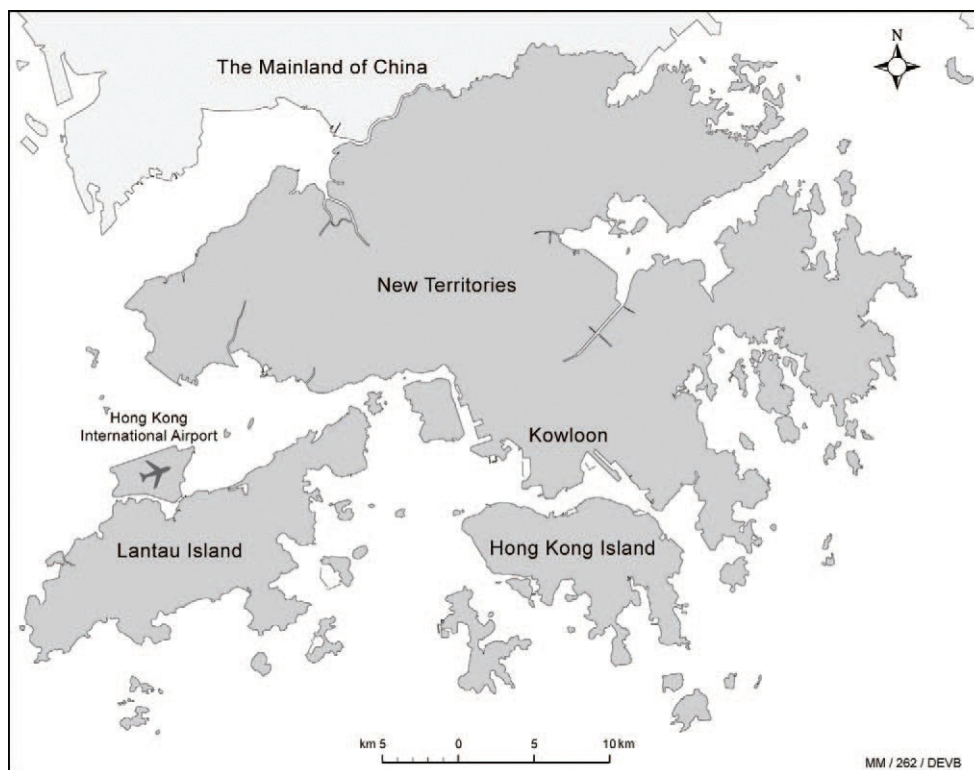
The proceeds of the Notes will be used exclusively to finance and/or refinance projects that fall under one or more of the “Eligible Categories” in the table set out in the Green Bond Framework (attached hereto as Appendix A), which will provide environmental benefits and support the sustainable development of Hong Kong. Such projects are defined as “Eligible Projects” under the Green Bond Framework.

THE HONG KONG SPECIAL ADMINISTRATIVE REGION

OVERVIEW

Hong Kong is one of the world's leading trade and financial centres and a gateway to the Mainland of the PRC. Situated on the southeast coast of China, Hong Kong is positioned at the centre of East Asia. With a total land area of 1,106.66 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 2017, amongst which Hong Kong ranked first for Regulatory Quality.



POPULATION AND SOCIETY

Hong Kong is one of the most densely-populated regions in the world. As at 31 December 2017, Hong Kong had a total population of 7.4 million, a population density of approximately 6,830 persons per square kilometre.

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 2017-18 academic year, Hong Kong had approximately 1,030 kindergartens, 581 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). Education represents the largest share of HKSAR Government's budget: an estimated HK\$124 billion will be spent on education for the 2019-20 fiscal year, representing approximately 20.4 per cent. of total estimated government expenditure.

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 31 December 2018, healthcare professionals registered with their respective boards and councils amounted to: 14,651 doctors, 2,553 dentists, 10,019 listed and registered traditional Chinese medicine practitioners and 56,723 registered and enrolled nurses. As at 31 December 2017, there were approximately 40,434 hospital beds in the territory, representing approximately 5.4 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 2017 was US\$48,221, and nominal GDP of Hong Kong was US\$341.6 billion. Life expectancy at birth for male and female were 81.9 years and 87.6 years respectively in 2018.

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 Central People’s Government of the PRC (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 the 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, including 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 ExCo before making important policy decisions, introducing bills into the Legislative Council (“LegCo”), making subordinate legislation or dissolving 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 ExCo, he or she shall put the specific reasons on record.

The Legislative Council

LegCo is the legislature of Hong Kong with 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 be responsible for carrying out the investigation and reporting 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. 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 is four years which began on 1 October 2016. The sixth-term LegCo includes 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.

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, and to promote recreational, cultural and community activities and improvements 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 possessing 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 NPC's Standing Committee 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.

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 nine 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\$50,000. 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 courts of the HKSAR 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;

- 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 holistically through investigation, 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 Telecommunications Union. Using the name “Hong Kong, China”, Hong Kong also participates in its own right as a 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 further strengthened 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 Mainland's outward investment. According to Mainland statistics, the cumulative value of Hong Kong's realised direct investment in the Mainland at the end of 2018 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 54 per cent. of the stock of such investment at the end of 2017.

Hong Kong is the key intermediary platform for the Mainland's trade with the rest of the world, benefiting from 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 in the past two decades, and Hong Kong was the fourth-largest trading partner of the Mainland in 2018, following the United States, Japan and South Korea, accounting for about 7 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 2018 was approximately 4.3 times that in 1998, representing an average annual growth of 7.5 per cent.

Financial links between Hong Kong and the Mainland have strengthened substantially over the years, on the back of the surge in cross-boundary economic and business activities.

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 seventh-largest trading economy by the WTO in terms of value of total merchandise trade in 2018 and was home to one of the world's busiest container ports and airports in terms of container and air freight throughput. Hong Kong is an important hub for trade and business. Hong Kong has been ranked the world's freest economy for twenty five consecutive years by the Heritage Foundation, based on 12 economic freedom components grouped under four categories: rule of law, government size, regulatory efficiency and open markets. In 2018, Hong Kong was also ranked as one of the top global financial centres in the world by The Z/Yen Group of Companies' The Global Financial Centres Index 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 second most competitive economy by the International Institute for Management Development in 2018, and the fourth easiest place to do business globally according to the World Bank's Doing Business 2019 report published in October 2018.

Over the past two decades, the Hong Kong economy, as measured by real GDP, has more than doubled in size. Hong Kong's real GDP grew by 3.0 per cent. in 2018. In 2018, Hong Kong's GDP at current market prices reached HK\$2.8 trillion and its per capita GDP of HK\$381,870 was among the highest in Asia.

As at 31 December 2018, 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, "Aa2" by Moody's and "AA+" by Fitch.

Key Economic Events from 2014 to 2018

During 2014 and 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 2.8 per cent. in 2014 and 2.4 per cent. in 2015. The U.S. Federal Reserve ended its asset purchases in October 2014 and 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 marked a meagre growth in 2014 and 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, Hong Kong's real GDP growth 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 and services 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 3.0 per cent. for 2018 as a whole, marking the second year of above-trend growth. Growth remained strong at 4.1 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 US-Mainland trade conflict and US interest rate hikes, the pace of growth decelerated to 2.8 per cent. in the third quarter and further to 1.3 per cent. in the fourth quarter. Exports grew moderately for the year as a whole, but slowed sharply in the latter part of the year. Domestic demand was broadly resilient.

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 2019, the Financial Secretary presented the 2019-20 Budget Speech, stating the goals of supporting enterprises, safeguarding jobs, stabilising the economy, and strengthening livelihoods. The key areas for future development include the financial services, innovation and technology, transportation, tourism, creative industries and the construction industry.

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				
	2014	2015	2016	2017	2018 ⁽²⁾
	(HK\$ million)				
Private consumption expenditure . .	1,502,768	1,593,091	1,649,941	1,785,340	1,945,011
Government consumption expenditure	214,216	231,263	247,973	261,307	280,797
Gross domestic fixed capital formation	530,916	537,205	535,216	576,013	610,912
Changes in inventories	7,473	-20,580	447	10,973	6,311
Export of goods ⁽¹⁾	3,986,769	3,889,225	3,892,886	4,212,774	4,457,931
Exports of services	829,085	808,948	764,839	812,937	892,259
Imports of goods ⁽¹⁾	4,237,700	4,066,527	4,022,579	4,391,306	4,711,981
Imports of services	573,522	574,345	578,106	605,506	635,923
Gross Domestic Product	2,260,005	2,398,280	2,490,617	2,662,532	2,845,317

Notes:

1. 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 free on board (f.o.b.) basis, instead of on cost insurance freight (c.i.f.) basis.
2. Figures are subject to revision.

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				
	2014	2015	2016	2017	2018 ⁽²⁾
	(year-on-year percentage change)				
Private consumption expenditure . .	3.3	4.8	2.0	5.5	5.6
Government consumption expenditure	3.1	3.4	3.4	2.8	4.2
Gross domestic fixed capital formation.	-0.1	-3.2	-0.1	2.9	2.2
Export of goods ⁽¹⁾	0.8	-1.7	1.6	6.5	3.5
Exports of services	1.6	0.3	-3.5	2.9	4.9
Imports of goods ⁽¹⁾	1.5	-2.7	0.7	7.3	4.9
Imports of services	-2.2	5.0	2.0	2.1	2.2
Gross Domestic Product	2.8	2.4	2.2	3.8	3.0

Notes:

1. 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 f.o.b. basis, instead of on c.i.f. basis.
2. Figures are subject to revision.

Source: Census and Statistics Department.

Hong Kong's real GDP grew by 2.8 per cent., 2.4 per cent., 2.2 per cent. and 3.8 per cent. respectively in 2014, 2015, 2016 and 2017. In 2018, Hong Kong's real GDP grew by 3.0 per cent, marking the second year of above-trend growth.

Private consumption expenditure ("PCE") maintained notable growth of 5.6 per cent. in real terms in 2018 but slowed down through the year amid adjustments to asset prices and increasing external uncertainties.

Government consumption expenditure ("GCE") grew by 4.2 per cent. in real terms in 2018.

Overall investment spending, as represented by gross domestic fixed capital formation ("GDFCF"), showed a modest growth of 2.2 per cent. in real terms in 2018.

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 and subsidies for household electricity charges and HKSAR Government’s payment of examination fees) for the periods indicated:

RATE OF CHANGE IN COMPOSITE CONSUMER PRICE INDICES

	For the year ended 31 December				
	2014	2015	2016	2017	2018
	(year-on-year percentage change)				
Composite Consumer Price Index . . .	4.4	3.0	2.4	1.5	2.4
Underlying Composite Consumer Price Index	3.5	2.5	2.3	1.7	2.6

Source: Census and Statistics Department.

The underlying inflation rate as measured by the change in underlying CCPI drifted downwards from 3.5 per cent. in 2014 to 1.7 per cent. in 2017. The fall reflected the reduced external price pressure stemming from the decline in global inflation and retreat of international commodity prices from their peaks. Meanwhile domestic cost pressures were also contained. In 2018, the underlying inflation rate rebounded to 2.6 per cent. as the economy recorded another year of above-trend growth.

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				
	2014	2015	2016	2017	2018
Total labour force (in thousands) . .	3,871.1	3,903.2	3,920.1	3,946.6	3,979.0
Labour force participation rate (per cent.)	61.1	61.1	61.1	61.1	61.2
Number of employed persons (in thousands)	3,743.5	3,773.8	3,787.1	3,823.2	3,867.0
Number of unemployed persons (in thousands)	127.6	129.4	133.0	123.4	112.0
Unemployment rate (per cent)	3.3	3.3	3.4	3.1	2.8

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.

Source: General Household Survey, Census and Statistics Department.

The unemployment rate remained relatively low in the past five years. In the second quarter of 2018, the seasonally adjusted unemployment rate edged down to 2.8 per cent., the lowest level in more than 20 years, and remained unchanged in the third and fourth quarters of 2018.

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				
	2014	2015	2016	2017	2018 ⁽¹⁾
	(percentage of total)				
Manufacturing	2.8	2.7	2.6	2.5	2.4
Construction	8.3	8.4	8.6	8.8	8.9
Import/export, wholesale and retail trades and accommodation ⁽²⁾ and food services	31.6	30.9	30.4	29.9	29.6
Transportation, storage, postal and courier services, and information and communications	11.4	11.3	11.1	11.1	11.0
Financing and insurance, real estate, and professional and business services	19.7	20.1	20.4	20.6	20.7
Public administration, and social and personal services	25.7	26.1	26.5	26.6	27.0
Other sectors	0.5	0.5	0.5	0.5	0.5
All sectors⁽³⁾	100.0	100.0	100.0	100.0	100.0

Notes:

1. Provisional figures.
2. Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short term accommodation.
3. 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 2017, 88.2 per cent. were engaged in the services sectors, including 29.9 per cent. in import/export, wholesale and retail trades, and accommodation and food services; 26.6 per cent. in public administration, and social and personal services; 20.6 per cent. in financing and insurance, real estate, and professional and business services; and 11.1 per cent. in transportation, storage, postal and courier services and information and communications. Only 2.5 per cent. worked in the manufacturing sector and 8.8 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				
	2014	2015	2016	2017	2018
	(per cent.)				
Manufacturing	0.9	2.1	1.0	2.0	1.6
Import/export and wholesale trades . .	-1.5	0.7	-0.1	1.4	0.8
Retail trade	-0.1	0.5	*	1.8	0.6
Transportation, storage, postal and courier services.	-1.0	1.3	0.9	1.9	1.6
Accommodation^ and food service activities.	0.8	2.7	2.6	3.2	2.8
Information and communications. . . .	0.7	1.4	1.0	1.9	0.8
Financial and insurance activities . . .	1.9	0.7	0.3	1.6	0.7
Real estate activities	0.2	2.0	1.7	2.8	1.9
Professional and business services . .	2.3	2.8	2.6	2.7	2.2
Social and personal services	-2.7	3.6	0.1	1.6	1.8
All selected industry sections ⁽³⁾	-0.1	1.5	1.3	2.3	1.5

Notes:

1. Earnings include all regular and guaranteed payments such as basic pay and stipulated bonuses and allowances, overtime pay and other non-guaranteed or irregular bonuses and allowances.
 2. 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.
 3. Refers to all industries covered by the payroll enquiry, including the mining and quarrying industry, the sewerage, waste management and remediation activities 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 across major economic sectors between 2017 and 2018 on the back of tight labour market conditions. Notable increases were seen in accommodation and food service activities, professional and business services, real estate, and social and personal services. The new Statutory Minimum Wage rate of HK\$37.5 per hour has been effective from 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 31 December 2018, approximately 100 per cent. of employers, 100 per cent. of relevant employees and 70 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 31 December 2018, 908 unions (comprising 846 employee unions, 13 employers’ associations and 38 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 2018, approximately 340,000 business units in Hong Kong were SMEs. They accounted for over 98 per cent. of the total business units and provided jobs to over 1.3 million persons, or approximately 46 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 47 per cent. of the SMEs in Hong Kong and represented approximately half 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			
	2014	2015	2016	2017 ⁽¹⁾
	(percentage of total GDP)			
Agriculture, fishing, mining and quarrying .	0.1	0.1	0.1	0.1
Manufacturing	1.3	1.1	1.1	1.1
Electricity, gas and water supply, and waste management	1.6	1.5	1.4	1.4
Construction	4.4	4.6	5.2	5.1
Services	92.7	92.7	92.2	92.4
Import/export, wholesale and retail trades	24.1	22.7	21.7	21.5
Accommodation and food services ⁽²⁾ . . .	3.6	3.4	3.3	3.3
Transportation, storage, postal and courier services	6.2	6.5	6.2	6.0
Information and communications	3.5	3.5	3.5	3.4
Financing and insurance	16.7	17.6	17.7	18.9
Real estate, professional and business services	10.9	10.9	11.0	10.8
Public administration, social and personal services	17.2	17.5	18.1	18.2
Ownership of premises	10.5	10.6	10.7	10.3
Gross Domestic Product at basic prices .	100	100	100	100

Notes:

1. Figures for 2018 were not available as at the date of this Offering Memorandum.
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				
	2014	2015	2016	2017 ⁽¹⁾	2018 ⁽¹⁾
	(year-on-year percentage change)				
Agriculture, fishing, mining and quarrying	-6.0	-6.8	-2.0	-5.2	-1.5
Manufacturing	-0.4	-1.5	-0.4	0.4	1.3
Electricity, gas and water supply, and waste management.	0.8	-2.6	-0.8	0.9	0.4
Construction.	13.0	5.4	5.1	-1.3	-0.2
Services.	2.5	1.7	2.3	3.6	3.4
Import/export, wholesale and retail trades	1.2	-1.1	0.6	4.2	4.6
Accommodation and food services ⁽²⁾	2.2	-1.9	0.5	2.0	3.9
Transportation, storage, postal and courier services	2.9	3.3	3.0	4.8	3.4
Information and communications	3.9	4.0	4.1	4.0	3.6
Financing and insurance	5.3	6.1	4.2	5.7	4.6
Real estate, professional and business services	1.9	0.7	2.8	2.1	1.6
Public administration, social and personal services	2.4	2.5	3.0	3.1	3.0
Ownership of premises	0.8	0.6	0.5	1.0	1.1

Notes:

1. Provisional figures.
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 2017, the value-added contribution from the manufacturing sector accounted for only 1.1 per cent. of GDP, while that of the construction sector stood at 5.1 per cent. and that of the electricity, gas and water supply, and waste management sector stood at 1.4 per cent.

The services sector is the mainstay of the Hong Kong economy. The further opening up of the Mainland and its deepening reforms have unleashed ample business opportunities for a wide range of service providers. With its geographical proximity and cultural ties with the Mainland as well as its strong market institutions, Hong Kong has leveraged its competitive strengths in services in its continuous move towards high value-added activities.

In 2017, the services sector contributed 92.4 per cent. to GDP. Financing and insurance, real estate, professional and business services remained the largest services sector, accounting for 29.7 per cent. of GDP. This was followed by import/export, wholesale and retail trades, accommodation and food services (24.8 per cent.), public administration, social and personal services (18.2 per cent.), transportation, storage, postal and courier services, and information and communications (9.4 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 rule-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

Hong Kong's banking sector has maintained healthy capital adequacy ratios, and experienced a decreasing level of classified loans and a generally adequate level of liquidity. The total capital adequacy ratio of Hong Kong incorporated authorized institutions (“AIs”) stayed high at 20.3 per cent. at the end of December 2018, well above the minimum international standard of 8 per cent. The classified loan ratio of the banking sector decreased to 0.55 per cent. at the end of December 2018 from 0.60 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 HK\$443 billion in 2018.

HKSAR's monetary policy is underpinned by a currency link of HK\$7.80 to US\$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 2018 was HK\$29,909.4 billion.

As at 31 December 2018, there were a total of 2,315 companies listed on the Main Board and GEM. Of these, 1,146 were Mainland enterprises, constituting 68 per cent. by market capitalisation and 80 per cent. by annual equity turnover value. In 2018, there were 218 newly listed companies on the Main Board and GEM, of those 101 were Mainland enterprises. 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 2017 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\$24,270 billion as at the end of 2017, 66 per cent. of which came from non-Hong Kong investors. Of the total asset and wealth management business, HK\$17,511 billion was from asset management and fund advisory business, and HK\$7,812 billion from private banking and private wealth management business.

As at 31 December 2018, there were 1,678 companies licensed or registered to carry out asset management business in Hong Kong and 2,195 unit trusts and mutual funds authorised by the SFC.

Insurance

As at 31 December 2018, there were 161 authorised insurers in Hong Kong, of which 93 were pure general insurers, 49 were pure long-term insurers and the remaining 19 were composite insurers. As at the same date, there were 2,422 insurance agencies, 69,285 individual agents and 25,356 responsible officers/technical representatives registered with the Insurance Agents Registration Board. According to the provisional statistics for 2018, total gross premiums of the Hong Kong insurance industry increased by 8.6 per cent. over the corresponding period in 2017 to HK\$531.7 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

Residential property market was generally active during 2014 to 2018, notwithstanding the aberration from October 2015 to March 2016 and the consolidation in the second half of 2018. According to the Rating and Valuation Department's figures released at end-February 2019, flat prices and rentals in December 2018 have on average surged by 46.6 per cent. and 23.9 per cent. respectively over December 2013. Trading activities were also active, 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 by the HKSAR Government. The number of sale and purchase agreements for residential property received by the Land Registry averaged at 58,666 per annum in 2014-2018, compared with the annual average of 93,468 in the preceding five-year period.

Raising flat supply through increasing land supply is a key policy of the HKSAR Government. The HKSAR Government has also introduced several rounds of demand-side management measures with a view to forestalling a further build-up in housing market bubble risks, and has successfully reduced external demand, short-term speculative demand and investment demand. 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 significant growth in the past decade. Total tourism expenditure associated with inbound tourism reached HK\$296.7 billion in 2017, representing an increase of 1 per cent. from 2016. Per capita spending by same-day inbound visitors was HK\$2,059 in 2017. In the first half of 2018, per capita spending by same-day inbound visitors increased by 7.0 per cent. to HK\$2,338 over the same period of 2017.

By comparison, per capita spending of overnight visitors grew at a more moderate pace of 4.9 per cent. per annum over the last decade, with per capita spending being HK\$6,443 in 2017. In the first half of 2018, per capita spending of overnight visitors increased by 7.6 per cent. over the same period of 2017 to HK\$6,723.

In 2018, Mainland arrivals amounted to 51.0 million, accounting for 78.3 per cent. of total arrivals. The number of non-Mainland visitors had an overall increase over the past few years and reached approximately 14 million in 2018.

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				
	2014	2015	2016	2017	2018
Total visitor arrivals (in thousands)	60,839	59,308	56,655	58,472	65,148
The Mainland	47,248	45,842	42,778	44,445	51,038
North Asia	2,330	2,293	2,485	2,718	2,709
Southeast and South Asia	3,615	3,559	3,702	3,626	3,572
Europe, Africa and the Middle East . .	2,218	2,167	2,226	2,202	2,232
The Americas	1,679	1,728	1,773	1,782	1,873
Australia, New Zealand and South Pacific	715	681	684	687	704
Taiwan	2,032	2,016	2,011	2,011	1,925
Macao SAR/Not identified	1,002	1,021	995	1,001	1,095
Average length of stay of overnight visitors (nights)	3.3	3.3	3.3	3.2	n/a ⁽¹⁾
Hotel occupancy rate (per cent.)	90	86	87	89	91 ⁽²⁾
Total tourism expenditure associated with inbound tourism (HK\$ billion) . .	359.4	329.4	293.7	296.7	n/a ⁽¹⁾

Notes:

1. Figure not available as of the date of this Offering Memorandum.
2. Provisional figure.

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 2018, a network of container line services with approximately 310 weekly sailings connects the port of Hong Kong with approximately 450 destinations worldwide. There are over 120 airlines operating approximately 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 2018, Hong Kong was one of the world's busiest container ports, handling around 20 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 2018, 350,000 vessels, comprising both ocean-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 7,694 metres of deep water frontage.

To entrench 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.

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				
	2014	2015	2016	2017	2018
Passenger throughput ⁽¹⁾ (million persons)	62.9	68.1	70.1	72.5	74.4
Freight throughput (million tons) . .	4.4	4.4	4.5	4.9	5.0

Notes:

- 1. Arrival and departure passengers include transfer but exclude transit

Source: Civil Aviation Department.

Rail Network

Railways play a vital role in serving the transport needs of Hong Kong. They account for approximately 42 per cent. of daily public transport passenger travel and approximately 55 per cent. of the land-based passenger trips by the end of 2018. 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 over 230 kilometres (track length of 675 kilometres), as of April 2018. 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 traveling 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 narrower decline. In the third quarter of 2018, the gross value of construction work, in real terms performed by main contractors amounted to HK\$34.4 billion, a 4.5 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. Based on the latest projection announced in December 2018, the total housing supply target for the ten-year period from 2019/20 to 2028/29 is 450,000 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 315,000 units and 135,000 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 fourth quarter of 2018, there were a total of 2.57 million households in Hong Kong, among which approximately 799,100 households lived in PRH. Furthermore, approximately 389,900 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 2017, there were around 7,800 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 2018, the Authority had received all five tranches of equity 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.

In May, the URA began 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.

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 Description 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 2017, the gross output of the telecommunications sector amounted to approximately HK\$91 billion and employed approximately 20,400 persons. In 2018, telecommunications sector employed approximately 19,900 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 August 2018, 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 August 2018, there were 245 Internet service providers licensed to provide broadband services, and approximately 2.68 million registered customers using fixed broadband services with speeds up to 10 Gigabits per second. As at August 2018, in the residential market, over 92 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 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.

To tap the vast opportunities arising from the B&R initiative, Hong Kong signed an 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 Guangdong – Hong Kong – Macao Greater Bay Area Development; and enhancing collaboration in project interfacing and dispute resolution services.

The HKSAR Government’s 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, following Shandong, Hunan and Henan in 2016, new liaison units were set up in Tianjin, Zhejiang, Guangxi and Shaanxi in 2017. Overseas, there are 13 ETOs located in major economies with the latest one opened in Bangkok, Thailand, in February 2019. Preparatory work is also underway for setting up ETOs in other B&R-related countries.

Hong Kong has so far signed eight Free Trade Agreements and 20 Investment Promotion and Protection Agreements with foreign economies, including those along the B&R. Negotiations will commence or continue with other B&R economies.

The HKSAR Government launched the “Professional Services Advancement Support Scheme” 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 (including economies along and related to the B&R), 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 functions of IFFO are to provide a platform for information exchange and experience sharing, to build capacity and knowledge on infrastructure investments and financing, to promote market and product development as well as to facilitate infrastructure investment and financing flows.

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 deduction in calculating profits tax for intra-group financing business of corporations operating in Hong Kong, and to reduce profits tax rates by half 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.

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 49 B&R countries, while the Hong Kong Port maintains marine cargo movements with nearly 90 countries along the B&R. Hong Kong will continue to carry out negotiations with trading partners along B&R regions for more agreements or enhancements of existing agreements.

Construction work is now underway to expand HKIA into a three-runway system (“**3RS**”). With the 3RS, the capacity of HKIA will be substantially enhanced, and will be able to handle air traffic demand at least up to 2030, by which time the cargo volumes are 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 rail network that stretches 29,000 km (as at end of 2018), the new 26 km high-speed rail link, XRL, will significantly shorten the travel time between Hong Kong and major Mainland cities to further consolidate Hong Kong’s strategic position as China’s southern gateway. It will also strengthen Hong Kong’s socio-economic ties with the Mainland and inject 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 Guangdong – Hong Kong – Macao Greater Bay Area (“**Greater Bay Area**”) comprises the two Special Administrative Regions of Hong Kong and Macao, and the nine municipalities of Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing in Guangdong Province.

The development of the Greater Bay Area (the “**Outline Development Plan**”) is a national strategy personally devised, personally planned and personally driven by President Xi Jinping. It is a key development strategy in the country’s reform and opening up in the new era. As the preamble to the Outline Development Plan points out, the development of the Greater Bay Area is not only a new attempt to break new ground in the country’s pursuit of opening up on all fronts in a new era, but also a further step in taking forward the implementation of “one country, two systems”. The Outline Development Plan 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.

Fully and faithfully implementing the principle of ‘one country, two systems’ under which ‘the people of Hong Kong govern Hong Kong’ with a high degree of autonomy, as well as acting in strict adherence to the Constitution and the Basic Law, are the guiding ideology for the development of the Greater Bay Area. On the one hand, Hong Kong is part of China; on the other hand, Hong Kong’s economic, legal and social systems are different from those of the Mainland. As a highly open and international city, Hong Kong can extend its international connections and experiences to the Mainland and help bring in foreign investments. Hong Kong can also join hands with Mainland enterprises to develop overseas markets and explore development opportunities, thereby enhancing economic development on the Mainland.

The opportunities for Hong Kong brought about by the development of the Greater Bay Area involve two aspects. First, it can help identify new areas of growth for Hong Kong and foster the diversified development of its economy and industries. Second, it will expand the space for living and development of Hong Kong residents.

The HKSAR Government will fully 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 fully leverage the market-driven mechanism, enabling Hong Kong to enjoy brighter development prospects amid its integration into the overall development of the country.

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				
	2014	2015	2016	2017 ⁽⁴⁾	2018 ⁽⁴⁾
	(HK\$ billions, except percentages)				
Current Account Balance⁽¹⁾	31.5	79.6	98.7	123.9	122.5
Balance on goods	-250.9	-177.3	-129.7	-178.5	-254.1
Balance on services	255.6	234.6	186.7	207.4	256.3
Primary income	46.6	44.4	62.6	115.6	141.6
Secondary income	-19.8	-22.1	-21.0	-20.6	-21.4
Capital and Financial Account					
Balance⁽¹⁾	-73.8	-128.6	-101.1	-76.5	-184.0
Capital account	-0.7	-0.2	-0.4	-0.6	-1.5
Financial account	-73.0	-128.4	-100.7	-75.8	-182.5
Financial non-reserve assets ⁽²⁾ . .	66.1	153.6	-91.9	174.7	-175.0
Direct investment	-85.7	794.8	447.8	186.9	239.1
Portfolio investment	-64.4	-970.9	-469.6	264.2	-587.7
Financial derivatives	118.4	99.2	36.3	61.8	15.5
Other investment	97.8	230.5	-106.4	-338.1	158.1
Reserve assets ⁽²⁾	-139.1	-282.0	-8.9	-250.5	-7.6
Net Errors and Omissions⁽³⁾	42.3	49.1	2.4	-47.4	61.6
Overall Balance of Payments	139.1	282.0	8.9	250.5	7.6
Overall Balance of Payments as percentage of GDP	6.2	11.8	0.4	9.4	0.3

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 in each of the five years from 2014 to 2018. In 2018, there was a balance of payments surplus of HK\$7.6 billion, or 0.3 per cent. of GDP, compared to a surplus of HK\$250.5 billion, or 9.4 per cent. of GDP, in 2017.

Hong Kong's net international investment position ("IIP") was strong during 2014 to 2018. 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				
	2014	2015	2016	2017	2018
	(HK\$ billions, except percentages)				
Net IIP	6,748.8	7,774.7	8,946.8	11,105.0	10,139.9
Ratio to GDP (percentage)	299	324	359	417	356

Source: Census and Statistics Department.

Hong Kong recorded increase in its net IIP during 2014 to 2017. As at 31 December 2017, Hong Kong's external financial assets and liabilities amounted to HK\$42,810.0 billion and HK\$31,705.1 billion, respectively, resulting in a net IIP of HK\$11,105.0 billion, or 417 per cent. of GDP. As at 31 December 2018, Hong Kong's external financial assets and liabilities amounted to HK\$42,933.5 billion and HK\$32,793.6 billion, respectively, resulting in a net IIP of HK\$10,139.9 billion, or 356 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 2014 to 2018, the current account surplus increased from HK\$31.5 billion in 2014 to HK\$122.5 billion in 2018.

The current account recorded a surplus of HK\$122.5 billion (as a ratio of 4.3 per cent. to GDP), in 2018. 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\$123.9 billion (as a ratio of 4.7 per cent. to GDP) in 2017, the decrease in surplus was mainly due to an increase in the goods deficit, partly offset by an increase in the services surplus and an increase in the net inflow of primary income.

Capital and Financial Account

During 2014 to 2018, Hong Kong recorded a net outflow in capital and financial account. Nevertheless, direct investment recorded a net inflow during most of the five-year period.

In 2018, a net outflow of HK\$1.5 billion was recorded in the capital account, compared with a net outflow of HK\$0.6 billion in 2017. An overall net outflow of financial non-reserve assets amounting to HK\$175.0 billion was recorded in 2018, as against an overall net inflow of HK\$174.7 billion in 2017. The overall net outflow recorded in 2018 was the result of a net outflow of other investment and a net outflow of portfolio investment, partly offset by a net inflow of direct investment, a net inflow of other investment and a net inflow due to the cash settlement of financial derivatives.

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				
	2014	2015	2016	2017	2018
	(HK\$ billions)				
Imports	4,219.0	4,046.4	4,008.4	4,357.0	4,721.4
Total Exports	3,672.8	3,605.3	3,588.2	3,875.9	4,158.1

Source: Census and Statistics Department.

After an increase of 3.2 per cent. in 2014, 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.

Hong Kong's merchandise imports followed a broadly similar pattern as the exports. The value of imports increased by 3.9 per cent. in 2014, followed by a 4.1 per cent. decrease in 2015 and a 0.9 per cent. decrease in 2016, and then a 8.7 per cent. increase in 2017 and a 8.4 per cent. increase in 2018.

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				
	2014	2015	2016	2017	2018
	(HK\$ billions)				
Total Exports	3,672.8	3,605.3	3,588.2	3,875.9	4,158.1
Electrical machinery, apparatus and appliances, and electrical parts thereof	1,102.8	1,141.3	1,236.2	1,387.7	1,585.6
Telecommunications and sound recording and reproducing apparatus and equipment	718.5	750.7	739.2	759.0	777.3
Office machines and automatic data processing machines . . .	415.8	394.0	365.1	404.1	448.3
Miscellaneous manufactured articles	222.7	210.1	187.8	206.8	234.9
Non-metallic mineral manufactures	172.5	164.1	179.1	201.8	173.6
Articles of apparel and clothing accessories	158.9	142.6	121.6	112.9	108.5
Photographic apparatus, equipment and supplies, optical goods, watches and clocks	117.8	109.9	104.8	101.5	105.6
Professional, scientific and controlling instruments and apparatus	82.1	75.5	78.7	90.6	97.7
Textile yarn, fabrics, made-up articles and related products .	75.8	70.6	61.3	59.3	57.9
Power generating machinery and equipment	47.3	44.8	49.1	50.8	57.8

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				
	2014	2015	2016	2017	2018
	(HK\$ billions)				
Total Exports	3,672.8	3,605.3	3,588.2	3,875.9	4,158.1
The Mainland	1,979.0	1,936.5	1,943.5	2,105.8	2,287.3
The United States of America . .	341.5	342.2	324.0	330.2	356.8
India	94.2	101.8	116.7	158.6	134.3
Japan	131.5	122.8	116.7	128.5	129.3
Taiwan	79.3	65.0	74.5	89.4	86.2
Asia-Pacific Economic Co-operation ⁽¹⁾	2,959.7	2,894.1	2,878.3	3,101.8	3,349.1
Association of Southeast Asian Nation ⁽²⁾	258.6	271.2	263.9	284.0	308.2
European Union ⁽³⁾	343.1	335.1	330.6	347.1	380.7

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, United States of America and Vietnam.
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 Vietnam.
3. The 28 members of the European Union are 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, Sweden and the United Kingdom.

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				
	2014	2015	2016	2017	2018 ⁽¹⁾
	(HK\$ billions)				
Total Retained Imports	1,160.4	1,039.9	997.1	1,098.0	1,224.8

Note:

1. Provisional figure.

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				
	2014	2015	2016	2017	2018
	(HK\$ billions)				
Total Imports	4,219.0	4,046.4	4,008.4	4,357.0	4,721.4
The Mainland	1,987.0	1,984.0	1,916.8	2,030.1	2,186.3
Taiwan	300.3	274.4	292.1	329.7	338.4
Singapore	260.8	245.9	261.7	288.1	314.1
Korea	175.5	172.1	196.2	252.1	278.3
Japan	288.9	260.3	246.7	253.4	260.0
Asia-Pacific Economic Co-operation ⁽¹⁾	3,591.8	3,500.4	3,476.5	3,784.0	4,112.4
Association of Southeast Asian Nation ⁽²⁾	566.0	552.1	569.4	652.7	761.5
European Union ⁽³⁾	306.5	278.5	267.0	284.9	312.0

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, United States of America and Vietnam.
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 Vietnam.
3. The 28 members of the European Union are 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, Sweden and the United Kingdom.

Source: Census and Statistics Department.

Trade in Services

The following table shows trade in services:

Trade in Services

	For the year ended 31 December				
	2014	2015	2016	2017	2018
	(HK\$ billions)				
Exports of services	829.1	808.9	764.8	812.9	892.3
Imports of services	573.5	574.3	578.1	605.5	635.9
Total trade in services	1,402.6	1,383.3	1,342.9	1,418.4	1,528.2
Net exports of services	255.6	234.6	186.7	207.4	256.3

Source: Census and Statistics Department.

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				
	2014	2015	2016	2017	2018
	(HK\$ billions)				
Total Exports of Services	829.1	808.9	764.8	812.9	892.3
Travel	297.6	280.2	255.0	259.8	287.7
Transport	247.7	230.9	218.7	237.4	256.2
Financial services	137.0	148.7	138.5	158.7	183.8
Other services	146.8	149.2	152.6	157.0	164.5
Total Imports of Services	573.5	574.3	578.1	605.5	635.9
Travel	170.7	178.8	187.4	197.9	207.7
Transport	142.6	134.2	131.4	136.3	143.7
Manufacturing services	92.5	90.0	88.2	91.3	94.8
Financial services	34.4	37.3	36.6	42.3	45.9
Other services	133.3	134.1	134.5	137.7	143.8

Source: Census and Statistics Department.

In 2018, travel and transport were the two largest service components in exports of services, contributing HK\$287.7 billion and HK\$256.2 billion, respectively, to total exports of services. Their shares in total exports of services were 32.2 per cent. and 28.7 per cent., respectively. Other components in exports of services were financial services and other services, contributing HK\$183.8 billion, or 20.6 per cent., and HK\$164.5 billion, or 18.4 per cent., respectively, to total exports of services.

In 2018, travel, transport and manufacturing services were the three largest service components in imports of services, contributing HK\$207.7 billion, HK\$143.7 billion and HK\$94.8 billion, respectively, to total imports of services. Their contributions to total imports of services were 32.7 per cent., 22.6 per cent. and 14.9 per cent., respectively. Other components in imports of services were financial services and other services, contributing HK\$45.9 billion, or 7.2 per cent., and HK\$143.8 billion, or 22.6 per cent., respectively to total imports of services.

In 2017, the Mainland and the United States were the major destinations of exports of services, with values at HK\$310.2 billion, or 39.9 per cent. of total exports of services, and HK\$110.9 billion, or 14.3 per cent., respectively. They were followed by the United Kingdom, Japan and Singapore, with values at HK\$64.2 billion, or 8.2 per cent., HK\$33.5 billion, or 4.3 per cent., and HK\$32.4 billion, or 4.2 per cent., respectively.

For imports of services, the Mainland and the United States were also the major sources, with values at HK\$228.1 billion, or 38.2 per cent. of total imports of services, and HK\$66.2 billion, or 11.1 per cent., respectively. They were followed by Japan, the United Kingdom and Singapore, with values at HK\$49.9 billion, or 8.4 per cent., HK\$34.8 billion, or 5.8 per cent., and HK\$25.7 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⁽²⁾

	Direct investment inflow during the year			
	2014	2015	2016	2017 ⁽¹⁾
	(HK\$ billion)			
Direct investment liabilities ⁽³⁾	1,006.8	1,403.6	1,034.1	979.6
Total of all countries/territories ⁽³⁾	876.5	1,351.5	911.2	862.6
British Virgin Islands	476.7	437.5	240.7	329.9
The Mainland	221.8	200.8	256.8	179.2
Cayman Islands	16.7	404.3	136.0	161.8
Netherlands	44.8	34.4	50.4	-1.4 ⁽⁴⁾
Bermuda	-4.7 ⁽⁴⁾	59.4	14.9	17.6

Notes:

1. Figures for 2018 were not available as at the date of this Offering Memorandum.
2. Country/territory here refers to the immediate source economy. It does not necessarily reflect the country/territory from which the funds are initially mobilised.
3. 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.
4. Negative inflow does not necessarily relate to equity withdrawal. It may be the result of repayment of loans owed to non-resident affiliates.

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⁽²⁾⁽³⁾

	Total direct investment inflow during the year			
	2014	2015	2016	2017 ⁽¹⁾
	(HK\$ billion)			
Direct investment liabilities ⁽⁴⁾	1,006.8	1,403.6	1,034.1	979.6
Total of all economic activities ⁽⁴⁾	876.5	1,351.5	911.2	862.6
Investment and holding, real estate, professional and business services	496.8	1,144.4	509.2	537.9
Banking	130.4	116.7	143.3	128.1
Import/export, wholesale and retail trades	138.3	33.7	98.3	88.4
Financing (except banking, investment and holding companies)	29.1	5.7	60.8	54.8
Construction	12.4	37.1	27.5	28.1

Notes:

1. Figures for 2018 were not available as at the date of this Offering Memorandum.
2. A Hong Kong enterprise group (“**HKEG**”) mainly consists of a Hong Kong parent company, its Hong Kong subsidiaries, associates and branches.
3. 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.
4. 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.

Source: Census and Statistics Department.

In 2017, total direct investment (“**DI**”) inflow amounted to HK\$979.6 billion compared to HK\$1,034.1 billion in 2016. 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 financing (except banking, investment and holding companies).

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 regional cooperation mechanisms such as the Hong Kong/Guangdong Cooperation Joint Conference and 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.

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 2018, Mainland enterprises raised a total of HK\$6.3 trillion on the Hong Kong Stock Exchange. As at 31 December 2018, the combined market capitalisation of Mainland enterprises amounted to HK\$20,193.1 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 Offshore Renminbi Business Centre

Hong Kong pioneered the development of the offshore Renminbi business and is the largest offshore Renminbi business centre. Moreover, the PRC's Thirteenth Five-Year Plan provides support for the strengthening of the HKSAR as the global offshore Renminbi business hub. As at end 2018, the total deposit pool (which includes outstanding Renminbi customer deposits and certificates of deposit) amounted to RMB657.7 billion. In 2018, Renminbi trade settlement handled by banks in Hong Kong totalled RMB4.2 trillion, representing a 7.5 per cent. increase from 2017. Renminbi financing activities are vibrant. Renminbi bond issuances amounted to RMB20.6 billion in 2017, and RMB41.9 billion in 2018, whereas outstanding Renminbi bonds amounted to RMB170.6 billion as at end 2018. With the increasing use of Renminbi in cross-border trade and offshore financial activities, the average daily turnover of Hong Kong's Renminbi Real Time Gross Settlement ("RTGS") system reached RMB1 trillion in 2018. As at end 2018, the Renminbi RTGS system had 200 participating banks, of which 173 were subsidiaries and branches of foreign banks or overseas presence of Mainland banks.

Moreover, there is an expanding range of Renminbi instruments and financial products in the Hong Kong market, including currency forwards and futures, insurance products and various listed and unlisted investment funds, accessing both the onshore and offshore markets. Daily turnover of offshore Renminbi foreign exchange transactions has reached about US\$91 billion equivalent, according to market survey.

During the past years, Hong Kong has developed several channels for cross-border portfolio investment flows, including Shanghai-Hong Kong Stock Connect (November 2014), the Shenzhen-Hong Kong Stock Connect (December 2016) and the Mainland-Hong Kong Mutual Recognition of Funds arrangement (July 2015) and Bond Connect (July 2017). These initiatives have strengthened the connectivity between the Mainland and Hong Kong capital markets. Meanwhile, the RQFII quota for Hong Kong was expanded to RMB500 billion in July 2017, which continues to be the largest in the world and demonstrates Hong Kong's roles as the springboard for overseas investors seeking to tap the Mainland capital markets.

Mainland and Hong Kong Closer Economic Partnership Arrangement

CEPA is the FTA 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 signed ten Supplements as well as five subsidiary agreements under CEPA. CEPA now covers four areas, namely trade in goods, trade in services, investment, as well as economic and technical cooperation.

Under CEPA, Hong Kong service suppliers can enjoy preferential access in various service sectors in 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 co-operation in 22 areas.

The Individual Visit Scheme under CEPA enabled Mainland residents with permanent household registration in selected cities to apply to stay in Hong Kong for not more than seven days on each visit.

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 access scheme across Shanghai, Shenzhen and Hong Kong has been basically formed. The mutual market access scheme 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. Article 151 of the Basic Law also provides that Hong Kong may on its own conclude and implement agreements with foreign states in the economic, trade 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. Active participation in the WTO’s multilateral trading system 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 2014 to 2017, the average annual growth rate in bilateral trade between Hong Kong and other APEC economies was approximately 1.7 per cent. In 2017, such bilateral trade increased by approximately 8.4 per cent. to HK\$6,886 billion from HK\$6,355 billion in 2016 (compared with an increase of approximately 8.4 per cent. for Hong Kong's total trade in 2017 against 2016). Hong Kong is also an important trading hub between the Mainland and other APEC economies. From 2014 to 2017, the average annual growth rate for re-export trade between the Mainland and other APEC economies through Hong Kong was approximately 2.8 per cent., whereas in 2017, such re-export trade increased by 7.5 per cent. to HK\$1,780 billion from HK\$1,655 billion in 2016 (compared with an increase of 8.1 per cent. for Hong Kong's total re-exports in 2017 against 2016). 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 Pacific region. Hong Kong joined PECC in May 1991 as a full and separate member.

INTERNATIONAL RESERVES

Hong Kong's foreign currency reserves, which are held in the Exchange Fund, totalled US\$424.7 billion not including unsettled foreign exchange contracts as at 31 December 2018. 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 US\$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, through which cover of legal tender notes and coins issued in circulation and most of the financial assets of the HKSAR Government are held, 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 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

Hong Kong introduced the “**Linked Exchange Rate System**” in 1983, which links the value of the Hong Kong dollar to the U.S. dollar at HK\$7.80 to US\$1.00. The structure of the monetary system is characterised by currency board arrangements, which require the Hong Kong dollar monetary base, described below (the “**Monetary Base**”), to be at least fully backed by, and changes in it to be fully matched by corresponding changes in, U.S. dollar reserves held in the Exchange Fund at the fixed exchange rate of HK\$7.80 to US\$1.00. Hong Kong’s Monetary Base comprises the following components:

- 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 sum of the balances on the clearing accounts maintained by banks with the HKMA (known as the “**Aggregate Balance**”); and
- the outstanding amount of “**Exchange Fund Bills and Notes**”, which are Hong Kong dollar debt securities issued by the HKMA for the account of and payable from the Exchange Fund on behalf of the HKSAR Government.

The Hong Kong dollar exchange rate is principally maintained through an interest rate adjustment mechanism together with the firm commitment by the HKMA to honour the “**Convertibility Undertakings**”. Under the strong-side Convertibility Undertaking, the HKMA undertakes to buy U.S. dollars and sell Hong Kong dollars upon requests by banks at 7.75, and as a result the Aggregate Balance will expand helping to push down Hong Kong dollar interest rates in the interbank market. Under the weak-side Convertibility Undertaking, the HKMA undertakes to sell U.S. dollars and buy Hong Kong dollars upon requests by banks at 7.85, and as a result, the Aggregate Balance will contract helping to drive up Hong Kong dollar interest rates in the interbank market. Within the Convertibility Zone between 7.75 and 7.85, the HKMA may choose to conduct market operations consistent with currency board principles with the aim of promoting the smooth functioning of the money and foreign exchange markets.

The Hong Kong dollar exchange market operated smoothly and orderly throughout 2018. The Hong Kong dollar eased gradually against the U.S. dollar since the beginning of the year, mainly driven by interest carry trade activities amid widened negative Hong Kong dollar-U.S. dollar interest rate spreads. The weak-side Convertibility Undertaking was triggered 27 times during April to August with the HKMA buying a total of HK\$103.5 billion from banks. Thereafter, the Hong Kong dollar exchange rate regained some strength, in part reflecting some squaring of interest carry trade positions amid tightening of interbank liquidity and to some extent also underpinned by improved stock market sentiment in early November.

The Hong Kong dollar interbank interest rates generally picked up throughout 2018, partly due to reduced interbank liquidity following the triggering of the weak-side Convertibility Undertaking that had led to a reduction of the Aggregate Balance from HK\$180 billion to HK\$76 billion, and partly due to market expectations of U.S. interest rate hikes. In particular, short-term interbank rates witnessed more fluctuations amid initial public offering (“IPO”)-related funding demand and seasonal liquidity needs. Banks raised their best lending rates by 12.5-25.0 basis points following the increase in the target range for the U.S. federal funds rate in late September.

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 wholesale 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. 77 of the largest 100 banks in the world have an operation in Hong Kong. As at the end of 2018, Hong Kong had 152 licensed banks, 18 restricted licence banks and 16 deposit-taking companies. There were also 48 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				
	2014	2015	2016	2017	2018
	(in percentages)				
Asset Quality⁽²⁾					
As a percentage of total credit exposures ⁽³⁾					
Total outstanding provisions/impairment allowances	0.38	0.44	0.49	0.48	0.49
Classified ⁽⁴⁾ exposures:					
Gross	0.38	0.49	0.58	0.48	0.39
Net of specific provisions/individual impairment allowances	0.23	0.31	0.35	0.26	0.19
Net of all provisions/impairment allowances	0.00	0.05	0.09	0.00	(0.10)
As a percentage of total loans ⁽⁵⁾					
Total outstanding provisions/impairment allowances	0.55	0.66	0.76	0.71	0.70
Classified ⁽⁴⁾ loans:					
Gross	0.52	0.73	0.85	0.68	0.55
Net of specific provisions/individual impairment allowances	0.32	0.46	0.51	0.36	0.25
Net of all provisions/individual impairment allowances	(0.03)	0.07	0.10	(0.04)	(0.15)
Overdue for over 3 months and rescheduled loans	0.34	0.47	0.67	0.52	0.36
Profitability					
Return on assets (operating profit)	0.97	0.88	0.81	0.91	0.97
Return on assets (post-tax profit)	0.81	0.83	1.00	0.83	0.84
Net interest margin	1.14	1.07	1.04	1.12	1.20
Cost-income ratio	48.9	50.3	50.4	47.0	45.0
Bad debt charge to total assets	0.06	0.09	0.10	0.10	0.06
Liquidity					
Loan to deposit ratio (all currencies)	72.2	70.1	68.4	73.0	72.6
Loan to deposit ratio ⁽⁶⁾ (Hong Kong dollar)	83.3	78.2	77.1	82.7	86.9

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. Starting from 2015, the coverage was expanded to include locally incorporated AIs’ major overseas subsidiaries.
6. Includes swap deposits.

Source: HKMA.

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

	As at 31 December				
	2014	2015	2016	2017	2018
	(HK\$ billions)				
Manufacturing	266	244	247	293	318
Transport and transport equipment	261	275	295	342	338
Building, construction and property development and investment	1,060	1,138	1,260	1,471	1,542
Wholesale and retail trade	473	444	413	409	412
Financial concerns (other than authorized institutions)	388	453	546	821	871
Individuals:					
to purchase flats in the Home Ownership Scheme, the Private Sector Participation Scheme and the Tenants Purchase Scheme	42	41	43	51	58
to purchase other residential property	988	1,078	1,122	1,208	1,314
other purposes	450	490	519	618	681
Others	588	637	740	805	875
Total⁽¹⁾	<u>4,515</u>	<u>4,800</u>	<u>5,185</u>	<u>6,019</u>	<u>6,408</u>

Notes:

1. Defined as loans for use in Hong Kong plus trade financing loans.
2. Figures may not add up to 100% due to rounding.

Source: HKMA.

DEPOSITS FROM CUSTOMERS (ALL AIs)

	As at 31 December				
	2014	2015	2016	2017	2018
	(HK\$ billions)				
Hong Kong Dollar (including swap deposits)					
Demand	787	904	1,038	1,159	1,089
Savings	2,242	2,490	2,715	3,067	2,806
Time	1,761	1,905	2,043	2,244	2,800
Total	4,790	5,299	5,797	6,470	6,695
Foreign Currency					
Demand	592	718	785	833	866
Savings	1,723	2,005	2,224	2,263	2,118
Time	2,933	2,698	2,884	3,143	3,661
Total	5,249	5,420	5,893	6,239	6,646

Source: HKMA.

Hong Kong's banking sector is generally strong, well-capitalised and with ample liquidity. The banking sector is therefore 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. The Banking (Capital) (Amendment) Rules 2018 and the revised Banking (Exposure Limits) Rules also completed the legislative processes in December 2018 for implementing the latest Basel requirements on capital adequacy and large exposure limits in the course of 2019.

The asset quality of the banking sector stayed healthy, the liquidity positions of AIs remained robust, and locally incorporated AIs continued to be well capitalised. At the end of 2018, total deposits and total loans and advances of AIs amounted to HK\$13,386.4 billion and HK\$9,722.6 billion respectively, marking increases of 5.0 per cent. and 4.4 per cent. from a year earlier. Total assets rose 5.9 per cent. to HK\$24,042.6 billion.

Statistics on AIs

	As at 31 December				
	2014	2015	2016	2017	2018
AIs	203	199	195	191	186
<i>Of which:</i>					
Licensed banks	159	157	156	155	152
Restricted licence banks	21	24	22	19	18
Deposit-taking companies	23	18	17	17	16
Local branches of AIs	1,384	1,370	1,289	1,261	1,285
Total deposits (HK\$ billion)	10,073	10,750	11,727	12,752	13,386
Total loans and advances (HK\$ billion)	7,276	7,535	8,023	9,314	9,723
Total assets (\$ billion)	18,442	19,181	20,652	22,697	24,043

The HKMA keeps a vigilant watch on the property mortgage business of AIs. It has introduced eight rounds of countercyclical macroprudential measures since 2009 to strengthen the risk management of AIs' mortgage lending business.

Following the establishment of the Fintech Facilitation Office 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 launched the Cybersecurity Fortification initiative to raise the cyber resilience of Hong Kong's banking system, published two whitepapers on Distributed Ledger Technology (“**DLT**”), conducted a study on Central Bank Digital Currency, published an Open Application Programming Interface (“**Open API**”) Framework for the banking sector to facilitate the development and adoption of Open API, and facilitated the development of eTradeConnect, which is a DLT-based trade finance platform and the result of a Proof-of-Concept (“**PoC**”) conducted by the HKMA. In terms of industry liaison, the HKMA launched with Cyberport a Haccelerator platform to run competitions, organised 37 and spoke at more than 129 events, and held about 490 meetings with other stakeholders. 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 270 students since launch. On cross-border collaboration, the HKMA has entered into fintech co-operation agreements with the United Kingdom, Shenzhen, Singapore, Dubai International Financial Centre, Switzerland, Poland, Abu Dhabi Global Market, and Brazil. Other initiatives include the collaboration with the Monetary Authority of Singapore to build a cross-border DLT-based information network connecting the trade finance platforms in the two places, a PoC on connecting eTradeConnect with a European blockchain-based trade finance platform, 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. Under the Banking Made Easy initiative, the HKMA streamlined regulatory requirements in relation to remote onboarding, online finance and online wealth management. These enhancements have made it easy for banks to offer better 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.

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 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 stepped up the supervision of AIs’ technology risk management and operational resilience.

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-sector 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 streams of work 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. 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 2018, 187 off-site reviews were conducted covering a broad range of issues, including CAMEL ratings, corporate governance, business operations and 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, 27 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. 28 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 392 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 as well as anti-money laundering and counter-terrorist financing (AML/CFT) controls. 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\$29.9 trillion as at end-2018, fifth in the world and third in Asia. At the end of 2018, 2,315 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 has ranked first for six out of the past ten years since 2009 in terms of equity funds raised via IPOs. In 2018, HK\$286.5 billion was raised through IPOs. In addition to new share issues, another HK\$255.2 billion was raised on the secondary market. At the HKEX, the turnover of securitised derivatives has ranked first in the world since 2007.

The HKFE operates a futures market. Total turnover of derivatives contracts in 2018 was 296 million, the highest ever. Open interest at the year end was 10.6 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				
	2014	2015	2016	2017	2018
Market Capitalisation					
(HK\$ billion)					
Mainboard					
Total	24,892	24,426	24,450	33,718	29,723
Red-chips	5,215	5,138	4,899	5,727	5,375
H-shares	5,724	5,157	5,316	6,759	5,937
GEM					
Total	179	258	311	281	186
Red-chips	13.1	13.0	13.4	12.4	2.3
H-shares	5.7	7.5	7.0	8.9	4.7
Turnover (HK\$ billion)					
Mainboard					
Total	16,990	25,836	16,280	21,560	26,295
Red-chips	1,898	2,416	1,565	1,916	2,168
H-shares	4,399	6,882	3,983	5,572	6,637
GEM					
Total	166	255	117	149	127
Red-chips	4.4	4.9	1.6	1.6	1.8
H-shares	3.5	8.6	5.7	7.4	2.5
Hang Seng Index (index value)	23,605.04	21,914.40	22,000.56	29,919.15	25,845.7

Source: HKEX

The total market capitalisation of the securities market as at 31 December 2018 was HK\$29,909.4 billion, a decrease of approximately 12.03 per cent. compared to 31 December 2017. The Hang Seng Index ended 2018 at 25,845.7, representing a year-on-year decrease of 14 per cent. The average daily securities market turnover was HK\$107.4 billion in 2018, an increase of approximately 22 per cent. from HK\$88.2 billion in 2017. The average daily securities market turnover of derivative warrants in 2018 was HK\$15.7 billion, an increase of 29 per cent. from HK\$12.2 billion in 2017. The average daily securities market turnover of CBBCs in 2018 was HK\$7.5 billion, an increase of 56 per cent. from HK\$4.8 billion in 2017. There were 218 newly listed companies in 2018 (including any transfers of listing from GEM to Main Board), an increase of 25 per cent. from 174 (including any transfers from listing from GEM to Main Board) in 2017. Funds raised through IPOs in 2018 were HK\$286.5 billion, an increase of 123 per cent. from HK\$128.5 billion in 2017.

The average daily derivatives market turnover of futures and options in 2018 was 1,203,996 contracts, an increase of 38 per cent. from 869,819 contracts in 2017. The average daily derivatives market turnover of equity index futures in 2018 was 511,547 contracts, an increase of 66 per cent. from 307,674 contracts in 2017. The average daily derivatives market turnover of Stock Futures in 2018 was 3,508 contracts, an increase of 613 per cent. from 492 contracts in 2017. The average daily derivatives market turnover of

Stock Options in 2018 was 517,395 contracts, an increase of 21 per cent. from 428,499 contracts in 2017. The average daily derivatives market turnover of RMB Currency Futures in 2018 was 7,235 contracts, an increase of 139 per cent. from 3,025 contracts in 2017. On 27 December 2018, the open interest of Hang Seng China Enterprises Index Futures reached a record high of 635,051 contracts.

Fund-raising Centre

In 2018, the Hong Kong Stock Exchange ranked first worldwide in terms of the IPO equity funds raised, at HK\$286.5 billion.

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.

Regulation of Hong Kong's Securities and Futures Markets

The SFC is the statutory regulator for Hong Kong's securities and futures markets. It is an independent statutory body established in 1989 by the Securities and Futures Commission Ordinance of ("SFCO") Hong Kong. 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 2018, there were 46,254 licensed entities, including securities brokers, futures dealers, investment and corporate finance advisers and fund managers as well as their representatives, and 117 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 (for the years ended 31 December)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Licensed entities	39,621	41,347	42,544	44,050	46,254
<i>Of which:</i>					
Licensed corporations	2,034	2,172	2,411	2,660	2,905
Licensed individuals	37,587	39,175	40,133	41,390	43,349
Registered institutions	118	119	121	119	117

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 UK Financial Conduct Authority, Australian Securities and Investments Commission, Dubai Financial Services Authority, Securities Commission Malaysia, Swiss Financial Market Supervisory Authority and Abu Dhabi Global Market Financial Services Regulatory Authority.

On the enforcement front, the SFC took enforcement actions to maintain market integrity. From 1 January to 31 December 2018, the SFC disciplined 20 licensed corporations and 14 licensed individuals, with fines totalling over HK\$193 million. Separately, four individuals and two corporations were prosecuted for criminal offences including the provision of false or misleading statements, short selling, unlicensed activities and failure to disclose interests.

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 2014 to 2018:

OUTSTANDING AMOUNT OF HONG KONG DOLLAR DEBT INSTRUMENTS

	As at 31 December				
	2014	2015	2016	2017	2018
	(HK\$ millions, period end)				
Exchange Fund	752,630	828,421	963,098	1,048,479	1,062,715
Fixed Rate Papers ⁽¹⁾	541,119	566,424	642,777	655,444	674,095
Floating Rate Papers ⁽²⁾	116,062	112,192	124,692	98,166	107,701
Total	<u>1,409,811</u>	<u>1,507,037</u>	<u>1,730,567</u>	<u>1,802,089</u>	<u>1,844,511</u>

Notes:

1. Fixed rate papers include fixed rate certificates of deposit, commercial papers and straight bonds.
2. Floating rate papers include floating rate certificates of deposit, floating rate notes and floating rate asset-backed securities.

Source: HKMA.

Over these years, the Hong Kong dollar debt market has expanded steadily. As at end-December 2018, the outstanding amount of Hong Kong dollar debt securities stood at \$1,844.5 billion, which was equivalent to 20.8 per cent. of Hong Kong dollar-denominated assets of the banking sector. Exchange Fund Bills and Notes (“EFBNs”) made up 57.6 per cent. of the total. Excluding EFBNs, fixed-rate papers and floating-rate papers accounted for 86.2 per cent. and 13.8 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.

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 2018, 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 2017, the asset and wealth management business was valued at HK\$24,270 billion, of which 66 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 2018, there were 2,195 SFC-authorized unit trusts and mutual funds, of which 775 were domiciled in Hong Kong, up 2.6 per cent. from a year earlier and 126 per cent. more than 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 February 2019, Hong Kong has MRF arrangements with the Mainland China, Switzerland, France, the United Kingdom and Luxembourg; (b) diversifying the fund management platform by introducing a new fund structure in the form of open-ended fund company and developing a limited partnership regime 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 (QDII), Qualified Foreign Institutional Investors (QFII) and the RMB Qualified Foreign Institutional Investors (RQFII).

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.

To further enhance the efficiency of retail payment services, HKD Faster Payment System (“**FPS**”) was launched on 17 September 2018 as an extension of HKD 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 (“**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 (“**LBs**”) to report OTC derivatives transactions with another LB to the HKTR. The LegCo enacted the Securities and Futures (Amendment) Ordinance 2014 (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 HKD 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 participates in the EMEAP WGFM, which studies central bank services and the developments of foreign exchange, money and bond markets, as well as plays a key role in forming the Asian Bond Fund (ABF).

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. At the end of 2018, the Exchange Fund had total assets of HK\$4,059.4 billion and an accumulated surplus of HK\$599.4 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 unaudited financial statements for the year ended 31 December 2018, the Exchange Fund recorded an investment income of HK\$13.9 billion (comprising gains on bonds of HK\$57.4 billion, losses on equities of HK\$59.0 billion, net exchange loss of HK\$9.0 billion and gains on other investments of HK\$24.5 billion, but excluding a loss of HK\$0.5 billion in the Strategic Portfolio) After deducting all expenses and fees, the accumulated surplus of the Exchange Fund recorded a decrease of HK\$113.7 billion.

The investment return^{1&2} of the Exchange Fund was 0.3 per cent. in 2018. The average return was 2.1 per cent. over the past five years, from 2014 to 2018.

The investment return of the Exchange Fund for 2017 and 2018, 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 2018 are set out in the table below:

INVESTMENT RETURN OF THE EXCHANGE FUND¹

	<u>2017</u>	<u>2018²</u>	<u>Compounded Annual Investment Return (1994-2018)^{2&3}</u>	<u>Compounded Annual Hong Kong Composite CPI (1994-2018)⁴</u>
Investment return in Hong Kong dollar terms	7.4%	0.3%	4.7%	2.1%

Notes:

1. Investment return calculation excludes the holdings in the Strategic Portfolio.
2. The return includes the performance of LTGP up to the end of September 2018 only.
3. The investment returns for 2001 to 2003 are in U.S. dollar terms.
4. Composite CPI is calculated based on the 2014/2015-based series.

Source: HKMA.

As at 31 December 2018, the Exchange Fund's assets amounted to HK\$4,059.4 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 31 December 2018, 2017, 2016, 2015 and 2014 was HK\$599.4 billion, HK\$713.1 billion, HK\$546.5 billion, HK\$544.9 billion and HK\$635.5 billion, respectively.

The currency mix of the Exchange Fund's assets as at 31 December 2018 (including forward transactions) is set out in the table below:

CURRENCY MIX OF THE EXCHANGE FUND'S ASSETS

	<u>As at 31 December 2018</u>	
	(HK\$ billions)	(percentage of total)
U.S. dollar	3,302.4	81.4
Hong Kong dollar	361.5	8.9
Others ⁽¹⁾	<u>395.5</u>	<u>9.7</u>
Total	<u><u>4,059.4</u></u>	<u><u>100.0</u></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 US\$328.5 billion, US\$358.8 billion, US\$386.2 billion, US\$431.4 billion, and US\$424.7 billion as at 31 December 2014, 2015, 2016, 2017 and 2018, 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. For 2018-19, the HKSAR Government forecasted a surplus of HK\$58.7 billion. Fiscal reserves as at 31 March 2019 are expected to reach HK\$1,161.6 billion, or 40.8 per cent. of GDP. Government revenue in 2019-20 is estimated to be HK\$626.1 billion and expenditure is estimated to amount to HK\$609.3 billion (after repayment of bonds and notes). Public expenditure includes government expenditure and expenditure by other public bodies. In 2017-18, public expenditure totalled HK\$507.6 billion, an increase of 2.6 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 2017 Budget Speech, the Financial Secretary forecasted that government expenditure would be HK\$491.4 billion and revenue would be HK\$507.7 billion for 2017-18. Actual expenditure amounted HK\$470.9 billion and actual revenue amounted to HK\$619.8 billion for 2017-18. 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. Based on the provisional financial results for the year ended 31 March 2019, the expenditure and revenue are HK\$531.8 billion and HK\$599.8 billion respectively.

The relevant figures, together with the estimates for fiscal year 2019-20, are summarized below:

HKSAR GOVERNMENT CONSOLIDATED BALANCE

	Fiscal Year		
	2017-18	2018-19 ⁽¹⁾	2019-20 ⁽²⁾
	(HK\$ billions)		
Government Expenditure after repayment of bonds and notes	470.9	537.7	609.3
Revenue	619.8	596.4	626.1
Surplus/(deficit) after repayment of bonds and notes	148.9	58.7	16.8

Notes:

1. Revised estimates. For updated figures, please see “*Public Finance – Recent Developments*”.
2. Estimated figures.

Source: Financial Services and the Treasury Bureau (The Treasury Branch).

In preparing its budget for 2019-20, the HKSAR Government made, among others, the following assumptions:

- real GDP growth of 2.5 per cent, with a trend growth rate in real terms of 3 per cent. per annum for the four year period 2020 to 2023;
- GDP deflator to increase by 2.5 per cent. in 2019, to increase at a trend rate of 2 per cent. per annum for the four year period 2020 to 2023; and
- CCPI to increase 2.5 per cent. in 2019, with an underlying CCPI increase of 2.5 per cent. after netting out effects of various one-off relief measures, and for the period 2020-2023, the trend rate of increase for the underlying CCPI of 2.5 per cent. per annum.

These figures represent the HKSAR Government's forecast made in February 2019, with respect to the HKSAR Government's economy for 2019. While the HKSAR Government believes its assumptions and estimates were reasonable when made, some events are beyond its control, and actual outcomes will depend on future events. Accordingly, no assurance can be given that economic results will not differ materially from these assumptions and estimates.

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 MTRC) 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 a 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 education, social welfare, health and infrastructure. For fiscal year 2019-20, education is estimated to account for 20.4 per cent. of total government expenditure, followed by social welfare (16.0 per cent), health (14.6 per cent) and infrastructure (13.0 per cent).

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					
	2014-15	2015-16	2016-17	2017-18	2018-19 ⁽¹⁾	2019-20 ⁽²⁾
	(HK\$ millions)					
Revenue						
Operating revenue						
Internal revenue						
Earnings and profits						
tax	204,950	205,883	206,907	208,729	235,400	235,900
Stamp duties	74,845	62,680	61,899	95,173	80,000	76,000
Bets and sweeps tax . .	19,479	20,127	21,119	21,959	21,934	22,230
Air passenger						
departure tax	2,347	2,516	2,598	2,737	2,922	2,990
Utilities, fees and						
charges	18,551	19,159	16,975	20,266	21,033	18,680
General rates	22,272	22,733	21,250	22,203	16,974	19,875
Duties	10,010	10,712	10,254	10,701	10,683	10,766
Motor vehicle taxes . .	9,549	9,311	7,814	8,594	9,197	9,198
Other revenue	31,931	28,411	62,911	52,397	54,011	71,361
Total Operating Revenue	<u>393,934</u>	<u>381,532</u>	<u>411,727</u>	<u>442,759</u>	<u>452,154</u>	<u>467,000</u>
Capital revenue	84,734	68,475	161,397	177,078	144,265	159,059
Total revenue	<u>478,668</u>	<u>450,007</u>	<u>573,124</u>	<u>619,837</u>	<u>596,419</u>	<u>626,059</u>
Expenditure						
Operating expenditure						
Recurrent Expenditure						
Personal emoluments . . .	64,581	68,152	71,775	74,567	79,547	84,690
Personal-related						
expenses	5,369	5,979	6,725	7,445	8,456	9,927
Pensions	26,412	29,433	31,948	34,410	37,075	39,596
Departmental expenses . .	27,355	28,567	30,163	31,366	35,121	41,411
Other charges	59,482	63,565	69,052	69,307	84,132	92,394
Subventions	121,891	128,836	134,975	144,717	160,415	172,971
Non-recurrent expenditure .	11,227	22,833	8,618	9,085	29,860	60,511
Total operating expenditure . .	<u>316,317</u>	<u>347,365</u>	<u>353,256</u>	<u>370,897</u>	<u>434,606</u>	<u>501,500</u>
Capital expenditure (after						
repayment of bonds and						
notes)	89,554	88,268	108,796	99,966	103,147	107,758
Total expenditure (after						
repayment of bonds and						
notes)	<u>405,871</u>	<u>435,633</u>	<u>462,052</u>	<u>470,863</u>	<u>537,753</u>	<u>609,258</u>

Notes:

1. Revised estimates.
2. Estimated figures.

Source: *Financial Services and the Treasury Bureau (The Treasury Branch).*

PUBLIC EXPENDITURE

As set out in the Appendix to the 2019-20 Budget Speech, the general principle of expenditure policy is that, over time, the growth rate of expenditure should commensurate with the growth rate of the economy. Public expenditure is estimated to be 21.6 per cent. of GDP for fiscal year 2019-20.

REVENUE SOURCES

The major sources of revenue are profits tax, salaries tax, land premium and stamp duties on stock and property transactions. Other significant sources include revenue from rates, bets and sweeps tax 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					
	2014-15	2015-16	2016-17	2017-18	2018-19 ⁽¹⁾	2019-20 ⁽²⁾
	(percentage of total)					
Tax Revenue	74.0	76.6	60.7	61.6	65.2	61.6
Earnings and profits tax	42.8	45.8	36.1	33.7	39.5	37.7
Profits tax	28.8	31.2	24.3	22.4	27.8	25.5
Salaries tax	12.4	12.8	10.3	9.8	10.1	10.6
Personal assessment	1.0	1.1	0.9	0.9	1.0	1.0
Property tax	0.6	0.7	0.6	0.6	0.6	0.6
Indirect Tax	31.2	30.8	24.6	27.9	25.7	23.9
Air passenger departure tax	0.5	0.5	0.5	0.4	0.5	0.5
Bets and sweeps tax	4.1	4.5	3.7	3.6	3.7	3.5
Duties	2.1	2.4	1.8	1.7	1.8	1.7
Estate Duty	–	–	–	–	–	–
Fees and charges (tax-loaded)	1.6	1.7	0.9	1.3	1.4	0.9
General rates	4.7	5.1	3.7	3.6	2.8	3.2
Motor vehicle taxes	2.0	2.1	1.4	1.4	1.5	1.5
Royalties	0.6	0.6	1.8	0.5	0.6	0.5
Stamp duties	15.6	13.9	10.8	15.4	13.4	12.1
Non-Tax Revenue	26.0	23.4	39.3	38.4	34.8	38.4
Asset sales	–	0.1	–	–	–	–
Fees and charges (non tax-loaded)	1.5	1.7	1.3	1.2	1.4	1.4
Investment income and interest	–	–	3.6	3.5	6.8	7.7
Land premium	16.3	13.5	22.3	26.6	19.4	22.9
Properties and investments	4.9	4.4	5.3	4.5	3.0	3.9
Utilities	0.8	0.9	0.8	0.7	0.8	0.7
Other income ⁽³⁾	2.5	2.8	6.0	1.9	3.4	1.8
Total revenue	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Notes:

1. Revised estimates.
2. Original estimates.
3. 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 2017-18, the HKSAR Government received approximately HK\$139.1 billion in profits tax, or approximately 22.4 per cent of total revenue. In 2018-19, the HKSAR Government received approximately HK\$166 billion in profits tax, or approximately 27.8 per cent of total revenue. For 2019-20, profits tax is estimated to amount to HK\$159.6 billion, or 25.5 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\$164.8 billion, or 26.6 per cent. of total revenue in 2017-18 and HK\$115.9 billion, or 19.4 per cent. of total revenue in 2018-19. It is estimated to contribute HK\$143 billion, or 22.8 per cent. of total revenue, in 2019-20.

Salaries Tax

Salaries tax is charged on all incomes from any office or employment 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\$45,000 increment of income (after deductions and allowances) in the year of assessment 2017/18 and on every HK\$50,000 increment of income (after deductions and allowances) in the year of assessment 2018/19. The total tax is restricted to a maximum of 15 per cent. of income after deductions and before allowances. Salaries tax contributed HK\$60.8 billion, or 9.8 per cent. of total revenue, in 2017-18 and HK\$60 billion, or 10.1 per cent of total revenue, in 2018-19. It is estimated to amount to HK\$66.6 billion, or 10.6 per cent. of total revenue, for 2019-2020.

Stamp Duties

Stamp duty is imposed on different classes 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\$95.2 billion, or 15.4 per cent. of total revenue, in 2017-18 and HK\$80 billion, or 13.4 per cent. of total revenue, in 2018-19. For 2019-20, revenue from stamp duties is estimated to amount to HK\$76 billion, or 12.1 per cent. of total revenue.

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, asset sales, fees and charges, investment income and interest, properties and investments and utilities.

GOVERNMENT INDEBTEDNESS AND CONTINGENT LIABILITIES

Indebtedness

As at 31 March 2019, HKSAR Government has HK\$1.5 billion outstanding government institutional notes, which will mature in July 2019. 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\$2,031.2 billion in consolidated net assets as at 31 March 2018. These net assets were represented by three reserves: General Reserve of HK\$830.2 billion, Exchange Fund Reserve of HK\$714.7 billion and Capital Expenditure Reserve of HK\$486.3 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. 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 March 2019)

Expected maturity date	Original maturity	Coupon	Outstanding size
		(per cent. p.a.)	(HK\$ bn)
June 2019	3-year	Floating	10.0
August 2019	3-year	Floating	2.9
January 2020	10-year	2.93	6.7
February 2020	5-year	1.06	12.7
June 2020	3-year	Floating	2.9
November 2020	5-year	0.91	9.5
August 2021	10-year	2.46	14.5
December 2021	3-year	Floating	3.0
May 2022	5-year	1.16	9.0
January 2023	10-year	1.10	9.8
August 2024	10-year	2.22	4.5
January 2026	10-year	1.68	3.4
June 2027	10-year	1.25	3.6
January 2029	10-year	1.97	1.5
July 2030	15-year	2.13	1.8
March 2032	15-year	1.89	2.4
July 2034	15-year	2.02	0.6
Total			98.8

Source: HKMA.

Note: In addition, the HKSAR Government issued three Islamic bonds under the GB Programme, each with an issuance size of US\$1 billion in 2014, 2015 and 2017. The 2014 and 2015 issuances were 5-year tenors while the 2017 issuance was a 10-year tenor.

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 2019, 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	38,761
Guarantees provided under the SME Financing Guarantee Scheme – Special Concessionary Measures	17,427
Legal claims, disputes and proceedings	10,033
Subscription to callable shares in the Asian Development Bank	5,982
Subscription to callable shares in the Asian Infrastructure Investment Bank	4,794
Guarantees provided under the SME Loan Guarantee Scheme	4,303
Guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation	1,866
Guarantees provided under the Special Loan Guarantee Scheme	205
Total	<u>83,371</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 are estimated to be HK\$1,161.6 billion as at 31 March 2019. The HKSAR Government estimates that its fiscal reserves will be HK\$1,178.4 billion at 31 March 2020.

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				
	2014-15	2015-16	2016-17	2017-18	2018-19 ⁽¹⁾
	(in HK\$ billions, except percentages)				
Fiscal reserves as at 31 March ⁽¹⁾	828.5	842.9	954.0	1,102.9	1,161.6
Fiscal reserves (as percentage of GDP)	36.7	35.1	38.3	41.4	40.8

Note:

1. Revised estimates.

Source: *Financial Services and the Treasury Bureau (The Treasury Branch)*.

RECENT DEVELOPMENTS

Provisional Financial Results for the Year Ended 31 March 2019

HKSAR Government released on 30 April 2019 a set of provisional financial results. Expenditure for the year ended 31 March 2019 amounted to HK\$531.8 billion and revenue HK\$599.8 billion, resulting in a surplus of HK\$68 billion. The overall fiscal position was more favourable than the original and revised estimates for the year.

Expenditure and revenue for the year recorded a variance of 6.6 per cent. (HK\$37.8 billion) and 0.8 per cent. (HK\$4.7 billion) lower than the original estimate respectively.

The consolidated surplus for the year was HK\$9.3 billion higher than the revised estimate of HK\$58.7 billion. Revenue was HK\$3.4 billion (0.6 per cent.) higher than expected, mainly attributable to land premium (HK\$1 billion higher) and earnings and profits tax (HK\$1 billion higher). Expenditure was HK\$5.9 billion (1.1 per cent.) lower than forecast for the revised estimate mainly due to lower-than-expected requirements.

The fiscal reserves stood at HK\$1,170.9 billion as at 31 March 2019.

Consolidated Account (Provisional)¹

	Year ended 31 March 2019
	(HK\$ millions)
Revenue	599,759.2
Expenditure	(531,810.4)
(Deficit)/Surplus	67,948.8
Financing	
Domestic	
Banking Sector ²	(70,928.1)
Non-Banking Sector	2,979.3
External	–
Total	(67,948.8)

Government debts as at 31 March 2019³: HK\$1,500 million Debts guaranteed by Government as at 31 March 2019⁴: HK\$24,694.1 million

Fiscal Reserves (Provisional)

	Year ended 31 March 2019
	(HK\$ millions)
Fiscal Reserves at start of period	1,102,933.7
Consolidated (Deficit)/ Surplus	67,948.8
Fiscal Reserves at end of period ⁵	1,170,882.5

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 31 March 2019 was HK\$138,403 million.
2. Includes transactions with the Exchange Fund and resident banks.
3. These were the outstanding institutional notes as at 31 March 2019, which were denominated in Hong Kong dollars with maturity in July 2019. They do not include the outstanding bonds with nominal value of HK\$94,747 million and alternative bonds with nominal value of US\$3,000 million (equivalent to HK\$23,550 million as at 31 March 2019) issued under the GB Programme (with proceeds credited to the Bond Fund). Of these bonds under the GB Programme (including silver bonds with nominal value of HK\$8,747 million, which may be redeemed before maturity upon request from bond holders), bonds with nominal value of HK\$32,256 million and alternative bonds with nominal value of US\$1,000 million (equivalent to HK\$7,850 million as at March 31, 2019) will mature within the period from April 2019 to March 2020 and the rest within the period from April 2020 to March 2034.
4. Includes guarantees provided under the SME Loan Guarantee Scheme launched in 2001, the Special Loan Guarantee Scheme launched in 2008, the Special Concessionary Measures under the SME Financing Guarantee Scheme launched in 2012, and a commercial loan of the Hong Kong Science and Technology Parks Corporation.
5. 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.

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 deals only with initial purchasers of Notes at the issue price 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, special tax accounting rules as a result of any item of gross income with respect to the Notes being taken into account on an applicable financial statement, 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 U.S. 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 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 (the “Code”), as amended, 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.

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. Holders

Payments of interest

This section “*Certain U.S. Federal Income Tax Consequences*” assumes that the Notes will not be issued with original issue discount (“OID”) for U.S. federal income tax purposes. Therefore, payments of interest, including additional amounts, if any, on a Note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder’s method of accounting for tax purposes. For foreign tax credit purposes, interest paid by the Issuer on the Notes generally constitutes income from sources outside the United States. Prospective purchasers of Notes should consult their own tax advisers concerning the applicability of foreign tax credit and source of income rules attributable to the Notes.

OID

If the issue price of a Note is less than its principal amount by equal to or more than a statutorily defined de minimis amount, a U.S. Holder will be subject to special U.S. federal income tax rules with respect to this OID. OID will be considered to be de minimis if it is less than 0.25 per cent. of the stated redemption price at maturity multiplied by the number of complete years to maturity. A U.S. Holder of a Note must include OID in income calculated on a constant yield method before the receipt of cash attributable to the income, and will generally have to include in income increasingly greater amounts of OID over the life of the Note. A U.S. Holder should consult its own tax adviser regarding the consequences of holding a Note that is treated as being issued with OID.

Sale and retirement of the 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 tax basis in the Note. A U.S. Holder’s tax basis in a Note will generally be the amount paid for 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.

Gain or loss recognised by a U.S. Holder 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 Note was held by the U.S. Holder for more than one year.

Except to the extent attributable to accrued but unpaid interest (which will be taxed as ordinary income to the extent not previously included in income), gain or loss recognised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source capital gain or loss. In the case of a non-corporate U.S. Holder, the maximum marginal federal income tax rate applicable to capital gains is currently lower than the maximum marginal rate applicable to ordinary income if a Note is held for more than one year. The deductibility of capital losses is subject to limitations. Prospective purchasers of Notes should consult their tax advisers as to the foreign tax credit implications of the sale or retirement of Notes.

Further Issuances

The Issuer may, from time to time, without notice to or the consent of the Noteholders, create and issue further notes, having terms and conditions the same as those of the Notes, or the same except for the amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes. Additional notes may not be fungible unless they are issued in a “qualified reopening” of the issuance of the original Notes (within the meaning of the applicable U.S. Treasury Regulations). Whether the issuance of additional notes is a “qualified reopening” will depend on certain factors, such as the interval after the original offering, the yield of the outstanding Notes at that time (based on their fair market value), whether the additional notes would otherwise be issued with OID, and whether any outstanding Notes are publicly traded or quoted at the time. If issuance of the additional notes is not a “qualified reopening”, the additional notes may have OID. If such additional notes have OID, that may adversely affect the market value of the outstanding Notes unless the additional notes can be distinguished from the Notes.

Foreign financial asset reporting

Certain Holders that, during any taxable year, hold certain foreign financial assets, including debt of non-U.S. entities, are subject to reporting requirements if the aggregate value of all of these assets exceeds certain U.S. dollar thresholds. The Notes are expected to constitute foreign financial assets subject to these requirements unless the Notes are held in an account at a financial institution (in which case the account may be reportable if maintained by a foreign financial institution). Depending on the aggregate value of a U.S. Holder’s investment in such foreign financial assets, the U.S. Holder may be obligated to file IRS Form 8938. Substantial penalties may be imposed and the period of limitations on assessment and collection of U.S. federal income taxes may be extended, in the event of a failure to comply. U.S. Holders should consult their tax advisers regarding the application of the rules relating to foreign financial asset reporting.

Non-U.S. Holders

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 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 U.S. Internal Revenue Service (“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 of 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.

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 tax 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**”), and/or the provisions of Section 4975 of the Code, and by governmental, church and non-U.S. plans that are subject to state, local, other federal law of the United States or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code (“**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, including 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 Joint Global Coordinators, the Joint Lead Managers, the Agents, the Trustee 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, the Joint Global Coordinators, the Joint Lead Managers, the Agents, the Trustee 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 advisors 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 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, 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 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% 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, exercising control over the assets of the entity or providing investment advice to the entity for a fee or any affiliates of such persons) is held by Benefit Plan Investors. If, as a result of any investment, 25% 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 will 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 Similar Law, a violation of any Similar Law.

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 Joint Global Coordinators, the Joint Lead Managers, 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 or Clearstream, Luxembourg 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 Joint Global Coordinators, the Joint Lead Managers, 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.

BOOK-ENTRY OWNERSHIP

The Notes will be evidenced on issue by the Regulation S Global Notes, registered in the name of a nominee of, and shall be deposited with a custodian for, DTC for the accounts of Euroclear and Clearstream, Luxembourg, and the Rule 144A Global Notes (registered in the name of a nominee of, and shall be deposited with a custodian for, DTC).

The Issuer, and a relevant joint lead manager appointed for such purpose that is an eligible DTC participant, will make application to DTC for acceptance in its book-entry settlement system of the Notes represented by the Regulation S Global Notes and the Rule 144A Global Notes. The Issuer will also make application to Euroclear and/or Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of the Notes to be represented by the Regulation S Global Notes. The Regulation S Global Notes and Rule 144A Global Notes will each have a CUSIP, an ISIN and a Common Code. The Rule 144A Global Notes will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Note, as set out under “*Transfer Restrictions*”. In certain circumstances, as described below, transfers of interests in the Rule 144A Global Notes may be made as a result of which such legend may no longer be required.

Upon the Global Notes being registered in the name of a nominee of, and deposited with a custodian for, DTC, DTC will electronically record the nominal amount of the Notes held within the DTC system. Investors may hold their beneficial interests in the Global Notes directly through DTC if they are participants in the DTC system, or indirectly through organisations (including Euroclear and Clearstream, Luxembourg) which are direct or indirect participants in such system (together, such direct and indirect participants of DTC shall be referred to as “**DTC participants**”). All interests in the Global Notes, including those held through Euroclear or Clearstream, Luxembourg may be subject to the procedures and requirements of DTC. Those interests held through Euroclear, Clearstream, Luxembourg may also be subject to the procedures and requirements of such system.

PAYMENTS AND RELATIONSHIP OF PARTICIPANTS WITH CLEARING SYSTEMS

Each of the persons shown in the records of DTC as the holder of a Note represented by a Global Note must look solely to DTC for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under such Global Note, subject to and in accordance with the respective rules and procedures of DTC. The Issuer expects that, upon receipt of any payment in respect of Notes represented by a Global Note, DTC or its nominee will immediately credit the relevant

participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the face amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by DTC participants to owners of beneficial interests in a Global Note held through such DTC participants will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent shall have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

TRANSFER OF NOTES

Transfers of interests in the Global Notes within Euroclear, Clearstream, Luxembourg and DTC will be 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 the Rule 144A Global Notes to such persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in the Rule 144A Global Notes 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 note in respect of such interest.

Beneficial interests in the Regulation S Global Note will be effected only through records maintained by DTC and its direct or indirect participants, including Euroclear and Clearstream, Luxembourg. In the case of Notes to be cleared through Euroclear, Clearstream, Luxembourg, and/or DTC, transfers may be made at any time by a holder of an interest in the Regulation S Global Notes to a transferee who wishes to take delivery of such interest through the Rule 144A Global Notes provided that any such transfer will, subject to the applicable procedures of Euroclear, Clearstream, Luxembourg and/or DTC from time to time, only be made upon receipt by any transfer agent of a written certificate from Euroclear or Clearstream, Luxembourg, 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 Regulation S Global Notes will only be made upon request through Euroclear or Clearstream, Luxembourg by the holder of an interest in the Regulation S Global Notes to the Trustee or other agent of details of that account at DTC to be credited with the relevant interest in the Rule 144A Global Notes. Transfers at any time by a holder of any interest in the Rule 144A Global Notes to a transferee who takes delivery of such interest through the Regulation S Global Notes will, subject to the applicable procedures of Euroclear, Clearstream, Luxembourg 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, Luxembourg, as the case may be, and DTC to be credited and debited, respectively, with an interest in each relevant Global Note.

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, Luxembourg 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 Principal Paying Agent and other paying agents.

On or after the Closing Date, transfers of Notes between accountholders in Euroclear and/or Clearstream, Luxembourg and transfers of Notes 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, Luxembourg 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, Luxembourg, on the other, transfers of interests between the Global Notes will be effected through the Principal Paying Agent and other paying agents, the custodian of the Global Notes, 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 Note resulting in such transfer and (ii) two business days after receipt by the Principal 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, Luxembourg 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 Notes only at the direction of one or more DTC participants in whose accounts with DTC interests in the Global Notes are credited and only in respect of such portion of the aggregate nominal amount of the relevant Global Note as to which such DTC participant or participants has or have given such direction. However, the custodian of the Global Notes will surrender the relevant Global Note for exchange for individual Definitive Notes in certain limited circumstances.

DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organisation” under the laws of the State of New York, 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 the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerised book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of notes. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg 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 will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

While the Global Notes are lodged with DTC, Notes represented by individual Definitive Notes will not be eligible for clearing or settlement through Euroclear, Clearstream, Luxembourg, or DTC.

INDIVIDUAL DEFINITIVE NOTES

Registration of title to Notes in a name other than a custodian or its nominee for DTC will be permitted only in the circumstances set forth in “*Global Notes – Exchange for Definitive Notes*”. In such circumstances, the Issuer and the Trustee will cause sufficient individual Definitive Notes to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Noteholder. A person having an interest in a Global Note must provide the Registrar with certain information as specified in the Agency Agreement.

PRE-ISSUE TRADES SETTLEMENT

It is expected that delivery of Notes will be made against payment therefor on the Closing 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 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.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold in the United States except pursuant an effective registration statement or to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold (1) in the United States only to QIBs within the meaning of and in reliance on Rule 144A under the Securities Act and (2) outside the United States in offshore transactions pursuant to Regulation S under the Securities Act. Terms used herein that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein, as applicable.

1. TRANSFER RESTRICTIONS

A beneficial interest in the Rule 144A Global Notes may be transferred to a person who wishes to take delivery of such beneficial interest through the applicable Regulation S Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form scheduled to the Trust Deed) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

Any beneficial interest in either the Rule 144A Global Notes or the applicable Regulation S Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Note will, upon transfer, cease to be a beneficial interest in such Global Note and become a beneficial interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Note for so long as such person retains such an interest.

The Issuer is a foreign government as defined in Rule 405 under the Securities Act and is eligible to register securities on Schedule B of the Securities Act. Therefore, the Issuer is not subject to the information provision requirements of Rule 144A(d)(4)(i) under the Securities Act.

2. RULE 144A NOTES

Each prospective purchaser of 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 as follows (terms used herein that are defined in Rule 144A are used herein as defined therein):

- the purchaser (i) is a QIB within the meaning of Rule 144A, (ii) is acquiring the Notes for its own account or for the account of a QIB and (iii) is aware, and each beneficial owner of the Notes has been made aware, that the sale of the Notes to it is being made in reliance on Rule 144A. If it is acquiring any 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 herein acknowledgments, representations and agreements on behalf of each such account;

- the purchaser understands that such Notes have not been and will not be registered under the Securities Act and may not be offered, sold, resold, pledged or otherwise transferred 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 for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) 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;
- the purchaser understands that the Rule 144A Notes offered hereby will bear a legend to the following effect, unless the Issuer determines otherwise in accordance with applicable law:

“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, RESOLD, 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 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. 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.

BY ITS ACQUISITION HEREOF, THE HOLDER REPRESENTS THAT EITHER (A) 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, (I) AN “EMPLOYEE BENEFIT PLAN” AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”) THAT IS SUBJECT TO TITLE I OF ERISA, (II) A “PLAN” AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”), (III) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN SUBJECT TO ERISA OR OTHER PLAN SUBJECT TO SECTION 4975 OF THE CODE, OR (IV) A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY STATE, LOCAL, OTHER FEDERAL LAW OF THE UNITED STATES OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (“SIMILAR LAW”), OR (B) 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 SUCH A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, A VIOLATION OF ANY SIMILAR LAW.”

- the purchaser understands that Notes offered in reliance on Rule 144A will be represented by a Rule 144A Global Note. Before any interest in a Note represented by a Rule 144A Global Note may be offered, sold, resold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the applicable Regulation S Global Note, it will be required to provide the Registrar with a written certification (in the form provided in the Trust Deed) as to compliance with applicable securities laws; and
- the purchaser understands that the Issuer, the Registrar, the Joint Global Coordinators and the Joint Lead Managers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

For so long as the Notes are held in global form, Noteholders may not require transfers to be registered during the period beginning on the fifteenth business day before the due date for any payment of principal or interest in respect of such Notes.

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.

3. REGULATION S NOTES

Each purchaser of Regulation S Notes, by accepting delivery of this Offering Memorandum and the Notes, will be deemed to have represented, agreed and acknowledged that:

- it is, or at the time Notes are purchased will be, the beneficial owner of such Regulation S Notes and (i) it is located outside the United States (within the meaning of Regulation S) and (ii) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate;
- it understands that such Notes have not been and will not be registered under the Securities Act; and
- it understands that the Issuer, the Registrar, the Joint Global Coordinators, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

4. ERISA TRANSFER RESTRICTIONS

Each purchaser and transferee of the Notes represents and agrees that 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 that is subject to Title I of ERISA, (ii) a “plan” as defined in and subject to Section 4975 of the Code, (iii) an entity whose underlying assets include the assets of any such employee benefit plan subject to ERISA or other plan subject to Section 4975 of the Code, or (iv) a governmental, church or non-U.S. plan which is subject to any 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 such a governmental, church or non-U.S. plan, a violation of any Similar Law;

SUBSCRIPTION AND SALE

Each of the Joint Lead Managers has, pursuant to a subscription agreement entered into by them with the Issuer and dated 21 May 2019 (the “**Subscription Agreement**”), severally (but not jointly) agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe or procure subscribers for the principal amount of Notes set out opposite its name in the table below at the issue price of 99.743 per cent. of the principal amount of the Notes, less a management and underwriting commission.

<u>Joint Lead Managers</u>	<u>Principal amount</u>
	(U.S.\$)
Crédit Agricole Corporate and Investment Bank	500,000,000
The Hongkong and Shanghai Banking Corporation Limited	500,000,000
Total:	<u>1,000,000,000</u>

The Issuer has agreed to indemnify the Joint Lead Managers against certain liabilities incurred in connection with the issue of the Notes. In addition, the Issuer has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement may be terminated by the Joint Lead Managers in certain circumstances prior to payment of the net subscription money in respect of the Notes to the Issuer.

The Notes are offered for sale in those jurisdictions where it is lawful to make such offers. The Notes will be offered in the United States by the Joint Lead Managers either directly or through their respective U.S. broker-dealer affiliates or agents, as applicable.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Joint Lead Manager or its affiliate on behalf of the Issuer in such jurisdiction.

Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in various financial advisory, investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business for which they have received, and for which they may in the future receive, fees and expenses.

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates.

UNITED STATES

The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

The Notes are being offered and sold outside of the United States in reliance on Regulation S. The Subscription Agreement provides that the Joint Lead Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to QIBs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Notes, an offer, sale, resale, pledge or any transfer of 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, sale, resale, pledge or any transfer is made otherwise than in accordance with Rule 144A.

UNITED KINGDOM

Each Joint Lead Manager has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (“**FSMA**”)) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; or
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

HONG KONG

Each Joint Lead Manager has represented, warranted and agreed that it has not issued or had in its possession for the purposes of issue, whether in Hong Kong or elsewhere and will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “**Securities and Futures Ordinance**”) and any rules made under the Securities and Futures Ordinance.

SINGAPORE

Each Joint Lead Manager has acknowledged that this Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented and agreed 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 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.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, 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 Joint Lead Manager has represented and agreed 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 Joint Lead Manager has represented and agreed 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 US\$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 US\$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 Joint Lead Manager has represented and agreed 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 Joint Lead Manager has represented and agreed 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 ("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 Joint Lead Managers has represented, warranted and agreed 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 Joint Lead Manager shall have any responsibility therefor.

These selling restrictions may be modified by agreement between the Issuer and the Joint Lead Managers following a change in relevant law, regulation or directive.

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, or any other offering material in any country or jurisdiction where action for that purpose is required.

GENERAL INFORMATION

AUTHORISATION

The entry by the Issuer into the transactions contemplated by the Transaction Documents 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 will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only and such permission is expected to become effective on or about 29 May 2019.

Application will be made to the UK Listing Authority 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 regulated market.

NO SIGNIFICANT CHANGE

There has been no significant change in the financial or trading position of the Issuer since 31 March 2019.

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 or profitability of the Issuer.

LEGAL ENTITY IDENTIFIER (LEI)

The Issuer's LEI is 549300DSMAD69T7GGN13.

CLEARING SYSTEMS

The Global Notes have been accepted for clearance through DTC. The ISIN for the Rule 144A Notes is US43858AAB61. The CUSIP for the Rule 144A Notes is 43858A AB6. The Common Code for the Rule 144A Notes is 200133048. The CFI Code for the Rule 144A Notes is DBFUFR. The FISN Code for the Rule 144A Notes is HONG KONG GOVT /BD 2024 UNSEC 144A. The ISIN for the Regulation S Notes is USY2836BAN48. The CUSIP for the Regulation S Notes is Y2836B AN4. The Common Code for the Regulation S Notes is 200133064. The CFI Code for the Regulation S Notes is DBFUFR. The FISN Code for the Regulation S Notes is HONG KONG GOVT /BD 2024 UNSEC.

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

From the date of this Offering Memorandum and for so long as any Note remains outstanding, 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 holdings satisfactory to the Principal Paying Agent at the office of the Principal Paying Agent:

- the Transaction Documents;
- this Offering Memorandum;
- the accrual-based consolidated financial statements of the Government for the year ended 31 March 2018;
- the accounts of the Government for the year ended 31 March 2018 (Cash-based);
- the accrual-based consolidated financial statements of the Government for the year ended 31 March 2017;
- the accounts of the Government for the year ended 31 March 2017 (Cash-based); and
- the 2018-19 Budget – Speech by the Financial Secretary, the Hon Paul MP Chan moving the Second Reading of the Appropriation Bill 2018 on Wednesday, 28 February 2018.

INTERESTED PERSONS

No person involved in the offering of the Notes has any interest in such offering which is material to such offering.

YIELD

The initial yield in relation to the Notes is 2.555 per cent., calculated on an annual basis. This is calculated on the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

**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

TRUSTEE

The Bank of New York Mellon

240 Greenwich Street,
New York, NY 10286
U.S.A.

PRINCIPAL PAYING AGENT, REGISTRAR AND TRANSFER AGENT

The Bank of New York Mellon

240 Greenwich Street,
New York, NY 10286
U.S.A.

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 Joint Lead Managers

as to U.S., Hong Kong and English law

Linklaters

10th Floor, Alexandra House
18 Chater Road
Central
Hong Kong

Legal Advisers to the Trustee

Linklaters

10th Floor, Alexandra House
18 Chater Road
Central
Hong Kong