



**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 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 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 25 to 27 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 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 have 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 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 which will generally apply to each series of retail bonds are described on pages 12 to 14 although these terms 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	Positive
	S&P:	AAA	A-1+	Stable
Description:	Retail bond issuance programme.			
Programme size:	Up to HK\$100,000,000,000 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.			
Maturities:	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 recognized 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 permission to deal in, and for listing, of retail bonds issued under the retail bond programme.			
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. While HKSAR Government may appoint some or all of the placing banks as market makers to quote prices for the retail bonds on a best-efforts basis, there may not be an active secondary market. 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 retail bonds are listed and can be traded on the Hong Kong Stock Exchange, you should be aware that this does not guarantee an active secondary trading market for the retail bonds or that you will have access to a firm bid or offer price for your retail bonds. Neither does it guarantee the ready availability of pricing information in relation to your 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 investment 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 Investor's Service (Moody's) and Standard & Poor's, a division of the McGraw-Hill Companies, Inc. (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	Positive
S&P:	AAA	A-1+	Stable

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 influence the prices 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 of the retail bonds on pages 12 to 14 of this programme circular. These terms 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 recognized 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 recognized dealers. You cannot hold retail bonds directly, but must instead hold an interest in retail bonds indirectly through a recognized dealer or through a securities broker holding an interest in retail bonds through a recognized dealer on your behalf. You will have to depend on your recognized dealer (and if applicable your securities broker) 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 recognized dealer or securities broker.

HOW TO APPLY FOR RETAIL BONDS

This describes how you can apply for retail bonds. These arrangements may be varied for a particular series of retail bonds by the relevant issue circular.

WHERE CAN I FIND INFORMATION ABOUT THE RETAIL BONDS?

Copies of this programme circular and of the issue circular for each series of retail bonds which remains outstanding are available from the offices of the Monetary Authority at 55th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong and, during the subscription period for that series, from any of the application channels described in the paragraph entitled “How can I apply for retail bonds?” below.

Further information about the retail bonds is available from HKSAR government bond programme website at www.hkgb.gov.hk.

AM I ELIGIBLE TO APPLY FOR RETAIL BONDS?

Applications for particular series of retail bonds may be restricted to holders of a valid Hong Kong identity card. The issue circular for each series of retail bonds will set out the restrictions, if any, on persons who may apply for that series of retail bonds.

HOW CAN I APPLY FOR RETAIL BONDS?

You can apply for retail bonds through any of the following three application channels:

- through a placing bank;
- through Hong Kong Securities Clearing Company Limited (**HKSCC**) as the operator of the Central Clearing and Settlement System (**CCASS**) (you will need to have an investor account with HKSCC to do this);
- through a CCASS clearing participant or CCASS custodian participant who is willing and able to make an application for you through HKSCC. This may be a securities broker, a custodian bank or any other institution admitted to CCASS as a clearing participant or custodian participant. All

CCASS clearing participants and CCASS custodian participants are referred to in this programme circular and each issue circular as **securities brokers**.

CAN I APPLY TO HKSAR GOVERNMENT DIRECTLY FOR RETAIL BONDS?

No. The retail bonds are issued in the form of computerised book entries in securities accounts maintained by recognized dealers with the Central Moneymarkets Unit (**CMU**) operated by the Monetary Authority. These securities accounts are referred to in this programme circular and in each issue circular as **CMU accounts**. Individual investors cannot open a personal account with the CMU. You can therefore only apply for retail bonds through a placing bank, through HKSCC directly or through a securities broker who is willing and able to apply for retail bonds for you through HKSCC.

WHAT OTHER MATTERS SHOULD I BE AWARE OF IN APPLYING FOR RETAIL BONDS?

You may only apply for retail bonds during their subscription period. The subscription period for each series of retail bonds is specified in the relevant issue circular.

You may only apply for a principal amount of retail bonds which is an integral multiple of the minimum denomination specified in the relevant issue circular. You should check the relevant issue circular to confirm whether it specifies any maximum principal application amount per investor. HKSAR Government reserves the right to set a maximum principal application amount per investor for a series of retail bonds at any time on or before the issue date without prior notice, where it considers it necessary to prevent an over-concentration of holdings in retail bonds by a single investor.

If HKSAR Government sets a maximum principal application amount per investor, then any application for a principal amount of that series of retail bonds which is greater than that maximum principal application amount will be treated as an application for the maximum principal application amount and any application moneys paid in excess of the application moneys for that maximum principal application amount

(and, if you apply through a placing bank, any handling fee on that excess or, if you apply directly through HKSCC, any brokerage fee on that excess), will be refunded without interest. If you apply through a securities broker, you should consult your securities broker for the details of whether or not, and if so how, it will refund to you any application moneys and/or brokerage or other fee. See further the paragraph entitled “What happens if I am owed a refund for any application moneys and/or handling fee or brokerage fee?” below in relation to refund arrangements.

You may not make multiple applications for the same series of retail bonds. See further the paragraph entitled “Can I make multiple applications for retail bonds?” below for more information.

Any application to HKSAR Government by a placing bank or HKSCC (whether made for an investor who has an investor account with HKSCC or for an investor applying through a securities broker) will constitute an offer to subscribe for retail bonds.

DOES IT MATTER WHICH APPLICATION CHANNEL I USE?

Different fees may apply depending on how you apply for retail bonds. Fees which may apply are described in the paragraphs entitled “How can I apply for retail bonds through a placing bank?”, “How can I apply for retail bonds directly through HKSCC?” and “How can I apply for retail bonds through a securities broker?” below.

How you apply for retail bonds also affects how you hold the retail bonds if your application is successful. While you may change the way in which you hold the retail bonds from time to time, fees may apply when you do so. See further the sections entitled “Holding retail bonds” and “Dealing in retail bonds and listing of retail bonds” below for more information.

How you hold the retail bonds affects whom you have to rely on to make and receive payments and give and receive notices in relation to the retail bonds, how you trade in the retail bonds, how you prove your interest in the retail bonds and how you make claims for any payments which are due on the retail bonds but have not been paid by HKSAR Government. See the sections entitled “Holding retail bonds” and “Dealing in retail

bonds and listing of retail bonds” below for more information. If you are unsure about the most suitable method for you to apply for retail bonds, you should seek professional advice.

HOW CAN I APPLY FOR RETAIL BONDS THROUGH A PLACING BANK?

The placing banks for each series of retail bonds are specified in the relevant issue circular.

If you wish to apply for retail bonds through a placing bank, you must have a bank account and a securities or investment account with that placing bank. Please note that if you need to open a bank account and/or a securities or investment account with a placing bank in order to apply for retail bonds, your placing bank may require you to undergo an assessment to satisfy the placing bank’s regulatory and internal requirements. Each placing bank may apply different terms and conditions to your securities or investment account with it and charge different handling and other fees.

You can apply for retail bonds through a placing bank at designated branches, through the placing bank’s internet banking service or through its telephone banking service as specified in the relevant issue circular. You should contact the relevant placing bank to find out the locations of the designated branches for a particular series of retail bonds and the availability of internet and telephone banking services.

When you apply for retail bonds through a placing bank, you must pay the application moneys for those retail bonds plus a handling fee, if any. A handling fee may be charged by the placing banks at their sole discretion. The maximum amount of the handling fee which may be charged by a placing bank is specified in the relevant issue circular. A placing bank may charge additional fees for any other services it performs for you in connection with the retail bonds. For example, a placing bank may charge fees for custody of the retail bonds and/or for transferring retail bonds.

You must ensure that your application complies with the requirements specified by your placing bank.

HOW CAN I APPLY FOR RETAIL BONDS DIRECTLY THROUGH HKSCC?

If you wish to apply for retail bonds directly through HKSCC, you must have an investor account with HKSCC. If you need to open one for this purpose, HKSCC may require you to undergo an assessment to satisfy its regulatory and internal requirements.

When you apply for retail bonds through HKSCC, you must pay the application moneys for the retail bonds you are applying for plus a brokerage fee, if any. The maximum amount of the brokerage fee which may be charged when you apply for retail bonds directly through HKSCC is specified in the relevant issue circular. HKSCC may charge additional fees for any other services it performs for you in connection with the retail bonds. For example, HKSCC may charge fees for custody of the retail bonds and/or for transferring retail bonds.

HOW CAN I APPLY FOR RETAIL BONDS THROUGH A SECURITIES BROKER?

You may apply for retail bonds through a securities broker who is willing and able to apply for retail bonds on your behalf through HKSCC. To do this, the securities broker must have been admitted to participate in CCASS as a clearing participant or a custodian participant.

To apply through a securities broker you must have a securities or custody account with that securities broker. Please note that if you need to open a securities or custody account with a securities broker in order to apply for retail bonds, your securities broker may require you to undergo an assessment to satisfy the securities broker's regulatory and internal requirements. Different securities brokers may apply different terms and conditions to your securities or custody account and charge different brokerage and other fees.

When you apply for retail bonds through a securities broker, you must pay the application moneys for the retail bonds you are applying for plus a brokerage fee, if any. The level of the brokerage fee, if any, that you must pay is determined by your securities broker. HKSCC and/or your securities broker may charge additional fees for any other services they perform for you in connection with the retail

bonds. For example, HKSCC and/or your securities broker may charge fees for custody of the retail bonds and/or for transferring retail bonds.

HOW WILL I KNOW IF MY APPLICATION IS SUCCESSFUL?

The total principal amount of retail bonds issued in each series and any other relevant information will be notified by HKSAR Government to the placing banks and HKSCC on or before the issue date specified in the relevant issue circular.

Retail bonds will be issued on the issue date specified in the relevant issue circular.

If you apply for retail bonds through a placing bank, your placing bank agrees to notify you within five business days of the issue date of whether your application is successful or unsuccessful and, if your application is successful, of your allocation of retail bonds.

If you apply for retail bonds through HKSCC directly, HKSCC agrees to notify you on or before the issue date of whether your application is successful or unsuccessful and, if your application is successful, of your allocation of retail bonds.

If you apply for retail bonds through a securities broker, HKSCC agrees to notify your securities broker on or before the issue date of whether your application is successful or unsuccessful and, if your application is successful, of your allocation of retail bonds. You will have to rely on your securities broker to pass this notification on to you in a timely manner.

On the issue date, retail bonds will be issued in the form of computerised book entries in the respective CMU accounts of HKSCC and the placing banks who have made successful applications for retail bonds and all subscription moneys paid by successful applicants for purchase of the retail bonds allotted to them will be released to HKSAR Government by HKSCC and the placing banks.

If for any reason the issue date ceases to be a business day (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 the retail bonds will be issued on the next business day which is not affected by the cessation after the issue date.

HKSAR Government reserves the right to cancel all or a portion of the offering of a series of retail bonds at any time on or before their issue date and to extend or shorten the subscription period for any series of retail bonds without prior notice. If HKSAR Government so cancels the offering of any series of retail bonds, in part or in whole:

- HKSAR Government will give prompt public notice of the cancellation on or before the issue date;
- that series of retail bonds, or the relevant portion of it, will not be issued; and
- all applicants for that series of retail bonds will be refunded all, or the relevant portion, of their application moneys (and, for applications made through a placing bank, any handling fee or, for applications made directly through HKSCC, any brokerage fee) without interest. For applications made through a securities broker, applicants should consult their securities broker for the details of whether or not, and if so how, it will refund to them any application moneys and/or brokerage or other fee. See further the paragraph entitled “What happens if I am owed a refund for any application moneys and/or handling fee or brokerage fee?” below.

CAN I MAKE MULTIPLE APPLICATIONS FOR RETAIL BONDS?

You may not make more than one application for any series of retail bonds.

WHAT ARE “APPLICATION MONEYS”? HOW ARE “SUBSCRIPTION MONEYS” DIFFERENT?

Application moneys are the amount which you must pay for the principal amount of retail bonds of a series you are applying for at the time of your application. They are equal to the application price for that series of retail bonds (as stated in the relevant issue circular) multiplied by the principal application amount. The application moneys will be held from the time you make your application pending release to HKSAR

Government of the subscription moneys and/or payment of any refund. See further the paragraph entitled “What happens if I am owed a refund for any application moneys and/or handling fee or brokerage fee?” below in relation to refund arrangements.

The subscription moneys are the amount which you actually pay for the principal amount of retail bonds of a series allocated to you at the time of issue. The subscription moneys are paid to HKSAR Government out of your application moneys.

The subscription moneys are equal to the principal amount of retail bonds allocated to you multiplied by the subscription price for those retail bonds. The issue circular for a series of retail bonds may allow HKSAR Government to set a subscription price which is different from the application price stated in the relevant issue circular for that series of retail bonds on or before the issue date for that series of retail bonds. In that case, the issue circular will specify how HKSAR Government will determine and announce the subscription price for that series of retail bonds.

Neither the application moneys nor the subscription moneys include any handling, brokerage or other fees.

WHAT HAPPENS IF A SERIES OF RETAIL BONDS IS UNDER-SUBSCRIBED?

The relevant issue circular may specify a minimum issue amount for a series of retail bonds. HKSAR Government does not currently intend that issues of retail bonds will be underwritten. As a result, if the total principal amount of a series of retail bonds applied for is smaller than the minimum issue amount, then HKSAR Government may decide to cancel the offering of that series and not to issue that series of retail bonds. In that case, all application moneys (and, for applications made through a placing bank, any handling fee or, for applications made directly through HKSCC, any brokerage fee) for that series will be refunded in full without interest. For applications made through a securities broker, applicants should consult their securities broker for the details of whether or not, and if so how, it will refund to them any application moneys and/or brokerage or other fee. See further the paragraph entitled

“What happens if I am owed a refund for any application moneys and/or handling fee or brokerage fee?” below in relation to refund arrangements.

WHAT HAPPENS IF A SERIES OF RETAIL BONDS IS OVER-SUBSCRIBED?

The relevant issue circular may specify a fixed or indicative maximum issue amount for a series of retail bonds, which, in the case of an indicative maximum amount, HKSAR Government may adjust on or before the issue date specified in the issue circular. Where the relevant issue circular specifies an indicative maximum issue amount or does not specify any maximum issue amount, HKSAR Government may determine or adjust the final issue amount in light of investor demand. If the total principal amount of a series of retail bonds applied for is larger than the final issue amount, then applicants may not be allocated the full amount of retail bonds they have applied for, or may be allocated no retail bonds at all. The relevant issue circular will explain how retail bonds will be allocated among applicants if the issue is over-subscribed. Allocation will be at the sole discretion of HKSAR Government.

If you are not allocated the full amount of retail bonds you have applied for, or are allocated no retail bonds at all, the application moneys (and, if you apply through a placing bank, any handling fee or, if you apply directly through HKSCC, any brokerage fee) you have paid for the retail bonds which you are not allocated will be refunded in full without interest. If you apply through a securities broker, you should consult your securities broker for the details of whether or not, and if so how, it will refund to you any application moneys and/or brokerage or other fee. See further the paragraph entitled “What happens if I am owed a refund for any application moneys and/or handling fee or brokerage fee?” below in relation to refund arrangements.

WHAT HAPPENS IF I AM OWED A REFUND FOR ANY APPLICATION MONEYS AND/OR HANDLING FEE OR BROKERAGE FEE?

Some or all of the application moneys and handling fee or brokerage fee, if any, you have paid will be refunded if:

- your application is wholly or partly unsuccessful;

- the series of retail bonds is over-subscribed and as a result you are not allocated all of the bonds you have applied for;
- the series of retail bonds is under-subscribed and as a result HKSAR Government decides to cancel the offering of that series of retail bonds;
- the subscription price for the series of retail bonds is less than the application price;
- at any time on or before the issue date, HKSAR Government imposes a maximum principal application amount per investor for a series of retail bonds in order to prevent an over-concentration of holdings in that series of retail bonds by a single investor and your application is for a principal amount of that series of retail bonds which exceeds that maximum principal application amount; and/or
- at any time on or before the issue date, HKSAR Government cancels all or a portion of the offering of a series of retail bonds.

If you apply for retail bonds through a placing bank, your placing bank agrees to transfer the corresponding amount of any such refund to your designated bank account with that placing bank within five business days of the issue date.

If you apply for retail bonds through HKSCC directly, HKSCC agrees to refund to you the corresponding amount of any such refund on or before the issue date.

If you apply for retail bonds through a securities broker, HKSCC agrees to refund to your securities broker the corresponding amount of any such refund on or before the issue date. You will have to rely on your securities broker to pass on such refund to you in a timely manner. You should consult your securities broker for the details of whether or not, and if so how, it will refund to you any application moneys and/or brokerage or other fee in any of the circumstances listed above.

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. 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\$100,000,000,000. 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.

WHAT ARRANGEMENTS ARE IN PLACE WITH PLACING BANKS AND MARKET MAKERS?

The legal framework under which HKSAR Government arranges for the offering, issue and placing of retail bonds is contained in the **programme agreement** which HKSAR Government entered into on 8 January 2010 with the initial placing banks, market makers and nominees, as amended or supplemented from time to time. Scheduled to the programme agreement are the terms of the placing bank agreement, the market maker agreement and the nominee agreement which will be entered into by HKSAR Government and the relevant placing banks, market makers and nominees in relation to each series of retail bonds. The programme agreement and (in relation to each series) the placing bank agreement, the market maker agreement and the nominee agreement record the detailed arrangements between HKSAR Government and the placing banks, market makers and nominees involved in the offering and market making of the retail bonds in respect of such offering and market making. As an investor in retail bonds, you do not have any rights under these agreements. If these agreements, as they apply to any particular series of retail bonds, contain information which is relevant to you as an investor in the retail bonds, HKSAR Government will disclose such information in the relevant issue circular.

The issue circular for any series of retail bonds will specify the placing banks and market makers, if any, appointed for that series of retail bonds. The role of the market makers is described in the paragraph entitled "What are the market making arrangements for retail bonds?" below.

WHAT ARRANGEMENTS ARE IN PLACE WITH HKSCC AND SECURITIES BROKERS?

The programme agreement does not govern HKSAR Government's arrangements with HKSCC. These are governed under a separate agreement entered into on 13 August 2009 between HKSAR Government and HKSCC in connection with the institutional bond programme and the retail bond programme together (as amended or supplemented from time to time), as well as by the rules and regulations of the CMU and CCASS.

HKSAR Government has not entered into any direct arrangements with securities brokers. The interests of any securities brokers in retail bonds will be held through HKSCC.

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 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 recognized 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 issue circular. Payments of principal of and interest on each retail bond will be made in the currency specified in the issue circular.

(d) Minimum denominations

Retail bonds are issued with a minimum denomination per retail bond as 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 and on the retail bond's maturity date. The amount of interest payable on each interest payment date and on the maturity 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 its final interest payment 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 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. 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.

11. Further issues

HKSAR Government may issue additional retail bonds of any series after the closing of the initial offering for that series. The terms 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.

12. 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.

HOLDING RETAIL BONDS

HOW DO I HOLD MY RETAIL BONDS?

Retail bonds are issued in the form of computerised book entries in CMU accounts of recognized dealers. This means that the retail bonds are registered securities. HKSAR Government will not issue certificates for any retail bonds.

Individual investors cannot open a personal account with the CMU. You can therefore only hold retail bonds through a recognized dealer or through a securities broker holding through HKSCC as a recognized dealer.

Because legal title to retail bonds is held by the recognized dealer who is the holder of the CMU account to which the retail bonds are credited, you cannot hold retail bonds directly. References in this programme circular to you “holding” retail bonds mean your holding of an indirect interest in retail bonds the legal title to which is held by a recognized dealer.

Securities or investment accounts and other services provided to you by your recognized dealer or securities broker are on its terms and conditions. HKSAR Government is not responsible for the way your recognized dealer or securities broker handles your account or the nature or quality of the services it provides.

Discuss this with your recognized dealer or securities broker and shop around if you wish: banks and securities brokers charge varying fees for their services and have different arrangements for processing applications. Ensure you are familiar with the terms and conditions which your recognized dealer or securities broker will apply to your account. Ask your recognized dealer or securities broker to explain if you are not familiar with these arrangements.

Your total return on an investment in retail bonds will be affected by charges levied by your recognized dealer and/or securities broker.

WHO ARE THE RECOGNIZED DEALERS?

A **recognized dealer** is an institution which is appointed by the Monetary Authority as a recognized dealer to hold and deal in retail bonds and institutional bonds through the CMU. Recognized dealers are HKSCC and the placing

banks, as well as any other institutions appointed by the Monetary Authority as recognized dealers (**additional recognized dealers**). Additional recognized dealers can hold and deal in retail bonds, but cannot apply for them. This means that you cannot apply for retail bonds through an additional recognized dealer, but after you have been allocated your retail bonds you may transfer your holding in the retail bonds to your investment or securities account with an additional recognized dealer.

- If you hold retail bonds through a placing bank, then your recognized dealer is that placing bank.
- If you hold retail bonds through an additional recognized dealer, then your recognized dealer is that additional recognized dealer.
- If you hold retail bonds through an investor account with HKSCC, then your recognized dealer is HKSCC.
- If you hold retail bonds through a securities broker, then your recognized dealer is HKSCC.

A list of the recognized dealers appointed by the Monetary Authority is available from HKSAR government bond programme website at www.hkgeb.gov.hk.

WHAT MUST I RELY ON MY RECOGNIZED DEALER AND/OR SECURITIES BROKER TO DO FOR ME?

For all purposes in respect of your retail bonds, HKSAR Government will treat your recognized dealer as the holder of your retail bonds.

If you hold retail bonds through:

- (i) a recognized dealer which is a placing bank;
- (ii) an additional recognized dealer; or
- (iii) an investor account with HKSCC (which will be your recognized dealer),

your recognized dealer will hold your retail bonds for you (and any other investors who hold retail bonds through that recognized dealer) in a CMU account. HKSAR Government will pay interest on

and principal amounts of your retail bonds to your recognized dealer and you will have to rely on your recognized dealer to ensure that payments on your retail bonds are credited to your account with your recognized dealer in a timely manner and, if necessary, prove your interest in the retail bonds and make claims for any sums due under the retail bonds which HKSAR Government has not paid. Any notices HKSAR Government gives to holders of retail bonds after your retail bonds are issued will be given to your recognized dealer and you will have to rely on your recognized dealer to ensure that HKSAR Government's notices reach you in a timely manner. Similarly, you will have to rely on your recognized dealer to forward any notices from you to HKSAR Government in a timely manner.

If you hold retail bonds through a securities broker, your securities broker will arrange to hold your retail bonds for you (together with any retail bonds it holds on behalf of any other investors) in its CCASS account maintained with HKSCC, which will arrange to hold your retail bonds (together with any retail bonds it holds on behalf of any other investors) in HKSCC's CMU account. HKSAR Government will pay interest on and principal amounts of your retail bonds to HKSCC for payment to your securities broker and you will have to rely on both HKSCC and your securities broker to ensure that payments on your retail bonds are credited to your account with your securities broker in a timely fashion and, if necessary, prove your interest in the retail bonds and make claims for any sums due under the retail bonds which HKSAR Government has not paid. Any notices HKSAR Government gives after your retail bonds are issued will be given to HKSCC for forwarding to your securities broker and you will have to rely on HKSCC and your securities broker to ensure that HKSAR Government's notices reach you in a timely manner. Similarly, you will have to rely on your securities broker and HKSCC to forward any notices from you to HKSAR Government in a timely manner.

HKSAR Government does not accept any responsibility for any account or service provided to you (whether directly or indirectly) by any recognized dealer or securities broker.

HOW DO I PROVE MY HOLDING OF RETAIL BONDS?

Legal title to retail bonds is held by the recognized dealer to whose CMU account the retail bonds are credited.

If you hold retail bonds through a recognized dealer which is a placing bank, you must rely on the records and account statements provided by your placing bank to prove your interest in the retail bonds.

If you hold retail bonds through an additional recognized dealer, you must rely on the records and account statements provided to you by your additional recognized dealer to prove your interest in the retail bonds.

If you hold retail bonds through an investor account held by you with HKSCC, you must rely on the records and account statements provided to you by HKSCC through CCASS to prove your interest in the retail bonds.

If you hold retail bonds through a securities broker, you must rely on both the records and account statements provided to you by your securities broker and the records and account statements provided to your securities broker by HKSCC through CCASS to prove your interest in the retail bonds.

In all cases, your recognized dealer must rely on the computerised records of the CMU to prove its holdings of the retail bonds in the CMU. The CMU will from time to time issue a statement of your recognized dealer's holding of retail bonds in the CMU. This statement will be conclusive evidence of your recognized dealer's holding of retail bonds in the CMU — you will still need to prove your interest in the retail bonds held by your recognized dealer, as described above.

HOW DOES HKSAR GOVERNMENT MAKE PAYMENTS AND SEND NOTICES?

HKSAR Government makes payments of principal of and interest on retail bonds to your recognized dealers through the Monetary Authority who is acting as the paying representative of HKSAR Government. Once HKSAR Government has so made a payment, it will be under no further obligation to anyone in relation to that payment, even if your recognized dealer or securities broker fails to transmit to you your share of the payment or transmits it late.

HKSAR Government issues notices in relation to retail bonds to your recognized dealers through the CMU. You will have to rely on your recognized dealer and, where applicable, your securities broker, to pass these notices to you.

HOW DO I ISSUE NOTICES AND INSTRUCTIONS TO MY RECOGNIZED DEALER OR SECURITIES BROKER?

- If your recognized dealer is a placing bank, you can issue notices and instructions as specified in the terms and conditions applicable to your account with your placing bank.
- If your recognized dealer is an additional recognized dealer, you can issue notices and instructions as specified in the terms and conditions applicable to your account with that additional recognized dealer.
- If you hold retail bonds through an investor account with HKSCC, you can issue notices and instructions through CCASS.
- If you hold retail bonds through a securities broker, you can issue notices and instructions as specified in the terms and conditions applicable to your account with your securities broker, which can be passed on by your securities broker through CCASS.

DEALING IN RETAIL BONDS AND LISTING OF RETAIL BONDS

HOW DO I SELL MY RETAIL BONDS?

Retail bonds can be sold:

- through the Hong Kong Stock Exchange; or
- over-the-counter, including to market makers appointed by HKSAR Government in relation to the retail bonds. (You may also sell them over-the-counter to a placing bank, a recognized dealer or any other person who is willing to buy them from you. Any such sale will be subject to your agreement with the relevant placing bank, recognized dealer or other person.)

You can sell retail bonds through the Hong Kong Stock Exchange only if you hold them through HKSCC directly or through your securities broker.

If you hold retail bonds through HKSCC directly or through a securities broker, as well as being able to sell retail bonds through the Hong Kong Stock Exchange, you can also sell retail bonds to a market maker. If you sell any retail bonds to a market maker, you can instruct HKSCC or your securities broker to transfer the retail bonds to that market maker. The relevant market maker, HKSCC and/or your securities broker may charge you fees for this transfer.

See further the paragraph entitled “What are the market making arrangements for retail bonds?” below.

If you do not hold retail bonds through HKSCC directly or through your securities broker (for example, if you hold retail bonds through a placing bank or an additional recognized dealer), then you have the following options for selling retail bonds.

If you hold retail bonds through a placing bank, you can contact a market maker to ask for a price at which it will buy the retail bonds. See further the paragraph entitled “What are the market making arrangements for retail bonds?” below.

If you hold retail bonds through a placing bank and wish to trade any of the retail bonds through the Hong Kong Stock Exchange, you will need to instruct your placing bank to transfer the retail bonds from your securities or investment account with that placing bank to your investor account

with HKSCC or your securities or custody account with your securities broker beforehand. Your placing bank, HKSCC and/or your securities broker may charge you fees for this transfer. If you do not have an investor account with HKSCC or a securities or custody account with a securities broker, you will need to open one for this purpose. In that case, HKSCC or your securities broker may require you to undergo an assessment to satisfy its regulatory and internal requirements.

Alternatively, your placing bank may be able to transfer the retail bonds to a stock account it holds with HKSCC through the CMU and CCASS (in other words your placing bank may be able to perform the role of a securities broker). Your placing bank and/or HKSCC may charge you fees for this transfer.

HOW DO I TRANSFER MY RETAIL BONDS?

To transfer retail bonds, you must give a transfer instruction to your recognized dealer or securities broker in accordance with the terms and conditions applicable to your account with them.

Bonds can be transferred from one recognized dealer’s CMU account to another’s through book entries. You can therefore only transfer your retail bonds to a person who:

- is a recognized dealer;
- holds an investment or securities account with a recognized dealer;
- holds an investor account with HKSCC;
- is a securities broker; or
- holds a securities or custody account with a securities broker.

Settlement and clearing of transfers are performed through the CMU in accordance with the rules applicable to the CMU.

WHAT ARE THE MARKET MAKING ARRANGEMENTS FOR RETAIL BONDS?

For each series of retail bonds, some or all of the placing banks may give an undertaking to HKSAR Government to use their best efforts to maintain a market in those retail bonds in

over-the-counter transactions (in other words, in transactions which are not conducted on the Hong Kong Stock Exchange). They will do this by quoting prices at which they are willing to purchase retail bonds (bid prices) and prices at which they are willing to sell retail bonds (offer prices) during normal banking hours on any business day.

The market makers appointed by HKSAR Government for a particular series of retail bonds will be specified in the relevant issue circular.

Market makers will quote a firm bid price in respect of a series of retail bonds so long as that series of retail bonds is outstanding. However, their ability to quote a firm bid price in respect of any series of retail bonds may be subject to any internal guidelines of that market maker on exposures to any single entity. Market makers can only quote a firm offer price in respect of a series of retail bonds if they are holding retail bonds of that series for their own account as market makers.

Market makers may have the right to apply for retail bonds in a series. In that case, market makers may be exempted from any maximum amount or subject to a different maximum amount in respect of particular series of retail bonds if HKSAR Government considers it necessary for the performance of their obligations as market makers.

Moreover, the market makers may discontinue their market making service. As a result, the market making arrangements do not assure an active secondary trading market for the retail bonds or that you will have access to a firm bid price or a firm offer price for retail bonds in a principal amount which you may wish to purchase or sell.

The prices quoted by market makers may be different from the last traded price of the retail bonds on the Hong Kong Stock Exchange and the information which a market maker may rely on when quoting a price may be very limited. Prices quoted by different market makers may not be the same.

A market maker may require you to transfer your retail bonds to a securities or investment account held with it in order for it to buy your retail bonds from you or to open a securities or investment account with it in order for it to sell to you its

retail bonds. Fees may be charged for the transfer. Please note that if you need to open an account with a market maker for this purpose, that market maker may require you to undergo an assessment to satisfy its regulatory and internal requirements.

WHAT ARE THE ARRANGEMENTS FOR LISTING RETAIL BONDS ON THE HONG KONG STOCK EXCHANGE?

Application has been made to the Hong Kong Stock Exchange for permission to deal in, and for listing of, retail bonds issued under the retail bond programme. Listing of, and dealings in, the retail bonds on the Hong Kong Stock Exchange will commence from the listing date announced in the relevant issue circular or any supplemental programme and/or issue circulars, as the case may be. If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, any retail bonds and the retail bonds comply with the admission requirements of HKSCC, those retail bonds will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the listing date or any other date HKSCC chooses. Listed retail bonds will be quoted and traded on the basis of a price expressed as a percentage of their principal amount. For example, a price of “99.50” means 99.50% of the principal amount of a retail bond.

Settlement of trades in retail bonds listed on the Hong Kong Stock Exchange is required to take place in CCASS on the second settlement day after the trade date. The following fees and levies will be chargeable on both the buyer and the seller:

- a transaction levy of 0.003%; and
- a trading fee of 0.005%,

in each case, of the consideration amount of the retail bonds traded. An investor compensation levy of 0.002% administered by the SFC may also apply to the consideration amount of the retail bonds traded although as at the date of this programme circular the SFC has temporarily suspended this levy.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Listing does not assure an active secondary trading market for the retail bonds or that you will have access to a firm bid price or a firm offer price for retail bonds in a principal amount which you wish to purchase or sell.

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, your retail bonds, your interest in retail bonds and any transactions in retail bonds you engage in may be protected by the investor compensation fund. Whether you are eligible for this protection will depend on whether you and the persons you are dealing with (including your placing bank, HKSCC and/or your securities broker) satisfy certain criteria set out in the Securities and Futures Ordinance and the investor compensation fund rules. If you wish to find out more about your eligibility for protection under the investor compensation fund in connection with the retail bonds, you should seek independent advice and consult your placing bank or securities broker (as appropriate).

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	Positive
S&P:	AAA	A-1+	Stable

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 People's Republic of China, 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 People's Republic of China 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 2011, Hong Kong was ranked the tenth largest trading entity in the world by the World Trade Organization based on the value of total merchandise trade, and is home to the third busiest container port in the world in terms of throughput.

Over the past two decades, the Hong Kong economy (as measured by GDP) has more than doubled in size, with GDP growing at an average annual rate of 3.9% in real terms. In 2011, Hong Kong's GDP at current market prices reached HK\$1,897 billion and its per capita GDP of US\$34,500 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 despite an increasingly difficult external

environment. Real GDP expanded strongly by 7.1% and 5.0% in 2010 and 2011 respectively, more than offsetting the 2.6% contraction in 2009.

In the past five years, HKSAR Government has recorded a consolidated surplus each year, ranging between HK\$1.5 billion and HK\$123.6 billion. The fiscal reserves rose from HK\$492.9 billion in 2007-08 to HK\$669.1 billion in 2011-12.

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 2012, all Toll Revenue Bond and HKSAR Government retail bonds issued in 2004 had been fully redeemed. As regards HKSAR Government institutional notes, an amount of HK\$11,207.5 million (including US\$1.25 billion denominated in United States dollars) remained outstanding. In addition, 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 31 March 2012, the outstanding amount of Government bonds issued under the Government Bond Programme, with tenors ranging from 2 to 10 years, reached HK\$49.5 billion (including HK\$39.5 billion of institutional bonds and HK\$10 billion of inflation-linked retail bonds). The relevant proceeds are credited to the Bond Fund.

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

Economic Indicators	2007	2008	2009	2010	2011
GDP at current market prices (HK\$ billion)	1,615.6	1,677.0	1,622.5	1,741.6	1896.7
Composite Consumer Price Index	93.8	97.8	98.4	100.7	106.0
Unemployment rate (%)	4.0	3.5	5.3	4.3	3.4

The table below sets out certain fiscal indicators with respect to HKSAR Government for 2007-08 to 2011-12 (all figures in HK\$ billion):

Fiscal Indicators	2007-08	2008-09	2009-10	2010-11	2011-12
Consolidated Government surplus [^]	123.6	1.5	25.9	75.1	73.7
Government debt [*]	20.1	16.6	11.2	11.2	11.2
Fiscal Reserves [#] (as at 31 March)	492.9	494.4	520.3	595.4	669.1

[^] (after repayment of Bonds and Notes issued in July 2004.)

^{*} (excluding Exchange Fund Bills and Notes. Also excluding Government bonds issued under the Government Bond Programme with proceeds credited to the Bond Fund.)

[#] (excluding Bond Fund balance of HK\$11.6 billion as at 31 March 2010, HK\$28.5 billion as at 31 March 2011, and HK\$52.0 billion as at 31 March 2012.)

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 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 the 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 issue circular will apply, but only to that series of retail bonds. References in this programme circular to an individual investor or securities broker “holding” retail bonds mean the holding by that individual investor or securities broker of an indirect interest in retail bonds held by a recognized dealer.

additional recognized dealer	a recognized dealer who is not a placing bank or HKSCC
application moneys	the amount paid by an applicant at the time of his application for retail bonds of a series in respect of the retail bonds themselves excluding any fees. You can read more about application moneys on page 7, in the paragraph entitled “What are “application moneys”? How are “subscription moneys” different?”
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
CCASS	the Central Clearing and Settlement System operated by HKSCC
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 recognized 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 Bill 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
investor account	an account maintained with HKSCC by an investor participant admitted to participate in CCASS
investor compensation fund	the investor compensation fund established under section 236 of the Securities and Futures Ordinance
investor compensation fund rules	the Securities and Futures (Investor Compensation - Claims) Rules (Chapter 571T of the Laws of Hong Kong) made by the SFC under section 244(2) of the Securities and Futures Ordinance
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 Investor's Service
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

recognized dealers	the institutions appointed by the Monetary Authority as recognized 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
S&P	Standard & Poor's, a division of the McGraw-Hill Companies, Inc.
securities broker	a person admitted to participate in CCASS as a clearing participant or a custodian participant
series	any retail bonds which are stated in their 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)
Securities and Futures Ordinance	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
SFC	the Securities and Futures Commission established under section 3 of the Securities and Futures Commission Ordinance (Chapter 24 of the Laws of Hong Kong) (now repealed) and continuing in existence under section 3 of the Securities and Futures Ordinance
subscription moneys	the amount actually paid by an applicant for retail bonds of a series on the issue date in respect of the retail bonds of that series allocated to the applicant (excluding any fees). You can read more about subscription moneys on page 7, in the paragraph entitled "What are "application moneys"? How are "subscription moneys" different?"
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

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

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