



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

Retail Bond Issuance Programme

ISSUER'S REPRESENTATIVE

Monetary Authority

CO-ARRANGERS

Bank of China (Hong Kong) Limited

HSBC

The Government of the Hong Kong Special Administrative Region of the People’s Republic of China (**HKSAR Government**) has set up its retail bond issuance programme (the **retail bond programme**) to issue retail bonds to the public in Hong Kong in order to promote investor awareness of the bond market in Hong Kong.

This programme circular describes the features of the retail bond programme and the terms and conditions which in general apply to retail bonds issued under the retail bond programme (**retail bonds**). HKSAR Government may update or supplement this programme circular. You should read this programme circular together with all updates and supplements which HKSAR Government has published. HKSAR Government will publish an issue circular to specify the terms for each series of retail bonds. The issue circular for a particular series of retail bonds may vary and/or supplement the terms described in this programme circular for those retail bonds. In that case, the variations and/or supplements described in the relevant issue circular apply, but only to that series of retail bonds.

In this programme circular, certain words and expressions have a specific meaning. These meanings are set out on pages 13 to 15 of this programme circular.

<u>KEY FACTS</u>	
<p>This table only provides a quick summary of the key benefits and risks of investing in retail bonds. It does not contain all the information that may be important to you as an investor in retail bonds.</p> <p>You should read all of this programme circular and the relevant issue circular carefully before making any investment decision concerning any retail bonds.</p>	
KEY BENEFITS OF INVESTING IN RETAIL BONDS	KEY RISKS OF INVESTING IN RETAIL BONDS
<ul style="list-style-type: none"> ● <u>Strong credit</u>: HKSAR Government has a strong, “investment grade”, credit rating. 	<ul style="list-style-type: none"> ● <u>Interest rate risk</u>: The market value of retail bonds with a fixed rate of interest, or with a rate of interest that includes a fixed rate component, may decrease if the prevailing Hong Kong dollar interest rates increase during the term of those retail bonds.
<ul style="list-style-type: none"> ● <u>Regular returns</u>: Retail bonds offer regular payments of interest for the entire term of your investment. 	<ul style="list-style-type: none"> ● <u>Index risk</u>: The market value of retail bonds with an interest rate linked to an index may be affected by movements in that index.
<ul style="list-style-type: none"> ● <u>Interest rate</u>: Retail bonds may offer higher interest rates than Hong Kong dollar time deposits of similar maturities. 	<ul style="list-style-type: none"> ● <u>Exchange rate risk</u>: The Hong Kong dollar value of retail bonds denominated in a currency other than Hong Kong dollars will decrease if that currency depreciates against the Hong Kong dollar.
<ul style="list-style-type: none"> ● <u>Range of maturities</u>: Retail bonds may be available in a number of different maturities. 	<ul style="list-style-type: none"> ● <u>Liquidity risk</u>: There may not be an active secondary market or any secondary market at all for your retail bonds and it may not be possible to sell your retail bonds prior to maturity or the sale price may be lower than the amount you invested.

	<ul style="list-style-type: none"> ● <u>Credit risk</u>: The retail bonds are not secured. When you buy retail bonds, you will be relying on the creditworthiness of HKSAR Government. Adverse changes in the wider economic conditions in Hong Kong and the world and/or the creditworthiness of HKSAR Government may reduce the market value of your retail bonds and may affect HKSAR Government's ability to make payments of principal of and interest on your retail bonds. In the worst case scenario, you could lose all of your investment.
	<ul style="list-style-type: none"> ● <u>Intermediary risk</u>: You can only hold retail bonds indirectly through certain institutions whom you will have to rely on to perform a number of functions, including passing on payments of principal of and interest on your retail bonds to you and proving your interest in your retail bonds.

YOU SHOULD NOTE THE FOLLOWING IMPORTANT INFORMATION

If you are in any doubt about the contents of this programme circular or any issue circular, you should obtain independent professional advice.

Retail bonds will be issued under the retail bond programme. You should read the relevant issue circular as well as this programme circular (as amended or supplemented from time to time) and ensure you fully understand the risks associated with investing in retail bonds before deciding whether to apply for any retail bonds.

None of HKSAR Government, the Monetary Authority or the co-arrangers will give you investment advice: you must decide for yourself whether the retail bonds meet your investment needs, taking professional advice if appropriate.

Any application for HKSAR Government's retail bonds will be made solely on the basis of the information contained in this programme circular and the relevant issue circular. No person has been authorised to give any information or to make any representation not contained in or not consistent with this programme circular and the relevant issue circular or any other information supplied by HKSAR Government in connection with the retail bonds. If someone has given you any such information or made any such representation, you must disregard it and must not rely on it as having been authorised by HKSAR Government.

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This programme circular relates only to retail bonds issued by HKSAR Government under the retail bond programme. It does not relate to any other bonds issued by HKSAR Government under its institutional bond programme or any other bond or note issuance programme or otherwise.

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SUMMARY OF HKSAR GOVERNMENT'S RETAIL BOND PROGRAMME

This is a summary of the retail bond programme. More detailed descriptions of the matters set out here are provided elsewhere in this programme circular. Where there is any difference between the description of a matter here and the more detailed description elsewhere in this programme circular, you should treat the more detailed description as correct. The terms and conditions which will generally apply to each series of retail bonds are described on pages 6 to 8 although these terms and conditions may be varied and/or supplemented for a particular series of retail bonds in the issue circular which HKSAR Government will publish for that series of retail bonds.

Issuer:	The Government of the Hong Kong Special Administrative Region of the People's Republic of China.			
HKSAR Government's current credit ratings:		Local currency long-term credit ratings	Local currency short-term credit ratings	Outlook
	Fitch:	AA+	N/A	Stable
	Moody's:	Aa1	N/A	Negative
	S&P:	AAA	A-1+	Negative
Description:	Retail bond issuance programme.			
Programme size:	Up to HK\$200,000,000,000 in principal amount may be outstanding in total at any time under the retail bond programme and the institutional bond programme. No separate maximum amount has been set for the retail bond programme alone.			
How retail bonds will be offered:	Retail bonds will be offered in one or more series under an issue circular.			
Currency:	Retail bonds are issued in the currency specified in the relevant issue circular.			
Ranking of retail bonds:	Retail bonds rank as HKSAR Government's direct, unsecured, unconditional and general obligations.			
Price of retail bonds:	You can apply to buy retail bonds at the application price specified in the relevant issue circular. Note that certain fees may apply in addition to this price.			
Maturity:	Principal on retail bonds will be repaid in full on the maturity date specified in the relevant issue circular.			
Redemption price:	Retail bonds will be repaid at maturity at 100% of their principal amount.			
Interest rate:	Retail bonds bear interest at the rate, or calculated in the manner, specified in the relevant issue circular.			
Principal application amounts:	The minimum principal amount of retail bonds you can apply for is specified in the relevant issue circular. The principal amount of retail bonds you apply for must be an integral multiple of the minimum denomination. Applications for a principal amount of retail bonds which is less than the minimum denomination or for a principal amount of retail bonds which is not an integral multiple of the minimum denomination are liable to be rejected.			
Form of retail bonds:	Retail bonds are issued in the form of computerised book entries in securities accounts maintained by recognised dealers with the Monetary Authority and title is held by the holder of the securities account to which the retail bonds are credited.			
Governing law:	Hong Kong law governs the retail bonds.			
Listing:	Application has been made to the Hong Kong Stock Exchange for the listing of the retail bond programme. Retail bonds issued under the retail bond programme may be listed or unlisted. The relevant issue circular will specify whether or not a particular series of retail bonds will be listed on the Hong Kong Stock Exchange.			
Use of proceeds:	Sums received by HKSAR Government from the issue of retail bonds will be credited to the bond fund.			

IMPORTANT INVESTMENT CONSIDERATIONS

An investment in retail bonds is not equivalent to a time deposit and involves investment risks.

Your investment in retail bonds is subject to interest rate risk. The market value of retail bonds with a fixed rate of interest, or with a rate of interest that includes a fixed rate component, may decrease if the prevailing Hong Kong dollar interest rates increase during the term of those retail bonds.

Your investment in retail bonds may also be subject to index risk. A series of retail bonds may have an interest rate linked to an index. If this is the case, you should refer to the issue circular of that particular series to find out more about the linked index and the calculation of interest. The market value of retail bonds with an interest rate linked to an index may be affected by movements in that index.

Your investment in retail bonds may also be subject to exchange rate risk. A series of retail bonds may be denominated in a currency other than Hong Kong dollars. The Hong Kong dollar value of retail bonds denominated in a currency other than Hong Kong dollars will decrease if that currency depreciates against the Hong Kong dollar.

Your investment in retail bonds may also be subject to liquidity risk. There may not be an active secondary market or any secondary market at all. If you try to sell your retail bonds before maturity, you may not be able to find a buyer for your retail bonds or the market value of your retail bonds could be lower than the amount you invested. Although a series of retail bonds may be listed and traded on the Hong Kong Stock Exchange, you should be aware that this does not guarantee an active secondary trading market for those retail bonds or that you will have access to a firm bid or offer price for those retail bonds, nor does it guarantee the ready availability of pricing information in relation to those retail bonds. If this information is not available, your ability to make an informed decision about whether to sell your retail bonds may be affected.

Like investments in any other fixed income instruments, your investment in retail bonds is also subject to credit risk of default on any repayment of principal or any payment of interest. This credit risk can be assessed by referring to the credit rating of the issuer of the instruments or the instruments themselves if available but you should not rely solely on such credit ratings. Fitch Ratings Ltd. (Fitch), Moody's Investors Service, Inc. (Moody's) and S&P Global Ratings (S&P) each assigns the following local currency credit ratings to HKSAR Government:

	Long-term	Short-term	Outlook
Fitch:	AA+	N/A	Stable
Moody's:	Aa1	N/A	Negative
S&P:	AAA	A-1+	Negative

HKSAR Government does not intend to obtain a specific credit rating for any series of retail bonds, but reserves the right to do so. Any such specific credit rating will be stated in the relevant issue circular.

The retail bonds are not secured. When you buy retail bonds, you will be relying on the creditworthiness of HKSAR Government. Changes in the creditworthiness of HKSAR Government and in market conditions such as the economic and political environment in Hong Kong and other parts of the world may reduce the market value of your retail bonds and may affect HKSAR Government's ability to make payments of principal of and interest on your retail bonds. In the worst case scenario, you could lose all of your investment.

Prices of retail bonds are also influenced by a combination of factors such as time to maturity, overall market conditions and supply and demand of similar instruments. In general, risk increases with the length of maturity of bonds as the prices of longer-term retail bonds tend to be more sensitive to interest rate movements than those of shorter-term retail bonds.

Your retail bonds may not have the same terms and conditions as other bonds or notes issued by HKSAR Government or other issuers. In particular, the retail bonds do not restrict HKSAR Government's power to grant security for any of its indebtedness and do not include any rights of holders of retail bonds to require payments of principal on any date earlier than the maturity date, even in circumstances where HKSAR Government is in breach of its obligations under the retail bonds. Your attention is drawn to the terms and conditions of the retail bonds on pages 6 to 8 of this programme circular. These terms and conditions may be varied and/or supplemented for a particular series of retail bonds by the relevant issue circular.

Retail bonds are issued in the form of computerised book entries in securities accounts maintained with the Monetary Authority by recognised dealers. They do not exist in physical form and HKSAR Government will not issue certificates for any retail bonds. Title to retail bonds is held by the recognised dealers. You cannot hold retail bonds directly, but must instead hold an interest in retail bonds indirectly through a recognised dealer or through an institution (such as a securities broker) holding an interest in retail bonds through a recognised dealer on your behalf. You will have to depend on your recognised dealer (and if applicable, the institution through which you hold an interest in retail bonds) to make and receive payments on your retail bonds, give and receive notices in relation to them, prove your interest in retail bonds and make claims for any sums which are due under the retail bonds which have not been paid. HKSAR Government does not endorse or guarantee the solvency of any recognised dealer or institution.

THE RETAIL BOND PROGRAMME

WHAT IS THE BACKGROUND TO THE RETAIL BOND PROGRAMME?

On 25 February 2009, the Financial Secretary of HKSAR Government (the **Financial Secretary**) announced in the 2009/10 Budget Speech that it was his intention to establish a programme of issuance of retail bonds and institutional bonds. The retail bonds and institutional bonds will be issued under the Loans Ordinance (Chapter 61 of the Laws of Hong Kong) for the purpose of promoting the further development of the Hong Kong bond market. The proceeds of the issues will be credited to the bond fund set up under the Public Finance Ordinance (Chapter 2 of the Laws of Hong Kong) for that purpose. The issue of the retail bonds and the institutional bonds and the establishment of the bond fund have been approved by the necessary resolutions passed by the Legislative Council of Hong Kong on 8 July 2009. The overall maximum principal amount that may be outstanding under the retail bond programme and the institutional bond programme was initially HK\$100,000,000,000 and has been increased to HK\$200,000,000,000. The increase was approved by a resolution passed by the Legislative Council of Hong Kong on 22 May 2013. Under Section 5 of the Loans Ordinance, any sum borrowed under the Loans Ordinance and all interest amounts and other charges thereon are payable out of the general revenues and assets of Hong Kong. In the first instance, however, retail bonds will be repaid from the bond fund, as described in the paragraph entitled “How will proceeds raised under the retail bond programme be used?” below.

In certain documentation and approvals, the retail bond programme and institutional bond programme have been grouped together as the “government bond programme”, split between a “retail tranche” and an “institutional tranche”. This is consistent with the Financial Secretary’s announcement of 25 February 2009 and the subsequent approvals of the Legislative Council of Hong Kong. However, different documentation is involved in the establishment of the “retail tranche” and the “institutional tranche” of the “government bond programme”. In order to ensure the clear distinction between retail bonds and institutional bonds once they have been issued, and to reflect the different documentation involved in their establishment, this programme

circular, each issue circular and the programme agreement treat the retail bond programme as a separate programme from the institutional bond programme.

References to the “retail tranche” of the “government bond programme” in any document relating to the retail bond programme should be treated as references to the retail bond programme and references to the “institutional tranche” of the “government bond programme” should be treated as references to the institutional bond programme.

HOW WILL PROCEEDS RAISED UNDER THE RETAIL BOND PROGRAMME BE USED?

All sums raised under the retail bond programme will be credited to the bond fund, a discrete fund of HKSAR Government. HKSAR Government intends that the bond fund will not be treated as part of the fiscal reserves and will be managed separately from the general revenue. The bond fund will be used to repay principal of and pay interest on the retail bonds and the institutional bonds, meet the financial obligations and liabilities associated with the retail bond programme and the institutional bond programme and make investments. If there is a positive balance in the bond fund after all financial obligations and liabilities are met in relation to the retail bond programme and the institutional bond programme, the surplus funds will be transferred to the general revenue. Any shortfall of funds for fulfilling the financial obligations and liabilities of HKSAR Government under the retail bond programme or the institutional bond programme will be financed from the general revenues and assets of HKSAR Government.

HOW WILL THE BOND FUND INVEST THE PROCEEDS?

HKSAR Government will adopt a long-term and conservative strategy for the investment of the bond fund. This is intended to achieve the objectives of preserving capital and generating reasonable investment returns for covering the financial obligations and liabilities under the retail bond programme and the institutional bond programme. For this purpose, HKSAR Government will place moneys in the bond fund with the Exchange Fund for investment.

Your return on your investment in retail bonds is not linked to the performance of investments made by the bond fund.

WHAT IS THE MAXIMUM AMOUNT OF RETAIL BONDS THAT CAN BE ISSUED UNDER THE RETAIL BOND PROGRAMME?

As part of HKSAR Government's proposal for promoting the further development of the Hong Kong bond market, HKSAR Government has established the retail bond programme and the institutional bond programme. The Legislative Council of Hong Kong has authorised HKSAR Government to issue retail bonds and institutional bonds up to an overall maximum principal amount outstanding at any time of HK\$200,000,000,000. This means that the amount of retail bonds which HKSAR Government can issue at any time under the retail bond programme is affected by the outstanding amount of institutional bonds which HKSAR Government has issued under the institutional bond programme. It also means that whenever retail bonds or institutional bonds are repaid or are purchased by HKSAR Government and cancelled, the available capacity within the overall maximum amount for HKSAR Government to issue retail bonds and institutional bonds will be increased by the amount of retail bonds or institutional bonds that have been repaid or purchased by HKSAR Government and cancelled.

WHAT IS THE ROLE OF THE MONETARY AUTHORITY?

The Financial Secretary has instructed the Monetary Authority to act as representative for HKSAR Government to coordinate the establishment and maintenance of the retail bond programme and the institutional bond programme and the offering of retail bonds and institutional bonds and to manage the sums paid out of the bond fund to which the proceeds of the retail bonds and institutional bonds are credited. The Monetary Authority also operates the CMU and in this capacity is the issuing and paying representative of HKSAR Government for the retail bonds and the institutional bonds.

WHAT IS THE ROLE OF THE CO-ARRANGERS?

HKSAR Government has appointed Bank of China (Hong Kong) Limited and The Hongkong and Shanghai Banking Corporation Limited to act as co-arrangers of the retail bond programme (the **co-arrangers**). The co-arrangers will provide professional advice to HKSAR Government on various aspects of the offering of retail bonds, including timing, structure and appropriate application channels, and will assist HKSAR Government in putting in place distribution and market making arrangements. The co-arrangers will not advise HKSAR Government on, and have no responsibility for, the adequacy, accuracy, completeness or reasonableness of any statement or information in this programme circular or any issue circular, or any legal, tax or accounting matters in relation to the retail bond programme. The co-arrangers will not give you any investment advice.

HOW DO I APPLY FOR RETAIL BONDS?

The relevant issue circular will specify the application channels through which you may apply for the retail bonds. It will also describe how you would hold your retail bonds and, if applicable, how you may sell your retail bonds.

TERMS AND CONDITIONS OF THE RETAIL BONDS

Retail bonds are issued under the retail bond programme with the following terms and conditions, as supplemented from time to time by an issue circular and any other supplemental programme and/or issue circular. The issue circular for a particular series of retail bonds may vary and/or supplement the terms and conditions for that series of retail bonds. In that case, the variations and/or supplements described in the relevant issue circular apply, but only to that series of retail bonds. Headings used in these terms and conditions are for reference purposes only. Defined terms used elsewhere in this programme circular have the same meanings in the terms and conditions.

1. Form and title

(a) Form

Retail bonds are issued in computerised book entry form only through securities accounts maintained with the CMU by recognised dealers.

(b) Title

Legal title to retail bonds is vested in the holder of the CMU account to which the retail bonds are credited. All obligations (including payment obligations) of HKSAR Government under the retail bonds are owed to the holders of the CMU accounts to which the retail bonds are credited and to no one else.

The records of the CMU shall be conclusive as to the identity of the holders of CMU accounts and the respective amounts credited to their CMU accounts.

A statement of the CMU setting out:

- (i) the identity of the holder of a CMU account in respect of which the statement is issued; and
- (ii) the principal amount of any book entry in respect of retail bonds credited to that CMU account on any date,

shall be conclusive evidence for all purposes of the retail bonds.

(c) Currency

Retail bonds are issued in the currency specified in the relevant issue circular. Payments of principal of and interest on each retail bond will be made in the currency specified in the relevant issue circular.

(d) Minimum denominations

Retail bonds are issued with a minimum denomination per retail bond as specified in the relevant issue circular.

(e) Transfer

Retail bonds may be subject to restrictions on transfer. Any such restrictions will be specified in the relevant issue circular.

2. Ranking of payments

Amounts of principal, interest and any other amounts payable on the retail bonds are payable first out of the bond fund and, if need be, then out of the general revenues and assets of HKSAR Government. Retail bonds are direct, unsecured, unconditional and general obligations of HKSAR Government and rank pari passu with all other unsecured indebtedness of HKSAR Government incurred for the general revenue from time to time outstanding and without preference for one over the other by reason of priority of date of issue or otherwise.

3. Interest

(a) Interest rate

Each retail bond bears interest at the rate, or calculated in the manner, specified in the relevant issue circular.

(b) Interest payment dates and interest periods

Interest on each retail bond is payable in arrear on the interest payment dates specified in the relevant issue circular (including on the retail bond's maturity date). The amount of interest payable on each interest payment date is calculated by reference to the interest period ending on that date as follows:

- (i) the first interest period for a retail bond begins on and includes its issue date and ends on, but does not include, its first interest payment date;

- (ii) the final interest period for a retail bond begins on and includes the interest payment date immediately preceding its maturity date and ends on, but does not include, its maturity date; and
 - (iii) between the first interest period and the final interest period, an interest period for a retail bond begins on and includes each interest payment date and ends on, but does not include, the following interest payment date.
- (c) *Calculation of interest for an interest period*

For retail bonds denominated in Hong Kong dollars, the amount of interest payable for an interest period is calculated on the actual number of days in the interest period, on the basis of a 365-day year, and is rounded to the nearest cent. Half a cent is rounded upwards. The method of calculating interest payable for an interest period of retail bonds denominated in a currency other than Hong Kong dollars will be specified in the relevant issue circular.

4. Repayment

Principal on each retail bond will be repaid by HKSAR Government in full on the maturity date specified in the relevant issue circular.

5. Business days

If the due date for any action on the part of HKSAR Government in relation to a retail bond, including any payment of interest or principal, is not a business day in Hong Kong, then HKSAR Government will perform such action on the next day which is a business day in Hong Kong unless that day falls in the next calendar month, in which case HKSAR Government will perform such action on the day immediately preceding the due date which is a business day in Hong Kong.

If the due date for any action on the part of HKSAR Government in relation to a retail bond ceases to be a business day in Hong Kong, for example, if there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong, then HKSAR Government will perform such action on the next day which is a business day in Hong Kong not affected by the cessation.

A **business day** in Hong Kong is any day (other than Saturdays, Sundays and general holidays) on which both the CMU is operating and banks in Hong Kong are open for business.

For the avoidance of doubt, where a payment date is changed under this paragraph 5, interest shall accrue to the new payment date and any additional interest or, where the new payment date is a date falling before the original payment date, reduction in interest, shall be taken into account for the purposes of calculating any amounts of interest payable in respect of the applicable interest period under paragraph 3.

6. Repurchase and sale

HKSAR Government may at any time buy retail bonds whether in the open market or by private arrangement, at any price. If purchases of retail bonds of a series are made by tender, HKSAR Government will allow all holders of retail bonds of that series to take part.

If HKSAR Government buys back any retail bonds, it may hold them, resell them or cancel them as it sees fit.

For the purposes of this paragraph 6, **HKSAR Government** means The Government of the Hong Kong Special Administrative Region of the People’s Republic of China, whether acting directly, through the Monetary Authority or through any other person.

7. Taxation

Receipts of any payments by HKSAR Government of principal of or interest on the retail bonds are exempt from profits tax in Hong Kong.

Any issue or transfer of the retail bonds is exempt from stamp duty in Hong Kong.

8. Notices

All notices to holders of retail bonds will be made through the CMU to the holders of the securities accounts maintained with the CMU to which the retail bonds are credited.

9. Supplements and amendments

HKSAR Government may supplement or amend the terms and conditions of any series of retail bonds in issue by notice to the holders of the retail bonds of that series to make any amendment which:

- (i) corrects a manifest or proven error;
- (ii) is formal, minor or technical in nature; or
- (iii) could not reasonably be expected to be prejudicial to the holders of retail bonds of that series.

10. Redemption of retail bonds from unqualified applicant(s)

HKSAR Government may at any time, by giving no less than 5 days' notice, redeem any retail bonds allocated to an applicant who did not satisfy the eligibility criteria specified in the relevant issue circular at the time of application for the retail bonds at an amount equal to their principal amount multiplied by the subscription price, on the date specified in the notice without any accrued and unpaid interest.

11. Proscription

Any claim against HKSAR Government for any payment on any retail bond (whether of principal, interest or otherwise) shall be void if that claim is made on or after the date falling ten years, in respect of principal, or five years, in respect of interest or any other amount, from the date on which that payment is first due.

12. Further issues

HKSAR Government may issue additional retail bonds of any series after the closing of the initial offering for that series. The terms and conditions of any additional retail bonds of a series will be identical to those of the retail bonds of that series initially issued, except for the following terms, which may be different:

- (i) issue date; and
- (ii) subscription price.

13. Contracts (Rights of Third Parties) Ordinance

No person shall have any right to enforce any term or condition of the retail bonds under the Contracts (Rights of Third Parties) Ordinance (Chapter 623 of the Laws of Hong Kong).

14. Governing law and jurisdiction

The retail bonds are governed by Hong Kong law. The courts of Hong Kong have exclusive jurisdiction to settle any dispute in connection with the retail bonds.

THE HONG KONG SPECIAL ADMINISTRATIVE REGION

IS HKSAR GOVERNMENT RATED?

As of the date of this programme circular, Fitch, Moody's and S&P each assigns the following local currency credit ratings to HKSAR Government:

	Long-term	Short-term	Outlook
Fitch:	AA+	N/A	Stable
Moody's:	Aa1	N/A	Negative
S&P:	AAA	A-1+	Negative

HKSAR Government reserves the right to issue retail bonds with the maturities that it chooses. HKSAR Government does not intend to obtain a specific credit rating for any series of retail bonds, but reserves the right to do so. Any such specific credit rating will be stated in the relevant issue circular.

THE HONG KONG SPECIAL ADMINISTRATIVE REGION OF THE PEOPLE'S REPUBLIC OF CHINA

Constitution and Legal System

On 1 July 1997 Hong Kong became a Special Administrative Region of the People's Republic of China in accordance with Article 31 of the Constitution of the People's Republic of China. The reunification of Hong Kong with the People's Republic of China (the **PRC**) is a consequence of an agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the PRC, as embodied in the Sino-British Joint Declaration on the Question of Hong Kong (the **Joint Declaration**) signed on 19 December 1984 and subsequently ratified by both governments.

The Government of the PRC declares in the Joint Declaration that Hong Kong shall be directly under its authority and shall enjoy a high degree of autonomy except in relation to foreign and defence affairs, and that it shall be vested with executive, legislative and independent judicial power including that of final adjudication. It also declares that the basic policies of the PRC regarding Hong Kong and the elaboration of these policies in the Joint Declaration will be stipulated by the National People's Congress of the PRC in the Basic Law of Hong Kong (the **Basic Law**).

The Basic Law was adopted by the National People's Congress of the PRC on 4 April 1990 in accordance with Article 31 of the Constitution of the PRC. It is a constitutional document for Hong Kong. Although the power of interpretation of the Basic Law is vested in the Standing Committee of the National People's Congress of the PRC, the Standing Committee shall authorize the courts of Hong Kong to interpret the Basic Law in adjudicating cases, in accordance with the provision of Article 158 of the Basic Law. The power of amendment of the Basic Law is vested in the National People's Congress of the PRC.

The Basic Law provides, among other things, that the Hong Kong dollar will continue to circulate as legal tender in Hong Kong, no foreign exchange control policies will be applied in Hong Kong, the Hong Kong dollar will be freely convertible into other currencies, and Hong Kong will retain autonomy over monetary and financial policy and enact its own laws regarding taxation.

Hong Kong Economy

Hong Kong 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 a developed transportation and telecommunications infrastructure. In 2015, Hong Kong was ranked the eighth largest trading entity in the world by the World Trade Organization based on the value of total merchandise trade, and is home to the fifth busiest container port in the world in terms of throughput.

Over the past two decades, the Hong Kong economy (as measured by GDP) has doubled in size, with GDP growing at an average annual rate of 3.4% in real terms. In 2015, Hong Kong's GDP at current market prices reached HK\$2,397.1 billion and its per capita GDP of US\$42,300 was amongst the highest in Asia.

Along with the global economic boom from 2004 to 2007, the Hong Kong economy grew robustly during the period. This strong growth trend was interrupted by the global financial crisis and the global recession of 2008-2009. Nevertheless, the economy staged a broad-based recovery in 2010

and registered a further above-trend growth in 2011. Amid an unsteady external environment, real GDP expanded moderately by 3.1%, 2.7% and 2.4% in 2013, 2014 and 2015 respectively.

In the past five years, HKSAR Government has recorded a consolidated surplus each year, ranging between HK\$14.4 billion and HK\$73.7 billion. The fiscal reserves rose from HK\$669.1 billion in 2011-12 to HK\$842.9 billion in 2015-16.

HKSAR Government's revenues, which are generated from taxes and investment income, and its credit rating may be affected by economic, political, constitutional and other circumstances from time to time in Hong Kong, the mainland of the PRC, Asia and the world. Future political or economic instability may adversely affect HKSAR Government's revenues and credit rating.

In May 2004, HKSAR Government issued a HK\$6 billion Toll Revenue Bond to Hong Kong Link 2004 Limited to be repaid by the net toll revenues from six specified HKSAR Government-owned tunnels and bridges. In July 2004, HKSAR Government issued HKSAR Government retail bonds and institutional notes totalling HK\$20 billion to retail and institutional investors. As at 31 March 2016, the Toll Revenue Bond and all HKSAR Government retail bonds issued in 2004 had been fully redeemed. As regards HKSAR Government institutional notes issued in 2004, an amount of HK\$1.5 billion remained outstanding⁽¹⁾. In September 2009, HKSAR Government introduced the government bond programme to promote the further and sustainable development of the bond market in Hong Kong. As at 30 April 2016, the outstanding amount of Hong Kong dollar retail and institutional bonds issued under the government bond programme, with tenors ranging from 3 to 15 years, reached HK\$104.5 billion (including HK\$74.5 billion of institutional bonds and HK\$30 billion of inflation-linked retail bonds). In addition, HKSAR Government issued two series of sukuk under the government bond programme in 2014 and 2015, each with an issuance size of US\$1 billion and a tenor of 5 years. The relevant proceeds arising from bonds issued under the government bond programme are credited to the bond fund.

Note:

(1) These notes are denominated in Hong Kong dollars and will mature in July 2019.

The table below sets out certain economic indicators with respect to Hong Kong for the past five years:

Economic Indicators	2011	2012	2013	2014	2015
GDP at current market prices (HK\$ billion)	1,934.4	2,037.1	2,138.0	2,258.2	2,397.1
Composite Consumer Price Index [▲]	86.1	89.6	93.5	97.7	100.6
Unemployment rate (%)	3.4	3.3	3.4	3.3	3.3

[▲] The Composite Consumer Price Index from October 2014 onwards are compiled based on expenditure weights obtained from the 2014/15 Household Expenditure Survey. The Composite Consumer Price Index for earlier periods are compiled based on old weights and have been re-scaled to the new base period for linking with the new index series.

The table below sets out certain fiscal indicators with respect to HKSAR Government for 2011-12 to 2015-16 (all figures in HK\$ billion):

Fiscal Indicators	2011-12	2012-13	2013-14	2014-15	2015-16[△]
Consolidated Government surplus [▲]	73.7	64.8	21.8	72.8	14.4
Government debt*	11.2	11.2	11.2	1.5	1.5
Fiscal Reserves# (as at 31 March)	669.1	733.9	755.7	828.5	842.9

[▲] (after repayment of bonds and notes issued in July 2004.)

* (excluding Exchange Fund Bills and Notes. Also excluding bonds issued under the government bond programme with proceeds credited to the bond fund.)

(excluding bond fund balance of HK\$52.0 billion as at 31 March 2012, HK\$75.3 billion as at 31 March 2013, HK\$100.7 billion as at 31 March 2014, HK\$120.1 billion as at 31 March 2015 and HK\$128.4 billion as at 31 March 2016.)

[△] provisional figures.

OTHER INFORMATION

HKSAR GOVERNMENT CAN RE-OPEN A SERIES OF RETAIL BONDS TO ISSUE MORE RETAIL BONDS OF THE SAME SERIES LATER

HKSAR Government reserves the right to create and issue additional retail bonds of a particular series in a follow-on offering or placement after the initial offering has closed. The additional retail bonds will be issued so that they are interchangeable with the originally issued retail bonds. The only differences will be the issue date and the subscription price.

YOU SHOULD CONSIDER THE TAX CONSEQUENCES OF INVESTING IN RETAIL BONDS

This is a summary of current Hong Kong tax law and practice as at the date of this programme circular. It is not complete and does not constitute tax advice. You should consult your own tax adviser about the tax consequences of investing in retail bonds, 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 HKSAR Government on any retail bonds.
- No stamp duty is payable in Hong Kong on the issue or transfer of any retail bonds.
- No capital gains tax is payable in Hong Kong on any capital gains arising from resale of any retail bonds.

HKSAR GOVERNMENT IS RESPONSIBLE FOR THIS PROGRAMME CIRCULAR

HKSAR Government accepts responsibility for the information contained in this programme circular and confirms, having made all reasonable enquiries, that this programme circular contains no untrue statement (including any statement which is misleading in the form and context in which it is included and including any material omission).

The statements in this programme circular as to the policies, intentions, preferences, views or opinions of HKSAR Government reflect its prevailing policies, intentions, preferences, views or opinions as at the date of this programme

circular. However, HKSAR Government reserves the right at any time to update, amend or replace any of its policies, intentions, preferences, views or opinions as it sees fit.

Information included in any websites referred to in this programme circular, including HKSAR government bond programme website at www.hkgeb.gov.hk, does not form part of this programme circular and does not form part of the terms and conditions of the retail bonds.

HKSAR GOVERNMENT MAY UPDATE THIS PROGRAMME CIRCULAR FROM TIME TO TIME

This programme circular is accurate as at the date stated on its cover. You must not assume that information in this programme circular is accurate at any time after the date of this programme circular. HKSAR Government may from time to time publish supplements to this programme circular to update the information contained in this programme circular. If the information in this programme circular needs to be updated at the time HKSAR Government publishes an issue circular, HKSAR Government will either include the updated information in the relevant issue circular or, if it prefers, HKSAR Government may update the information by a supplement to this programme circular. The most recent issue circular will tell you whether any supplements to this programme circular have been published.

HKSAR Government will update this programme circular annually. The terms and conditions of retail bonds issued under the retail bond programme are the terms and conditions described in the most recently published programme circular at the time of issue of those retail bonds, as varied or supplemented by any supplements in force at that time and by the relevant issue circular, except to the extent that the terms and conditions of any retail bonds have been supplemented or amended by notice to the holders of those retail bonds under paragraph 9 of the section entitled “Terms and conditions of the retail bonds” above.

HKSAR Government will also through the CMU give notice to the holders of the CMU account to which the retail bonds are credited of any information about HKSAR Government which is

necessary to avoid the establishment of a false market in retail bonds, or which may significantly affect HKSAR Government's ability to make payments on retail bonds.

TEXT OF THIS PROGRAMME CIRCULAR

This programme circular is available in English and Chinese.

WHERE YOU CAN READ COPIES OF THE RETAIL BOND PROGRAMME DOCUMENTATION

The Monetary Authority will make copies of the following documents available for viewing as described below during the subscription period for any retail bonds and while any retail bond is still outstanding:

- the current programme circular, and any supplements to it;
- the issue circular(s) for each series of retail bonds which is outstanding; and
- all notices given by HKSAR Government under the terms and conditions of each series of retail bonds which is outstanding.

These documents will be available for viewing at the offices of Hong Kong Monetary Authority at 55th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. These offices are open only during normal business hours and not on Saturdays, Sundays or general holidays. A reasonable fee will be charged if you want to make photocopies of any of the documents.

You can also view the current programme circular, any supplement to it and the issue circular(s) for each series of retail bonds which is outstanding online by visiting HKSAR government bond programme website at www.hkgb.gov.hk.

RIGHTS AGAINST HKSAR GOVERNMENT IN THE COURTS OF HONG KONG ARE LIMITED

In legal proceedings against HKSAR Government in a court of Hong Kong, the court has no power to grant an injunction or to make an order for specific performance, but may instead make an order declaratory of the rights of the parties. No process of execution or attachment can be carried out to enforce satisfaction by HKSAR Government of any judgment.

DEFINED TERMS USED IN THIS PROGRAMME CIRCULAR

Many of the words and expressions used in this programme circular have a specific meaning in the context of the retail bond programme. Words and expressions used in this programme circular have the meanings given in the following table unless the particular context in which a word or expression is used requires that it must have a different meaning. The issue circular for a particular series of retail bonds may specify different meanings for certain words or expressions from those specified in this programme circular. In that case, the meanings described in the relevant issue circular will apply, but only to that series of retail bonds. References in this programme circular to an individual investor or any institution “holding” retail bonds mean the holding by that individual investor or institution of an indirect interest in retail bonds held by a recognised dealer.

application price	in relation to any series of retail bonds, the application price, expressed as a percentage of the principal amount of the retail bonds, specified in the relevant issue circular or, if no application price is so specified, 100%
Basic Law	the Basic Law of Hong Kong adopted by the National People’s Congress of the PRC on 4 April 1990 in accordance with Article 31 of the Constitution of the PRC
bond fund	the bond fund set up under the Public Finance Ordinance (Chapter 2 of the Laws of Hong Kong) for the purposes of the retail bond programme and the institutional bond programme
business day	any day (other than Saturdays, Sundays and general holidays) on which both the CMU is operating and banks in Hong Kong are open for business
CMU	the Central Moneymarkets Unit, a debt securities custodian, clearing and settlement system operated by the Monetary Authority
CMU account	a securities account maintained with the CMU by a recognised dealer
co-arrangers	Bank of China (Hong Kong) Limited and The Hongkong and Shanghai Banking Corporation Limited
Exchange Fund	the Exchange Fund established under section 3(1) of the Exchange Fund Ordinance (Chapter 66 of the Laws of Hong Kong)
Exchange Fund Bills and Notes	bills and notes issued by HKSAR Government for the account of the Exchange Fund
Financial Secretary	the Financial Secretary of HKSAR Government
Fitch	Fitch Ratings Ltd.
HK\$	Hong Kong dollars
HKSAR Government	The Government of the Hong Kong Special Administrative Region of the People’s Republic of China

HKSCC	Hong Kong Securities Clearing Company Limited
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
institutional bond	an institutional bond issued by HKSAR Government under the institutional bond programme
institutional bond programme	HKSAR Government's institutional bond issuance programme established pursuant to the resolutions passed by the Legislative Council of Hong Kong on 8 July 2009 and 22 May 2013
issue circular	an issue circular specifying the particular terms and conditions of one or more series of retail bonds
Joint Declaration	The Sino-British Joint Declaration on the Question of Hong Kong signed on 19 December 1984
Monetary Authority	the Monetary Authority appointed by HKSAR Government under section 5A(1) of the Exchange Fund Ordinance (Chapter 66 of the Laws of Hong Kong)
Moody's	Moody's Investors Service, Inc.
placing bank	in relation to any series of retail bonds, a bank specified as a placing bank in the relevant issue circular
principal application amount	in relation to any series of retail bonds, the principal amount of retail bonds of that series applied for by an applicant for retail bonds
programme agreement	the programme agreement entered into between HKSAR Government and the initial placing banks, market makers and nominees in connection with the retail bond programme, as amended or supplemented from time to time
PRC	the People's Republic of China
recognised dealers	the institutions appointed by the Monetary Authority as recognised dealers to hold and deal in retail bonds and institutional bonds through the CMU
relevant issue circular	for any series of retail bonds, the issue circular for that series of retail bonds
retail bond	a retail bond issued by HKSAR Government under the retail bond programme
retail bond programme	HKSAR Government's retail bond issuance programme established pursuant to the resolutions passed by the Legislative Council of Hong Kong on 8 July 2009 and 22 May 2013
S&P	S&P Global Ratings

series	any retail bonds which are stated in the relevant issue circular to form a single series and are identical in all respects (except that any additional issues of retail bonds which are issued on different dates and have different subscription prices but which are otherwise identical may still form a single series)
subscription price	in relation to any series of retail bonds, the subscription price, expressed as a percentage of the principal amount of the retail bonds, specified in, or notified or determined in accordance with arrangements specified in, the relevant issue circular or, if no subscription price and no such notification arrangements are so specified, the application price

PARTIES INVOLVED IN THE RETAIL BOND PROGRAMME

ISSUER

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

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