IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER: (1) QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED BELOW) OR (2) OUTSIDE OF THE UNITED STATES (THE "U.S.") AND, IN CERTAIN CIRCUMSTANCES, ARE NON-U.S. PERSONS (AS DEFINED BELOW)

IMPORTANT: You must read the following before continuing. The following applies to the supplemental offering memorandum (the "**Supplement**") following this notice, and you are therefore advised to read this carefully before reading, accessing or making any other use of this Supplement. In accessing this Supplement, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, any time you receive any information from the Issuer and/or the Arrangers and the Dealers (each as defined in the offering memorandum referred to in this Supplement) as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED IN THIS SUPPLEMENT HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTIONS OF THE U.S. AND MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**")) OR, IN CERTAIN CIRCUMSTANCES, TO, OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS (AS DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THIS SUPPLEMENT MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS SUPPLEMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of your representation: In order to be eligible to view this Supplement or make an investment decision with respect to the securities described in this Supplement, investors must be either: (1) Qualified Institutional Buyers ("**QIBs**") (within the meaning of Rule 144A under the Securities Act) or (2) outside the United States and, in certain circumstances, are non-U.S. persons as defined in Regulation S. This Supplement is being sent to you at your request and by accepting the email and accessing this Supplement, you shall be deemed to have represented to the Issuer, the Arrangers and the Dealers that (1) you and any customers you represent are either: (a) QIBs or (b) outside the U.S. and, in certain circumstances, are non-U.S. persons as defined in Regulation S, (2) unless you are a QIB, the electronic mail address that you gave us and to which this transmission has been delivered is not located in the U.S., (3) you are a person who is permitted under applicable law and regulation to receive this Supplement and (4) you consent to delivery of such Supplement by electronic transmission. If this is not the case, you must return this Supplement to us immediately.

You are reminded that this Supplement has been delivered to you on the basis that you are a person into whose possession the Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of this Supplement to any other person.

This Supplement does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that an offering of securities described herein be made by a licensed broker or dealer and any Dealer (as defined below) or any affiliate of any Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Dealer or such affiliate on behalf of the Issuer or holders of the applicable securities in such jurisdiction. This Supplement has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Issuer, the Arrangers, the Dealers, nor any person who controls them nor any director, officer, employee nor agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between this Supplement distributed to you in electronic format and the hard copy version available to you on request from the Issuer, the Arrangers or the Dealers.

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

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

HK$100,000,000,000

Global Medium Term Note Programme

This Supplement (this "**Supplement**") to the Offering Memorandum dated 21 January 2021 (the "**Offering Memorandum**") is prepared in connection with the HK$100,000,000,000 Medium Term Note Programme (the "**Programme**") of the Government of the Hong Kong Special Administrative Region of the People's Republic of China (the "**Issuer**"), under which the Issuer may from time to time issue medium term notes (the "**Notes**") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined in the Offering Memorandum). Terms defined in the Offering Memorandum have the same meaning when used in this Supplement. This Supplement is supplemental to, and should be read in conjunction with, the Offering Memorandum and any other supplements to the Offering Memorandum issued by the Issuer.

To the extent that there is any inconsistency between (a) any statement in this Supplement and (b) any other statement in or incorporated by reference in the Offering Memorandum, the statements in (a) above will prevail.

The Offering Memorandum and this Supplement comprise neither a prospectus pursuant to Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 (as amended, the "**Prospectus Regulation**") or Regulation (EU) 2017/1129 as it forms part of United Kingdom ("**UK**") domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**") (the "**UK Prospectus Regulation**"), nor listing particulars given in compliance with the listing rules made under Part VI of the UK Financial Services and Markets Act 2000 ("**FSMA**") by the Financial Conduct Authority in its capacity as competent authority under the FSMA (the "**FCA**"). The Offering Memorandum and this Supplement have been prepared on the basis that the Issuer is not required to publish a prospectus pursuant to Article 1(2)(b) of the UK Prospectus Regulation. The Offering Memorandum and this Supplement have also been prepared on the basis that all offers of the Notes in the European Economic Area (the "**EEA**") will be made pursuant to an exemption under the Prospectus Regulation from the requirement to produce a prospectus in connection with offers of the Notes. Accordingly, the Offering Memorandum and this Supplement do not purport to meet the format and the disclosure requirements of the UK Prospectus Regulation or the Prospectus Regulation as regards the format, content, scrutiny and approval of a prospectus and it has not been, and will not be, submitted for approval to any competent authority. The FCA has neither approved nor reviewed information contained in the Offering Memorandum and this Supplement.

Application may be made to the FCA for Notes issued under the Programme to be admitted to the official list of the FCA (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's main market. The London Stock Exchange's main market is a UK regulated market for the purposes of Regulation (EU) No 600/2014 on markets in financial instruments as it forms part of UK domestic law by virtue of the EUWA ("**UK MiFIR**").

Application has been made to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") for the listing of the Programme 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 ("**Professional Investors**") only during the period of 12 months after the date of the Offering Memorandum on the Hong Kong Stock Exchange. The document is for distribution to Professional Investors only. **Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.**

The Hong Kong Stock Exchange has not reviewed the contents of the Offering Memorandum and this Supplement, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of the Offering Memorandum and this Supplement to Professional Investors only have been reproduced in the Offering Memorandum and this Supplement. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or the quality of disclosure in the Offering Memorandum and this Supplement. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of the Offering Memorandum and this Supplement, 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 the Offering Memorandum and this Supplement.

The relevant pricing supplement (a "**Pricing Supplement**") in respect of the issue of any Notes will specify whether or not such Notes will be listed on the London Stock Exchange's main market, the Hong Kong Stock Exchange or any other stock exchange. Unlisted Notes may be issued pursuant to the Programme.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or with any securities regulatory authority of any State or other jurisdiction of the United States, and Notes in bearer form ("Bearer Notes") may be subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person except in certain transactions permitted by U.S. tax regulations. Subject to certain exceptions, the Notes may not be offered or sold or, in the case of Bearer Notes, delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes may be offered and sold (A) in bearer form or registered form outside the United States in reliance on Regulation S ("Regulation S") under the Securities Act and, in the case of Bearer Notes, only to non-U.S. Persons as defined in Regulation S or (B) in registered form within the United States only to persons reasonably believed to be "qualified institutional buyers" ("QIBs") in reliance on Rule 144A under the Securities Act ("Rule 144A"). Prospective purchasers of the Notes are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a summary of certain restrictions on resale, see "*Transfer Restrictions*" and "*Subscription and Sale*" of the Offering Memorandum.

INVESTING IN THE NOTES ISSUED UNDER THE PROGRAMME INVOLVES RISKS. SEE "*RISK FACTORS*" OF THE OFFERING MEMORANDUM FOR A DISCUSSION OF CERTAIN FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE NOTES.

ARRANGERS

CRÉDIT AGRICOLE CIB **HSBC**

DEALERS

ANZ
BANK OF COMMUNICATIONS
BNP PARIBAS
CITIGROUP
GOLDMAN SACHS (ASIA) L.L.C
ICBC (ASIA)
MIZUHO SECURITIES
SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT BANKING

BANK OF CHINA (HONG KONG) LIMITED
BARCLAYS
BOFA SECURITIES
CRÉDIT AGRICOLE CIB
HSBC
J.P. MORGAN
MORGAN STANLEY
STANDARD CHARTERED BANK

UBS

Supplemental Offering Memorandum dated 11 November 2021

IMPORTANT NOTICES

The Offering Memorandum and this Supplement include particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in the Offering Memorandum and this Supplement and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading. The Programme provides that Notes may be listed or admitted to trading, as the case may be, on the London Stock Exchange's main market, the Hong Kong Stock Exchange or such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

Any person making or intending to make any offer within the EEA of Notes which are the subject of any offering contemplated in the Offering Memorandum and this Supplement should only do so in circumstances in which no obligation arises for the Issuer or any of the Dealers to produce a prospectus for such offers.

The Offering Memorandum and this Supplement do not constitute an offer of, or an invitation by or on behalf of the Issuer, or any Dealer to subscribe for or purchase any Notes. The distribution of the Offering Memorandum, this Supplement or any Pricing Supplement and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Neither the Issuer nor any of the Arrangers or the Dealers represents that the Offering Memorandum and this Supplement may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arrangers or the Dealers which is intended to permit a public offering of any Notes or distribution of the Offering Memorandum and this Supplement in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither the Offering Memorandum, this Supplement 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 the Offering Memorandum, this Supplement or any Pricing Supplement comes are required by the Issuer, the Arrangers and the Dealers to inform themselves about and to observe any such restrictions on the distribution of the Offering Memorandum, this Supplement or any Pricing Supplement and the offering and sale of any Notes under the Programme. For a description of certain further restrictions on offers and sales of Notes and distribution of the Offering Memorandum, this Supplement and any Pricing Supplement, see "*Subscription and Sale*" of the Offering Memorandum and the applicable Pricing Supplement.

No person is authorised in connection with the offering of the Notes to give any information or to make any representation regarding the Issuer, Hong Kong or the Notes not contained in the Offering Memorandum and this Supplement and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Arrangers, the Dealers, the Trustee (as defined in the Conditions) or the Agents (as defined in the Conditions) or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers.

None of the Offering Memorandum, this Supplement or any other information supplied in connection with the Programme or any Notes is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by the Issuer, the Arrangers, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers that any recipient of the Offering Memorandum or this Supplement should purchase any of the Notes. A potential investor should carefully evaluate the information provided herein in light of the total mix of information available to it, recognising that none of the Issuer, the Arrangers, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any other person can provide any assurance as to the reliability of any information not contained in this document. Each prospective investor contemplating purchasing any Notes should make its own independent investigation and analysis of the condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment.

Neither the delivery of the Offering Memorandum or this Supplement nor any sale made in connection therewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which the Offering Memorandum has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which the Offering Memorandum has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Dealers expressly do not undertake to review the condition, financial, economic or otherwise, or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

No comment is made or advice is given by the Issuer, the Arrangers, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers in respect of taxation matters relating to the Notes or the legality of the purchase of the Notes by an investor under any applicable law.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS TAX ADVISER, LEGAL ADVISER AND BUSINESS ADVISER AS TO TAX, LEGAL AND BUSINESS-RELATED MATTERS CONCERNING THE PURCHASE OF THE NOTES.

None of the Arrangers, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers has separately verified the information contained in the Offering Memorandum and this Supplement. To the fullest extent permitted by law, none of the Arrangers, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers accept responsibility whatsoever for the contents of the Offering Memorandum and this Supplement or for any other statement made or purported to be made by any of them or on its behalf in connection with the Issuer, the Programme or the issue and offering of the Notes. Each of the Arrangers, the Dealers, the Trustee, the Agents and each of their respective affiliates, directors, officers, employees, representatives, agents and advisers accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of the Offering Memorandum, this Supplement or any such statement. The Trustee and the Agents and each of their respective affiliates, directors, officers, employees, representatives, agents and advisers make no representation regarding the Offering Memorandum, this Supplement, the Programme or the Notes.

The Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission, any State securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Notes or the accuracy or adequacy of the Offering Memorandum and this Supplement. Any representation to the contrary may be a criminal offence in the United States.

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

Any Bearer Notes issued under the Programme are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to or for the account of U.S. persons except in certain transactions permitted by U.S. Treasury regulations (the "**U.S. Treasury Regulations**"). Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and the U.S. Treasury Regulations promulgated thereunder.

The Notes may be offered and sold (A) in bearer form or registered form outside the United States in reliance on Regulation S and, in the case of Bearer Notes, only to non-U.S. Persons as defined in Regulation S or (B) in registered form within the United States in reliance on Rule 144A only to persons reasonably believed to be QIBs. Prospective purchasers are hereby notified that sellers of the Rule 144A Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of the Offering Memorandum and this Supplement, see "*Subscription and Sale*" and "*Transfer Restrictions*" of the Offering Memorandum.

The maximum aggregate nominal amount of Notes outstanding at any one time under the Programme will not exceed HK$100,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into U.S. dollars at the date of the agreement to issue such Notes (calculated in accordance with the provisions of the Programme Agreement). The maximum aggregate nominal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Programme Agreement as defined under "*Subscription and Sale*" of the Offering Memorandum.

IN ORDER TO FACILITATE THE OFFERING OF ANY TRANCHE OF NOTES, ONE OR MORE DEALERS NAMED AS STABILISATION MANAGER(S) (THE "**STABILISATION MANAGER(S)**") (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER(S)) IN THE APPLICABLE PRICING SUPPLEMENT, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, MAY OVER-ALLOT NOTES OR ENGAGE IN TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE RELEVANT NOTES DURING AND AFTER THE OFFERING OF THE TRANCHE AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF SUCH NOTES. ANY STABILISATION ACTION OR OVER ALLOTMENT SHALL BE CONDUCTED BY THE STABILISATION MANAGERS (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGERS) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

IN CONNECTION WITH SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE, AS MODIFIED OR AMENDED FROM TIME TO TIME (THE "SFA") AND THE SECURITIES AND FUTURES (CAPITAL MARKETS PRODUCTS) REGULATIONS 2018 OF SINGAPORE (THE "CMP REGULATIONS 2018"), UNLESS OTHERWISE SPECIFIED BEFORE AN OFFER OF NOTES, THE ISSUER HAS DETERMINED, AND HEREBY NOTIFIES ALL RELEVANT PERSONS (AS DEFINED IN SECTION 309(A)(1) OF THE SFA), THAT THE NOTES ARE PRESCRIBED CAPITAL MARKETS PRODUCTS (AS DEFINED IN THE CMP REGULATIONS 2018) AND EXCLUDED INVESTMENT PRODUCTS (AS DEFINED IN MAS NOTICE SFA 04-N12: NOTICE ON THE SALE OF INVESTMENT PRODUCTS AND MAS NOTICE FAA-N16: NOTICE ON RECOMMENDATIONS ON INVESTMENT PRODUCTS).

MIFID II PRODUCT GOVERNANCE/TARGET MARKET

The Pricing Supplement in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "**MiFID II**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination may be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

UK MIFIR PRODUCT GOVERNANCE/TARGET MARKET

The Pricing Supplement in respect of any Notes may include a legend entitled "UK MiFIR Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

EEA RETAIL INVESTORS

If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors," the Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

UK RETAIL INVESTORS

If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to UK Retail Investors," the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by the PRIIPs Regulation as it forms part of UK domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

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PRESENTATION OF ECONOMIC AND OTHER INFORMATION

Financial data and statistical information provided in this Supplement 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 2020, 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 Supplement excludes information with respect to the Mainland, the Macao Special Administrative Region of the People's Republic of China and Taiwan.

Financial data and statistical information for calendar years 2020 and 2021, including periods therein, may 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 years 2020 and 2021, and all financial data and statistical information for fiscal years 2019-20 and 2020-2021 contained herein are actual data, provisional data or estimates based on the latest available data. Such data is subject to revisions due to new or more complete information becoming available.

Unless otherwise indicated, estimates contained in this Supplement 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, 2019-20) 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 Supplement. Certain figures included in this Supplement have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Some statistical information has been derived from information publicly made available by third parties such as the International Monetary Fund. Where such third-party information has been so sourced, the source is stated where it appears in this Supplement. Such third party information has not been independently verified by the Issuer, the Arrangers, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers and none of the Issuer, the Arrangers, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers makes any representation as to the accuracy or completeness of that information. Such information may not be consistent with other information compiled within or outside Hong Kong. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified.

ENFORCEMENT

The Issuer is a Special Administrative Region of the People's Republic of China and a substantial portion of the assets of the Issuer are therefore located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuer or to enforce against it in United States courts judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or the securities laws of any state or territory within the United States.

In the Trust Deed dated 21 January 2021 (such trust deed as modified and/or supplemented and/or restated from time to time, the "**Trust Deed**"), the courts of the HKSAR are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes, the Trust Deed, the Programme Agreement and the Agency Agreement (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) (the "**CPO**") enables civil proceedings (as defined in the CPO) to be commenced against the HKSAR Government in the courts of the HKSAR. However, there are certain restrictions as to the rights and remedies available against the HKSAR Government. The HKSAR courts have no power to grant an injunction or to order specific performance, but may instead make an order declaratory of the rights of the parties. Section 21 of the CPO provides that if an order is made against the HKSAR Government, the proper officer of the HKSAR courts will, upon application, issue to the successful plaintiff a certificate containing particulars of the order. If the order provides for payment of money, the certificate will state the amount payable and the Director of Accounting Services shall pay the sum shown to be due, subject to appeal. No process of execution or attachment can be carried out to enforce satisfaction against the HKSAR Government of any judgment.

FORWARD-LOOKING STATEMENTS

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

These statements are based on the Issuer's current plans, objectives, assumptions, estimates and projections. Investors should therefore not place undue reliance on those statements. Forward-looking statements speak only as of the date that they are made and the Issuer does not undertake to update any forward-looking statements in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. The Issuer cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement.

RISK FACTORS

The section titled "Risk Factors – Risks related to recent developments" in the Offering Memorandum shall be deleted in its entirety and replaced with the following.

Risks related to recent developments

The COVID-19 pandemic development especially the threat of the more infectious variants, together with supply bottlenecks in many economies, will continue to pose downside risks to the global economic outlook. Moreover, the surge in energy prices and elevated inflation pressures in the U.S. and Europe have cast uncertainties over the future course of major central banks' monetary policies.

Economic growth and stability in Hong Kong may be impacted by geopolitical developments and tensions, including trade disputes. Although initial steps have been taken towards resolving such trade disputes, the impacts any trade tensions may have on the global economy and Hong Kong's trade flows remain uncertain. The above, and other developments (for more information, see "*Other Developments – Other Information*"), may affect the landscape in which Hong Kong's economy and markets operate and impact both domestic and foreign businesses that conduct economic activities with or within Hong Kong. Persons participating in the offering of the Notes should consult their own advisers on the potential impact to them.

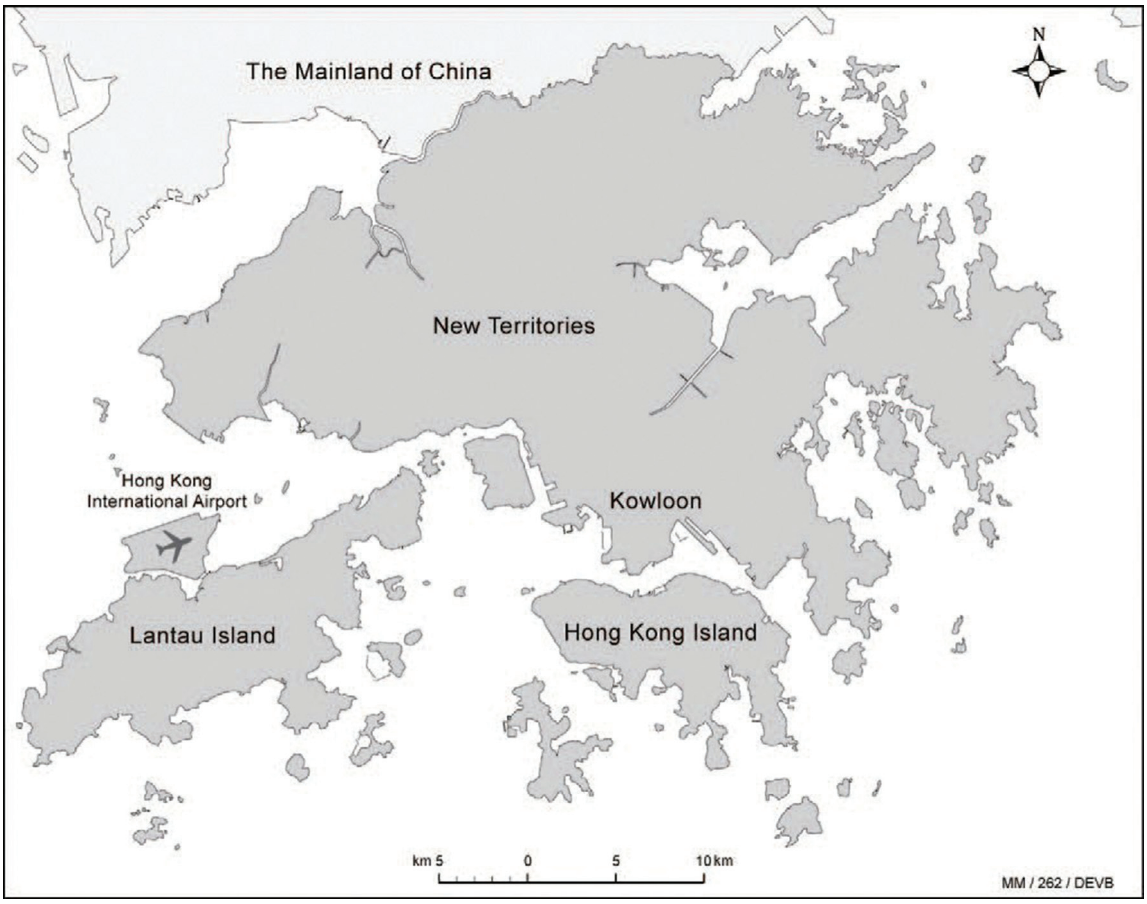
THE HONG KONG SPECIAL ADMINISTRATIVE REGION

The section titled "The Hong Kong Special Administrative Region" in the Offering Memorandum shall be deleted in its entirety and replaced with the following.

OVERVIEW

Hong Kong is one of the world's leading trade and financial centres and a major gateway to Mainland China. Situated on the southeast coast of China, Hong Kong is positioned at the centre of East Asia. With a total land area of 1,110.18 square kilometres, Hong Kong is comprised of Hong Kong Island, Lantau Island, the Kowloon Peninsula and the New Territories (including 262 outlying islands).

On 1 July 1997, Hong Kong became a Special Administrative Region of the PRC in accordance with Article 31 of the Constitution of the PRC. In accordance with the Constitution of the PRC, the National People's Congress (the "**NPC**") enacted the Basic Law (the "**Basic Law**") of the Hong Kong Special Administrative Region (the "**HKSAR**"), which came into effect on 1 July 1997. The Basic Law prescribes the systems to be practised in the HKSAR. Hong Kong benefits from a relatively stable political environment with strong institutions. It has one of the highest levels of governance in the world, underscored by the World Bank's Worldwide Governance Indicators project which ranked Hong Kong in the 90th percentile or higher in each of its aggregate indicators for Control of Corruption, Rule of Law, Regulatory Quality and Government Effectiveness in 2020.



POPULATION AND SOCIETY

Hong Kong is one of the most densely-populated regions in the world. Hong Kong had a total population of nearly 7.4 million as at 30 June 2021, and a population density of approximately 6,890 persons per square kilometre as at mid-2020.

The official languages in Hong Kong are Chinese and English. Hong Kong is largely a biliterate (for written Chinese and English) and trilingual (for Cantonese, Putonghua and spoken English) society.

The population enjoys religious freedom as a fundamental right protected by the Basic Law. The various religious traditions practised in Hong Kong include, among others, Buddhism, Christianity, Islam, Taoism, Confucianism, Hinduism, Sikhism and Judaism. Many religious bodies have established schools and provided health and welfare facilities.

With respect to education, the HKSAR Government provides 12 years of free primary and secondary education through public-sector schools, which form the majority in the school system. For the 2020-21 academic year, Hong Kong had approximately 1,046 kindergartens, 589 primary schools, 506 secondary schools, 62 special schools, one institute of vocational education and 29 post-secondary institutions (including eight University Grants Committee-funded universities).

Hong Kong has a dual-track system for public and private healthcare. The HKSAR Government provides comprehensive public medical and healthcare services, which patients receive either for free or at a relatively low cost. As at 30 September 2021, healthcare professionals registered with their respective boards and councils amounted to: 15,548 doctors, 2,656 dentists, 10,502 listed and registered Chinese medicine practitioners and 63,360 registered and enrolled nurses. As at 31 December 2020, there were approximately 42,180 hospital beds in the territory, representing approximately 5.6 beds per thousand persons. Given the location and climate of Hong Kong, the number of travellers and the density of its population, Hong Kong is in close liaison with Mainland health authorities and other countries as well as with the World Health Organisation for the detection, prevention and control of communicable diseases.

According to the Census and Statistics Department's statistics, the gross national income per capita of Hong Kong in 2020 was HK$379,181, and nominal GDP of Hong Kong was HK$2,688.5 billion. Life expectancy at birth for male and female were 82.9 years and 88.0 years respectively in 2020.

CONSTITUTION AND GOVERNMENT

The HKSAR was formally established on 1 July 1997 and the Basic Law came into force on the same day. The NPC enacted the Basic Law in accordance with the Constitution of the PRC. The Basic Law prescribes the systems to be practised in the HKSAR to ensure the implementation of the basic policies of the PRC regarding Hong Kong. Under the "one country, two systems" principle and as stipulated in the Basic Law, the Mainland's socialist system and policies shall not be practised in Hong Kong and the previous capitalist system and way of life shall remain unchanged for 50 years. The Basic Law provides that the NPC authorises the HKSAR to exercise a high degree of autonomy and enjoy executive, legislative and independent judicial power, including that of final adjudication, in accordance with the provisions of the Basic Law. The power of amendment of the Basic Law is vested in the NPC. The Standing Committee of the NPC (the "**NPCSC**") has the power of interpretation of the Basic Law. It authorises the courts of the HKSAR to interpret, on their own in adjudicating cases, the provisions of the Basic Law which are within the limits of the autonomy of the HKSAR. The courts of the HKSAR may also interpret other provisions of the Basic Law in adjudicating cases, although the Court of Final Appeal would need to seek an interpretation from the NPCSC if the relevant Basic Law provisions concern affairs which are the responsibility of the Central People's Government of the PRC ("**CPG**") or concern the relationship between the Central Authorities of the PRC and the HKSAR.

Government Structure

According to the overall framework of the Basic Law, the political structure of the HKSAR is an executive-led structure headed by the Chief Executive. Under Article 43 of the Basic Law, the Chief Executive is the head of the HKSAR and represents the HKSAR. The Chief Executive is accountable to the CPG and the HKSAR. The Chief Executive is also responsible for implementing the Basic Law. The Chief Executive's power is derived from the authorisation by the NPC through the Basic Law. Under the Basic Law, the Chief Executive is elected by an election committee which is broadly representative, suited to the actual situation of the HKSAR, and represents the overall interests of society. The Chief Executive is appointed by the CPG.

The term of office of the Chief Executive is five years, and he or she may serve for not more than two consecutive terms. The current Chief Executive is Mrs. Carrie Lam, whose term of office began in July 2017.

The HKSAR Government, led by the Chief Executive, comprises policy bureaux and departments. The policy bureaux formulate policies and initiate legislative and financial proposals. Departments implement laws and policies and provide direct services to the public. There are currently 13 policy bureaux, each headed by a Director of Bureau, collectively forming the HKSAR Government Secretariat, and 56 departments, most of which are responsible to the relevant bureau secretaries.

The Chief Secretary for Administration, the Financial Secretary and the Secretary for Justice, and the 13 Directors of Bureaux are principal officials and are accountable to the Chief Executive. They are appointed to the Executive Council (described below).

In October 2021, the Chief Executive in the 2021 Policy Address proposed that the current-term HKSAR Government shall prepare a proposal to re-organise the government structure for consideration and implementation by the next-term HKSAR Government to promote the effective implementation of policies.

The Executive Council

The Executive Council ("**ExCo**") assists the Chief Executive in formulating HKSAR Government policy. ExCo has 32 members, comprising 16 principal officials and 16 non-official members. All ExCo members are appointed by the Chief Executive.

Under the Basic Law, except for the appointment, removal and disciplining of officials and the adoption of measures in emergencies, the Chief Executive shall consult the ExCo before making important policy decisions, introducing bills into the Legislative Council ("**LegCo**"), making subordinate legislation or dissolving the LegCo. The Chief Executive in Council also determines appeals, petitions and objections under those ordinances conferring a statutory right of appeal. If the Chief Executive does not accept a majority opinion of the ExCo, he or she shall put the specific reasons on record.

The Legislative Council

LegCo is the legislature of Hong Kong and has the following powers and functions, as provided in the Basic Law:

- to enact, amend or repeal laws in accordance with the provisions of the Basic Law and legal procedures;
- to examine and approve budgets introduced by the HKSAR Government;
- to approve taxation and public expenditure;
- to receive and debate the policy addresses of the Chief Executive;

- to raise questions on the work of the HKSAR Government;

- to debate any issue concerning public interests;

- to endorse the appointment and removal of the judges of the Court of Final Appeal and the Chief Judge of the High Court;

- to receive and handle complaints from Hong Kong residents;

- if a motion initiated jointly by one-fourth of all the members of the LegCo charges the Chief Executive with serious breach of law or dereliction of duty and if he or she refuses to resign, the LegCo may, after passing a motion for investigation, give a mandate to the Chief Justice of the Court of Final Appeal to form and chair an independent investigation committee. The committee shall carry out the investigation and report its findings to the LegCo. If the committee considers the evidence sufficient to substantiate such charges, the LegCo may pass a motion of impeachment by a two-thirds majority of all its members and report it to the CPG for decision; and

- to summon, as required when exercising the above-mentioned powers and functions, persons concerned to testify or give evidence.

The Basic Law states that LegCo shall be constituted by election and that each term of office of the LegCo shall be four years, except the first term which shall be two years. The election for the sixth (and current) term of LegCo (the "**sixth-term LegCo**") was held in September 2016. The term of office for the sixth-term LegCo was originally four years beginning on 1 October 2016 and ending on 30 September 2020. The sixth-term LegCo comprises 70 members, with 35 members returned by geographical constituencies through direct elections and 35 members returned by functional constituencies.

On 31 July 2020, the Government announced that the Chief Executive-in-Council had decided to postpone the general election for the seventh-term of the LegCo, originally scheduled for 6 September 2020, for one year to 5 September 2021 having regard to the severe COVID-19 epidemic situation. On 11 August 2020, the NPCSC decided that after 30 September 2020, the sixth-term LegCo is to continue to discharge its duties for not less than one year until the seventh-term of office of the LegCo begins. After the seventh-term LegCo is formed in accordance with the law, its term of office remains to be four years.

On 11 March 2021, the NPC passed the Decision on Improving the Electoral System of the Hong Kong Special Administrative Region (the "**Decision**") and authorized NPCSC to amend Annex I to the Basic Law on Method for the Selection of the Chief Executive of the Hong Kong Special Administrative Region and Annex II to the Basic Law on Method for the Formation of the Legislative Council of the Hong Kong Special Administrative Region and Its Voting Procedures. On 30 March 2021, NPCSC adopted the amended Annexes I and II to the Basic Law, which set out in detail the new methods for selecting the Chief Executive and forming the LegCo in the HKSAR.

In accordance with the Decision and the amended Annexes I and II to the Basic Law, the Improving Electoral System (Consolidated Amendments) Bill 2021 (the "**Bill**") was introduced into the LegCo on 14 April 2021. Following the passage of the Bill by the LegCo on 27 May 2021, the Chief Executive signed and promulgated the Improving Electoral System (Consolidated Amendments) Ordinance 2021, which, among others, changed the polling date of the general election of the seventh term of the LegCo from 5 September to 19 December 2021. The membership of the seventh term of the LegCo will increase from 70 to 90 and the members are to be returned for the Election Committee constituency (40 seats), functional constituencies (30 seats), and geographical constituencies (20 seats) respectively. The improved electoral system will enhance the balanced and orderly political participation in the political structure and ensure broader representation in the political structure through the reconstituted Election Committee, which will be composed of representatives from different sectors and classes of Hong Kong community. The Election Committee Subsector Ordinary Elections, the first elections after improving the electoral system, were successfully held on 19 September 2021.

District Administration

The Basic Law provides that district organisations, which are not organs of political power, may be established in the HKSAR. Their powers and functions and method for formation are prescribed by law. At present, a total of 18 District Councils have been established in Hong Kong to advise the HKSAR Government on, amongst others, matters affecting the well-being of the people in the districts and on the provision and use of their public facilities and services, and where funds are made available for the purpose, to undertake environmental improvement projects and to promote recreational, cultural and community activities within the districts. District Councils in urban areas are comprised of elected members and in rural areas, elected and ex-officio members.

LEGAL SYSTEM

The legal system of the HKSAR differs from that of the Mainland, and is based on the common law.

The constitutional framework of the HKSAR is provided by the Basic Law, enacted by the NPC of the PRC under Article 31 of the Constitution of the PRC.

Since the establishment of the HKSAR, legal arguments based on the Basic Law have been raised in a wide variety of cases. The gradual development of a body of jurisprudence on the Basic Law reinforces its effectiveness in determining the rights and freedoms guaranteed to the people of Hong Kong.

The Basic Law guarantees the continuance of the common law legal system after China resumed the exercise of sovereignty over Hong Kong on 1 July 1997.

The laws in force in Hong Kong before 1 July 1997 continue to apply in the HKSAR except for those which contravened the Basic Law or are amended by the LegCo. Some ordinances were adapted to bring them into line with the Basic Law and to reflect Hong Kong's new status as a Special Administrative Region of the PRC.

The judicial system was maintained except for those changes consequent upon the establishment of the Hong Kong Court of Final Appeal on 1 July 1997, which replaced the Judicial Committee of the Privy Council as the appellate court exercising the power of final adjudication for Hong Kong. Pursuant to the Basic Law, judges from other common law jurisdictions have been invited to sit on the Court of Final Appeal since 1 July 1997.

The laws in force in the HKSAR are:

- the Basic Law;
- the national laws listed in Annex III to the Basic Law and as applied to the HKSAR by way of promulgation or legislation;
- the laws in force before 1 July 1997 (including the common law, rules of equity and customary law as well as statutory law), other than those not adopted as laws of the HKSAR by the NPCSC because they contravened the Basic Law; and
- laws enacted by the LegCo.

National laws that may be added to Annex III to the Basic Law are confined to those relating to defence and foreign affairs, as well as other matters outside the HKSAR's autonomy. On 30 June 2020, the NPCSC passed the Hong Kong National Security Law, which was added to Annex III to the Basic Law in accordance with Article 18 of the Basic Law and promulgated on the same day.

The Judiciary

A key element in the success and continuing attraction of the HKSAR is that its judicial system operates on the principle, fundamental to the common law system, of the independence of the judiciary from the executive authorities and legislature. The courts make their own judgments, whether disputes before them involve private citizens, corporate bodies or the government itself. The HKSAR Government is advised on matters relating to pay and conditions of service of judicial officers by an independent Standing Committee on Judicial Salaries and Conditions of Service. The Chief Justice is the head of the Judiciary, assisted in its overall administration by the Judiciary Administrator.

The Court of Final Appeal, headed by the Chief Justice, is the HKSAR's highest appellate court. The High Court, comprising the Court of Appeal and Court of First Instance, is headed by the Chief Judge of the High Court. The Court of Appeal hears civil and criminal appeals from the Court of First Instance, District Court and Lands Tribunal. The Court of First Instance has unlimited jurisdiction in all civil and criminal matters. Civil matters are usually tried by Court of First Instance judges sitting without juries, although there is a rarely used provision for jury trials in certain cases, including defamation. Criminal offences in the Court of First Instance are tried by a judge with a jury of seven, or when a judge so orders, a jury of nine. The Court of First Instance also hears appeals from the Magistrates' Courts, Minor Employment Claims Adjudication Board, Labour Tribunal and Small Claims Tribunal. The Competition Tribunal has primary jurisdiction to hear and adjudicate competition-related cases. The District Court is one level below the Court of First Instance. The Family Court, comprising 10 courts, is part of the District Court. It hears applications pertaining to divorce, separation and related family and matrimonial matters such as applications concerning children and financial relief. The seven Magistrates' Courts process about 90 per cent. of criminal cases. There are five specialised tribunals. The Lands Tribunal is led by a President who is a High Court Judge and comprises presiding officers who are District Judges and members who may be experienced professional surveyors. The tribunal handles tenancy claims, building management matters, rating and valuation appeals, applications for compulsory sale of land for redevelopment, and compensation assessments when land is resumed by the government or reduced in value by development. The Labour Tribunal handles claims arising from employment contracts and the Employment Ordinance. The Small Claims Tribunal handles civil claims of up to HK$75,000. The Obscene Articles Tribunal determines whether articles are obscene or indecent. It also classifies articles submitted by authors and publishers. The Coroner's Court conducts inquests into the causes and circumstances of a death.

Proceedings against the HKSAR Government

The Crown Proceedings Ordinance (Cap. 300) ("**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 court of the HKSAR shall, upon application, issue to the successful plaintiff a certificate containing particulars of the order. If the order provides for payment of money, the certificate shall state the amount payable and the Director of Accounting Services shall pay the sum shown to be due, subject to appeal. No process of execution or attachment can be carried out to enforce satisfaction against the HKSAR Government of any judgment;

- in civil proceedings against the HKSAR Government, the HKSAR courts have no power to:

  (i) grant an injunction or to make an order for specific performance but may, instead, make an order declaratory of the rights of the parties; or

  (ii) make an order for the recovery of land or the delivery of other property but may, instead, make an order declaring that the plaintiff is entitled as against the HKSAR Government to the land or property or to the possession of the same;

- no default judgments can be entered against the HKSAR Government, except with the permission of the court;

- no third party proceedings can be commenced against the HKSAR Government, except with the permission of the court; and

- no summary judgments can be entered against the HKSAR Government.

INDEPENDENT COMMISSION AGAINST CORRUPTION

The Independent Commission Against Corruption ("**ICAC**") was established by the ICAC Ordinance (Cap. 204) in 1974 to fight corruption using a three-pronged approach through law enforcement, prevention and education. Under the Basic Law, the ICAC is guaranteed independence and is headed by a Commissioner who is directly responsible to the Chief Executive. The ICAC comprises the office of the Commissioner and three functional departments – Operations, Corruption Prevention and Community Relations. The ICAC derives its legal powers to investigate and pursue corruption crimes under three specific ordinances – the ICAC Ordinance (Cap. 204), the Prevention of Bribery Ordinance (Cap. 201) and the Elections (Corrupt and Illegal Conduct) Ordinance (Cap. 554).

INTERNATIONAL ORGANISATIONS AND CONFERENCES

Hong Kong participates in international organisations and conferences in various capacities. As part of the Mainland delegation, representatives from the HKSAR Government participate in certain international organisations and conferences limited to sovereign states, such as the International Monetary Fund, the World Intellectual Property Organization, the International Civil Aviation Organisation and the International Telecommunication Union. Using the name "Hong Kong, China", Hong Kong also participates on its own as a full member in certain international organisations and conferences not limited to states, including the World Trade Organization ("**WTO**"), the World Customs Organisation, the Asia-Pacific Economic Cooperation ("**APEC**"), the Asian Development Bank ("**ADB**") and the Asian Infrastructure Investment Bank ("**AIIB**").

RELATIONSHIP WITH THE MAINLAND

Defence and Foreign Affairs

The Basic Law provides that the CPG shall be responsible for the defence of and the foreign affairs relating to the HKSAR. The HKSAR Government shall be responsible for the maintenance of public order in the Region. Military forces stationed by the CPG in Hong Kong for defence shall not interfere in the local affairs of the Region. In addition to abiding by national laws of the PRC, members of the garrison shall abide by the laws of the HKSAR. Expenditure for the garrison shall be borne by the CPG.

The Office of the Commissioner of the Ministry of Foreign Affairs of the People's Republic of China in the HKSAR was established by the CPG to deal with foreign affairs relating to the HKSAR. The CPG also authorises the HKSAR to conduct relevant external affairs on its own in accordance with the Basic Law.

Economic Affairs

Hong Kong's relationship with the Mainland with respect to economic matters has continued to strengthen since 1 July 1997. The implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement ("**CEPA**") has fostered the economic integration between Hong Kong and the Mainland, bringing significant benefits to Hong Kong's economy. For more information regarding CEPA, please see "*– External Economy – Mainland and Hong Kong Closer Economic Partnership Arrangement*" below.

In recent decades, Hong Kong has benefited from its growing economic relations with the Mainland. The Mainland has long been Hong Kong's largest trading partner, and Hong Kong continues to be the largest external investor in the Mainland as well as a key conduit of outward investments from the Mainland. According to Mainland statistics, the cumulative value of Hong Kong's realised direct investment in the Mainland at the end of 2019 amounted to almost U.S.$1.2 trillion, accounting for more than half of the total inward direct investment to the Mainland; in terms of the Mainland's outward foreign direct investment, Hong Kong accounted for 55.7 per cent. of the stock of such investment at the end of 2020.

Hong Kong is the key intermediary platform for the Mainland's trade with the rest of the world, benefiting from the continued growth in the Mainland's external trade. According to Mainland statistics, the Mainland's total merchandise trade surged from U.S.$474 billion in 2000 to U.S.$4.7 trillion in 2020, and Hong Kong was the fourth-largest trading partner of the Mainland in 2020, following the United States, Japan and Korea, accounting for about 6 per cent. of the Mainland's total trade value. According to the Census and Statistics Department's statistics, the value of visible trade between Hong Kong and the Mainland in 2020 was more than 3 times that of 20 years ago, representing an average annual growth of 6 per cent.

Financial links between Hong Kong and the Mainland have strengthened substantially over the years, on the back of the increasing cross-boundary economic activities and the CPG's policy to enhance Hong Kong's position as an international financial centre.

THE ECONOMY

The section titled "The Economy" in the Offering Memorandum shall be deleted in its entirety and replaced with the following.

OVERVIEW

The HKSAR Government maintains one of the world's most open economies and a business-friendly environment characterised by a relatively high degree of free trade and free flow of information, an established financial regulatory regime and legal system, and developed transportation and telecommunications infrastructure. Hong Kong was ranked the world's sixth-largest trading economy by the WTO in terms of value of total merchandise trade in 2020 and was home to one of the world's busiest container ports and airports in terms of container and air freight throughput in 2020. Hong Kong is an important hub for trade and business. Hong Kong is consistently rated as the world's freest economy by Fraser Institute's Economic Freedom of the World report since its launch in 1996 based on five areas of assessment, namely size of government, legal system and property rights, sound money, freedom to trade internationally, and regulation. In the latest Global Financial Centres Index report published by Z/Yen Group Limited and China Development Institute in September 2021, Hong Kong was also ranked as one of the top global financial centres in the world based on five broad areas of competitiveness: business environment, financial sector development, infrastructure, human capital and reputation. As for competitiveness, Hong Kong was ranked the world's seventh-most competitive economy by the International Institute for Management Development in 2021 and the third-most competitive economy by the World Economic Forum in 2019.

Over the past two decades, the Hong Kong economy, as measured by real GDP, expanded at an average annual rate of 2.8 per cent., faster than many other advanced economies. Hard hit by the COVID-19 pandemic, Hong Kong's real GDP contracted by 6.1 per cent. in 2020 after shrinking by 1.7 per cent. in 2019. In 2020, Hong Kong's GDP at current market prices was around HK$2.7 trillion and its per capita GDP of HK$359,343 was among the highest in Asia. The Hong Kong economy showed a visible recovery in the first half of 2021 alongside the improving global economic conditions and receding local epidemic. Real GDP grew appreciably by 7.8 per cent. year-on-year, arresting the declines in the preceding six consecutive quarters.

As at end of June 2021, the stock market in Hong Kong was the fifth in the world and second in Asia as measured by market capitalisation. With strong market access and financing flexibility underpinned by deep and liquid capital markets, Hong Kong is a well-established international financial centre.

As at the date of this Offering Memorandum, the HKSAR Government has been assigned long-term local currency credit ratings of "AA+" by S&P, "Aa3" by Moody's and "AA-" by Fitch.

Key Economic Events from 2016 to 2021

In 2016, the year-on-year growth of Hong Kong's real GDP picked up successively after the first quarter of the year alongside the relative stabilisation of the external environment, averaging 2.2 per cent. for the year as a whole. The U.S. economy strengthened in the second half of 2016 and the Mainland economy continued its solid expansion, though uncertainties associated with the Brexit vote and political developments in the major advanced economies lingered on. Along with the general recuperation of Asia's trade flows and the more benign global economic environment, exports of goods improved during the year. Domestic demand stayed resilient.

The Hong Kong economy saw a full-fledged upturn in 2017, with real GDP growth at 3.8 per cent. This was mainly supported by the broad-based global economic upswing, which in turn gave rise to more vibrant global trade flows. External demand turned stronger amid the increased global growth momentum. Domestic demand was likewise robust.

The Hong Kong economy grew by 2.8 per cent. for 2018 as a whole. Growth remained strong at 3.9 per cent. on a year-on-year basis in the first half of the year. Yet, alongside moderating global economic growth and increasing external uncertainties, particularly those stemming from the U.S.-Mainland trade conflict and U.S. interest rate hikes, the pace of year-on-year growth decelerated to 2.6 per cent. in the third quarter and further to 1.1 per cent. in the fourth quarter. Exports grew moderately for the year as a whole, but the year-on-year growth slowed sharply in the latter part of the year. Domestic demand was broadly resilient.

The Hong Kong economy contracted by 1.7 per cent. for 2019 as a whole, the first annual decline since 2009. Continuing the deceleration that started in the second half of 2018, the economy grew only modestly by 0.2 per cent. year-on-year in the first half of 2019 amid softening global economic growth and elevated U.S.-Mainland trade tensions. The economy then worsened abruptly and recorded sharp contractions of 3.2 per cent. and 3.6 per cent., respectively in the third and fourth quarters from a year earlier, as the local social incidents involving violence dealt a heavy blow to economic sentiment and consumption-and tourism-related activities. Hong Kong's exports of goods and services switched to a fall in 2019. Domestic demand retreated, with private consumption expenditure posting the first annual decline since 2003, and overall investment expenditure recording the biggest drop in two decades.

For 2020 as a whole, the economy contracted by 6.1 per cent., the sharpest annual decline on record. As social stability in Hong Kong has been restored, the severe economic contraction in 2020 was mainly due to the fallout from the COVID-19 pandemic. Hong Kong's total exports of goods picked up over the course of 2020 but still recorded a mild decline for the year as a whole. Domestic demand took a big hit in 2020. Private consumption expenditure recorded the steepest ever annual decline, as local consumption activities were severely disrupted by the COVID-19 epidemic, job and income conditions worsened and outbound tourism virtually ground to a halt.

The Hong Kong economy saw a visible recovery in the first half of 2021 alongside the improving global economic conditions and receding local epidemic. Real GDP grew appreciably by 7.8 per cent. year-on-year, arresting the declines in the preceding six consecutive quarters. Total exports of goods grew strongly, underpinned by robust revival of import demand from the major economies and vibrant production activity in the region. The fall in exports of services narrowed visibly against a low base of comparison. While services exports relating to inbound tourism and passenger transport remained in the doldrums, those relating to cargo flows and business services improved along with the global economic recovery. As regards domestic demand, private consumption expenditure resumed growth on the back of the receding local epidemic and improving labour market situation.

ECONOMIC POLICY

Under the "one country, two systems" principle, the HKSAR Government continues to adopt economic policies that create a business-friendly environment and respect the functions of a market economy. There are no import tariffs. Wine duty has been exempted since early 2008 and currently revenue duties are levied only on locally manufactured or imported tobacco, alcoholic liquors with alcoholic strength of more than 30 per cent. by volume, methyl alcohol and some hydrocarbon oils. There is also a tax payable on first registration of motor vehicles.

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

In October 2021, the Chief Executive delivered the 2021 Policy Address, highlighting the HKSAR Government's plans to boost Hong Kong's competitiveness as charted in the National 14th Five-Year Plan and leveraging the CPG's support to build a brighter future for Hong Kong. In particular, the Northern Metropolis will be developed as an international innovation and technology hub, and upon full development, it would be home to some 2.5 million people and offer 650,000 jobs, including 150,000 in the innovation and technology sector. In February 2021, the Financial Secretary presented the 2021-22 Budget Speech, stating the focus of stabilising the economy and relieving people's burden. The key areas for future development include the financial services, innovation and technology, air cargo sector, cultural and creative industries and the infrastructure investment and construction industry.

GROSS DOMESTIC PRODUCT

The table below shows Hong Kong's GDP and its main expenditure components for the periods indicated:

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

	For the year ended 31 December					Q1	Q2
	2016	**2017**	**2018**	**2019[(2)]**	**2020[(2)]**	**2021[(2)]**	**2021[(2)]**
				(HK$ million)			
Private consumption expenditure	1,649,941	1,784,148	1,936,117	1,973,438	1,788,293	450,967	467,267
Government consumption expenditure	247,973	261,447	281,420	309,437	341,745	95,595	84,453
Gross domestic fixed capital formation	535,216	575,977	612,439	520,574	460,307	117,321	123,771
Changes in inventories	447	10,973	11,204	-3,067	49,202	-5,001	11,380
Export of goods[(1)]	3,892,886	4,212,774	4,453,350	4,255,098	4,245,242	1,177,759	1,247,212
Exports of services[(1)]	764,660	811,295	886,883	798,942	506,559	145,515	121,884
Imports of goods[(1)]	4,022,579	4,391,306	4,706,347	4,375,619	4,286,753	1,171,015	1,278,742
Imports of services[(1)]	578,106	605,924	639,947	634,243	416,059	108,193	101,042
Gross Domestic Product	2,490,438	2,659,384	2,835,119	2,844,560	2,688,536	702,948	676,183

Notes:

1. Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*. The figures of exports and imports of goods are different from those external merchandise trade statistics which are not compiled based on the change of ownership principle. Besides, imports and exports of goods are valued on free on board (f.o.b.) basis, instead of on cost insurance freight (c.i.f.) basis.

2. Revised figures. In Hong Kong, the first released figures on GDP by expenditure component in respect of a period are called "advance estimates". For GDP by economic activity, the first released figures are called "preliminary figures". When more data become available, both sets of GDP figures will be revised. All those figures published subsequently, after the advance or preliminary figures, are called "revised figures". These "revised figures" are still subject to further regular revision later on when more data are incorporated. This routine revision is in accordance with the international practice to compile and release GDP figures at the earliest possible time by using only partial data. In general, the figures are finalised when finalised data from all regular sources are incorporated. GDP series for years 2019 and onwards is subject to routine revision as more data become available.

Source: Census and Statistics Department.

The table below shows the year-on-year rate of change of Hong Kong's real GDP and its main expenditure components for the periods indicated:

Rate of Change in Real GDP by Main Expenditure Component

	For the year ended 31 December					Q1	Q2
	2016	**2017**	**2018**	**2019[(2)]**	**2020[(2)]**	**2021[(2)]**	**2021[(2)]**
	(year-on-year percentage change)						
Private consumption expenditure . .	2.0	5.5	5.3	-0.8	-9.9	2.1	6.8
Government consumption expenditure	3.4	2.8	4.2	5.1	8.1	7.0	2.8
Gross domestic fixed capital formation	-0.1	3.1	1.7	-14.9	-11.2	4.8	23.8
Export of goods[(1)]	1.6	6.5	3.5	-5.5	-0.3	30.1	20.2
Exports of services[(1)].	-3.5	2.8	4.6	-9.6	-36.1	-7.3	2.6
Imports of goods[(1)]	0.7	7.3	4.7	-8.2	-2.1	22.9	21.3
Imports of services[(1)].	2.0	2.0	2.8	0.1	-34.1	-12.0	7.6
Gross Domestic Product	2.2	3.8	2.8	-1.7	-6.1	8.0	7.6

Notes:

1. Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*. The figures of exports and imports of goods are different from those external merchandise trade statistics which are not compiled based on the change of ownership principle. Besides, imports and exports of goods are valued on f.o.b. basis, instead of on c.i.f. basis.

2. Revised figures. In Hong Kong, the first released figures on GDP by expenditure component in respect of a period are called "advance estimates". For GDP by economic activity, the first released figures are called "preliminary figures". When more data become available, both sets of GDP figures will be revised. All those figures published subsequently, after the advance or preliminary figures, are called "revised figures". These "revised figures" are still subject to further regular revision later on when more data are incorporated. This routine revision is in accordance with the international practice to compile and release GDP figures at the earliest possible time by using only partial data. In general, the figures are finalised when finalised data from all regular sources are incorporated. GDP series for years 2019 and onwards is subject to routine revision as more data become available.

Source: Census and Statistics Department.

Hong Kong's real GDP grew by 2.2 per cent., 3.8 per cent. and 2.8 per cent. respectively in 2016, 2017 and 2018. In 2019, Hong Kong's real GDP contracted 1.7 per cent., the first annual decline since 2009. In 2020, the Hong Kong economy contracted by 6.1 per cent., the sharpest annual decline on record. The Hong Kong economy saw a visible recovery in the first half of 2021 alongside the improving global economic conditions and receding local epidemic. Real GDP grew appreciably by 7.8 per cent. year-on-year, arresting the declines in the preceding six consecutive quarters.

Private consumption expenditure ("**PCE**") fell 0.8 per cent. in real terms in 2019, marking its first annual decline since 2003. PCE recorded the steepest ever annual decline of 9.9 per cent. in real terms in 2020. In the first half of 2021, PCE grew by 4.4 per cent. year-on-year in real terms. Consumption-related activities revived alongside the receding local epidemic and improving labour market situation. However, outbound tourism activities remained severely hindered amid widespread travel restrictions.

Government consumption expenditure ("**GCE**") rose markedly by 8.1 per cent. in real terms in 2020. In the first half of 2021, GCE grew by 5.0 per cent. year-on-year in real terms.

Overall investment spending, as represented by gross domestic fixed capital formation ("**GDFCF**"), fell noticeably by 11.2 per cent. in real terms in 2020. GDFCF grew by 13.8 per cent. in real terms in the first half of 2021 over a year earlier.

INFLATION

The table below shows the year-on-year rate of change in the Composite Consumer Price Index ("**CCPI**") and the underlying CCPI, net of the effects of the HKSAR Government's one-off relief measures (mainly comprising the HKSAR Government's payment of public housing rentals, rates concession, subsidies for household electricity charges and wavier of examination fees) for the periods indicated:

RATE OF CHANGE IN COMPOSITE CONSUMER PRICE INDICES

	For the year ended 31 December					Q1	Q2	Q3
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2021**	**2021**
	(year-on-year percentage change)							
Composite Consumer Price Index	2.4	1.5	2.4	2.9	0.3	1.2	0.8	2.3
Underlying Composite Consumer Price Index.	2.3	1.7	2.6	3.0	1.3	-0.2	0.3	1.1

Source: Census and Statistics Department.

The underlying inflation rate as measured by the change in underlying CCPI drifted downwards from 2.3 per cent. in 2016 to 1.7 per cent. in 2017. In 2018, the underlying inflation rate rebounded to 2.6 per cent. and went up further to 3.0 per cent in 2019, primarily due to a sharp increase in pork prices amid a reduced supply of fresh pork since May. In 2020, the underlying inflation rate receded visibly to 1.3 per cent., as price pressures on most goods and services eased amid austere global and local economic conditions. In the first nine months of 2021, the underlying inflation rate eased to 0.4 per cent. amid a fall in private housing rentals and easing basic food inflation. Pressures on most CPI components stayed modest as the local economy was operating below capacity.

EMPLOYMENT AND EARNINGS

Unemployment Rate

The table below shows the labour force, employment and unemployment rates for the periods indicated:

LABOUR FORCE, EMPLOYMENT AND UNEMPLOYMENT[1]

	For the year ended 31 December					Q1	Q2	Q3
	2016	2017	2018	2019	2020	2021	2021	2021
Total labour force (in thousands)	3,920.1	3,946.6	3,979.0	3,966.2	3,888.2	3,873.9	3,853.1	3,838.6
Labour force participation rate (per cent.)	61.1	61.1	61.2	60.6	59.6	59.6	59.5	59.3
Number of employed persons (in thousands)	3,787.1	3,823.2	3,867.0	3,849.9	3,661.6	3,614.1	3,640.1	3,658.0
Number of unemployed persons (in thousands)	133.0	123.4	112.0	116.3	226.6	259.8	213.1	180.6
Unemployment rate (per cent)[2]	3.4	3.1	2.8	2.9	5.8	6.8	5.5	4.5

Notes:

1. Annual figures are compiled based on data collected in the General Household Survey from January to December of the year concerned as well as mid-year population estimates.

2. Quarterly unemployment rates are seasonally adjusted.

Source: General Household Survey, Census and Statistics Department.

The unemployment rate remained relatively low from 2016 to 2019. However, the labour market faced increasing pressure during 2019, especially in the second half when the economy fell into recession. The seasonally adjusted unemployment rate rose from 2.8 per cent. in the second quarter of 2019 to 3.3 per cent. in the fourth quarter of 2019. The labour market deteriorated noticeably in 2020 as the economy contracted sharply due to the COVID-19 pandemic. For 2020 as a whole, the unemployment rate averaged 5.8 per cent., 2.9 percentage points higher than in 2019. It remained under notable pressure in early 2021, but showed improvement in recent months as the economy was on track for recovery alongside the stabilisation of local epidemic situation and the improving global economic conditions. The seasonally adjusted unemployment rate reached a 17-year high of 7.2 per cent. in the three-month period ending February 2021, then eased to 6.8 per cent. in the first quarter of 2021 and fell further to 5.5 per cent. in the second quarter of 2021 and 4.5 per cent. in the third quarter of 2021.

Employment by Sector

The table below sets forth the percentage share by sector for the periods indicated:

Employment by Economic Sector

	For the year ended 31 December				
	2016	2017	2018	2019	2020
	(percentage of total)				
Manufacturing	2.6	2.5	2.3	2.3	2.3
Construction	8.6	8.8	8.9	8.6	8.5
Import/export, wholesale and retail trades, and accommodation[1] and food services	30.4	29.9	29.7	28.2	26.1
Transportation, storage, postal and courier services, and information and communications	11.1	11.1	10.8	10.9	10.9
Financing and insurance, real estate, and professional and business services	20.4	20.6	20.8	21.4	22.5
Public administration, and social and personal services	26.5	26.6	27.0	28.0	29.2
Other sectors	0.5	0.5	0.5	0.5	0.5
All sectors[2]	100.0	100.0	100.0	100.0	100.0

Notes:

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

2. The total for all sectors may not equal the sum of each sector due to rounding.

Source: Composite Employment Estimates, Census and Statistics Department.

Hong Kong's services sector is among the most developed in Asia. Of those employed in 2020, 88.7 per cent. were engaged in the services sectors, including 26.1 per cent. in import/export, wholesale and retail trades, and accommodation and food services; 29.2 per cent. in public administration, and social and personal services; 22.5 per cent. in financing and insurance, real estate, and professional and business services; and 10.9 per cent. in transportation, storage, postal and courier services, and information and communications. Only 2.3 per cent. worked in the manufacturing sector and 8.5 per cent. in the construction sector.

Earnings

The table below shows the movement of earnings in real terms as measured by the real indices of payroll per person engaged by economic sector for the periods indicated:

RATE OF CHANGE IN EARNINGS IN REAL TERMS BY ECONOMIC SECTOR[(1)(2)]

	For the year ended 31 December					Q1	Q2
	2016	2017	2018	2019	2020	2021	2021
	(year-on-year percentage change)						
Manufacturing	1.0	2.0	1.6	0.9	-0.4	-3.0	-1.6
Import/export and wholesale trades	-0.1	1.4	0.8	-0.5	0.2	-1.7	-0.9
Retail trade	*	1.8	0.6	-0.5	-0.1	-1.6	-0.9
Transportation, storage, postal and courier services	0.9	1.9	1.6	1.0	-5.6	-9.3	-5.0
Accommodation^ and food service activities	2.6	3.2	2.8	1.8	-3.2	-6.4	-2.9
Information and communications	1.0	1.9	0.8	0.9	2.0	-0.1	0.9
Financial and insurance activities	0.3	1.6	0.7	0.2	1.2	0.1	0.8
Real estate activities	1.7	2.8	1.9	1.1	1.3	-0.1	0.5
Professional and business services	2.6	2.7	2.2	0.9	1.4	-0.1	0.5
Social and personal services	0.1	1.6	1.8	-0.6	6.0	-2.9	0.7
All selected industry sections[(3)]	1.3	2.3	1.5	0.5	2.1	-0.5	0.2

Notes:

1. Earnings refer to data of payroll collected in the Labour Earnings Survey, which include all regular and guaranteed payments such as basic pay and stipulated bonuses and allowances, and other irregular payments to workers, such as non-guaranteed or discretionary cash bonuses and allowances, overtime payment and back-pay, except severance pay and long service payment.

2. As from 2021, the real indices of payroll per person engaged are derived by deflating the nominal indices of payroll per person engaged by the 2019/20-based Composite CPI. To facilitate comparison, real indices of payroll per person engaged prior to 2021 have been recompiled using the 2019/20-based Composite CPI.

3. Refers to all industries covered by the payroll enquiry, including the mining and quarrying industry, the sewerage, waste management and remediation activities industry and the electricity and gas supply industry, the statistics of which are not separately shown.

* Change within ±0.05 per cent.

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

Source: Labour Earnings Survey, Census and Statistics Department.

Earnings stayed on the rise in real terms in 2018 and 2019, but the pace of increase decelerated. Labour earnings rose by 2.1 per cent. in real terms in 2020 as compared to a 0.5 per cent. increase in 2019, mainly reflecting the slower headline Composite CPI inflation rate of 0.3 per cent. in 2020 as compared to 2.9 per cent. in 2019 due to the implementation of additional one-off relief measures by the HKSAR Government. In the first quarter of 2021, labour earnings saw a year-on-year decrease of 0.5 per cent. in real terms, as the headline Composite CPI inflation rate in the same quarter was enlarged by the low base effect caused by the HKSAR Government's one-off relief measures implemented a year earlier. It reverted to a small year-on-year increase of 0.2 per cent. in the second quarter of 2021. The Statutory Minimum Wage rate of HK$37.5 per hour has been effective since 1 May 2019.

Employment Benefits

The Employment Ordinance of Hong Kong provides for various employment-related benefits and entitlements for employees. These include, among other things, provisions regarding wage protection, rest days, paid statutory holidays, paid annual leave, sickness allowance, maternity protection, paternity leave, severance payment, long service payment, employment protection, termination of employment contract and protection against anti-union discrimination.

Mandatory Provident Fund ("MPF")

The MPF system is a mandatory, privately managed, fully funded contribution system. Since December 2000, the Mandatory Provident Fund Schemes Ordinance has required all employers to enrol their relevant employees, and self-employed persons to enrol themselves in MPF schemes, which are regulated by the Mandatory Provident Fund Schemes Authority. Employees and employers are required to contribute 5 per cent. of the employee's relevant income as mandatory contributions, subject to a maximum relevant income level of HK$30,000 per month or HK$1,000 per day. Employees with income less than HK$7,100 per month or HK$280 per day are not required to contribute. As at 31 August 2021, approximately 100 per cent. of employers, 100 per cent. of relevant employees and 79 per cent. of self-employed persons have enrolled in MPF schemes. The total assets-under-management of MPF schemes stood at $1.17 trillion as at end of September 2021.

Trade Unions

Trade unions must be registered under the Trade Unions Ordinance of Hong Kong ("**TUO**"), which is administered by the Registry of Trade Unions. Once registered, a trade union becomes a body corporate and enjoys immunity from certain civil suits. As at 30 September 2021, 1,530 trade unions (comprising 1,462 employee unions, 12 employers' associations and 43 mixed organisations of employees and employers and 13 trade union federations) were registered under the TUO.

Small and Medium Sized Enterprises

Small and medium sized enterprises ("**SMEs**") are an important pillar of Hong Kong's economy and employment market. As at June 2021, there were over 340,000 SMEs in Hong Kong. They accounted for over 98 per cent. of the total number of enterprises and provided jobs to over 1.2 million persons, about 45 per cent. of total employment (excluding civil service). Most of the SMEs were in the import/export trade and wholesale industries, followed by the professional and business services industry. SMEs in these industries accounted for about 45 per cent. of the SMEs in Hong Kong and represented approximately 43 per cent. of the employment among SMEs.

GROSS DOMESTIC PRODUCT

Overview

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

GDP BY ECONOMIC SECTOR

	For the year ended 31 December			
	2016	**2017**	**2018**	**2019[1]**
	(percentage of total GDP)			
Agriculture, fishing, mining and quarrying	0.1	0.1	0.1	0.1
Manufacturing	1.1	1.1	1.0	1.1
Electricity, gas and water supply, and waste management	1.4	1.4	1.3	1.2
Construction	5.2	5.1	4.5	4.2
Services	92.2	92.4	93.1	93.4
Import/export, wholesale and retail trades	21.7	21.5	21.3	19.5
Accommodation and food services[2]	3.3	3.3	3.4	2.8
Transportation, storage, postal and courier services	6.2	6.0	5.9	5.5
Information and communications	3.5	3.4	3.4	3.5
Financing and insurance	17.7	18.8	19.8	21.2
Real estate, professional and business services	11.0	10.8	10.4	10.1
Public administration, social and personal services	18.1	18.2	18.5	19.6
Ownership of premises	10.7	10.4	10.5	11.3
Gross Domestic Product at basic prices	100	100	100	100

Notes:

1. Revised figures. In Hong Kong, the first released figures on GDP by expenditure component in respect of a period are called "advance estimates". For GDP by economic activity, the first released figures are called "preliminary figures". When more data become available, both sets of GDP figures will be revised. All those figures published subsequently, after the advance or preliminary figures, are called "revised figures". These "revised figures" are still subject to further regular revision later on when more data are incorporated. This routine revision is in accordance with the international practice to compile and release GDP figures at the earliest possible time by using only partial data. In general, the figures are finalised when finalised data from all regular sources are incorporated. GDP series for years 2019 and onwards is subject to routine revision as more data become available.

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

Source: Census and Statistics Department.

The following table shows the percentage change in real GDP by economic sector for the years indicated:

RATE OF CHANGE IN REAL GDP BY ECONOMIC SECTOR

	For the year ended 31 December					Q1	Q2
	2016	2017	2018	2019[(1)]	2020[(1)]	2021[(1)]	2021[(3)]
Agriculture, fishing, mining and quarrying	-2.0	-5.2	-1.8	-0.8	4.8	3.6	-4.1
Manufacturing	-0.4	0.4	1.3	0.4	-5.8	2.6	5.6
Electricity, gas and water supply, and waste management	-0.8	0.9	0.1	-0.5	-12.7	0.8	6.1
Construction	5.1	-1.3	3.3	-9.7	-5.7	-3.2	-0.4
Services	2.3	3.5	3.1	-0.7	-6.6	6.7	6.5
Import/export, wholesale and retail trades	0.6	4.2	4.2	-7.5	-13.7	24.0	15.5
Accommodation and food services[(2)]	0.5	2.0	5.9	-11.7	-42.0	-6.1	16.6
Transportation, storage, postal and courier services	3.0	4.8	2.5	-1.7	-39.5	0.4	19.5
Information and communications	4.1	4.0	4.1	4.7	1.6	3.7	2.5
Financing and insurance	4.2	5.3	4.0	3.4	3.7	7.4	6.0
Real estate, professional and business services	2.8	2.1	-0.4	-0.2	-5.3	1.3	2.0
Public administration, social and personal services	3.0	3.2	3.6	3.0	-2.1	2.2	4.0
Ownership of premises	0.5	0.9	1.0	0.6	-0.3	0.6	0.7

Notes:

1. Revised figures. In Hong Kong, the first released figures on GDP by expenditure component in respect of a period are called "advance estimates". For GDP by economic activity, the first released figures are called "preliminary figures". When more data become available, both sets of GDP figures will be revised. All those figures published subsequently, after the advance or preliminary figures, are called "revised figures". These "revised figures" are still subject to further regular revision later on when more data are incorporated. This routine revision is in accordance with the international practice to compile and release GDP figures at the earliest possible time by using only partial data. In general, the figures are finalised when finalised data from all regular sources are incorporated. GDP series for years 2019 and onwards is subject to routine revision as more data become available.

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

3. Preliminary figures

Source: Census and Statistics Department.

Primary production (including agriculture, fisheries, mining and quarrying) is insignificant in Hong Kong in terms of value-added contribution to GDP, as Hong Kong is a predominantly city economy.

Secondary production comprises manufacturing, construction and supply of electricity, gas and water. In 2019, the value-added contribution from the manufacturing sector accounted for only 1.1 per cent. of GDP, and that of the electricity, gas and water supply, and waste management sector stood at 1.2 per cent., while that of the construction sector stood at 4.2 per cent.

The services sector is the mainstay of the Hong Kong economy, making up 93.4 per cent. of GDP in 2019. The largest services sector continued to be financing and insurance, real estate, professional and business services, accounting for 31.3 per cent. of GDP. This was followed by import/export, wholesale and retail trades, accommodation and food services (22.2 per cent.), public administration, social and personal services (19.6 per cent.), transportation, storage, postal and courier services, and information and communications (9.0 per cent.).

PRINCIPAL ECONOMIC AREAS

Hong Kong's economy comprises a diverse range of fields. Among them, financial services, tourism, trading and logistics, and professional and producer services are regarded as the traditional four key industries in the Hong Kong economy.

Trade

Many factors contribute to Hong Kong's international status as a major trade centre in Asia. These include an economic policy of free enterprise and free trade and a sophisticated commercial infrastructure. The cornerstone of Hong Kong's external trade policy is the rules-based multilateral trading system under the WTO. Given the externally-oriented and open nature of Hong Kong's economy, trade contributes significantly to Hong Kong's economic growth. See "– *External Economy – Foreign Trade*" below for more information.

Business and Financial Services

To build on Hong Kong's strengths as a global financial centre, the HKSAR Government has been working to enhance the quality of the local financial markets and increase their depth and breadth, to keep abreast of local and international developments and to further optimise Hong Kong's regulatory framework. The financial services industry also provides a catalyst for the growth of related sectors such as professional and commercial services. High quality financial services underpin Hong Kong's position as an international business hub, helping local enterprises to seize business opportunities and attracting Mainland and overseas companies to use Hong Kong as a platform for raising funds and developing regional business.

Banking

The banking sector remained resilient with robust capital and liquidity to withstand potential shocks. The total capital adequacy ratio of Hong Kong incorporated authorized institutions ("**AIs**") stayed high at 19.8 per cent. at the end of June 2021, well above the minimum international standard of 8 per cent. The classified loan ratio of retail banks edged down to 0.81 per cent. at the end of June 2021 from 0.82 per cent. at the end of the preceding quarter. For a more detailed discussion regarding the banking system, the performance of the banking sector and its supervision, see "– *Financial and Monetary System – Banking System*."

Money Markets

The Hong Kong money market consists primarily of the interbank market, which is mostly participated by banks at the wholesale level. The Hong Kong Interbank Offered Rate ("**HIBOR**") reflects the supply of and demand for funds among market players and, therefore, is one of the most important indicators for the pricing of short-term funds in Hong Kong. The daily Hong Kong dollar interbank transactions averaged approximately HK$469 billion and HK$461 billion in 2020 and in the first eight months of 2021 respectively.

HKSAR's monetary policy is underpinned by a currency link of HK$7.80 to U.S.$1.00 introduced in 1983. For a discussion of the currency link and Hong Kong's monetary system, see "*– Financial and Monetary System – Monetary System*."

Securities and Futures Markets

The Hong Kong Stock Exchange and Hong Kong Futures Exchange Limited (the "**Hong Kong Futures Exchange**") operate the securities market and the futures market in Hong Kong, respectively. The total market capitalisation of the securities market, including the Main Board of the Hong Kong Stock Exchange (the "**Main Board**") and the Growth Enterprise Market ("**GEM**") of the Hong Kong Stock Exchange, as at 30 September 2021 was HK$44,185.4 billion.

As at 30 September 2021, there were a total of 2,559 companies listed on the Main Board and GEM. Of these, 1,351 were Mainland enterprises, constituting 80.0 per cent. by market capitalisation and 87.2 per cent. by annual equity turnover value. During 2020, there were 154 newly listed companies on the Main Board and GEM, including transfers of listings from GEM to Main Board. For a discussion of the performance of the securities and futures market and its regulation and supervision, see "*– Financial and Monetary System – Securities and Futures Markets*."

Asset and wealth management

According to the Asset and Wealth Management Activities Survey 2020 conducted by the Securities and Futures Commission ("**SFC**") on the asset and wealth management activities among licensed corporations, registered institutions, insurance companies and trustees, Hong Kong's asset and wealth management business amounted to HK$34,931 billion as at the end of 2020, 64 per cent of which came from non-Hong Kong investors. Of the total asset and wealth management business, HK$24,038 billion was from asset management and fund advisory business, HK$11,316 billion from private banking and private wealth management business, and HK$4,480 billion from assets held under trusts. As at June 2021, there were 1,930 companies licensed or registered to carry out asset management business in Hong Kong. As at June 2021, there were 2,232 unit trusts and mutual funds authorised by the SFC.

Insurance

As at 30 September 2021, there were 165 authorised insurers in Hong Kong, of which 91 were pure general insurers, 54 were pure long-term insurers, 19 were composite insurers, and the remaining one was a special purpose insurer. As at the same date, there were 129,060 licensed insurance intermediaries, comprising 88,328 licensed individual insurance agents, 26,223 licensed technical representatives (agent), 11,507 licensed technical representatives (broker), 2,182 licensed insurance agencies and 820 licensed insurance broker companies. According to the audited statistics for 2020, total gross premiums of the Hong Kong insurance industry amounted to HK$581.3 billion.

Real Estate

The real estate sector plays an important role in Hong Kong's economy, as developments in the property market affect other sectors. Fluctuations of property prices in Hong Kong also affect the wealth of the community and, consequently, consumer and investor behaviours.

RESIDENTIAL PROPERTY PRICES AND RENTALS

The residential property market was generally active during 2016 to 2019, notwithstanding the consolidation in the second half of 2018 and in the second half of 2019. It quietened visibly at the outset of 2020 amid the outbreak of the COVID-19 pandemic, but showed some revival since the second quarter of 2020. For 2020 as a whole, the residential property market was broadly steady. It then turned more active in the first three quarters of 2021 amid more upbeat sentiment. According to the Rating and Valuation Department's provisional figures, flat prices and rentals in September 2021 have on average surged by 39 per cent. and 7 per cent. respectively over December 2015. Trading activities were generally active, though showing fluctuations from time to time. The number of sale and purchase agreements for residential property received by the Land Registry averaged at 5,106 per month in January 2016 to September 2021, compared with the monthly average of 5,604 in the preceding five-year period of 2011-2015.

Raising flat supply through increasing land supply is a policy priority of the HKSAR Government. The HKSAR Government has also implemented several rounds of demand-side management measures to stabilise the residential property market. These measures have been effective in reducing external demand, short-term speculative demand and investment demand on residential properties. In addition, the HKMA has introduced eight rounds of macro-prudential measures to reduce the possible risks to financial stability arising from an exuberant property market.

Land Supply Policy

All land in Hong Kong is state property. The HKSAR Government is responsible for its management, use and development, and for its leasing or granting for use or development. Under Article 7 of the Basic Law, the revenue derived therefrom is exclusively at the disposal of the HKSAR Government.

Government land planned for private development is usually sold by public auction or tender. Land may also be disposed of by private treaty grant in certain circumstances in accordance with government policies.

To meet the housing demands and various needs of the Hong Kong community, the HKSAR Government has adopted a multi-pronged strategy to increase land supply in the short, medium and long term, through the continued and systematic implementation of a series of measures, including the optimal use of developed land as far as practicable and identification of new land for development. Short-and medium-term measures include land use reviews for rezoning suitable sites, increasing development intensity as appropriate and urban renewal. Long-term land supply initiatives include new development areas, new town extensions, reviews of brownfield sites and deserted agricultural land in the New Territories, planning for the development of the New Territories North and Lantau, exploring reclamations outside Victoria Harbour and development of caverns and underground space.

Tourism

Tourism is one of the main economic sectors for Hong Kong, contributing 3.6 per cent. of GDP and 6.0 per cent. of total employment in Hong Kong in 2019.

In 2019, there were 55.9 million overall visitor arrivals to Hong Kong. Mainland arrivals amounted to 43.8 million, accounting for 78.3 per cent. of total arrivals. The number of non-Mainland visitor arrivals was approximately 12.1 million. Since 2020, the COVID-19 pandemic and the associated travel restrictions and border/boundary control measures implemented by governments worldwide brought the tourism sector to a standstill. In 2020, overall arrivals plunged by 93.6 per cent. to 3.6 million. In 2020, Mainland and non-Mainland arrivals dropped by 93.8 per cent. to 2.7 million and 92.9 per cent. to 0.9 million respectively. In the first nine months of 2021, overall arrivals fell by 98.2 per cent. year-on-year to about 63,100 only. Mainland and non-Mainland arrivals dropped by 98.3 per cent. year-on-year to 46,100 and 98.0 per cent. year-on-year to 17,000 respectively.

The table below sets out selected statistics relating to the tourism sector for the periods indicated:

KEY TOURISM INDICATORS

	For the year ended 31 December					For the nine months ended 30 September
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
Total visitor arrivals (in thousands)	56,655	58,472	65,148	55,913	3,569	63
The Mainland	42,778	44,445	51,038	43,775	2,706	46
North Asia	2,485	2,718	2,709	2,121	90	*
Southeast and South Asia	3,702	3,626	3,572	3,041	191	7
Europe, Africa and the Middle East	2,226	2,202	2,232	1,985	178	5
The Americas	1,773	1,782	1,873	1,601	123	2
Australia, New Zealand and South Pacific	684	687	704	612	58	*
Taiwan	2,011	2,011	1,925	1,539	105	2
Macao SAR/Not identified	995	1,001	1,095	1,239	118	1
Average length of stay of overnight visitors (nights)	3.3	3.2	3.1	3.3	10.4	N/A
Hotel occupancy rate (per cent.)	87	89	91	79	46	60
Total tourism expenditure associated with inbound tourism (HK$ billion)	293.7	297.5	331.7	256.2	15.9	N/A

* Figure less than one thousand.

Source: Hong Kong Tourism Board.

Transport and Logistics

Transport and logistics is an important sector of the economy and Hong Kong is home to a leading container port and a large international airport. In 2020, a network of container line services with approximately 280 weekly sailings connects the port of Hong Kong with over 600 destinations worldwide. In 2019, there are around 120 airlines operating over 1,100 passenger and cargo flights every day.

Container Port

Hong Kong is one of the few major international ports in the world where port facilities are wholly privately-owned and operated.

Hong Kong has been a container port for more than four decades. In 2020, Hong Kong was one of the world's busiest container ports, handling around 18.0 million twenty-foot equivalent units during the year. The port is a vital aspect of the economic infrastructure, handling some 90 per cent of Hong Kong's total cargo throughput. In 2020, 88,000 vessels, comprising both sea-going vessels and river-trade vessels for cargo and passenger traffic, called at the port of Hong Kong.

Container terminals are situated in the Kwai Chung-Tsing Yi basin. There are nine terminals operated by five different operators, namely Modern Terminals Ltd, Hongkong International Terminals Ltd, COSCO-HIT Terminals (Hong Kong) Ltd, Goodman DP World Hong Kong Ltd and Asia Container Terminals Ltd. They occupy 279 hectares of land, providing 24 berths and 7,794 metres of deep water frontage.

To reinforce Hong Kong's position as an international maritime centre, the HKSAR Government established the Hong Kong Maritime and Port Board in April 2016 with a view to formulating maritime and port-related strategies and measures together with the shipping industry, thereby promoting the long-term growth of Hong Kong's high value-added maritime services and port industry.

The Hong Kong International Airport

The Hong Kong International Airport (the "**HKIA**") is operated and maintained by the Airport Authority Hong Kong (the "**AA**"), a statutory corporation established in December 1995 under the Airport Authority Ordinance. The AA is required to conduct business in accordance with prudent commercial principles. The AA is wholly-owned by the HKSAR Government.

In 2020, the number of passengers handled by the HKIA was significantly affected by the outbreak of COVID-19, which has had a profound negative impact on the aviation and travel industry across the world. The significant drop in the HKIA's passenger traffic in 2020 by 87.6 per cent compared to 2019 was largely due to the entry restrictions, travel bans and quarantine measures implemented across the globe. Despite the current short-term impact arising from the COVID-19 pandemic, the HKSAR Government sees a need to make early preparation for the future to strengthen Hong Kong's status as an international aviation hub and to cater for the city's long-term air traffic demand. In this regard, the HKIA is continuing with its plan to develop from a two-runway to a three-runway system. The Third Runway and the Three-Runway System ("**3RS**") are expected to commission in 2022 and 2024 respectively.

The table below shows the passenger and freight throughput at the HKIA for the periods indicated:

KEY INDICATORS OF HKIA

	For the year ended 31 December					For the six months ended
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
Passenger throughput(1) (million persons)	70.1	72.5	74.4	71.3	8.8	0.4
Freight throughput(2) (million tons) . .	4.5	4.9	5.0	4.7	4.4	2.3

Notes:

1. Arrival and departure passengers include transfer but exclude transit

2. The amount of freight excludes air mail

Source: Civil Aviation Department.

Rail Network

Railways play a vital role in serving the transport needs of Hong Kong. They account for approximately 39 per cent. of daily public transport passenger travel by the end of 2020. As high speed off-road mass carriers, railways provide fast, reliable and comfortable services, reduce the pressure on the road network, and avoid many of the environmental problems associated with road traffic.

The existing railway network in Hong Kong has a total route length of about 266 kilometres (track length of 773 kilometres), as of June 2021. In June 2007, LegCo passed the Rail Merger Ordinance, which provides the legal framework for the merger between the MTR Corporation Limited ("**MTRCL**") and the Kowloon-Canton Railway Corporation. Following the merger, the post-merger corporation, the MTRCL, operates both the Mass Transit Railway ("**MTR**") system and Kowloon-Canton Railway ("**KCR**") system. The MTRCL was granted a 50-year franchise to operate the MTR and KCR systems with effect from 2 December 2007.

Aside from the railway network operated by the MTRCL, other fixed track systems in Hong Kong include the Tramway and the Peak Tram. The latter has been essentially a tourist and recreational facility since the 1980s.

Cross-boundary links

The Hong Kong-Zhuhai-Macao Bridge ("**HZMB**") was commissioned on 24 October 2018. Spanning over Lingdingyang, the HZMB serves as the unprecedented cross-boundary transport infrastructure connecting Guangdong, Hong Kong and Macao. The HZMB is the longest bridge-cum-tunnel sea-crossing in the world. The HZMB enables the Western Pearl River Delta ("**PRD**") to fall within a reachable three-hour commuting radius of Hong Kong. Various sectors in Hong Kong, such as economic, tourism and logistics, stand to benefit from the opening of the HZMB. The HZMB will enhance Hong Kong's position as a trade and logistics hub, and also accelerate the economic integration of the PRD and its neighbouring provinces.

The Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("**XRL**") is about 26 kilometres long. The XRL runs along a dedicated underground rail corridor from the West Kowloon Station and connects with the national high speed rail network. The construction works commenced in 2010. The XRL commenced operation on 23 September 2018. It aims to reduce travelling time and foster greater social, cultural and economic integration between Hong Kong and the Mainland.

Kai Tak Cruise Terminal

The Kai Tak Cruise Terminal is built on the former runway of the Kai Tak Airport. It is built by the HKSAR Government with a capital investment of HK$6.6 billion, aiming to promote the development of cruise tourism in Hong Kong. The terminal building is designed to enable efficient circulation of passengers and offer space as a venue for non-cruise events during off-peak seasons. The two berths of the terminal went into operation in June 2013 and September 2014 respectively, and can accommodate two existing largest cruise vessels in the world simultaneously.

Construction

Building and construction activity has registered a decline. In 2020, the gross value of construction work, in real terms performed by main contractors amounted to HK$127.1 billion, a 3.0 per cent. year-on-year decrease. According to the provisional statistics for the second quarter of 2021, the gross value of construction work, in real terms performed by main contractors amounted to HK$30.1 billion, a 2.3 per cent. year-on-year increase.

Public Sector Land Development

Housing

The HKSAR Government's housing policy objectives are set out in the Long Term Housing Strategy ("**LTHS**") promulgated in 2014. LTHS' vision is to help all households in Hong Kong gain access to adequate and affordable housing. LTHS seeks to achieve progressive changes in accordance with the "supply-led" and "flexible" principles, with three major strategic directions to gradually avert the current supply-demand imbalance–

- provide more public rental housing ("**PRH**") units for grassroots families who are unable to afford private rental accommodation and ensure the rational use of existing resources;

- provide more subsidised sale flats and expand the forms of subsidised home ownership and facilitate market circulation of existing stock; and

- stabilise the residential property market through steady land supply and appropriate demand-side management measures, and promote good sales and tenancy practices for private residential properties.

According to LTHS, the HKSAR Government annually projects the ten-year housing demand which captures the latest social, economic and market changes as the basis for updating the rolling ten-year housing supply target. This annual update serves as an important policy tool to enable the HKSAR Government to continually plan ahead on developing land and housing in order to meet the long-term housing needs of the community. As announced in the 2021 Policy Address, the HKSAR Government has identified about 350 hectares of land which can produce some 330,000 public housing units in the coming 10-year period (i.e. from 2022-23 to 2031-32). This figure is slightly higher than that announced in 2020, and can meet the estimated public housing demand of around 301,000 units in such 10-year period.

The main agency involved in the implementation of the public housing programme is the Hong Kong Housing Authority ("**HA**"). The HA is a statutory body established in 1973 under the Housing Ordinance of Hong Kong. The HA is responsible for, among other things, planning, building, managing and maintaining different types of public housing, including rental housing, subsidised sale flats, interim housing and transit centres. Besides housing, the HA owns and operates flatted factories and ancillary commercial and other non-domestic facilities.

Public housing is built on land provided by the HKSAR Government normally at a nominal land premium. For subsidised sale flats sold, the HA has to pay to the HKSAR Government a percentage of the development costs as contribution for site formation and services. As at the second quarter of 2021, there were a total of 2.69 million households in Hong Kong, among which approximately 834,000 households lived in PRH. Furthermore, approximately 411,100 households lived in subsidised home ownership housing, most of which are Home Ownership Scheme flats provided by the HA. In total, almost half of the households in Hong Kong are living in housing units with HKSAR Government subsidies. The vast majority of those households live in housing units provided by the HA.

Urban Renewal

Hong Kong's building stock is ageing rapidly. As at end of 2020, there were 8,668 private buildings aged 50 years or above in Hong Kong.

The Urban Renewal Authority ("**URA**") was established in May 2001 under the Urban Renewal Authority Ordinance of Hong Kong as the statutory body to undertake, encourage, promote and facilitate the regeneration of the older urban areas of Hong Kong. The URA implements an urban renewal programme as set out in its annual business plan and five-year corporate plan approved by the Financial Secretary. When preparing its corporate plan, the URA must follow the guidelines of the Urban Renewal Strategy ("**URS**") published by the HKSAR Government from time to time. To provide the URA with the financial resources to take forward the urban renewal programme, which aims to be self-financing in the long run, the HKSAR Government injected HK$10 billion into the URA by five tranches from 2002-03 to 2006-07. As at 31 March 2020, the Authority had received all five tranches of capital injection of HK$10 billion in total. The HKSAR Government also supports the URA financially through a waiver of land premiums for redevelopment sites.

To better meet the changing public aspirations for urban renewal, the HKSAR Government promulgated a new URS on 24 February 2011 based on a broad consensus reached during an extensive two-year public consultation exercise conducted by the Development Bureau to replace the 2001 URS.

One of the new initiatives under the 2011 URS is the establishment of the Urban Renewal Fund. With an endowment of HK$500 million from the URA, the Urban Renewal Fund was established in August 2011 to: (i) provide an independent funding source to support the operation of social service teams to provide assistance for residents affected by urban redevelopment projects implemented by the URA, (ii) to support social impact assessments and other related planning studies to be proposed by the District Urban Renewal Forum and (iii) to support heritage preservation and district revitalisation projects to be proposed by non-governmental organisations and other stakeholders in the overall context of urban renewal. The Urban Renewal Fund is managed by an independent board and its members are nominated by the Secretary for Development.

Since 2017, the URA has been conducting the Yau Mong District Study ("**YMDS**"), a district planning study to explore ways of enhancing the efficiency of existing land use and the redevelopment potential in Yau Ma Tei and Mong Kok, with a view to adopting feasible ideas of urban renewal in other districts. The study has been completed and various professional bodies and relevant stakeholders will be engaged for giving views on the recommendations of the YMDS.

Telecommunications

The Communications Authority ("**CA**") regulates the telecommunications and broadcasting industries in Hong Kong in accordance with the Broadcasting Ordinance, the Telecommunications Ordinance, the Communications Authority Ordinance and the Broadcasting (Miscellaneous Provisions) Ordinance. It shares concurrent jurisdiction respectively with the Customs and Excise Department in enforcing the fair trading sections of the Trade Descriptions Ordinance, and with the Competition Commission in enforcing the Competition Ordinance in the telecommunications and broadcasting sectors. It also enforces the Unsolicited Electronic Messages Ordinance. The Office of the Communications Authority ("**OFCA**"), as the CA's executive arm and secretariat, assists the CA in administering and enforcing the relevant ordinances governing the broadcasting and telecommunications sectors. Since 2000, the HKSAR Government has opened to competition all sectors of the telecommunications market – local and external, services-based and facilities-based.

In 2019, the gross output of the telecommunications sector amounted to approximately HK$102 billion and employed approximately 20,000 persons. All sectors of Hong Kong's telecommunications market have been liberalised with no foreign ownership restrictions. The HKSAR Government's objectives are to provide a level playing field in the telecommunications market and ensure that consumers get the best services available in terms of capacity, quality and price.

The local fixed carrier services market is fully liberalised. There is no pre-set limit on the number of licences issued, nor deadline for applications. Furthermore, there is no specific requirement on network rollout or investment. The level of investment will be determined by the market. As at October 2021, there were 27 licensees permitted to provide local fixed carrier services on a competitive basis.

Fixed broadband Internet access services are very popular in Hong Kong. With the increased competition and coverage of broadband service using asymmetric digital subscriber line, fibre-to-the-building/fibre-to-the-home, hybrid fibre coaxial cable and other technologies, broadband networks cover virtually all commercial buildings and households. As at July 2021, there were 271 Internet service providers licensed to provide broadband services, and approximately 2.91 million registered customers using fixed broadband services with speeds up to 10 Gigabits per second. As at July 2021, in the residential market, 96.3 per cent. of households are using fixed broadband service. Internationally, Hong Kong's fixed broadband penetration rate and average broadband speed are among the highest in the world.

BELT AND ROAD INITIATIVE

"Belt and Road" ("**B&R**") refers to the land-based "Silk Road Economic Belt" and the seafaring "21st Century Maritime Silk Road". The B&R Initiative was first brought up by President Xi Jinping in 2013, and carries strong emphasis on connectivity and international co-operation in the spheres of enhancing policy co-ordination, strengthening infrastructural facilities connectivity, facilitating unimpeded trade, deepening financial integration and building people-to-people bond.

Hong Kong has firmly established itself as the prime platform and a key link for the B&R Initiative. Riding on Hong Kong's various unique advantages, and in view of the opportunities and challenges, the HKSAR Government has adopted a whole-government approach and formulated a five-pronged B&R key strategy on continuous engagement with the Mainland and B&R-related countries and regions. These themes include (i) enhancing policy co-ordination; (ii) fully leveraging Hong Kong's unique advantages; (iii) making the best use of Hong Kong's position as a professional services hub; (iv) promoting project participation; and (v) establishing partnership and collaboration. The Commerce and Economic Development Bureau ("**CEDB**") plays a leading and co-ordinating role in promoting the B&R Initiative. The Belt and Road Office established under CEDB is the focal point of contact between the HKSAR Government and stakeholders of the B&R Initiative, in particular in relation to commerce and trade matters.

To tap the vast opportunities arising from the B&R Initiative, Hong Kong signed an arrangement (the "**Arrangement**") with the National Development and Reform Commission ("**NDRC**") in December 2017, focusing on six key areas: finance and investment; infrastructure and maritime services; economic and trade facilitation; people-to-people bond; taking forward the Guangdong-Hong Kong-Macao Greater Bay Area ("**Greater Bay Area**") Development; and enhancing collaboration in project interfacing and dispute resolution services. The joint conference mechanism has been set up as a direct communication platform between Hong Kong and the relevant Mainland authorities on the implementation of the Arrangement. In addition, the Mainland and Hong Kong Belt and Road Task Group was established in 2018 to co-ordinate related matters in the trade and economic co-operation areas by the HKSAR Government and the Ministry of Commerce. The HKSAR Government has been earnestly promoting Hong Kong enterprises' and professional services sector's partnership and participation under the B&R Initiative with a view to fully leveraging Hong Kong's advantages, including the organisation of the annual Belt and Road Summit as well as a host of exchange and sharing sessions, business interfacing sessions, overseas missions, and related capacity building programmes.

The HKSAR Government's other areas of work on the B&R Initiative includes, but is not limited to:

Trade and Economic Ties

The Chief Executive and principal officials have led delegations to visit countries and regions related to B&R, including countries of the Association of Southeast Asian Nations ("**ASEAN**"), the Middle East, Central Asia and Europe, to learn more about these places and to discuss with local governments and businesses to strengthen co-operation in various areas, including trade, industry, and finance; arts and culture; and research and development, etc.

The Economic and Trade Offices ("**ETOs**") set up by the HKSAR Government in the Mainland and overseas will further promote economic ties and exchanges with B&R countries. In the Mainland, the HKSAR Government has set up a comprehensive network of offices comprising five Mainland offices and 11 liaison units. Overseas, there are 14 ETOs located in major economies with the latest one opened in Dubai, the United Arab Emirates, which commenced operation on 28 October 2021.

Hong Kong has so far signed eight Free Trade Agreements with other economies and 22 Investment Promotion and Protection Agreements with foreign economies, including those along the B&R. Negotiations will commence or continue with other B&R economies.

The "Professional Services Advancement Support Scheme" was launched in November 2016 to provide funding support for implementing non-profit-making industry-led projects aimed at increasing exchanges and co-operation of Hong Kong's professional services with their counterparts in external markets (including Mainland, B&R and other overseas markets), promoting relevant publicity activities and enhancing the standards and external competitiveness of Hong Kong's professional services.

Financial Services

The HKMA established the Infrastructure Financing Facilitation Office ("**IFFO**") in July 2016. The mission of IFFO is to facilitate investments and financing of sustainable infrastructure and green development by working together with a cluster of key stakeholders through: providing a platform for information exchange and experience sharing, building capacity and knowledge, promoting market and product development, and facilitating investment and financing flows.

IFFO also aims to promote both Hong Kong as the hub for green finance in Asia and the importance of sustainability within infrastructure investment and financing.

Hong Kong is the world's largest offshore Renminbi business hub, providing diversified investment, financing and risk management products and handling over 70 per cent. of all offshore Renminbi transactions. The HKSAR Government will continue to develop Hong Kong's Renminbi services, providing a platform for enterprises and financial institutions all over the world to raise RMB funds and to drive the internationalisation of RMB.

In 2016, the HKSAR Government amended legislation to allow, subject to specified conditions, interest expenses deduction in calculating profits tax for intra-group financing business of corporations operating in Hong Kong, and to reduce profits tax rate by half for specified treasury activities for qualifying corporate treasury centres, to attract multinational and Mainland corporations to centralise their treasury functions in Hong Kong.

Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect were launched in November 2014 and December 2016, respectively, to enhance connectivity between the Mainland and Hong Kong capital markets. Northbound Trading under Bond Connect was launched in July 2017 to enable eligible overseas investors to access the Mainland interbank bond market through a market infrastructure linkage in Hong Kong. Southbound Trading under Bond Connect, which provides an efficient and secure channel for Mainland institutional investors to invest in offshore bonds through the Hong Kong bond market, was subsequently launched in September 2021. In June 2020, the People's Bank of China, the HKMA and the Monetary Authority of Macao made a joint announcement to implement the two-way cross-boundary wealth management connect pilot scheme in the Greater Bay Area, under which residents in Hong Kong, Macao and nine cities in Guangdong Province can carry out cross-boundary investment in wealth management products distributed by banks in the area. Regulators in the three places promulgated implementation details for the Cross-boundary Wealth Management Connect ("**Cross-boundary WMC**") in September 2021.

Hong Kong officially became a member of the AIIB on 7 June 2017, which is a multilateral development bank and invests in sustainable infrastructure and other productive sectors in Asia and beyond, including in B&R countries.

International Logistics, Shipping and Transport

Hong Kong has signed air services agreements or air services transit agreements with around 50 B&R countries as at the end of 2020, while the Hong Kong Port maintains marine cargo movements with over 90 countries along the B&R as at the end of 2020. Hong Kong will continue to carry out negotiations with trading partners along B&R regions for more agreements or enhancements of existing agreements.

Construction works are now underway to expand HKIA into a 3RS. With the full commissioning of the 3RS, the capacity of HKIA will be substantially enhanced, with its annual passenger capacity and annual cargo handling capacity expected to increase to around 100 million and around 9 million tonnes respectively, further consolidating Hong Kong's position as an international logistics and aviation centre.

For a discussion of the HZMB and XRL, see "– *Principal Economic Areas – Cross-boundary links*" above. To link up with Mainland China's high-speed rail network that stretches 38,000 km (as at end of 2020), the 26 km high-speed rail link, XRL, significantly shortens the travel time between Hong Kong and major Mainland cities to further consolidate Hong Kong's strategic position as China's southern gateway. It also strengthens Hong Kong's socio-economic ties with the Mainland and injects new vigour into Hong Kong's medium and long-term development by creating new opportunities. Furthermore, to promote long-term economic growth and regional co-operation, Hong Kong will continue to seek to improve cross-boundary transport infrastructure with the Mainland.

People-to-people Exchanges

The Belt and Road Scholarship has been set up to attract outstanding students from B&R economies to pursue university studies in Hong Kong. Subsidy schemes have also been implemented to encourage and support local post-secondary students to participate in exchange activities in B&R regions.

The HKSAR Government will continue to organise exchange programmes for Hong Kong students to interact with students in Mainland cities along the B&R. There will also be financial support for non-government organisations to organise B&R exchange and learning activities to raise the awareness among students. Taking into consideration the development of the COVID-19 pandemic, the Education Bureau will resume Mainland exchange programmes for students at an appropriate time.

Subject to the developments of the COVID-19 pandemic, the HKSAR Government will continue to provide in-depth exchange opportunities for local young people through the "Funding Scheme for International Youth Exchange", which supports non-government organisations to organise international exchange programmes in B&R economies among others, with a view to enabling them to broaden their global exposure and international horizons.

The HKSAR Government will continue to pursue new Working Holiday Scheme arrangements with potential economies, including B&R economies, so that more young people in Hong Kong can have the opportunity to broaden their horizons through living and working in a foreign culture.

Memorandums of understanding on cultural co-operation with B&R countries have been signed to promote exchange and co-operation in arts and culture. To promote the arts and culture of Hong Kong, performances, exhibitions, seminars and forums are organised in Hong Kong, the Mainland and other countries. Artists and art groups from around the world (including those in B&R countries) will continue to be invited to perform, exhibit and participate in seminars, forums and other cultural and arts exchange activities in Hong Kong. To foster the bilateral cultural exchange, distinguished local artists and arts groups are supported to stage performances and other arts activities in the Mainland and other countries. These initiatives are implemented with a view to developing Hong Kong into an East-meets-West centre for international cultural exchange.

Subject to the development of the COVID-19 epidemic, the HKSAR Government will continue to work with Mainland cities to promote multi-destination tourism products to attract tourists from B&R economies. Regional co-operation will be encouraged for the cruise industry to create synergy to attract more international cruise liners to call at the ports in the region. In addition, a variety of activities will be organised to encourage Hong Kong's travel industry to tap into the tourist markets of B&R economies.

THE GUANGDONG – HONG KONG – MACAO GREATER BAY AREA

The Greater Bay Area comprises the HKSAR, the Macao SAR, as well as nine municipalities in Guangdong, namely Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing. The Greater Bay Area development is not just a key national development strategy in the country's reform and opening up in the new era, but also a further step in enriching the practice of the "one country, two systems" principle.

The Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area ("**ODP**") was promulgated by the CPG in February 2019 and sets out clearly the guiding principles and directions for the development of the Greater Bay Area. Under the ODP, Hong Kong is one of the core cities which will serve as core engines for regional development in the Greater Bay Area. The ODP also clearly provides that through further deepening co-operation among Guangdong, Hong Kong and Macao, the objectives of the development of the Greater Bay Area are to promote co-ordinated economic development in the Greater Bay Area, leverage the complementary advantages of the three places, and develop an international first-class bay area for living, working and travelling.

The CPG has set up a high-level Leading Group for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area ("**Leading Group**") chaired by Vice Premier Han Zheng to co-ordinate and steer the development of the Greater Bay Area. The Chief Executive of the HKSAR, the Party Secretary and Governor of Guangdong, and the Chief Executive of Macao SAR, as well as senior representatives of Central Ministries are members of the Leading Group. The Leading Group has held three plenary meetings and a thematic meeting so far, on 15 August 2018, 1 March 2019, 6 November 2019 and 22 April 2021 respectively. After the two plenary meetings held in March and November 2019, a total of 24 policy measures have been announced, which not only facilitate the convenient flow of people and goods within the Greater Bay Area, but also enable Hong Kong residents, businesses and professionals to embrace the development opportunities brought about by the Greater Bay Area development.

The HKSAR Government attaches great importance to economic recovery and considers that the development of the Greater Bay Area will provide the much-needed impetus to drive Hong Kong's economy in different areas as we gradually recover from COVID-19, for example, the joint development of the Shenzhen-Hong Kong Innovation and Technology Co-operation Zone and the collaboration of the Guangdong Province with the Hong Kong Trade Development Council and relevant chambers of commerce in providing policy advisory, training and business matching services to Hong Kong enterprises, thereby enabling them to expand their sales channels and establish interface with the e-commerce platforms in the Mainland market.

The HKSAR Government will seize the opportunities brought about by the development of the Greater Bay Area, integrate the needs of the country with the strengths of Hong Kong and leverage the market-driven mechanism, thereby enabling Hong Kong to take advantage of the development prospects while integrating into the overall national development.

EXTERNAL ECONOMY

The section titled "External Economy" in the Offering Memorandum shall be deleted in its entirety and replaced with the following.

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					Q1(4)	Q2(4)
	2016	2017	2018	2019(4)	2020(4)	2021	2021
	(HK$ billions, except percentages)						
Current Account Balance(1)	98.5	121.8	105.9	166.3	175.7	60.6	68.5
Balance on goods	-129.7	-178.5	-253.0	-120.5	-41.5	6.7	-31.5
Balance on services	186.6	205.4	246.9	164.7	90.5	37.3	20.8
Primary income	62.6	115.6	134.8	143.7	148.4	21.5	84.2
Secondary income	-21.0	-20.6	-22.8	-21.6	-21.7	-5.0	-5.0
Capital and Financial Account Balance(1)	-101.1	-76.5	-175.1	-237.4	-240.7	-89.3	-97.9
Capital account	-0.4	-0.6	-1.6	-0.7	-0.5	-0.1	-10.1
Financial account	-100.7	-75.8	-173.5	-236.8	-240.1	-89.1	-87.8
Financial non-reserve assets(2)	-91.9	174.7	-165.9	-245.6	22.9	-80.9	-125.3
Direct investment	447.8	186.9	172.8	160.7	131.9	0.2	130.0
Portfolio investment	-469.6	264.2	-616.4	-215.8	-430.6	-16.4	-292.5
Financial derivatives	36.3	61.8	33.2	1.2	13.8	-5.7	17.1
Other investment	-106.4	-338.1	244.5	-191.8	307.8	-59.0	20.0
Reserve assets(2)	-8.9	-250.5	-7.6	8.9	-263.0	-8.2	37.6
Net Errors and Omissions(3)	2.6	-45.4	69.1	71.1	65.0	28.6	29.4
Overall Balance of Payments	8.9	250.5	7.6	-8.9	263.0	8.2	-37.6
Overall Balance of Payments as percentage of GDP	0.4	9.4	0.3	-0.3	9.8	1.2	-5.6

Notes:

1. In accordance with the accounting rules adopted in compiling balance of payments, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. In the capital and financial account, a positive value indicates a net financial inflow while a negative value indicates a net outflow. As increases in external assets are debit entries and decreases are credit entries, a negative value for the reserve assets represents a net increase while a positive value represents a net decrease.

2. The estimates of reserve and non-reserve assets under the balance of payments framework are transaction figures. Effects of valuation changes (including price changes and exchange rate changes) and reclassifications are not taken into account.

3. In principle, the net sum of credit entries and debit entries is zero. In practice, discrepancies between the credit and debit entries may occur for various reasons as the relevant data are collected from many sources. Equality between the sum of credit entries and that of debit entries is brought about by the inclusion of a balancing item which reflects net errors and omissions.

4. Figures are subject to revision at later stage as more data become available.

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

Hong Kong recorded an overall balance of payments surplus during most of the five years from 2016 to 2020. In 2020, there was a balance of payments surplus of HK$263.0 billion, or 9.8 per cent. of GDP, compared to a deficit of HK$8.9 billion, or -0.3 per cent. of GDP, in 2019. In the first and second quarters of 2021, Hong Kong recorded a balance of payments surplus of HK$8.2 billion, or 1.2 per cent. of GDP, and a balance of payments deficit of HK$37.6 billion, or 5.6 per cent. of GDP, respectively.

Hong Kong's net international investment position ("**IIP**") was strong during 2016 to 30 June 2021. 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					As at 30 June
	2016	**2017**	**2018**	**2019**	**2020[(1)]**	**2021[(1)]**
	(HK$ billions, except percentages)					
Net IIP	8,946.8	11,105.0	10,047.3	12,297.2	16,690.4	17,708.4
Ratio to GDP (percentage)	359	418	354	432	621	637

Note:

1. Figures are subject to revision at later stage as more data become available.

Source: Census and Statistics Department.

Hong Kong's external financial assets and liabilities stood at a very high level throughout 2016 to 30 June 2021. As at 30 June 2021, Hong Kong's external financial assets and liabilities amounted to HK$51,132.4 billion and HK$33,424.0 billion, respectively, resulting in a net IIP of HK$17,708.4 billion, or 637 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 2016 to 2020, the current account surplus increased from HK$98.5 billion in 2016 to HK$175.7 billion in 2020. The current account recorded a surplus of HK$175.7 billion (as a ratio of 6.5 per cent. to GDP), in 2020. This implies that Hong Kong continues to save more than invest, enabling Hong Kong to accumulate external financial assets (such as equity securities or debt securities) as a buffer against global financial volatilities. Compared with the current account surplus of HK$166.3 billion (as a ratio of 5.8 per cent. to GDP) in 2019, the increase in surplus was mainly due to a decrease in the goods deficit and an increase in the net inflow of primary income, partly offset by a decrease in the services surplus. In the first and second quarters of 2021, the current account recorded a surplus of HK$60.6 billion (as a ratio of 8.6 per cent. to GDP), and a surplus of HK$68.5 billion (as a ratio of 10.1 per cent. to GDP), respectively.

Capital and Financial Account

During 2016 to 2020, Hong Kong recorded net annual outflows in capital and financial account. Nevertheless, direct investment recorded net annual inflows during the five-year period.

In 2020, a net outflow of HK$0.5 billion was recorded in the capital account, compared with a net outflow of HK$0.7 billion in 2019. An overall net inflow of financial non-reserve assets amounting to HK$22.9 billion was recorded in 2020, after an overall net outflow of HK$245.6 billion in 2019. The overall net inflow recorded in 2020 was the result of a net inflow of other investment, direct investment, and cash settlement of financial derivatives, which were largely offset by a net outflow of portfolio investment. In the first half of 2021, a net outflow of HK$10.3 billion was recorded in the capital account. For financial non-reserve assets, there was a net outflow of HK$80.9 billion in the first quarter of 2021, and a net outflow of HK$125.3 billion in the second quarter of 2021.

FOREIGN TRADE

Merchandise Trade

The table below shows the values of merchandise trade in imports and total exports for the years shown:

Merchandise Trade

	For the year ended 31 December					For the nine months ended 30 September
	2016	2017	2018	2019	2020	2021
	(HK$ billions)					
Imports	4,008.4	4,357.0	4,721.4	4,415.4	4,269.8	3,852.4
Total Exports.	3,588.2	3,875.9	4,158.1	3,988.7	3,927.5	3,581.3

Source: Census and Statistics Department.

The value of merchandise exports declined by 0.5 per cent. in 2016, increased by 8.0 per cent. in 2017 and 7.3 per cent. in 2018, followed by decreases of 4.1 per cent. in 2019 and 1.5 per cent. in 2020, before reverting to an increase of 27.3 per cent. for the first nine months of 2021 as compared with the first nine months of 2020.

Hong Kong's merchandise imports followed a broadly similar pattern as the exports. The value of imports decreased by 0.9 per cent. in 2016, increased by 8.7 per cent. in 2017 and 8.4 per cent. in 2018, followed by decreases of 6.5 per cent. in 2019 and 3.3 per cent. in 2020, before reverting to an increase of 26.5 per cent. for the first nine months of 2021 as compared with the first nine months of 2020.

Total Exports by Commodity Division

The table below shows the value of goods exported from Hong Kong by ten principal commodity divisions for the periods indicated:

Value of Total Exports of Goods by Commodity Division

	For the year ended 31 December					For the nine months ended 30 September
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
	(HK$ billions)					
Total Exports	3,588.2	3,875.9	4,158.1	3,988.7	3,927.5	3,581.3
Electrical machinery, apparatus and appliances, and electrical parts thereof	1,236.2	1,387.7	1,585.6	1,570.2	1,703.2	1,642.0
Telecommunications and sound recording and reproducing apparatus and equipment	739.2	759.0	777.3	736.1	666.6	530.7
Office machines and automatic data processing machines	365.1	404.1	448.3	400.3	429.8	397.4
Miscellaneous manufactured articles	187.8	206.8	234.9	223.4	186.4	175.4
Non-metallic mineral manufactures	179.1	201.8	173.6	155.4	123.7	124.4
Photographic apparatus, equipment and supplies, optical goods, watches and clocks	104.8	101.5	105.6	105.0	84.6	76.1
Articles of apparel and clothing accessories	121.6	112.9	108.5	96.2	63.8	48.6
Professional, scientific and controlling instruments and apparatus	78.7	90.6	97.6	92.9	98.0	76.1
Power generating machinery and equipment	49.1	50.8	57.8	80.6	80.6	66.5
Non-ferrous metals	33.0	47.9	41.4	32.3	54.4	73.2

Source: Census and Statistics Department.

Total Exports of Goods by Main Market

The table below shows total exports of goods by main market for the periods indicated:

Value of Total Exports of Goods by Main Market

	For the year ended 31 December					For the nine months ended 30 September
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
				(HK$ billions)		
Total Exports	3,588.2	3,875.9	4,158.1	3,988.7	3,927.5	3,581.3
The Mainland	1,943.5	2,105.8	2,287.3	2,210.9	2,324.5	2,144.0
The United States of America	324.0	330.2	356.8	304.0	258.8	220.1
Japan	116.7	128.5	129.3	121.0	109.3	86.3
India	116.7	158.6	134.3	118.2	97.4	92.9
Taiwan	74.5	89.4	86.2	88.3	98.5	103.0
Asia-Pacific Economic Co-operation(1)	2,878.3	3,101.8	3,349.1	3,210.7	3,230.6	2,946.2
Association of Southeast Asian Nation(2)	263.9	284.0	308.2	310.7	282.9	240.0
European Union(3)	330.6	347.1	380.7	357.6	280.2	239.0

Notes:

1. The Asia-Pacific Economic Cooperation is composed of Australia, Brunei Darussalam, Canada, Chile, the Mainland of China, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Taiwan, Thailand, the United States of America and Viet Nam.

2. Association of Southeast Asian Nations (A.S.E.A.N.) is composed of Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.

3. Starting from February 2020, the United Kingdom is no longer a member of European Union, leaving the 27 original members, viz.: Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden. Statistics on merchandise trade with European Union are compiled based on the new coverage starting from February 2020 and are thus not comparable with historical figures for 2016 to 2019 presented in the above table.

Source: Census and Statistics Department.

Retained Imports

The table below shows the value of retained imports for the periods indicated:

Value of Retained Imports

	For the year ended 31 December				
	2016	2017	2018	2019	2020
	(HK$ billions)				
Total Retained Imports	997.1	1,098.0	1,215.6	1,003.9	895.6

Source: Census and Statistics Department.

The table below shows the imports of goods by source for the periods indicated:

Value of Imports of Goods by Source

	For the year ended 31 December					For the nine months ended 30 September
	2016	2017	2018	2019	2020	2021
	(HK$ billions)					
Total Imports.	4,008.4	4,357.0	4,721.4	4,415.4	4,269.8	3,852.4
The Mainland	1,916.8	2,030.1	2,186.3	2,058.1	1,923.5	1,738.1
Taiwan	292.1	329.7	338.4	330.5	405.7	399.8
Singapore	261.7	288.1	314.1	290.7	314.1	305.5
Japan	246.7	253.4	260.0	252.6	240.0	201.5
Korea	196.2	252.1	278.3	220.1	247.2	235.3
Asia-Pacific Economic Co-operation[1]	3,476.5	3,784.0	4,112.4	3,842.8	3,797.5	3,440.8
Association of Southeast Asian Nation[2]	569.4	652.7	761.5	707.1	751.0	667.6
European Union[3] . . .	267.0	284.9	312.0	304.3	196.0	157.4

Notes:

1. The Asia-Pacific Economic Cooperation is composed of Australia, Brunei Darussalam, Canada, Chile, the Mainland of China, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Taiwan, Thailand, the United States of America and Viet Nam.

2. Association of Southeast Asian Nations (A.S.E.A.N.) is composed of Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.

3. Starting from February 2020, the United Kingdom is no longer a member of European Union, leaving the 27 original members, viz.: Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden. Statistics on merchandise trade with European Union are compiled based on the new coverage starting from February 2020 and are thus not comparable with historical figures for 2016 to 2019 presented in the above table.

Source: Census and Statistics Department.

Trade in Services

The following table shows trade in services:

Trade in Services[1]

	For the year ended 31 December					First half of[2]
	2016	2017	2018	2019[2]	2020[2]	2021
	(HK$ billions)					
Exports of services	764.7	811.3	886.9	798.9	506.6	267.4
Imports of services	578.1	605.9	639.9	634.2	416.1	209.2
Total trade in services	1,342.8	1,417.2	1,526.8	1,433.2	922.6	476.6
Net exports of services	186.6	205.4	246.9	164.7	90.5	58.2

Source: Census and Statistics Department.

Notes:

1. Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*. The figures of exports and imports of goods are different from those external merchandise trade statistics which are not compiled based on the change of ownership principle. Besides, imports and exports of goods are valued on f.o.b. basis, instead of on c.i.f. basis.

2. Revised figures. In Hong Kong, the first released figures on GDP by expenditure component in respect of a period are called "advance estimates". When more data become available, the figures will be revised. All those figures published subsequently, after the advance figures, are called "revised figures". These "revised figures" are still subject to further regular revision later on when more data are incorporated. This routine revision is in accordance with the international practice to compile and release GDP figures at the earliest possible time by using only partial data. In general, the figures are finalised when finalised data from all regular sources are incorporated.

The following table shows exports and imports of services by the largest service groups:

Value of Exports and Imports of Services by Major Service Group[1]

	For the year ended 31 December					First half of[2]
	2016	2017	2018	2019[2]	2020[2]	2021
	(HK$ billions)					
Total Exports of Services	764.7	811.3	886.9	798.9	506.6	267.4
Travel	255.0	259.8	289.0	226.6	22.0	6.3
Transport	218.7	237.4	258.8	246.7	177.7	104.0
Financial services	138.3	157.0	174.1	169.1	168.1	88.1
Other services	152.7	157.0	165.0	156.5	138.7	68.9
Total Imports of Services	578.1	605.9	639.9	634.2	416.1	209.2
Travel	187.4	197.9	207.2	210.6	41.4	11.6
Transport	131.4	136.3	145.3	143.7	118.5	69.7
Manufacturing services	88.2	91.3	93.2	88.1	74.5	37.1
Financial services	36.6	42.3	48.6	50.6	51.1	24.1
Other services	134.5	138.2	145.7	141.3	130.5	66.8

Source: Census and Statistics Department.

Notes:

1. Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*. The figures of exports and imports of goods are different from those external merchandise trade statistics which are not compiled based on the change of ownership principle. Besides, imports and exports of goods are valued on f.o.b. basis, instead of on c.i.f. basis.

2. Revised figures. In Hong Kong, the first released figures on GDP by expenditure component in respect of a period are called "advance estimates". When more data become available, the figures will be revised. All those figures published subsequently, after the advance figures, are called "revised figures". These "revised figures" are still subject to further regular revision later on when more data are incorporated. This routine revision is in accordance with the international practice to compile and release GDP figures at the earliest possible time by using only partial data. In general, the figures are finalised when finalised data from all regular sources are incorporated.

In 2020, transport, financial services and other services contributed HK$177.7 billion, HK$168.1 billion and HK$138.7 billion respectively, to total exports of services. Their shares in total exports of services were 35.1 per cent., 33.2 per cent. and 27.4 per cent. respectively. Exports of travel services plunged to HK$22.0 billion or 4.4 per cent. of total exports of services as the COVID-19 pandemic resulted in extensive travel restrictions worldwide, bringing inbound tourism to a standstill since February 2020. In the first half of 2021, transport, financial services and other services contributed HK$104.0 billion, HK$88.1 billion, and HK$68.9 billion respectively, to total exports of services. Their shares in total exports of services were 38.9 per cent., 33.0 per cent. and 25.8 per cent., respectively. Exports of travel services remained in the doldrums, contributing HK$6.3 billion or 2.3 per cent. to total exports of services, as inbound tourism was halted by continued travel restrictions worldwide.

In 2020, transport and manufacturing services contributed HK$118.5 billion and HK$74.5 billion, respectively, to total imports of services. Their contributions to total imports of services were 28.5 per cent. and 17.9 per cent. respectively. Imports of travel services dived to HK$41.4 billion or 9.9 per cent. of total imports of services amid stringent travel restrictions and quarantine measures worldwide during most of the year. Other components in imports of services were financial services and other services, contributing HK$51.1 billion, or 12.3 per cent., and HK$130.5 billion, or 31.4 per cent., respectively to total imports of services. In the first half of 2021, manufacturing and transport services contributed HK$37.1 billion and HK$69.7 billion respectively to total imports of services. Their contributions to total imports of services were 17.7 per cent. and 33.3 per cent. respectively. Imports of travel services continued to fall drastically to HK$11.6 billion or 5.5 per cent. of total imports of services as outbound tourism remained severely hindered by strict travel restrictions and quarantine measures around the world. Other components in imports of services were financial services and other services, contributing HK$24.1 billion, or 11.5 per cent., and HK$66.8 billion, or 31.9 per cent., respectively to total imports of services.

In 2019, the Mainland and the United States were the major destinations of exports of services, with values at HK$286.5 billion, or 37.7 per cent. of total exports of services (excluding financial intermediation services indirectly measured), and HK$113.7 billion, or 14.9 per cent., respectively. They were followed by the United Kingdom, Japan and Singapore, with values at HK$67.4 billion, or 8.9 per cent., HK$33.7 billion, or 4.4 per cent., and HK$32.2 billion, or 4.2 per cent., respectively.

For imports of services, the Mainland and the United States were also the major sources in 2019, with values at HK$234.9 billion, or 37.8 per cent. of total imports of services (excluding financial intermediation services indirectly measured), and HK$68.2 billion, or 11.0 per cent., respectively. They were followed by Japan, the United Kingdom and Singapore, with values at HK$50.9 billion, or 8.2 per cent., HK$39.3 billion, or 6.3 per cent., and HK$27.2 billion, or 4.4 per cent., respectively.

Foreign Direct Investment

The table below shows the direct investment inflow by major investor country or territory during the periods indicated:

Direct Investment Inflow by Major Investor Country/Territory[(1)]

	Direct investment inflow during the year[(2)]				
	2016	2017	2018	2019	2020
	(HK$ billion)				
Direct investment liabilities[(3)(4)] . .	1,034.1	979.6	760.5	456.7	814.5
Total of all countries/territories[(3)(5)]	911.2	862.6	817.1	577.6	–
British Virgin Islands[(5)].	240.7	329.9	281.1	259.1	–
The Mainland[(5)]	256.8	179.2	296.6	320.5	–
Cayman Islands[(5)].	136.0	161.8	-10.1	38.6	–
United Kingdom[(5)]	64.9	-14.8	80.0	25.6	–
Bermuda[(5)].	14.9	17.6	50.3	41.3	–

Notes:

1. Country/Territory here refers to the immediate source economy. It does not necessarily reflect the country/territory from which the funds are initially mobilised.

2. Negative inflow does not necessarily relate to equity withdrawal. It may be the result of repayment of loans owed to non-resident affiliates.

3. The total of all countries/territories is different from the aggregate direct investment liabilities due to the adoption of different presentation principles, with the former compiled based on the "directional principle" and the latter based on the "asset/liability principle" in accordance with the international statistical standards. The total of all countries/territories should be referred to in calculating the shares of individual investor countries/territories, while the direct investment liabilities should be referred to in the analyses on aggregate statistics.

4. For the first, second, third and fourth quarters of 2020, the preliminary statistics on direct investment inflow amounted to HK$174.3 billion, HK$148.9 billion, HK$258.4 billion and HK$233.0 billion respectively.

5. Figures for 2020 not yet available as at the date of this Supplement.

Source: Census and Statistics Department.

The table below shows the direct investment inflow by major economic activity of Hong Kong enterprise groups during the periods indicated:

Direct Investment Inflow by Major Economic Activity of Hong Kong Enterprise Groups[(1)(2)]

	Direct investment inflow during the year			
	2016	2017	2018	2019
	(HK$ billion)			
Direct investment liabilities[(3)(4)]	1,034.1	979.6	760.5	456.7
Total of all economic activities[(3)]	911.2	862.6	817.1	577.6
Investment and holding, real estate, professional and business services	509.2	537.9	479.7	235.8
Banking	143.3	128.1	137.4	136.6
Import/export, wholesale and retail trades . . .	98.3	88.4	129.4	113.2
Financing (except banking, investment and holding companies)	60.8	54.8	3.7	29.8
Construction.	27.5	28.1	44.9	36.9

Notes:

1. A Hong Kong enterprise group ("**HKEG**") mainly consists of a Hong Kong parent company, its Hong Kong subsidiaries, associates and branches.

2. For an enterprise group, economic activity refers to the major economic activity of the whole enterprise group in Hong Kong. If an HKEG is engaged in a wide variety of activities, the economic activity is determined on the basis of the economic activity in respect of which the operating revenue is predominant.

3. The total of all economic activities is different from the aggregate direct investment liabilities due to the adoption of different presentation principles, with the former compiled based on the "directional principle" and the latter based on the "asset/liability principle" in accordance with the international statistical standards. The total of all economic activities should be referred to in calculating the shares of individual economic activities, while the direct investment liabilities should be referred to in the analyses on aggregate statistics.

4. For the first, second, third and fourth quarters of 2020, the preliminary statistics on direct investment inflow amounted to HK$174.3 billion, HK$148.9 billion, HK$258.4 billion and HK$233.0 billion respectively.

Source: Census and Statistics Department.

In 2019, total direct investment ("**DI**") inflow(3) amounted to HK$456.7 billion compared to HK$760.5 billion in 2018. Analysed by major economic activity of Hong Kong enterprise groups which had received inward DI, those engaged in investment and holding, real estate, professional and business services took up the largest share, followed by banking; import/export, wholesale and retail trades; and construction.

HONG KONG'S ECONOMIC RELATIONSHIP WITH THE MAINLAND

The Mainland is Hong Kong's largest trading partner and, since the Mainland's "Reform and Opening-up" policy was implemented in 1978, Hong Kong has established close economic links with the Mainland, particularly in the Pearl River Delta area. The HKSAR Government has maintained contact with the Mainland authorities at different levels through various government bureaux and departments, the offices of the HKSAR Government in the Mainland, as well as quasi-government bodies such as the Hong Kong Trade Development Council. Communication is also achieved through mechanisms such as the Mainland and Hong Kong Economic and Trade Co-operation Committee and government-to-government cooperation mechanisms such as the Hong Kong/Guangdong Co-operation Joint Conference, the Hong Kong/Shenzhen Co-operation Meeting, the Hong Kong/Macao Co-operation High Level Meeting, the Hong Kong/Beijing Co-operation Conference, the Hong Kong/Shanghai Co-operation Conference, the Hong Kong/Fujian Co-operation Conference, the Hong Kong/Sichuan Co-operation Conference, as well as regional co-operation including the Pan-Pearl River Delta Regional Co-operation and Development Forum ("**PPRD**"). Participants in the annual PPRD include the HKSAR, the Macao Special Administrative Region, Guangdong Province, Fujian Province, Jiangxi Province, Hunan Province, Guangxi Province, Hainan Province, Sichuan Province, Guizhou Province and Yunan Province. The most recent regional co-operation amongst HKSAR, Macao SAR and nine Guangdong cities is the Greater Bay Area development ("**GBA development**"), which is accorded the status of key strategic planning in the country's development blueprint, having great significance in the country's implementation of innovation-driven development and commitment to reform and opening-up. The objectives of the GBA development are to further deepen co-operation amongst Guangdong, Hong Kong and Macao, fully leverage the composite advantages of the three places, facilitate in-depth integration within the region, and promote co-ordinated regional economic development, with a view to developing an international first-class bay area ideal for living, working and travelling. A high-level co-ordinating body chaired by Vice Premier Han Zheng, with the Chief Executives of HKSAR and Macao SAR, the Party Secretary and Governor of Guangdong Province, as well as senior representatives of Ministries at Central level as its members, has been set up to co-ordinate the efforts to strive for policy breakthroughs with an innovative and open mind.

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 end of December 2020, Mainland enterprises raised a total of HK$7.3 trillion on the Hong Kong Stock Exchange. As at 31 December 2020, the combined market capitalisation of Mainland enterprises amounted to HK$38,073 billion.

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

Hong Kong as the dominant gateway to Mainland China and the global offshore Renminbi business hub

Hong Kong plays an indispensable role in facilitating international investors' allocation of Renminbi assets, with its unparalleled access to the onshore markets through the Stock Connect and Bond Connect schemes.

Since it was launched in July 2017, Northbound Trading under Bond Connect has served as a major channel for international investors to trade in the Mainland bond market using the market infrastructure and financial services in Hong Kong. For example, the number of registered investors under Bond Connect rose from 247 at the end of 2017 to 2,879 as at 30 September 2021, Daily turnover amounted to RMB19.8 billion in 2020 and RMB25.4 billion in the first three quarters of 2021.

International investors' allocation of their resources to Renminbi assets is expected to continue to gather pace, with a large part of the inflows continuing to take place through the Stock Connect and Bond Connect schemes. In order to capitalise on this trend, the HKMA will continue to work closely with Mainland authorities to enhance and expand the existing channels.

Alongside the increasing international inflows into the Mainland financial markets, demand from onshore institutional investors for stronger portfolio diversification has also been rising. In September 2021, the Southbound Trading under Bond Connect was launched, providing a convenient, efficient and secure channel for Mainland institutional investors to invest in offshore bonds through the Hong Kong bond market. Southbound Trading has received a positive response and operations have been smooth so far.

In June 2020, the HKMA, the People's Bank of China, and the Monetary Authority of Macao jointly announced the launch of Cross-boundary WMC, a cross-boundary wealth management connect pilot scheme in the Guangdong-Hong Kong-Macao Greater Bay Area and unveiled the framework of the scheme. Regulators in the three places promulgated implementation details in September 2021, providing supervisory guidance for eligible banks to roll out Cross-boundary WMC services.

On the other hand, Hong Kong maintains a firm position as the global hub for offshore Renminbi business. Average daily turnover of Hong Kong's Renminbi Real Time Gross Settlement system stood at a high of RMB1.19 trillion in 2020 and RMB1.50 trillion in the first eight months of 2021. According to the statistics of Society for Worldwide Interbank Financial Telecommunication, over 70 per cent. of global Renminbi payments were consistently handled in Hong Kong. Renminbi trade settlement handled by Hong Kong banks reached RMB6.30 trillion in 2020 and RMB4.6 trillion in the first eight months of 2021. With the world's deepest offshore Renminbi liquidity pool of over RMB800 billion and the huge volume of Renminbi financial activities, Hong Kong continued to be the largest offshore Renminbi foreign exchange market globally. Renminbi financing activities also progressed steadily. Offshore Renminbi bond issuance totalled RMB58.6 billion in 2020 and RMB72.9 billion in the first nine months of 2021. Renminbi lending amounted to RMB194.6 billion at end August 2021. Looking forward, the HKSAR Government will step up its efforts to expanding further the channels for the two-way flow of cross-boundary RMB funds and developing offshore RMB products and tools, including looking into specific measures to enhance demand for the issuance and trading of RMB securities and allow stocks traded via the southbound trading under Stock Connect to be denominated in RMB.

The CPG promulgated the outline development plan (the "**Outline**") for the Greater Bay Area in February 2019. Amongst other things, the Outline reaffirmed Hong Kong's status as an international financial centre, a global offshore Renminbi business hub, an international asset management centre, and a risk management centre. Subsequently, the Mainland authorities announced in May 2020 a series of supportive measures to promote financial development in the Greater Bay Area. To follow up, the HKMA will continue to work closely with Mainland authorities to develop measures to further facilitate cross-boundary access of financial and banking services in the Greater Bay Area and help Greater Bay Area corporates and financial institutions operate across the border taking advantage of Hong Kong's financial platform.

Mainland and Hong Kong Closer Economic Partnership Arrangement

CEPA is the Free Trade Agreement concluded by the Mainland and Hong Kong. The main text of CEPA was signed on 29 June 2003 and came into full implementation on 1 January 2004. To achieve progressive liberalisation and facilitation of trade and investment, the two sides have since 2004 continuously expanded the scope and content of CEPA. CEPA is now a modern and comprehensive Free Trade Agreement, covering four areas, namely trade in goods, trade in services, investment, as well as economic and technical co-operation.

Under CEPA, Hong Kong service suppliers can enjoy preferential treatment in most service sectors when accessing the Mainland market. On trade in goods, the Mainland has fully implemented zero tariff on imported goods of Hong Kong origin. Hong Kong investments and investors can enjoy investment facilitation and protection in the Mainland. On economic and technical co-operation, the two sides have agreed to enhance development and co-operation in 22 areas.

Stock Connect

The Shanghai-Hong Kong Stock Connect ("**Shanghai Connect**"), the first initiative under the mutual market access scheme between Mainland China and Hong Kong launched on 17 November 2014, offers a brand new official channel for overseas investors to invest in the Mainland stock market and for Mainland investors to invest in the Hong Kong stock market. The channel enables closed-loop Renminbi funds flow across the border in an orderly manner, thereby reducing the potential financial risk impact on the Mainland domestic market. The extended initiative – Shenzhen-Hong Kong Stock Connect ("**Shenzhen Connect**"), with an expanded scope of eligible securities – was launched on 5 December 2016. The "Mutual Market" model across Shanghai, Shenzhen and Hong Kong has been basically formed. The Mutual Market model between Mainland China and Hong Kong is a symbolic breakthrough in the capital account opening process of Mainland China, under which global investment opportunities will be increasingly opened up to Mainland investors and more Mainland investment opportunities will be opened up to global investors.

Experience of the Shanghai Connect shows that Mainland investors have an increasing appetite for investment in Hong Kong stocks through Southbound trading. In Northbound trading, global investors also show considerable interest in Mainland stocks of diversified industries. The Shenzhen Connect covers more small-sized stocks to meet the needs of both Mainland and global investors. Regulators on both sides had reached consensus on, extending the Mutual Market Access scheme to cover exchange-traded funds, for which specific schedule will be separately announced. Subject to regulatory approval, the scheme can possibly be extended to other securities in the future. Through Southbound trading under the "Mutual Market" model, Mainland investors are open to global asset allocation opportunities for potentially better returns and an increasingly diversified scope of investment and risk management instruments than in the domestic market.

EXTERNAL TRADE RELATIONS

Under Article 116 of the Basic Law, Hong Kong is a separate customs territory and may, using the name "Hong Kong, China," participate in relevant international organisations and international trade agreements (including preferential trade agreements). Article 151 of the Basic Law also provides that Hong Kong may on its own maintain and develop relations and conclude and implement agreements with foreign states and regions and relevant international organisations in the economic, trade, financial and monetary and other appropriate fields under the name of "Hong Kong, China". Hong Kong is open-minded about entering into Free Trade Agreements with other economies so long as they are in Hong Kong's interests and are consistent with WTO rules.

Hong Kong's Participation in the WTO

Hong Kong is a founding member of the WTO. Its separate membership reflects Hong Kong's autonomy in the conduct of its external trade relations.

The WTO aims to provide a predictable and rules-based multilateral trading system for trade in goods, trade in services and trade-related intellectual property rights. It promotes the liberalisation of international trade and serves as a forum for multilateral trade negotiations and dispute settlement among its members. The rules-based multilateral trading system under the auspices of the WTO is the cornerstone of Hong Kong's external trade policy.

Hong Kong's participation in the WTO is guided by two key objectives:

- to foster progressive global trade liberalisation; and
- to strengthen the rules of the multilateral trading system so as to provide an effective framework to promote trade liberalisation, as well as to protect Hong Kong against any arbitrary and discriminatory actions taken by its trading partners.

The latest WTO Trade Policy Review of Hong Kong was conducted in November 2018. WTO members commended Hong Kong again for its free and open trade policies and its unwavering support for the multilateral trading system, including its continuous efforts in maintaining a liberal trade and investment regime, its achievements in trade facilitation as well as its strong engagement in various aspects of WTO work.

Regional Economic Cooperation

APEC is a regional forum established in 1989 for high-level government-to-government dialogue and cooperation on trade and economic issues. Hong Kong joined APEC in 1991.

From 2017 to 2020, the average annual growth rate in bilateral trade between Hong Kong and other APEC economies was 0.7 per cent. In 2020, such bilateral trade decreased by 0.4 per cent. to HK$7,028 billion from HK$7,053 billion in 2019 (compared with a decrease of 2.5 per cent. for Hong Kong's total trade in 2020 against 2019). Hong Kong is also an important trading hub between the Mainland and other APEC economies. From 2017 to 2020, the average annual growth rate for re-export trade between the Mainland and other APEC economies through Hong Kong was 2.3 per cent., whereas in 2020, such re-export trade increased by 0.4 per cent. to HK$1,906 billion from HK$1,899 billion in 2019 (compared with a decrease of 1.5 per cent. for Hong Kong's total re-exports in 2020 against 2019).

The Pacific Economic Cooperation Council ("**PECC**"), founded in 1980, is a non-governmental regional forum comprised of government officials, business leaders and academics working in their personal capacity to enhance trade, investment and economic development in the Asia-Pacific region. Hong Kong joined PECC in May 1991.

INTERNATIONAL RESERVES

Hong Kong's foreign currency reserves, which are held in the Exchange Fund, totalled U.S.$491.6 billion as at 30 June 2021. There were no unsettled foreign exchange contracts at end of June 2021. The day-to-day management of the Exchange Fund is conducted by the HKMA. See "– *Financial and Monetary System – The Exchange Fund*."

Although Hong Kong participates in IMF activities under the PRC's membership, it is not a member of the IMF. In accordance with Article 106 of the Basic Law, the HKSAR Government will use its financial revenues exclusively for its own purpose, and these revenues will not be remitted to the CPG. In addition, under Article 113 of the Basic Law, the Exchange Fund will be managed and controlled exclusively by the HKSAR Government.

FINANCIAL AND MONETARY SYSTEM

The section titled "Financial and Monetary System" in the Offering Memorandum shall be deleted in its entirety and replaced with the following.

THE HONG KONG MONETARY AUTHORITY

The HKMA, established in 1993, functions as Hong Kong's central banking institution. The HKMA has four main functions: maintaining the stability of the Hong Kong dollar within the framework of the Linked Exchange Rate System; promoting the stability and integrity of Hong Kong's financial system, including the banking system; managing Hong Kong's Exchange Fund; and helping to maintain Hong Kong's status as an international financial centre, including maintaining and developing Hong Kong's financial infrastructure.

The Exchange Fund Ordinance of Hong Kong (the "**Exchange Fund Ordinance**") empowers the Financial Secretary to appoint the Monetary Authority (the "**MA**") (who is the Chief Executive of the HKMA) to assist the Financial Secretary in performing his functions under the Exchange Fund Ordinance and to perform such other functions as are assigned by other ordinances or by the Financial Secretary. The powers, functions and responsibilities of the MA are set out in the Exchange Fund Ordinance, the Banking Ordinance (the "**Banking Ordinance**"), the Financial Institutions (Resolution) Ordinance, the Deposit Protection Scheme Ordinance, the Payment Systems and Stored Value Facilities Ordinance, and other relevant ordinances.

Functions and Responsibilities

An exchange of letters dated 25 June 2003 (the "**Exchange of Letters**") sets out the division of functions and responsibilities in monetary and financial affairs between the Financial Secretary and the MA as well as the delegations made by the Financial Secretary to the MA under the Exchange Fund Ordinance and other ordinances. The Exchange of Letters states that the Financial Secretary should determine the monetary policy objective and the structure of the monetary system of Hong Kong, namely currency stability, defined as a stable exchange value at around HK$7.80 to U.S.$1.00, maintained by Currency Board arrangements (as described further below). The MA is responsible for achieving the monetary policy objective, including determining the strategy, instruments and operational means for doing so. The MA is also responsible for maintaining the stability and integrity of the monetary system of Hong Kong.

In addition, the Financial Secretary, assisted by the Secretary for Financial Services and the Treasury, determines the policies for maintaining the stability and integrity of Hong Kong's financial system and the status of Hong Kong as an international financial centre. Accordingly, the MA's responsibilities include:

- promoting the general stability and effective working of the banking system;
- promoting the development of the debt market, in co-operation with other relevant bodies;
- matters relating to the issuance and circulation of legal tender notes and coins;
- promoting the safety and efficiency of the financial infrastructure through the development of payment, clearing and settlement systems and, where appropriate, the operation of these systems; and
- seeking to promote, in co-operation with other relevant bodies, confidence in Hong Kong's monetary and financial systems, and market development initiatives to help strengthen the international competitiveness of Hong Kong's financial services.

The Exchange Fund is under the control of the Financial Secretary. The MA, under delegation from the Financial Secretary, is responsible to the Financial Secretary for the use and investment management of the Exchange Fund.

Governance Arrangements

The Exchange Fund Advisory Committee ("**EFAC**"), which was established under Section 3(1) of the Exchange Fund Ordinance, advises the Financial Secretary in relation to his exercise of control of the Exchange Fund. The Financial Secretary is ex-officio chairman of EFAC. Other members, including the MA, are appointed in a personal capacity by the Financial Secretary under the delegated authority of the Chief Executive of the HKSAR. EFAC advises the Financial Secretary on investment policy and strategy for the Exchange Fund. Among other things, the EFAC also advises the Financial Secretary on the HKMA's annual administration budget as the operating and staff costs of the HKMA are paid for by the Exchange Fund.

The Banking Advisory Committee, established under Section 4(1) of the Banking Ordinance, advises the Chief Executive of the HKSAR on matters relating to the Banking Ordinance, in particular banks and the carrying on of banking business. The Deposit-Taking Companies Advisory Committee, established under Section 5(1) of the Banking Ordinance, performs similar functions to the Banking Advisory Committee in relation to deposit-taking companies and restricted licence banks.

MONETARY SYSTEM

The overriding objective of Hong Kong's monetary policy is currency stability. This is defined as a stable external exchange value of Hong Kong's currency, in terms of its exchange rate in the foreign-exchange market against the U.S. dollar, within a band of HK$7.75-7.85 to U.S.$1. The structure of the monetary system is characterised by Currency Board arrangements, requiring the "**Monetary Base**" (as described below) to be at least 100 per cent. backed by U.S. dollar reserves held in the Exchange Fund, and changes in the Monetary Base to be 100 per cent. matched by corresponding changes in U.S. dollar reserves.

The Monetary Base comprises:

- Certificates of Indebtedness, which provide full backing to the banknotes issued by the three note-issuing banks;

- Government-issued notes and coins in circulation;

- the "**Aggregate Balance**", which is the sum of the balances of the clearing accounts kept with the HKMA; and

- "**Exchange Fund Bills and Notes**", which are Hong Kong dollar debt securities issued by the HKMA on behalf of the Government.

The stability of the Hong Kong dollar exchange rate is maintained through an automatic interest rate adjustment mechanism and the firm commitment by the HKMA to honour the Convertibility Undertaking ("**CU**"). When the demand for Hong Kong dollars is greater than the supply and the market exchange rate strengthens to the strong-side CU of HK$7.75 to one U.S. dollar, the HKMA stands ready to sell Hong Kong dollars to banks for U.S. dollars upon request. The Aggregate Balance will then expand to push down Hong Kong dollar interest rates, creating monetary conditions that move the Hong Kong dollar away from the strong-side limit to within the "**Convertibility Zone**" of 7.75 to 7.85. Conversely, if the supply of

Hong Kong dollars is greater than demand and the market exchange rate weakens to the weak-side CU of HK$7.85 to one U.S. dollar, the HKMA stands ready to buy Hong Kong dollars from banks upon request. The Aggregate Balance will then contract to drive Hong Kong dollar interest rates up, pushing the Hong Kong dollar away from the weak-side limit to stay within the Convertibility Zone of 7.75 to 7.85.

Overall, the Hong Kong dollar remained in the strong side of the Convertibility Zone and continued to trade in a smooth and orderly manner. The Hong Kong dollar softened slightly against the U.S. dollar in March and early April 2021, due partly to weaker buying interest from the southbound Stock Connects, and partly to the repatriation of initial public offering ("**IPO**") proceeds by some newly listed companies after a series of fund-raising activities in 2020 and early 2021. The Hong Kong dollar then firmed again in the second quarter of 2021, due to the resumption of southbound inflows and corporates' needs to pay dividends.

Stepping into the third quarter of 2021, the Hong Kong dollar saw some softening since July due to risk-off sentiment in the local equity market. In particular, the southbound Stock Connects saw the largest monthly net outflows in July 2021. Nonetheless, the robust IPO pipeline provided support to the Hong Kong dollar.

Underpinned by ample Hong Kong dollar liquidity, Hong Kong interbank interest rates softened further in the year of 2021 to end of September. Specifically, the three-month HIBOR saw a mild reduction of 21 basis points during the first nine months to 0.14 per cent. at the end of September 2021. To meet the ongoing demand for Exchange Fund paper by banks amidst the abundance of liquidity in the banking system, on 25 August 2021, the HKMA announced a plan to increase the issuance size of 91-day Exchange Fund Bills by HK$5 billion in each of the eight regular tenders on 7, 14, 21 and 28 September and 5, 12, 19 and 26 October 2021. On 20 October 2021, the HKMA announced another plan to increase the issuance size of 91-day Exchange Fund Bills by HK$5 billion in each of the eight regular tenders on 2, 9, 16, 23 and 30 November and 7, 14 and 21 December 2021. If all the planned increases are executed, the issuance size of the Bills will be increased by HK$80 billion in total. The increase in the supply of Exchange Fund Bills is consistent with Currency Board principles, since the additional issuance simply represents a change in the composition of the Monetary Base, with a shift from the Aggregate Balance to Exchange Fund paper. The Aggregate Balance will decrease by the same amount as the increase in Exchange Fund Bills. The Monetary Base remains fully backed by foreign exchange reserves.

Stepping into 2021, Hong Kong's monetary environment remained accommodative. Overall, the Monetary Base remained sizeable and broadly stable, closing at HK$2,119 billion at the end of September 2021. The broader monetary aggregates and deposits also remained sizeable and witnessed a moderate increase in the year to end of August 2021.

Unlike many central banks worldwide, the HKMA has a limited role with respect to the following functions:

- *Banknote Issue*. This function is principally undertaken by three commercial banks: Bank of China (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank (Hong Kong) Limited. The HKSAR Government has issued HK$10 currency notes since 2002 and all denominations of coins in circulation.

- *Banker to the HKSAR Government*. Other than managing the fiscal reserves which are held by the Exchange Fund, the HKMA does not provide ordinary banking services to the HKSAR Government, a function historically performed by commercial banks.

Hong Kong's "**Base Rate**" is the interest rate forming the foundation upon which the Discount Rates for repurchase transactions through the Discount Window are computed. The Base Rate is currently set at either 50 basis points above the lower end of the prevailing target range for the U.S. federal funds rate or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever is the higher. The HKMA announces the Base Rate every day before the interbank market opens in Hong Kong.

BANKING SYSTEM

Structure of the Banking System

Hong Kong maintains a three-tier system of deposit-taking institutions, namely, licensed banks, restricted licence banks and deposit-taking companies. These are collectively known as AIs under the Banking Ordinance. AIs may operate in Hong Kong as either locally incorporated companies or branches of foreign banks. The MA is the licensing authority for all three types of AIs.

- Licensed banks may operate current and savings accounts, accept deposits of any size and maturity from the public, pay or collect cheques drawn by or paid in by customers and use the name "bank" without restriction.

- Restricted licence banks are principally engaged in merchant banking and capital markets activities. They may take deposits of any maturity of at least HK$500,000 from the public.

- Many of the deposit-taking companies are owned by, or otherwise associated with licensed banks, or banks incorporated outside Hong Kong. They engage in a range of specialised activities, including consumer finance, commercial lending and securities business. These companies take deposits of at least HK$100,000, with an original term to maturity of at least three months.

The authorization criteria for licenced banks, restricted licence banks and deposit-taking companies are intended to ensure that only fit and proper institutions are entrusted with public deposits. The HKMA conducts periodic reviews of the authorization criteria and, when necessary, introduces amendments to reflect the changing needs of the regulatory environment in light of new international standards.

Hong Kong has one of the highest concentrations of banking institutions in the world. As at the end of 2020, 77 of the largest 100 banks in the world have a presence in Hong Kong. As at the end of August 2021, Hong Kong had 161 licensed banks, 16 restricted licence banks and 12 deposit-taking companies. There were also 41 representative offices of banks incorporated outside Hong Kong.

Overseas banks may establish local representative offices in Hong Kong. A local representative office is not allowed to engage in any banking business. Its role is confined mainly to representational activities and liaison work between the bank and its customers in Hong Kong.

Performance of the Banking Sector

The tables below set out the performance ratios of the banking sector for the periods indicated:

PERFORMANCE RATIOS OF THE BANKING SECTOR[1]

	ALL AIs					
	For the year ended 31 December					For the six months ended 30 June
	2016	2017	2018	2019	2020	2021
	(in percentages)					
Asset Quality[2]						
As a percentage of total credit exposures[3]						
Total outstanding provisions/impairment allowances	0.49	0.48	0.49	0.49	0.62	N/A
Classified[4] exposures:						
Gross	0.58	0.48	0.39	0.39	0.66	N/A
Net of specific provisions/ individual impairment allowances	0.35	0.26	0.19	0.19	0.37	N/A
Net of all provisions/ impairment allowances	0.09	0.00	(0.10)	(0.10)	0.04	N/A
As a percentage of total loans[5]						
Total outstanding provisions/ impairment allowances	0.76	0.71	0.70	0.70	0.86	N/A
Classified[4] loans:						
Gross	0.85	0.68	0.55	0.57	0.90	0.86
Net of specific provisions/ individual impairment allowances	0.51	0.36	0.26	0.28	0.50	0.47
Net of all provisions/ individual impairment allowances	0.10	(0.04)	(0.15)	(0.13)	0.04	N/A
Overdue for over 3 months and rescheduled loans	0.67	0.52	0.36	0.34	0.57	0.58
Profitability						
Return on assets (operating profit)	0.81	0.91	0.97	0.95	0.66	N/A
Return on assets (post-tax profit)	1.00	0.83	0.84	0.83	0.58	N/A
Net interest margin	1.04	1.12	1.20	1.23	0.97	N/A
Cost-income ratio	50.4	47.0	45.0	45.6	50.6	N/A
Bad debt charge to total assets	0.10	0.10	0.06	0.09	0.14	N/A
Liquidity						
Loan to deposit ratio (all currencies)	68.4	73.0	72.6	75.3	72.3	74.1
Loan to deposit[6] ratio (Hong Kong dollar)	77.1	82.7	86.9	90.3	83.5	84.2

Notes:

1. Figures relate to Hong Kong office(s) only except where otherwise stated.

2. Figures relate to Hong Kong office(s) and for the locally incorporated AIs included therein, also their overseas branches.

3. Credit exposures include loans and advances, acceptances and bills of exchange held, investment debt securities issued by others, accrued interest, and commitments and contingent liabilities to or on behalf of non-banks.

4. Denotes loans or exposures graded as "substandard", "doubtful" or "loss".

5. Figures are related to Hong Kong offices. For locally incorporated AIs, figures include their overseas branches and major overseas subsidiaries.

6. Includes swap deposits.

Source: HKMA.

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

	As at 31 December					As at 30 June
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
	(HK$ billions)					
Manufacturing	247	293	300	303	308	315
Transport and transport equipment	295	342	332	326	350	340
Building, construction and property development and investment	1,260	1,470	1,526	1,631	1,635	1,686
Wholesale and retail trade	413	409	390	378	350	343
Financial concerns (other than authorized institutions)	546	821	858	908	918	944
Individuals:						
to purchase flats in the Home Ownership Scheme, the Private Sector Participation Scheme and the Tenants Purchase Scheme	43	51	58	78	94	94
to purchase other residential property	1,122	1,226	1,340	1,466	1,580	1,647
other purposes	519	605	663	779	777	818
Others	740	801	854	936	941	1,344
Total[1]	5,185	6,019	6,320	6,806	6,952	7,530

Note:

1. Figures may not add up to total due to rounding.

Source: HKMA.

DEPOSITS FROM CUSTOMERS (ALL AIs)

	As at 31 December					As at 31 July
	2016	2017	2018	2019	2020	2021
	(HK$ billions)					
Hong Kong Dollar (including swap deposits)						
Demand	1,038	1,160	1,093	1,036	1,432	1,607
Savings.	2,715	3,067	2,806	2,641	3,373	3,571
Time.	2,055	2,258	2,817	3,207	2,507	2,304
Total	5,809	6,485	6,715	6,884	7,311	7,483
Foreign Currency						
Demand	785	833	874	952	1,259	1,350
Savings.	2,224	2,263	2,118	2,295	2,967	3,135
Time.	2,909	3,172	3,678	3,641	2,976	2,939
Total[(1)].	5,918	6,268	6,671	6,887	7,202	7,424

Note:

1. Figures may not add up to total due to rounding.

Source: HKMA.

The Hong Kong's banking sector has been resilient with strong capital and liquidity positions. The banking sector is well-positioned to withstand the potential negative impact that may arise from volatility in financial markets and global fund flows. In response to the economic challenges of 2019-20, the HKMA reduced the countercyclical capital buffer (CCyB) for Hong Kong by a total of 1.5 percentage points to allow banks to be more supportive of the domestic economy.

As part of the HKMA's efforts to further strengthen the resilience of the banking system, the Banking (Amendment) Ordinance 2018 was enacted by the LegCo in early 2018 for the purposes of implementing the latest Basel standards on the financial exposure limits of AIs, as well as the recovery planning requirements promulgated by the Financial Stability Board. A set of comprehensive Banking (Exposure Limits) Rules came into effect on 1 July 2019 to implement the latest Basel standards on AIs' large exposures and update other local risk concentration limits. The Banking (Liquidity) (Amendment) Rules 2019 were introduced to expand the scope of high quality liquid assets under the Liquidity Coverage Ratio and implement a required stable funding requirement on total derivative liabilities under the Net Stable Funding Ratio effective from 1 January 2020. The Banking (Capital) (Amendment) Rules 2020 implemented the latest Basel capital standards on counterparty credit risk with effect from 30 June 2021. Further amendments will be made to the Banking (Capital) Rules to implement the Basel capital standards on banks' equity investments in funds within 2022. This will be followed by those to implement the revised capital standards in the final phase of the Basel III reform starting sometime in 2023.

The Hong Kong banking sector continued to be strong in the second quarter of 2021, notwithstanding the prolonged COVID-19 pandemic and its impacts on the global economy. Banks remained well-capitalised with robust liquidity positions. The asset quality of the banking sector improved slightly, with the classified loan ratio staying at a low level by both historical and international standards. At the end of August 2021, total deposits and total loans and advances of AIs amounted to HK$14,898 billion and HK$10,984 billion respectively, marking increases of 2.7 per cent. and 4.6 per cent. from the end of 2020. As at 31 August 2021, total assets increased by 1.1 per cent. to HK$26,153 billion from the end of 2020.

Statistics on AIs

	As at 31 December					As at 31 August
	2016	2017	2018	2019	2020	2021
AIs	195	191	186	194	190	189
Of which:						
Licensed banks	156	155	152	164	161	161
Restricted licence banks	22	19	18	17	17	16
Deposit-taking companies	17	17	16	13	12	12
Total deposits (HK$ billion)	11,727	12,752	13,386	13,772	14,514	14,898
Total loans and advances (HK$ billion)	8,023	9,314	9,723	10,377	10,499	10,984
Total assets ($ billion)	20,652	22,697	24,043	24,462	25,865	26,153

Source: HKMA.

The HKMA keeps a vigilant watch on the property mortgage business of AIs. It has introduced various rounds of countercyclical macroprudential measures since 2009 to strengthen the risk management of AIs' mortgage lending business and the resilience of the Hong Kong banking sector to cope with a possible downturn in the local property market.

Following the establishment of the Fintech Facilitation Office ("**FFO**") in 2016, the HKMA stepped up its efforts in promoting Hong Kong as a fintech hub in Asia. On the research and application front, it conducted a holistic review of the Cybersecurity Fortification initiative ("**CFI**") to cope with the fast-changing cybersecurity landscape; published whitepapers and reports on Distributed Ledger Technology ("**DLT**"), artificial intelligence, alternative credit scoring and Open Application Programming Interface ("**Open API**"); commenced research projects on the application of Central Bank Digital Currency in cross-border payments and retail contexts, in collaboration with a number of central banks and/or the Bank for International Settlements Innovation Hub ("**BISIH**"); implemented the Open API Framework to facilitate the development and adoption of Open API in the banking sector; initiated the development of a Commercial Data Interchange platform to facilitate SME financing; and facilitated the PoC and a pilot trial between eTradeConnect, which is a DLT-based trade finance platform and the result of a PoC conducted by the HKMA, and the People's Bank of China Trade Finance Platform, which explore enhancing connectivity of, and execute cross-boundary transactions between, the two platforms. In terms of industry liaison, since 2016, the FFO has organised over nearly 80 and spoken at over 290 events, and held over 2,400 meetings with other stakeholders. On talent development, the HKMA was the main organiser of the Fintech Career Accelerator Scheme ("**FCAS**") and FCAS 2.0, which have nurtured more than 780 students since launch. On cross-border collaboration, the HKMA has entered into fintech co-operation agreements with the United Kingdom, Singapore, Dubai International Financial Centre, Switzerland, Poland, Abu Dhabi Global Market, Brazil, Thailand, France and the United Arab Emirates. The HKMA seeks to strengthen fintech collaboration with Shenzhen. For example, it sponsored the Shenzhen Summer Internship Programme, which enabled Hong Kong students to work in renowned firms in Shenzhen for six weeks to experience the fintech ecosystem there; and co-organised with the Shenzhen Municipal Financial Regulatory Bureau the Shenzhen-Hong Kong Fintech Award. Other cross-border initiatives include the establishment of the world's first BISIH Hub Centre in Hong Kong, as well as the HKMA's participation in the Global Financial Innovation Network.

The HKMA continued to work with the banking industry on the seven Smart Banking initiatives to promote fintech development in Hong Kong. On the supervisory front, a revised Guideline on Authorization of Virtual Banks was published in May 2018. In the first half of 2019, the HKMA granted 8 banking licences for operating a virtual bank. The virtual banks subsequently conducted pilot trial under the HKMA's Fintech Supervisory Sandbox. All of the 8 virtual banks which have been granted a licence by the HKMA have commenced operation in Hong Kong. Under the Banking Made Easy initiative, the HKMA streamlined regulatory requirements in relation to remote onboarding, online finance and online wealth management. These enhancements better enabled banks to offer improved user experience in the online banking environment. The scope of the Banking Made Easy initiative was expanded in September 2018 to facilitate the adoption of regulatory technology ("**Regtech**") by banks. Furthermore, the HKMA published a white paper on Regtech in November 2020, outlining a roadmap to further promote Regtech adoption with the objective of building a more diverse and interactive Regtech ecosystem in Hong Kong.

Given Hong Kong's close economic relationship with the Mainland, Hong Kong banking sector's exposures to the Mainland economy is growing. These exposures result from Mainland and overseas corporates seeking financing in Hong Kong to support the expansion of their cross-border trade and investment activities.

Banking Supervision

The legal framework for banking supervision in Hong Kong is established by the Banking Ordinance. Under the Banking Ordinance, the MA is the licensing authority responsible for the authorization, suspension and revocation of licenses for all three types of AIs. Checks and balances are provided in the Banking Ordinance with the requirement that the MA consults the Financial Secretary on important authorization decisions, such as suspension or revocation. The Chief Executive in Council (being the Chief Executive of HKSAR acting after consultation with the Executive Council) is the appellate body for hearing appeals against decisions made by the MA. In addition, there are two statutory committees, the Banking Advisory Committee and the Deposit-Taking Companies Advisory Committee, established to advise on matters relating to banking and deposit-taking business. Moreover, it is the HKMA's general policy to consult widely on matters affecting its supervisory approach, and public consultations are generally undertaken on significant matters, such as deposit protection and banking reform.

AIs must comply with the provisions of the Banking Ordinance which, among other things, require them to maintain minimum liquidity and capital adequacy ratios, to submit periodic returns to the HKMA on required financial information, to adhere to limitations on loans to any one customer or to directors and employees and to seek approval for the appointment of controllers, directors and senior management.

The HKMA seeks to maintain a regulatory framework that is consistent with international standards, especially those recommended by the Basel Committee on Banking Supervision ("**Basel Committee**").

The HKMA's supervisory approach is based on a policy of "continuous supervision" through a combination of on-site examinations, off-site reviews, prudential meetings, and co-operation with external auditors and meetings with boards of directors. Since 2000, the HKMA has been using a risk-based supervisory framework for all AIs. Under this approach, the HKMA puts emphasis on evaluation of the effectiveness of risk governance framework, risk management systems and internal controls of AIs and prioritises its supervisory resources having regard to the risks faced by the banking sector. Amid increased uncertainties in the global economy and the financial markets owing to the uncertain pace of U.S. monetary policy normalisation, U.S.-Mainland trade conflict and other geopolitical events, the HKMA continued to focus its supervisory efforts on reviewing the effectiveness of AIs' liquidity and credit risk management systems to enhance the resilience of the banking sector against any abrupt changes in the macroeconomic environment. In view of growing cybersecurity threats and the adoption of fintech by AIs, the HKMA conducted a comprehensive review of the CFI to reflect the latest trends in technology and incorporate recent developments in global cyber practices. After extensive consultation with the banking industry, the HKMA launched the CFI 2.0 in November 2020. In October 2019, the HKMA issued a revised Supervisory Policy Manual module on "Risk Management of E-banking". The revision sought to provide the industry with greater flexibility to meet changing customer expectations on electronic banking services. The HKMA also published a set of high-level principles on the use of artificial intelligence in November 2019 in order to provide guidance for the industry.

In conducting supervision, the HKMA has regard to all the activities of a locally-incorporated AI in Hong Kong and overseas. In addition to regulating and supervising banking business, the HKMA is also responsible for day-to-day supervision of AIs' securities business (if such business is carried out in an AI's subsidiary which itself is a non-AI, the Securities and Futures Commission (the "**SFC**") is responsible for the supervision) according to the standards set by the SFC, the lead regulator of the securities market. Taken into account the unique circumstances of banking environment, the HKMA may promulgate additional investor protection measures and requirements in respect of AIs' wealth management business. Meanwhile, the HKMA is the frontline regulator of AIs' insurance and MPFs intermediaries businesses and monitors the AIs' compliance with the applicable regulatory requirements promulgated by relevant regulatory authorities. However, irrespective of whether or not the HKMA regulates or supervises an AI's non-banking activities, its supervisory approach is intended to ensure that the risks that such activities, and other activities within the group, may pose to the financial position or reputation of the AI are taken into account.

The HKMA also supervises overseas offices of Hong Kong incorporated banks. In the case of institutions incorporated outside Hong Kong and operating in Hong Kong in branch form, overall responsibility for ensuring the safety and soundness of these institutions rests with the relevant home country supervisor, but the HKMA extends applicable prudential standards to the Hong Kong operation (generally, all standards except those relating to capital adequacy), while also endeavouring to maintain close contact with the home supervisor to ensure the full and timely exchange of relevant information.

One of the statutory functions of the HKMA is to promote and encourage proper standards of conduct and sound and prudent business practices amongst AIs. In April 2010, the HKMA established a Banking Conduct Department to provide greater focus to its work in this area. The HKMA cooperates closely with the SFC, the IA and the Mandatory Provident Fund Schemes Authority in supervising AIs' businesses related to securities, investment products, insurance and MPFs.

Banking Resolution

To mitigate the risks which a failing financial institution may pose to the stability and effective working of the Hong Kong financial system, the Financial Institutions (Resolution) Ordinance (Cap 628) ("**FIRO**") came into operation on 7 July 2017, under which the HKMA is the resolution authority for AIs, amongst others. The FIRO establishes the legal basis for a cross-sectoral resolution regime in Hong Kong. As part of the HKMA's efforts to make the resolution regime operational for the Hong Kong banking sector, the Resolution Office was established in 2017.

To operationalise the FIRO, the Resolution Office is advancing work in establishing resolution standards, undertaking resolution planning and developing resolution execution capability. In this regard, in December 2018, the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules ("**LAC Rules**") came into operation. The primary purpose of loss-absorbing capacity requirements is to ensure that a relevant AI has sufficient financial resources in place so that should it become non-viable, its failure can be managed by the HKMA in an orderly way. To facilitate the compliance with the LAC rules by resolution entities and material entities, the HKMA issued a FIRO Code of Practice chapter LAC-1 "Resolution Planning – LAC requirements" on 20 March 2019 and published the standard disclosure templates for resolution entities and material subsidiaries under the LAC Rules on 31 October 2019. In addition, the HKMA has been working on the potential impediment to resolvability relating to the risk to cross-border effectiveness of resolution arising from the early termination of financial contracts governed by non-Hong Kong law. In this regard, the Financial Institutions (Resolution) (Contractual Recognition of Suspension of Termination Rights – Banking Sector) Rules came into operation on 27 August 2021, requiring the adoption of an appropriate provision in certain financial contracts governed by non-Hong Kong law, such that the parties to the contracts (other than an excluded counterparty) will be bound by a suspension of termination rights that may be imposed by the MA as a resolution authority under the FIRO.

Prudential Supervisory Policies

In addition to these reform measures, the HKMA has taken steps with the aim of improving the quality of its supervision. In 2020, 186 off-site reviews were conducted covering a broad range of issues, including CAMEL ratings, corporate governance, risk management of AIs, as well as their business strategies in response to fintech development. As part of the HKMA's continued efforts to promote stronger risk governance, 30 meetings were held with the boards of directors or board-level committees of AIs. The HKMA also followed up on AIs' progress in adopting the guidance on corporate governance. 30 tripartite meetings among the HKMA, AIs and their external auditors were held.

Apart from off-site activities, the HKMA continued to conduct regular on-site examinations supplemented with thematic reviews on areas assessed to be of higher risk. A total of 610 on-site examinations and thematic reviews were conducted during the year. Credit risk management remained a key focus of these examinations and reviews. Other major focuses were technology risk and operational risk management. The HKMA also increased the number of on-site examinations and thematic reviews targeted at liquidity and market risk management as well as the implementation of the Basel capital adequacy framework. On-site examinations of AIs' activities in securities, investment products, insurance and MPF-related businesses were also conducted by specialist teams.

SECURITIES AND FUTURES MARKETS

The Hong Kong Stock Exchange and Futures Exchange

The securities market and the futures market in Hong Kong are operated by the Hong Kong Stock Exchange and the Hong Kong Futures Exchange, respectively. Both the Hong Kong Stock Exchange and the Hong Kong Futures Exchange are wholly-owned subsidiaries of the Hong Kong Exchanges and Clearing Limited ("**HKEX**"), which is a recognised exchange controller under the Securities and Futures Ordinance ("**SFO**").

The Hong Kong Stock Exchange is a recognised exchange company under the SFO. It operates and maintains a stock market in Hong Kong and is the primary regulator of stock exchange participants with respect to trading matters and of companies listed on the Main Board and the Growth Enterprise Market ("**GEM**") of the Hong Kong Stock Exchange.

The Hong Kong Futures Exchange is also a recognised exchange company under the SFO. It operates and maintains a futures market in Hong Kong and is the primary regulator of futures exchange participants with respect to trading matters.

The HKEX also owns and operates the clearing houses of the Hong Kong Stock Exchange and the Hong Kong Futures Exchange, namely Hong Kong Securities Clearing Company Limited ("**HKSCC**"), HKFE Clearing Corporation Limited ("**HKCC**") and the Hong Kong Stock Exchange Options Clearing House Limited ("**SEOCH**"). HKSCC and SEOCH provide services for the clearing and settlement of securities and stock option transactions, respectively, including trades and transactions effected on, or subject to the rules of, the Hong Kong Stock Exchange. HKCC provides services for the clearing and settlement of transactions on the Hong Kong Futures Exchange.

Apart from the stock market and the futures market, there is also an active over-the-counter ("**OTC**") market which is mainly operated and used by professional institutions and trades swaps, forwards and options in relation to equities, interest rates and currencies. OTC Clearing Hong Kong Limited, a subsidiary of the HKEX, commenced operation in November 2013 to provide clearing services for certain types of OTC derivative products. It now offers clearing services for inter-dealer interest rate swaps and non-deliverable forwards.

The HKSCC, a wholly-owned subsidiary of the HKEX, operates the Central Clearing and Settlement System (the "**CCASS**") for securities trading on the Hong Kong Stock Exchange. The CCASS is an automated book-entry system that handles the settlement of securities. In addition to brokers and custodians, CCASS services are also available to retail investors.

Hong Kong's stock market capitalisation totalled about HK$52.8 trillion as at the end of June 2021, fifth in the world and second in Asia. As at the end of September 2021, the market capitalisation of Hong Kong's stock market was HK$44.2 trillion. At the end of September 2021, 2,559 public companies were listed on the Hong Kong Stock Exchange, representing a wide range of industries from finance and property to consumer goods, information technology and telecommunications. The Hong Kong Stock Exchange ranked second in 2020 and had ranked first for seven out of the past 12 years since 2009 in terms of equity funds raised via IPOs. In 2019 and 2020, over HK$310 billion and over HK$397 billion was raised through IPOs respectively. In addition to new share issues, another HK$346 billion was raised via post IPOs. The HKEX again took the crown as the world's largest structured products market in terms of turnover of securitised derivatives for the 14th consecutive year since 2007.

The Hong Kong Futures Exchange operates a futures market. Total turnover of futures and options contracts in 2020 (as at 31 December 2020) reached 282.2 million contracts. Open interest at the end of December 2020 reached 11.3 million contracts.

On 20 August 2021, SFC announced the approval for HKEX to launch the MSCI China A-share index futures contract in Hong Kong. The MSCI China A50 Connect Index futures contract has been launched by HKEX on 18 October 2021. It is an offshore A-share index futures product formally approved by the Mainland authorities. It could serve as a useful risk management tool for offshore investors participating in the A-share market, while broadening the offering of financial products in Hong Kong at the same time.

The Performance of the Hong Kong Stock Exchange

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

Market Statistics of the Hong Kong Stock Exchange

	For the year ended 31 December				
	2016	**2017**	**2018**	**2019**	**2020**
Market Capitalisation (HK$ billion)					
Mainboard					
Total	24,450	33,718	29,723	38,058	47,392
Red-chips	4,899	5,727	5,375	5,444	N/A
H-shares	5,316	6,759	5,937	6,424	N/A
GEM					
Total	311	281	186	107	131
Red-chips	13.4	12.4	2.3	2.2	N/A
H-shares	7.0	8.9	4.7	3.0	N/A
Turnover (HK$ billion)					
Mainboard					
Total	16,280	21,560	26,295	21,390	32,110
Red-chips	1,565	1,916	2,168	1,757	N/A
H-shares	3,983	5,572	6,637	4,995	N/A
GEM					
Total	117	149	127	50	86
Red-chips	1.6	1.6	1.8	0.1	N/A
H-shares	5.7	7.4	2.5	2.1	N/A
Hang Seng Index (index value)	22,000.56	29,919.15	25,845.7	28,189.8	27,231.13

Source: HKEX

The total market capitalisation of the securities market as at 31 December 2020 was HK$47.5 trillion, an increase of approximately 24 per cent. compared to 31 December 2019. The Hang Seng Index ended 2020 at 27,231.13, representing a year-on-year decrease of 3 per cent. The average daily securities market turnover was HK$129.5 billion in 2020, an increase of approximately 49 per cent. from HK$87.2 billion in 2019. The average daily securities market turnover of CBBCs in 2020 was HK$9.4 billion, an increase of 16 per cent. from HK$8.1 billion in 2019. There were 154 newly listed companies in 2020 (including any transfers of listing from GEM to Main Board), a decrease of 16 per cent. from 183 (including any transfers from listing from GEM to Main Board) in 2019. Funds raised through IPOs in 2020 were HK$397.5 billion, an increase of 27 per cent. from HK$314.2 billion in 2019.

The average daily derivatives market turnover of futures and options in 2020 was 1,133,435 contracts, an increase of 6 per cent. from 1,068,641 contracts in 2019. The average daily derivatives market turnover of equity index futures in 2020 was 448,629 contracts, a decrease of 1.6 per cent. from 456,071 contracts in 2019. The average daily derivatives market turnover of Stock Futures in 2020 was 4,585 contracts, an increase of 23 per cent. from 3,729 contracts in 2019. The average daily derivatives market turnover of Stock Options in 2020 was 526,191 contracts, a decrease of 19 per cent. from 442,333 contracts in 2019. The average daily derivatives market turnover of RMB Currency Futures in 2020 was 7,117 contracts, a decrease of 11.5 per cent. from 8,042 contracts in 2019. The period end of the open interest of Hang Seng China Enterprises Index Futures in 2020 was 290,518 contracts, a decrease of 11 per cent. from 325,907 contracts in 2019.

Fund-raising Centre

In 2020, the Hong Kong Stock Exchange ranked second worldwide in terms of the IPO equity funds raised, at over HK$397 billion, representing an increase of 27 per cent. from 2019.

To facilitate listings of companies from emerging and innovative sectors, the Hong Kong Stock Exchange has revised its listing rules since 30 April 2018 to expand the existing listing regime to facilitate the listing of companies from emerging and innovative sectors, subject to appropriate safeguards. The listing regime for companies from emerging and innovative sectors allows the listing on the Main Board of pre-revenue/pre-profit biotech companies and high growth and innovative companies that have weighted voting rights structures. It also creates a new concessionary route to allow secondary listing of qualifying issuers from emerging and innovative sectors. The listing regime caters for fund-raising needs in the new economic environment and makes Hong Kong's listing platform more attractive to issuers from different jurisdictions, thereby strengthening the city's overall competitiveness vis-à-vis other major international listing venues. As at the end of September 2021, 60 companies were listed successfully on the Hong Kong Stock Exchange under the new regime.

The Hong Kong Stock Exchange will continue to review the listing rules to meet the needs of issuers and investors locally and around the globe, including conducting public consultation on the proposal of establishing a listing regime for special purpose acquisition companies in Hong Kong. It will also further attract Mainland enterprises that are interested in listing offshore by providing China Concept Stocks with a fund-raising option that faces international investors and actively consider implementing detailed measures to simplify the listing of issuers having substantial business in the Greater China area. Furthermore, it will launch a new platform called "FINI" to allow market participants and regulatory authorities to process IPOs applications simultaneously on an electronic platform to expedite the IPO process.

Regulation of Hong Kong's Securities and Futures Markets

The SFC is the statutory regulator of Hong Kong's securities and futures markets. It is an independent statutory body established in 1989 under the Securities and Futures Commission Ordinance ("**SFCO**"). The SFCO and nine other securities and futures related ordinances were consolidated into the SFO, which came into operation on 1 April 2003. The SFC is responsible for administering the laws governing the securities and futures markets in Hong Kong and facilitating and encouraging the development of these markets. The regulatory objectives of the SFC, as set out in the SFO, are:

- to maintain and promote the fairness, efficiency, competitiveness, transparency and orderliness of the securities and futures industry;

- to promote the understanding by the public of the operation and function of the securities and futures industry;

- to provide protection for members of the public investing in or holding financial products;
- to minimise crime and misconduct in the securities and futures industry;
- to reduce systemic risks in the securities and futures industry; and
- to assist the Financial Secretary in maintaining the financial stability of Hong Kong by taking appropriate steps in relation to the securities and futures industry.

Recent Developments

At the end of August 2021, there were 47,927 licensed entities, including securities brokers, futures dealers, investment and corporate finance advisers and fund managers as well as their representatives, and 113 registered institutions, such as banks, engaging in regulated activities such as dealings in and advising on securities and futures.

Statistics on licensing for SFC-regulated activities

	As at the end of					As at 31 August
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
Registered institutions. . .	121	119	117	114	112	113
Licensed entities.	42,544	44,050	46,254	47,323	47,105	47,927
Of which:						
Licensed corporations . . .	2,411	2,660	2,905	3,084	3,122	3,176
Licensed individuals	40,133	41,390	43,349	44,239	43,983	44,751

The SFC implemented a new Manager-in-Charge regime in 2017 to enhance the accountability of the senior management of licensed corporations to better align with the responsible officer regime and to promote awareness of their existing obligations and liabilities. One of the key measures under the regime is to require licensed corporations and corporate licence applicants to submit their up-to-date management structure and organisational charts to the SFC on an ongoing basis. Starting from April 2018, a registered institution is also required to submit to the HKMA and the SFC relevant information on certain members of its management team and an organisational chart depicting management and governance structure of its business in regulated activities.

In September 2017, the SFC and the Hong Kong Stock Exchange published the conclusions to their joint consultation on proposed enhancements to Hong Kong Stock Exchange's decision-making and governance structure for listing regulation. The conclusions clarified the role of the SFC as the statutory regulator which administers the SFO and the Securities and Futures (Stock Market Listing) Rules ("**SMLR**"), and which supervises, monitors and regulates the activities carried out by Hong Kong Stock Exchange, as well as Hong Kong Stock Exchange's role as the regulator administering the Listing Rules. Under the SFC's new front-loaded regulatory approach, it engages in targeted intervention at an early stage to protect markets and investors and has increased its direct presence in more serious listing matters which fall within the scope of the SFO or the SMLR.

In addition, the SFC published a joint statement with the Hong Kong Stock Exchange in IPO-related misconduct in May 2021; a statement on the SFC's approach to backdoor listings and shell activities in July 2019; a statement on the conduct and duties of directors when considering corporate acquisitions or disposals in July 2019; a guidance note on the duties of directors of listed companies and a circular to financial advisers regarding valuations in corporate transactions in May 2017; a statement on the liability of valuers for disclosure of false or misleading information in May 2017; and guidelines on the standards of conduct expected of sponsors, underwriters and placing agents for the listing and placing of new GEM stocks in January 2017.

In view of the B&R Initiative, the SFC issued a statement in April 2017 outlining factors it would take into account when reviewing the proposed listing of infrastructure project companies.

Separately, the SFC enhanced the position limit regime for futures and options contracts in June 2017 following the conclusion of a public consultation and the amendment to the subsidiary legislation.

To promote fintech development, the SFC launched its Regulatory Sandbox in September 2017 to provide a confined regulatory environment for firms to conduct regulated activities utilising fintech. Further, the SFC signed fintech cooperation agreements with the United Kingdom Financial Conduct Authority, Australian Securities and Investments Commission, Dubai Financial Services Authority, Securities Commission Malaysia, Swiss Financial Market Supervisory Authority, Abu Dhabi Global Market Financial Services Regulatory Authority, Israel Securities Authority and Canadian Securities Administrators, to provide a framework for cooperation on referrals of businesses, information sharing, etc.

On the enforcement front, the SFC took enforcement actions to maintain market integrity. In 2020, the SFC disciplined 16 licensed corporations and 19 licensed individuals, with fines totalling over HK$2,804 million. Separately, 11 individuals were prosecuted for criminal offences including insider dealing, false trading, obstruction of SFC employees in the execution of a search warrant, holding out as carrying on a business in asset management without an SFC licence, holding out as carrying on a business in dealing in futures contracts without an SFC licence and providing false or misleading information to the SFC in licence applications.

Bond Market

Hong Kong has a developed bond market. International investors are free to invest in debt instruments issued in Hong Kong. Companies in Hong Kong can finance their business by issuing various kinds of debt, either in Hong Kong dollars or foreign currencies. In the Hong Kong dollar bond market, public sector bonds include Exchange Fund Bills and Notes, the HKSAR Government bonds issued under the Government Bond Programme ("**GB Programme**") and bonds issued by statutory bodies and government-owned entities. Other bonds include those issued by Hong Kong entities such as AIs and non-bank corporations, and overseas entities such as the World Bank group and ADB.

The following table shows the outstanding amount of Hong Kong dollar debt instruments for the years 2016 to 2020 and as at 30 June 2021:

OUTSTANDING AMOUNT OF HONG KONG DOLLAR DEBT INSTRUMENTS[(1)]

	As at 31 December					As at 30 June
	2016	**2017**	**2018[(3)]**	**2019**	**2020**	**2021**
	(HK$ million)					
Exchange Fund	963,098	1,048,479	1,062,715	1,082,062	1,068,130	1,068,378
Fixed rate debt securities[(1, 2)]	640,604	641,426	922,773	921,286	996,924	1,012,825
Floating rate debt securities[(1, 3)]	126,865	112,184	133,581	162,515	223,155	198,375
Total	1,730,566	1,802,089	2,119,069	2,165,863	2,288,209	2,279,578

Notes:

1. Data sources include Bloomberg, Central Moneymarkets Unit, Dealogic and Reuters. There is a break in data series in 2018 due mainly to the inclusion of more short-term debt securities. Data prior to 2018 are not strictly comparable to more recent data.

2. Fixed rate debt securities include all kinds of fixed rate instruments normally traded in the financial markets that serve as evidence of a debt.

3. Floating rate debt securities include all kinds of floating rate instruments normally traded in the financial markets that serve as evidence of a debt.

Source: HKMA.

Over these years, the Hong Kong dollar debt market has expanded steadily. As at 30 June 2021, the outstanding amount of Hong Kong dollar debt securities stood at $2,279.6 billion, which was equivalent to 22.5 per cent. of Hong Kong dollar-denominated assets of the banking sector. Exchange Fund made up 46.9 per cent. of the total. Excluding Exchange Fund, fixed rate debt securities and floating rate debt securities accounted for 44.4 per cent. and 8.7 per cent. of Hong Kong dollar debt securities respectively.

For more information on bonds issued under the GB Programme and the Government Green Bond Programme ("**GGB Programme**"), see "*Public Finance – Government Bond Programme*" and "*Public Finance Government Green Bond Programme*" below.

Green Finance

Hong Kong's green debt market has experienced significant growth over the past few years. In 2020, green debt arranged and issued in Hong Kong reached U.S.$12 billion, with cumulative issuance amounting to over U.S.$38 billion by the end of 2020. In May 2019, the HKMA launched three sets of measures to support the development of green and sustainable finance in Hong Kong, including a three-phased approach to promote green and sustainable banking and adoption of responsible investment. The Green and Sustainable Finance Cross-Agency Steering Group ("**CASG**") was also established in May 2020 and is co-chaired by the HKMA and the SFC. It released in December 2020 its green and sustainable finance strategy for Hong Kong, setting out six key focus areas for strengthening Hong Kong's financial ecosystem to support a greener and more sustainable future in the longer term and five near-term action. In July 2021, the CASG launched the Centre for Green and Sustainable Finance to coordinate the efforts of financial regulators, government agencies, industry stakeholders and academia in capacity building, thought leadership and policy development. It will also serve as a repository for resources, data and analytics which support the transition to a more sustainable development pathway. The HKMA has also become the founding member and first regional anchor for the Asia Chapter of the Alliance for Green Commercial Banks, a new initiative launched by International Finance Corporation, a member of the World Bank Group, to help develop green commercial banks and encourage more green finance in order to address climate change.

To attract more green and sustainable financing activities to Hong Kong, the HKSAR Government launched the Green and Sustainable Finance Grant Scheme in May 2021 to cover part of the expenses onbond issuances and external review services.

The SFC has also been enhancing its efforts in green finance to align Hong Kong's regulatory standards with international best practices. In September 2018, the SFC announced its Green Finance Strategic Framework, focusing on enhancing the management and disclosure of climate-related risks by listed companies and fund managers. Upon the SFC's approval, HKEX upgraded its Environmental, Social and Governance (ESG) Reporting Guide and related Listing Rules in December 2019 to include climate-related disclosures. In view of the rapid growth of ESG funds and international regulatory developments, the SFC published a new circular in June 2021 to provide updated disclosure guidance, a new requirement for ESG funds to conduct and disclose periodic assessments and additional guidance for ESG funds with a climate-related focus. As of 1 August 2021, there are over 60 ESG funds authorised by the SFC. In August 2021, the SFC concluded its consultation paper on the management and disclosure of climate-related risks by fund managers, which proposed to require fund managers to take climate-related risks into consideration in their investment and risk management processes and to make appropriate disclosures of such. Under the proposals, the Fund Manager Code of Conduct would be amended, and a circular would be issued to set out the expected standards to adhere to with the proposed requirements. The new requirements will be implemented in phases with the first phase to begin on 20 August 2022. The SFC has also been actively participating in various regional and international fora, such as the International Platform on Sustainable Finance, the Network of Central Banks and Supervisors for Greening the Financial System and the Sustainability Task Force of the International Organization of Securities Commissions, to keep abreast with the latest market insights and build up Hong Kong's international profile on green and sustainable finance with increased visibility. The Investor and Financial Education Council, a subsidiary of the SFC, has also stepped up its capacity building efforts to educate the public about green finance.

ASSET AND WEALTH MANAGEMENT

Hong Kong is well-equipped for the asset and wealth management business in terms of market access, investor base and supporting hard and soft infrastructure. As of end of December 2020, there were 42 banks offering private banking services to clients in Hong Kong, representing an addition of 15 private banks since 2009. Fund domiciliation builds up Hong Kong's fund manufacturing capabilities by driving demand for professional services along the whole service chain, including fund management, investment advice, legal and accounting services, and sales and marketing. This allows the city to develop into an all-rounded asset and wealth management hub. At the end of 2020, the asset and wealth management business was valued at HK$34,931 billion, of which 64 per cent. came from non-local investors, indicating that investors outside Hong Kong see the city as a preferred investment platform. At the end of June 2021, there were 2,232 SFC-authorised unit trusts and mutual funds, of which 838 were domiciled in Hong Kong, up around 14 per cent. from five years ago.

On the policy front, Hong Kong has been making efforts in sharpening its competitive edge on asset and wealth management through: (a) expanding the fund distribution network by reaching mutual recognition of funds ("**MRF**") arrangements with other jurisdictions. As at June 2021, Hong Kong has MRF arrangements with Mainland China, Australia, France, Luxembourg, Malaysia, the Netherlands, Switzerland, Taiwan, the United Kingdom and Thailand; (b) diversifying the fund management platform by introducing new fund structures in the forms of open-ended fund company and limited partnership fund for private equity funds; (c) providing a more facilitating tax environment by giving profits tax exemption to publicly and privately offered eligible funds and tax concessions for carried interest issued by private equity funds operating in Hong Kong; (d) introducing a re-domiciliation mechanism for foreign funds to relocate to Hong Kong; (e) providing financial incentive to encourage open-ended fund companies and Real Estate Investment Trusts to be set up in Hong Kong; and (f) promoting family office by stepping up market outreach.

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, Qualified Foreign Institutional Investors and the RMB Qualified Foreign Institutional Investors.

FINANCIAL INFRASTRUCTURE

The HKMA plays a key role in developing a safe and efficient financial infrastructure in Hong Kong, which is essential to the stability and integrity of the monetary and financial systems. Hong Kong has developed a sound financial infrastructure expediting economic transactions and financial intermediation in the region based on a multi-currency, multi-dimensional platform, and introduced a number of improvements to further facilitate payment flows and enable banks to use liquidity more efficiently. The platform, which handles real-time transactions in major foreign currencies and the Hong Kong dollar, and covers diverse financial intermediation channels including banking, equity and debt, helps consolidate Hong Kong's position as an international financial centre. Hong Kong's financial infrastructure meets current best international standards, and closely supports the city's economic development.

In response to industry demands and international developments, new components have been added to broaden the scope and increase the depth of the financial infrastructure in Hong Kong. For example, order routing and money settlement for investment funds, a trade repository for OTC financial derivatives and retail payment infrastructure.

Financial infrastructure in Hong Kong fall into three broad types:

- payment systems for the settlement of interbank payments;
- debt securities settlement system for the settlement and custody of debt securities; and
- domestic and external system links to provide payment-versus-payment ("**PvP**") and delivery-versus-payment ("**DvP**") services, locally and across the border respectively.

Hong Kong Dollar Interbank Payment System

Introduced in 1996, the Hong Kong dollar Real Time Gross Settlement ("**RTGS**") system, also known as the Hong Kong dollar Clearing House Automated Transfer System ("**CHATS**"), enables safe and efficient settlement of interbank payments denominated in the Hong Kong dollar. Interbank payments are settled continuously on a deal-by-deal basis across the book of the HKMA without netting. In addition to settling large-value payments between banks, the system also handles bulk clearing and settlement of cheques, stock market-related payments and other small-value bulk electronic payments, such as Easy Pay System ("**EPS**"), auto-credit and auto-debit transactions, and automatic teller machine transfers. Besides providing interbank payment services, payments arising from the HKMA's monetary operations are also conducted through the Hong Kong dollar RTGS system.

The Hong Kong dollar RTGS system has a single-tier membership structure. With the Exchange Fund Ordinance providing the legal basis for access to the system, licensed banks in Hong Kong are required to join the system and maintain Hong Kong dollar settlement accounts with the HKMA. Restricted licence banks in Hong Kong may also apply to the HKMA for access to the system, and applications will be assessed against the access criteria set out in the HKMA circulars "Access to the Real Time Gross Settlement System" issued on 29 December 1999 and 19 May 2000. As an on-going effort of the HKMA to eliminate settlement risks for foreign exchange transactions, with the Financial Secretary's approval, the HKMA allowed the CLS Bank International to have limited access to the system in late 2004 to facilitate the inclusion of the Hong Kong dollar in the foreign exchange transactions to be settled through the Continuous Linked Settlement system on a PvP basis. In addition, with the Financial Secretary's endorsement, the HKMA also allowed the Hong Kong Securities Clearing Company Limited ("**HKSCC**") to open a settlement account with the HKMA in late 2020 to settle Hong Kong dollar money transactions in relation to its role as a central counterparty ("**CCP**"). HKSCC's use of the Hong Kong dollar CHATS Account for processing its CCP-related Hong Kong dollar money transactions will strengthen its risk management and align its operation with international practice and International Monetary Fund Financial Sector Assessment Program's recommendations.

To further enhance the efficiency of retail payment services, Hong Kong dollar Faster Payment System ("**FPS**") was launched on 17 September 2018 as an extension of Hong Kong dollar CHATS.

Central Moneymarkets Unit

The Central Moneymarkets Unit ("**CMU**") was established in 1990 to provide computerized clearing and settlement facilities for Exchange Fund Bills and Notes. In December 1993, the HKMA extended the service to other Hong Kong dollar debt securities. The CMU offers an efficient, safe and convenient clearing and custodian system for Hong Kong dollar debt instruments. Since December 1994 and gradually over the years, the CMU has developed external links with regional Central Securities Depositories ("**CSDs**") (in Australia, the Mainland and South Korea) and with international CSDs ("**ICSDs**", i.e. Euroclear and Clearstream) to assume a more global reach. These links allow overseas investors to hold and settle debt securities lodged with the CMU, and local investors to hold and settle debt securities lodged with overseas CSDs or ICSDs.

The CMU service was further extended to non-Hong Kong dollar debt securities in January 1996. In December 1996, a seamless interface between the CMU and the Hong Kong dollar RTGS interbank payment system was established. This enables the CMU system to provide real-time and batch DvP services to its members. The CMU was further linked to the U.S. dollar, Euro and Renminbi RTGS systems in December 2000, April 2003 and March 2006, respectively, to provide real time DvP capability for debt securities and also intraday and overnight repo facilities for the U.S. dollar and Euro and Renminbi payment systems in Hong Kong.

Bond Connect

In May 2017, the People's Bank of China ("**PBoC**") and the HKMA jointly announced their approval for Mainland and Hong Kong Financial Infrastructure Institutions to collaborate in establishing mutual bond market access between Mainland China and Hong Kong under the scheme known as Bond Connect. Bond Connect is an arrangement that will enable Mainland and overseas investors to trade, settle and hold bonds tradable in the Mainland and Hong Kong bond markets through connection between the Mainland and Hong Kong Financial Infrastructure Institutions. Bond Connect was implemented on a phased approach, with Northbound Trading and Southbound Trading launched in July 2017 and September 2021 respectively.

Bond Connect consists of a trading link and a settlement link. Under the settlement link, the CMU and two Mainland CSDs, namely the China Central Depository & Clearing Co. Ltd. and Shanghai Clearing House, have opened nominee accounts with each other to settle Bond Connect transactions and hold bonds on behalf of eligible investors.

Over-the-counter Derivatives Market Reforms

The 2008 Global Financial Crisis triggered a global movement to improve transparency and reduce counterparty risks in the OTC derivatives markets, resulting in reforms to the OTC derivatives markets on various fronts. The reform measures adopted by the international regulatory community include requiring all OTC derivatives transactions be reported to trade repositories and all standardized OTC derivatives transactions be cleared through central counterparty ("**CCP**") clearing facilities.

A trade repository is a centralised registry that maintains an electronic database of records of OTC derivatives transactions. By collecting and providing OTC derivatives transaction information to regulatory authorities, a trade repository plays a vital role in supporting authorities to carry out their market surveillance responsibilities, which will help maintain financial stability. It also helps improve market transparency, promotes standardisation and ensures availability and quality of transaction data.

To meet international standards, the HKMA announced in December 2010 to develop a trade repository in Hong Kong (the "**HKTR**"). The HKMA worked in concert with the Government and the SFC to build a regulatory regime for the OTC derivatives markets (OTC Regulatory Regime) under the SFO, including requirements for mandatory reporting to the HKTR and mandatory clearing at designated CCPs. In August 2013, the HKMA introduced interim reporting requirements to require licensed banks to report OTC derivatives transactions with another LB to the HKTR. The LegCo enacted the Securities and Futures (Amendment) Ordinance 2014 (the "**Amendment Ordinance**") on 26 March 2014. The Amendment Ordinance serves as a regulatory framework for the OTC derivatives market in Hong Kong. A set of Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping Obligations) Rules (the "**Reporting Rules**") came into effect on 10 July 2015, introducing mandatory reporting in respect of certain interest rate swaps and non-deliverable forwards. The interim reporting requirements was ceased upon the commencement of the Reporting Rules. Following the passage of the relevant rules by the LegCo in February 2016, the first phase of mandatory clearing and the second phase of mandatory reporting took effect in 1 September 2016 and 1 July 2017 respectively. The first phase mandatory clearing covered certain transactions of standardised interest rate swaps in Hong Kong dollar or one of the G4 currencies (i.e. U.S. dollar, Euro, British pound or Japanese yen). The second phase mandatory reporting covered OTC derivatives under all five key asset classes (i.e. interest rates, foreign exchange, equities, credit and commodities). To cope with evolving international and local reporting and regulatory standards, further enhancements will be made to the HKTR.

A set of Securities and Futures (OTC Derivative Transactions – Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules came into effect on 1 September 2016, introducing mandatory clearing in respect of certain standardised interest rate swaps under certain circumstances.

Cross-border Payments

In addition to the foreign currency payment systems within Hong Kong, linkages have been developed in recent years to facilitate payment flows between Hong Kong and the Mainland, as well as other countries.

Guangdong Province of the Mainland. Launched in phases since January 1998, these links cover cross-boundary RTGS payments in Hong Kong dollars and U.S. dollars, and cheque clearing in Hong Kong dollars, U.S. dollars and Renminbi, with Guangdong Province including Shenzhen. The use of these links, which helps expedite payments and remittances between Hong Kong and Guangdong, has been rising gradually with the increasing economic integration between Hong Kong and the Mainland.

Mainland. Cross-boundary payment arrangements involving the Mainland's Domestic Foreign Currency Payment System were established in March 2009 to facilitate foreign currency funding and liquidity management of Mainland banks and commercial payments. The cross-boundary payment arrangements currently cover four currencies, namely the Hong Kong dollar, U.S. dollar, Euro and British pound.

Macao. The one-way joint clearing facility for Hong Kong dollar and U.S. dollar cheques between Hong Kong and Macao was launched in August 2007 and June 2008, respectively, reducing the time required for clearing Hong Kong dollar and U.S. dollar checks drawn on banks in Hong Kong and presented in Macao from four or five days to two days.

Malaysia. A link between the Ringgit RTGS system in Malaysia (the "**RENTAS system**") and the U.S. dollar RTGS system in Hong Kong came into operation in November 2006. The link helps eliminate settlement risk by enabling PvP settlements of foreign exchange transactions in Ringgit and U.S. dollars during Malaysian and Hong Kong business hours. This is the first cross-border PvP link between two RTGS systems in the region.

Indonesia. The PvP link between Hong Kong's U.S. dollar RTGS system and Indonesia's Rupiah RTGS system was launched in January 2010. The link helps eliminate settlement risk by enabling PvP settlements of foreign exchange transactions in Rupiah and U.S. dollars during Indonesian and Hong Kong business hours.

Thailand. The PvP link between Hong Kong's U.S. dollar RTGS system and Thailand's Thai Baht RTGS system was launched in July 2014. The link helps eliminate settlement risk by enabling PvP settlements of foreign exchange transactions in Thai Baht and U.S. dollars during Thai and Hong Kong business hours.

*Continuous Linked Settlement ("**CLS**") system*. The CLS system, operated by CLS Bank International, is a global clearing and settlement system for cross-border foreign exchange transactions. It removes settlement risk in these transactions by settling them on a PvP basis. The Hong Kong dollar joined the CLS system in 2004.

Regional CHATS. This is an extension of the RTGS systems in Hong Kong in the regional context. Regional payments in Hong Kong dollars, U.S. dollars, Euros and Renminbi can use the RTGS platform in Hong Kong to facilitate cross border or cross bank transfers in those currencies.

International Cooperation

BIS Committee on Payments and Market Infrastructures – The HKMA is a member of the Bank for International Settlements (BIS) and its Committee on Payments and Market Infrastructures ("**CPMI**"). The CPMI is an international standard setter that promotes, monitors and makes recommendations about the safety and efficiency of payment, clearing, settlement and related arrangements, thereby supporting financial stability and the wider economy. The CPMI also serves as a forum for central bank cooperation in related oversight, policy and operation matters, including the provision of central bank services.

*EMEAP Working Group on Payments and Market Infrastructures ("**WGPMI**") and Working Group on Financial Markets ("**WGFM**")* – The HKMA is a member of the Executives' Meeting of East Asia-Pacific Central Banks ("**EMEAP**"), a cooperative organisation of central banks and monetary authorities in the East Asia and Pacific region. The HKMA participates in, among others, the EMEAP WGPMI, which studies the development and regulatory/supervisory/oversight issues in domestic and cross-border payments and market infrastructures in the region. The HKMA also chairs the EMEAP WGFM, which coordinates studies on central bank operations and the developments of foreign exchange, money and bond markets, as well as plays a key role in forming the Asian Bond Fund.

Retail Payment Development

Throughout the years, the HKMA continues its effort to enhance the retail payment infrastructure in Hong Kong with a view to providing the public with a wider choice of safe and efficient retail payment instruments and services to suit varying needs. These include, among others, the implementation of Electronic Cheque ("**e-Cheque**") and Electronic Bill Presentment and Payment services.

Electronic cheque

In view of the increasing popularity of Internet banking, the HKMA and the banking sector initiated the development of e-Cheques to provide a more convenient way for bank customers to issue and deposit cheques online. The e-Cheque service was launched on 7 December 2015.

e-Cheque is an electronic counterpart of paper cheque. It provides an efficient and convenient alternative for bank customers to make and receive payments without depriving their rights to use paper cheques or other payment methods. It retains all the basic features and benefits of paper cheques, provides enhanced security features and saves the need for physical delivery and physical presentment. Payment with e-Cheques will become faster, easier and entirely paperless.

To expand the scope of e-Cheque to cover cross-boundary payments, the HKMA cooperated with the Guangzhou Branch and Shenzhen Central Sub-branch of the PBoC to implement joint e-Cheque clearing between Guangdong province (including Shenzhen) and Hong Kong on 20 July 2016. Under the arrangement, e-Cheques issued by banks in Hong Kong and deposited with banks in Guangdong province (including Shenzhen) will be settled on the next business day.

Faster Payment System

To address the increasing market needs for more efficient retail payment services, the HKMA has launched the FPS on 17 September 2018. Both banks and stored value facilities ("**SVF**") in Hong Kong may participate in the FPS. It enables their customers to make cross-bank/SVF payments easily, by entering the mobile phone number or the email address of the recipient, with funds available to the recipient almost immediately. The FPS operates on 24x7 basis and supports payments in the Hong Kong dollar and the Renminbi.

THE EXCHANGE FUND

The Exchange Fund, which is under the control of the Financial Secretary, was established by the Exchange Fund Ordinance in 1935. Under the delegated authority of the Financial Secretary and within the terms of the delegation, the HKMA is responsible to the Financial Secretary for the management of the Exchange Fund. Since its establishment in 1935, the Exchange Fund has held the backing to the banknotes issued in Hong Kong. In 1976, the backing for coins issued and the bulk of the foreign currency assets held in the HKSAR Government's General Revenue Account were also transferred to the Exchange Fund. As at 31 August 2021, the Exchange Fund had total assets of HK$4,656.6 billion and an accumulated surplus of HK$823.0 billion.

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

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

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

Taking into full account of the Exchange Fund's statutory purposes, the investment objectives of the Exchange Fund are as follows: to preserve capital; to provide U.S. dollar backing to the entire Monetary Base; to ensure sufficient liquidity for the purposes of maintaining monetary and financial stability, and to achieve an investment return for the long-term. To meet these objectives, the Exchange Fund is broadly managed under three distinct portfolios, namely the Backing Portfolio, the Investment Portfolio and the 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, including both developed and emerging market economies, to preserve the value and long-term purchasing power of the assets. With the aim of diversifying risks and enhancing medium-to-long term returns, the Exchange Fund also started investing in private equity and overseas real estate under the Long-Term Growth Portfolio in 2009 in a prudent and incremental manner.

Apart from ensuring that the fund meets its statutory roles, the HKMA actively manages the fund's assets. Based on the audited financial statements for the year ended 31 December 2020, the Exchange Fund recorded an investment income of HK$235.8 billion (mainly comprising gains on bonds of HK$92.7 billion, gains on equities of HK$73.9 billion, net exchange gain of HK$9.6 billion and gains on other investments of HK$59.6 billion, but excluding a gain of HK$14.0 billion in the Strategic Portfolio). After deducting all expenses and fees, the accumulated surplus of the Exchange Fund recorded an increase of HK$93.7 billion. Based on the unaudited figures for the first half of 2021, the Exchange Fund recorded an investment income of HK$102.7 billion (mainly comprising gains on bonds of HK$1.3 billion, gains on equities of HK$58.9 billion, net exchange gain of HK$2.8 billion and gains on other investments of HK$39.7 billion, but excluding valuation changes in the Strategic Portfolio).

The investment return of the Exchange Fund was 5.3 per cent. in 2020. The average return was 4.3 per cent. over the past five years, from 2016 to 2020.

The investment return of the Exchange Fund for 2019 and 2020, 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 2020 are set out in the table below:

INVESTMENT RETURN OF THE EXCHANGE FUND[1]

	2019	2020	Compounded Annual Investment Return (1994-2020)[2]	Compounded Annual Hong Kong Composite CPI (1994-2020)[3]
Investment return in Hong Kong dollar terms	6.6%	5.3%	4.8%	2.0%

Notes:

1. Investment return calculation excludes the holdings in the Strategic Portfolio.

2. The investment returns for 2001 to 2003 are in U.S. dollar terms.

3. Composite CPI is calculated based on the 2014/2015-based CPI series.

Source: HKMA.

As at 31 August 2021, the Exchange Fund's assets amounted to HK$4,656.6 billion.

The accumulated surplus of the Exchange Fund (the "**Accumulated Surplus**") is the total net profit earned by the Exchange Fund over the years. Accordingly, when a loss is incurred in the use of the Exchange Fund, it can be offset with the Accumulated Surplus. The Accumulated Surplus as at 31 December 2020, 2019, 2018, 2017 and 2016 was HK$842.4 billion, HK$748.7 billion, HK$609.7 billion, HK$713.1 billion and HK$546.5 billion, respectively.

The currency mix of the Exchange Fund's assets as at 31 December 2020 (including forward transactions) is set out in the table below:

CURRENCY MIX OF THE EXCHANGE FUND'S ASSETS

	31 December 2020 (including forward transactions)	
	(HK$ billions)	(percentage of total)
U.S. dollar	3,829.1	85.1
Hong Kong dollar	221.0	4.9
Others[1]	449.1	10.0
Total	4,499.2	100.0

Note:

1. Other currencies included mainly Euro, Renminbi, British pound and Japanese yen.

Source: HKMA.

The foreign currency reserve assets of Hong Kong amounted to U.S.$386.3 billion, U.S.$431.4 billion, U.S.$424.6 billion, U.S.$441.4 billion and U.S.$491.9 billion as at 31 December 2016, 2017, 2018, 2019 and 2020, respectively.

PUBLIC FINANCE

The section titled "Public Finance" in the Offering Memorandum shall be deleted in its entirety and replaced with the following.

OVERVIEW

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

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

The HKSAR Government implements these constitutional provisions by striving to maintain a low and simple tax regime and exercising fiscal prudence. Consistent with these constitutional provisions, the Public Finance Ordinance ("**PFO**") stipulates a system for the control and management of Hong Kong's public finances and defines the respective powers and functions of the legislature and the executive. Pursuant to the PFO, the Financial Secretary submits to LegCo an annual set of estimates of revenue and expenditure. The estimates are developed against the background of a medium-range forecast to ensure that full regard is given to the longer-term trends in the economy. The financial year starts from 1 April and ends on 31 March.

A government department can only incur expenditure up to the amounts stated in the expenditure estimates and for the purposes approved by LegCo. If during a financial year a department needs to change the expenditure estimates and spend more money, it must obtain authorisation from LegCo or relevant authorities with delegated powers.

The HKSAR Government has a prudent fiscal policy, as demonstrated by more than 10 consecutive years of budget surpluses and an accumulation of significant fiscal reserves. However, the HKSAR Government ran fiscal deficits in 2019-20 and 2020-2021, amid the COVID-19 pandemic.

Public expenditure comprises government expenditure and expenditure by other public bodies. In 2019-20, public expenditure totalled HK$642.7 billion, an increase of 13.2 per cent. over the previous year.

Government's Financial Accounts

The HKSAR Government uses the General Revenue Account for revenue collection and day-to-day departmental expenditure. In addition, the HKSAR Government controls its other finances through a series of fund accounts established under Section 29 of the PFO of Hong Kong. The HKSAR Government also transfers amounts as necessary to and from the funds listed below.

- The Capital Works Reserve Fund is funded mainly by land premium proceeds and finances mainly public works projects, land acquisitions, capital subventions, major systems and equipment items and computerisation projects. The Financial Secretary may transfer any surplus funds to the General Revenue Account. LegCo may also approve appropriations from the general revenue to the Capital Works Reserve Fund.

- The Capital Investment Fund finances the HKSAR Government's investments through equity injections and provision of loans. It is funded by dividend, interest income and loan repayments and, where necessary, appropriation from the General Revenue Account.

- The Civil Service Pension Reserve Fund is a reserve fund for meeting payment of civil service pensions in the unlikely event that the HKSAR Government cannot meet its liabilities for such payment from the General Revenue Account. It is funded by investment income and, where necessary, appropriation from the General Revenue Account.

- The Disaster Relief Fund finances grants for humanitarian aid in relief of disasters that occur outside Hong Kong. Its funding is derived from appropriations from the General Revenue Account and investment income.

- The Innovation and Technology Fund finances projects to help promote innovation and technology upgrading in manufacturing and service industries in order to increase productivity and enhance competitiveness, to further the long-term economic development of Hong Kong. It is funded mainly from investment income and, where necessary, appropriation from the General Revenue Account.

- The Land Fund was established at the time of the establishment of the HKSAR to receive and hold all of the assets transferred from the then HKSAR Government Land Fund which was set up in 1986 by the Chinese side of the Joint Liaison Group for the purpose of holding land premium income in trust for the benefit of the HKSAR Government. With the establishment of the HKSAR Government, the HKSAR Government Land Fund assets were handed over to the HKSAR Government, which determines how the Fund's assets should be expended. The fund's income is derived from investment income.

- The Loan Fund finances loans and advances, such as student loans, made available by the HKSAR Government. It is funded by repayments of principal and interest payments from its loan portfolio and, where necessary, appropriation from the General Revenue Account.

- The Lotteries Fund finances social welfare services through grants, loans and advances. Its income is derived mainly from the proceeds of the Mark Six Lottery and investment income.

- The Bond Fund was established in connection with the GB Programme to promote the development of the bond market in Hong Kong by providing more diversified investment products. The Bond Fund is not part of the fiscal reserves and is managed separately from other HKSAR Government accounts.

In accounting terms, public expenditure is taken to include the HKSAR Government's expenditure plus expenditure incurred by the HA and trading funds. The HA, with Housing Department as its executive arm, is financially autonomous. The HKSAR Government provides the HA with capital and land on concessionary terms to build public housing for rent and for sale. The trading funds include entities such as the Hongkong Post which are self-financing and allowed to retain revenue generated to meet expenditure in providing services and to finance future expansion. The HKSAR Government subventions (grants and payments) to institutions in the private or quasi-private sectors are included as part of the public expenditure, but not spending by organisations in which the HKSAR Government only has an equity stake (such as MTRCL and the AA). Similarly, debt repayments and equity payments are excluded as they do not reflect the actual consumption of resources by the HKSAR Government.

MANAGEMENT OF EXPENDITURE AND REVENUE

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

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

The relevant figures are summarised below:

HKSAR GOVERNMENT CONSOLIDATED BALANCE

	Fiscal Year	
	2019-20	**2020-21**
	(HK$ billions)	
Government Expenditure after repayment of bonds and notes . . .	609.3	816.0
Government Revenue including net proceeds from issuance of bonds and notes.	598.7	583.5
Surplus/(deficit) after issuance/repayment of bonds and notes . . .	(10.6)	(232.5)

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

ACCRUAL AND CASH-BASED ACCOUNTS

The HKSAR Government's budget and core accounts are prepared on a cash basis. In addition, accrual-based consolidated accounts are made publicly available. The reporting entities in the accrual-based accounts include not only the General Revenue Account and the funds established under the PFO of Hong Kong, but also other funds established by the HKSAR Government for specific purposes, such as the Quality Education Fund, the HA, government business enterprises (such as the AA and the MTRCL) and the Exchange Fund, through which most of the HKSAR Government's financial assets are held.

Under the Audit Ordinance of Hong Kong, the Director of Accounting Services is required to submit to the Director of Audit, within five months from the fiscal year end, a statement of the assets and liabilities as well as an annual statement of the receipts and payments in respect of the General Revenue Account and each of the funds established under Section 29 of the PFO of Hong Kong other than the Lotteries Fund, which is audited separately. The Director of Audit issues his report on the financial statements prepared on a cash basis by around October of each year. The accounts prepared on an accrual basis are not subject to an audit.

THE HKSAR GOVERNMENT REVENUE AND EXPENDITURE

The HKSAR Government's revenues are principally derived from taxes, while its expenditures are principally for economic, social welfare, education and health. Since the onset of the COVID-19 pandemic, a heightened portion of the HKSAR Government's expenditures have related to various relief measures of an unprecedented scale implemented to support enterprises and individuals and to safeguard jobs, including the HK$10,000 Cash Payout Scheme, the HK$5,000 Consumption Voucher Scheme and the provision of wage subsidies through the Employment Support Scheme. As of 31 March 2021, the HKSAR Government has committed over HK$300 billion, equivalent to about 11 per cent. of Hong Kong's GDP, for the four rounds of Anti-epidemic Fund relief measures and the implementation of the one-off relief measures.

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				
	2016-17	**2017-18**	**2018-19**	**2019-20**	**2020-21**
			(HK$ millions)		
Revenue					
Operating revenue					
Internal revenue					
Earnings and profits tax	206,907	208,729	236,353	214,119	220,818
Stamp duties	61,899	95,173	79,979	67,198	89,045
Bets and sweeps tax	21,119	21,959	22,194	22,012	20,877
Air passenger departure tax	2,598	2,737	2,881	2,347	101
Utilities, fees and charges	16,975	20,266	20,668	16,028	13,959
General rates	21,250	22,203	17,167	20,980	19,044
Duties	10,254	10,701	10,636	11,391	11,852
Motor vehicle taxes	7,814	8,594	9,432	7,219	6,594
Other revenue	62,911	52,397	55,106	72,560	77,015
Total Operating Revenue	411,727	442,759	454,416	433,854	459,305
Capital revenue (including net proceeds from issuance of bonds and notes)	161,397	177,078	145,358	164,901	124,229
Total revenue (including net proceeds from issuance of bonds and notes)	573,124	619,837	599,774	598,755	583,534
Expenditure					
Operating expenditure					
Recurrent Expenditure					
Personal emoluments	71,775	74,567	79,264	87,490	87,617
Personal-related expenses	6,725	7,445	8,335	9,412	10,174
Pensions	31,948	34,410	36,784	38,648	42,689
Departmental expenses	30,163	31,366	34,725	40,818	45,155
Other charges	69,052	69,307	83,295	84,432	93,083
Subventions	134,975	144,717	160,587	177,960	188,376
Non-recurrent expenditure	8,618	9,085	29,455	84,451	251,950
Total operating expenditure	353,256	370,897	432,445	523,211	719,044
Capital expenditure (after repayment of bonds and notes)	108,796	99,966	99,380	86,119	97,031
Total expenditure (after repayment of bonds and notes)	462,052	470,863	531,825	609,330	816,075

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

PUBLIC EXPENDITURE

As set out in the Appendix to the 2021-22 Budget Speech, the general principle of expenditure policy is that, over time, the growth rate of expenditure should be commensurate with the growth rate of the economy.

REVENUE SOURCES

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

The HKSAR Government earns tax revenue as well as non-tax revenue, all as shown in the table below:

HKSAR GOVERNMENT REVENUES BREAKDOWN

	Fiscal Year				
	2016-17	**2017-18**	**2018-19**	**2019-20**	**2020-21**
	(percentage of total)				
Tax Revenue	60.7	61.6	65.1	59.0	64.5
Earnings and profits tax	36.1	33.7	39.4	35.8	37.9
Profits tax	24.3	22.4	27.8	26.0	23.2
Salaries tax	10.3	9.8	10.0	8.4	12.9
Personal assessment	0.9	0.9	1.0	0.9	1.1
Property tax	0.6	0.6	0.6	0.5	0.7
Indirect Tax	24.6	27.9	25.7	23.2	26.6
Air passenger departure tax	0.5	0.4	0.5	0.4	–
Bets and sweeps tax	3.7	3.6	3.7	3.7	3.6
Duties	1.8	1.7	1.8	1.9	2.0
Fees and charges (tax-loaded)	0.9	1.3	1.3	0.8	0.7
General rates	3.7	3.6	2.9	3.5	3.3
Motor vehicle taxes	1.4	1.4	1.6	1.2	1.1
Royalties and Concessions	1.8	0.5	0.6	0.5	0.6
Stamp duties	10.8	15.4	13.3	11.2	15.3
Non-Tax Revenue	39.3	38.4	34.9	41.0	35.5
Fees and charges (non tax-loaded)	1.3	1.2	1.4	1.2	1.0
Investment income and interest	3.6	3.5	6.7	8.1	9.0
Land premium	22.3	26.6	19.5	23.7	15.2
Properties and investments	5.3	4.5	3.1	4.2	4.2
Utilities	0.8	0.7	0.7	0.6	0.6
Other income(1)	6.0	1.9	3.5	3.2	5.5
Total revenue	100.0	100.0	100.0	100.0	100.0

Note:

1. Other income includes fines, forfeitures and penalties; and loans, reimbursements, contributions and other receipts of the General Revenue Account, and also other revenue from various funds.

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

Profits Tax

Profits tax is charged on all profits (excluding profits arising from the sale of capital assets) arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong. The two-tiered profits tax regime has taken effect from the year of assessment 2018/19. The tax rate for the first HK$2 million of assessable profits of corporations is lowered from 16.5 per cent. to 8.25 per cent. Profits above that amount will continue to be subject to the tax rate of 16.5 per cent. For unincorporated businesses, the two-tiered tax rates are correspondingly set at 7.5 per cent. and 15 per cent. Assessable profits are determined from the profits made in the relevant accounting year for each year of assessment. There is no withholding tax on dividends paid by corporations, and dividends received from corporations are exempt from tax.

In 2019-20, the HKSAR Government received approximately HK$155.9 billion in profits tax, or approximately 26.0 per cent. of total revenue. In 2020-21, the HKSAR Government received approximately HK$135.5 billion in profits tax, or approximately 23.2 per cent. of total revenue.

Land Premium

Land premium consists of revenue generated from (i) sales by public auction and tender, (ii) modification of existing leases, exchanges and extensions, (iii) private treaty grants and (iv) fees received in respect of short term waivers of land use restrictions. Land premium is credited to the Capital Works Reserve Fund. Land premium contributed HK$141.7 billion, or 23.7 per cent. of total revenue in 2019-20 and HK$88.7 billion or 15.2 per cent. of total revenue in 2020-21.

Salaries Tax

Salaries tax is charged on most but not all incomes from employment, offices and pension arising in or derived from Hong Kong. Tax payable is calculated on a sliding scale which varies from 2 per cent. to 17 per cent. on every HK$50,000 increment of income (after deductions and allowances) in the year of assessment 2018/19 onwards until superseded. The total tax is restricted to a maximum of 15 per cent. standard rate of net income (before deduction of allowances). Salaries tax contributed HK$50.4 billion, or 8.4 per cent. of total revenue, in 2019-20 and HK$75.0 billion, or 12.9 per cent. of total revenue in 2020-21.

Stamp Duties

Stamp duty is imposed on different types of documents relating to transactions of immovable property, leases and share transfers. For the sale or transfer of immovable property, stamp duties are assessed based on the consideration or value of the property (whichever is the higher) and consist of (i) an ad valorem stamp duty, (ii) an additional special stamp duty introduced in November 2010 for residential properties bought and resold within 24 or 36 months and (iii) a buyer's stamp duty introduced in October 2012 for the acquisition of residential properties. The HKSAR Government has adjusted downwards the ad valorem stamp duty applicable to non-residential property transactions from 1.5 per cent. to 8.5 per cent. of the consideration or value of the property (whichever is the higher) to HK$100 to 4.25 per cent. of the consideration or value of the property (whichever is the higher) with effect from 26 November 2020. Stamp duties on leases depend upon the term of the lease and the amount of rent. Stamp duties for transfers of Hong Kong stock vary depending on the consideration or value of the stock (whichever is the higher). The HKSAR Government has raised the rate of stamp duty on stock transfers, from 0.1 per cent. to 0.13 per cent. of the consideration or value of each transaction payable by buyers and sellers respectively, with effect from 1 August 2021. The revenue from stamp duties accounted for HK$67.2 billion, or 11.2 per cent. of total revenue, in 2019-20, and HK$89.0 billion, or 15.3 per cent. of total revenue, in 2020-21.

Other Revenue

Other tax revenue sources include, among others, property tax, personal assessment, bets and sweeps tax, duties assessed on certain commodities, general rates, and motor vehicles taxes. The HKSAR Government also derives revenue from non-tax sources. These include, among others, fees and charges, investment income and interest, properties and investments and utilities.

GOVERNMENT INDEBTEDNESS AND CONTINGENT LIABILITIES

Indebtedness

Government debt does not include bonds issued under the GB Programme. For more information see "*Public Finance – Government Bond Programme*" below.

On an accrual basis, the HKSAR Government held HK$2,160.1 billion in consolidated net assets as at 31 March 2020. These net assets were represented by three reserves: General Reserve of HK$1,000.8 billion, Exchange Fund Reserve of HK$636.5 billion and Capital Expenditure Reserve of HK$522.8 billion.

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

Government Bond Programme

The GB Programme is an initiative of the HKSAR Government to promote the further and sustainable development of the local bond market. Through the GB Programme, the HKSAR Government aims to increase the breadth and depth of the local bond market so that the bond market can complement the equity market and the banking sector to serve as an effective channel of financial intermediation. The development of a mature local bond market will also help promote the efficient allocation of funds, thereby promoting financial stability, strengthening Hong Kong's status as an international financial centre and promoting economic development. Pursuant to a resolution passed by LegCo in July 2021, the HKSAR Government is authorised to borrow up to a maximum principal amount outstanding at any time of HK$300 billion or equivalent under the GB Programme. Further increases to the maximum amount would require LegCo approval.

The HKSAR Government maintains a strong fiscal position. The GB Programme is designed to issue government bonds in a systematic and consistent manner. Under the GB Programme, the HKSAR Government is not subject to any rigid issuance target and can flexibly determine the size and tenor of individual government bond issues, subject to prevailing market conditions and demand.

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

Outstanding Bonds under the Government Bond Programme (as at end of August 2021)

Expected maturity date	Original maturity	Coupon	Outstanding size
		(per cent. p.a.)	(HK$ bn)
December 2021	3-year	Floating	2.9
May 2022	5-year	1.16	9.0
July 2022	3-year	Floating	2.9
January 2023	10-year	1.10	17.8
October 2023	3-year	0.51	4.0
November 2023	3-year	Floating	15.0
December 2023	3-year	Floating	14.9
April 2024	3-year	0.36	4.0
June 2024	3-year	Floating	20.0
August 2024	10-year	2.22	9.5
August 2024	3-year	Floating	30.0
January 2026	10-year	1.68	10.9
June 2027	10-year	1.25	3.6
January 2029	10-year	1.97	4.7
July 2030	15-year	2.13	5.2
March 2032	15-year	1.89	4.1
March 2034	15-year	2.02	3.2
March 2036	15-year	1.59	1.0
Total			162.7

Source: HKMA.

Note: In addition, the HKSAR Government issued three Islamic bonds under the GB Programme, each with an issuance size of U.S.$1 billion in 2014 (matured in September 2019), 2015 (matured in June 2020) and 2017. The 2014 and 2015 issuances were 5-year tenors while the 2017 issuance was a 10-year tenor. As at 31 August 2021, the 2017 issuance was outstanding.

Government Green Bond Programme

The GGB Programme is an initiative of the HKSAR Government to promote the development of green finance in Hong Kong by encouraging issuers to arrange financing for their green projects through Hong Kong's capital markets. Sums raised under the GGB Programme will be credited to the Capital Works Reserve Fund for funding projects with environmental benefits to demonstrate the HKSAR Government's support for sustainable development and its determination to combat climate change, and promote the development of green finance. Pursuant to a resolution passed by LegCo in November 2018, the HKSAR Government is authorised to borrow up to a maximum principal amount outstanding at any time of HK$100 billion or equivalent under the GGB Programme. The borrowing ceiling has since been raised to HK$200 billion or equivalent pursuant to a resolution passed by LegCo in July 2021, giving the HKSAR Government more room for piloting the issuance of green bonds that involves more types of currencies, project types and issuance channels, thereby enriching the green finance ecosystem in Hong Kong. The HKSAR Government also plans to issue retail green bonds for the participation of the general public. As at end of September 2021, a total of U.S.$3.5 billion of green bonds were issued and are outstanding under the GGB Programme. The Notes are issued under the GGB Programme.

Contingent Liabilities

As at 31 March 2021, the HKSAR Government had the following contingent liabilities:

	(HK$ millions)
Guarantees provided under the SME Financing Guarantee Scheme – 100% Guarantee Product	45,413
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	37,468
Guarantees provided under the SME Financing Guarantee Scheme – Special Concessionary Measures	27,546
Legal claims, disputes and proceedings	6,346
Subscription to callable shares in the Asian Development Bank	6,054
Guarantees provided under the SME Financing Guarantee Scheme – 90% Guarantee Product	5,312
Subscription to callable shares in the Asian Infrastructure Investment Bank	4,800
Guarantees provided under the SME Loan Guarantee Scheme	3,141
Guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation	947
Guarantees provided under the Special Loan Guarantee Scheme	230
Total	137,257

FISCAL RESERVES

The total balance of the General Revenue Account and the eight funds (Capital Works Reserve Fund, Capital Investment Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund) constitute the fiscal reserves. Fiscal reserves stood at HK$1,160.3 billion and HK$927.8 billion as at 31 March 2020 and 31 March 2021 respectively.

Fiscal reserves are placed with the Exchange Fund for investment purposes. Effective from 1 January 2016, the investment income of the fiscal reserves for any given year is calculated on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year Government Bonds for the previous year subject to a minimum of zero per cent, whichever is the higher.

The following table sets forth the fiscal reserves for the periods indicated:

HKSAR GOVERNMENT FISCAL RESERVES

	Fiscal Year				
	2016-17	2017-18	2018-19	2019-20	2020-21
	(HK$ billions, except percentages)				
Fiscal reserves as at 31 March	954.0	1,102.9	1,170.9	1,160.3	927.8
Fiscal reserves (as percentage of GDP)	38.3	41.5	41.3	40.8	34.5

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

OTHER DEVELOPMENTS

The section titled "Recent Developments" in the Offering Memorandum shall be deleted in its entirety and replaced with the following.

Hong Kong's Climate Action Plan 2050

In July 2021, the HKSAR Government set up the new Steering Committee on Climate Change and Carbon Neutrality. It replaced the Steering Committee on Climate Change in overseeing climate strategies and actions, and will bring them to the highest level for deliberation and decision-making.

In October 2021, the HKSAR Government announced Hong Kong's Climate Action Plan 2050, setting out the vision of "Zero-carbon Emissions-Liveable City-Sustainable Development", and outlining the strategies and targets for combating climate change and achieving carbon neutrality. To achieve the carbon neutrality target, the Chief Executive announced in the 2021 Policy Address that Hong Kong's Climate Action Plan 2050 would set out more proactive strategies and measures on reducing carbon emissions, and would pursue more vigorous interim decarbonisation targets to reduce Hong Kong's carbon emissions by 50 per cent. before 2035 as compared to the 2005 level. Leading Hong Kong towards the goal of carbon neutrality, the new plan outlines the four major decarbonisation strategies and measures, namely net-zero electricity generation, energy saving and green buildings, green transport and waste reduction. The Environment Bureau will also set up a new Office of Climate Change and Carbon Neutrality to strengthen co-ordination and promote deep decarbonisation.

Financial results for the six months ended 30 September 2021

Expenditure for the period April to September 2021 amounted to HK$316.0 billion and revenue HK$200.3 billion, resulting in a cumulative year-to-date deficit of HK$115.7 billion.

The cumulative year-to-date deficit for the period was mainly due to the fact that some major types of revenue, including salaries and profits taxes, are mostly received towards the end of a financial year.

The fiscal reserves stood at HK$812.1 billion as 30 September 2021.

CONSOLIDATED ACCOUNT[(1)]

	Month ended 30 September 2021	Six months ended 30 September 2020	Six months ended 30 September 2021
		(HK$ millions)	
Revenue	23,554.5	147,956.0	200,261.2
Expenditure	(63,310.4)	(427,788.9)	(315,969.9)
Deficit	(39,755.9)	(279,832.9)	(115,708.7)
Financing			
Domestic			
Banking Sector[(2)]	39,656.4	277,427.2	114,412.9
Non-Banking Sector	99.5	2,405.7	1,295.8
External	–	–	–
Total	39,755.9	279,832.9	115,708.7

Notes:

1. This account consolidates the General Revenue Account and the following eight funds: Capital Works Reserve Fund, Capital Investment Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund. It excludes the Bond Fund, the balance of which is not part of the fiscal reserves. The Bond Fund balance as at 30 September 2020 and 30 September 2021 amounted to HK$119,269 million and HK$196,149 million respectively.

2. Includes transactions with the Exchange Fund and resident banks.

	As at 30 September	
	2020	2021
	(HK$ millions)	
Government Debt	7,750[(1)]	27,251[(2)]
Debts Guaranteed by Government[(3)]	59,825.8	108,751.5

Notes:

1. These were the Green Bonds of U.S.$1,000 million (equivalent to HK$7,750 million as at 30 September 2020) which were denominated in U.S. dollars with maturity in May 2024. They do not include the outstanding bonds with nominal value of HK$89,526 million and alternative bonds with nominal value of U.S.$1,000 million (equivalent to HK$7,750 million as at 30 September 2020) issued under the Government Bond Programme (with proceeds credited to the Bond Fund). Of these bonds under the Government Bond Programme (including Silver Bonds with nominal value of HK$5,926 million, which may be redeemed before maturity upon request from bond holders), bonds with nominal value of HK$24,000 million will mature within the period from October 2020 to September 2021 and the rest within the period from October 2021 to March 2034.

2. These were the Green Bonds of U.S.$3,500 million (equivalent to HK$27,251 million as at 30 September 2021) including U.S.$1,000 million and U.S.$2,500 million issued under the Government Green Bond Programme in May 2019 and February 2021 respectively, which were denominated in US dollars with maturity from May 2024 to February 2051. They do not include the outstanding bonds with nominal value of HK$163,696 million and alternative bonds with nominal value of U.S.$1,000 million (equivalent to HK$7,786 million as at 30 September 2021) issued under the Government Bond Programme (with proceeds credited to the Bond Fund). Of these bonds under the Government Bond Programme (including Silver Bonds with nominal value of HK$50,696 million, which may be redeemed before maturity upon request from bond holders), bonds with nominal value of HK$14,830 million will mature within the period from October 2021 to September 2022 and the rest within the period from October 2022 to March 2036.

3. Includes guarantees provided under the SME Loan Guarantee Scheme launched in 2001, the Special Loan Guarantee Scheme launched in 2008, the SME Financing Guarantee Scheme launched in 2012 and a commercial loan of the Hong Kong Science and Technology Parks Corporation.

	Month ended 30 September	Six months ended 30 September	
	2021	2020	2021
		(HK$ millions)	
Fiscal Reserves at start of period	851,814.2	1,160,307.8	927,767.0
Consolidated Deficit	(39,755.9)	(279,832.9)	(115,708.7)
Fiscal Reserves at end of period[(1)]	812,058.3	880,474.9	812,058.3

Notes:

1. Includes HK$219,691 million being the balance of the Land Fund held in the name of “Future Fund”, for long-term investments initially up to 31 December 2025. The Future Fund also includes HK$4,800 million, being one-third of the actual surplus in 2015-16 as top-up.

Other Information

The Hong Kong economy is on the path to recovery alongside the improving global economic conditions and receding local epidemic. According to the latest estimates, real GDP sustained notable year-on-year growth of 7.6 per cent. in the second quarter of 2021, having expanded by 8.0 per cent. in the first quarter. Barring any abrupt worsening in global economic conditions due to the pandemic developments, this growing trend is expected to continue. For more information, see "*Risk Factors – Risks related to recent developments*."

The HKSAR Government has also publicly denounced the following:

- Between August 2020 and March 2021, the U.S. Department of the Treasury's Office of Foreign Assets Control identified several officials of the HKSAR Government as persons on the Specially Designated Nationals And Blocked Persons List pursuant to The President's Executive Order EO 13936.

GENERAL INFORMATION

The section titled "General Information – Authorisation" in the Offering Memorandum shall be deleted in its entirety and replaced with the following.

AUTHORISATION

The establishment and maintenance of the Programme was authorised under the Resolution of the Legislative Council (Capital Works Reserve Fund) (21 July 2021) of the Hong Kong Special Administrative Region of the People's Republic of China (Cap. 61H) made and passed under section 3(1) of the Loans Ordinance (Cap. 61) on 21 July 2021 (which replaced the Resolution of the Legislative Council of the Hong Kong Special Administrative Region of the People's Republic of China (Cap. 61F) made and passed under section 3(1) of the Loans Ordinance (Cap. 61) on 15 November 2018).

The section titled "General Information – No Significant Change" in the Offering Memorandum shall be deleted in its entirety and replaced with the following.

NO SIGNIFICANT CHANGE

There has been no significant change in the financial or trading position of the Issuer since 31 March 2021.

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