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THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”)

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Confirmation of Your Representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, investors must be outside the United States within the meaning of Regulation S under the Securities Act and, to the extent you purchase securities described in the attached Offering Circular, you will be doing so pursuant to Regulation S under the Securities Act. By accepting the e-mail and accessing this Offering Circular, you shall be deemed to have represented to The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank, CIMB Investment Bank Berhad and National Bank of Abu Dhabi PJSC (each in its capacity as joint lead manager) (together, the “**Joint Lead Managers**”) and [●] (each in its capacity as co-manager) (together, the “**Co-managers**”) that (1) you and any customers you represent are outside the United States and that the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States and (2) that you consent to delivery of this Offering Circular by electronic transmission.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located. If this is not the case, you must return this Offering Circular to us immediately. You may not, nor are you authorised to, deliver or disclose (whether orally or in writing), in whole or in part, the contents of this Offering Circular to any other person.

The materials relating to this offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that this offering be made by a licensed broker or dealer and the Joint Lead Managers, the Co-managers or any affiliate of the Joint Lead Managers or Co-managers is a licensed broker or dealer in that jurisdiction, this offering shall be deemed to be made by such Joint Lead Managers, the Co-managers or their respective affiliates in such jurisdiction.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Hong Kong Sukuk 2017 Limited, the Government of the Hong Kong Special Administrative Region of the People’s Republic of China, the Financial Secretary Incorporated, the Joint Lead Managers, the Co-managers or any affiliate, representative, director, officer, official, employee or agent of the foregoing accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular received by you in electronic format and the electronic version initially distributed or the hard copy available to you on request to the Joint Lead Managers or Co-managers.

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

SUBJECT TO COMPLETION

STRICTLY CONFIDENTIAL

PRELIMINARY OFFERING CIRCULAR DATED 7 FEBRUARY 2017



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

Hong Kong Sukuk 2017 Limited
(established in Hong Kong with limited liability)

U.S.\$[●] Trust Certificates due [●]

Issue Price: 100 PER CENT.

The U.S.\$[●] trust certificates due [●] (the "Certificates") of Hong Kong Sukuk 2017 Limited (in its capacity as issuer, the "Issuer") will be constituted by a declaration of trust (the "Declaration of Trust") dated on or about [●] 2017 (the "Closing Date") among the Issuer, the Government of the Hong Kong Special Administrative Region of the People's Republic of China (the "HKSAR Government") or in its capacity as obligor, the "Obligor" and DB Trustees (Hong Kong) Limited (the "Delegate"). Pursuant to the Declaration of Trust, the Issuer (in its capacity as the trustee for and on behalf of the Certificateholders (as defined herein), the "Trustee") will declare that it will hold the Trust Assets (as defined herein) upon trust absolutely for the holders of the Certificates *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificates (the "Conditions").

On [●] and [●] in each year, commencing on [●] 2017 (each, a "Periodic Distribution Date"), the Issuer will pay Periodic Distribution Amounts (as defined herein) to Certificateholders calculated at the rate of [●] per cent. per annum on the outstanding face amount of the Certificates as at the beginning of the relevant Return Accumulation Period (as defined herein) on a 30/360 day basis.

The Issuer will pay such Periodic Distribution Amounts solely from the proceeds received in respect of the Trust Assets. Unless previously redeemed in the circumstances described in Condition 9, the Certificates will be redeemed on [●] (the "Scheduled Dissolution Date") at the Dissolution Distribution Amount (as defined herein). The Issuer will pay Dissolution Distribution Amounts solely from the proceeds received in respect of the Trust Assets which include payments by the HKSAR Government under the Murabahah Agreement, the Purchase Undertaking and the Wakalah Agreement (each as defined herein).

The Certificates are limited recourse obligations of the Issuer. An investment in the Certificates involves certain risks. For a discussion of these risks, see "Investment Considerations" beginning on page 19.

The Certificates are expected to be assigned a rating of "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's" or "S&P") and AA+ by Fitch (Hong Kong) Limited ("Fitch Hong Kong"). A rating is not a recommendation to buy, sell or hold the Certificates (or beneficial interests therein), does not address the likelihood or timing of payment and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Application will be made to The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for the listing of the Certificates by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "Professional Investors") only. This document is for distribution to Professional Investors only. **Investors should not purchase the Certificates in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Certificates are only suitable for Professional Investors.**

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

Application will be made to Bursa Malaysia Securities Berhad ("Bursa Malaysia") (under an exempt regime pursuant to which the Certificates will be listed but not quoted for trading) for the listing of the Certificates. Bursa Malaysia does not take any responsibility for the contents of this document, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon any part of the contents of this document. Admission of the Certificates to the Official List of Bursa Malaysia (under an exempt regime) is not to be taken as an indication of a recommendation for the subscription or purchase of the Certificates or the merits of the Issuer, the HKSAR Government or the Certificates. There can be no assurance that any such listings will occur on or prior to the Closing Date or at all.

The Trustee and the HKSAR Government are Exempt Offerors as defined under Article 13(2) of the Markets Law 2012 of the Dubai Financial Services Authority (the "DFSA"). Application has been made to the DFSA for the Certificates to be admitted to the official list of securities ("DFSA's Official List") maintained by the DFSA and to NASDAQ Dubai for such Certificates to be admitted to trading on NASDAQ Dubai without a prospectus, as such term is defined under the DFSA's Markets Law 2012. The DFSA has no responsibility, under the DFSA's Markets Law 2012 or otherwise, for reviewing or verifying any documents in connection with the Certificates and has not approved this Offering Circular for the purposes of Articles 14 and 15 of the Markets Law 2012 nor taken steps to verify the information set out in and has no responsibility for this Offering Circular.

The Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or with any securities regulatory authority of any state of the United States and may not be offered or sold within the United States except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Certificates will be offered and sold outside the United States in reliance on Regulation S ("Regulation S") under the Securities Act (the "Certificates"). Each purchaser of the Certificates in making its purchase will be deemed to have made certain acknowledgements, representations and agreements. The Certificates are subject to other restrictions on resale, see "Subscription and Sale".

The Certificates will be represented by a Global Certificate in fully registered form which will be registered in the name of a nominee of, and deposited, with, a common depository on behalf of Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream, Luxembourg"). The Certificates may only be offered in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. Any sale of such Certificates may only be made in such denominations.

Beneficial interests in the Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Except as described herein, definitive Certificates will not be issued in exchange for beneficial interests in the Global Certificate.

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners

HSBC

Standard Chartered Bank

Joint Lead Managers and Joint Bookrunners

CIMB

National Bank of Abu Dhabi

Co-managers

[●]

The date of this Offering Circular is [●] 2017.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. Each of the Issuer, the Financial Secretary Incorporated (the “FSI”) and the HKSAR Government accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, each having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

No person is authorised in connection with the offering of the Certificates to give any information or to make any representation other than as contained in this Offering Circular, and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the FSI, the HKSAR Government, the Joint Global Coordinators, the Joint Lead Managers, the Co-managers, the Trustee, the Delegate, the Agents (each as defined herein) or any other person. Neither the delivery of this Offering Circular nor any sale of any Certificates shall, under any circumstances, constitute a representation or create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that there has been no change in the affairs of any party mentioned herein since that date.

To the fullest extent permitted by law, none of the Joint Global Coordinators, the Joint Lead Managers, the Co-managers, the Delegate or the Agents accepts any responsibility for the contents of this Offering Circular or for any statements made or purported to be made by the Joint Global Coordinators, the Joint Lead Managers, the Co-managers, the Delegate or the Agents or on its behalf in connection with the Issuer, the FSI or the HKSAR Government or the offering of the Certificates. The Joint Global Coordinators, the Joint Lead Managers, the Co-managers, the Delegate and the Agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which any of them might otherwise have in respect of this Offering Circular or any such statement.

Neither this Offering Circular nor any other information supplied in connection with the Certificates is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by the Issuer, the FSI, the HKSAR Government, the Joint Global Coordinators, the Joint Lead Managers, the Co-managers, the Trustee, the Delegate or the Agents that any recipient of this Offering Circular should purchase any of the Certificates. Each investor contemplating purchasing any Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the HKSAR Government. None of the Joint Global Coordinators, the Joint Lead Managers, the Co-managers, the Delegate or the Agents undertakes to review the Issuer’s, the FSI’s or the HKSAR Government’s financial condition or affairs during the life of the arrangements contemplated by this Offering Circular or to advise any investor or potential investor in the Certificates of any information relating to the Issuer, the FSI or the HKSAR Government coming to its attention.

No comment is made or advice given by the Issuer, the FSI, the HKSAR Government, the Joint Global Coordinators, the Joint Lead Managers, the Co-managers, the Trustee, the Delegate or the Agents in respect of taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under any applicable law.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS TAX ADVISER, LEGAL ADVISER, BUSINESS ADVISER AND SHARI’A ADVISER AS TO TAX, LEGAL, BUSINESS, SHARI’A AND RELATED MATTERS CONCERNING THE PURCHASE OF THE CERTIFICATES.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of the Certificates may be restricted by law in certain jurisdictions. None of the Issuer, the FSI, the HKSAR Government, the Joint Global Coordinators, the Joint Lead Managers, the Co-managers, the Trustee, the Delegate

or the Agents represents that this Offering Circular may be lawfully distributed, or that any Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the FSI, the HKSAR Government, the Joint Global Coordinators, the Joint Lead Managers, the Co-managers, the Trustee, the Delegate or the Agents which is intended to permit a public offering of any Certificates or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement nor other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of the Certificates. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Certificates in the United States, the United Kingdom, Hong Kong, Singapore, Japan, Korea, the United Arab Emirates (excluding the Dubai International Financial Centre), Dubai International Financial Centre, the Kingdom of Saudi Arabia, the State of Qatar, the Kingdom of Bahrain, Kuwait, Brunei and Malaysia. See “*Subscription and Sale*”.

The Executive Shariah Committee of HSBC Saudi Arabia Limited, Standard Chartered Bank Sharia Supervisory Committee, CIMB Islamic Bank Berhad and the Shariah Committee of National Bank of Abu Dhabi PJSC have approved that the Certificates are Shari’a compliant. However, there can be no assurance that the transaction structure or the issue and trading of the Certificates will be deemed to be Shari’a compliant by any other Shari’a board or Shari’a scholar. None of the Issuer, the FSI, the HKSAR Government, the Joint Global Coordinators, the Joint Lead Managers, the Co-managers, the Delegate or the Agents makes any representation as to the Shari’a compliance of the Certificates and potential investors are reminded that, as with any Shari’a views, differences in opinion are possible. Potential investors should obtain their own independent Shari’a advice as to the compliance of the structure and the issue and trading of the Certificates with Shari’a principles.

THE CERTIFICATES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF CERTIFICATES OR THE ACCURACY OR THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

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

The Certificates are being offered and sold outside the United States in reliance on Regulation S. For description of certain restrictions on offers and sales of Certificates and distribution of this Offering Circular, see “*Subscription and Sale*”.

IN CONNECTION WITH THE ISSUE OF CERTIFICATES, THE JOINT LEAD MANAGER(S) NAMED AS STABILISING MANAGER(S) (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER(S)) MAY EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE CAN BE NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER(S)) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE ISSUE DATE AND, IF BEGUN, MAY BE ENDED AT ANY TIME,

BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE CERTIFICATES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE CERTIFICATES. ANY STABILISATION SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND REGULATIONS.

NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

THIS OFFERING CIRCULAR MAY NOT BE DISTRIBUTED IN THE KINGDOM OF SAUDI ARABIA EXCEPT TO SUCH PERSONS AS ARE PERMITTED UNDER THE OFFERS OF SECURITIES REGULATIONS ISSUED BY THE CAPITAL MARKET AUTHORITY.

THE CAPITAL MARKET AUTHORITY DOES NOT MAKE ANY REPRESENTATION AS TO THE ACCURACY OR COMPLETENESS OF THIS OFFERING CIRCULAR, AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS ARISING FROM, OR INCURRED IN RELIANCE UPON, ANY PART OF THIS OFFERING CIRCULAR. PROSPECTIVE PURCHASERS OF THE SECURITIES OFFERED HEREBY SHOULD CONDUCT THEIR OWN DUE DILIGENCE ON THE ACCURACY OF THE INFORMATION RELATING TO THE SECURITIES. IF A PROSPECTIVE PURCHASER DOES NOT UNDERSTAND THE CONTENTS OF THIS OFFERING CIRCULAR HE OR SHE SHOULD CONSULT AN AUTHORISED FINANCIAL ADVISER.

NOTICE TO RESIDENTS OF THE STATE OF QATAR

THE CERTIFICATES HAVE NOT BEEN AND WILL NOT BE OFFERED, SOLD OR DELIVERED AT ANY TIME, DIRECTLY OR INDIRECTLY, IN THE STATE OF QATAR (“QATAR”) IN A MANNER THAT WOULD CONSTITUTE A PUBLIC OFFERING. THIS OFFERING CIRCULAR HAS NOT BEEN REVIEWED OR APPROVED BY OR REGISTERED WITH THE QATAR CENTRAL BANK, THE QATAR EXCHANGE OR THE QATAR FINANCIAL MARKETS AUTHORITY. THIS OFFERING CIRCULAR IS STRICTLY PRIVATE AND CONFIDENTIAL, AND MAY NOT BE REPRODUCED OR USED FOR ANY OTHER PURPOSE, NOR PROVIDED TO ANY PERSON OTHER THAN THE RECIPIENT THEREOF.

NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

THIS OFFER IS A PRIVATE PLACEMENT. IT IS NOT SUBJECT TO THE REGULATIONS OF THE CENTRAL BANK OF BAHRAIN THAT APPLY TO PUBLIC OFFERINGS OF SECURITIES AND THE EXTENSIVE DISCLOSURE REQUIREMENTS AND OTHER PROTECTIONS THAT THESE REGULATIONS CONTAIN. THIS OFFERING CIRCULAR IS THEREFORE INTENDED ONLY FOR “ACCREDITED INVESTORS” AS DEFINED BY THE CENTRAL BANK OF BAHRAIN.

THE FINANCIAL INSTRUMENTS OFFERED PURSUANT TO THIS OFFERING CIRCULAR MAY ONLY BE OFFERED IN MINIMUM SUBSCRIPTIONS OF U.S.\$200,000 (OR ITS EQUIVALENT IN FOREIGN CURRENCIES).

THE CENTRAL BANK OF BAHRAIN ASSUMES NO RESPONSIBILITY FOR THE ACCURACY AND COMPLETENESS OF THE STATEMENTS AND INFORMATION CONTAINED IN THIS OFFERING CIRCULAR AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER ARISING FROM RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS OFFERING CIRCULAR.

THE BOARD OF DIRECTORS AND THE MANAGEMENT OF THE OFFEROR ACCEPTS RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR. TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE BOARD OF DIRECTORS AND THE

MANAGEMENT, WHO HAVE TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE, THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE RELIABILITY OF SUCH INFORMATION.

THIS OFFERING CIRCULAR CONTAINS INFORMATION WHICH SHOULD BE READ CAREFULLY BEFORE ANY DECISION IS MADE WITH RESPECT TO THE PROPOSALS CONTAINED THEREIN AND THE INVESTORS ARE RECOMMENDED TO TAKE THEIR OWN FINANCIAL ADVICE IN RESPECT OF ANY OF THE TERMS AND CONDITIONS OF THIS OFFERING CIRCULAR.

NOTICE TO RESIDENTS OF MALAYSIA

THE CERTIFICATES MAY NOT BE OFFERED FOR SUBSCRIPTION OR PURCHASE AND NO INVITATION TO SUBSCRIBE FOR OR PURCHASE THE CERTIFICATES IN MALAYSIA MAY BE MADE, DIRECTLY OR INDIRECTLY, AND THIS OFFERING CIRCULAR OR ANY DOCUMENT OR OTHER MATERIALS IN CONNECTION THEREWITH MAY NOT BE DISTRIBUTED IN MALAYSIA OTHER THAN TO PERSONS FALLING WITHIN ANY ONE OF THE CATEGORIES OF PERSONS SPECIFIED UNDER PART 1 OF SCHEDULE 6 OR SECTION 229(1)(B), PART 1 OF SCHEDULE 7 OR SECTION 230(1)(B) AND SCHEDULE 8 OR SECTION 257(3), READ TOGETHER WITH SCHEDULE 9 OR SECTION 257(3) OF THE CAPITAL MARKET AND SERVICES ACT 2007 OF MALAYSIA. THE SECURITIES COMMISSION MALAYSIA SHALL NOT BE LIABLE FOR ANY NON-DISCLOSURE ON THE PART OF THE ISSUER OR THE HKSAR GOVERNMENT AND ASSUMES NO RESPONSIBILITY FOR THE CORRECTNESS OF ANY STATEMENTS MADE OR OPINIONS OR REPORTS EXPRESSED IN THIS OFFERING CIRCULAR.

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FORWARD-LOOKING STATEMENTS

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

ENFORCEMENT

In the Declaration of Trust, the Certificates and the other Transaction Documents (as defined herein), the courts of the Hong Kong Special Administrative Region of the People's Republic of China (the "HKSAR") are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Transaction Documents and any disputes relating to any non-contractual obligations arising out of or in connection with the Transaction Documents.

Section 3 of the Crown Proceedings Ordinance (Cap. 300, Laws of Hong Kong) ("CPO") enables civil proceedings (as defined in the CPO) to be commenced against the HKSAR Government in the courts of the HKSAR. However, there are certain restrictions as to the rights and remedies available against the HKSAR Government. The HKSAR courts have no power to grant an injunction or to order specific performance, but may instead make an order declaratory of the rights of the parties. Section 21 of the CPO provides that if an order is made against the HKSAR Government, the proper officer of the HKSAR courts will, upon application, issue to the successful plaintiff a certificate containing particulars of the order. If the order provides for payment of money, the certificate will state the amount payable and the Director of Accounting Services shall pay the sum shown to be due, subject to appeal. No process of execution or attachment can be carried out to enforce satisfaction against the HKSAR Government of any judgment.

CERTAIN DEFINED TERMS AND CONVENTIONS

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

References to the "**HKSAR Government**" herein are to the government of the HKSAR.

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

References to "**HK\$**" and "**Hong Kong dollars**" are to the lawful currency of Hong Kong and all references to "**U.S. dollars**" and "**U.S.\$**" are to the lawful currency of the United States. Since 1983, the Hong Kong dollar has been linked to the U.S. dollar at HK\$7.80 = U.S.\$1.00.

References to the "**Monetary Authority**" herein are to the Monetary Authority appointed pursuant to section 5A(1) of the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong).

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

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

PRESENTATION OF CERTAIN INFORMATION

Financial data and statistical information provided in this Offering Circular may be subsequently revised in accordance with the ongoing review by the HKSAR Government of its economic data and statistical information, and the HKSAR Government is not obligated to distribute revised data or statistical information to any investor. Financial statements prepared on a cash basis for the fiscal year ending 31 March 2016, and all prior periods, have been audited by the Director of Audit. Financial statements prepared on an accrual basis are not subject to audit. Unless otherwise indicated, financial data derived from the HKSAR Government's accounts are derived from the accounts prepared on a cash basis and all statistical information prepared by or on behalf of the HKSAR Government contained in this Offering Circular excludes information with respect to the Mainland, Macao Special Administrative Region and Taiwan.

Financial data and statistical information for calendar year 2016, including periods therein, and the fiscal year 2016-17 may, in particular, be subject to revision as financial statements relating to those periods and any subsequent period have not yet been audited. In addition, some financial data and statistical information for calendar year 2016, and all financial data and statistical information for fiscal year 2016-17 contained herein are provisional data or estimates based on the latest available data. These data are subject to revision.

Unless otherwise indicated, estimates contained in this Offering Circular are estimates of the HKSAR Government. Unless otherwise indicated, references to a year refer to the relevant calendar year ended 31 December and references to "**fiscal year**" or to parts of two calendar years (for example, 2014-15) refer to the fiscal year of the HKSAR Government, which spans the period from 1 April to the following 31 March. Unless otherwise indicated, references to "**quarters**" refer to quarters of the calendar year (for example, "**Q3**" means the months of July, August and September).

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

SUMMARY

This summary must be read as an introduction to this Offering Circular and any decision to invest in the Certificates should be based on a consideration of this Offering Circular as a whole, including any documents incorporated by reference.

Overview of the Hong Kong Special Administrative Region

Hong Kong is one of the world's leading trade and financial centres and a gateway to the Mainland of the PRC. On 1 July 1997 Hong Kong became a Special Administrative Region of the PRC. It enjoys a high degree of autonomy and is vested with executive, legislative and independent judicial power including that of final adjudication.

The HKSAR Government maintains one of the world's most open economies and a business-friendly environment characterised by a relatively high degree of free trade and free flow of information, an established financial regulatory regime and legal system and a developed transportation and telecommunications infrastructure. In 2015, Hong Kong was ranked the eighth largest trading economy in the world by the World Trade Organization based on the value of total merchandise trade, and was 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 real GDP) has almost doubled in size. In 2015, Hong Kong's real GDP grew by 2.4 per cent. Meanwhile, Hong Kong's nominal GDP (i.e. at current market prices) reached HK\$2,397.1 billion and its per capita nominal GDP of HK\$328,117 (U.S.\$42,327)⁽¹⁾ was amongst the highest in Asia.

As at 31 December 2015, the stock market in Hong Kong was the fourth largest in Asia (after Tokyo, Shanghai and Shenzhen) by market capitalisation. As at 31 December 2015, there were 1,866 companies listed on The Stock Exchange of Hong Kong Limited (the "SEHK"), including the Main Board of the SEHK ("Main Board") and the Growth Enterprise Market of the SEHK ("GEM"), with a total market capitalisation of approximately HK\$24.68 trillion. With strong market access and financing flexibility underpinned by deep local capital markets, Hong Kong has also developed into an international financial centre.

As of the date of this Offering Circular, the HKSAR Government has been assigned long-term local currency credit ratings of "AAA" by Standard & Poor's, "Aa1" by Moody's and "AA+" by Fitch Ratings Inc. ("Fitch"). For a more detailed discussion of Hong Kong, see "*The Hong Kong Special Administrative Region of the People's Republic of China*".

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

Selected 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
Real GDP growth (%)	4.8	1.7	3.1	2.7	2.4

Note:

1. The Hong Kong dollar amount has been translated to U.S. dollar amount based on an exchange rate of HK\$7.752 = U.S.\$1.00.

Source: Census and Statistics Department.

GDP by Economic Sector⁽¹⁾

	For the year ended 31 December				
	2011	2012	2013	2014	2015
	(percentage of total GDP)				
Agriculture, fishing, mining and quarrying	0.0*	0.1	0.1	0.1	0.1
Manufacturing	1.6	1.5	1.4	1.3	1.2
Electricity, gas and water supply, and waste management	1.8	1.8	1.7	1.6	1.5
Construction	3.4	3.6	4.0	4.4	4.7
Services	93.1	93.0	92.9	92.7	92.6
Gross Domestic Product at basic prices	100	100	100	100	100

Notes:

1. * refers to a percentage contribution of less than 0.05 per cent.

Source: Census and Statistics Department.

GDP by Constituent Service Sector

	For the year ended 31 December				
	2011	2012	2013	2014	2015
	(percentage of total GDP)				
Import/export, wholesale and retail trades	25.9	25.4	25.0	24.1	22.7
Accommodation and food services ⁽¹⁾	3.5	3.6	3.6	3.6	3.4
Transportation, storage, postal and courier services	6.3	6.0	6.0	6.2	6.5
Information and communications	3.3	3.5	3.6	3.5	3.5
Financing and insurance	16.1	15.9	16.5	16.7	17.6
Real estate, professional and business services	11.3	11.5	10.8	10.9	10.9
Public administration, social and personal services	16.5	16.8	17.0	17.2	17.5
Ownership of premises	10.3	10.3	10.4	10.5	10.6
Services	93.1	93.0	92.9	92.7	92.6

Note:

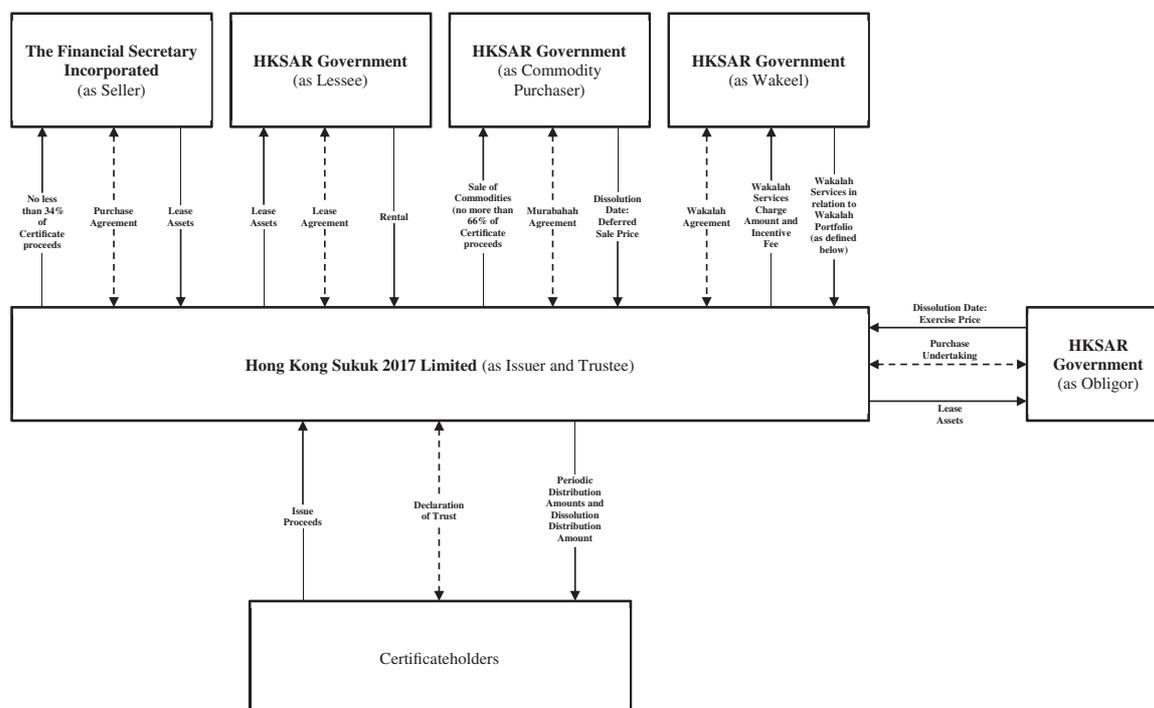
1. Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

Source: Census and Statistics Department.

STRUCTURE DIAGRAM AND CASH FLOWS

Set out below is a simplified structure diagram and description of the principal cash flows underlying the transaction. Potential investors are referred to the terms and conditions of the Certificates and the detailed descriptions of the relevant Transaction Documents set out elsewhere in this Offering Circular for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below.

Structure Diagram



Principal cash flows

Payments by the Certificateholders and the Issuer

On the Closing Date, the Certificateholders will pay the issue price in respect of the Certificates to the Issuer, which will hold such proceeds of the issue of the Certificates as Trustee and will:

- (a) apply no less than 34 per cent. of such amount as payment to the FSI as the purchase price payable under the Purchase Agreement (as defined herein) for the Lease Assets (as described below); and
- (b) apply the remaining of not more than 66 per cent. of such amount to enter into a commodity murabahah arrangement with the HKSAR Government. Pursuant to the commodity murabahah arrangement, the Trustee will instruct the Commodity Agent to acquire commodities (the “**Commodities**”) on behalf of the Trustee (through the Commodity Agent) for an amount equal to up to 66 per cent. of such amount, which commodities the Trustee will subsequently sell to the HKSAR Government for a Deferred Sale Price to be paid on a Dissolution Date or otherwise in accordance with the Murabahah Agreement.

The Commodities (and to the extent the Wakeel (as defined herein) sells the Commodities to the HKSAR Government on behalf of the Trustee, the Deferred Sale Price) and the Lease Assets constitute the “**Wakalah Portfolio**” to be managed by the Wakeel on behalf of the Trustee pursuant to the terms of the Wakalah Agreement (as defined herein).

The Lease Assets to be purchased by the Trustee on the Closing Date will consist of certain floors and units in [Cheung Kong Center, Lippo Centre Tower Two, United Centre, Oi Kwan Court, Fortress Tower, Nan Fung Commercial Centre, New Jade Gardens and Tuen Mun Government Storage Centre] that are currently owned by the FSI and used by various government departments as offices. Under the Substitution and Transfer Undertaking (as defined herein), the HKSAR Government may, *inter alia*, substitute or replace the Lease Assets with assets the identity of which may be determined by the HKSAR Government in its sole and absolute discretion provided such assets comprise land, buildings, leasehold interests and/or building rights used for Shari'a compliant purposes.

Periodic Distribution Payments

The Trustee will, with effect from the Closing Date, lease the Lease Assets to the HKSAR Government (in its capacity as Lessee). On each Periodic Distribution Date, the Lessee will pay to the Trustee an amount reflecting the Rental due in respect of the Lease Assets and any other amounts payable in respect of the Wakalah Portfolio which is intended to be sufficient to fund the Periodic Distribution Amounts payable by the Issuer under the Certificates and shall be applied by the Trustee for that purpose.

Dissolution Payment by the Obligor

On the Scheduled Dissolution Date, the Trustee and the Delegate will have the right to require the HKSAR Government (in its capacity as Obligor) pursuant to the unconditional and irrevocable undertaking of the Obligor under the Purchase Undertaking to purchase or procure the purchase of the Lease Assets from the Trustee for an amount equal to the exercise price (being the aggregate face amount of the Certificates then outstanding plus all accrued but unpaid Periodic Distribution Amounts (if any) relating to the Certificates plus any Wakalah Services Charge Amount in respect of which a supplementary rental payment has not been made in accordance with the Lease Agreement less an amount equal to the outstanding Deferred Sale Price due under the Murabahah Agreement) which is payable by the Obligor to the Trustee and, together with any outstanding Deferred Sale Price payable by the HKSAR Government to the Trustee, is intended to fund the Dissolution Distribution Amount payable by the Issuer under the Certificates, with any remaining monies thereafter being paid to the Wakeel as an incentive fee.

The Trust may be dissolved prior to the Scheduled Dissolution Date for the following reasons: (i) redemption following a Dissolution Event (as defined herein) or (ii) upon the occurrence of a Total Loss Event (as defined herein) (save where the Lease Assets are replaced as provided in the Wakalah Agreement after the occurrence of the Total Loss Event, see "*Summary of the Offering — Summary of the Certificates — Total Loss Event*") in accordance with Condition 9.3.

In the case of (i), the amounts payable by the Issuer on the due date for dissolution will be funded by the Obligor purchasing or procuring the purchase of the Lease Assets and paying the exercise price to the Trustee pursuant to the terms of the Purchase Undertaking. In the case of (ii), the amounts payable by the Issuer on the due date for dissolution will be funded using any proceeds of takaful/insurance payable in respect of the Total Loss Event which (save where the HKSAR Government replaces the Lease Assets as referred to above) are required to be paid into the Transaction Account (as defined herein) by no later than the 30th day after the occurrence of the Total Loss Event.

Should there be any shortfall in the takaful/insurance proceeds paid into the Transaction Account for funding the amounts payable by the Issuer on the due date for dissolution in the case of (ii) above, the Wakeel (unless it is able to prove beyond any doubt that any shortfall in the proceeds of any takaful/insurances is not attributable to its negligence or its failing to comply with the terms of the Wakalah Agreement relating to the takaful/insurances) will acknowledge that it shall have failed in its responsibilities in respect of the proper insurance of the Lease Assets and will irrevocably and unconditionally undertake to pay an amount equal to such shortfall into the Transaction Account by no later than close of business on the 31st day after the Total Loss Event has occurred.

The remainder of the amounts payable by the Trustee on the due date for dissolution shall be funded by the HKSAR Government paying to the Trustee the outstanding Deferred Sale Price in respect of the Commodities purchased pursuant to the Murabahah Agreement.

Wakeel

The Wakeel will manage the Wakalah Portfolio in accordance with the terms of the Wakalah Agreement. Under the Wakalah Agreement, the Lessor will delegate the responsibility to perform, or procure the performance of, the management of the Lease Assets, the collection of Rental (as defined in the Lease Agreement), all major maintenance and structural repair and the payment of Proprietorship Taxes and Levies (as defined in the Wakalah Agreement) (if any) and the responsibility for ensuring that the Lease Assets are insured against a Total Loss Event, as well as entering into the Murabahah Contract on behalf of the Trustee and ensuring the timely receipt of the outstanding Deferred Sale Price due under the Murabahah Contract, to the Wakeel. See “*Summary of the Offering — Parties — Wakeel*”.

SUMMARY OF THE OFFERING

The following overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Offering Circular. This overview may not contain all of the information that prospective investors should consider before deciding to invest in the Certificates. Accordingly, any decision by a prospective investor to invest in the Certificates should be based on a consideration of this Offering Circular as a whole.

*Words and expressions defined in the “Terms and Conditions of the Certificates” shall have the same meanings in this overview. Reference to a “Condition” is to a numbered condition of the Terms and Conditions of the Certificates (the “**Conditions**”).*

Parties:

Issuer and Trustee:

Hong Kong Sukuk 2017 Limited (Company No. 2459523) (in its capacity as issuer, the “**Issuer**” and in its capacity as trustee, the “**Trustee**”), a company incorporated in Hong Kong as a public limited liability company on 2 December 2016 under the Companies Ordinance (Cap. 622) of Hong Kong, having its registered office at 82/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. The Issuer has been incorporated primarily for the purpose of participating in the transactions contemplated by the Transaction Documents (as defined below) to which it is a party.

Ownership of the Issuer:

The Issuer is owned by the FSI.

Commodity Purchaser:

The HKSAR Government (in such capacity, the “**Commodity Purchaser**”). Pursuant to the Murabahah Agreement, the Trustee will, through the Commodity Agent, use no more than 66 per cent. of the issue price of the Certificates to purchase commodities (the “**Purchase Price**”). The Commodity Purchaser will purchase those commodities from the Trustee for a deferred sale price equal to the aggregate of the Purchase Price plus one per cent. of the issue price of the Certificates (the “**Deferred Sale Price**”) and payable on a Dissolution Date or otherwise in accordance with the Murabahah Agreement.

Seller:

The FSI (in its capacity as seller, the “**Seller**”). Pursuant to the Purchase Agreement, the Seller will sell to the Trustee, and the Trustee will purchase from the Seller, the Lease Assets in accordance with the terms of the Purchase Agreement.

Lessor:

The Trustee (in its capacity as lessor, the “**Lessor**”). Pursuant to the Lease Agreement, the Lessor will lease to the Lessee, and the Lessee will lease from the Lessor, the Lease Assets in accordance with the terms of the Lease Agreement.

Lessee:

The HKSAR Government (in its capacity as lessee, the “**Lessee**”). Pursuant to the Lease Agreement, the Lessee will lease from the Lessor, and the Lessor will lease to the Lessee, the Lease Assets in accordance with the terms of the Lease Agreement.

Obligor:

The HKSAR Government (in its capacity as obligor, the “**Obligor**”). In accordance with the terms of the Purchase Undertaking, the HKSAR Government will, on the Scheduled Dissolution Date or following the service of an exercise notice (the “**Exercise Notice**”) by or on behalf of the Trustee, purchase or procure the purchase of the Lease Assets from the Trustee at the Exercise Price.

“**Exercise Price**” means:

- (a) at any time, the aggregate face amount of the Certificates then outstanding; plus
- (b) all accrued but unpaid Periodic Distribution Amounts (if any) relating to the Certificates plus any Wakalah Services Charge Amount in respect of which a Supplementary Rental payment has not been made in accordance with the Lease Agreement,

less an amount equal to the outstanding Deferred Sale Price due under the Murabahah Agreement.

“**Rental Payment Date**” means [●] and [●] in each year, commencing on [●] 2017 to and including [●] or any earlier date on which the Lease Agreement is terminated in accordance with its terms.

“**Rental Period**” means the period from and including a Rental Payment Date (or with respect to the first Rental Period from and including the Lease Commencement Date (as defined in the Lease Agreement)) to but excluding the next succeeding Rental Payment Date.

“**Supplementary Rental**” means, in respect of the first Rental Period, an amount equal to the Fixed Services Fee (as defined in the Wakalah Agreement) payable by the Trustee pursuant to the Wakalah Agreement and, in respect of any Rental Period, the Wakalah Services Charge Amount (if any) incurred by the Lessor in relation to the Lease Assets in the immediately preceding Rental Period or as notified to the Lessee by the delivery of a Rental Notice (as defined in the Lease Agreement) in accordance with the Lease Agreement. For the avoidance of doubt, the Lessee shall not pay to the Lessor any Supplementary Rental in respect of any Incentive Fee (as defined in the Wakalah Agreement) which may be payable by the Trustee to the Wakeel pursuant to the Wakalah Agreement.

“**Takaful/Insurance Proceeds**” means the proceeds of any claim under the Takaful/Insurances (as defined in the Wakalah Agreement).

“Wakalah Services Charge Amount” means, in respect of a Wakalah Services Period (as defined in the Wakalah Agreement), all payments made or costs incurred by the Wakeel in respect of the Wakalah Services (as defined in the Wakalah Agreement) performed during that Wakalah Services Period (other than in respect of the application of any Takaful/Insurance Proceeds received by the Wakeel towards the repair, reinstatement and/or replacement of any Lease Assets, or part thereof).

Wakeel:

The HKSAR Government (in its capacity as agent, the **“Wakeel”**). The Trustee has granted the Wakeel the power to execute the Lease Agreement and the Murabahah Documents (as defined in the Murabahah Agreement) on its behalf. The Wakeel will manage the Wakalah Portfolio in the manner described below in exchange for the Wakalah Services Charge Amount and the Incentive Fee (as defined below). Under the Lease Agreement, the Lessor shall be responsible for obtaining takaful/insurance for the Lease Assets, paying all Proprietorship Taxes and Levies (if any) in respect of the Lease Assets and performing all major maintenance and structural repair on the Lease Assets. In accordance with the terms of the Wakalah Agreement, the Lessor will delegate the responsibility to perform, or procure the performance of, the management of the Lease Assets, the collection of Rental, all major maintenance and structural repair and the payment of Proprietorship Taxes and Levies (if any) and the responsibility for ensuring that the Lease Assets are insured against a Total Loss Event, as well as entering into the Murabahah Contract on behalf of the Trustee and ensuring the timely receipt of the outstanding Deferred Sale Price due under the Murabahah Contract to the Wakeel.

Joint Global Coordinators:

The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank.

Joint Bookrunners and Joint Lead Managers:

The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank, CIMB Investment Bank Berhad and National Bank of Abu Dhabi PJSC.

Co-managers:

[●]

Delegate:

DB Trustees (Hong Kong) Limited (the **“Delegate”**). In accordance with the terms of the Declaration of Trust, the Trustee will unconditionally and irrevocably delegate to the Delegate the present and future powers, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust.

**Principal Paying Agent,
Registrar and Transfer Agent:**

Deutsche Bank AG, Hong Kong Branch.

Summary of the Structure and Transaction Documents:

Summary of the Structure: An overview of the structure of the transaction and the principal cash flows is set out in the section entitled “*Structure Diagram and Cash Flows*”.

Summary of the Transaction Documents: A description of the principal terms of the significant Transaction Documents is set out in the section entitled “*Summary of the Principal Transaction Documents*”.

Summary of the Certificates:

Certificates: U.S.\$[●] trust certificates due [●].

Status of the Certificates: Each Certificate will evidence an undivided beneficial ownership interest in the Trust Assets (as defined below), subject to the terms of the Declaration of Trust and the Conditions, and will be a limited recourse obligation of the Issuer. Each Certificate will rank *pari passu*, without any preference or priority, with the other Certificates issued in accordance with the Conditions.

Trust Assets: Pursuant to the Declaration of Trust, the Trustee will declare that it will hold certain assets (the “**Trust Assets**”), consisting of:

- (a) all of the Trustee’s rights, interest and benefit, present and future, in, to and under the Lease Assets;
- (b) all of the Trustee’s rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given to the Trustee by the HKSAR Government and/or the FSI pursuant to any of the Transaction Documents);
- (c) all monies standing to the credit of the Transaction Account from time to time; and
- (d) all proceeds of the foregoing,

on trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each holder of Certificates in accordance with the Declaration of Trust and the Conditions.

Closing Date: [●] 2017.

Issue Price: 100 per cent. of the aggregate face amount of the Certificates.

Periodic Distribution Dates: Each of [●] and [●] in each year commencing on [●] 2017 and, subject to Condition 7, ending on the Scheduled Dissolution Date.

Periodic Distribution Amounts:	On each Periodic Distribution Date, the Certificateholders will receive a Periodic Distribution Amount determined in accordance with Condition 7 representing a defined share of the Rental paid by the Lessee to the Lessor pursuant to the Lease Agreement in respect of the Lease Assets, together with any other amounts payable under the Wakalah Portfolio.
Scheduled Dissolution Date:	[●].
Scheduled Dissolution of the Trust:	Upon receipt by the Trustee of (i) the Exercise Price payable in accordance with the terms of the Purchase Undertaking and (ii) any outstanding Deferred Sale Price payable in accordance with the Murabahah Agreement, and unless the Certificates are previously redeemed or purchased and cancelled, the Trustee will apply the Exercise Price and any Deferred Sale Price to redeem each Certificate at the Dissolution Distribution Amount and the Trust will be dissolved by the Trustee on the Scheduled Dissolution Date.
Dissolution Distribution Amount:	<p>In relation to each Certificate, means the aggregate of:</p> <ul style="list-style-type: none"> (a) the outstanding face amount of such Certificate; and (b) all accrued and unpaid Periodic Distribution Amounts in respect of such Certificate.
Early Dissolution of the Trust:	<p>The Trust may only be dissolved prior to the Scheduled Dissolution Date upon the:</p> <ul style="list-style-type: none"> (a) occurrence of a Dissolution Event which is continuing; or (b) occurrence of a Total Loss Event. <p>In the case of paragraph (a), the Certificates will be redeemed in accordance with Condition 9.2 and pursuant to the exercise of the Trustee's rights under the Purchase Undertaking. The Exercise Price payable under the Purchase Undertaking, together with any Deferred Sale Price payable under the Murabahah Agreement, will be used to fund the redemption of the Certificates.</p> <p>In the case of paragraph (b) the Certificates will be redeemed in accordance with Condition 9.3.</p>
Dissolution Events:	The Dissolution Events are described in Condition 13. Following the occurrence of a Dissolution Event which is continuing, the Certificates may be redeemed in full at an amount equal to the Dissolution Distribution Amount in the manner described in Condition 13.

Total Loss Event:

Save where the Lease Assets are replaced as provided in the Wakalah Agreement by the 30th day after the occurrence of a Total Loss Event, the occurrence of a Total Loss Event will result in the redemption of the Certificates and the consequent dissolution of the Trust in accordance with Condition 9.3 on the date falling 10 days after the receipt of the Takaful/Insurance Coverage Amount (as defined below) and/or the Total Loss Shortfall Amount (as defined below) and the outstanding Deferred Sale Price in the Transaction Account following notification thereof by the Delegate in accordance with Condition 9.3. The Wakeel is responsible for ensuring that the Lease Assets are, so long as the Certificates are outstanding, insured against a Total Loss Event. If a Total Loss Event occurs, the Wakeel undertakes to ensure that (a) the Commodity Purchaser is promptly notified of the occurrence of the Total Loss Event, and the outstanding Deferred Sale Price is paid in U.S. dollars into the Transaction Account by no later than the 30th day after the occurrence of the Total Loss Event and (b) all Takaful/Insurance Proceeds in respect thereof (if any) are paid in U.S. dollars into the Transaction Account by no later than the 30th day after the occurrence of the Total Loss Event.

If a Total Loss Event occurs and the Lease Assets are not replaced as discussed above, and an amount (if any) less than the Takaful/Insurance Coverage Amount is credited to the Transaction Account (the difference between the Takaful/Insurance Coverage Amount and the amount credited to the Transaction Account being the “**Total Loss Shortfall Amount**”), then the Wakeel will irrevocably and unconditionally undertake to pay (in same day, freely transferable, cleared funds) the Total Loss Shortfall Amount directly to the Transaction Account by no later than close of business on the 31st day after the Total Loss Event has occurred, such that the amount standing to the credit of the Transaction Account on the 31st day following the occurrence of a Total Loss Event represents the aggregate of the takaful/insurance proceeds payable in respect of a Total Loss Event (if any) and the Total Loss Shortfall Amount funded by the Wakeel in accordance with the terms of the Wakalah Agreement and the outstanding Deferred Sale Price.

Rentals shall cease to accrue under the Lease with effect from the date on which a Total Loss Event (if any) occurs, and no additional rental payment shall be made in respect of the period between the date on which the Total Loss Event occurred and the date on which the Total Loss Shortfall Amount is paid into the Transaction Account.

See Condition 5.1.

“Takaful/Insurance Coverage Amount” means an amount equal to the aggregate of:

- (a) the face amount of all Certificates for the time being outstanding;
- (b) an amount equal to at least 40 days’ Rental as would be calculated in accordance with the Lease Agreement; and
- (c) without duplication and double counting, an amount equal to any Wakalah Services Charge Amount outstanding under the terms of the Wakalah Agreement in relation to the Lease Assets, less the outstanding Deferred Sale Price.

“Total Loss Event” means the total loss or destruction of, or damage to the whole of, the Lease Assets or any event or occurrence that renders the whole of the Lease Assets permanently unfit for any economic use and (but only after taking into consideration any takaful/insurances or other indemnity granted in each case by any third party in respect of the Lease Assets) the repair or remedial work in respect thereof is wholly uneconomical.

Negative Pledge:

So long as any Certificate remains outstanding, the HKSAR Government will not create or permit to subsist any Encumbrance on the whole or any part of the Exchange Fund as security for any HKSAR Government Public External Debt unless, at the same time or prior thereto, or promptly thereafter, the HKSAR Government’s obligations under the Purchase Undertaking, the Lease Agreement, the Murabahah Agreement and the Wakalah Agreement are secured at least equally and rateably with such HKSAR Government Public External Debt, or the HKSAR Government provides such other security for its obligations under the Purchase Undertaking, the Lease Agreement, the Murabahah Agreement and the Wakalah Agreement, as approved by the holders of the Certificates in accordance with the Declaration of Trust.

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

Where:

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

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

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

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

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

Asset Substitution:

Pursuant to the Substitution and Transfer Undertaking entered into by the Trustee in favour of the HKSAR Government, the HKSAR Government has the right to oblige the Trustee to transfer the Lease Assets specified in a Substitution Notice (as defined in the Substitution and Transfer Undertaking), the identity of which shall be determined by the HKSAR Government in its sole and absolute discretion (the **“Substituted Lease Assets”**) against the transfer to the Trustee of the beneficial ownership in and to certain new assets (the **“New Lease Assets”**). The HKSAR Government will be obliged to certify that the value of the New Lease Assets is not less than the value of Substituted Lease Assets on the relevant Substitution Date.

In order to effect the substitution, the Trustee and the FSI will enter into a Transfer Agreement (as defined in the Substitution and Transfer Undertaking) to effect the transfer of the Substituted Lease Assets and the New Lease Assets.

Purchase of Certificates by the Issuer or the HKSAR Government:

The Issuer or the HKSAR Government may at any time purchase Certificates in the open market or otherwise.

Transaction Account:

The U.S. dollar account (the **“Transaction Account”**) with account number 0031849-05-0 and maintained in the name of Hong Kong Sukuk 2017 Limited with Deutsche Bank AG, Hong Kong Branch.

Limited Recourse and Non-Petition:

Each Certificate will evidence an undivided beneficial ownership interest in the Trust Assets. No amount whatsoever shall be due and payable in respect of the Certificates except to the extent that funds for that purpose are available from the Trust Assets.

Under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets other than to the HKSAR Government or its designee in accordance with the terms of the Transaction Documents and the sole right of the Delegate and the Certificateholders against the Trustee or the HKSAR Government shall be to enforce their respective obligations under the Transaction Documents.

Prior to the date which is one year and one day after the date on which all amounts owing by Hong Kong Sukuk 2017 Limited under the Transaction Documents to which the HKSAR Government, the Lessee, the Delegate or any Certificateholder is a party have been paid in full, such party will not institute against, or join with any other person in instituting against, Hong Kong Sukuk 2017 Limited any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law.

Role of Delegate:

Pursuant to the Declaration of Trust, the Trustee will delegate to the Delegate all of the present and future powers, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust. In particular, the Delegate shall be entitled to:

- (a) deliver an Exercise Notice to the HKSAR Government in accordance with the Purchase Undertaking; and
- (b) following a Dissolution Event, take any enforcement action against the HKSAR Government in the Trustee's name.

Denomination of the Certificates:

The Certificates will be issued in minimum denominations of U.S.\$200,000 and in integral multiples of U.S.\$1,000 in excess thereof.

Form and Delivery of the Certificates:

The Certificates will be represented on issue by beneficial interests in a Global Certificate, in fully registered form, without coupons attached, which will be registered in the name of a common depository on behalf of Euroclear and Clearstream, Luxembourg. Beneficial interests in the Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. See "*Global Certificate*" and "*Clearance and Settlement*".

Definitive Certificates evidencing holdings of Certificates will be issued in exchange for interests in the Global Certificate only in certain limited circumstances.

Clearance and Settlement:

Beneficial interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg. See "*Clearance and Settlement*".

Withholding Tax:

All payments by the HKSAR Government under the Transaction Documents to which it is a party are to be made without withholding or deduction for, or on account of, any Taxes imposed in Hong Kong (or any political sub-division or authority thereof or therein having power to tax). In the event that any such deduction is made, the HKSAR Government will be required, subject to the exceptions set out in Condition 10 pursuant to the Transaction Documents, to pay to the Trustee additional amounts so that the Trustee will receive the full amount which otherwise would have been due and payable under the Transaction Documents.

All payments by the Trustee in respect of the Certificates shall be made without withholding or deduction for, or on account of, Taxes unless the withholding or deduction of the Taxes is required by law. The HKSAR Government has agreed in the Transaction Documents that, if the Trustee is required to make any payment under the Certificates after deduction or withholding for: (a) Taxes; or (b) as otherwise required by applicable law, the HKSAR Government will pay to the Trustee additional amounts so that the net amount paid by the Trustee will equal the full amount which would have been paid by the Trustee had no such deduction or withholding been made.

Use of Proceeds:

The gross proceeds of the issue of the Certificates will be applied by the Issuer on the Closing Date in the following proportion: (i) no less than 34 per cent. to the FSI as the purchase price for the Lease Assets pursuant to the Purchase Agreement and (ii) the remaining of not more than 66 per cent. for the acquisition of commodities to sell to the HKSAR Government pursuant to the Murabahah Agreement.

The proceeds received by the FSI from the sale of the Lease Assets and the proceeds received by the HKSAR Government under the Murabahah Agreement will be credited to the Bond Fund (set up pursuant to resolution (Cap. 2S) passed on 8 July 2009 under section 29 of the Public Finance Ordinance (Cap. 2)) and then placed with the Exchange Fund.

Listing:

Application will be made to the Hong Kong Stock Exchange for the listing of the Certificates by way of debt issues to Professional Investors only. Certificates to be listed on the Hong Kong Stock Exchange are required to be traded with a board lot size of at least HK\$500,000 (or equivalent in other currencies).

Application will be made to Bursa Malaysia (under an exempt regime pursuant to which the Certificates will be listed but not quoted for trading) for the listing of the Certificates.

Application has been made to the DFSA for the Certificates to be admitted to the DFSA's Official List and to NASDAQ Dubai for Certificates to be admitted to trading on NASDAQ Dubai. The Certificates are expected to be admitted to the DFSA's Official List on or about [●].

Listing of the Certificates on Bursa Malaysia and NASDAQ Dubai is conditional upon satisfaction of the requirements of those exchanges.

Certificateholder Meetings:

A summary of the provisions for convening meetings of Certificateholders to consider matters relating to their interests as such is set out in Condition 17.

Tax Considerations:

See the section entitled "*Taxation*" for a description of certain tax considerations applicable to the Certificates.

Governing Law:

The Purchase Agreement, the Wakalah Agreement, the Substitution and Transfer Undertaking, the Lease Agreement and the Murabahah Agreement will be governed by, and construed in accordance with, Hong Kong law.

The Purchase Undertaking, the Declaration of Trust, the Agency Agreement and the Certificates (including any non-contractual obligations arising out of or in connection with the same), will be governed by, and construed in accordance with, English law.

Transaction Documents:

The Declaration of Trust, the Agency Agreement, the Purchase Agreement, the Lease Agreement, the Murabahah Agreement, the Wakalah Agreement, the Purchase Undertaking, the Substitution and Transfer Undertaking and any other agreements, deeds, undertakings or documents designated as such by the parties to the Transaction Documents and which can be entered into by the parties from time to time (together, the "**Transaction Documents**").

Rating:

On issuance, the Certificates are expected to be assigned a rating of "AAA" by Standard & Poor's and AA+ by Fitch Hong Kong.

A rating is not a recommendation to buy, sell or hold the Certificates (or beneficial interests therein). Ratings do not address the likelihood or timing of payment and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Selling Restrictions:

There are restrictions on the offer, sale and transfer of the Certificates in the United States, the United Kingdom, Hong Kong, Singapore, Japan, Korea, the United Arab Emirates (excluding the Dubai International Financial Centre), Dubai International Financial Centre, the Kingdom of Saudi Arabia, the State of Qatar, the Kingdom of Bahrain, Kuwait, Brunei and Malaysia. See the section entitled “*Subscription and Sale*”.

INVESTMENT CONSIDERATIONS

An investment in the Certificates involves certain risks. Prospective investors should carefully consider, in the light of their own financial circumstances and investment objectives the following factors, in addition to the matters set forth elsewhere in this Offering Circular, prior to investing in the Certificates. Each of the HKSAR Government and the Issuer believes that the factors described below represent the principal risks inherent in investing in the Certificates, but the HKSAR Government and the Issuer may be unable to pay any amounts on or in connection with any Certificate for other reasons and neither the HKSAR Government nor the Issuer represents that the statements below regarding the risks of holding any Certificate are exhaustive or that the statements below relate to any other risks not described therein. There may also be other considerations, including some which may not be presently known to the HKSAR Government or the Issuer or which the HKSAR Government or the Issuer currently deem immaterial, that may impact on any investment in the Certificates.

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

Investment consideration relating to the Issuer

The Issuer has no operating history and must rely on payments by the HKSAR Government.

The Issuer is a newly formed entity and has no operating history. The Issuer will not engage in any business activity other than the issuance of the Certificates, the acquisition of the Wakalah Portfolio as described herein, acting in the capacity as trustee and other activities incidental or related to the foregoing as required under the Transaction Documents.

The Issuer's only assets, which will be held in trust for Certificateholders, will be the Trust Assets, including its right to receive payments from the Lessee under the Lease Agreement and payments from the HKSAR Government under the Purchase Undertaking, the Murabahah Agreement and/or the Wakalah Agreement. Therefore the Issuer is subject to all the risks to which the HKSAR Government is subject to the extent that such risks could limit the HKSAR Government's ability to satisfy in full and on a timely basis its obligations under the Transaction Documents. Investors should therefore carefully review the description of the HKSAR herein under "*The Hong Kong Special Administrative Region*".

The ability of the Issuer to pay amounts due on the Certificates will primarily be dependent upon receipt by the Issuer from the Lessee of all amounts due under the Lease Agreement, and from payments by the HKSAR Government under the Purchase Undertaking, the Murabahah Agreement and the Wakalah Agreement. In the event of any shortfall in such amounts, the ability of the Issuer to meet its payment obligations under the Certificates may be adversely affected.

Investment considerations relating to the Certificates

There is currently no secondary market for the Certificates and there may be limited liquidity for Certificateholders.

There is no assurance that a secondary market for the Certificates will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. Accordingly, the purchase of the Certificates

is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates. An investor in the Certificates must be prepared to hold the Certificates for any period of time up until their maturity.

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

The Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and the Issuer has not undertaken to effect any exchange offer for the Certificates in the future. The Certificates may not be offered in the United States except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Certificates and the Agency Agreement will contain provisions that will restrict the Certificates from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Regulation S, or other exemptions, under the Securities Act. Furthermore, the Issuer has not registered the Certificates under any other country's securities laws. Investors must ensure that their offers and sales of the Certificates within the United States and other countries comply with applicable securities laws.

The ratings on the Certificates may be changed at any time and may adversely affect the market value of the Certificates.

The Certificates are expected to be rated "AAA" by Standard & Poor's and AA+ by Fitch Hong Kong. A credit rating may not reflect all risks. The ratings may not reflect the potential impact of all risks related to the transaction structure, the market, the additional factors discussed above or any other factors that may affect the value of the Certificates. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

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

The Certificates are limited recourse obligations.

The Certificates represent an undivided beneficial ownership interest solely in the Trust Assets. Recourse to the Issuer and the Trustee in respect of the Certificates is limited to the Trust Assets and proceeds of such Trust Assets are the sole source of payments on the relevant Certificates as set out in the Transaction Documents. Upon the occurrence of a Dissolution Event, the sole rights of each of the Delegate and, through the Delegate, the Certificateholders will be against the Trustee and the HKSAR Government to perform their respective obligations under the Transaction Documents. Certificateholders will otherwise have no recourse to any assets of the Trustee or the HKSAR Government in respect of any shortfall in the expected amounts due under the relevant Trust Assets. Reflecting the limited recourse nature of the Certificates, Certificateholders will also not be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding up or receivership of the Trustee as a consequence of such shortfall or otherwise.

The HKSAR Government is obliged to make certain payments under the Transaction Documents directly to the Trustee, and the Delegate will have direct recourse against the HKSAR Government to recover such payments due to the Trustee pursuant to the Transaction Documents. In the absence of default by the Delegate, investors have no direct recourse to the HKSAR Government and there is no assurance that the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets will be sufficient to make all payments due in respect of the Certificates. After enforcing or realising the Trust Assets and distributing the net proceeds of such Trust Assets in accordance with Condition 5.2, the obligations of the Issuer in respect of the Certificates shall be satisfied and neither the Delegate nor any Certificateholder may take any further steps against the Issuer or the Trustee to recover any further sums in respect of such Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets except pursuant to the Transaction Documents (which includes the Purchase Undertaking) and the sole right of the Delegate and the Certificateholders against the Trustee or the HKSAR Government shall be to enforce the obligation of the HKSAR Government to perform its obligations under the Transaction Documents.

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

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

The HKSAR Government and the Trustee expect that all series of securities issued by the HKSAR Government and the Trustee in future will include such collective action clauses, thereby giving the HKSAR Government and/or the Trustee the ability to request modifications (including in respect of Reserved Matters (as defined in the Conditions of the Certificates)) across multiple series of securities. This means that a defined majority of the holders of such series of securities (when taken in the aggregate) would be able to bind all holders of securities in all the relevant aggregated series.

Any modification relating to Reserved Matters (as defined herein), including in respect of payments and other important terms (such as, without limitation, changes to the Scheduled Dissolution Date or any other date for payment of amounts in respect of the Certificates), may be made to the Certificates with the consent of the holders of at least 75 per cent. of the aggregate principal amount outstanding of Certificates, and to multiple series of securities with the consent of both (i) the holders of at least 66⅔ per cent. of the aggregate principal amount of the outstanding securities of all affected series of securities being aggregated and (ii) the holders of more than 50 per cent. in aggregate principal amount of the outstanding of the securities in each affected series of securities capable of being aggregated or the consent of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding securities of all affected series of securities being aggregated.

Any modification proposed by the HKSAR Government or the Trustee (as the case may be) may, at the option of the HKSAR Government or the Trustee (as the case may be), be made in respect of some series of securities only and, for the avoidance of doubt, the provisions may be used for different

groups of two or more series of securities simultaneously. At the time of any proposed modification, the HKSAR Government or the Trustee (as the case may be) will be obliged, *inter alia*, to specify which method or methods of aggregation will be used by the HKSAR Government or the Trustee (as the case may be).

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

The Declaration of Trust may be modified without notice to Certificateholders.

The Declaration of Trust contains provisions permitting the Delegate from time to time and at any time without any consent or sanction of the Certificateholders to make any modification to the Declaration of Trust if, in the opinion of the Delegate, (i) such modification is of a formal, minor or technical nature, or (ii) such modification is made to correct a manifest error, or (iii) such modification, waiver, authorisation or determination is not materially prejudicial to the interest of Certificateholders and is other than in respect of a Reserved Matter. Unless the Delegate otherwise decides, any such modification shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

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

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

Legal investment considerations may restrict certain investments.

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

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

In the Declaration of Trust, the Certificates and the other Transaction Documents (as defined herein), the courts of the HKSAR are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Transaction Documents and any disputes relating to any non-contractual obligations arising out of or in connection with the Transaction Documents.

Section 3 of the Crown Proceedings Ordinance (Cap. 300, Laws of Hong Kong) (“CPO”) enables civil proceedings (as defined in the CPO) to be commenced against the HKSAR Government in the courts of the HKSAR. However, there are certain restrictions as to the rights and remedies available against the HKSAR Government. The HKSAR courts have no power to grant an injunction or to order specific

performance, but may instead make an order declaratory of the rights of the parties. Section 21 of the CPO provides that if an order is made against the HKSAR Government, the proper officer of the HKSAR courts will, upon application, issue to the successful plaintiff a certificate containing particulars of the order. If the order provides for payment of money, the certificate will state the amount payable and the Director of Accounting Services shall pay the sum shown to be due, subject to appeal. No process of execution or attachment can be carried out to enforce satisfaction against the HKSAR Government of any judgment.

Other investment considerations

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

The Certificates may not be a suitable investment for all investors. Each potential investor in the Certificates must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor should:

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

Transfer of the Lease Assets.

If the transfer to the Trustee of the Lease Assets pursuant to the Purchase Agreement is for any reason found to have been, or is alleged to have been, ineffective so that the Trustee is subsequently unable to deliver the Lease Assets to the HKSAR Government in accordance with the terms of the Purchase Undertaking, the Trustee would be able to enforce the obligation of the FSI under the Purchase Agreement to fully indemnify the Trustee for any losses arising out of or in connection with the initial sale of the Lease Assets to the Trustee being ineffective. However, the Certificateholders will not have any rights of enforcement against the Lease Assets (other than those specified under the Transaction Documents) and their rights are limited to the proceeds of enforcement against the FSI of its obligation to indemnify the Trustee pursuant to the terms of the Purchase Agreement.

If the Lease Assets are not purchased by the HKSAR Government for any reason, the Delegate will seek to enforce the payment obligations of the HKSAR Government under the Purchase Undertaking.

Certificateholders may be adversely affected by a Total Loss Event despite the Issuer's obligation to adequately insure the Lease Assets.

Pursuant to the Lease Agreement, the Issuer is required, among other things, to insure the Lease Assets. The Issuer has delegated this obligation to the HKSAR Government, as its wakeel, and the HKSAR Government has undertaken in the Wakalah Agreement, *inter alia*, to insure the Lease Assets

in the name of the Issuer against the occurrence of a Total Loss Event at their full reinstatement value (which shall be not less than the aggregate face amount of the Certificates then outstanding plus an amount equal to at least 40 days' Rental as would be calculated in accordance with the Lease Agreement) and without duplication and double counting, an amount equal to any Wakalah Services Charge Amount outstanding under the terms of the Wakalah Agreement in relation to the Lease Assets. A Total Loss Event is defined as the total loss or destruction of, or damage to the whole of the Lease Assets or any event or occurrence that renders the whole of the Lease Assets permanently unfit for any economic use and (but only after taking into consideration any takaful/insurances or other indemnity granted by any third party in respect of the Lease Assets) the repair or remedial work in respect thereof is wholly uneconomical.

Nevertheless, should such an event occur, the lease will automatically terminate and unless the HKSAR Government (in its capacity as Wakeel under the Wakalah Agreement) procures new properties by the 30th day after the occurrence of the Total Loss Event that will be made subject to a replacement lease agreement, the Certificates will be redeemed using the proceeds of the takaful/insurance and the outstanding Deferred Sale Price received by the Issuer. In connection with such termination, potential investors should be aware that (i) rental under the Lease will cease automatically upon the occurrence of a Total Loss Event and (ii) there may be a delay in the Issuer receiving the proceeds of takaful/insurance (or shortfall amounts from the Wakeel) or the outstanding Deferred Sale Price and therefore in Certificateholders receiving the full Dissolution Distribution Amount in respect of their Certificates, and no additional Periodic Distribution Amount will be paid in respect of this delay. In connection to this, the Wakalah Agreement provides that if sufficient takaful/insurance proceeds are not paid into the Transaction Account by the 30th day after the occurrence of the Total Loss Event, the HKSAR Government, as Wakeel, (unless it is able to prove beyond any doubt that any shortfall in the proceeds of any takaful/insurances is not attributable to its negligence or its failing to comply with the terms of the Wakalah Agreement relating to the takaful/insurances) shall have failed in its responsibility to properly insure the Lease Assets and accordingly, the HKSAR Government shall be required to pay any shortfall directly to the Transaction Account by no later than close of business on the 31st day after the occurrence of the Total Loss Event. The Delegate will be entitled to enforce this undertaking against the HKSAR Government on behalf of the Certificateholders.

Certificateholders may be adversely affected by a change of English law or the laws of Hong Kong.

The structure of the issue of the Certificates is based on English law and the laws of Hong Kong and administrative practices in effect as at the date of this Offering Circular. The Declaration of Trust, the Conditions, the Agency Agreement and the Purchase Undertaking are governed by and will be construed in accordance with English law, whereas the Purchase Agreement, the Lease Agreement, the Substitution and Transfer Undertaking, the Wakalah Agreement and the Murabahah Agreement are governed by and will be construed in accordance with the laws of Hong Kong. No assurance can be given as to the impact of any possible change to English law, the laws of Hong Kong or administrative practices in either jurisdiction after the date of this Offering Circular, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Certificates or of the HKSAR Government and/or the FSI to comply with its obligations under the Transaction Documents to which it is a party.

Certificateholders will be reliant on Euroclear and/or Clearstream, Luxembourg procedures to exercise certain rights under the Certificates.

The Certificates will be represented on issue by a Global Certificate that will be registered in the name of a common depository on behalf of Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive Certificates

in definitive form. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificate. While the Certificates are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

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

Holders of beneficial interests in a global certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

There is no assurance that the Certificates will be Shari'a compliant.

The Executive Shariah Committee of HSBC Saudi Arabia Limited, Standard Chartered Bank Sharia Supervisory Committee, CIMB Islamic Bank Berhad and the Shariah Committee of National Bank of Abu Dhabi PJSC have approved that the Certificates are Shari'a compliant. However, there can be no assurance that the transaction structure or the issue and trading of the Certificates will be deemed to be Shari'a compliant by any other Shari'a board or Shari'a scholar. None of the Issuer, the FSI, the HKSAR Government, the Joint Global Coordinators, the Joint Lead Managers, the Co-managers, the Delegate or the Agents makes any representation as to the Shari'a compliance of the Certificates and potential investors are reminded that, as with any Shari'a views, differences in opinion are possible. Potential investors should obtain their own independent Shari'a advice as to the compliance of the structure and the issue and trading of the Certificates with Shari'a principles.

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

The Issuer will make payments to Certificateholders in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls (as some have done in the past) that could adversely affect an applicable exchange rate. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease (i) the Investor's Currency-equivalent yield on the Certificates, (ii) the Investor's Currency-equivalent value of the amounts payable on the Certificates and (iii) the Investor's Currency-equivalent market value of the Certificates. As a result, the payments received by investors may be adversely affected.

TERMS AND CONDITIONS OF THE CERTIFICATES

The following is the text of the Terms and Conditions of the Certificates which (subject to modification and except for the text in italics) will be endorsed on each Definitive Certificate (if issued) and will, save as provided in “Global Certificate”, apply to each Global Certificate:

Each of the U.S.\$[●] trust certificates due [●] (the “Certificates”) is issued by Hong Kong Sukuk 2017 Limited (the “Issuer”) and represents an undivided beneficial ownership interest in the Trust Assets (as defined in Condition 5.1) held on trust (the “Trust”) by the Issuer in its capacity as trustee (the “Trustee”) for the holders of such Certificates (the “Certificateholders”) pursuant to a declaration of trust (the “Declaration of Trust”) dated on or about [●] 2017 (the “Closing Date”) made between the Issuer, in its capacity as issuer and as Trustee, the Government of the Hong Kong Special Administrative Region of the People’s Republic of China (the “HKSAR Government”) and DB Trustees (Hong Kong) Limited as the delegate of the Trustee (the “Delegate”).

Payments relating to the Certificates will be made pursuant to an agency agreement dated the Closing Date (the “Agency Agreement”) made between the Issuer, the Trustee, the HKSAR Government, the Delegate, Deutsche Bank AG, Hong Kong Branch as registrar (in such capacity, the “Registrar”), as principal paying agent (in such capacity, the “Principal Paying Agent” and, together with any further or other paying agents appointed from time to time in respect of the Certificates, the “Paying Agents”) and as transfer agent (in such capacity, the “Transfer Agent” and, together with the Registrar and any further or other transfer agents appointed from time to time in respect of the Certificates, the “Transfer Agents”). The Paying Agents and the Transfer Agents are together referred to in these Conditions as the Agents. References to the “Agents” or any of them shall include their successors.

These Conditions include summaries of, and are subject to, the detailed provisions of the Transaction Documents (as defined in Condition 5.1). In these Conditions, words and expressions defined and rules of construction and interpretation set out in the Declaration of Trust shall, unless defined herein or the context otherwise requires, have the same meanings herein. Copies of the Transaction Documents are available for inspection and/or collection during normal business hours at the specified offices of the Paying Agents. The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Issuer as Trustee, on behalf of the Certificateholders, (i) to apply the sums paid by it in respect of the Certificates in the following proportion: (A) no less than 34 per cent. to the Seller as the purchase price for the Assets (as defined in Condition 5.1) and (B) the remaining of not more than 66 per cent. for the purchase and subsequent sale of commodities pursuant to the Murabahah Agreement (as defined in Condition 5.1) and (ii) to enter into each Transaction Document to which it is a party, subject to the provisions of the Declaration of Trust and these Conditions.

1 Form, Denomination and Title

1.1 Form and Denomination

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

Where Certificates are issued in definitive form, a Definitive Certificate (as defined below) will be issued to each Certificateholder in respect of its registered holding of Certificates. Such Definitive Certificates will be issued in reliance on Regulation S of the United States Securities Act of 1933, as amended (the “Securities Act”), each a “Definitive Certificate”.

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

Upon issue, the Certificates will be represented by a Global Certificate registered in the name of a nominee of, and deposited with a custodian for, Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream, Luxembourg”). The Conditions are modified by certain provisions contained in the Global Certificate (the “Global Certificate”). Except in certain limited circumstances, owners of interests in the Global Certificate will not be entitled to receive Definitive Certificates representing their holdings of Certificates. See “Global Certificate”.

1.2 Title

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

2 Transfers of Certificates

2.1 Transfers

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

Transfers of interests in the Notes evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems through which the interest is held.

2.2 Delivery of New Definitive Certificates

Each new Definitive Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Definitive Certificate (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), be delivered at the specified office of the relevant Transfer Agent or mailed by uninsured mail at the risk of the holder entitled to the Certificate to the address specified in the form of transfer. For the purposes of this Condition 2.2, “business day” shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Definitive Certificate is deposited in connection with a transfer is located.

Where some but not all of the Certificates in respect of which a Definitive Certificate is issued are to be transferred a new Definitive Certificate in respect of the Certificates not

so transferred will, within five business days of receipt by the relevant Transfer Agent of the original Definitive Certificate, be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

2.3 Formalities Free of Charge

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

2.4 Closed Periods

No Certificateholder may require the transfer of a Certificate to be registered during the period of 15 days ending on (and including) the due date for any payment of the Dissolution Distribution Amount (as defined in Condition 9.1) or any Periodic Distribution Amount (as defined in Condition 7.1).

2.5 Regulations

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

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

3 Status, Limited Recourse and Non-Petition

3.1 Status

Each Certificate evidences an undivided beneficial ownership interest in the Trust Assets, subject to the terms of the Declaration of Trust and these Conditions, and is a limited recourse obligation of the Issuer. Each Certificate ranks *pari passu*, without any preference or priority, with the other Certificates.

The payment obligations of the HKSAR Government under the Transaction Documents are and will be direct, unconditional, unsubordinated and unsecured obligations of the HKSAR Government and will be backed by the general revenues and assets of Hong Kong and the full faith and credit of the HKSAR Government and shall at all times rank at least pari passu with all other unsecured External Debt of the HKSAR Government from time to time outstanding, provided, however, that, the HKSAR Government shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other unsecured External Debt and, in particular, shall have no obligation to pay other unsecured External Debt of the HKSAR Government at the same time or as a condition of paying sums due under the Transaction Documents and vice versa.

3.2 Limited Recourse and Non-Petition

The proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as provided in the next paragraph, the Certificates do not represent an interest in or obligation of any of the Issuer, the Obligor, the Lessee, the Wakeel, the Commodity Purchaser or the Delegate. Accordingly, Certificateholders, by subscribing for or acquiring the Certificates, acknowledge that they will have no recourse to any assets of the Issuer, the Trustee (other than the Trust Assets), the Obligor, the Lessee, the Wakeel, the Commodity Purchaser or the Delegate (to the extent that each of them fulfils all of its obligations under the Transaction Documents to which it is a party) in respect of any shortfall in the expected amounts from the Trust Assets to the extent the Trust Assets have been exhausted, following which all obligations of the Issuer shall be extinguished.

Each of the Obligor, the Wakeel, the Commodity Purchaser and the Lessee (each as defined in Condition 5.1) is obliged to make certain payments under the Transaction Documents directly to the Trustee and the Delegate will have direct recourse against the Obligor and the Lessee to recover such payments.

The net proceeds of realisation of, or enforcement with respect to, the Trust Assets may not be sufficient to make all payments due in respect of the Certificates. If, following the distribution of such proceeds, there remains a shortfall in payments due under the Certificates, subject to Condition 14, no holder of Certificates will have any claim against the Issuer or the Trustee (to the extent the Trust Assets have been exhausted), the Obligor, the Lessee, the Wakeel, the Commodity Purchaser or the Delegate (to the extent that each fulfils all of its obligations under the Transaction Documents to which it is a party) or against any assets (other than the Trust Assets to the extent not exhausted) in respect of such shortfall and any unsatisfied claims of Certificateholders shall be extinguished. Under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets other than to the Obligor or its designee in accordance with the Purchase Undertaking and the sole right of the Delegate and the Certificateholders against the Trustee or the Obligor shall be to enforce their respective obligations under the Transaction Documents.

Prior to the date which is one year and one day after the date on which all amounts owing by the Issuer or the Trustee under the Transaction Documents to which the Obligor, the Lessee, the Delegate or any Certificateholder is a party have been paid in full, such party will not institute against, or join with any other person in instituting against, the Issuer or the Trustee any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law.

3.3 Agreement of Certificateholders

By purchasing Certificates, each Certificateholder is deemed to have agreed that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

- (a) no amount whatsoever shall be due and payable by or on behalf of the Issuer or the Trustee except to the extent funds are available therefor from the Trust Assets and further agrees that no recourse shall be had for the payment of any amount owing hereunder or under any Transaction Document, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon any Transaction Document, against the Issuer or the Trustee to the extent the Trust Assets have been exhausted following which all obligations of the Issuer and the Trustee shall be extinguished; and

- (b) no recourse (whether by institution or enforcement of any legal proceeding or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Issuer or the Trustee arising under these Conditions or otherwise in connection with the Certificates by virtue of any law, statute or otherwise shall be had against any shareholder, officer or director of the Issuer or the Trustee in their capacity as such and any and all personal liability of every such shareholder, officer or director in their capacity as such for any breaches by the Issuer or the Trustee of any such duty, obligation or undertaking is hereby expressly waived and excluded to the extent permitted by law.

4 Negative Pledge

Pursuant to the Purchase Undertaking, the HKSAR Government has undertaken that, so long as any Certificate remains outstanding, the HKSAR Government will not create or permit to subsist any Encumbrance on the whole or any part of the Exchange Fund as security for any HKSAR Government Public External Debt unless, at the same time or prior thereto, or promptly thereafter, the HKSAR Government's obligations under the Purchase Undertaking, the Lease Agreement, the Murabahah Agreement and the Wakalah Agreement are secured at least equally and rateably with such HKSAR Government Public External Debt, or the HKSAR Government provides such other security for its obligations under the Purchase Undertaking, the Lease Agreement, the Murabahah Agreement and the Wakalah Agreement, as approved by the holders of the Certificates in accordance with the Declaration of Trust.

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

For the purposes of this Condition 4:

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

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

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

“HKSAR Government Public External Debt” means Public External Debt undertaken directly by and in the name of the HKSAR Government and backed by the full faith and credit of the

HKSAR Government. Obligations, guarantees and indemnities undertaken “directly by and in the name of the HKSAR Government” do not include obligations, guarantees and indemnities undertaken by any corporate entity in which the HKSAR Government has a direct or indirect equity interest or other stake; and

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

5 Trust

5.1 Summary of the Trust

The Trustee will enter into a purchase agreement (the “Purchase Agreement”) on or about the Closing Date with The Financial Secretary Incorporated (the “FSI”) (in such capacity, the “Seller”). Pursuant to the Purchase Agreement the Seller will sell its beneficial ownership in and to certain assets (the “Assets”) to the Trustee. The Trustee will, with effect from the Closing Date, lease the Lease Assets (as defined in the Lease Agreement referred to below) (in such capacity, the “Lessor”) to the HKSAR Government (in such capacity, the “Lessee”) pursuant to a lease agreement (the “Lease Agreement”) to be dated the Closing Date. Under a wakalah agreement (the “Wakalah Agreement”) to be dated the Closing Date the Lessor will appoint the HKSAR Government as wakeel (in such capacity, the “Wakeel”) to perform certain Wakalah Services (as defined in the Wakalah Agreement) in respect of, *inter alia*, the Lease Assets.

Under the Murabahah Agreement to be dated on or about the Closing Date, the Trustee as the seller of the commodities will instruct an agent (the “Commodity Agent”) to acquire commodities on behalf of the Trustee, which commodities the Trustee will subsequently sell to the HKSAR Government as the purchaser of the commodities (the “Commodity Purchaser”) for a deferred sale price (the “Deferred Sale Price”) to be paid in accordance with the Murabahah Agreement.

Upon the occurrence of a Total Loss Event (as defined in Condition 9.3) (save where the HKSAR Government replaces the Lease Assets pursuant to the Wakalah Agreement by no later than the 30th day after the occurrence of the Total Loss Event), subject to the Delegate having received the Takaful/Insurance Coverage Amount and/or the Total Loss Shortfall Amount (as described below) and the outstanding Deferred Sale Price, the Certificates will be redeemed and the Trust will be dissolved by the Trustee in accordance with Condition 9.3 on the date falling 10 days after the receipt of the Takaful/Insurance Coverage Amount and/or the Total Loss Shortfall Amount in the Transaction Account. The Certificates will be redeemed in accordance with Condition 9.3 using either the proceeds of takaful/insurance payable in respect of the Total Loss Event or, if a Total Loss Event occurs and an amount (if any) less than the Takaful/Insurance Coverage Amount (as defined in the Wakalah Agreement, which is intended to be an amount equal to the aggregate face amount of all Certificates then outstanding plus an amount equal to at least 40 days’ Rental as would be calculated in accordance with the Lease Agreement and (without duplication and double counting) an amount equal to any Wakalah Services Charge Amount outstanding under the terms of the Wakalah Agreement in relation to the Lease Assets less the outstanding Deferred Sale Price) is credited to the Transaction Account in accordance with the Wakalah Agreement (the difference between the Takaful/Insurance Coverage Amount and the amount credited to the Transaction Account being the “Total Loss Shortfall Amount”), the aggregate of the takaful/insurance proceeds so credited and the Total Loss Shortfall Amount payable by the Wakeel in accordance with the terms of the Wakalah Agreement and the outstanding Deferred Sale Price. Under the terms of the Wakalah

Agreement, no Total Loss Shortfall Amount will be payable by the Wakeel where the Wakeel is able to prove beyond any doubt that any shortfall in the proceeds of any Takaful/Insurances is not attributable to its negligence or its failing to comply with the terms of the Wakalah Agreement relating to the Takaful/Insurances.

The HKSAR Government (in such capacity, the “Obligor”) will enter into a purchase undertaking (the “Purchase Undertaking”) to be dated the Closing Date in favour of the Trustee and the Delegate, pursuant to which it will unconditionally and irrevocably undertake to purchase, or procure the purchase of, the Lease Assets from the Trustee on the Scheduled Dissolution Date (as defined in Condition 9.1) or, if earlier, on the due date for dissolution in accordance with Condition 13 at the Exercise Price, provided that there has been no Total Loss Event in relation to the Lease Assets and following receipt of an Exercise Notice from the Trustee.

The Trustee will execute a substitution and transfer undertaking (the “Substitution and Transfer Undertaking”) to be dated the Closing Date in favour of the HKSAR Government. Pursuant to the Substitution and Transfer Undertaking, the HKSAR Government may by exercising its option under the Substitution and Transfer Undertaking and serving notice on the Trustee (A) require the substitution at any time of the Lease Assets or (B) require the transfer of Lease Assets and/or the reduction of the outstanding Deferred Sale Price payable by the Obligor to the Trustee under the Murabahah Agreement against the cancellation of Certificates purchased pursuant to Condition 12.

The Issuer has established a transaction account (the “Transaction Account”) in the name of the Issuer with the Principal Paying Agent into which the HKSAR Government (acting in its capacities as Lessee, Wakeel, Commodity Purchaser and Obligor) will deposit all amounts due to the Issuer under the Lease Agreement, the Wakalah Agreement, the Murabahah Agreement and the Purchase Undertaking, respectively.

Pursuant to the Declaration of Trust, the Trustee holds certain assets (the “Trust Assets”) consisting of:

- (a) all of the Trustee’s rights, interest and benefit, present and future, in, to and under the Lease Assets;
- (b) all of the Trustee’s rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given to the Trustee by the HKSAR Government and/or the FSI pursuant to any of the Transaction Documents);
- (c) all monies standing to the credit of the Transaction Account from time to time; and
- (d) all proceeds of the foregoing,

on trust absolutely for the holders of the Certificates *pro rata* according to the face amount of Certificates held by each holder in accordance with the Declaration of Trust and these Conditions.

In these Conditions, “Murabahah Agreement” means the murabahah agreement to be dated the Closing Date between the Issuer, the HKSAR Government, Deutsche Bank AG, London Branch (as commodity agent) and the Wakeel.

The Purchase Agreement, the Lease Agreement, the Murabahah Agreement, the Wakalah Agreement, the Purchase Undertaking, the Substitution and Transfer Undertaking, the Declaration of Trust and the Agency Agreement are together referred to in these Conditions as the “Transaction Documents”.

5.2 Application of Proceeds from Trust Assets

On each Periodic Distribution Date and on any Dissolution Date (as defined in Condition 9.1), the Principal Paying Agent shall apply the monies standing to the credit of the Transaction Account in the following order of priority:

- (a) *first*, to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate and/or any Appointee;
- (b) *second*, to the Agents in respect of all amounts owing to them under the Transaction Documents in their respective capacities as Agents;
- (c) *third*, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due and unpaid;
- (d) *fourth*, only if such payment is made on a Dissolution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of the Dissolution Distribution Amount or amount payable on a Total Loss Event, as the case may be;
- (e) *fifth*, only if such payment is made on a Dissolution Date, to the Wakeel in or towards payment of all outstanding Wakalah Services Charge Amounts (as defined in the Wakalah Agreement); and
- (f) *sixth*, only if such payment is made on a Dissolution Date, to the Wakeel as payment of the Incentive Fee (as defined in the Wakalah Agreement).

6 Covenants

The Issuer covenants that for so long as any Certificate is outstanding, it shall not (without the prior written consent of the Delegate and as provided in Condition 17):

- (a) incur any indebtedness in respect of borrowed money whatsoever (including by way of any analogous Islamic financing transaction), or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents;
- (b) grant or permit to be outstanding any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law);
- (c) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of its interest in any of the Trust Assets except pursuant to the Transaction Documents;
- (d) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;
- (e) amend or agree to any amendment of any Transaction Document to which it is a party or its articles of association;

- (f) act as trustee in respect of any trust other than the Trust or in respect of any parties other than the Certificateholders;
- (g) have any subsidiaries or employees;
- (h) redeem or purchase any of its shares or pay any dividend or make any other distribution to its shareholders;
- (i) put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it; and
- (j) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party or any permitted amendment or supplement thereto or as expressly permitted or required thereunder or engage in any business or activity other than:
 - (i) any such contract, transaction, amendment, obligation or liability in relation to its operations that is of a routine or administrative nature;
 - (ii) as provided for or permitted in the Transaction Documents;
 - (iii) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and
 - (iv) such other matters which are incidental thereto.

7 Periodic Distributions

7.1 Periodic Distribution Amounts and Periodic Distribution Dates

Subject to Condition 5.2 and Condition 8, the Principal Paying Agent shall distribute to holders of the Certificates, *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account, a distribution in relation to the Certificates representing a defined share of the Rental (as defined in the Lease Agreement) paid by the Lessee to the Lessor pursuant to the Lease Agreement in respect of the Lease Assets for the Certificates (the amount of such distribution, a “Periodic Distribution Amount”) on each Periodic Distribution Date at the rate of [●] per cent. per annum (the “Periodic Distribution Rate”) of the face amount of the Certificates. For this purpose, “Periodic Distribution Date” means each of [●] and [●] in each year commencing on [●] 2017 and, subject to Condition 7.3, ending on the Scheduled Dissolution Date (as defined below).

7.2 Calculation of Periodic Distribution Amounts payable other than on a Periodic Distribution Date

If a Periodic Distribution Amount is required to be calculated in respect of a period of less than a full Return Accumulation Period (the “Relevant Period”), the Periodic Distribution Amount shall be calculated by applying the Periodic Distribution Rate to the face amount of the Certificates and multiplying such sum by the Day Count Fraction, and rounding the resultant figure to the nearest cent, half a cent being rounded upwards or otherwise in accordance with applicable market convention.

For these purposes, “Day Count Fraction” means, in respect of the calculation of a Periodic Distribution Amount in relation to the Certificates in accordance with this Condition 7.2, the number of days in the period from (and including) the most recent Periodic Distribution Date to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with twelve 30-day months) divided by 360.

The period from and including [●] 2017 to but excluding the first Periodic Distribution Date and each successive period from and including a Periodic Distribution Date to but excluding the next succeeding Periodic Distribution Date is called a “Return Accumulation Period”.

7.3 Cessation of Accrual

No further amounts will be payable on any Certificate from and including its due date for redemption, unless default is made in payment of the Dissolution Distribution Amount in which case the Lease Agreement shall be deemed to be extended for a period from and including the date on which the Dissolution Distribution Amount was due to but excluding the date on which the Dissolution Distribution Amount is paid in full and Periodic Distribution Amounts will continue to accrue in respect of the Certificates for the same period in the manner provided in this Condition 7.

8 Payment

8.1 Payments in respect of the Certificates

Subject to Condition 8.2, payment of the Dissolution Distribution Amount and any Periodic Distribution Amount will be made by the Principal Paying Agent in U.S. dollars by wire transfer in same day funds to the registered account of each Certificateholder or by U.S. dollar cheque drawn on a bank that processes payments in U.S. dollars mailed to the registered address of the Certificateholder if it does not have a registered account. Payments of the Dissolution Distribution Amount will only be made against surrender of the relevant Certificate at the specified office of any of the Paying Agents. The Dissolution Distribution Amount and each Periodic Distribution Amount will be paid to the holder shown on the Register at the close of business on the date (the “record date”) being the seventh day before the date on which the Dissolution Distribution Amount or the relevant Periodic Distribution Amount, as the case may be, is paid.

For so long as the Certificates are represented by Global Certificates deposited with a common depository for Euroclear and/or Clearstream, Luxembourg, payments of the Dissolution Distribution Amount and each Periodic Distribution Amount will be made to the person shown on the relevant Register as the registered Certificateholder represented by such Global Certificates at the close of business on the Clearing System Business Day before the due date for such payment (where “Clearing System Business Day” means a day on which the Clearing System with which a Global Certificate is being held is open for business).

For the purposes of this Condition 8, a Certificateholder’s “registered account” means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the relevant record date, and a Certificateholder’s “registered address” means its address appearing on the Register at that time.

8.2 Payments subject to Applicable Laws

Payments in respect of Certificates are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 10.

8.3 Payment only on a Payment Business Day

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following

day which is a Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, in each case by the Principal Paying Agent, on the due date for payment or, in the case of a payment of the Dissolution Distribution Amount, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent for value as soon as practicable thereafter.

Certificateholders will not be entitled to any additional payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the relevant Certificateholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition 8.3 arrives after the due date for payment.

If the amount of the Dissolution Distribution Amount or any Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount in fact paid.

In this Condition 8, “Payment Business Day” means a day on which commercial banks and foreign exchange markets in Hong Kong, London and New York City are open for general business and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

8.4 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time, with the prior written approval of the Delegate (which approval shall not be unreasonably withheld) to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that it will at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity). Notice of any termination or appointment and of any changes in specified offices will be given to Certificateholders by the Issuer in accordance with Condition 16 and the Declaration of Trust.

In acting under the Agency Agreement and in connection with the Certificates, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and the Delegate and do not assume any obligations towards or relationship of agency or trust for or with any of the Certificateholders.

9 Capital Distributions of the Trust

9.1 Scheduled Dissolution

Unless the Certificates are previously redeemed or purchased and cancelled, the Issuer will redeem each Certificate at the Dissolution Distribution Amount on the Periodic Distribution Date falling on [●] (the “Scheduled Dissolution Date”). Upon payment in full of the Dissolution Distribution Amount to the Certificateholders, the Trust will terminate, the Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Issuer and the Trustee shall have no further obligations in respect thereof.

In these Conditions, “Dissolution Date” means any of the Scheduled Dissolution Date and any date specified by the Delegate in accordance with Condition 13 or Condition 9.3 and “Dissolution Distribution Amount” in relation to a Certificate means its outstanding face amount plus all accrued and unpaid Periodic Distribution Amounts in respect of such Certificate.

9.2 Dissolution Following a Dissolution Event

Upon the occurrence of a Dissolution Event (as defined in Condition 13) which is continuing, the Certificates may be redeemed at the Dissolution Distribution Amount and the Trust dissolved as more particularly specified in Condition 13.

9.3 Dissolution following a Total Loss Event

Upon the occurrence of a Total Loss Event and unless the Lease Assets are replaced as provided in the Wakalah Agreement by the 30th day after the occurrence of the Total Loss Event, subject to the Delegate having received the Takaful/Insurance Coverage Amount and/or the Total Loss Shortfall Amount (as described below) and the outstanding Deferred Sale Price from the HKSAR Government in accordance with the terms of the Murabahah Agreement, the Certificates may be redeemed and the Trust dissolved on the date falling 10 days after the receipt of the Takaful/Insurance Coverage Amount and/or the Total Loss Shortfall Amount and the outstanding Deferred Sale Price in the Transaction Account following notification thereof by the Delegate to the Trustee and the HKSAR Government in accordance with the Declaration of Trust and the Certificateholders in accordance with Condition 16. The Certificates will be redeemed at the Dissolution Distribution Amount using the proceeds of takaful/insurance (or the Total Loss Shortfall Amount) payable in respect of the Total Loss Event which (save where the Lease Assets are so replaced) are required to be paid into the Transaction Account by no later than the 30th day after the occurrence of the Total Loss Event and the outstanding Deferred Sale Price required to be paid into the Transaction Account by the HKSAR Government in accordance with the terms of the Murabahah Agreement on such date.

For the purposes of these Conditions, a “Total Loss Event” is the total loss or destruction of, or damage to the whole of, the Lease Assets or any event or occurrence that renders the whole of the Lease Assets permanently unfit for any economic use and (but only after taking into consideration any takaful/insurances or other indemnity granted by any third party in respect of the Lease Assets) the repair or remedial work in respect thereof is wholly uneconomical.

The Wakalah Agreement provides that if the obligations of the Wakeel thereunder are not strictly complied with and as a result any takaful/insurance proceeds credited to the Transaction Account are less than the Takaful/Insurance Coverage Amount (as defined therein) (the difference between the Takaful/Insurance Coverage Amount and the amount (if any) credited to the Transaction Account being the “Total Loss Shortfall Amount”), the Wakeel (unless it is able to prove beyond any doubt that any shortfall in the proceeds of any Takaful/Insurances is not attributable to its negligence or its failing to comply with the terms of the Wakalah Agreement relating to the Takaful/Insurances) shall be responsible for paying the Total Loss Shortfall Amount into the Transaction Account by no later than close of business on the 31st day after the Total Loss Event has occurred.

9.4 No other Dissolution

The Issuer shall not be entitled to redeem the Certificates, and the Trustee shall not be entitled to dissolve the Trust, otherwise than as provided in this Condition 9, Condition 12 and Condition 13.

9.5 Cancellations

All Certificates which are redeemed will forthwith be cancelled and accordingly may not be held, reissued or resold.

10 Taxation

All payments in respect of the Certificates shall be made without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of the HKSAR Government or any political sub-division or authority thereof or therein having power to tax (“Taxes”), unless the withholding or deduction of the Taxes is required by law. In such event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Certificateholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Certificates in the absence of the withholding or deduction, except that no such additional amount shall be payable in relation to any payment in respect of any Certificate:

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

In these Conditions, references to the “Dissolution Distribution Amount” or any “Periodic Distribution Amount” payable in respect of a Certificate shall be deemed to include any additional amounts payable under this Condition 10. In addition, in these Conditions “Relevant Date” means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Delegate on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to Certificateholders by the Issuer in accordance with Condition 16.

The Lease Agreement, the Murabahah Agreement, the Wakalah Agreement and the Purchase Undertaking each provide that (a) payments thereunder by the Lessee, the Commodity Purchaser, the Wakeel and the Obligor, respectively, shall be made without withholding or deduction for, or on account of, any present or future Taxes, unless the withholding or deduction of the Taxes is required by law and, in such case, provide for the payment by the Lessee, the Commodity Purchaser, the Wakeel and the Obligor, respectively, of additional amounts so that the full amount which would otherwise have been due and payable is received by the Issuer and (b) if the Issuer is required to make any payment under the Certificates after deduction or withholding for (i) any taxes or (ii) as otherwise required by applicable law, the Lessee will pay to the Lessor on demand an additional amount of Rental so that the net amount paid by the Issuer will equal the full amount which would have been paid by the Issuer had no such deduction or withholding been made.

11 Prescription

The right to receive distributions in respect of the Certificates will be forfeited unless claimed within periods of ten years (in the case of the Dissolution Distribution Amount) and five years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect thereof, subject to the provisions of Condition 8.

12 Purchase of Certificates

12.1 Purchases

The Issuer or the HKSAR Government (itself or acting through an agent) may at any time purchase Certificates in any manner and at any price. Such Certificates may, at the option of the Issuer or the HKSAR Government, as the case may be, be held, resold or surrendered to the Principal Paying Agent for cancellation. Any Certificates so surrendered will forthwith be cancelled and accordingly may not be reissued or resold.

12.2 Transfer of Lease Assets

Following any purchase of Certificates by or on behalf of the HKSAR Government pursuant to Condition 12.1, the HKSAR Government may oblige the Trustee pursuant to the Substitution and Transfer Undertaking to (a) transfer specified Lease Assets to the FSI (the “Cancellation Lease Assets”) and/or, at the option of the Obligor, (b) reduce the outstanding Deferred Sale Price payable by the Obligor to the Trustee under the Murabahah Agreement in accordance with the Murabahah Agreement, in each case against the delivery of the Certificates so purchased to the Principal Paying Agent for cancellation (the “Cancellation Certificates”), provided that (in the case of (a)) the aggregate value (as determined by reference to the relevant internal government valuation of the Cancellation Lease Assets on the date on which the Cancellation Lease Assets were acquired by the Trustee) of the Cancellation Lease Assets (the identity of which may otherwise be determined by the HKSAR Government in its sole and absolute discretion) is not greater than the aggregate face amount of the Cancellation Certificates.

13 Dissolution Events

Upon the occurrence and continuation of any of the following events (“Dissolution Events”):

- (a) a default is made in the payment of any Periodic Distribution Amount or the Dissolution Distribution Amount and such default is not cured within 30 days of the due date for payment; or
- (b) the failure by the Issuer or the Trustee to observe or perform any other provision of these Conditions or the Declaration of Trust if, where it is not clearly impossible to remedy such failure, it is not remedied within 60 days following delivery to the HKSAR Government of written notice from the Delegate to remedy such; or
- (c) a Hong Kong Event (as defined in the Purchase Undertaking) occurs; or
- (d) (i) the Issuer becomes insolvent or is unable to pay its debts as they fall due, or (ii) an administrator, receiver, liquidator or similar official of the Issuer is appointed (or application for any such appointment is made) with respect to the whole or a substantial part of the undertaking, assets and revenues of the Issuer, or (iii) the Issuer takes any action for a general readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it, (iv) the Issuer ceases or threatens to cease to carry on all or a substantial part of its business (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or
- (e) an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer; or

- (f) at any time it becomes unlawful for the HKSAR Government to perform or comply with any of its payment obligations under the Lease Agreement, the Purchase Undertaking, the Murabahah Agreement or the Wakalah Agreement or any of the payment obligations of the HKSAR Government under the Lease Agreement, the Purchase Undertaking, the Murabahah Agreement or the Wakalah Agreement ceases to be legal, valid, binding and enforceable on it; or
- (g) the Lessee has disposed of the whole of its leasehold interest under the Lease Agreement; or
- (h) the Lessee rejects any Rental Notice when such Rental Notice is given,

the Delegate shall promptly, following it becoming aware thereof, give notice of the occurrence of such Dissolution Event to the holders of Certificates in accordance with Condition 16 with a request to such holders to indicate if they wish the Certificates to be redeemed and the Trust to be dissolved; provided, however, that in the case of an event described in paragraph (b) above and paragraph (b) of the definition of Hong Kong Event, such notice may only be given if the Delegate is of the opinion that the event is materially prejudicial to the interests of the Certificateholders. If so directed or requested to do so (a) by an Extraordinary Resolution or (b) in writing by the holders of not less than 25 per cent. of the aggregate face amount of the Certificates then outstanding (each a "Dissolution Notice"), the Delegate shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) give notice to the Issuer, the Trustee, the HKSAR Government and all the holders of the Certificates in accordance with Condition 16 that the Certificates are to be redeemed in full at the Dissolution Distribution Amount on the date specified in such notice. Upon payment in full of such amounts, the Trust will terminate, the Certificates shall cease to represent the Trust Assets and no further amounts shall be payable in respect thereof and the Issuer and the Trustee shall have no further obligations in respect thereof.

As set out in the Purchase Undertaking, each of the following events or circumstances shall constitute a "Hong Kong Event":

- (a) the failure to pay on the due date any Exercise Price payable by the HKSAR Government pursuant to this Undertaking, the Total Loss Shortfall Amount payable by the HKSAR Government pursuant to the Wakalah Agreement, Rental due by the HKSAR Government under the Lease Agreement (including payment of any additional amount of Rental pursuant to the Lease Agreement in respect of any additional amounts payable by the Issuer under Condition 10) and the outstanding Deferred Sale Price pursuant to the Murabahah Agreement and such failure to pay is not cured within 30 days of the due date for payment;
- (b) the HKSAR Government defaults in the performance of any other covenant or obligation in this Undertaking or the Declaration of Trust, and, if such default is capable of remedy, such default shall continue for a period of 60 days after written notice thereof shall have been given to the HKSAR Government by the Trustee or the Delegate;
- (c) the failure by the HKSAR Government to make any payment when due of principal or financial charge in excess of U.S.\$50,000,000 (or its equivalent in other currencies) (whether upon maturity, acceleration or otherwise) on or in connection with the HKSAR Government Public External Debt, and such failure by the HKSAR Government continues for 30 days or more after the expiry of any applicable grace period following the date on which such payment became due; and
- (d) the HKSAR Government declares a suspension of, or a moratorium with respect to, the payments of the HKSAR Government Public External Debt generally.

14 Enforcement and Exercise of Rights

- 14.1 Following the distribution in full of the proceeds of the Trust Assets in respect of the Certificates to the Certificateholders in accordance with these Conditions and the Declaration of Trust, neither the Trustee nor the Issuer shall be liable for any further sums and, accordingly, Certificateholders may not take any action against the Issuer or the Trustee or any other person to recover any such sum in respect of the Certificates or Trust Assets.
- 14.2 The Delegate shall not be bound in any circumstances to take any action to enforce or to realise the Trust Assets or take any action, step or proceedings against the Issuer, the Trustee and/or the HKSAR Government under any Transaction Document unless directed or requested to do so by a Dissolution Notice and only then if it shall be indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing.
- 14.3 No Certificateholder shall be entitled to proceed directly against the Issuer, the Trustee or the HKSAR Government unless the Delegate, having become bound so to proceed, fails to do so within a reasonable period of becoming so bound and such failure is continuing. Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than pursuant to the Purchase Undertaking) and the sole right of the Trustee, the Delegate and the Certificateholders against the Trustee, the Issuer or the HKSAR Government shall be to enforce their respective obligations under the Transaction Documents to which they are a party.
- 14.4 Conditions 14.1, 14.2 and 14.3 are subject to this Condition 14.4. After enforcing or realising the Trust Assets and distributing the proceeds of the Trust Assets in accordance with Condition 5.2 and the Declaration of Trust, the obligations of the Issuer and the Trustee in respect of the Certificates shall be satisfied and no Certificateholders may take any further steps against the Issuer, the Trustee, the Delegate or any other person to recover any further sums in respect of the Certificates and the right to receive any sums unpaid shall be extinguished.

15 Replacement of Certificates

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

16 Notices

All notices to Certificateholders will be valid if:

- (a) published in a leading English language daily newspaper with general circulation in Hong Kong, Malaysia and United Arab Emirates as the Delegate may approve (and it is expected that such publication will be made in the *Asian Wall Street Journal* and the *Gulf News*) and, so long as the Certificates are listed on the Stock Exchange of Hong Kong Limited, Bursa Malaysia (under an exempt regime) and NASDAQ Dubai and the rules of the relevant exchange so require, the websites of the Stock Exchange of Hong Kong Limited, Bursa Malaysia and NASDAQ Dubai (www.hkex.com.hk; www.bursamalaysia.com; and www.nasdaqdubai.com, respectively); or
- (b) mailed to them by first class pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective registered addresses.

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

So long as the Certificates are represented by one or more Global Certificates held on behalf of Euroclear and/or Clearstream, Luxembourg or its nominee, notices to Certificateholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg, as the case may be, for communication to entitled holders in substitution for notification as set out under (b) above. Any such notice shall be deemed to have been given to the Certificateholders on the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg.

17 Meetings of Certificateholders and Written Resolutions

17.1 Convening Meetings of Certificateholders, Conduct of Meetings of Certificateholders and Written Resolutions

- (a) The Trustee or the HKSAR Government or the Delegate may convene a meeting of the Certificateholders at any time in respect of the Certificates in accordance with the Declaration of Trust. The Trustee or the HKSAR Government or the Delegate, as the case may be, convening the meeting will determine the time and place of the meeting. The Trustee or the HKSAR Government or the Delegate, as the case may be, will notify, in the case of the Trustee, the HKSAR Government and the Delegate or, in the case of the HKSAR Government, the Trustee and the Delegate or, in the case of the Delegate, the Trustee and the HKSAR Government and, in each such case, the Certificateholders of the time, place and purpose of the meeting not less than 21 days and not more than 45 days before the meeting.
- (b) The Trustee, the HKSAR Government or the Delegate (subject to its being indemnified and/or secured and/or prefunded to its satisfaction by the Certificateholders), as the case may be, will convene a meeting of Certificateholders if the holders of at least 10 per cent. in principal amount of the outstanding Certificates (as defined in the Declaration of Trust and described in Condition 17.9) have delivered a written request to the Trustee, the HKSAR Government or the Delegate, as the case may be, setting out the purpose of the meeting. The Delegate will agree the time and place of the meeting with the Trustee promptly. The Trustee, the HKSAR Government or the Delegate, as the case may be, will notify the Certificateholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 days and not more than 45 days after the date on which such notification is given.
- (c) The Trustee or the HKSAR Government, as the case may be, with the agreement of the Delegate will set the procedures governing the conduct of any meeting in accordance with the Declaration of Trust. If the Declaration of Trust does not include such procedures, or additional procedures are required, the Trustee, the HKSAR Government and the Delegate will agree such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Trustee or the HKSAR Government, as the case may be, proposes any modification to the terms and conditions of, or action with respect to, two or more series of securities issued by it.
- (d) The notice convening any meeting will specify, *inter alia*;
 - (i) the date, time and location of the meeting;

- (ii) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;
 - (iii) the record date for the meeting, which shall be no more than five business days before the date of the meeting;
 - (iv) the documentation required to be produced by a Certificateholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Certificateholder's behalf at the meeting;
 - (v) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Certificates are traded and/or held by Certificateholders;
 - (vi) whether Condition 17.2, Condition 17.3 or Condition 17.4 shall apply and, if relevant, in relation to which other series of securities it applies;
 - (vii) if the proposed modification or action relates to two or more series of securities issued by it and contemplates such series of securities being aggregated in more than one group of securities, a description of the proposed treatment of each such group of securities;
 - (viii) such information that is required to be provided by the Trustee or the HKSAR Government, as the case may be, in accordance with Condition 17.6;
 - (ix) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 17.7; and
 - (x) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of securities.
- (e) In addition, the Declaration of Trust contains provisions relating to Written Resolutions. All information to be provided pursuant to Condition 17.1(d) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.
- (f) A "record date" in relation to any proposed modification or action means the date fixed by the Trustee or the HKSAR Government or the Delegate, as the case may be, for determining the Certificateholders and, in the case of a multiple series aggregation, the holders of securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.
- (g) An "Extraordinary Resolution" means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.
- (h) A "Written Resolution" means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.

- (i) Any reference to “securities” means any trust certificates (including, without limitation, the Certificates), notes, bonds, debentures or other debt securities issued by the Trustee or the HKSAR Government, as the case may be, in one or more series with an original stated maturity of more than one year.
- (j) “Securities Capable of Aggregation” means those securities which include or incorporate by reference this Condition 17 and Condition 18 or provisions substantially in these terms which provide for the securities which include such provisions to be capable of being aggregated for voting purposes with other series of securities. For the avoidance of doubt, “Securities Capable of Aggregation” shall include the Certificates.

17.2 Modification of the Certificates

- (a) Any modification of any provision of, or any action in respect of, these Conditions or the Declaration of Trust in respect of the Certificates may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.
- (b) A “Single Series Extraordinary Resolution” means a resolution passed at a meeting of Certificateholders duly convened and held in accordance with the procedures prescribed by the Trustee or the HKSAR Government, as the case may be, and the Delegate pursuant to Condition 17.1 by a majority of:
 - (i) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Certificates; or
 - (ii) in the case of a matter other than a Reserved Matter, more than 66 2/3 per cent. of the aggregate principal amount of the outstanding Certificates.
- (c) A “Single Series Written Resolution” means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:
 - (i) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Certificates; or
 - (ii) in the case of a matter other than a Reserved Matter more than 66 2/3 per cent. of the aggregate principal amount of the outstanding Certificates.

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

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

17.3 Multiple Series Aggregation — Single limb voting

- (a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, provided that the Uniformly Applicable condition is

satisfied and further provided that where one or more of the relevant series consist of Shariah compliant securities, that any new instrument or other action proposed in respect of such Multiple Series Single Limb Extraordinary Resolution or Multiple Series Single Limb Written Resolution will also be in compliance with all relevant Shariah principles.

- (b) A “Multiple Series Single Limb Extraordinary Resolution” means a resolution considered at combined or separate meetings of the holders of each affected series of Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Trustee or the HKSAR Government, as the case may be, and the Delegate pursuant to Condition 17.1, as supplemented if necessary, which is passed by a majority of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Securities Capable of Aggregation (taken in aggregate).
- (c) A “Multiple Series Single Limb Written Resolution” means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Securities Capable of Aggregation, in accordance with the applicable securities documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding securities of all affected series of Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Certificateholders or one or more holders of each affected series of Securities Capable of Aggregation.
- (d) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Certificateholders and holders of each other affected series of Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be.
- (e) The “Uniformly Applicable” condition will be satisfied if:
 - (i) the holders of all affected series of Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (A) the same new instrument or other action or (B) a new instrument, new instruments or other action from an identical menu of instruments or other actions; or
 - (ii) the amendments proposed to the terms and conditions of each affected series of Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance).
- (f) Any modification or action proposed under Condition 17.3 (a) may be made in respect of some series only of the Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 17.3 may be used for different groups of two or more series of Securities Capable of Aggregation simultaneously.

17.4 Multiple Series Aggregation — Two limb voting

- (a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.
 - (b) A “Multiple Series Two Limb Extraordinary Resolution” means a resolution considered at combined or separate meetings of the holders of each affected series of Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Trustee or the HKSAR Government, as the case may be, and the Delegate pursuant to Condition 17.1, as supplemented if necessary, which is passed by a majority of:
 - (i) at least 66 2/3 per cent. of the aggregate principal amount of the outstanding securities of affected series of Securities Capable of Aggregation (taken in aggregate); and
 - (ii) more than 50 per cent. of the aggregate principal amount of the outstanding securities in each affected series of Securities Capable of Aggregation (taken individually).
 - (c) A “Multiple Series Two Limb Written Resolution” means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Securities Capable of Aggregation, in accordance with the applicable securities documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:
 - (i) at least 66 2/3 per cent. of the aggregate principal amount of the outstanding securities of all the affected series of Securities Capable of Aggregation (taken in aggregate); and
 - (ii) more than 50 per cent. of the aggregate principal amount of the outstanding securities in each affected series of Securities Capable of Aggregation (taken individually).
- Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Certificateholders or one or more holders of each affected series of Securities Capable of Aggregation.
- (d) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Certificateholders and holders of each other affected series of Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be.
 - (e) Any modification or action proposed under Condition 17.4(a) may be made in respect of some series only of the Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 17.4 may be used for different groups of two or more series of Securities Capable of Aggregation simultaneously.

17.5 Reserved Matters

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

- (a) to change the Scheduled Dissolution Date or any other date, or the method of determining the Scheduled Dissolution Date or any other date, for payment of the Dissolution Distribution Amount, Periodic Distribution Amounts or any other amount in respect of the Certificates, to reduce or cancel the amount of Dissolution Distribution Amount, Periodic Distribution Amounts or any other amount payable on any date in respect of the Certificates or to change the method of calculating the amount of Dissolution Distribution Amount, Periodic Distribution Amounts or any other amount payable in respect of the Certificates on any date;
- (b) to change the currency in which any amount due in respect of the Certificates is payable or the place in which any payment is to be made;
- (c) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Certificateholders or the number or percentage of votes required to be cast, or the number or percentage of Certificates required to be held, in connection with the taking of any decision or action by or on behalf of the Certificateholders or any of them;
- (d) to change this definition, or the definition of “Extraordinary Resolution”, “Single Series Extraordinary Resolution”, “Multiple Series Single Limb Extraordinary Resolution”, “Multiple Series Two Limb Extraordinary Resolution”, “Written Resolution”, “Single Series Written Resolution”, “Multiple Series Single Limb Written Resolution” or “Multiple Series Two Limb Written Resolution”;
- (e) to change the definition of “securities” or “Securities Capable of Aggregation”;
- (f) to change the definition of “control”, “public sector instrumentality”, “outstanding” or to modify the provisions of Condition 17.9;
- (g) to change the legal ranking of the Certificates or other specified substantive covenants as appropriate, to be determined on a case-by-case basis;
- (h) to change the law governing the Certificates, the courts to the jurisdiction of which the Trustee and the HKSAR Government have submitted in the Certificates, any of the arrangements specified in the Certificates to enable proceedings to be taken, in respect of actions or proceedings brought by any Certificateholder, set out in Condition 21;
- (i) to impose any condition on or otherwise change the Trustee’s obligation to make payments of any amount in respect of the Certificates, including by way of the addition of a call option;
- (j) to modify the provisions of this Condition 17.5;
- (k) except as permitted by any Transaction Document, to release any agreement guaranteeing or securing payments under the Certificates or to change the terms of any such guarantee or security; or
- (l) to change any of the HKSAR Government’s covenants set out in the Lease Agreement or any of its covenants or undertakings to make a payment under any Transaction Document to which it is a party.

17.6 Information

Prior to or on the date that the Trustee or the HKSAR Government, as the case may be, proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 17.2, Condition 17.3 or Condition 17.4, the Trustee or the HKSAR Government, as the case may be, shall publish in accordance with Condition 18, and provide the Delegate with the following information:

- (a) a description of the Trustee's and the HKSAR Government's economic and financial circumstances which are, in the Trustee's and the HKSAR Government's opinion, relevant to the request for any potential modification or action, a description of the Trustee's and the HKSAR Government's existing debts;
- (b) if the Trustee or the HKSAR Government shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement. Where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;
- (c) a description of the Trustee's or the HKSAR Government's proposed treatment of external securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other securities and its other major creditor groups; and
- (d) if any proposed modification or action contemplates securities being aggregated in more than one group of securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Certificateholders in Condition 17.1(d)(vii).

17.7 Claims Valuation

For the purpose of calculating the par value of the Certificates and any affected series of securities which are to be aggregated with the Certificates in accordance with Condition 17.3 and Condition 17.4, the Trustee or the HKSAR Government, as the case may be, may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par value of the Certificates and such affected series of securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Certificates and each other affected series of securities for these purposes, and the same methodology will be promulgated for each affected series of securities.

17.8 Manifest error, etc.

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

17.9 Certificates controlled by the Trustee or the HKSAR Government

For the purposes of (i) determining the right to attend and vote at any meeting of Certificateholders, or the right to sign or confirm in writing, or authorise the signature of,

any Written Resolution and (ii) this Condition 17 and (iii) Condition 13, any Certificates which are for the time being held by or on behalf of the Trustee, the HKSAR Government or by or on behalf of any person which is owned or controlled directly or indirectly by the Trustee, the HKSAR Government or by any public sector instrumentality of the Trustee or the HKSAR Government shall be disregarded and be deemed not to remain outstanding, where:

- (a) “public sector instrumentality” means the Hong Kong Monetary Authority, any other department, ministry or agency of the HKSAR Government or any corporation, trust, financial institution or other entity owned or controlled by the HKSAR Government or any of the foregoing; and
- (b) “control” means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

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

In advance of any meeting of Certificateholders, or in connection with any Written Resolution, the Trustee or the HKSAR Government, as the case may be, shall provide to the Delegate a copy of the certificate prepared pursuant to Condition 18.4, which includes information on the total number of Certificates which are for the time being held by or on behalf of the Trustee or the HKSAR Government, as the case may be, or by or on behalf of any person which is owned or controlled directly or indirectly by the Trustee or the HKSAR Government, as the case may be, or by any public sector instrumentality of the Trustee or the HKSAR Government, as the case may be, and, as such, such Certificates shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Certificateholders or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting. The Delegate shall make any such certificate available for inspection during normal business hours at its principal place of business and, upon reasonable request, will allow copies of such certificate to be taken.

17.10 Publication

The Trustee or the HKSAR Government, as the case may be, shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 18.7.

17.11 Exchange and Conversion

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, these Conditions may be implemented at the option of the Trustee or the HKSAR Government, as the case may be, by way of a mandatory exchange or conversion of the Certificates and each other affected series of securities, as the case may be, into new Shari’a compliant securities containing

the modified terms and conditions if the proposed mandatory exchange or conversion of the Certificates is notified to Certificateholders at the time notification is given to the Certificateholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Certificateholders.

18 Aggregation Agent and Aggregation Procedures

18.1 Appointment

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

18.2 Extraordinary Resolutions

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

18.3 Written Resolutions

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

18.4 Certificate

For the purposes of Condition 18.2 and Condition 18.3, the Trustee and the HKSAR Government will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 17.2, Condition 17.3 or Condition 17.4, as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

- (a) list the total principal amount of Certificates and, in the case of a multiple series aggregation, the total principal amount of each other affected series of securities outstanding on the record date; and
- (b) clearly indicate the Certificates and, in the case of a multiple series aggregation, securities of each other affected series of securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 17.9 on the record date identifying the holders of the Certificates and, in the case of a multiple series aggregation, securities of each other affected series of securities.

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

18.5 Notification

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 18 to be notified to the Delegate, the Trustee and the HKSAR Government as soon as practicable after such determination. Notice thereof shall also promptly be given by the Trustee or the HKSAR Government to the Certificateholders.

18.6 Binding nature of determinations; no liability

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 18 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the HKSAR Government, the Delegate and the Certificateholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

18.7 Manner of publication

The Trustee and the HKSAR Government will publish all notices and other matters required to be published pursuant to the Declaration of Trust including any matters required to be published pursuant to Condition 17, this Condition 18 and Condition 13:

- (a) through Euroclear and/or Clearstream, Luxembourg;
- (b) in such other places and in such other manner as may be required by applicable law or regulation; and
- (c) in such other places and in such other manner as may be customary.

18.8 Notice of adjourned meetings

Notice of any adjourned meeting shall be given in the same manner as notice of an original meeting but as if 10 were substituted for 21 in Condition 17.1(b) and such notice shall state the required quorum.

19 Indemnification and Liability of the Delegate and the Trustee

19.1 The Declaration of Trust contains provisions for the indemnification of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking any action, step or proceeding unless indemnified and/or secured and/or prefunded to its satisfaction.

19.2 The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the HKSAR Government under the Transaction Documents and shall not under any circumstances have any liability or be obliged to account to the Certificateholders in respect of any payments which should have been made by the HKSAR Government but are not so paid and shall not in any circumstances have any liability arising from the Trust Assets other than as expressly provided in the Conditions or in the Declaration of Trust.

19.3 Each of the Trustee and the Delegate is exempted from (i) any liability in respect of any loss or theft of the Trust Assets or any cash, (ii) any obligation to insure the Trust Assets or any cash and (iii) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depository or clearing system or are registered in the name of the Trustee or its nominee, unless such loss or theft arises as a result of default or misconduct by the Trustee or the Delegate, as the case may be.

20 Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

21 Governing Law and Jurisdiction

21.1 Governing Law

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

21.2 Jurisdiction

All parties irrevocably agree that the courts of Hong Kong are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Declaration of Trust and the Certificates and any dispute relating to any non-contractual obligations arising out of or in connection with the Declaration of Trust and the Certificates (for the purpose of this Condition 21.2, a “Dispute”) and accordingly have submitted to the exclusive jurisdiction of the Hong Kong courts. All parties waive any objection to the courts of Hong Kong on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

21.3 Waiver of Interest

Each of the Issuer, the Trustee, the HKSAR Government and the Delegate has irrevocably agreed in the Declaration of Trust that if any proceedings are brought by or on behalf of a party under the Declaration of Trust and in respect of the Certificates it will:

- (a) not claim any judgment interest under, or in connection with, such proceedings; and
- (b) to the fullest extent permitted by law, waive all and any entitlement it may have to judgment interest awarded in its favour as a result of such proceedings.

GLOBAL CERTIFICATE

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

1 Form of the Certificates

The Certificates are sold in offshore transactions in reliance on Regulation S and will be represented by a global certificate in fully registered form (the “**Global Certificate**”), which will be registered in the name of a common depository of Euroclear and Clearstream, Luxembourg. Beneficial interests in the Global Certificate may be held only through Euroclear and Clearstream, Luxembourg at any time.

Beneficial interests in the Global Certificate will be subject to certain restrictions on transfer set out in the Global Certificate and in the Agency Agreement while the Certificates are represented by the Global Certificates. Investors may hold interests in the Global Certificates through Euroclear or Clearstream, Luxembourg if they are participants in those systems. Euroclear and Clearstream, Luxembourg will hold interests in the Global Certificate on behalf of their account holders through customers’ securities accounts in their respective names on the books of their respective depositories.

Upon the issuance of the Global Certificate, Euroclear or Clearstream, Luxembourg, as the case may be, will credit, on its internal system, the respective principal amounts of the individual beneficial interests represented by such Global Certificate to the respective accounts of persons who have accounts with it. Such accounts will be designated by the Joint Lead Managers. Ownership of beneficial interests in the Global Certificate will be shown on, and the transfer of such ownership interests will be effected only through records maintained by Euroclear and Clearstream, Luxembourg (with respect to interests of participants) and on the records of participants (with respect to interests of persons holding through participants).

Potential investors may hold their interest in the Global Certificate directly through Euroclear or Clearstream, Luxembourg, as the case may be, if they are participants in such systems, or indirectly through organisations that are participants in such systems. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to own, transfer or pledge beneficial interests in the Global Certificate.

Payments of any Dissolution Distribution Amount and Periodic Distribution Amount on the Certificates represented by the Global Certificate will be made to Euroclear or Clearstream, Luxembourg or the nominee for their common depository, as the case may be, as the registered owner of such Global Certificate. None of the HKSAR Government, the Trustee, the Delegate, the Registrar, the Paying Agents, the Transfer Agents or any other agent of any of them will have any responsibility or liability for any aspect of the records relating to, or payments made on account of beneficial ownership interests in, the Global Certificate or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Trustee expects that Euroclear, Clearstream, Luxembourg or the nominee of their common depository, upon receipt of any payment of Dissolution Distribution Amount and Periodic Distribution Amount in respect of the Global Certificate, will immediately credit participants’ accounts with payments in amounts proportionate to their respective beneficial interests in such Global Certificate as shown on the records of Euroclear, Clearstream, Luxembourg or such nominee, as the case may be. The Company also expects that payments by participants to owners

of beneficial interests in such Global Certificate held through such participants will be governed by standing customer instructions and customary practices, as is now the case with securities held for the accounts of customers registered in “street name”, and will be the responsibility of such participants.

Euroclear and Clearstream, Luxembourg will take any action permitted to be taken by a Certificateholder only at the direction of one or more participants to whose accounts in Euroclear or Clearstream, Luxembourg, as the case may be, interests in the Global Certificate are credited and only in respect of such portion of the aggregate principal amount of Certificates as to which such participant or participants has or have given such direction.

Although the Trustee understands that Euroclear and Clearstream, Luxembourg will comply with the foregoing procedures in order to facilitate transfers in interests in the Global Certificate among participants of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of any of the HKSAR Government, the Trustee, the Delegate, the Registrar, the Paying Agents, the Transfer Agents or any other agent of any of them will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

In addition, the Global Certificate will contain the following provisions which modify the terms and conditions of the Certificates as they apply to the Certificates evidenced by the Global Certificate.

2 Holders

For so long as all of the Certificates are represented by the Global Certificate and the Global Certificate is registered in the name of a nominee of, and deposited with, a common depository on behalf of Euroclear and Clearstream, Luxembourg, each person (other than another clearing system) who has for the time being a particular aggregate face amount of such Certificate credited to his securities account in the Register (each, a “**Certificateholder**”) shall be treated as the holder of such aggregate face amount of such Certificates (and the expression “**Certificateholders**” and references to “**holding of Certificates**” and to “**holder of Certificates**” shall be construed accordingly) for all purposes other than with respect to payments and/or deliveries on such Certificates, for which purpose the registered holder of the Global Certificate shall be deemed to be the holder of such face amount of the Certificates in accordance with and subject to its terms and the Declaration of Trust.

3 Cancellation

Cancellation of any Certificate represented by the Global Certificate will be effected by reduction in the aggregate face amount of the Certificates in the Register.

4 Payments

Payments of any Dissolution Distribution Amount and Periodic Distribution Amount in respect of Certificates represented by the Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Certificates against presentation and last dissolution, surrender of the Global Certificate at the specified office of the Principal Paying Agent or to the order of the Registrar at such office specified by the Registrar, all subject to and in accordance with the Conditions and the Declaration of Trust.

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

5 Notices

So long as all the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Certificateholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication to entitled holders in substitution for notification as required by the Conditions except that, so long as the Certificates are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given to the Certificateholders on the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg.

6 Registration of Title

The Registrar will not register title to the Certificates in a name other than that of a nominee for the relevant clearing system for a period of 15 calendar days preceding the due date for any payment of any Periodic Distribution Amount in respect of the Certificates.

7 Transfers

Transfers of book-entry interests in the Certificates will be effected through the records of Euroclear and/or Clearstream, Luxembourg in accordance with their respective rules and procedures.

8 Exchange for Definitive Certificates

The Global Certificate will be exchanged in whole (but not in part) for duly authenticated and completed Definitive Certificates in substantially the form (subject to completion) set out in Part 2 of Schedule 1 to the Declaration of Trust, if Euroclear and/or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

Whenever the Global Certificate is to be exchanged for Definitive Certificates, such Definitive Certificates shall be issued in an aggregate principal amount equal to the principal amount of the Global Certificate upon delivery, by or on behalf of the Certificateholder, Euroclear and/or Clearstream, Luxembourg to the Registrar of such information as is required to complete and deliver such Definitive Certificates (including, without limitation, the names and addresses of the persons in whose names the Definitive Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the specified office of the Registrar. Such exchange shall be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Certificates scheduled to the Declaration of Trust and, in particular, shall be effected without charge to any Certificateholder or the Delegate, but against such indemnity and/or security as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange. In this paragraph, "**business day**" means a day on which commercial banks are open for business (including, without limitation, dealings in foreign currencies) in the city in which the Registrar has its specified office.

On exchange in full of the Global Certificate the Registrar shall cancel it.

RATINGS

It is a condition of the issuance of the Certificates that the Certificates are, upon issue, assigned a rating of “AAA” by Standard & Poor’s and AA+ by Fitch Hong Kong.

A rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of prepayment and may be subject to suspension, revision or withdrawal at any time by the assigning rating organisation. A suspension, reduction or withdrawal of the ratings assigned to the Certificates may adversely affect the market price of the Certificates. See “Investment Considerations — Investment considerations relating to the Certificates — The ratings on the Certificates may be changed at any time and may adversely affect the market value of the Certificates”.

DESCRIPTION OF THE ISSUER

History

Hong Kong Sukuk 2017 Limited (the “**Issuer**”) was incorporated on 2 December 2016 in Hong Kong under the Companies Ordinance which provides for, among others, the constitution of companies, directors’ liabilities and powers, creditors’ rights and liquidation. It also provides that a company incorporated in Hong Kong, such as the Issuer, has the capacity and the rights, powers and privileges of a natural person which include the capacity, right and power to enter into financial transactions. The Issuer is constituted pursuant to its articles of association. The articles of association provide that the Issuer’s power to borrow and issue securities is exercised by its directors.

The Issuer is a special purpose vehicle formed primarily for the purpose of participating in the transactions contemplated by the Transaction Documents. The Issuer is wholly owned by the FSI. The Issuer has issued share capital of HK\$1.00, consisting of one share, which is fully paid up.

The registered address of the Issuer is 82/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

Business Activity

Since its establishment, the Issuer has not engaged in any material activities other than those regarding or incidental to the issue of the Certificates and the matters contemplated in this Offering Circular and the Transaction Documents and the authorisation of its entry into the other transactions and documents referred to in this Offering Circular to which it is or will be a party.

The Issuer has no prior operating history or prior business and will not have any substantial liabilities other than in connection with the issue of the Certificate. The Issuer has no subsidiaries and no employees.

Board and Management

The management of the Issuer is vested in the board of directors, which comprises:

Yue Wai Man Eddie, Director Deputy Chief Executive, HKMA

Lee Wing Sing Vincent, Director Executive Director (External), HKMA

Fung Enoch Yan Lok, Director Head (Market Development), HKMA

Financial Statements

The Issuer prepares audited financial statements in respect of the end of each fiscal year. The fiscal years of the Issuer end on 31 March of each year. As at the date of this Offering Circular, the Issuer has not published and does not propose to publish any financial statements.

As at the date of this Offering Circular, the Issuer does not have any indebtedness, bank overdrafts, borrowings, guarantees or contingent liabilities.

DESCRIPTION OF THE FINANCIAL SECRETARY AND THE FINANCIAL SECRETARY INCORPORATED

The Financial Secretary

The Financial Secretary is a principal government official whose primary responsibility is to assist the Chief Executive of the HKSAR Government in overseeing policy formulation and implementation in financial, monetary, economic, trade and employment matters. He exercises control over the Exchange Fund, with the assistance of the Monetary Authority.

The Certificates will be issued under the Government Bond Programme (the “**GB Programme**”) which was established in 2009 to facilitate the issuance of bonds by the HKSAR Government. Pursuant to a resolution passed by LegCo under the Loans Ordinance (Cap. 61 of the Laws of Hong Kong) (the “**Loans Ordinance**”) on 22 May 2013, the HKSAR Government is currently authorised to borrow up to HK\$200 billion, or the equivalent in other currencies, under the GB Programme, and to credit such amounts to the Bond Fund. The Bond Fund was established pursuant to a resolution (the “**Bond Fund Resolution**”) passed by LegCo on 8 July 2009 under section 29 of the Public Finance Ordinance (Cap. 2 of the Laws of Hong Kong). On 26 March 2014, the Loans (Amendment) Bill 2014 was passed by LegCo to put in place a legal framework for alternative bond issuances under the GB Programme. Pursuant to the Loans Ordinance, any agreement between the HKSAR Government and a lender in respect of sums borrowed under the powers conferred by the Loans Ordinance shall be made in the name of the HKSAR Government and may be signed on behalf of the HKSAR Government by the Financial Secretary or by any person authorised by him in writing.

The obligor under the Certificates will be the HKSAR Government and Certificateholders will have recourse against the HKSAR Government. The HKSAR Government will therefore be the party entering into the Lease Agreement, the Purchase Undertaking and the Wakalah Agreement and the Financial Secretary will sign such documents on behalf of the HKSAR Government in accordance with the Loans Ordinance. Pursuant to the Bond Fund Resolution, the Financial Secretary may expend money from the Bond Fund for the purposes of making certain payments in relation to any sums that have been borrowed under the Loans Ordinance for the purposes of the Bond Fund. Should there be any shortfall of funds in the Bond Fund, pursuant to the Loans Ordinance, any sum borrowed thereunder and all interest and other charges thereon are charged upon and shall be payable out of the general revenues and assets of Hong Kong.

The Financial Secretary Incorporated

The Financial Secretary Incorporated (the “**FSI**”) is a corporation sole established under the Financial Secretary Incorporation Ordinance (Cap. 1015 of the Laws of Hong Kong) (the “**FSI Ordinance**”) by the incorporation of the Financial Secretary under that title. The FSI has the capacity pursuant to the FSI Ordinance to acquire, hold, dispose of and otherwise deal with securities and other property, to execute deeds and agreements and to do all other acts necessary or expedient to be done in the execution of such duties.

Therefore, any documents relating to the disposal or acquisition of any of the Lease Assets, namely, the Purchase Agreement, the sale agreement under the Purchase Undertaking and the transfer agreement under the Substitution and Transfer Undertaking, will be entered into by the FSI in accordance with the FSI Ordinance for the HKSAR Government.

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection and/or collection at the offices of the Principal Paying Agent (as defined in the Conditions).

Purchase Agreement

The Purchase Agreement will be entered into on the Closing Date between the Trustee (in its capacity as Purchaser) and the FSI (in its capacity as Seller) and will be governed by Hong Kong law.

Pursuant to the Purchase Agreement, the Seller will sell, transfer and convey to the Purchaser, and the Purchaser will purchase from the Seller, and accept the transfer and conveyance of, on the date of the Purchase Agreement, the beneficial ownership in and to the land and buildings described in the Purchase Agreement for U.S.\$[●], which shall be payable on the Closing Date, free and clear of all encumbrances or any other rights of third parties. The assets being the subject of the Purchase Agreement comprise certain land and buildings used by various government departments as offices, the details of which are set out in the Purchase Agreement (see “*Structure Diagram and Cash Flows — Principal cash flows — Payments by the Certificateholders and the Issuer*”).

Lease Agreement

The Lease Agreement will be entered into on the Closing Date between the HKSAR Government (in its capacity as Lessee), the Trustee (in its capacity as Lessor), the Delegate and the Wakeel and will be governed by Hong Kong law.

Under the terms of the Lease Agreement, the Lessor will lease to the Lessee, and the Lessee will lease from the Lessor, the assets purchased pursuant to the Purchase Agreement (the “**Lease Assets**”) on the basis of consecutive six-month rental periods for a cumulative period commencing on the Closing Date and extending to the Scheduled Dissolution Date unless (i) the Lease is terminated on an earlier date (as a result of the occurrence of a Dissolution Event or Total Loss Event) or (ii) the Lease is extended in accordance with the Purchase Undertaking where the HKSAR Government (in its capacity as Obligor) fails to pay all or part of the Exercise Price when due or the outstanding Deferred Sale Price in accordance with the terms of the Murabahah Agreement or fails to complete or execute the Sale Agreement pursuant to the Purchase Undertaking (See “*Summary of the Principal Transaction Documents — Purchase Undertaking*”), in which case it shall mean the last day of the Additional Lease Period (as defined in the Purchase Undertaking) (the “**Lease Term**”).

The Lessee will agree to use the Lease Assets at its own risk. Accordingly, the Lessee shall bear the entire risk of loss of or damage to the Lease Assets or any part thereof arising from the negligent usage or operation thereof by the Lessee. In addition, the Lessor shall not be liable (and the Lessee will waive any claim or right, howsoever arising, to the contrary) for any indirect, consequential or other losses, howsoever arising, in connection with the Lessee’s negligent use or operation of the Lease Assets.

The Lessee shall, at its own cost and expense, be responsible for the performance of all Ordinary Maintenance and Repair (as defined in the Lease Agreement) required for the Lease Assets.

The Lessor shall be responsible for (i) the performance of all Major Maintenance and Structural Repair (as defined in the Lease Agreement), (ii) the payment of any proprietorship or other relevant taxes and levies, and (iii) insuring the Lease Assets, and the Lessee will acknowledge that the Lessor may procure that the Wakeel, in accordance with the terms and conditions set out in the Wakalah Agreement, shall perform, or shall procure the performance of, the Major Maintenance and Structural Repair, the payment of such taxes and levies and the takaful/insurance of the Lease Assets, in each case on behalf of the Lessor.

The Lessor acknowledges and agrees that the Lessee may from time to time modify, reconstruct or rebuild the buildings, improvements and fixtures located on any of the Lease Assets (which are real properties) and permits any such modification by the Lessee.

All payments by the Lessee to the Lessor under the Lease Agreement shall be paid in full without any deduction or withholding for or on account of any tax unless required by law and without set-off (save in respect of the set-off of any Wakalah Services Charge Amount (as defined in the Wakalah Agreement) and the Fixed Services Fee against the payment of any Supplementary Rental (as defined in the Lease Agreement) as provided in the Wakalah Agreement) or counterclaim of any kind and, in the event that there is any deduction or withholding for or on account of tax, the Lessee shall pay all additional amounts as will result in the receipt by the Lessor of such net amounts as would have been received by it if no deduction or withholding had been made. The payment obligations of the Lessee under the Lease Agreement will be direct, unconditional, unsubordinated and unsecured obligations of the Lessee and (save for such mandatory exceptions as may be provided by applicable legislation and regulations) shall at all times rank at least *pari passu* with all other unsecured External Debt of the Lessee from time to time outstanding.

The rental payable under the Lease Agreement will be used, together with any other amounts payable under the Wakalah Portfolio, for the payment of the Periodic Distribution Amounts payable on the Periodic Distribution Dates. The Lessee will be obligated to pay such rentals on each Rental Payment Date or any earlier date on which the lease of the Lease Assets is terminated in accordance with the terms of the Lease Agreement.

The Lease Agreement provides that it shall automatically terminate, but without prejudice to any right or remedy the Lessor may have under any Transaction Document or by law, if a Total Loss Event occurs and (unless the Lease Assets are replaced as provided in the Wakalah Agreement by no later than the 30th day after the occurrence of the Total Loss Event) the Lessor will be entitled to any takaful/insurance proceeds payable as a result of the Total Loss Event. The Lease Agreement may not otherwise be terminated prior to the expiry of the Lease Term unless the Certificates have been redeemed in full and all the parties to the Lease Agreement agree that it shall be so terminated.

Murabahah Agreement

The Murabahah Agreement will be entered into on the Closing Date between the Trustee (in its capacity as Commodity Seller), the HKSAR Government (in its capacity as Commodity Purchaser), Deutsche Bank AG, London Branch (in its capacity as Commodity Agent) and the Wakeel and will be governed by Hong Kong law.

Under the terms of the Murabahah Agreement, the Commodity Purchaser will request the Trustee, through the Commodity Agent, to purchase commodities no later than the Closing Date for an amount that is no more than 66 per cent. of the issue proceeds of the Certificates, as applicable, and irrevocably and unconditionally undertakes to purchase such commodities from the Commodity Seller (once they have been acquired by the Commodity Seller) for a deferred sale price equal to the aggregate of the Purchase Price plus one per cent. of the issue price of the Certificates.

The Commodity Seller (or the Commodity Agent acting in its capacity as agent of the Commodity Seller) will purchase commodities from certain vendors on immediate delivery and immediate payment terms and will on-sell such Commodities to the Commodity Purchaser no later than the Closing Date for the Deferred Sale Price on immediate delivery terms but with payment on a deferred basis such that the outstanding Deferred Sale Price will be due and payable on a Dissolution Date or otherwise in accordance with the Murabahah Agreement.

The Commodity Purchaser will irrevocably and unconditionally undertake to pay to the Commodity Seller the outstanding Deferred Sale Price on a Dissolution Date or otherwise in accordance with the Murabahah Agreement.

Upon the delivery by the Obligor to the Trustee of a Cancellation Notice (as defined in the Substitution and Transfer Undertaking) pursuant to the Substitution and Transfer Undertaking, the parties to the Murabahah Agreement agree that any portion of the then outstanding Deferred Sale Price (the “**Cancellation Amount**”) specified in such Cancellation Notice shall become due and payable by the Commodity Purchaser to the Commodity Seller on the relevant Certificate Cancellation Date (as defined in the Substitution and Transfer Undertaking) as specified in such Cancellation Notice. The outstanding Deferred Sale Price payable by the Commodity Purchaser to the Commodity Seller shall be reduced by the Cancellation Amount specified in such Cancellation Notice(s).

The Declaration of Trust

The Declaration of Trust will be entered into on the Closing Date between the HKSAR Government, the Issuer, the Trustee and the Delegate and will be governed by English law.

Pursuant to the Declaration of Trust, the Trustee will declare the Trust for the benefit of the Certificateholders over all of its rights, title, interest and benefit, present and future, in, to and under the Lease Assets and the Transaction Documents (other than in relation to any representations given to the Trustee by the FSI or the HKSAR Government pursuant to any of the Transaction Documents), all monies standing to the credit of the Transaction Account from time to time and all proceeds of the foregoing (“**Trust Assets**”).

Pursuant to the Declaration of Trust, the Trustee will, in relation to the Certificate(s), *inter alia*:

- (a) hold the Trust Assets on trust absolutely for the Certificateholders as owners and beneficiaries *pro rata* according to the face amount of Certificates held by each Certificateholder; and
- (b) act as trustee in respect of the Trust Assets, distribute the income from the Trust Assets and perform its duties in accordance with the provisions of the Declaration of Trust.

In the Declaration of Trust, the Trustee by way of security for the performance of all covenants and obligations of the Trustee will irrevocably and unconditionally appoint the Delegate to be its delegate and attorney and in its name and on its behalf execute, deliver and perfect all documents and to exercise all of the present and future powers, authorities and discretions (including but not limited to the authority to request instructions from any Certificateholders and the power to sub-delegate and to make any determinations to be made under the Declaration of Trust) vested in the Trustee by the Declaration of Trust that the Delegate may consider to be necessary or desirable in order to perform the present and future powers, authorities and discretions vested in the Trustee by the relevant provisions of the Declaration of Trust (provided that no obligations, duties or covenants of the Trustee pursuant to the Declaration of Trust shall be imposed on the Delegate by virtue of this delegation) and make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Declaration of Trust. The appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee’s continuing role and obligations as sole trustee.

The Delegate will undertake in the Declaration of Trust that, following it becoming aware of the occurrence of a Dissolution Event in respect of any Certificates and subject to Condition 13, it shall (a) promptly notify the Certificateholders of the occurrence of such Dissolution Event with a request to such Certificateholders to indicate if they wish the Certificates to be redeemed and the Trust to be dissolved, and (b) subject to being indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing, take all such actions, steps or proceedings as are necessary to enforce the obligations of the HKSAR Government and/or the FSI under the Declaration of Trust and any other Transaction Document to which the HKSAR Government and/or the FSI is a party.

The Declaration of Trust specifies, *inter alia*, that:

- (a) following the distribution in full of the proceeds of the Trust Assets in respect of the Certificates to the Certificateholders in accordance with the Conditions and the Declaration of Trust, the Issuer shall not be liable for any further sums and, accordingly, the Certificateholders may not take any action against the Issuer, the Trustee, the Delegate or any other person to recover any such sum in respect of the Certificates or the Trust Assets;
- (b) no Certificateholder shall be entitled to proceed directly against the Issuer, the FSI and/or the HKSAR Government unless the Delegate having become bound so to proceed, fails to do so within a reasonable period of becoming so bound and such failure is continuing. Under no circumstances shall the Delegate or any Certificateholders have any right to cause the sale or other disposition of any of the Trust Assets (other than pursuant to the Purchase Undertaking), and the sole right of the Trustee, the Delegate and the Certificateholders against the Trustee, the Issuer, the FSI or the HKSAR Government shall be to enforce their respective obligations under the Transaction Documents to which the Issuer, the Trustee, the FSI or the HKSAR Government are a party;
- (c) the Delegate shall not be bound in any circumstances to take any action to enforce or realise the Trust Assets or take any action, step or proceedings against the Issuer, the Trustee, the FSI and/or the HKSAR Government under any Transaction Document unless directed or requested to do so by a Dissolution Notice and then only if it is indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing; and
- (d) after enforcing or realising the Trust Assets and distributing the proceeds of the Trust Assets in accordance with Condition 5.2 and the terms of the Declaration of Trust, the obligations of the Issuer, the Trustee and the Delegate in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Issuer, the Trustee or the Delegate or any other person to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished.

Purchase Undertaking

The Purchase Undertaking will be executed on the Closing Date by the HKSAR Government (the “**Obligor**”) in favour of the Trustee and the Delegate and will be governed by English law.

The Obligor will irrevocably and unconditionally grant to the Trustee and the Delegate the rights to require the Obligor to purchase or procure the purchase of the Lease Assets from the Trustee on the Scheduled Dissolution Date or any earlier due date for dissolution following the occurrence of a Dissolution Event, as the case may be, at the Exercise Price (being the aggregate face amount of the Certificates then outstanding plus all accrued but unpaid Periodic Distribution Amounts (if any) relating to the Certificates plus any Wakalah Services Charge Amount in respect of which a supplementary rental payment has not been made in accordance with the Lease Agreement less an amount equal to the outstanding Deferred Sale Price due under the Murabahah Agreement). If the Delegate exercises its option prior to the Scheduled Dissolution Date, an exercise notice will be required to be delivered by the Delegate under the Purchase Undertaking.

The Obligor will undertake in the Purchase Undertaking that if it fails to pay all or part of any Exercise Price when due or the outstanding Deferred Sale Price in accordance with the terms of the Murabahah Agreement (the “**Outstanding Exercise Price**”) or fails to complete or execute the Sale Agreement pursuant to the Purchase Undertaking, it will irrevocably, unconditionally and automatically continue to lease the Relevant Lease Assets from the Trustee and act as wakeel in

respect of the Relevant Lease Assets with effect from the date immediately following the due date for payment of the Outstanding Exercise Price on the terms and conditions, *mutatis mutandis*, of the Lease Agreement and Wakalah Agreement until payment of the Exercise Price in full is made by it. For this purpose, “**Relevant Lease Assets**” means the Lease Assets.

The Obligor will agree in the Purchase Undertaking that all payments by it under the Purchase Undertaking will be made without any deduction or withholding for or on account of tax unless required by law and without set-off (save as described above) or counterclaim of any kind and, in the event that there is any deduction or withholding for or on account of tax, the Obligor shall pay all additional amounts as will result in the receipt by the Issuer of such net amounts as would have been received by it if no deduction or withholding had been made. The payment obligations of the Obligor under the Purchase Undertaking are and will be direct, unconditional, unsubordinated and unsecured obligations of the Obligor and will be backed by the general revenues and assets of Hong Kong and the full faith and credit of the Obligor and shall at all times rank at least *pari passu* with all other unsecured External Debt of the Obligor from time to time outstanding, provided, however, that, the Obligor shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other unsecured External Debt and, in particular, shall have no obligation to pay other unsecured External Debt of the Obligor at the same time or as a condition of paying sums due under the Transaction Documents and vice versa.

The Obligor has agreed in the Purchase Undertaking that each of the following events shall constitute a Hong Kong Event:

- (a) the failure to pay on the due date any Exercise Price payable by the HKSAR Government pursuant to the Purchase Undertaking, the Total Loss Shortfall Amount payable by the HKSAR Government pursuant to the Wakalah Agreement, Rental due by the HKSAR Government under the Lease Agreement (including payment of any additional amount of Rental pursuant to the Lease Agreement in respect of any additional amounts payable by the Issuer under Condition 10) and the outstanding Deferred Sale Price pursuant to the Murabahah Agreement and such other failure to pay is not cured within 30 days of the due date for payment;
- (b) the HKSAR Government defaults in the performance of any other covenant or obligation in the Purchase Undertaking or the Declaration of Trust, and, if such default is capable of remedy, such default shall continue for a period of 60 days after written notice thereof shall have been given to the HKSAR Government by the Trustee or the Delegate;
- (c) the failure by the HKSAR Government to make any payment when due of principal or financial charge in excess of U.S.\$50,000,000 (or its equivalent in other currencies) (whether upon maturity, acceleration or otherwise) on or in connection with the HKSAR Government Public External Debt, and such failure by the HKSAR Government continues for 30 days or more after the expiry of any applicable grace period following the date on which such payment became due; and
- (d) the HKSAR Government declares a suspension of, or a moratorium with respect to, the payments of the HKSAR Government Public External Debt generally.

Substitution and Transfer Undertaking

The Substitution and Transfer Undertaking will be executed on the Closing Date by the Trustee in favour of the Obligor and will be governed by Hong Kong law.

Pursuant to the Substitution and Transfer Undertaking, the Obligor may, by exercising its rights under the Substitution and Transfer Undertaking, oblige the Trustee to transfer the relevant Lease Assets to

the Obligor upon the issue of an Exercise Notice by the Obligor on (i) their substitution with assets of a value not less than the value of such Lease Assets or (ii) the delivery to the Principal Paying Agent for cancellation of Certificates with an aggregate face amount not greater than the value of such Lease Assets.

Pursuant to the Substitution and Transfer Undertaking, the Obligor may also, by exercising its rights under the Substitution and Transfer Undertaking, upon the issue of a Cancellation Notice by the Obligor on the delivery to the Principal Paying Agent for cancellation of Certificates request the Trustee to reduce the outstanding Deferred Sale Price payable by the Obligor to the Trustee in the amount specified in a Cancellation Notice, in accordance with the Murabahah Agreement. Any such Cancellation Amount shall become due and payable in accordance with the Murabahah Agreement. See “— *Murabahah Agreement*”.

The Obligor shall not exercise its right to require the Trustee to transfer to the Obligor the Lease Assets or reduce the outstanding Deferred Sale Price payable by the Obligor to the Trustee if the provisions of the Wakalah Agreement would be breached by such transfer or reduction.

Wakalah Agreement

The Wakalah Agreement will be entered into on the Closing Date by the HKSAR Government (in its capacity as Wakeel) and the Trustee (in its capacity as Lessor) and will be governed by Hong Kong law.

The Trustee will appoint the Wakeel as its attorney to execute, and will grant the Wakeel the power to execute, the Lease Agreement and the Murabahah Documents (other than the Letter of Offer and Acceptance (as defined in the Murabahah Agreement)) on its behalf. The Trustee will also appoint the Wakeel as its attorney to deliver the Lease Agreement and the Murabahah Documents (in each case, if a deed) on its behalf.

Pursuant to the Wakalah Agreement, the Wakeel will be responsible on behalf of the Lessor for managing the Lease Assets, collecting Rental carrying out all Major Maintenance and Structural Repair (as defined in the Lease Agreement), the payment of Proprietorship Taxes and Levies (if any) charged, levied or claimed in respect of the Lease Assets and for effecting all appropriate takaful/insurances in respect of the Lease Assets, as well as entering into the Murabahah Contract on behalf of the Trustee and ensuring the timely receipt of the outstanding Deferred Sale Price due under the Murabahah Contract.

Notwithstanding the appointment of the Wakeel, the Lessee shall, at its own cost and expense, be responsible for the performance of all Ordinary Maintenance and Repair required for the Lease Assets.

The Wakalah Agreement provides that if on the occurrence of a Total Loss Event the Wakeel receives notice from the HKSAR Government that Replacement Lease Assets (as defined in the Wakalah Agreement) are available on or before the 30th day after the occurrence of the Total Loss Event, the Trustee shall purchase such Replacement Lease Assets from the HKSAR Government by way of the payment by the Wakeel on behalf of the Trustee of the relevant takaful/insurance proceeds (or the assignment of the rights to such takaful/insurance proceeds) to the HKSAR Government and the transfer to the HKSAR Government by the Trustee of any residual interest it may hold in the Lease Assets (including any remaining rights in respect of any takaful/insurance proceeds) on the terms and subject to the conditions of an agreement substantially in the form of the Purchase Agreement in consideration for the sale, transfer and assignment by the HKSAR Government of the Replacement Lease Assets to the Trustee.

Any amount remaining credited to the Transaction Account shall be paid to the Wakeel as an incentive fee (the “**Incentive Fee**”) for acting as Wakeel subsequent to application of the monies standing to the credit of the Transaction Account in accordance with the Conditions on the Dissolution Date.

The Wakalah Agreement further provides that the Wakeel shall ensure that the Tangible Asset Ratio shall remain at all times at least 33 per cent.

“**Tangible Asset Ratio**” means the ratio of the value of the Lease Assets (as determined by reference to the relevant internal government valuation of the Lease Assets on the date on which the Lease Assets were acquired by the Issuer) to the aggregate of the value of the Lease Assets (as determined by reference to the relevant internal government valuation of the Lease Assets on the date on which the Lease Assets were acquired by the Issuer) and the outstanding Deferred Sale Price.

Agency Agreement

The Agency Agreement will be executed on the Closing Date between the HKSAR Government, the Issuer, the Trustee, the Delegate, the Principal Paying Agent, the Registrar and the Transfer Agent and will be governed by English law.

Pursuant to the Agency Agreement, provision will be made for, *inter alia*, payment of all sums due in respect of the Certificates.

USE OF PROCEEDS

The gross proceeds of the issue of the Certificates will be applied by the Issuer on the Closing Date in the following proportion: (i) no less than 34 per cent. to the FSI as the purchase price for the Lease Assets pursuant to the Purchase Agreement and (ii) the remaining of not more than 66 per cent. for the acquisition of commodities to sell to the HKSAR Government pursuant to the Murabahah Agreement.

The proceeds received by the FSI from the sale of the Lease Assets and the proceeds received by the HKSAR Government under the Murabahah Agreement will be credited to the Bond Fund (set up pursuant to resolution (Cap. 2S) passed on 8 July 2009 under section 29 of the Public Finance Ordinance (Cap. 2)) and then placed with the Exchange Fund.

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

A. Constitution and Legal System

On 1 July 1997 Hong Kong became a Special Administrative Region of the PRC in accordance with Article 31 of the Constitution of the PRC.

Hong Kong enjoys a high degree of autonomy and is vested with executive, legislative and independent judicial power including that of final adjudication. The basic policies of the PRC regarding Hong Kong are 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 and is a constitutional document for Hong Kong. While 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 also authorises 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 HKSAR enjoys a high degree of autonomy and shall be vested with executive power, legislative power and independent judicial power, including that of final adjudication. The Central People's Government of the PRC is responsible for the foreign affairs and defence of the HKSAR. The Hong Kong dollar continues to circulate as the legal tender in HKSAR. No foreign exchange control policies are applied in Hong Kong and the Hong Kong dollar remains freely convertible. Hong Kong retains autonomy over monetary and financial policies and may enact laws on its own on matters of taxation. Under the "one country, two systems" principle, the Mainland's socialist system and policies are not to be practised in the HKSAR and the previous capitalist system and way of life are to remain unchanged for 50 years from the HKSAR's formal establishment on 1 July 1997.

The legal system of Hong Kong is based on the rule of law and the independence of the judiciary. The common law, rules of equity, customary law and nearly all of the over 600 ordinances that were in force in Hong Kong before 1 July 1997 have been maintained by the Basic Law and continue to apply after 1 July 1997, except for any that contravenes the Basic Law. The laws in force in Hong Kong include the Basic Law, laws previously in force as maintained by the Basic Law, the national laws listed in Annex III to the Basic Law and laws enacted by the Legislative Council ("**LegCo**").

Proceedings against the HKSAR Government

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

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

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

- an order for the payment of money cannot be enforced against the HKSAR Government by usual modes of enforcing a judgment. Section 21 of the CPO provides that if an order is made against the HKSAR Government, the proper officer of the courts of the HKSAR will, upon application, issue to the successful plaintiff a certificate containing particulars of the order. If the order

provides for payment of money, the certificate will state the amount payable and the Director of Accounting Services shall pay the sum shown to be due, subject to appeal. No process of execution or attachment can be carried out to enforce satisfaction against the HKSAR Government of any judgment;

- in civil proceedings against the HKSAR Government, the HKSAR courts have no power to:
 - a. grant an injunction or to make an order for specific performance but may, instead, make an order declaratory of the rights of the parties, or
 - b. make an order for the recovery of land or the delivery of other property but may, instead, make an order declaring that the plaintiff is entitled as against the HKSAR Government to the land or property or to the possession of the same;
- no default judgments can be entered against the HKSAR Government, except with the permission of the court;
- no third party proceedings can be commenced against the HKSAR Government, except with the permission of the court; and
- no summary judgments can be entered against the HKSAR Government.

B. Hong Kong Economy

The HKSAR Government maintains one of the world’s most open economies and a business-friendly environment characterised by a relatively high degree of free trade and free flow of information, an established financial regulatory regime and legal system and a developed transportation and telecommunications infrastructure. In 2015, Hong Kong was ranked the eighth largest trading economy in the world by the World Trade Organization based on the value of total merchandise trade, and was home to the fifth busiest container port in the world in terms of throughput.

Hong Kong is an important hub for trade and business. Hong Kong has been ranked the world’s freest economy for the past twenty-two years by the Heritage Foundation, based on 10 economic freedoms grouped under four categories: rule of law, government size, regulatory efficiency and market openness. The International Institute for Management Development also recognised Hong Kong’s leading position in financial services. According to its World Competitiveness Yearbook 2016, Hong Kong is not only the world’s most competitive economy, but it also tops the ranking in finance efficiency.

As of the date of this offering circular, Fitch, Moody’s and S&P have each assigned the following long-term local currency credit ratings to the HKSAR Government:

	<u>Long-term</u>	<u>Outlook</u>
Fitch:	AA+	Stable
Moody’s:	Aa1	Negative
S&P:	AAA	Negative

GDP

Over the past two decades, the Hong Kong economy (as measured by real GDP) has almost doubled in size. In 2015, Hong Kong's real GDP grew by 2.4 per cent. Meanwhile, Hong Kong's nominal GDP (i.e. at current market prices) reached HK\$2,397.1 billion and its per capita nominal GDP of HK\$328,117 (U.S.\$42,327) ⁽¹⁾ was amongst the highest in Asia.

The table below sets out the nominal GDP and growth rates of real GDP with respect to Hong Kong for the past five years:

Selected 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
Real GDP growth (%)	4.8	1.7	3.1	2.7	2.4

Note:

1. The Hong Kong dollar amount has been translated to U.S. dollar amount based on an exchange rate of HK\$7.752 = U.S.\$1.00.

Source: Census and Statistics Department.

GDP by Economic Sector

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

GDP by Economic Sector⁽¹⁾

	For the year ended 31 December				
	2011	2012	2013	2014	2015
	(percentage of total GDP)				
Agriculture, fishing, mining and quarrying	0.0*	0.1	0.1	0.1	0.1
Manufacturing	1.6	1.5	1.4	1.3	1.2
Electricity, gas and water supply, and waste management	1.8	1.8	1.7	1.6	1.5
Construction	3.4	3.6	4.0	4.4	4.8
Services	93.1	93.0	92.9	92.7	92.5
Gross Domestic Product at basic prices	100	100	100	100	100

Note:

1. * refers to a percentage contribution of less than 0.05 per cent.

Source: Census and Statistics Department.

GDP by Constituent Service Sector

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

GDP by Constituent Service Sector

	For the year ended 31 December				
	2011	2012	2013	2014	2015
	(percentage of total GDP)				
Import/export, wholesale and retail trades	25.9	25.4	25.0	24.1	22.7
Accommodation and food services ⁽¹⁾	3.5	3.6	3.6	3.6	3.4
Transportation, storage, postal and courier services	6.3	6.0	6.0	6.2	6.5
Information and communications	3.3	3.5	3.6	3.5	3.5
Financing and insurance	16.1	15.9	16.5	16.7	17.6
Real estate, professional and business services	11.3	11.5	10.8	10.9	10.9
Public administration, social and personal services	16.5	16.8	17.0	17.2	17.4
Ownership of premises	10.3	10.3	10.4	10.5	10.6
Services	93.1	93.0	92.9	92.7	92.5

Note:

1. Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

Source: Census and Statistics Department.

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, Hong Kong has exhibited a high degree of resilience in the face of external shocks. This can be seen in its relatively fast and broad-based recovery where real GDP rebounded in 2010 with 6.8 per cent. growth, compared to the 2.5 per cent. real GDP decrease in 2009, and the economy registered a further above-trend growth in 2011. Amid a difficult external environment, real GDP expanded moderately by 2.7 per cent. and 2.4 per cent. in 2014 and 2015 respectively.

Employment and Earnings

Unemployment Rate

The table below shows the unemployment rates for the periods indicated:

Labour Force, Employment and Unemployment

	For the year ended 31 December					Q3
	2011	2012	2013	2014	2015	2016
Unemployment rate (per cent.) ⁽¹⁾	3.4	3.3	3.4	3.3	3.3	3.4

Note:

1. Quarterly unemployment rates are seasonally adjusted.

Source: General Household Survey, Census and Statistics Department.

As the economy recovered from the 2008 Global Financial Crisis, the unemployment rate has generally declined and remained relatively low since 2011.

Employment by Sector

Hong Kong's services sector is among the most developed in Asia. Of those employed in 2015, 88.4 per cent. were engaged in the services sector. Only 2.7 per cent. worked in the manufacturing sector, 8.3 per cent. in the construction sector and 0.5 per cent. in other sectors.

Source: Composite Employment Estimates, Census and Statistics Department.

The Hong Kong economy has become increasingly service-oriented since the 1980s, with the share of GDP of the tertiary sector, or the services sector (comprising import/export, wholesale and retail trades; accommodation and food services; transportation, storage, postal and courier services; information and communications; financing and insurance; real estate, professional and business services; public administration, social and personal services; and ownership of premises), increasing from 79.9 per cent. in 1992 to 88.9 per cent. in 2002, and further to 92.6 per cent. in 2015.

C. Economic Policy

Under the "one country, two systems" principle, the HKSAR Government continues to adopt economic policies that create a business-friendly environment and respect the functions of a market economy. There are no import tariffs. Wine duty has been exempted since early 2008. Currently, duties are levied on four types of dutiable commodities, namely tobacco, alcoholic liquors (with an alcoholic strength above 30 per cent. by volume measured at the temperature of 20 degrees Celsius), methyl alcohol and hydrocarbon oil to be consumed locally, irrespective of whether they are manufactured locally or imported.

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

To build on Hong Kong's strength as a global financial centre, the HKSAR Government has been working to enhance the quality of the local financial markets and increase their depth and breadth, to keep abreast of local and international developments and to further optimise Hong Kong's regulatory framework. The financial services industry also provides a catalyst for the growth of related sectors

such as professional and commercial services. High quality financial services underpin Hong Kong’s position as an international business hub, helping local enterprises to seize business opportunities and attracting Mainland and overseas companies to use Hong Kong as a platform for raising funds and developing regional business.

D. Hong Kong as an International Financial Centre

As at 31 December 2015, the stock market in Hong Kong was the fourth largest in Asia (after Tokyo, Shanghai and Shenzhen) by market capitalisation. As at 31 December 2015, there were 1,866 companies listed on the SEHK, including the Main Board and GEM, with a total market capitalisation of approximately HK\$24.68 trillion. With strong market access and financing flexibility underpinned by deep local capital markets, Hong Kong has also developed into an international financial centre.

Securities and Futures Markets

The Hong Kong Stock Exchange and Futures Exchange

The securities market and the futures market in Hong Kong are operated by the SEHK and the Hong Kong Futures Exchange, respectively. Both the SEHK and the Hong Kong Futures Exchange are wholly-owned subsidiaries of the Hong Kong Exchanges and Clearing Limited (“HKEx”), which is a recognized exchange controller under the Securities and Futures Ordinance (“SFO”).

The turnover of exchange traded funds and real estate investment trusts was HK\$2,170.96 billion and HK\$82.03 billion, respectively, in 2015. Furthermore, in 2015, the total turnover of HKEx’s securitized derivatives (derivative warrants and callable bull/bear contracts) ranked first in the world for the ninth consecutive year.

The Performance of the Hong Kong Stock Exchange

The table below shows the total market capitalisation and daily trading volume of the SEHK and the Hang Seng Index, an index of the leading stocks listed on the SEHK, for the periods indicated:

**Market Statistics of the Hong Kong Stock Exchange
For the year ended 31 December**

	2011	2012	2013	2014	2015
Market Capitalisation (HK\$ billion)	17,537.26	21,950.13	24,042.81	25,071.83	24,683.73
Turnover (HK\$ billion)	17,154.07	13,301.05	15,264.63	17,155.73	26,090.62
Hang Seng Index (index value)	18,434.39	22,656.92	23,306.39	23,605.04	21,914.40

Source: HKEx

The SEHK markets showed healthy signs of growth during the period 2011-2015 in terms of market capitalisation and trading activity. The total market capitalisation of the securities market as at 31 December 2015 was HK\$24,683.73 billion, reduced by approximately 1.5 per cent. compared to 31 December 2014. In 2015, there were 138 newly listed companies on the Main Board and GEM, of which 75 were Mainland enterprises. Total equity funds raised was HK\$1,115.64 billion, of which the funds raised through initial public offerings (“IPOs”) increased year-on-year by 13 per cent. to HK\$263.09 billion. The remaining HK\$852.55 billion was raised through post-IPO fundraising. In terms of IPO funds raised, Hong Kong ranked first globally in 2015.

Bond Market

Hong Kong has a developed bond market. International investors are free to invest in debt instruments issued in Hong Kong. Companies in Hong Kong can finance their business by issuing various kinds

of debt, either in Hong Kong dollars or foreign currencies. In the Hong Kong dollar bond market, public sector bonds include Exchange Fund Bills and Notes, the HKSAR Government bonds issued under the GB Programme and bonds issued by statutory bodies and government-owned entities. Other bonds include those issued by Hong Kong entities such as authorised institutions (“AIs”) and non-bank corporations, and overseas entities such as the World Bank Group and Asian Development Bank.

There is no local credit rating agency in Hong Kong. Debt issuers are rated by established international rating agencies. Among these, Moody’s, S&P and Fitch have offices in Hong Kong.

The following table shows the outstanding amount of Hong Kong dollar debt instruments for the years 2011 to 2015:

Outstanding Amount of Hong Kong Dollar Debt Instruments

(HK\$ Millions, period end)	As at 31 December				
	2011	2012	2013	2014	2015
	1,260,629	1,308,590	1,419,420	1,409,812	1,517,037

Source: HKMA

Wealth and Asset Management

Hong Kong is well-equipped for the asset management business in terms of market access, investor base and supporting hard and soft infrastructure.

Hong Kong is a centre for private equity firms, hedge funds, private banks and exchange traded funds. It has also been a testing ground for the liberalisation of the Mainland’s financial markets through schemes such as the Qualified Domestic Institutional Investors (QDII), Qualified Foreign Institutional Investors (QFII), the RMB Qualified Foreign Institutional Investors (RQFII) and the Mainland-Hong Kong Mutual Recognition of Funds.

The Hong Kong funds industry is characterised by a significant presence of global fund managers. According to the Fund Management Activities Survey 2015 conducted by the Securities and Futures Commission (“SFC”) on the asset management activities among licensed corporations, registered institutions and insurance companies, the combined fund management business amounted to HK\$17,393 billion as at the end of 2015. Funds sourced from non-Hong Kong investors account for almost 69 per cent. of the total fund management business (excluding real estate investment trusts). Of the total combined fund management business, HK\$12,259 billion resulted from asset management business, HK\$3,666 billion from private banking business of registered institutions and HK\$1,268 billion from fund advisory business of licensed corporations.

As at 30 September 2016, there were 1,238 companies licensed or registered to carry out asset management business in Hong Kong and 2,183 unit trusts and mutual funds authorised by the SFC. In terms of private banking, 22 private banks have opened for business in Hong Kong since 2009, bringing the total to 47 banks offering private wealth management services in Hong Kong at the end of 2016.

Islamic Finance

The development of Islamic finance in Hong Kong is a natural extension of Hong Kong’s role as an international financial centre, widening the range of financial products, broadening the types of market players, and adding to the breadth, depth and diversity of Hong Kong’s financial market. Hong Kong’s existing strengths in the conventional financial services industry serves as a solid foundation for developing Islamic finance.

The HKSAR Government has been working to promote the development of Islamic finance in Hong Kong in four broad areas, namely, (i) putting in place necessary infrastructure, (ii) enhancing Hong Kong's international profile and linkages, (iii) promoting market knowledge of Islamic finance, and (iv) encouraging product development.

In terms of infrastructure, the Inland Revenue and Stamp Duty Legislation (Alternative Bond Schemes) (Amendment) Bill 2013, passed by LegCo on 10 July 2013, has enhanced the competitiveness of Hong Kong in the development of a sukuk market as the legislation levels the playing field by providing a comparable taxation framework for sukuk vis-à-vis conventional bonds. The Loans (Amendment) Bill 2014 was also passed by LegCo on 26 March 2014, putting in place a legal framework for the HKSAR Government to issue sukuk under the GB Programme. The HKSAR Government successfully issued its inaugural sukuk offering based on an Ijarah structure in September 2014 and a second sukuk offering based on a Wakalah structure in June 2015.

The HKMA and the SFC also maintain close partnerships with key Islamic financial markets such as Malaysia and Dubai. For instance, the SFC signed memoranda of understanding with the Dubai Financial Services Authority and with Securities Commission Malaysia in 2008 and 2009 respectively, while the HKMA similarly signed memoranda of understanding with the Dubai International Financial Centre Authority and the Bank Negara Malaysia in 2008 and 2009 respectively, to foster co-operation in the development of Islamic finance. In particular, the HKMA has had frequent discussions with Bank Negara Malaysia over the past few years to exchange experiences on different areas of Islamic finance, such as market infrastructure, human capital training, regulation, and will continue to examine measures to further promote the development of the Islamic financial market in Hong Kong.

A range of Islamic financial products and services have been launched in Hong Kong over the past few years, including global sukuk listed on the SEHK, Islamic funds, Islamic banking windows and Shariah-compliant syndicated financing.

The Exchange Fund

The Exchange Fund Ordinance established the Exchange Fund, which is under the control of the Financial Secretary. The Exchange Fund is managed by the HKMA under powers of the Financial Secretary under the Exchange Fund Ordinance which are delegated by the Financial Secretary to the Monetary Authority appointed pursuant to section 5A(1) of the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong). The Exchange Fund currently holds the official reserves of Hong Kong, predominantly in foreign currency assets, including cash, short-term deposits, foreign government bonds, equities and gold. As at 31 December 2015, the Exchange Fund's liabilities primarily consisted of certificates of indebtedness, government-issued currency notes and coins, the Aggregate Balance, outstanding Exchange Fund Bills and Notes, placements by banks and other financial institutions and placements by the fiscal reserves, HKSAR government funds and other statutory bodies.

The Exchange Fund's statutory use, as provided in the Exchange Fund Ordinance, is primarily to affect, either directly or indirectly, the exchange value of the currency of Hong Kong. Its functions were extended with the enactment of the Exchange Fund (Amendment) Ordinance 1992 by introducing a secondary use of maintaining the stability and integrity of Hong Kong's monetary and financial systems, with a view to maintaining Hong Kong as an international financial centre.

The fiscal reserves are deposited with the Exchange Fund to allow for centralised investment management of public funds. As such, the Exchange Fund and fiscal reserves are managed and invested together but remain two separate and distinct funds. Fiscal reserves assets may be used to enhance the resources available to the Exchange Fund though those amounts represent money borrowed for the account of the Exchange Fund and will have to be repaid on demand.

Similarly, the Bond Fund is also placed with the Exchange Fund for investment purposes. For more information, please see "*—Public Finance — Government Indebtedness — Government Bond Programme*".

The HKMA manages the Exchange Fund. Apart from ensuring that the fund meets its statutory roles, one of the HKMA’s principal day-to-day activities is the active management of the fund’s assets. These are held mainly in the form of marketable interest-bearing instruments and equities in certain foreign currencies. To meet the operational needs of the HKSAR Government, part of the Exchange Fund is also held in Hong Kong dollar denominated securities.

The HKMA regularly reviews its investment strategy and operations. In line with the statutory purposes for which the Exchange Fund was created and maintained, the investment style and strategy are similar to those of comparable central banks and monetary authorities. An investment strategy appropriate for a long-term fund, such as a benchmark approach and use of the long-term capital market assumptions, has been adopted, and a wide range of currencies and instruments has been used.

To meet the objectives of preserving capital, providing U.S. dollar backing to the Monetary Base, providing liquidity to maintain financial and currency stability and generating an adequate long-term return, the Exchange Fund is broadly managed under three major portfolios, namely the backing portfolio (“**Backing Portfolio**”), the investment portfolio (“**Investment Portfolio**”) and the long-term growth portfolio (“**Long-Term Growth Portfolio**”). The Backing Portfolio holds highly liquid U.S. dollar-denominated assets to provide full backing to the Monetary Base as required under the currency board arrangements. The Investment Portfolio is invested primarily in the bond and equity markets of the member countries of the Organisation for Economic Co-operation and Development to preserve the value and long-term purchasing power of the assets. The Long-Term Growth Portfolio holds private equity and real estate investments.

In 2007, a strategic portfolio (“**Strategic Portfolio**”) was established to hold shares in the HKEx acquired by the HKSAR Government for the account of the Exchange Fund for strategic purposes and to demonstrate the HKSAR Government’s long-term support for the HKEx by enabling the HKSAR Government, over the longer term, to contribute as a shareholder to the promotion of the HKEx’s strategic development. Because of the unique nature of this portfolio, it is not included in the assessment of the investment performance of the Exchange Fund.

The investment return of the Exchange Fund for 2014 and 2015, as well as the compounded annual investment return and domestic inflation rate, as measured by the compounded annual Hong Kong composite CPI, for the period from 1994 to 2015 are set out in the table below:

Investment Return of the Exchange Fund⁽¹⁾

	<u>2014</u>	<u>2015</u>	<u>Compounded Annual Investment Return (1994-2015)⁽³⁾</u>	<u>Compounded Annual Hong Kong Composite CPI (1994-2015)⁽²⁾</u>
Investment return in Hong Kong dollar terms	1.4	-0.6	5.0	2.2

Notes:

1. Investment return calculation excludes the holdings in the Strategic Portfolio.
2. Composite CPI is calculated based on the 2009/2010-based series.
3. The investment returns of 2001 to 2003 are in U.S. dollar terms.

Source: HKMA.

As at 31 December 2015, the Exchange Fund Group's assets amounted to HK\$3,531.3 billion, of which HK\$543.5 billion were equity securities.

The accumulated surplus of the Exchange Fund Group (the “**Accumulated Surplus**”) is the total net profit earned by the Exchange Fund over the years. Accordingly, when a loss is incurred in the use of the Exchange Fund, it can be offset with the Accumulated Surplus. The Accumulated Surplus as at 31 December 2015, 2014 and 2013 was HK\$591.5 billion, HK\$666.0 billion and HK\$658.0 billion, respectively.

The currency mix of the Exchange Fund Group's assets as at 31 December 2015 (including forward transactions) is set out in the table below:

Currency Mix of the Exchange Fund Group's Assets

	As at 31 December 2015	
	(HK\$ billions)	(percentage of total)
U.S. dollar	2,813.9	79.7
Hong Kong dollar	258.9	7.3
Others ⁽¹⁾	458.5	13.0
Total	<u>3,531.3</u>	<u>100.0</u>

Note:

1. Other currencies included mainly the Australian dollar, Canadian dollar, Euro, Renminbi, Sterling and Yen.

Source: HKMA.

The foreign currency reserve assets of Hong Kong amounted to U.S.\$358.8 billion, U.S.\$328.5 billion and U.S.\$311.2 billion as at 31 December 2015, 2014 and 2013, respectively.

E. Banking System

Structure of the Banking System

Hong Kong maintains a three-tier system of deposit-taking institutions, namely, licensed banks, restricted licence banks and deposit-taking companies. These are collectively known as AIs under the Banking Ordinance. AIs may operate in Hong Kong as either locally incorporated companies or branches of foreign banks. The HKMA is the licensing authority for all three types of AIs. The authorisation criteria for licensed banks, restricted licence banks and deposit-taking companies are intended to ensure that only fit and proper institutions are entrusted with public deposits. The HKMA conducts periodic reviews of the authorisation criteria and, when necessary, introduces amendments to reflect the changing needs of the regulatory environment in light of new international standards.

Hong Kong has one of the highest concentrations of banking institutions in the world. At the end of September 2016, 74 of the largest 100 banks in the world had an operation in Hong Kong. As at 30 September 2016, Hong Kong had 156 licensed banks, 23 restricted licence banks, 18 deposit-taking companies and 15 approved money brokers.

From 2011 to 2016, Hong Kong's banking sector has maintained healthy capital adequacy ratios and a generally adequate level of liquidity. Retail banks' classified loan ratio increased to 0.80 per cent. at the end of June 2016 from 0.69 per cent. at the end of 2015.

Banking Reform

The HKMA seeks to maintain a regulatory framework that is consistent with international standards, particularly those issued by the Basel Committee on Banking Supervision (“**Basel Committee**”) and the Financial Stability Board (“**FSB**”).

In recent years the HKMA has progressively implemented capital and liquidity standards in line with Basel III and it is anticipated that both the leverage ratio and the net stable funding ratio within the Basel III framework will be implemented by 1 January 2018. As a member of the Basel Committee, the HKMA will continue to work on local implementation of the Committee’s remaining post-crisis reforms including in relation to large exposures and the calculation of regulatory capital for market risk and interest rate risk in the banking book.

The Financial Institutions (Resolution) Ordinance (**FIRO**) was enacted by the LegCo in June 2016 for the purpose of establishing a resolution regime for financial institutions, including banks, which could have systemic ramifications if they were to become non-viable. The FIRO was designed to meet the requirements of the FSB’s Key Attributes of Effective Resolution Regimes for Financial Institutions. The FIRO is not yet in force, but is expected to be brought into effect during the course of 2017.

F. Relationship with the Mainland

Hong Kong’s Economic Relationship with the Mainland

Hong Kong’s relationship with the Mainland with respect to economic matters has strengthened since 1 July 1997. The Individual Visit Scheme, implemented since 2003, enabled Mainland residents with permanent household registration in 49 selected cities to visit Hong Kong in their individual capacity.

In recent decades, Hong Kong has benefited from its growing economic relations with the Mainland. The Mainland has long been Hong Kong’s largest trading partner and Hong Kong continues to be the largest external investor in the Mainland. According to Mainland statistics, the cumulative value of Hong Kong’s realised direct investment in the Mainland reached U.S.\$833.3 billion at the end of 2015, accounting for approximately 50.7 per cent. of the total inward direct investment to the Mainland. According to Mainland statistics, Hong Kong accounted for 8.7 per cent. of the Mainland’s external trade in 2015 and 61.6 per cent. of the Mainland’s outward foreign direct investment stock as at the end of 2015. Hong Kong is the key intermediary platform for the Mainland’s trade with the rest of the world. Around a quarter of Mainland China’s trade volume was intermediated by Hong Kong in the form of offshore trade or re-exports in 2015. In addition, the Mainland is the largest visitor source market, with arrivals of 42.8 million in 2016, accounting for 76 per cent. of total arrivals. In 2015, per capita spending of Mainland same-day in-town visitors was HK\$2,696, well above the HK\$722 per capita spending by non-Mainland same-day in-town visitors. As for overnight visitors, per capita spending of Mainland overnight visitors was HK\$7,924, which is approximately 37 per cent. above that of the non-Mainland overnight visitors.

Financial links between Hong Kong and the Mainland have strengthened substantially over the years, on the back of the surge in cross-boundary business activities. Mainland’s total trade in 2016 was 13 times larger than that two decades ago if measured in U.S. dollar terms, and Hong Kong has benefited from this growth. Visible trade between Hong Kong and the Mainland in 2015 was approximately four times that in 1995, representing an approximate 7 per cent. per annum growth in value terms.

Hong Kong as an International Capital Formation Centre for the Mainland

Hong Kong imposes no restrictions on foreign currency exchange or participation in its stock market. In the past decade, Hong Kong has become one of the most important international fund-raising centres for Mainland enterprises. From 1993 to 2015, Mainland enterprises raised a total of HK\$5,095.6 billion on the SEHK. As at 31 December 2015, the combined market capitalisation amounted to HK\$24,683.73 billion, and of the 1,866 companies listed on the Main Board and GEM, 951 were Mainland enterprises, constituting 62 per cent. by market capitalisation and 73 per cent. by annual equity turnover value. In 2015, there were 138 newly listed companies on the Main Board and GEM, of which 75 were Mainland enterprises. Total equity funds raised was HK\$1,115.64 billion, of which the funds raised through IPOs increased year-on-year by 13 per cent. to HK\$263.09 billion. The remaining HK\$852.55 billion was raised through post-IPO fundraising.

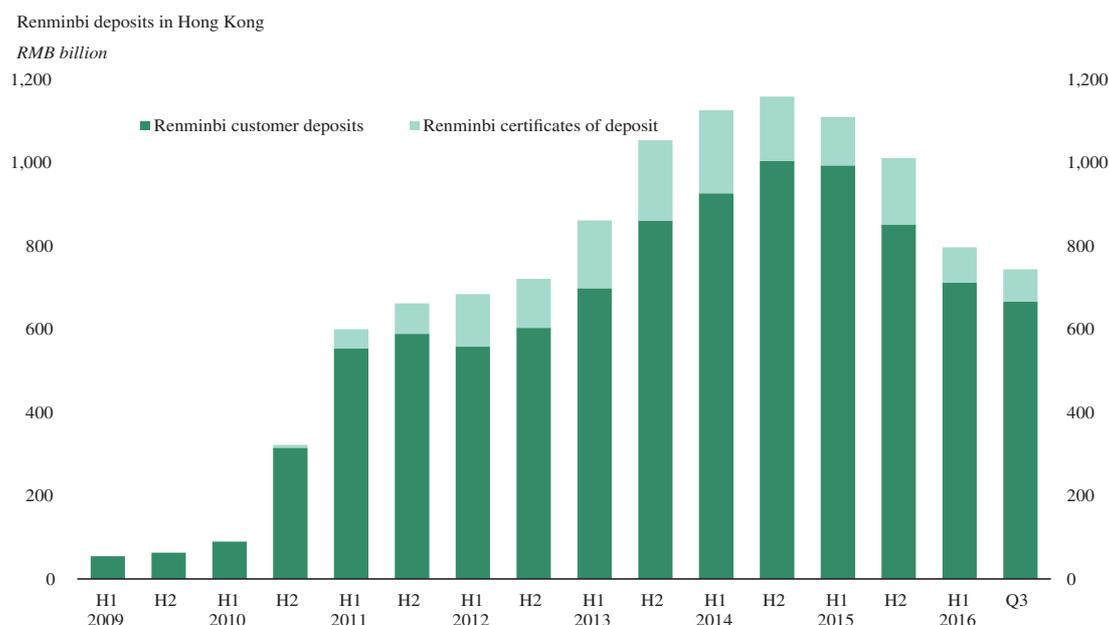
Apart from the equity market, Mainland enterprises raise capital in Hong Kong through the issuance of bonds, project financing and loan syndication. Mainland enterprises also have access to investment banking services in Hong Kong such as corporate finance, mergers and acquisitions and restructuring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

Hong Kong as an Offshore Renminbi Business Centre

Hong Kong pioneered the development of the offshore Renminbi business and is a major offshore Renminbi centre. In the 13th Five Year Plan, the PRC government also reaffirmed its support for Hong Kong to strengthen its role as a global Renminbi hub. Hong Kong maintains the largest Renminbi liquidity pool offshore. As at 30 September 2016, total Renminbi deposits including Renminbi customer deposits and outstanding amount of certificates of deposit stood at nearly RMB750 billion. Renminbi trade settlement handled by banks in Hong Kong exceeded RMB6.8 trillion in 2015 and the transactions amounted to approximately RMB3.6 trillion in the first nine months of 2016. Renminbi financing activities remained stable. Renminbi bond issuances amounted to RMB75 billion in 2015. Outstanding Renminbi bonds amounted to RMB322 billion as at 30 September 2016. The Renminbi lending business of Hong Kong banks has also been stable, with outstanding Renminbi loans amounting to RMB307.4 billion as at 30 September 2016. Despite the increased uncertainties in the financial market, the average daily turnover of Hong Kong's Renminbi Real Time Gross Settlement ("RTGS") system amounted to over RMB1 trillion in September 2016, compared to RMB947 billion in 2015. As at 30 September 2016, the Renminbi RTGS system had 212 participating banks, of which 187 were subsidiaries and branches of foreign banks or overseas presence of Mainland banks.

The Renminbi has been added to the Special Drawing Rights basket created by the International Monetary Fund starting from 1 October 2016. This reflects the PRC's expanding role in global trade and the substantial increase in the international use and trading of the Renminbi. Moreover, there is an expanding range of Renminbi instruments and financial products in the Hong Kong market, including currency forwards and futures, insurance products and various listed and unlisted investment funds, accessing both the onshore and offshore markets. The average daily turnover of Hong Kong's Renminbi foreign exchange market reached US\$77 billion in April 2016, having expanded by 56 per cent. from three years earlier, according to the latest Bank for International Settlements Triennial Survey. The graph below shows Renminbi deposits in Hong Kong for the periods indicated:

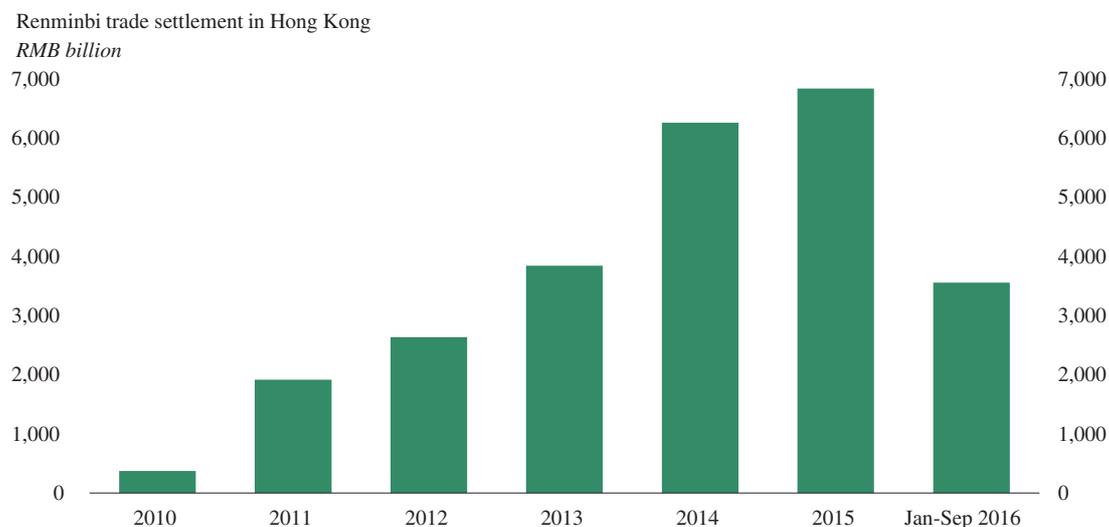
Renminbi Customer Deposits and Certificates of Deposit



Source: HKMA

The graph below shows Renminbi trade settlement in Hong Kong banks during the periods indicated:

Renminbi Trade Settlement in Hong Kong



Source: HKMA

Advancements have also been made to the Renminbi payment and settlement platform. The operating window of Hong Kong's Renminbi RTGS system was further extended in 2014, following the extension in 2012. The cut-off time of the Renminbi settlement platform, as well as the cross-border Renminbi payment service between Hong Kong and the Mainland, was extended on 20 July 2015 to 5:00 a.m. the next calendar day (Hong Kong time), providing a total of 20.5 hours for same-day value payments. The extension allows financial institutions in other parts of the world a much longer operating window to settle offshore and cross-border Renminbi payments through Hong Kong's infrastructure. The Renminbi RTGS is now open on special Saturdays and Sundays which are designated as working days in Mainland with operating window between 8:30 a.m. and 9:00 p.m. In

addition, the HKMA further enhanced the Renminbi liquidity facility arrangement for banks in Hong Kong in 2014, by introducing the provision of intraday funds of up to RMB10 billion and extending the operating hours for overnight repo. To further enhance the infrastructure for the offshore Renminbi market in Hong Kong, the HKMA launched the Primary Liquidity Providers (“**PLPs**”) scheme in October 2014. The designated PLPs pledged to expand their market-making activities in Hong Kong for various offshore Renminbi instruments, and use the Hong Kong platform in promoting their global offshore Renminbi business. In July 2015, the Mainland-Hong Kong Mutual Recognition of Funds initiative was implemented through which qualified Mainland and Hong Kong funds can be offered directly to retail investors in each other’s market through a streamlined vetting process.

Mainland and Hong Kong Closer Economic Partnership Arrangement

The Mainland and Hong Kong Closer Economic Partnership Arrangement (“**CEPA**”) is the first free trade agreement ever concluded by the Mainland and Hong Kong. The main text of CEPA was signed on 29 June 2003 and came into full implementation on 1 January 2004. Since its inception, the two sides have been adopting a building block approach to expand the scope and content of CEPA. The latest Agreement on Trade in Services (the “**Agreement**”) under the CEPA framework was signed on 27 November 2015 and implemented on 1 June 2016. The Agreement opens up 153 services trade sub-sectors in the Mainland to the Hong Kong services industry, accounting for 95.6 per cent. of all 160 services trade sub-sectors.

Under CEPA, Hong Kong service suppliers can enjoy preferential access in various service sectors in the Mainland market. On trade in goods, the Mainland has applied a zero tariff to all imported goods of Hong Kong origin that meet the mutually agreed CEPA rules of origin. Under the trade and investment facilitation framework of CEPA, both sides have agreed to enhance co-operation in 10 areas.

Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect

Shanghai-Hong Kong Stock Connect, launched on 17 November 2014, provides mutual stock market access between the Mainland and Hong Kong. The programme operates between the SEHK, the Shanghai Stock Exchange (“**SSE**”), China Securities Depository and Clearing Corporation (“**ChinaClear**”) and the Hong Kong Securities Clearing Company Limited (“**HKSCC**”).

Under the programme, the SSE and SEHK enable investors to trade eligible shares listed on each other’s market through local securities firms or brokers. ChinaClear and HKSCC have established a direct link for cross-boundary clearing and each has become the other’s clearing participant to provide clearing services for the programme. The Shanghai-Hong Kong Stock Connect has been operating smoothly since its launch.

The Shenzhen-Hong Kong Stock Connect, a similar trading link between the Shenzhen Stock Exchange and SEHK, was launched on 5 December 2016. It enables international investors to invest more widely in the Mainland’s markets through Hong Kong’s markets.

The Stock Connect programme has opened up a new channel for cross-border use and circulation of Renminbi funds, and will help further develop Hong Kong’s offshore Renminbi business. Moreover, the unique connectivity with the Mainland stock market offered by the scheme is beneficial to the financial intermediary businesses in Hong Kong as they provide services to Hong Kong and international investors going into the A-share market. All in all, Stock Connect and other cross-border investment schemes will help reinforce and enhance Hong Kong’s position as the premier international financial centre and global offshore Renminbi business hub.

The Belt and Road

The PRC has put forward “the Silk Road Economic Belt and the 21st Century Maritime Silk Road” initiative, or the “Belt and Road” initiative in short. The initiative emphasises on five key areas of connectivity: policy coordination, connectivity of facilities, unimpeded trade, financial integration, and people-to-people bonds. It envisions the building of economic co-operation corridors spanning different regions in Asia, Europe and Africa, promoting co-development among countries and foster co-operation in the political, economic and social areas.

Many countries along the “Belt and Road” have great development potential. To strengthen ties with these markets, Hong Kong would expand co-operation, organise exchange visits, gain a deeper understanding of these countries, as well as pursue negotiations on free trade agreements, investment promotion and protection agreements and comprehensive avoidance of double taxation agreements. Trade facilitation and investment promotion to secure business opportunities in various aspects would also be developed. This will create more favourable conditions for our goods, services and investment to access overseas markets.

Hong Kong can work with Mainland provinces and municipalities to stage roadshows in these countries to facilitate trade and investment flows for regional economic integration.

One of the features of the “Belt and Road” initiative is to improve the region’s infrastructure facilities, lifting the region’s connectivity to a higher level. Notwithstanding the huge funding needed for infrastructure development in developing countries in the Belt and Road region, there are many challenges in channelling capital to those projects which require coordinated multilateral efforts to facilitate financial intermediation. In this regard, the HKMA has established the Infrastructure Financing Facilitation Office (“**IFFO**”) in July 2016 with a mission to facilitate infrastructure investments and their financing by working with a cluster of key stakeholders.

While the Mainland is further strengthening its economic and trade ties with countries along the “Belt and Road”, Hong Kong, as an important financial, commercial and maritime centre in the world, can provide Mainland enterprises that seek to “go global” with a wide range of professional services in the financial and legal arenas, including international investment, cross-border trade settlement, RMB bond issuance and asset and risk management services.

The HKSAR Government has set up a high-level Steering Committee for the Belt and Road chaired by the Chief Executive to formulate strategies and policies for Hong Kong’s participation in the Belt and Road Initiative, and a Belt and Road Office to carry out specific tasks to capitalise on the opportunities brought to Hong Kong by the initiative. A Commissioner for Belt and Road, who heads the Belt and Road Office, has also been appointed to advise and assist the Chief Executive and the Steering Committee in formulating and implementing Belt and Road strategies, and to liaise with various sectors of the community, relevant ministries of the PRC and interested parties from overseas, including countries along the Belt and Road.

G. External Economy

Balance of Payments and International Investment Position

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

Balance of Payments

For the year ended 31 December	2011	2012	2013	2014	2015
	(HK\$ billions, except percentages)				
Current Account Balance ⁽¹⁾	107.5	32.2	32.2	29.4	78.3
Capital and Financial Account					
Balance ⁽¹⁾	-113.2	-67.7	-86.3	-73.8	-128.6
Net Errors and Omissions ⁽²⁾	5.7	35.5	54.1	44.4	50.4
Overall Balance of Payments	86.8	188.9	57.9	139.1	282.0
Overall Balance of Payments as					
percentage of GDP	4.5	9.3	2.7	6.2	11.8

Notes:

1. In accordance with the accounting rules adopted in compiling balance of payments, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. In the capital and financial account, a positive value indicates a net financial inflow while a negative value indicates a net outflow.
2. In principle, the net sum of credit entries and debit entries is zero. In practice, discrepancies between the credit and debit entries may occur for various reasons as the relevant data are collected from many sources. Equality between the sum of credit entries and that of debit entries is brought about by the inclusion of a balancing item which reflects net errors and omissions.

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

Hong Kong recorded an overall balance of payments surplus in each of the five years from 2011 to 2015. In 2015, there was a balance of payments surplus of HK\$282 billion, or 11.8 per cent. of GDP, compared to a surplus of HK\$139.1 billion, or 6.2 per cent. of GDP, in 2014.

Hong Kong's net international investment position ("IIP") was strong during 2011 to 2015. IIP is a balance sheet showing the stock of external financial assets and liabilities of an economy at a particular point in time. The difference between the external financial assets and liabilities is the net IIP of the economy, which represents either its net claim on or net liability to the rest of the world. External financial assets consist of financial claims on non-residents and gold bullion held as reserve. External financial liabilities refer to financial claims of non-residents on residents of the economy.

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

Net International Investment Position

	As at end of				
	2011	2012	2013	2014	2015
	(HK\$ billions, except percentages)				
Net IIP	5,522.9	5,591.8	5,877.0	6,748.8	7,774.7
Ratio to GDP (percentage)	286	275	275	299	324

Source: Census and Statistics Department.

As at the end of 2015, Hong Kong's external financial assets and liabilities amounted to HK\$33,824.5 billion and HK\$26,049.7 billion, respectively, resulting in a net IIP of HK\$7,774.7 billion, or 324 per cent. of GDP.

Current Account

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

For the five years from 2011 to 2015, the current account surplus decreased from HK\$107.5 billion in 2011 to HK\$29.4 billion in 2014 before increasing to HK\$78.3 billion, or 3.3 per cent. of GDP, in 2015.

Capital and Financial Account

During 2011 to 2014, Hong Kong recorded a capital and financial account deficit. This was principally attributable to a significant net outflow of portfolio investment, which was driven by the substantial acquisition of non-resident equity and debt securities by Hong Kong residents, as well as a large increase in reserve assets. Direct investment also recorded a net outflow during most of the four-year period, while financial derivatives and other investment recorded a net inflow. In 2015, Hong Kong also recorded a capital and financial account deficit, as a net outflow of portfolio investment and a large increase in reserve asset more than offset a net inflow of direct investment and a net inflow of financial derivatives and other investment.

H. Public Finance

The principles underlying the HKSAR Government's management of public finances are set forth in the Basic Law, which stipulates that:

- The HKSAR shall have independent finances, and shall use its financial revenues exclusively for its own purposes.
- The HKSAR shall practise an independent taxation system, taking the low tax policy previously pursued in Hong Kong as reference.
- The HKSAR shall follow the principle of keeping expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its GDP.
- LegCo shall exercise the power to approve the budget of the HKSAR Government.

The HKSAR Government implements these constitutional provisions by striving to maintain a low and simple tax regime and exercising fiscal prudence. The HKSAR Government has a prudent fiscal policy, demonstrated by 12 consecutive years of budget surpluses and an accumulation of significant fiscal reserves. For 2015-16, the HKSAR Government recorded a surplus of HK\$14.4 billion and fiscal reserves as at 31 March 2016 stood at HK\$842.9 billion, or 35.2 per cent. of GDP. Government revenue in 2015-16 amounted to HK\$450.0 billion and expenditure amounted to HK\$435.6 billion.

Management of Expenditure and Revenue

The HKSAR Government manages its finances in light of its rolling five-year, medium-range forecast of expenditure and revenue. This provides a model for the HKSAR Government's overall consolidated financial position.

The HKSAR Government aims to manage public finance in order to ensure that government expenditure, over time, does not grow faster than the economy as a whole. The budget presented by the Financial Secretary to LegCo in February of each year is developed against the background of the medium-range forecast to ensure that the budget reflects this goal in light of the longer-term trends of the economy.

The HKSAR Government Revenue and Expenditure

The HKSAR Government's revenues are principally derived from taxes, while its expenditures are principally for education, social welfare, health and infrastructure.

The following table sets out the cash-based accounts of the HKSAR Government revenues and expenditures for the fiscal years indicated:

HKSAR Government Revenues and Expenditures

	Fiscal year					
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 ⁽¹⁾
	(HK\$ millions)					
Revenue	437,723	442,150	455,346	478,668	450,007	498,251
Expenditure	364,037	377,324	433,543	396,183	435,633	486,871
Repayment of bonds issued in 2004	—	—	—	(9,688)	—	—
Fiscal Surplus	73,686	64,826	21,803	72,797	14,374	11,380

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

1. Original estimates.

Public Expenditure

As set out in the Appendix to the 2016-17 Budget Speech, the Government aims to keep public expenditure at or below 20 per cent. of GDP. The Financial Secretary considers that it is a suitable level as it ensures that the HKSAR Government will not consume excessive social resources and that government expenditure will be kept at a level commensurate with government revenue. Historically, government revenue exceeded this level in only nine out of the past 40 financial years. Public expenditure is estimated to be 21.2 per cent. of GDP for fiscal year 2016-17.

Revenue Sources

The major sources of revenue are profits tax, salaries tax and stamp duties on stock and property transactions. Other significant sources include revenue from rates, bets and sweeps tax, investment income and land premium.

Government Indebtedness

Indebtedness

As at 31 March 2016, HKSAR Government debt consists of HK\$1.5 billion in outstanding government bonds and notes, or 0.1 per cent. of GDP. The notes will be due in July 2019 and are denominated in Hong Kong dollars with an interest rate of 5.125 per cent. Government debt does not include bonds issued under the GB Programme. For more information see “— *Government Bond Programme*”.

On an accrual basis, the HKSAR Government held HK\$1,573.0 billion in consolidated net assets as at 31 March 2015. Provision for pensions, outstanding bonds and notes and other liabilities amounted to HK\$815.8 billion, HK\$113.7 billion and HK\$55.8 billion, respectively, on an accrual basis. After netting off these liabilities, the consolidated net assets of HK\$1,573.0 billion were represented by HK\$627.0 billion of Exchange Fund Reserve, HK\$553.7 billion of General Reserve and HK\$392.3 billion of Capital Expenditure Reserve.

HKSAR has not defaulted on the payment of any principal of and any interest on any external or internal indebtedness.

Government Bond Programme

The GB Programme is an initiative of the HKSAR Government to promote the further and sustainable development of the local bond market, rather than financing government expenditures. Through the GB Programme, the HKSAR Government aims to increase the breadth and depth of the local bond market so that the bond market can complement the equity market and the banking sector to serve as an effective channel of financial intermediation. Pursuant to a resolution passed by LegCo in May 2013, the HKSAR Government is authorised to borrow up to a maximum principal amount outstanding at any time of HK\$200 billion or equivalent under the GB Programme. Further increases to the maximum amount would require LegCo approval.

The HKMA, as representative of the HKSAR Government in the implementation of the GB Programme, is tasked with coordinating the offering of government bonds and managing the investment of the sums raised under the GB Programme, which are credited to the Bond Fund. The Bond Fund receives investment income based on a fixed rate sharing arrangement in order to preserve capital and generate reasonable investment returns to cover financial obligations and liabilities under the GB Programme. As at 30 September 2016, the balance of the Bond Fund was HK\$132.4 billion. Any shortfall of funds for fulfilling the financial obligations and liabilities of the HKSAR Government under the GB Programme will be financed from the general revenues and assets of the HKSAR Government.

As at 31 December 2016, HK\$68.3 billion institutional bonds, HK\$33 billion retail bonds and an aggregate amount of U.S.\$2 billion sukuk (comprising two issuances of sukuk of U.S.\$1 billion each) were outstanding.

TAXATION

Hong Kong Taxation

This is a summary of the Hong Kong tax considerations relating to the Certificates. It is not complete and therefore does not constitute tax advice. Investors should consult their own tax advisers about the tax consequences of investing in the Certificates, particularly if they are subject to special tax rules.

The Certificates are issued as part of a wider transaction which has been structured to fall within amendments made to the Inland Revenue Ordinance (Cap. 112) and Stamp Duty Ordinance (Cap.117) by the Inland Revenue and Stamp Duty Legislation (Alternative Bond Schemes) (Amendment) Ordinance in July 2013.

Accordingly, the Certificateholders should be regarded as holding a debt instrument for Hong Kong profits tax purposes and Periodic Distribution Amounts which accrue to or are paid to the Certificateholders should be regarded as interest for Hong Kong profits tax purposes. The Certificateholders should not be regarded as having any interest in or ownership of the Wakalah Portfolio for profits tax or stamp duty purposes.

The Certificates should be alternative bonds issued in connection with a borrowing by the Government under Section 2A(2) of the Loans Ordinance (Cap. 61). Therefore:

- the Certificateholders should be able to take advantage of subsections (1)(ca) and (1)(cb) of Section 26A of the Inland Revenue Ordinance 'Exclusion of certain profits from tax'; and
- the Certificates should not be considered 'Hong Kong stock' for the purposes of the Stamp Duty Ordinance.

On the basis outlined above, the following Hong Kong profits tax and stamp duty analysis should apply to the Certificateholders:

- No profits tax or withholding tax is payable in Hong Kong on any payments made by the Issuer on any Certificates.
- No profits tax is payable in Hong Kong on any profits arising from the resale of any Certificates.
- No stamp duty is payable in Hong Kong on the issue or transfer of any Certificates.

SUBSCRIPTION AND SALE

The Managers (as defined below) have pursuant to a subscription agreement dated [●] 2017 (the “**Certificate Subscription Agreement**”) agreed to subscribe and pay for the Certificates at the issue price of 100 per cent. of their principal amount. The HKSAR Government has agreed to reimburse the Joint Lead Managers for all of their expenses in connection with the issue of the Certificates in accordance with the Certificate Subscription Agreement.

The Joint Lead Managers and the Co-managers (together the “**Managers**”) are entitled in certain circumstances to be released and discharged from their respective obligations under the Certificate Subscription Agreement prior to the issue of the Certificates. The Issuer and the HKSAR Government have agreed to indemnify the Managers against certain liabilities in connection with the issue of the Certificates.

The Managers and their respective affiliates have performed and may perform in the future various financial advisory, investment banking and commercial banking services for the Trustee, the HKSAR Government and/or their respective affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Trustee, the HKSAR Government and/or its affiliates in the ordinary course of their business.

In connection with the offering of the Certificates, each Manager and/or its affiliate(s) may act as an investor for its own account and may take up Certificates in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or the HKSAR Government or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the Certificates being offered should be read as including any offering of the Certificates to the Managers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Certificates is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorized.

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

United States

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

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

In addition, until 40 days after the commencement of the offering of any Certificates, an offer or sale of Certificates within the United States by a dealer, whether or not participating in this offering, may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Regulation S or another exemption from registration under the Securities Act.

As used herein, the term “United States” has the meaning given to it in Regulation S.

United Kingdom

Each Manager has represented, warranted and agreed that:

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

Hong Kong

Each Manager has represented, warranted and agreed that (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “**Securities and Futures Ordinance**”) and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and (b) it has not issued or had in its possession for the purposes of issue, whether in Hong Kong or elsewhere and will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

Each Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore and the Certificates will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the “**SFA**”). Accordingly, each Manager has severally represented and agreed that it has not offered or sold or made the subject of an invitation for subscription or purchase nor may this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of any Certificates be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor under Section 274 of the SFA, (b) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor;
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Certificates pursuant to an offer under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA; or
- (ii) where no consideration is or will be given for the transfer; or
- (iii) where the transfer is by operation of law;
- (iv) pursuant to Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Japan

The Certificates have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the “FIEA”) and each Manager has represented and agreed that it will not offer or sell any Certificates, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Korea

The Certificates have not been and will not be registered under the Financial Investment Services and Capital Markets Act. Each Manager has represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver, directly or indirectly, any Certificates in Korea or to, or for the account or benefit of, any Korean resident (as such term is defined in the Foreign Exchange Transaction Law), except as otherwise permitted under applicable Korean laws and regulations. Furthermore, each Manager is aware that a holder of any Certificates will be prohibited from offering, selling or delivering any Certificates, directly or indirectly, in Korea or to any resident of Korea for a period of one year from the date of issuance of the Certificates, except as otherwise permitted by applicable Korean laws and regulations. Each Manager has further represented that it will take commercially reasonable best measures as an underwriter in the ordinary course of its business to prevent the Certificates from being offered, sold or delivered to any resident of Korea within one (1) year from the issuance of the Certificates.

United Arab Emirates (excluding the Dubai International Finance Centre)

Each Manager has represented and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering or the sale of securities.

Dubai International Financial Centre

Each Manager has represented and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

- (a) an “Exempt Offer” in accordance with the Markets Rules (MKT) module of the Dubai Financial Services Authority (the “**DFSA**”); and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

Kingdom of Saudi Arabia

Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a “**Saudi Investor**”) who acquires Certificates pursuant to any offering should note that the offer of Certificates is a private placement under Article 10 or Article 11 of the “Offer of Securities Regulations” as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated October 4, 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated August 18, 2008 (the “**KSA Regulations**”). Each Manager has represented and agreed that it shall not offer, sell or advertise the Certificates to any person in the Kingdom of Saudi Arabia other than to “Sophisticated Investors” under Article 10 of the KSA Regulations or by way of a limited offer under Article 11 of the KSA Regulations and that any offer of the Certificates to a Saudi Investor will be made through a person authorised by the Capital Market Authority to carry on the activity of arranging (as specified in Article 12 of the KSA Regulations) and following a notification to the Capital Market Authority under and in accordance with the KSA Regulations. Each Manager has represented and agreed that any offer of Certificates will comply with the KSA Regulations.

The offer of Certificates shall not therefore constitute a “public offer” pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement under Article 10 and/or Article 11 of the KSA Regulations may not offer or sell those Certificates to any person unless the offer or sale is made through an authorized person appropriately licensed by the Saudi Arabian Capital Market Authority and: (a) the Certificates are offered or sold to a Sophisticated Investor; (b) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyal 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

State of Qatar

Each Manager has represented and agreed that it has not offered or sold, and will not offer or sell or deliver, directly or indirectly any Certificates in the State of Qatar including the Qatar Financial Centre, except: (a) in compliance with all applicable laws and regulations of the State of Qatar including the Qatar Financial Centre; and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar.

Kingdom of Bahrain

Each Manager has represented and agreed that it has not offered or sold, and will not offer or sell any Certificates except on a private placement basis to persons in the Kingdom of Bahrain who are “accredited investors”.

For this purpose, an “**accredited investor**” means:

- (a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more;

- (b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$1,000,000; or
- (c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

Kuwait

Each Manager has represented and agreed that the Certificates have not been and will not be offered, sold, promoted or advertised by it in the State of Kuwait other than in compliance with the Decree Law No. 31 of 1990 and the implementing regulations thereto, as amended, and Law No. 7 of 2010 and the bylaws thereto, as amended governing the issue, offering and sale of securities.

No private or public offering of the Certificates is being made in the State of Kuwait, and no agreement relating to the sale of the Certificates will be concluded in the State of Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Certificates in the State of Kuwait.

Brunei

This Offering Circular does not, and is not intended to constitute an invitation, offer, sale or delivery of Certificates or other securities in Brunei Darussalam. This Offering Circular is not intended to be a prospectus. It is for information purposes only. This Offering Circular may not be distributed or redistributed to and may not be relied upon or used by any person in Brunei Darussalam. Any offers, acceptances, subscription, sales and allotments of Certificates, shares or other securities shall be made outside Brunei Darussalam. This Offering Circular is neither registered with nor approved by the Brunei Darussalam Registrar of Companies, Registrar of International Business Companies, the Brunei Darussalam Ministry of Finance, the Monetary Authority of Brunei Darussalam and the Shari'a Financial Supervisory Board. The Certificates, shares or other securities are not registered, licensed or permitted by the authority designated under the Mutual Funds Order 2001, the Securities Order 2001, the Shari'a Financial Supervisory Board or by any other government agency or under any law in Brunei Darussalam.

Malaysia

Each Manager has represented and agreed that:

- (a) this Offering Circular has not been registered as a prospectus with the Securities Commission Malaysia (the "SC") under the Capital Markets and Services Act 2007 of Malaysia ("CMSA"); and
- (b) accordingly, the Certificates have not been and will not be offered for subscription or purchase, nor will any invitation to subscribe for or purchase the Certificates be made, directly or indirectly, nor may this Offering Circular, any application for the Certificates or any document or other material in connection with the offering, this Offering Circular or the Certificates be circulated or distributed in Malaysia, other than to persons falling within Part 1 of Schedule 6 or Section 229(1)(b) and Part 1 of Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3), read together with Schedule 9 or Section 257(3) of the CMSA, subject to any law, order, regulation or official directive of Bank Negara of Malaysia, the SC and/or any other regulatory authority from time to time.

CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg currently in effect. The information in this section concerning such clearing systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer, the FSI, the HKSAR Government, the Joint Global Coordinators, the Joint Lead Managers, the Co-managers, the Agents or the Delegate takes any responsibility for the accuracy of this section. The Issuer and the HKSAR Government only take responsibility for the correct extraction and reproduction of the information in this section. Investors wishing to use the facilities of any of the clearing systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant clearing system. None of the Issuer, the FSI, the HKSAR Government nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Certificates held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Investors in the Certificates may hold Certificates through Euroclear or Clearstream, Luxembourg. Initial settlement and all secondary trades will settle as described below. Although each of the Issuer, the FSI and the HKSAR Government understands that Euroclear and Clearstream, Luxembourg will comply with the procedures provided below in order to facilitate transfers of Certificates among participants of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be modified or discontinued at any time. None of the Issuer, the FSI, the HKSAR Government, the Joint Global Coordinators, the Joint Lead Managers, the Co-managers, the Agents or the Delegate or any other agent of any of them will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations. With respect to clearance and settlement through Euroclear and Clearstream, Luxembourg, each of the Issuer, the FSI and the HKSAR Government understands as follows:

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg interface with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Initial Settlement

The Certificates will be issued initially in the form of a Global Certificate in book-entry form and will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Investors' interests in Certificates held in book-entry form by Euroclear or Clearstream, Luxembourg, as the case may be, will be represented through financial institutions acting on their behalf as direct and indirect participants in Euroclear or Clearstream, Luxembourg, as the case may be. In addition, Euroclear and Clearstream, Luxembourg may hold positions in the Certificates on behalf of their participants through their respective depositories.

Investors electing to hold their Certificates through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional notes. Certificates will be credited to the accounts of depositories and will be processed by Euroclear or Clearstream, Luxembourg in accordance with usual new issue procedures.

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Certificates where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Trading between Euroclear and/or Clearstream, Luxembourg participants

Secondary market trading between Euroclear participants and/or Clearstream, Luxembourg participants will be settled using the procedures applicable to conventional notes in same-day funds.

GENERAL INFORMATION

Authorisation

The entry by the HKSAR Government and/or the FSI into the transactions contemplated by the Transaction Documents was authorised under the Loans Ordinance (Cap. 61). The Issuer was established on 2 December 2016 for the purpose of issuing the Certificates and entering into the Transaction Documents.

Listing

Application will be made to the Hong Kong Stock Exchange for the listing of the Certificates by way of debt issues to Professional Investors only. Certificates to be listed on the Hong Kong Stock Exchange are required to be traded with a board lot size of at least HK\$500,000 (or equivalent in other currencies).

Application will be made to Bursa Malaysia (under an exempt regime pursuant to which the Certificates will be listed but not quoted for trading) for the listing of the Certificates.

Application has been made to the DFSA for the Certificates to be admitted to the DFSA's Official List and to NASDAQ Dubai for Certificates to be admitted to trading on NASDAQ Dubai. The Certificates are expected to be admitted to the DFSA's Official List on or about [●].

Listing of the Certificates on Bursa Malaysia and NASDAQ Dubai is conditional upon satisfaction of the requirements of those exchanges.

Documents Available

For so long as any Certificates remain outstanding, copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection and/or collection at the specified office of the Principal Paying Agent in Hong Kong:

- (a) the Transaction Documents; and
- (b) this Offering Circular.

Clearing Systems

The Global Certificate have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for the Certificates is XS1555404786. The Common Code for the Certificates is 155540478.

Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer and/or the HKSAR Government and no material adverse change in the financial position or prospects of the Issuer, in each case, since the date of incorporation of the Issuer.

Litigation

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Offering Circular which may have or have in such period had a significant effect on the financial position or profitability of the Issuer.

Financial Statements

The first financial year of the Issuer will end on 31 March 2017.

The Issuer will prepare annual reports and audited financial statements, but will not prepare interim accounts. The Issuer will ensure that copies are made available free of charge at the specified office of the Principal Paying Agent in Hong Kong.

The Issuer has no subsidiaries.

ISSUER AND TRUSTEE

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82/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

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

**Government's Representative
Monetary Authority**
55/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

DELEGATE

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Hong Kong

PRINCIPAL PAYING AGENT, REGISTRAR AND TRANSFER AGENT

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LEGAL ADVISERS

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