

IMPORTANT

Investors should read the Information Memorandum before deciding whether to buy the Notes.

Investors are advised to seek independent advice from financial consultants, legal advisers, professional accountants or other professional advisers, as appropriate, on the risks of investment in the Notes before making their investment decisions.

Investors must decide themselves whether the Notes meet their investment needs.

Exchange Fund Notes are not available to US persons or residents of Canada.

Summary of the Terms of the Notes

Issuer	The Hong Kong Special Administrative Region Government (the “Hong Kong Government”) for the account of the Exchange Fund.
Currency	Hong Kong dollar.
Method of Sale	By competitive tender on a bid-price basis or by non-competitive tender, in each case subject to a minimum bid of HK\$50,000. Each tender bid must be for an integral multiple of the minimum denomination of Notes. Applicants submitting bids in a competitive tender must indicate the quantity of Notes applied for and the bid price. Applicants submitting bids in a non-competitive tender only need to indicate the quantity of Notes for which they are applying. Successful bidders in a competitive tender will be allotted Notes at the price which they bid. Successful bidders in a non-competitive tender will be allotted Notes at the lowest accepted price of the successful competitive tender bids.
Form of Notes	Computerized book entry form in Securities Accounts maintained with the Monetary Authority. Notes will be issued in denominations of HK\$50,000 each and higher integral multiples thereof.
Maturities	The maturity date of each issue of Notes will be announced in advance of each tender.
Interest Rate	Each issue of Notes will bear a fixed interest rate announced in advance of each tender.
Interest Payment	Interest will be paid semi-annually in arrears according to the actual number of days in an interest period and on the basis of a 365-day year.
Interest Period	The first interest period shall be the period from and including the issue date to but excluding the first interest payment date. Thereafter interest periods will run from and including each interest payment date to but excluding the next interest payment date.
Tender Arrangements	Competitive tenders must be submitted through Recognized Dealers which are also appointed as Eligible Market Makers by 10:30 a.m. on the relevant tender day. Non-competitive tenders, which are open to Hong Kong Securities Clearing Company Limited (“HKSCC”), must be submitted through HKSCC, by 10:30 a.m. on the relevant tender day. Non-competitive tenders, which are open to Recognized Dealers appointed as Retail Exchange Fund Notes Distributors, must be submitted through such Recognized Dealers by 12:00 noon on the business day falling immediately before the relevant tender day. Tender results will be announced not later than 3:00 p.m. on the relevant tender day.
Underwriting Arrangements	Recognized Dealers which are also appointed as Eligible Market Makers may be required by the Monetary Authority to subscribe for Notes which have not otherwise been subscribed pursuant to valid tenders.

Settlement	Settlement will be effected on the first business day immediately following the relevant tender day.
Repayment	The Notes will be redeemed at par on their respective maturity dates.
Status	The Notes will constitute direct, unsecured, unconditional and general obligations of the Hong Kong Government for the account of the Exchange Fund and will rank pari passu with all other unsecured indebtedness of the Hong Kong Government for the account of, and payable from, the Exchange Fund from time to time outstanding.
Legal Title	Legal title to Notes is vested in the holder of the Securities Account, to which the relevant Notes are credited, maintained with the Monetary Authority.
Taxation	The Notes are exempt from profits tax and stamp duty in Hong Kong.
Governing Law	The laws of Hong Kong.
Listing	The Stock Exchange of Hong Kong Limited.
Secondary Market	Recognized Dealers which are also appointed as Market Makers have undertaken to quote bid and offer prices for Notes during normal moneymarket hours (9:00 a.m. to 12:00 noon and 2:00 p.m. to 4:00 p.m. Monday to Friday).
Issuing Agent	Monetary Authority.
Paying Agent	Monetary Authority.

This Information Memorandum is published in English and Chinese. The English version shall be the authoritative version for the purpose of interpretation of words and expressions used in this Information Memorandum whereas the Chinese version is intended merely for ease of reference. In the event of any inconsistency between the English version and the Chinese version of this Information Memorandum, the English version shall prevail.

Hong Kong Special Administrative Region Government Exchange Fund Notes

Introduction

On 3 March 1993, the Financial Secretary announced in the 1993/94 Budget Speech that it was his intention to replace the Government Bond Programme with the Exchange Fund Notes Programme. Exchange Fund Notes (“Notes”) are issued under the Exchange Fund Ordinance (Chapter 66 of the Laws of Hong Kong) and for the account of the Exchange Fund.

2. Currently Notes of two years, three years, five years, seven years, ten years and fifteen years to maturity are being issued at such times as the Monetary Authority may determine. Notes of other maturities may be offered from time to time at the discretion of the Financial Secretary. The specific amounts and maturity dates of Notes on offer through competitive or non-competitive tender on any given tender day will be announced at least four business days in advance of that tender day. In this Information Memorandum, any reference to a business day shall not include a Saturday.

3. This Information Memorandum sets out the relevant details of the Notes programme, including the tender arrangements and the procedures for application, payment and settlement. It also describes the arrangements envisaged for promoting secondary market liquidity in the Notes. These arrangements will be kept under regular review and a further Information Memorandum (or supplements to this Information Memorandum) will be issued if material changes are made.

Description of the Notes

4. The Notes will be issued by the Hong Kong Government for the account of the Exchange Fund under the Exchange Fund Ordinance (Chapter 66 of the Laws of Hong Kong).

5. Notes with a maturity of two years and upwards may be issued under this programme. Notes with a maturity shorter than 2 years may be issued from time to time at the discretion of the Financial Secretary. The Notes will be issued in denominations of HK\$50,000 each and higher integral multiples thereof as described in more detail in the section on tender arrangements.

Status

6. The Notes will constitute direct, unsecured, unconditional and general obligations of the Hong Kong Government for the account of the Exchange Fund and will rank *pari passu* with all other unsecured indebtedness of the Hong Kong Government for the account of, and payable from, the Exchange Fund from time to time outstanding and without preference for one over the other by reason of priority of date of issue or otherwise. Information about the Exchange Fund is included in Annex A of this Information Memorandum.

Taxation

7. The Notes are exempt from profits tax and stamp duty in Hong Kong.

Currency

8. The Notes will be denominated in Hong Kong dollars. All payments in respect of subscription, redemption and interest will be made in Hong Kong dollars.

Form of the Notes

9. The minimum denomination of Notes is HK\$50,000. Notes will be issued in computerized book entry form only, through Securities Accounts maintained with the Monetary Authority. The Monetary Authority will operate Securities Accounts for Recognized Dealers and others through Recognized Dealers on request (see paragraph 54). Instructions to debit/credit the Securities Accounts to effect secondary market transactions will be accepted only through Recognized Dealers.

Interest

10. Each issue of Notes will bear a fixed rate of interest which will be announced in advance of each tender. Interest, rounded to the nearest cent (half a cent being rounded upwards) and calculated on the actual number of days in an interest period (being a period from and including an interest payment date (or in the case of the first interest period, the issue date of the relevant Notes) to but excluding the next interest payment date) (as may be adjusted in the manner described in paragraph 37) and on the basis of a 365-day year, will be paid semi-annually in arrears.

Redemption

11. The Notes will be redeemed at par at maturity in the manner described in the section of this Information Memorandum on settlement arrangements.

Governing Law

12. The Notes will be governed by and construed in accordance with the laws of Hong Kong.

Tender arrangements

13. Tenders will be held at such time as the Monetary Authority may determine. If for any reason (e.g. typhoon) the tender day is not a business day, tenders will be held on the immediately succeeding business day (which shall then be regarded as the tender day). At least four business days in advance of each tender day, the Monetary Authority will announce the amount(s) on offer through competitive or non-competitive tender, the issue date(s), the maturity date(s) and the interest rate(s) of the Notes on offer. The announcement will be published on the Reuters screen (HKMAOOD), Bloomberg and in the press, or by any other means specified by the Monetary Authority. Applicants for Notes (including institutional and individual applicants) may apply through both competitive and non-competitive tender held on the same tender day but Recognized Dealers are not permitted to apply for Notes for themselves, directly or indirectly through other Recognized Dealers, in non-competitive tenders.

Competitive Tender Procedure

14. Tenders will be open only to Eligible Market Makers. Anyone wishing to apply for the Notes on offer through the competitive tender procedure can only do so through an Eligible Market Maker.

15. All tenders must be made in a form similar to the sample which is at Annex B of this Information Memorandum or in any other form prescribed by the Monetary Authority. Tenders must reach the Monetary Authority not later than 10:30 a.m. Hong Kong time on the tender day. They should be transmitted via a Central Moneymarkets Unit Member Terminal ("CMT"), tested facsimile or tested telex using the numbers already provided to Eligible Market Makers or by any other means as may be advised by the Monetary Authority. All tenders submitted in a competitive tender will be binding and will not be revocable from 10:30 a.m. on the tender day.

16. Tenders must be made on a bid-price basis, subject to a minimum bid of HK\$50,000 each. Tenders above this minimum must be in integral multiples of HK\$50,000.

17. Applicants will be required to state in the tender the price (P_0), expressed as a percentage and rounded to two decimal places, and the nominal amount of Notes (F_0) tendered for at that price. The amount of payment (A_0) to be effected on settlement day should be calculated by the following formula :

$$A_0 = F_0 \times P_0$$

18. Tenders accepted will normally be allotted in descending order of price bid from the highest to the lowest accepted price. Applicants whose tenders are accepted will be allotted at the price at which they tendered. Subject to paragraph 24, tenders which are accepted and which are above the lowest accepted price will be allotted in full; those which are accepted and which are at the lowest accepted price may be allotted in full or in part only. In the case of allotment in part, a calculation will be made of the amount of Notes available for allotment at the lowest accepted price as a percentage (the "pro-rata percent") of the total amount of Notes applied for at that price. As far as possible the pro-rata percent will be applied to the amount of Notes tendered

for by each applicant at the lowest accepted price and the result rounded down to the nearest multiple of HK\$50,000.

Non-competitive Tender Procedure

19. The Monetary Authority may reserve a portion of any issue of Notes for offer on a non-competitive tender basis, through HKSCC which is a Recognized Dealer. All applicants for these Notes must submit tender bids through HKSCC. In addition, the Monetary Authority may reserve an additional portion of any issue of Notes for offer on a non-competitive tender basis under the Retail Exchange Fund Notes Programme. Non-competitive tenders in respect of Notes available under the Retail Exchange Fund Notes Programme will be open only to Recognized Dealers which are also appointed by the Monetary Authority as Retail Exchange Fund Notes Distributors. All applicants must therefore submit tender bids in respect of these Notes through a Retail Exchange Fund Notes Distributor (a list of Recognized Dealers with indication for those also acting as Retail Exchange Fund Notes Distributors, as at 30 September 2008, is included at Annex D of this Information Memorandum and an updated list will be available on the Hong Kong Monetary Authority's website). Accordingly, references in this Information Memorandum to Recognized Dealers in the context of the non-competitive tender procedure and the settlement arrangements therefor shall, where the context so permits, be references to those Recognized Dealers which are appointed as Retail Exchange Fund Notes Distributors and HKSCC (as the case may be) (provided however that for the avoidance of doubt the references to Recognized Dealers in the prohibition in paragraphs 13 and 40 shall be references to all Recognized Dealers and not just to Retail Exchange Fund Notes Distributors and HKSCC). For non-competitive tenders which are open to Retail Exchange Fund Notes Distributors, only one non-competitive bid may be submitted for the benefit of any one person through the same Retail Exchange Fund Notes Distributor. Multiple applications or suspected multiple applications in a non-competitive tender made through the same Retail Exchange Fund Notes Distributor are liable to be rejected by the Retail Exchange Fund Notes Distributor.

20. HKSCC must submit non-competitive tenders in a form similar to the sample at Annex C of this Information Memorandum or in any other form prescribed by the Monetary Authority. Tenders must reach the Monetary Authority not later than 10:30 a.m. Hong Kong time on the tender day. They should be transmitted via a CMT, tested facsimile or tested telex using the numbers already provided to HKSCC or by any other means as may be advised by the Monetary Authority. All tenders submitted in a non-competitive tender will be binding and will not be revocable from 10:30 a.m. on the tender day.

21. Retail Exchange Fund Notes Distributors must submit non-competitive tenders in a form similar to the sample at Annex C of this Information Memorandum or in any other form prescribed by the Monetary Authority. Tenders must reach the Monetary Authority not later than 12:00 noon Hong Kong time on the business day falling immediately before the tender day. If for any reason (e.g. typhoon) the business day falling immediately before the tender day ceases to be a business day, the tenders must reach the Monetary Authority not later than 10:30 a.m. Hong Kong time on the tender day. They should be transmitted via a CMT, tested facsimile or tested telex using the numbers already provided to Retail Exchange Fund Notes Distributors or by any other means as may be advised by the Monetary Authority. All tenders submitted in a non-competitive tender will be binding and will not be revocable from 12:00 noon Hong Kong time on the business day falling immediately before the tender day or, if the business day falling immediately before the tender day ceases to be a business day for any reason (e.g. typhoon), from 10:30 a.m. Hong Kong time on the tender day.

22. Non-competitive tenders submitted by Retail Exchange Fund Notes Distributors or HKSCC on behalf of applicants will be required to state in the tender the nominal amount of Notes (F_1) tendered for. The lowest price (P_1) accepted at the competitive tender held on the same tender day, expressed as a percentage and rounded to two decimal places, will be the price required to be paid by successful bidders in the non-competitive tender. The amount of payment (A_1) to be effected on settlement day should be calculated by the following formula :

$$A_1 = F_1 \times P_1$$

23. Non-competitive tenders submitted by Retail Exchange Fund Notes Distributors or HKSCC on behalf of applicants which are accepted will be allotted Notes at the lowest price accepted at the competitive tender. Subject to paragraph 24, allotment in respect of non-competitive tenders will be made according to the following rules:

- (a) if the total subscription amount applied for through non-competitive bid is equal to or smaller than the amount of Notes on offer through non-competitive tender, all applicants will be allotted the full amount for which they tendered;
- (b) if the total subscription amount applied for through non-competitive bid exceeds the amount of Notes on offer through non-competitive tender AND the number of applications received is equal to or smaller than the quantity of Notes (based on the minimum denomination of HK\$50,000) on offer through non-competitive tender, a minimum of HK\$50,000 of the Notes will be allocated to each applicant. Notes remaining, if any, will be allocated to each applicant on a pro rata basis to the remaining quantity of Notes applied for by each applicant, rounded down to the nearest whole Note and in the case of Notes remaining after rounding, by ballot; and
- (c) if the total subscription amount applied for through non-competitive bid exceeds the amount of Notes on offer through non-competitive tender AND the number of applications received is larger than the quantity of Notes (based on the minimum denomination of HK\$50,000) on offer through non-competitive tender, a ballot will be held in respect of all non-competitive tender bids and those applicants who are successful in the ballot will each be allotted a Note of HK\$50,000 denomination.

Other tender arrangements

24. The Monetary Authority will set no minimum price on the Notes offered through competitive tender and will expect to allot the whole amount on offer. If the amount of Notes reserved for non-competitive tender is under-subscribed, the Monetary Authority may add the non-subscribed portion back to the amount on offer through competitive tender. The Monetary Authority reserves the right to vary the allotment in respect of non-competitive tenders by adopting other methods based on a pro-rata form of distribution as the Monetary Authority may consider appropriate. The Monetary Authority reserves the right not to allot all the Notes on offer or to scale down the allotment to a successful bidder, either in competitive or in non-competitive tenders, though he would only consider doing so in exceptional circumstances, e.g. where the tender is made at an unacceptably deep discount to the prevailing market level or to avoid disproportionate market share by a market participant. The Monetary Authority reserves the right to acquire Notes at a tender at the lowest accepted price bid in the event of undersubscription. The Monetary Authority reserves the right to require evidence from a Retail Exchange Fund Notes Distributor to verify that it has not accepted multiple applications, and/or submitted more than one tender bid in a non-competitive tender, for the benefit of any one person.

25. Where, in any issue of Notes, the amount of Notes applied for through competitive tender is less than the whole amount on offer through competitive tender (including any unsubscribed Notes in a non-competitive tender which are added back to the amount on offer through competitive tender), the Monetary Authority may call upon any Eligible Market Maker which has subscribed less than the Average Amount at the competitive tender to subscribe for the unsubscribed Notes:

- (a) at the Average Accepted Price at the competitive tender; and
- (b) in an amount which is no more than the difference between the Average Amount and the amount of Notes subscribed by that Eligible Market Maker at the competitive tender.

The Monetary Authority may, without notice or other formality, exercise the above right by notifying each relevant Eligible Market Maker of the amount of Notes for which it is required to subscribe through the issue of an allotment notification report upon completion of the relevant tender. In this Information Memorandum, the term “Average Amount” shall mean the whole amount of Notes on offer through competitive tender as described above in this paragraph 25 divided by the total number of Eligible Market Makers and the term “Average Accepted Price” shall mean the weighted average price of accepted bids in a competitive tender.

26. The Monetary Authority may reopen a particular issue of Notes, in which case the original maturity of the Notes will remain unchanged. However, the amount to be paid for the new Notes in the reopened issue will include the settlement amount A_0 in paragraph 17 for successful competitive bids or A_1 in paragraph 22 for successful non-competitive bids, plus an amount equal to the interest accrued from the last interest payment date to the allotment date of the relevant new Notes. The accrued interest payable per minimum denomination of HK\$50,000 of the new Notes will be announced at least four business days in advance of the tender day.

27. Pursuant to the undertaking given in paragraph 42 of this Information Memorandum, the Monetary Authority will act as the last resort supplier of Notes to Market Makers and, for this purpose, additional Notes may be issued. If for any reason the amount of Notes allotted in any competitive tender is less than the full amount on offer, the unissued amount may be added to the amount of additional Notes and may be made available for issue at any time before maturity of such issue of Notes.

28. Eligible Market Makers, Retail Exchange Fund Notes Distributors and HKSCC, whose tenders have been successful in whole or in part will be notified of their allotment of Notes and the amount payable as soon as practicable after the allotment. The amount of Notes allotted through competitive or non-competitive tenders, the Average Accepted Price and the lowest price at which Notes have been allotted will be announced not later than 3:00 p.m. on the tender day on the Reuters screen (HKMAOOE), Bloomberg or by any other means specified by the Monetary Authority.

Settlement arrangements

29. Payment for, and registration through the computerized book entry system of, Notes issued by tender will be for value on the issue date. By submitting a tender on behalf of an applicant, the relevant Eligible Market Maker, Retail Exchange Fund Notes Distributor or HKSCC agrees to pay for Notes allotted as a result of such tender. Settlement of payments will be made in the manner described in paragraphs 30 and 31 below. Settlement of payments between Eligible Market Makers, Retail Exchange Fund Notes Distributors or HKSCC (as the case may be) and their clients will continue to depend on the interbank payment system and traditional payment methods.

30. In the case of an Eligible Market Maker or Retail Exchange Fund Notes Distributor which is a licensed bank, payment in Hong Kong dollars will be effected through its settlement account maintained with the Monetary Authority.

31. In the case of a HKSCC or an Eligible Market Maker or Retail Exchange Fund Notes Distributor which is not a licensed bank, payment in Hong Kong dollars will be effected as follows:

- (a) the Monetary Authority will debit the settlement account of the correspondent bank of that Eligible Market Maker, Retail Exchange Fund Notes Distributor or HKSCC (as the case may be); and
- (b) the correspondent bank will debit the appropriate account of that Eligible Market Maker, Retail Exchange Fund Notes Distributor or HKSCC (as the case may be).

32. The Monetary Authority will, on the issue date, credit the nominal value of the Notes allotted to the relevant Eligible Market Makers, Retail Exchange Fund Notes Distributors or HKSCC (as the case may be) to their Securities Accounts maintained with the Monetary Authority upon receipt of payments.

33. On the maturity date for any Notes issued, the Monetary Authority will arrange for the relevant computerized entries in the Securities Accounts to be reversed and for the settlement accounts of Recognized Dealers which are licensed banks to be credited in Hong Kong dollars with the relevant amounts of principal and interest payable upon maturity of the Notes. Payments to Recognized Dealers which are not licensed banks will be by way of credit to their bank accounts via their correspondent banks which will in turn have their settlement accounts credited. Settlement of payments between Recognized Dealers and their clients will continue to depend on the interbank payment system and traditional payment methods.

34. If a Market Maker fails to close its short position (see the section of this Information Memorandum on Market Making Arrangements by Market Makers and the Monetary Authority) in a particular issue before its maturity, the Monetary Authority will, on the maturity date, debit the Market Maker's settlement account or the settlement account of its designated correspondent bank with an amount equal to the nominal value plus accrued interest of the short position in the manner described in paragraphs 30 and 31 above.

35. On an interest payment date of any Notes, the Monetary Authority will arrange for the settlement accounts of Recognized Dealers which are licensed banks to be credited with the relevant amount of interest in Hong Kong dollars. Payment of interest to Recognized Dealers which are not licensed banks will be by way of credit to their bank accounts via their correspondent banks which will in turn have their settlement accounts credited. Settlement of payments between Recognized Dealers and their clients will continue to depend on the interbank payment system and traditional payment methods.

36. If a Market Maker incurs a short position on the day immediately preceding an interest payment day, the Monetary Authority will debit the Market Maker's settlement account or the settlement account of its designated correspondent bank with the relevant amount of interest in the manner described in paragraphs 30 and 31 above.

37. If the issue date specified for any issue of Notes for any reason (e.g. typhoon) is not a business day, payment by the successful bidders will be postponed to the immediately succeeding business day which will then be deemed to be the issue date, however the interest payment dates and maturity date originally specified will remain unchanged. If the maturity date or any interest payment date specified for any issue of Notes is not a business day, the payment of principal plus interest or interest will be made on the immediately succeeding business day which will then be deemed to be the maturity date or interest payment date as the case may be. In the latter case, all subsequent interest payment dates and the maturity date specified for the issue will remain unchanged. In both cases, the interest payable will be adjusted to include interest accrued during the deferred period. Recognized Dealers should refer to the prevailing typhoon procedures specified by the Monetary Authority from time to time.

Recognized Dealers, Market Makers and Eligible Market Makers

38. Competitive tenders will be accepted only from Eligible Market Makers and, in the case of a non-competitive tender procedure, non-competitive tenders will be accepted only from Retail Exchange Fund Notes Distributors and HKSCC (as the case may be). Eligible Market Makers are appointed by the Monetary Authority from Market Makers based on criteria determined by the Monetary Authority. Market Makers are appointed by the Monetary Authority from Recognized Dealers. A current list of Eligible Market Makers and Market Makers is available on the Hong Kong Monetary Authority's website.

39. Recognized Dealers are financial institutions appointed by the Monetary Authority which maintain Securities Accounts with the Monetary Authority to which Notes may be credited and debited (a list of Recognized Dealers, as at 30 September 2008, is included at Annex D of this Information Memorandum and an updated list will be available on the Hong Kong Monetary Authority's website). All Recognized Dealers in accepting their appointments shall give the following undertakings to the Monetary Authority:

- (a) to comply with market regulations that may be specified from time to time by the Monetary Authority;
- (b) to supply relevant statistics that may be required by the Monetary Authority to enable him to monitor developments in the market;
- (c) to allow the Monetary Authority or a person nominated by him to inspect their books and records relating to Notes to the extent permitted by law;
- (d) to give timely instructions to the Monetary Authority for any transfer of Notes in the manner specified by him; and
- (e) to inform their clients who are not Recognized Dealers that they may open a Securities Account with the Monetary Authority through a Recognized Dealer (see paragraph 54) and of the terms of issues of Notes.

40. In order to promote the Notes in the retail market, HKSCC as a Recognized Dealer is allowed to participate in non-competitive tenders for Notes. The Monetary Authority may reserve a portion of any issue for this purpose. HKSCC and other Recognized Dealers are not allowed to submit bids for themselves, directly or indirectly through other Recognized Dealers, in non-competitive tenders. Moreover, the Monetary Authority may appoint a number of Recognized Dealers (including Market Makers) as Retail Exchange Fund Notes Distributors. The Retail Exchange Fund Notes Distributors are allowed to submit tenders on behalf of applicants to subscribe for Notes on offer through non-competitive tender under the Retail Exchange Fund Notes Programme where a portion of any issue of Notes is reserved for this purpose. The Retail Exchange Fund Notes Distributors and other Recognized Dealers are not allowed to submit bids for themselves, directly or indirectly through other Recognized Dealers, in non-competitive tenders. Retail Exchange Fund Notes Distributors are required to comply with certain standards in the distribution of the Notes in the retail market as promulgated by the Monetary Authority from time to time.

41. A number of Recognized Dealers have been appointed as Market Makers. Market Makers must give an undertaking to the Monetary Authority that they will maintain a market in the Notes by quoting bid and offer prices for the Notes during normal money market hours (between 9:00 a.m. to 12:00 noon and 2:00 p.m. to 4:00 p.m. Monday to Friday). Market Makers are expected to take an active part in the secondary markets. In addition, they are also expected to promote the Notes Programme so as to broaden the investor base.

42. In return the Monetary Authority will give the following undertakings to Market Makers :

- (a) he will only buy and sell Notes in the secondary market through Market Makers;
- (b) he will make a bid to Market Makers for Notes they may offer;
- (c) he will act as last resort supplier of Notes to Market Makers subject to suitable arrangements being entered into with the Market Makers; and
- (d) he will announce the amounts of Notes outstanding on a regular basis.

43. A number of Market Makers have been appointed as Eligible Market Makers. All bids in competitive tenders must be submitted through Eligible Market Makers and in return for this exclusive right to participate directly in competitive tenders, Eligible Market Makers have agreed with the Monetary Authority that they will, if the Monetary Authority so requires, subscribe for unsubscribed Notes on the basis set out in paragraph 25 above.

Transfers of Notes between Securities Accounts of Recognized Dealers maintained with the Monetary Authority

44. Notes can be transferred from one Recognized Dealer's Securities Account to the Securities Account of another Recognized Dealer through book entries. The Recognized Dealers involved in the transfer of Notes are required to send their instructions for transfer of Notes to the Monetary Authority.

45. Transfer instructions should be transmitted to the Monetary Authority via CMT, facsimile or telex using the numbers already provided to Recognized Dealers or by any other means as may be advised by the Monetary Authority.

46. All transfer instructions transmitted by facsimile, SWIFT or CMT must reach the Monetary Authority on the day on which the transfer is to be effected (i.e. the settlement date) before the respective cutoff times as specified in the Exchange Fund Bills and Notes Clearing and Settlement System Reference Manual published by the Monetary Authority (as amended from time to time) or in any written notice given by the Monetary Authority in relation thereto ("Operating Procedures"). The Monetary Authority reserves the right not to process any transfer instructions received after the deadline. In such circumstances, any such transfer instructions would have to be re-submitted on the next business day before the relevant cut-off time.

Market Making Arrangements by Market Makers and the Monetary Authority

47. In order to create a liquid secondary market for the Notes and to avoid any issue of Notes being cornered, Market Makers will be allowed to incur short positions in Notes during the day subject to the requirements and procedures set out below. A Market Maker may hold a short position provided that:

- (a) the Market Maker's appointment has not been revoked by the Monetary Authority nor has the Market Maker's authority to incur short positions otherwise been terminated by the Monetary Authority;
- (b) the short position is within the margin limit imposed by the Monetary Authority on the Market Maker (if any); and
- (c) the Market Maker holds, as sole beneficial owner and free from any security or other interest, long positions in other Exchange Fund Bills or other Notes or such other instruments as the Monetary Authority may specify as Eligible Securities for Market Making Arrangements which are sufficient to cover the short position.

48. A Market Maker which holds a short position in an issue of Notes during the end-of-day settlement run on a business day or by such other time as the Monetary Authority may specify, must close its short position by entering into a Sale and Repurchase Agreement (“Repo”) with the Monetary Authority. Through the Repo, the Market Maker will purchase from the Monetary Authority the amount of the particular issue of Notes necessary to cover the short position, and will sell to the Monetary Authority Eligible Securities acceptable to the Monetary Authority of sufficient market value calculated in accordance with a formula determined by the Monetary Authority. The Monetary Authority will credit the Securities Account of the Market Maker with the amount of Notes necessary to close the short position.

49. At the time as specified in the Operating Procedures on the next business day, the Market Maker will sell and the Monetary Authority will purchase an equivalent amount of Notes to those originally sold under the Repo. The Monetary Authority will debit the Securities Account of the Market Maker with the number of Notes of the relevant issue that the Market Maker has sold.

50. The Monetary Authority reserves the right to set a limit on the value of Repo transactions an individual Market Maker may enter into with the Monetary Authority.

51. Failure by a Market Maker to close its short position on any trading day may result in the rejection by the Monetary Authority in whole or in part of any outstanding unsettled transfer instructions for Exchange Fund Bills and Notes and Specified Instruments (if applicable) received on that day involving that Market Maker as a counterparty.

52. A Market Maker must inform the Monetary Authority if any of its holdings of Eligible Securities have been pledged to another party. Any Eligible Securities so pledged will not be acceptable for Repo transactions.

53. In the event that a Market Maker closes its short position in any issue of Notes by entering into a Repo with the Monetary Authority on the day before the Notes’ maturity, the Market Maker will unconditionally accept that the Monetary Authority will debit its settlement account or the settlement account of its designated correspondent bank, in addition to any other rights available to him at law, at any time and without notice to the Market Maker concerned, with an amount equal to the nominal value plus accrued interest of the short position in the manner described in paragraphs 30 and 31 above.

54. Each Recognized Dealer will have at least two Securities Accounts in the Register maintained by the Monetary Authority - one for its own holdings and the other for the holdings of its clients. In addition, a Recognized Dealer may also request that specific custody accounts be opened for any of its clients who may wish their Notes to be held by the Recognized Dealer in a separate account designated with the client’s name. These clients may then sell Notes in the custody account designated under their names through the Recognized Dealer, i.e. instruction for the transfer of title in Notes in such custody account before maturity of the Notes must be routed through that Recognized Dealer. Legal title to Notes is vested in the holder of the Securities Account to which the Notes are credited.

HONG KONG MONETARY AUTHORITY
November 2008

The Exchange Fund

Origin and purpose

The Fund was constituted by the Currency Ordinance of 1935, later renamed the Exchange Fund Ordinance (Chapter 66 of the Laws of Hong Kong). Section 3(1) of the Ordinance as amended specifies that the Fund “shall be under the control of the Financial Secretary and shall be used primarily for such purposes as the Financial Secretary thinks fit affecting, either directly or indirectly, the exchange value of the currency of Hong Kong and for other purposes incidental thereto.”

2. In addition the Financial Secretary may “use the Fund as he thinks fit to maintain the stability and the integrity of the monetary and financial systems of Hong Kong”, with a view to “maintaining Hong Kong as an international financial centre”.

Liabilities and Reserves of the Fund

3. There are six main items. These are :

- (a) Certificates of Indebtedness issued to the note-issuing banks as cover for banknotes lawfully issued by them. These Certificates of Indebtedness are issued against payment to the Financial Secretary, for the account of the Exchange Fund, of the face value of such Certificates. Under the linked exchange rate system, the payment is denominated in US dollars at the fixed rate of HK\$7.80 to US\$1. These Certificates are non-interest bearing. As at 31 December 2007, the total face value of the Certificates of Indebtedness outstanding was HK\$163.4 billion.
- (b) Money transferred from the general revenue and other Funds to the Exchange Fund. As at 31 December 2007, the total outstanding amount of money transferred was HK\$464.6 billion. With effect from 1 April 1998, these sums transferred share in the return of the investment portfolio of the Exchange Fund.
- (c) Government-issued currency notes and coins in circulation. As at 31 December 2007, these amounted to HK\$7.5 billion.
- (d) Balance of the banking system, in the form of the balances in the settlement accounts maintained by the banks with the Monetary Authority for the account of the Exchange Fund. On 31 December 2007, the aggregate of closing balances in these settlement accounts was HK\$10.6 billion.
- (e) Placements by banks and other financial institutions. As at 31 December 2007, there is no outstanding amount on this item.
- (f) Accumulated net earnings of the Exchange Fund. On 31 December 2007, the latest date for which figures are publicly available, these stood at HK\$617 billion.

Assets of the Fund

4. For liquidity reasons, the Fund is mainly held in assets denominated in the USD and other OECD currencies. Part of the Fund is placed on interest bearing deposits with first class banks in Hong Kong and overseas, and part is invested in a variety of financial instruments, including bonds, notes, and treasury bills and equities.

Investment and management of the Fund

5. The Fund is under the control of the Financial Secretary. His control, as specified in the Exchange Fund Ordinance, is exercised in consultation with an Exchange Fund Advisory Committee of which the Financial Secretary is the ex officio chairman and of which the other members are appointed by the Chief Executive. Members of the Exchange Fund Advisory Committee on 2 October 2008 are :

The Monetary Authority

Mr Christopher CHENG Wai-chee, GBS, JP

Mr HE Guangbei

The Hon. Henry FAN Hung-ling, SBS, JP

Mr Simon IP Sik-on, JP

Mr Thomas KWOK Ping-kwong, SBS, JP

Mr Vincent CHENG Hoi-chuen, GBS, JP

Dr Patrick FUNG Yuk-bun

Professor Lawrence J. LAU, JP

Mr David SUN Tak-kei, BBS

Mr Nicholas SALLNOW-SMITH

6. The day-to-day management of the Fund is delegated to the Monetary Authority. Part of the Fund is directly managed by the Monetary Authority and part by appointed managers both inside and outside Hong Kong. The performance of investments managed by each appointed manager is regularly compared with that of those managed by other appointed managers and those managed directly by the Monetary Authority.

The Hong Kong Special Administrative Region Government
Exchange Fund Notes
Competitive Tender Form

To : Monetary Authority

Date of Message : _____

From : _____ (_____)
 Eligible Market Maker Code

We hereby submit the following tender(s) for Exchange Fund Notes :

Exchange Fund Notes Issue Number _____ to be issued on _____ (Date)

Price bid in descending order (percent to the nearest two decimal points)	Nominal Value tendered for (HK\$ Mn)	Amount payable if allotted in full (HK\$ to the nearest cent)	For use only by the Monetary Authority

TOTAL

HK\$	Mn
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We authorize you to debit from our settlement account the amount payable for any Notes that are allotted to us under any of the above tenders.

Person to contact in case of query : _____ (Tel: _____)

HKMA use only
 Signature(s) / Test No.
 Verified by:

 Authorized Signature(s) or Test Number

IMPORTANT : For fax or telex transmission, please provide Test Number for the total nominal value tendered for.

EN TENDER FORM 1

The Hong Kong Special Administrative Region Government
Exchange Fund Notes
Non-Competitive Tender Form

To : Monetary Authority

Date of Message : _____

From : _____ (_____)
 Retail Exchange Fund Notes Distributor / HKSCC Code

We hereby submit the following tender for Exchange Fund Notes:

Exchange Fund Notes Issue Number _____ to be issued on _____ (Date)

Application Number (in a format as agreed with the Monetary Authority)	Nominal Value tendered for (in HK\$)	For use only by the Monetary Authority

TOTAL

HK\$

We authorize you to debit from our settlement account the amount payable for any Notes that are allotted to us under the above tender.

Person to contact in case of query : _____ (Tel: _____)

HKMA use only Signature(s) / Test No. Verified by:
--

 Authorized Signature(s) or Test Number

IMPORTANT : For fax or telex transmission, please provide Test Number for the total nominal value tendered for.

EN TENDER FORM 2

Recognized Dealer List
As of 30 September 2008

ABN AMRO BANK N.V.	CHINA CONSTRUCTION BANK CORPORATION
AGRICULTURAL BANK OF CHINA	CHINA GOV SEC. DEPOSITORY TRUST & CLEARING CO. LTD
AIG PRIVATE BANK LTD	CHINA MERCHANTS BANK CO., LTD.
ALLAHABAD BANK	CHINATRUST COMMERCIAL BANK LTD
ALLIED BANKING CORPORATION (HONG KONG) LIMITED	CHIYU BANKING CORPORATION LIMITED
AMERICAN EXPRESS BANK LIMITED	CHONG HING BANK LIMITED
AUSTRALIA & NEW ZEALAND BANKING GROUP LIMITED	CHUGOKU BANK, LTD (THE)
AXIS BANK LIMITED	CITIBANK (HONG KONG) LIMITED
BANC OF AMERICA SECURITIES ASIA LIMITED	CITIBANK N.A.
BANCA MONTE DEI PASCHI DI SIENA S.P.A.	CITIC KA WAH BANK LIMITED
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	CITICORP INTERNATIONAL LIMITED
BANCO DE ORO UNIBANK, INC.	COMMERZBANK AG
BANCO SANTANDER S.A.	COMMONWEALTH BANK OF AUSTRALIA
BANGKOK BANK PUBLIC COMPANY LIMITED	COOPERATIEVE CENTRALE RAIFFEISEN-BOERENLEENBANK BA
BANK OF AMERICA, NATIONAL ASSOCIATION	CREDIT SUISSE
BANK OF BARODA	DAH SING BANK LIMITED
*BANK OF CHINA (HONG KONG) LIMITED	*DBS BANK (HONG KONG) LIMITED
BANK OF COMMUNICATIONS CO., LTD.	DBS BANK LTD, HONG KONG BRANCH
*BANK OF EAST ASIA, LIMITED (THE)	DELTA ASIA CREDIT LTD
BANK OF ENGLAND	DEUTSCHE BANK AKTIENGESELLSCHAFT
BANK OF INDIA	DZ BANK AG DEUTSCHE ZENTRAL-GENOSSENSCHAFTSBANK
BANK OF NEW YORK MELLON (THE)	E. SUN COMMERCIAL BANK LTD
BANK OF NOVA SCOTIA (THE)	EAST WEST BANK
BANK OF SCOTLAND PLC	EFG BANK
BANK OF TAIWAN	ERSTE BANK DER OESTERREICHISCHEN SPARKASSEN AG
BANK OF TOKYO-MITSUBISHI UFJ, LTD.(THE)	FAR EASTERN INTERNATIONAL BANK
BANK SINOPAC, HONG KONG BRANCH	FIRST COMMERCIAL BANK, LTD.
BARCLAYS BANK PLC	FORTIS BANK
BAYERISCHE HYPO-UND VEREINSBANK AG	FUBON BANK (HONG KONG) LIMITED
BAYERISCHE LANDESBANK	HACHIJUNI ASIA LIMITED
BNP PARIBAS PRIVATE BANK	HACHIJUNI BANK, LTD (THE)
BNP PARIBAS,HONG KONG	*HANG SENG BANK LTD
BOCI CAPITAL LIMITED	HKFE CLEARING CORPORATION LTD
CALYON	HONG KONG SECURITIES CLEARING CO LTD
CANADIAN IMPERIAL BANK OF COMMERCE	HONG LEONG BANK BERHAD, HONG KONG BRANCH
CATHAY BANK	*HONGKONG & SHANGHAI BANKING CORPORATION LTD.
CATHAY UNITED BANK CO. LTD.	HSBC BANK USA, NATIONAL ASSOCIATION
CHANG HWA COMMERCIAL BANK, LTD.	HSBC NOMINEES (HONG KONG) LIMITED
CHIBA BANK, LTD (THE)	HSBC NOMINEES (HONG KONG) LTD-EUROCLEAR BANK SA/NV
CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED	HSBC PRIVATE BANK (SUISSE) SA

HSH NORDBANK AG
 HUA NAN COMMERCIAL BANK, LTD.
 ICICI BANK LIMITED, HONG KONG BRANCH
 INDIAN OVERSEAS BANK
 INDUSTRIAL & COMMERCIAL BANK OF CHINA (ASIA) LTD
 INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED
 ING BANK N.V.
 INTESA SANPAOLO S.P.A.
 IYO BANK, LTD. (THE)
 J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED
 JPMORGAN CHASE BANK, NATIONAL ASSOCIATION
 KBC BANK N.V., HONG KONG BRANCH
 KOREA EXCHANGE BANK
 KOREA SECURITIES DEPOSITORY
 LAND BANK OF TAIWAN CO., LTD.
 MALAYAN BANKING BERHAD (TDG AS MAYBANK)
 MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
 MELLI BANK PLC, HONG KONG BRANCH
 MEVAS BANK LIMITED
 MITSUBISHI UFJ SECURITIES (HK) CAPITAL, LIMITED
 MITSUBISHI UFJ TRUST AND BANKING CORPORATION
 MIZUHO CORPORATE BANK, LTD., HK BRANCH
 NANYANG COMMERCIAL BANK LIMITED
 NATIONAL AUSTRALIA BANK LIMITED
 NATIONAL BANK OF PAKISTAN
 NATIXIS
 NEWEDGE GROUP
 OVERSEA-CHINESE BANKING CORPORATION LTD.
 PHILIPPINE NATIONAL BANK
 PUBLIC BANK (HONG KONG) LIMITED
 PUBLIC BANK BERHAD
 RBS COUTTS BANK LTD
 RESERVE BANK OF NEW ZEALAND
 ROYAL BANK OF SCOTLAND PLC, HONG KONG (THE)
 SHANGHAI COMMERCIAL BANK LTD.

SHIGA BANK LIMITED (THE)
 SHINHAN ASIA LIMITED
 SHINKIN CENTRAL BANK
 SHIZUOKA BANK, LTD. (THE)
 SOCIETE GENERALE
 SOCIETE GENERALE ASIA LIMITED
 SOCIETE GENERALE BANK & TRUST
 STANDARD BANK ASIA LIMITED
 *STANDARD CHARTERED BANK (HONG KONG) LIMITED
 STATE BANK OF INDIA
 STATE STREET BANK AND TRUST COMPANY
 SUMITOMO MITSUI BANKING CORPORATION
 SVENSKA HANDELSBANKEN AB (PUBL)
 TAI SANG BANK LTD.
 TAI YAU BANK LTD.
 TAIPEI FUBON COMMERCIAL BANK CO., LTD.
 TAISHIN INTERNATIONAL BANK CO., LTD.
 TAIWAN BUSINESS BANK
 TAIWAN COOPERATIVE BANK, LTD
 THE SEHK OPTIONS CLEARING HOUSE LTD
 THE SHANGAI COMMERCIAL & SAVINGS BANK, LTD
 TORONTO-DOMINION BANK
 UBS AG, HONG KONG
 UCO BANK
 UNICREDITO ITALIANO S.P.A.
 UNION BANK OF INDIA
 UNITED COMMERCIAL BANK
 UNITED OVERSEAS BANK LTD.
 WELLS FARGO BANK N.A., HONG KONG BRANCH
 WESTLB AG
 WESTPAC BANKING CORPORATION
 WING HANG BANK LTD.
 *WING LUNG BANK LIMITED
 WOORI BANK, HONG KONG BRANCH

* Retail Exchange Fund Notes Distributors