



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

Retail Bond Issuance Programme

Silver Bond Series HK\$3,000,000,000 Retail Bonds Due 2019

**Subscription Period — 9:00 a.m. on Tuesday, 26 July 2016 to
2:00 p.m. on Wednesday, 3 August 2016**

ISSUER'S REPRESENTATIVE

Monetary Authority

JOINT LEAD MANAGERS

Bank of China (Hong Kong) Limited

HSBC

PLACING BANKS

Bank of China (Hong Kong) Limited	Bank of Communications Co., Ltd. Hong Kong Branch	The Bank of East Asia, Limited
China CITIC Bank International Limited	China Construction Bank (Asia) Corporation Limited	Chiyu Banking Corporation Limited
Chong Hing Bank Limited	Citibank (Hong Kong) Limited	Dah Sing Bank, Limited
DBS Bank (Hong Kong) Limited	Fubon Bank (Hong Kong) Limited	Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited	Hong Leong Bank Berhad, Hong Kong Branch	Industrial and Commercial Bank of China (Asia) Limited
Nanyang Commercial Bank, Limited	OCBC Wing Hang Bank Limited	Public Bank (Hong Kong) Limited
Shanghai Commercial Bank Limited	Standard Chartered Bank (Hong Kong) Limited	Wing Lung Bank Limited

Issue Circular dated 15 July 2016

KEY FACTS

This table only provides a quick summary of the retail bonds. It does not contain all the information that may be important to you as an investor. **You should read the entire programme circular and all of this issue circular carefully before making any investment decision concerning the retail bonds.**

QUICK FACTS ABOUT THE RETAIL BONDS

Issuer	The Government of the Hong Kong Special Administrative Region of the People's Republic of China
Subscription period	9:00 a.m. on Tuesday, 26 July 2016 to 2:00 p.m. on Wednesday, 3 August 2016 HKSAR Government may decide to close the offer early, or allow more time, without prior notice. HKSAR Government reserves the right to cancel the offer at any time on or before the scheduled issue date.
Issue date*	12 August 2016
Application price	100%
Subscription price	The subscription price of the retail bonds is equal to the application price.
Principal application amounts	The minimum principal amount of retail bonds you can apply for is HK\$10,000. You must apply for a principal amount of retail bonds which is an integral multiple of HK\$10,000.
Minimum denomination	HK\$10,000
Interest rate (coupon)	The interest rate for each interest payment date will be determined and announced on the relevant interest determination date as the higher of: (i) the floating rate, being the arithmetic average of the year-on-year rates of change in the Composite Consumer Price Index compiled and published by the Census and Statistics Department of HKSAR Government based on the results of the most recent Household Expenditure Survey at the relevant interest determination date (currently being the 2014/15-based Composite Consumer Price Index) for the 6 most recent preceding months, rounded to the nearest two decimal places; and (ii) the fixed rate of 2.00%, per annum, payable every 6 months in arrear.
Maturity date	12 August 2019
Application channels	Applications can be made through placing banks.
Handling fee**	0.15%
<p>* Note that certain circumstances (for example, a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong) may result in the issue date falling on a later date.</p> <p>** A handling fee may be charged by a placing bank. Ask your placing bank for details.</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 retail bonds carry a floating rate of interest that is calculated other than by reference to prevailing Hong Kong dollar interest rates. The return on your retail bonds may be relatively lower if the prevailing Hong Kong dollar interest rates increase during the term of the retail bonds.
<ul style="list-style-type: none"> • <u>Regular returns</u>: The retail bonds offer half-yearly interest payments that are linked to inflation, subject to a pre-specified minimum rate, for the entire term of your investment. 	<ul style="list-style-type: none"> • <u>Index risk</u>: The retail bonds carry a rate of interest that includes a component linked to the Composite Consumer Price Index. The return on your retail bonds may be affected by movements in the index.
<ul style="list-style-type: none"> • <u>Interest rate</u>: The retail bonds may offer higher interest rates than Hong Kong dollar time deposits of similar maturities. 	<ul style="list-style-type: none"> • <u>Liquidity risk</u>: You cannot transfer your retail bonds to any other person. There will be no secondary market for your retail bonds. If you wish to sell your retail bonds before maturity, you may only submit an early redemption request to your placing bank.
	<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 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 placing banks, 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.

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 is the issue circular for the series of retail bonds described in this document (the **retail bonds**). This issue circular contains the final terms and conditions of this series of retail bonds and must be read in conjunction with HKSAR Government's programme circular dated 19 May 2016 (as amended or supplemented from time to time) relating to the retail bond programme (the **programme circular**). Full information on HKSAR Government and the retail bonds is only available by reading both this issue circular and the programme circular. If a statement or term in this issue circular is inconsistent with a statement or term in the programme circular, then the statement or term contained in this issue circular should be treated as correct, but only in relation to this series of retail bonds.

In this issue circular, words and expressions have the meanings given in the programme circular unless this issue circular specifies a different meaning. In that case, then in relation to this series of retail bonds only, the meaning contained in this issue circular should be treated as correct and that meaning should be applied in reading the programme circular (including the section entitled "Terms and conditions of the retail bonds").

YOU SHOULD NOTE THE FOLLOWING IMPORTANT INFORMATION

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

The retail bonds are issued under HKSAR Government's retail bond issuance programme. You should read the programme circular as well as this issue circular in order to understand the offer of the retail bonds, and ensure you fully understand the risks associated with any investment in the retail bonds, before deciding whether to apply for any retail bonds.

None of HKSAR Government, the Monetary Authority, the joint lead managers and the placing banks will give you investment advice: you must decide for yourself whether any 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 issue circular and the programme circular. No person has been authorised to give any information or to make any representation not contained in or not consistent with this issue circular and the programme 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.

The joint lead managers and the placing banks take no responsibility for the contents of this document, make no representation as to its accuracy, completeness or sufficiency and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This issue circular relates only to the series of retail bonds described in it. It does not relate to any other series of retail bonds issued by HKSAR Government under the retail bond programme or any bonds issued by HKSAR Government under the institutional bond programme or any other bond or note issuance programme or otherwise.

本發行通函備有中文版本。你可於金融管理專員辦事處索取本發行通函之中文版本。金融管理專員辦事處地址為香港中環金融街8號國際金融中心二期55樓。

CONTENTS

	Page No.
HKSAR GOVERNMENT IS OFFERING THE SILVER BOND SERIES OF RETAIL BONDS	1
IMPORTANT INVESTMENT CONSIDERATIONS	4
EXPECTED TIMETABLE FOR APPLYING FOR RETAIL BONDS	5
HOW TO APPLY FOR RETAIL BONDS	7
HOLDING RETAIL BONDS	13
TRANSFER RESTRICTIONS AND EARLY REDEMPTION OF RETAIL BONDS	15
THE HONG KONG SPECIAL ADMINISTRATIVE REGION	16
FREQUENTLY ASKED QUESTIONS	18
APPLICATION CHANNELS	20
PERSONAL INFORMATION COLLECTION STATEMENT	23

HKSAR GOVERNMENT IS OFFERING THE SILVER BOND SERIES OF RETAIL BONDS

The Silver Bond series of retail bonds is offered on the terms set out in the table below and as described in this issue circular.

Series Issue Number	Silver Bond Series 03GB1908R
Subscription period	<p>9:00 a.m. on Tuesday, 26 July 2016 to 2:00 p.m. on Wednesday, 3 August 2016</p> <p>HKSAR Government may decide to close the offer early, or allow more time, without prior notice. The issue date (and hence the interest payment dates and the maturity date) may change accordingly. HKSAR Government reserves the right to cancel the offer at any time on or before the scheduled issue date.</p>
Currency	Hong Kong dollars
Interest rate (coupon)	<p>The interest rate for each interest payment date will be determined and announced on the relevant interest determination date as the higher of:</p> <ul style="list-style-type: none">(i) the floating rate, being the arithmetic average of the year-on-year rates of change in the Composite Consumer Price Index compiled and published by the Census and Statistics Department of HKSAR Government based on the results of the most recent Household Expenditure Survey at the relevant interest determination date (currently being the 2014/15-based Composite Consumer Price Index) for the 6 most recent preceding months, rounded to the nearest two decimal places; and(ii) the fixed rate of 2.00%. <p>This is the percentage rate of the principal amount per annum to be applied to calculate the interest that HKSAR Government pays on the retail bonds.</p>
Issue date	<p>12 August 2016</p> <p>If the issue date 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 the issue date will be the next day which is a business day in Hong Kong not affected by the cessation.</p>
Application price	<p>100%</p> <p>The application moneys, being the application price multiplied by the principal amount of the retail bonds you apply for, are the amount which you must pay at the time of your application.</p>
Subscription price	The subscription price is equal to the application price.
Application channels	Applications can be made through placing banks.
Eligibility criteria	You can only apply for retail bonds if you (i) hold a valid Hong Kong identity card; and (ii) were born on or before 31 December 1951.
Transfer restrictions	You cannot transfer your retail bonds to any other person save for the transfer to your successor under the relevant succession law.

Series Issue Number	Silver Bond Series 03GB1908R	
Early redemption request	If you wish to sell your retail bonds before maturity, you may only submit an early redemption request in the form specified by your placing bank to your placing bank on any business day between 9:00 a.m. and 5:00 p.m. Your retail bonds will be redeemed on the third business day following receipt by your placing bank of your early redemption request in relation to your retail bonds (the Early Redemption Settlement Date) at an amount equal to their principal amount together with accrued but unpaid interest for the period from (and including) the interest payment date immediately preceding the Early Redemption Settlement Date (or if none, the issue date) up to (but excluding) the Early Redemption Settlement Date and at a fixed rate of 2.00% per annum.	
Handling fee[^]	0.15% This is the fee that you pay your placing bank for handling your application, calculated as a percentage of the application moneys of the retail bonds you apply for. It is in addition to the application moneys. Your placing bank may choose to waive or reduce the amount of the handling fee it charges.	
Principal application amounts	The minimum principal amount of retail bonds you can apply for is HK\$10,000. You must apply for a principal amount of retail bonds which is an integral multiple of HK\$10,000. Applications for a principal amount of retail bonds which is less than HK\$10,000 or for a principal amount of retail bonds which is not an integral multiple of HK\$10,000 are liable to be rejected.	
Minimum denomination	HK\$10,000	
Total issue amount	HKSAR Government will decide the total principal amount of the retail bonds to be issued in light of investor demand.	
Minimum issue amount	No specified minimum issue amount.	
Target issue amount	HK\$3,000,000,000 This is the target principal amount of this series of retail bonds that HKSAR Government may issue. The final issue amount will be determined by HKSAR Government in its absolute discretion, which may be lower than or higher than the target issue amount.	
Maturity date	12 August 2019 HKSAR Government will repay 100% of the principal amount of your retail bonds on the maturity date.*	
Interest payment dates and relevant interest determination dates	Interest payment date*	Relevant interest determination date*
	<i>First:</i>	13 February 2017
	<i>Second:</i>	14 August 2017
	<i>Third:</i>	12 February 2018
	<i>Fourth:</i>	13 August 2018
	<i>Fifth:</i>	12 February 2019
	<i>Maturity date:</i>	12 August 2019
Listing	The retail bonds will not be listed on any stock exchange.	

- △ Upon application, the handling fee (if any) equal to a percentage of the application moneys will be payable.
- * Unless specified otherwise, if the due date for any action on the part of HKSAR Government in relation to a retail bond, including making a payment, 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 such action 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 the action on the next day which is a business day in Hong Kong not affected by the cessation. Where a payment date is so changed, interest shall continue to accrue to the new payment date and any additional interest or, where the new payment date is a date falling before the original due date, any 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.

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 return on your retail bonds may be relatively lower if the prevailing Hong Kong dollar interest rates increase during the term of the retail bonds.

Your investment in retail bonds is also subject to index risk. The retail bonds have an interest rate that includes a component linked to the Composite Consumer Price Index. The return on your retail bonds may be affected by movements in that index.

Your investment in retail bonds may also be subject to liquidity risk. There will be no secondary market for the retail bonds. If you wish to sell your retail bonds before maturity, you may only submit an early redemption request to your placing bank. The retail bonds are not listed and cannot be traded on any stock exchange.

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 ratings. The retail bonds do not have a specific credit rating, however, HKSAR Government has been assigned specific credit ratings by a number of credit rating agencies as set out in the programme 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 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.

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 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 the programme circular. These terms and conditions are varied and/or supplemented for the retail bonds by this 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. You will have to depend on your recognised dealer 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.

EXPECTED TIMETABLE FOR APPLYING FOR RETAIL BONDS

9:00 a.m. on 26 July 2016 (Tuesday) Commencement date of subscription period (commencement date)	Applications for retail bonds may be made from this date onwards. See further the section entitled “How to apply for retail bonds” below.
2:00 p.m. on 3 August 2016 (Wednesday) Closing date of subscription period (closing date)	<p>All applications in person, by internet or by telephone must have been submitted by 2:00 p.m. on the closing date. No applications shall be accepted by any placing bank after this time.</p> <p>The application moneys will be collected by debit from 00:00 a.m. on the closing date onwards from your specified bank account with the placing bank to which you gave your application instructions.</p>
10 August 2016 (Wednesday) Allocation date	The allocation date is relevant to HKSAR Government’s internal procedures. This is only relevant to you because a change to the allocation date may result in a change to the issue date, as described below.
12 August 2016 (Friday) Issue date	<p>On or before the issue date, HKSAR Government will announce on www.hkma.gov.hk and on www.hkgeb.gov.hk:</p> <ul style="list-style-type: none">• the issue amount;• the principal amount of valid applications received; and• the maximum principal application amount per investor (if any is imposed). <p>Your placing bank has agreed that, commencing on and from the issue date, it will notify you by mail (or by any alternative methods agreed with them) of your allocation of retail bonds (if any), the applicable subscription moneys (being the amount actually paid by you on the issue date in respect of the retail bonds allocated to you, excluding any fees) and the amount of any refund of your application moneys. The placing banks have agreed to complete all notifications within five business days of the issue date.</p> <p>Retail bonds allocated to you will be issued against payment in full of your subscription moneys for those retail bonds by your placing bank. Your placing bank has agreed that retail bonds allocated to you will be credited within the same day to your securities or investment account maintained with the relevant placing bank.</p> <p>All refunds of application moneys and/or any handling fee will be made as described in the paragraph entitled “What happens if I am owed a refund for any application moneys and/or handling fee?” in the section entitled “How to apply for retail bonds”.</p>

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

References to times are to Hong Kong time.

Subject to HKSAR Government's right to shorten or extend the subscription period without prior notice, the commencement date and any dates after the commencement of the subscription period will not be adjusted or extended for any reason (for example, the issue of a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning for all or any part of a day which would otherwise have been a business day) except that:

- (1) if any day (other than a Saturday, Sunday or general holiday in Hong Kong) between the closing date and the issue date (exclusive of both dates) falls on a day which is not a business day for any reason, the allocation date and/or the issue date shall be postponed to such dates that the adjusted allocation date and the adjusted issue date are expected to be the fifth business day and the seventh business day respectively following the closing date;
- (2) if the closing date:
 - (a) falls on a day which is not a business day for any reason, the closing date will be the next business day (which shall become the adjusted closing date), and the adjusted allocation date and the adjusted issue date are expected to be the fifth business day and the seventh business day respectively following the adjusted closing date; or
 - (b) falls on a day which is not a business day because banks are not open for business in Hong Kong for part of the day commencing after 12:00 (noon) (for example, because of the issue of a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning with effect from a time later than 12:00 (noon)), then that day shall remain the closing date (and that day shall be deemed to remain a business day) but the allocation date and issue date are expected to be the sixth business day and the eighth business day, respectively, following the closing date;
- (3) if the allocation date:
 - (a) falls on a day which is not a business day for any reason, the allocation date will be the next business day which shall become the adjusted allocation date; or
 - (b) falls on a day which is not a business day because banks are not open for business in Hong Kong for part of the day commencing after 12:00 (noon) (for example, because of the issue of a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning with effect from a time later than 12:00 (noon)), then that day shall remain the allocation date (and that day shall be deemed to remain a business day) but the issue date is expected to be the eighth business day following the closing date; and
- (4) if the issue date falls on a day which is not a business day for any reason, the issue date will be the next business day which shall become the adjusted issue date.

HOW TO APPLY FOR RETAIL BONDS

WHERE CAN I GET A COPY OF THE PROGRAMME CIRCULAR AND THIS ISSUE CIRCULAR?

You can get copies of the programme circular and this issue circular 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 this series of retail bonds, from the application channels described in the paragraph entitled “How can I apply for this series of 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 THIS SERIES OF RETAIL BONDS?

You can only apply for this series of retail bonds if you (i) hold a valid Hong Kong identity card; and (ii) were born on or before 31 December 1951. These are referred to in this issue circular as the **eligibility criteria**. An application using a joint account can only be made if the applicant satisfies the eligibility criteria. HKSAR Government has the right to redeem any retail bonds allocated to an applicant who did not satisfy the eligibility criteria at the time of application for the retail bonds. Such bonds will be redeemed at an amount equal to their principal amount multiplied by the subscription price, on the date specified in the notice without any payment of accrued and unpaid interest.

By making an application for the retail bonds, you consent to the redemption of the retail bonds in accordance with the terms and conditions of the retail bonds by the HKSAR Government, including directly through the recognised dealer through which you will hold the retail bonds.

See further the paragraph entitled “What confirmations do I have to make?” below in relation to other restrictions and the paragraph entitled “Can I make multiple applications for retail bonds?” below for more information about making an application using a joint account.

HOW CAN I APPLY FOR THIS SERIES OF RETAIL BONDS?

The subscription period for this series of retail bonds is from 9:00 a.m. on Tuesday, 26 July 2016 to 2:00 p.m. on Wednesday, 3 August 2016.

You can apply for this series of retail bonds through any of the placing banks listed on page 20 of this issue circular.

Applications for retail bonds must be submitted before 2:00 p.m. on Wednesday, 3 August 2016.

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 recognised dealers with the Central Moneymarkets Unit (CMU) operated by the Monetary Authority. These securities accounts are referred to in this 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.

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

You may only subscribe retail bonds in a principal amount which is an integral multiple of HK\$10,000. Applications for a principal amount which is less than HK\$10,000 or for a principal amount of retail bonds which is not an integral multiple of HK\$10,000 are liable to be rejected.

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 for this series of retail bonds, then any application for a principal amount of this 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 any handling fee) will be refunded without interest. See further the paragraph entitled “What happens if I am owed a refund for any application moneys and/or handling fee?” below in relation to refund arrangements.

Any application to HKSAR Government by a placing bank will constitute an offer to subscribe for retail bonds.

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

The placing banks for this series of retail bonds are specified on page 20 of this 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 on pages 21 to 22 of this issue circular. You should contact the relevant placing bank to find out the locations of the designated branches 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 0.15% of the application moneys of the retail bonds you apply for. 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.

DO I NEED AN APPLICATION FORM?

No, we will not issue an application form for retail bonds. However, in order to standardise and streamline the application process, HKSAR Government has prepared a standard application template for use by the placing banks in executing your instructions. You will be required to make a series of confirmations and acknowledgements.

WHAT CONFIRMATIONS DO I HAVE TO MAKE?

When you apply for this series of retail bonds, you are deemed to confirm for the benefit of HKSAR Government and your placing bank that:

- (1) you agree to accept the retail bonds applied for, or any lesser amount allocated to you;
- (2) you understand that no certificates of title will be available for your retail bonds or any other retail bonds, that the retail bonds are in book-entry form only, that legal title to the retail bonds is held at all times and under all circumstances by the recognised dealer to whose CMU account the retail bonds are credited and that you acquire no direct rights against HKSAR Government in respect of your retail bonds;
- (3) you agree that if you are not allocated any retail bonds or if the retail bonds you have applied for are not issued to you in full for any reason, the whole or an appropriate portion of the application moneys will be refunded to you without interest and at your own risk and that all interest which may have accrued between the date of your application and the date of such refund will be retained for the benefit of the holder(s) of the account(s) to which such amounts have been credited (being such of HKSAR Government and/or your placing bank). Please see further the paragraph entitled "What happens if I am owed a refund for any application moneys and/or handling fee?" below;

- (4) you understand that the retail bonds will be held through the Central Moneymarkets Unit (CMU), a debt securities custodian, clearing and settlement system operated by the Monetary Authority, which means that if you hold your retail bonds through a recognised dealer (being a placing bank), you will have to rely on your recognised dealer:
- (i) to credit the account you hold with your recognised dealer with interest and principal payments credited to its settlement account;
 - (ii) to distribute notices to you which your recognised dealer receives from HKSAR Government; and
 - (iii) to prove your holding in your retail bonds.
- (8) you (i) hold a valid Hong Kong identity card; and (ii) were born on or before 31 December 1951;
- (9) you understand that you cannot transfer your retail bonds to any other person and that there will be no secondary market for your retail bonds;
- (10) you are not located within the United States or Canada and are not a U.S. Person within the meaning of Regulation S under the U.S. Securities Act of 1933, as amended (which includes any person resident in the United States and any partnership or corporation organised or incorporated under the laws of the United States) or a resident of Canada; and you are not acting as an agent of a U.S. Person or a resident of Canada; and
- (11) you agree to the personal information collection statement at the end of this issue circular.

In this paragraph (4), **settlement account** means, in relation to a recognised dealer which is a licensed bank, the account maintained by that recognised dealer with the Monetary Authority through which its own clearing balance is settled;

- (5) you have obtained a copy of this issue circular and a copy of the programme circular, have read and understood this issue circular and the programme circular and have relied on no other information or material in applying for the retail bonds;
- (6) you understand and agree that HKSAR Government accepts no responsibility for the provision of custody, banking (including internet and telephone banking) or any other services by any recognised dealer or for any consequences of, or any losses arising from the use of, any bank account, securities or investment account, custody account, custody, banking or any other services of any recognised dealer;
- (7) you have not made more than one application for this series of retail bonds in accordance with the paragraph entitled “Can I make multiple applications for retail bonds?” below;

By applying for retail bonds, you make these confirmations to HKSAR Government and your placing bank. You understand that HKSAR Government would not otherwise issue you the retail bonds for which you are applying. Your placing bank may well require you to make these and other confirmations at the time you make your application.

HOW WILL I KNOW IF MY APPLICATION IS SUCCESSFUL?

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

Retail bonds will be issued on the issue date.

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.

On the issue date, retail bonds will be issued in the form of computerised book entries in the respective CMU accounts of 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 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.

HKSAR Government reserves the right to cancel all or a portion of the offering of this series of retail bonds at any time on or before the issue date and to extend or shorten the subscription period for this series of retail bonds without prior notice. If HKSAR Government so cancels the offering of this 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;
- this series of retail bonds, or the relevant portion of it, will not be issued; and
- all applicants for this series of retail bonds will be refunded all, or the relevant portion, of their application moneys (and any handling fee) without interest. See further the paragraph entitled “What happens if I am owed a refund for any application moneys and/or handling fee?” below.

CAN I MAKE MULTIPLE APPLICATIONS FOR RETAIL BONDS?

You may not make more than one application for this series of retail bonds. For this purpose, each application for this series of retail bonds will be identified by a Hong Kong identity card number and will be treated as an application by the person with that Hong Kong identity card number, irrespective of whether the application is made using an account in the sole name of that person or by that person using a joint account with one or more other persons.

Any applications identified by the same Hong Kong identity card number will be treated as multiple applications, which will be rejected.

- If your application is made using an account in your sole name, the application will be identified by your Hong Kong identity card number.
- If your application is made using a joint account in the joint name of you and one or more joint account holders, the application will be identified either by your Hong Kong identity card number or by that of one of your joint account holders. Please confirm with the placing bank through which your application is made which joint account holder’s Hong Kong identity card number will be used for this purpose.

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 you are applying for at the time of your application. They are equal to the application price for the retail bonds (as stated in this 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?” below in relation to refund arrangements.

The subscription moneys are the amount which you actually pay for the principal amount of retail bonds 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 subscription price of this series of retail bonds is equal to the application price.

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

WHAT ARE THE ARRANGEMENTS WITH THE PLACING BANKS FOR SELLING THE RETAIL BONDS?

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

The placing banks appointed for this series of retail bonds are specified in this issue circular. Each placing bank will receive a placing fee from HKSAR Government of 0.15% of the principal amount of retail bonds issued to such placing bank to be paid within 30 days of the issue date. They may also receive a handling fee from successful applicants in respect of retail bonds allocated to them. If you are not allocated the full amount of retail bonds you have applied for, or are allocated no retail bonds at all, any handling fee you have paid for the retail bonds which you are not allocated will be refunded in full without interest. Please see further the paragraph entitled “What happens if I am owed a refund for any application moneys and/or handling fee?” below for more information about refund arrangements.

There are no soft commission or rebate arrangements between HKSAR Government and any of the placing banks.

IS THE OFFER UNDERWRITTEN?

The offering of the retail bonds is not underwritten.

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

HKSAR Government has specified the following target issue amount for this series:

- HK\$3,000,000,000

HKSAR Government may determine or adjust the final issue amount in light of investor demand. The final issue amount will be determined by HKSAR Government in its absolute discretion, which may be lower than or higher than the target issue amount.

If this series of retail bonds is over-subscribed (that is, if the total principal amount of valid applications for retail bonds of this series exceeds the final issue amount for this series), the allocation of retail bonds of this series will depend on the number of valid applications received in respect of this series.

- If the number of valid applications received is equal to or smaller than the number of retail bonds to be issued for this series (i.e. the quotient arrived at by dividing the final issue amount by HK\$10,000), HKSAR Government intends first to satisfy investors applying for a smaller number of retail bonds as much as possible and then to distribute any remaining retail bonds by ballot, at HKSAR Government’s sole discretion.
- If the retail bonds are so over-subscribed that HKSAR Government cannot even allocate one HK\$10,000 retail bond to each applicant who has made a valid application, HKSAR Government will allocate the retail bonds by ballot. Those valid applications which are successful in the ballot will each be allocated a retail bond in a principal amount of HK\$10,000.

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 any handling fee) you have paid for the retail bonds which you are not allocated will be refunded in full without interest. See further the paragraph entitled “What happens if I am owed a refund for any application moneys and/or handling fee?” below.

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

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

- your application is wholly or partly unsuccessful;
- this series of retail bonds is over-subscribed and as a result you are not allocated all of the bonds you have applied for;
- at any time on or before the issue date, HKSAR Government imposes a maximum principal application amount per investor for this series of retail bonds in order to prevent an over-concentration of holdings in retail bonds by a single investor and your application is for a principal amount 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 this series of retail bonds.

Your placing bank agrees to transfer the corresponding amount of any such refund to your specified bank account with that placing bank within five business days of the issue date.

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 recognised 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 recognised dealer.

Because legal title to retail bonds is held by the recognised 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 issue circular or the 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 recognised dealer.

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

Discuss this with your recognised dealer and shop around if you wish: banks charge varying fees for their services and have different arrangements for processing applications. Ensure you are familiar with the terms and conditions which your recognised dealer will apply to your account. Ask your recognised dealer 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 recognised dealer.

WHO ARE THE RECOGNISED DEALERS?

A **recognised dealer** is an institution which is appointed by the Monetary Authority as a recognised dealer to hold retail bonds and institutional bonds through the CMU. In respect of this series of retail bonds, recognised dealers are the placing banks listed on page 20 of this issue circular.

WHAT MUST I RELY ON MY RECOGNISED DEALER TO DO FOR ME?

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

Your recognised dealer (i.e., your placing bank) will hold your retail bonds for you (and any other investors who hold retail bonds through that recognised dealer) in a CMU account. HKSAR Government will pay interest on and principal amounts of your retail bonds to your recognised dealer and you will have to rely on your recognised dealer to ensure that payments on your retail bonds are credited to your account with your recognised 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 recognised dealer and you will have to rely on your recognised dealer to ensure that HKSAR Government’s notices reach you in a timely manner. Similarly, you will have to rely on your recognised dealer 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 recognised dealer.

HOW DO I PROVE MY HOLDING OF RETAIL BONDS?

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

Since you hold retail bonds through a recognised 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.

Your recognised 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 recognised dealer's holding of retail bonds in the CMU. This statement will be conclusive evidence of your recognised dealer's holding of retail bonds in the CMU — you will still need to prove your interest in the retail bonds held by your recognised 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 recognised 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 recognised dealer 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 recognised dealer through the CMU. You will have to rely on your recognised dealer to pass these notices to you.

HOW DO I ISSUE NOTICES AND INSTRUCTIONS TO MY RECOGNISED DEALER?

You can issue notices and instructions as specified in the terms and conditions applicable to your account with your placing bank.

TRANSFER RESTRICTIONS AND EARLY REDEMPTION OF RETAIL BONDS

HOW DO I SELL OR TRANSFER MY RETAIL BONDS?

You may only transfer your retail bonds from your securities or investment account with a placing bank to your securities or investment account under the same name(s) with the same placing bank or another placing bank. To effect this transfer, you must give transfer instruction(s) to the relevant placing bank(s) in accordance with the terms and conditions applicable to your account(s) with the relevant placing bank(s). The relevant placing bank(s) may require you to satisfy their internal requirements and charge you fees for this transfer.

Retail bonds will be transferred from one placing bank's CMU account to another's through book entries. Settlement and clearing of transfers are performed through the CMU in accordance with the rules applicable to the CMU.

You cannot transfer your retail bonds to any other person save for the transfer to your successor under the relevant succession law. If you wish to sell your retail bonds before maturity, you may only submit an early redemption request to your placing bank. Please see the paragraph entitled "What are the early redemption arrangements for retail bonds?" below.

WHAT ARE THE EARLY REDEMPTION ARRANGEMENTS FOR RETAIL BONDS?

HKSAR Government has appointed the placing banks listed on page 20 of this issue circular to handle early redemption requests from holders of retail bonds who wish to sell their retail bonds before maturity.

If you wish to sell your retail bonds before maturity, you may submit an early redemption request to your placing bank on any business day between 9:00 a.m. and 5:00 p.m.

Your retail bonds will be redeemed on the third business day following receipt by your placing bank of your early redemption request in relation to your retail bonds (the **Early Redemption Settlement Date**) at an amount equal to their principal amount together with accrued but unpaid interest for the period from (and including) the interest payment date immediately preceding the Early Redemption Settlement Date (or if none, the issue date) up to (but excluding) the Early Redemption Settlement Date and at a fixed rate of 2.00% per annum (calculated on the actual number of days in the relevant period, on the basis of a 365-day year and is rounded to the nearest cent).

You should note that after your retail bonds are redeemed, you have no further rights under the retail bonds. In particular, you will not receive any additional interest even if the interest rate for the relevant interest payment date immediately after the Early Redemption Settlement Date is higher than 2.00% per annum.

THE HONG KONG SPECIAL ADMINISTRATIVE REGION

The section entitled “The Hong Kong Special Administrative Region” in the programme circular shall be deleted and replaced in its entirety with the following:

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 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 about US\$42,300 was amongst the highest in Asia.

The Hong Kong economy grew robustly with the global economic boom from 2004 to 2007. 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 are generated from taxes and investment income. Its credit rating may be affected by local or global economic, political and constitutional conditions from time to time. 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 15 July 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\$101.7 billion (including HK\$71.7 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.

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, and 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)

Note:

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

FREQUENTLY ASKED QUESTIONS

A. GENERAL INFORMATION

WHAT ARE THE RATINGS OF RETAIL BONDS?

This series of retail bonds has not been given a credit rating specific to it. However, as of the date of this issue circular, HKSAR Government has been assigned specific credit ratings by a number of credit rating agencies as set out in the programme circular.

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.

B. INVESTMENT RETURN

WHAT ARE THE KEY BENEFITS OF INVESTING IN RETAIL BONDS?

This series of retail bonds:

- is issued by HKSAR Government, which has a strong, “investment grade”, credit rating;
- may offer higher interest rates than Hong Kong dollar time deposits of similar maturities; and
- offers half-yearly interest payments that are linked to inflation, subject to a pre-specified minimum interest rate, for the entire term of your investment.

WHAT WILL BE MY INVESTMENT RETURN FROM RETAIL BONDS?

HKSAR Government will repay 100% of the principal amount of the retail bonds at maturity.

In addition, HKSAR Government will pay interest on the scheduled interest payment date at the end of every 6 months. The annual interest rate to be used for each interest payment date will be determined on the relevant interest determination date as the higher of:

- the floating rate, being the arithmetic average of the year-on-year rates of change in the Composite Consumer Price Index compiled and published by the Census and Statistics Department of HKSAR Government based on the results of the most recent Household Expenditure Survey at the relevant interest determination date (currently being the 2014/15-based Composite Consumer Price Index) for the 6 most recent preceding months, rounded to the nearest two decimal places; and
- the fixed rate of 2.00%.

If the floating rate is greater than or equal to the fixed rate, the annual interest rate will be set as the floating rate.

If the fixed rate is greater than the floating rate, the annual interest rate will be set as the fixed rate.

Interest rates will be determined and announced on the relevant interest determination dates. The interest rates will be announced on the HKSAR government bond programme website at www.hkgb.gov.hk.

In calculating your return, you should also remember to take into account the fees you will incur in applying for the retail bonds and in setting up and maintaining a securities or investment account with your placing bank to hold the retail bonds and any other costs you may incur.

WHAT IS THE MINIMUM INTEREST RATE PAYABLE ON RETAIL BONDS?

This is 2.00% per annum.

CAN I RE-INVEST INTEREST RECEIVED INTO RETAIL BONDS?

The interest payments received cannot be re-invested into retail bonds.

C. CONSUMER PRICE INDEX

WHICH CONSUMER PRICE INDEX SERIES WILL BE USED IN DETERMINING THE ANNUAL INTEREST RATE ON THE RETAIL BONDS?

The Composite Consumer Price Index compiled and published by the Census and Statistics Department of HKSAR Government (**C&SD**) based on the results of the most recent Household Expenditure Survey (**HES**) at the relevant interest determination date (currently being the 2014/15-based Composite Consumer Price Index) will be used in determining the annual interest rate of this series of retail bonds every 6 months.

HOW IS INFLATION MEASURED UNDER THE CONSUMER PRICE INDEX AND WHAT IS THE COMPOSITE CONSUMER PRICE INDEX?

The Consumer Price Index (**CPI**) is compiled and published by the C&SD. It measures the changes during a specified period in the price level of consumer goods and services generally purchased by households. The year-on-year rate of change in the CPI is widely used as an indicator of the level of inflation affecting consumers over the year in question. Different series of CPIs are compiled to reflect the impact of consumer price changes on households in different expenditure ranges. The CPI(A), CPI(B) and CPI(C) are compiled based on the expenditure patterns of households in the relatively low, medium and relatively high expenditure ranges respectively. The Composite Consumer Price Index is compiled based on the overall expenditure pattern of all the above households taken together to reflect the impact of consumer price changes on the household sector as a whole.

Different expenditure weightings are used to compile the different CPI series. These weightings are determined every 5 years based on the results of a new HES. The period in which a HES is conducted forms the “base” of a CPI series. The most recent HES was conducted in 2014/15, based on which the CPI series are now being compiled and published as the 2014/15-based CPI series. CPI series based on the results of a more recent HES may be available during the term of the retail bonds.

Further information on the different CPI series is available from the C&SD’s official website at www.censtatd.gov.hk.

D. OTHERS

WHO IS RESPONSIBLE FOR THIS ISSUE CIRCULAR?

HKSAR Government accepts responsibility for the information contained in this issue circular and confirms, having made all reasonable enquiries, that this issue 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).

None of Bank of China (Hong Kong) Limited and The Hongkong and Shanghai Banking Corporation Limited (the **joint lead managers**) or the placing banks is responsible in any way to ensure the accuracy of this issue circular.

IS THIS ISSUE CIRCULAR AVAILABLE IN CHINESE?

This issue circular is available in English and Chinese.

APPLICATION CHANNELS

Please contact one of the following placing banks if you wish to find out how to apply for this series of retail bonds. As at the date of this issue circular, the banks listed below have been appointed as placing banks for the retail bonds and the telephone numbers provided are the hotlines of each of the placing banks for enquiries in relation to how to give application instructions for the retail bonds.

You can give instructions to apply for this series of retail bonds through a placing bank at its designated branches, through the placing bank's internet banking service or through its telephone banking service as specified below.

	Enquiry hotline	Applications		
		Branch	Internet banking	Telephone banking
Bank of China (Hong Kong) Limited	3669 3668	✓	✓	✓
Bank of Communications Co., Ltd. Hong Kong Branch	2239 5559	✓	✓	✓
The Bank of East Asia, Limited	2211 1311	✓	✓	
China CITIC Bank International Limited	2287 6788	✓		
China Construction Bank (Asia) Corporation Limited	2903 8343	✓		✓
Chiyu Banking Corporation Limited	2232 3633	✓	✓	✓
Chong Hing Bank Limited	3768 6888	✓		
Citibank (Hong Kong) Limited	2860 0342	✓		✓
Dah Sing Bank, Limited	2828 8001	✓		
DBS Bank (Hong Kong) Limited	2290 8888	✓		✓
Fubon Bank (Hong Kong) Limited	2566 8181	✓		
Hang Seng Bank Limited	2826 8866	✓	✓	✓
The Hongkong and Shanghai Banking Corporation Limited	2269 2121	✓	✓	✓
Hong Leong Bank Berhad, Hong Kong Branch	2283 8818	✓		
Industrial and Commercial Bank of China (Asia) Limited	2189 5588	✓		
Nanyang Commercial Bank, Limited	2622 2633	✓	✓	✓
OCBC Wing Hang Bank Limited	2852 5585	✓		
Public Bank (Hong Kong) Limited	2851 9803	✓		
Shanghai Commercial Bank Limited	2818 0282	✓		
Standard Chartered Bank (Hong Kong) Limited	2886 8868	✓	✓	
Wing Lung Bank Limited	2309 5555	✓	✓	

- **In person:** You may go to any designated branch of a placing bank to give instructions in person to apply for retail bonds. The list of designated branches for each placing bank can be obtained by calling the relevant enquiry hotline above.
- **By internet:** The websites of the placing banks that offer internet banking services through which you can apply for retail bonds are set out below:

Bank of China (Hong Kong) Limited	www.bochk.com
Bank of Communications Co., Ltd. Hong Kong Branch	www.bankcomm.com.hk
The Bank of East Asia, Limited	www.hkbea.com
Chiyu Banking Corporation Limited	www.chiyubank.com
Hang Seng Bank Limited	www.hangseng.com
The Hongkong and Shanghai Banking Corporation Limited	www.hsbc.com.hk/ipo
Nanyang Commercial Bank, Limited	www.ncb.com.hk
Standard Chartered Bank (Hong Kong) Limited	www.sc.com/hk
Wing Lung Bank Limited	www.winglungbank.com

- **By telephone:** The telephone banking numbers for the placing banks that offer telephone banking services through which you can apply for retail bonds are set out below:

	Phone banking number	Service hours
Bank of China (Hong Kong) Limited	Investment Service Hotline: 3988 2688 (Press 3 after selecting language) Wealth Management Hotline: 3988 2888 (Press 4 after selecting language) Enrich Banking Hotline: 3988 2988 (Press 4 after selecting language)	Monday to Friday: 8:00 am to 8:00 pm Saturday: 8:00 am to 3:00 pm
Bank of Communications Co., Ltd. Hong Kong Branch	2269 9033	Monday to Friday: 9:00 am to 6:00 pm Saturday: 9:00 am to 1:00 pm
China Construction Bank (Asia) Corporation Limited	2903 8343	Monday to Friday: 9:00 am to 6:00 pm
Chiyu Banking Corporation Limited	Cantonese: 2232 3882 English: 2232 3887 Putonghua: 2232 3883 Wealth Management/Enrich Banking Hotline: 2232 3638 (Press 4, then 2 after selecting language)	Monday to Friday: 8:00 am to 8:00 pm Saturday: 8:00 am to 3:00 pm
Citibank (Hong Kong) Limited	2860 0342	Monday to Friday: 9:00 am to 7:00 pm Saturday: 9:00 am to 1:00 pm
DBS Bank (Hong Kong) Limited	2290 8888 (Press 3 then * after selecting language)	Monday to Friday: 9:00 am to 6:00 pm Saturday: 9:00 am to 1:00 pm

	Phone banking number	Service hours
Hang Seng Bank Limited	2826 8866	Monday to Friday: 8:45 am to 5:40 pm Saturday: 9:00 am to 1:00 pm
The Hongkong and Shanghai Banking Corporation Limited	2269 2121	Monday to Friday: 8:00 am to 7:00 pm Saturday: 8:00 am to 1:00 pm
Nanyang Commercial Bank, Limited	Cantonese: 2850 1228 English: 2850 1227 Putonghua: 2850 1229 NCB Wealth Management/Enrich Banking: 2616 6166 (Press 4, then 3 after selecting language)	Monday to Friday: 8:00 am to 8:00 pm Saturday: 8:00 am to 3:00 pm

By making an application through the internet banking channel or telephone banking channel, you are required to comply with the terms and conditions in respect of the internet banking facilities or, as the case may be, telephone banking facilities provided by such placing bank.

PERSONAL INFORMATION COLLECTION STATEMENT

for Applications for the Silver Bond Series of Retail Bonds (Silver Bonds) issued under the Government Bond Programme

This Personal Information Collection Statement is made in accordance with the Personal Data (Privacy) Ordinance, Cap. 486 (the **PDPO**). It sets out the purposes for which your personal data¹ provided by you as an applicant for Silver Bonds may be used after collection as well as what you are agreeing to in respect of the use, disclosure, transfer and retention of your personal data by the Government of the Hong Kong Special Administrative Region of the People's Republic of China (**HKSAR Government**) as the issuer of Silver Bonds and your rights under the PDPO.

Purposes of Collection of Personal Data

It is necessary for you as an applicant for Silver Bonds, when applying for Silver Bonds, to provide your personal data to HKSAR Government and any agents or parties duly authorised by it in connection with the Silver Bond issuance.

Failure to provide your personal data may result in your application for Silver Bonds being rejected, delay or an inability to process your application. It may also result in delay to the allocation of Silver Bonds to you if your application is successful or to any refund being made to you if you are owed a partial or full refund of your application moneys.

It is important that you inform the person or party to whom you provided your personal data immediately upon becoming aware of any inaccuracy in or change to your personal data so provided.

Your personal data provided in your application for Silver Bonds will be used for one or more of the following purposes:

- (a) processing your application;
- (b) verifying the validity of your application;
- (c) enabling compliance with the terms and application procedures set out in the relevant application form and this issue circular;
- (d) conducting identity and signature verifications;
- (e) enabling exchange of information directly or indirectly between HKSAR Government as the issuer of Silver Bonds and you;
- (f) statistical purposes;
- (g) enabling compliance with all applicable laws, rules and regulations, codes and practices binding on or applicable to HKSAR Government or any agents or parties duly authorised by it, or an order of a court of any competent jurisdiction (including making required disclosures);
- (h) any other incidental or associated purposes relating to any of the above purposes; and
- (i) for any other purposes in connection with the Silver Bonds issuance as permitted by law.

¹ The term **personal data** means personal data as defined in the PDPO.

Transfer of Personal Data

Your personal data will be kept confidential but may, for any of the above purposes, be disclosed or transferred to any of the following parties (whether within or outside Hong Kong):

- (a) Hong Kong Monetary Authority, recognised dealers and placing banks (as defined in this issue circular);
- (b) any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment, data processing, matching, storage, research, statistical or other services to HKSAR Government for the purposes mentioned above, or to any of the parties mentioned in (a) above in connection with the operation of such party's activity or business for purposes relating to Silver Bonds;
- (c) any government or regulatory bodies;
- (d) any legal adviser, accountant, other financial or professional adviser to HKSAR Government; and
- (e) any other persons with whom, or institutions with which, you as a holder of Silver Bonds have or propose to have dealings for purposes relating to your Silver Bonds, including but without limitation your bankers, legal advisers or accountants.

Access to and Correction of Personal Data

Under the PDPO, you have:

- (a) the right to check whether HKSAR Government and/or any of the agents or parties duly authorised by it in connection with the Silver Bond issuance holds personal data about you and the right of access to such personal data;
- (b) the right to require HKSAR Government and/or any of the agents or parties duly authorised by it in connection with the Silver Bond issuance to correct any personal data relating to you which is inaccurate; and
- (c) the right, as far as practicable, to ascertain the policies and practices of HKSAR Government and/or any of the agents or parties duly authorised by it in connection with the Silver Bond issuance in relation to personal data for purposes relating to Silver Bonds.

In accordance with the PDPO, HKSAR Government and/or any of the agents or parties duly authorised by it in connection with the Silver Bond issuance have the right to charge a reasonable fee for processing of any data access request. All requests for access to or correction of personal data held by HKSAR Government and/or any of the agents or parties duly authorised by it in connection with the Silver Bond issuance, or for information regarding the policies and practices of such parties in relation to the personal data for purposes relating to Silver Bonds should be addressed to:

Hong Kong Monetary Authority

Attention: The Data Protection Officer

Address: 55/F, Two International Finance Centre

8 Finance Street, Central, Hong Kong

Fax Number: 2878 8262

Email: hkgbenquiry@hkma.gov.hk

PARTIES INVOLVED IN THE ISSUE OF THE RETAIL BONDS

ISSUER

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

ISSUER'S REPRESENTATIVE AND ISSUING AND PAYING REPRESENTATIVE

Monetary Authority

55th Floor Two International Finance Centre
8 Finance Street
Central
Hong Kong

JOINT LEAD MANAGERS

Bank of China (Hong Kong) Limited

8/F Bank of China Tower
1 Garden Road
Central
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited

Level 17
HSBC Main Building
1 Queen's Road Central
Hong Kong

COUNSEL TO THE ISSUER AND ISSUER'S REPRESENTATIVE

Deacons

5th Floor, Alexandra House
18 Chater Road
Central
Hong Kong

COUNSEL TO THE JOINT LEAD MANAGERS

Clifford Chance

27th Floor Jardine House
One Connaught Place
Central
Hong Kong