

CONFORMED COPY

The Government Of The Hong Kong Special Administrative Region

Bank of China (Hong Kong) Trustees Limited
as Trustee

Bank of China (Hong Kong) Limited
as Principal Paying Agent

and

Bank of China (Hong Kong) Limited
as Calculation Agent

PAYING AGENCY AGREEMENT

relating to

Tranche A 2.13 per cent. Retail Bonds due 2006

Tranche B 3.38 per cent. Retail Bonds due 2008

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THIS AGREEMENT is made on 26 July 2004

BETWEEN

- (1) **THE GOVERNMENT OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION ("HKSAR Government");**
- (2) **BANK OF CHINA (HONG KONG) LIMITED**, a company incorporated under the laws of Hong Kong as principal paying agent (the "**Principal Paying Agent**", which expression shall, unless the context otherwise requires, include its successor as principal paying agent, and together with any paying agent to be appointed in accordance with this Agreement, the "**Paying Agents**");
- (3) **BANK OF CHINA (HONG KONG) LIMITED**, a company incorporated under the laws of Hong Kong as calculation agent (the "**Calculation Agent**"), which expression shall, unless the context otherwise requires, include its successor as calculation agent; and
- (4) **BANK OF CHINA (HONG KONG) TRUSTEES LIMITED**, a company incorporated under the laws of Hong Kong as trustee (the "**Trustee**", which expression shall include all persons for the time being referred to as the trustee or trustees of the Trust Deed (as defined below)).

BACKGROUND:

- (A) HKSAR Government proposes to issue the Tranche A 2.13 per cent. Retail Bonds due 2006 ("**Tranche A Retail Bonds**") and the Tranche B 3.38 per cent. Retail Bonds due 2008 ("**Tranche B Retail Bonds**", together with the Tranche A Retail Bonds, the "**Retail Bonds**") to be constituted by a trust deed between HKSAR Government and the Trustee dated 26 July 2004 (the "**Trust Deed**").
- (B) The definitive Retail Bonds for which the Global Retail Bonds referred to below may be exchanged (subject to its provisions) will be in bearer form in the denomination of HK\$50,000 each with RB Coupons attached.

THE PARTIES AGREE AS FOLLOWS:

1. **INTERPRETATION**

1.1 **Definitions**

In this Agreement (except where otherwise defined in this Agreement) and except where the context requires otherwise, the following expressions have the following meanings:

"**Accountholders**" means the holder of any account with a CMU Operator which has for the time being credited to its securities account with such CMU Operator a credit entry or entries in respect of any Retail Bonds represented by a Global Retail Bond.

"**Act of God**" means an accident or event which happens independently of human intervention and due to natural causes which no human foresight can provide against, and of which human prudence is not bound to recognise the possibility.

"**Agents**" means the Principal Paying Agent, the other Paying Agents and the Calculation Agent or any of them.

"**Application Price**" means the application price of each Tranche of the Retail Bonds, being 102 per cent. of the principal amount of the Retail Bonds.

"**Business Day**" means a day (other than Saturdays and Sundays) on which the CMU is operating and commercial banks in Hong Kong are open for business.

"**CCASS**" means the Central Clearing and Settlement System operated by HKSCC.

"**CCASS Application Amount**" means an amount equal to the Application Price, plus a brokerage fee of 0.15 per cent. of the Subscription Price of Retail Bonds allotted to each applicant which has applied through HKSCC or a CCASS Broker/Custodian Participant.

"**CCASS Broker/Custodian Participant**" means a person admitted to participate in CCASS as a broker participant or a custodian participant.

"**CCASS Investor Participant**" means a person admitted to participate in CCASS as an investor participant.

"**Clearstream Luxembourg**" means Clearstream Banking, *société anonyme*.

"**CMU**" means the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority.

"**Conditions**" means the terms and conditions set out in Schedule 1 to the Trust Deed as applicable to a particular Tranche of Retail Bonds, as modified, with respect to any Retail Bonds of that Tranche represented by the relevant Global Retail Bond, by the provisions of that Global Retail Bond and any reference to a particularly numbered Condition shall be construed accordingly.

"**designated bank accounts**" means the bank accounts designated by CCASS Investor Participants or CCASS Broker/Custodian Participants and approved by HKSCC for money settlement purposes in CCASS.

"**EFN**" means Exchange Fund Notes.

"**Euroclear**" means Euroclear Bank S.A./N.V. as operator of the Euroclear System.

"**HKMA**" means Hong Kong Monetary Authority.

"**HKSCC**" means the Hong Kong Securities Clearing Company Limited.

"**Information Supplement**" means the information supplement relating to the offering of the Retail Bonds dated 7 July 2004 issued by HKSAR Government.

"**Offering Circular**" means the offering circular dated 7 July 2004 issued by HKSAR Government in relation to the issue of the Retail Bonds.

"**Offering Documents**" means the Information Supplement and the Offering Circular.

"**PB Application Amount**" means an amount equal to the Application Price, plus a handling fee of 0.15 per cent. of the Subscription Price of Retail Bonds allotted to each applicant which has applied through a Placing Bank.

"**Placing Bank Agreement**" means the agreement dated 7 July 2004 entered into between HKSAR Government and the Placing Banks in relation to the issue of the Retail Bonds.

"**Placing Banks**" means Asia Commercial Bank Limited, Bank of America (Asia) Limited, Bank of China (Hong Kong) Limited, Bank of Communications (Hong Kong Branch), The Bank of East Asia, Limited, Belgian Bank, Chekiang First Bank Limited, Chiyu Banking Corporation Limited, Citibank, N.A. (acting through its Hong Kong Branch), CITIC Ka Wah Bank Limited, Dah Sing Bank, Limited, DBS Bank (Hong Kong) Limited, Hang Seng Bank Limited, The Hongkong and Shanghai Banking Corporation Limited, Industrial and Commercial Bank of China (Asia) Limited, International Bank of Asia Limited, Liu Chong Hing Bank Limited, MEVAS Bank Limited, Nanyang Commercial Bank, Limited, Shanghai Commercial Bank Limited, Standard Chartered Bank (Hong Kong) Limited, Wing Hang Bank, Ltd. and Wing Lung Bank Limited.

"**Specified Office**" means, in relation to any Agent:

- (a) the office specified against its name in Schedule 2 (*Specified Offices of the Agents*); or
- (b) such other office as such Agent may specify in accordance with Clause 16.8 (*Changes in Specified Offices*).

"**Subscription Price**" means the subscription price of each Tranche of the Retail Bonds which is expressed as a percentage of the principal amount of the Retail Bonds and which shall be the lower of:

- (a) the Application Price; and
- (b) the percentage determined on the Price-fixing Date (as defined in Schedule 1) so that the Retail Bonds of that Tranche has an annualised yield which equals the annualised yield of an identified issue of EFN of comparable remaining tenor, plus a specified margin, as follows:

Annualised Yield of Tranche A Retail Bonds = EFN 2605 yield + 0.09 per cent.

Annualised Yield of Tranche B Retail Bonds = EFN 5806 yield + 0.20 per cent.

where the determination will be made on the Price-fixing Date (as defined in Schedule 1) by reference to the fixing page of the HKMA in Reuters Page 0#HKEFBN = MIDF at or about 11:30 a.m.. If the annualised yield of an identified issue of EFN is not available, the Calculation Agent and the Trustee jointly shall have the discretion to select another issue of EFN of comparable remaining tenor for price-fixing purposes.

1.2 **Clauses and Schedules**

Any reference in this Agreement to a Clause or a sub-clause or a Schedule is, unless otherwise stated, to a clause or a sub-clause hereof or a schedule hereto.

1.3 **Principal and interest**

In this Agreement, any reference to principal or interest includes any additional amounts payable in relation thereto under the Conditions.

1.4 **Terms defined in the Conditions and the Trust Deed**

Terms and expressions used but not defined herein have the respective meanings given to them in the Conditions and the Trust Deed. The construction of certain references in Clause 1.3 and Clause 1.6 of the Trust Deed shall apply *mutatis mutandis* to this Agreement.

1.5 **Statutes**

Any reference in this Agreement to a statute, any provision thereof or to any statutory instrument, order or regulation made thereunder shall be construed as a reference to such statute, provision, statutory instrument, order or regulation as the same may have been, or may from time to time be, amended or re-enacted.

1.6 **Headings**

Headings and sub-headings are for ease of reference only and shall not affect the construction of this Agreement.

2. **APPOINTMENT AND EFFECTIVE DATE**

2.1 **Appointment**

HKSAR Government appoints each Agent as its agent in relation to the Retail Bonds for the purposes specified in this Agreement and the Conditions.

2.2 **Acceptance of appointment**

Each Agent accepts its appointment as agent of HKSAR Government in relation to the Retail Bonds and agrees to comply with the provisions of this Agreement and to carry out the duties on its part expressed in this Agreement and in the Conditions. Each of the Agents hereby confirms that it shall exercise all reasonable skill and care in the

performance of its duties under this Agreement and to the standard of a reasonably competent provider of those duties, on the terms and subject to the conditions of this Agreement.

2.3 **Effective Date**

The provisions of this Agreement (including without limitation the appointment of each Agent and the acceptance of such appointment by each Agent) shall be deemed to have come into effect on 22 July 2004.

3. **FORM OF THE RETAIL BONDS**

3.1 **The Global Retail Bonds**

Each Tranche of Retail Bonds will initially be represented by a separate permanent Global Retail Bond. Each Global Retail Bond will be exchangeable for Definitive Retail Bonds of the Tranche represented by it as set out in that Global Retail Bond. Immediately before issue, HKSAR Government shall deliver to the Principal Paying Agent, and the Principal Paying Agent (or its agent on its behalf) shall authenticate, the duly executed Global Retail Bond in respect of each Tranche.

3.2 **The Definitive Retail Bonds**

The Definitive Retail Bonds and the RB Coupons of each Tranche will be security printed in accordance with applicable legal requirements substantially in the forms set out in Schedule 3 to the Trust Deed.

3.3 **Signature**

The Global Retail Bonds of each Tranche will be signed manually by an Authorised Signatory of HKSAR Government. The Definitive Retail Bonds and the RB Coupons of each Tranche will be signed in facsimile by an Authorised Signatory of HKSAR Government. HKSAR Government may use the facsimile signature of an Authorised Signatory of HKSAR Government even if at the time of issue of any Definitive Retail Bonds or RB Coupons he or she no longer holds that office. The Global Retail Bonds, the Definitive Retail Bonds and/or the RB Coupons so executed will be binding and valid obligations of HKSAR Government.

3.4 **Exchange of Global Retail Bond**

At least 14 days before the Exchange Date of a particular Tranche of Retail Bonds (as defined in the relevant Global Retail Bond), HKSAR Government will deliver or procure the delivery of Definitive Retail Bonds of that Tranche in an aggregate principal amount equal to the outstanding principal amount of the relevant Global Retail Bond or such lesser interest in that Global Retail Bond which is to be exchanged to or to the order of the Principal Paying Agent. Such Definitive Retail Bonds shall have attached all RB Coupons in respect of interest which has not already been paid against presentation of that Global Retail Bond. The Principal Paying Agent (or its agent on its behalf) shall authenticate such Definitive Retail Bonds and shall make them

and the RB Coupons available for exchange against the relevant Global Retail Bond in accordance with that Global Retail Bond. If the Global Retail Bond is not to be exchanged in full, the Principal Paying Agent shall endorse, or procure the endorsement of, a memorandum of the principal amount of that Global Retail Bond exchanged in the appropriate schedule to that Global Retail Bond and shall return that Global Retail Bond to the bearer. On exchange in full of a Global Retail Bond, the Principal Paying Agent shall cancel such Global Retail Bond and, if so requested by the bearer of such Global Retail Bond return it to the bearer.

4. **DUTIES OF CALCULATION AGENT**

4.1 **Duties**

The Calculation Agent shall perform the duties expressed to be performed by it in the Conditions and Schedule 1 in respect of each Tranche of Retail Bonds. As soon as practicable on the Price-fixing Date (as defined in Schedule 1) and on each date on which the Conditions may require any determination or calculation to be made by the Calculation Agent, the Calculation Agent will make such determination or calculation and cause it to be notified in the case of price fixing, to HKSAR Government and each other party as specified in Schedule 1 and in all other cases, to HKSAR Government, the Trustee, the Principal Paying Agent and each of the other Paying Agents.

4.2 **Calculations Binding**

The determination by the Calculation Agent of any amount required or permitted to be determined by the Calculation Agent under the Conditions, Schedule 1 and this Agreement shall (in the absence of manifest error) be final and binding on HKSAR Government, the Trustee, the Principal Paying Agent, the other Paying Agents and the relevant holders of Retail Bonds and RB Coupons.

5. **SETTLEMENT**

5.1 **General**

The Principal Paying Agent shall perform the duties expressed to be performed by it in Schedule 1 in respect of each Tranche of Retail Bonds. In the event HKSAR Government receives valid applications for a greater principal amount of Retail Bonds of either Tranche than is to be issued, the Principal Paying Agent shall allocate the Retail Bonds in accordance with the pre-set rules and procedures (the "**Allotment Rules and Procedures**") as set out in Schedule 1 and shall cause the allotment results to be notified to HKSAR Government and each other party as specified in Schedule 1 on such date and by such time as specified in Schedule 1.

5.2 **Allotment Rules and Procedures**

HKSAR Government reserves the right to change, without the consent of the Principal Paying Agent, the Allotment Rules and Procedures from time to time and shall inform the Principal Paying Agent of any such change three Business Days before such date on which it is required to conduct the allocation. In the event of such change, the Principal

Paying Agent shall conduct the allocation in accordance with the amended Allotment Rules and Procedures as informed by HKSAR Government.

5.3 Settlement Procedures

The Principal Paying Agent shall execute lodgment through the CMU and settlement with HKSAR Government and arrange for the allotted Retail Bonds to be credited by the CMU to the Placing Banks for onward credit to the respective investment accounts of the successful applicants with the Placing Banks in accordance with the timeline specified in Schedule 1.

5.4 Provision of Information

HKSAR Government hereby authorises the Principal Paying Agent and the Calculation Agent to provide information in accordance with Schedule 1 to the Placing Banks and HKSAR Government shall procure that the Placing Banks act upon such information.

5.5 Reliance on Placing Banks

In performing its obligations under this Clause 5 (*Settlement*), the Principal Paying Agent may act on the information provided to it by the Placing Banks and shall not be responsible for any loss occasioned by so acting unless occasioned by the Principal Paying Agent's negligence, wilful default or fraud.

6. AGENTS TO THE TRUSTEE

6.1 Agents to act for Trustee

Upon the happening of an Event of Default or a Potential Event of Default and for so long as such Event of Default or, as the case may be, Potential Event of Default is continuing and has not been waived or, in the opinion of the Trustee, has not been remedied, the Agents shall, on demand in writing by the Trustee and so far as permitted by applicable law or regulation:

6.1.1 act as agents of the Trustee under the Trust Deed and the Retail Bonds of the relevant Tranche on the terms of this Agreement (with consequential amendments as necessary and except that the Trustee's liability under this Agreement for the indemnification, remuneration and all other out-of-pocket expenses of the Agents in respect of the Retail Bonds of that Tranche shall be limited to the amounts for the time being held by the Trustee in respect of the Retail Bonds of that Tranche on the terms of the Trust Deed) and thereafter to hold all Retail Bonds and RB Coupons of that Tranche and all moneys, documents and records held by them in respect of the Retail Bonds and RB Coupons of that Tranche on behalf of the Trustee; and/or

6.1.2 deliver all Retail Bonds and RB Coupons and all moneys, documents and records held by them in respect of the Retail Bonds and RB Coupons of that Tranche to the Trustee or as the Trustee directs in such demand provided that such demand shall be deemed not to apply to any documents or records which

the Agents are obliged not to release by any law, regulation or statutory provision.

6.2 **Notices of change of the Trustee**

HKSAR Government shall as soon as practicable thereafter notify the Principal Paying Agent of any change in the person or persons comprising the Trustee.

7. **PAYMENT**

7.1 **Payment to Principal Paying Agent**

HKSAR Government shall, on each date on which any payment in respect of the Retail Bonds of a particular Tranche becomes due, transfer to the Principal Paying Agent such amount as may be required for the purposes of such payment. HKSAR Government shall confirm to the Principal Paying Agent by 11.00 a.m. (Hong Kong time) on the Business Day before the due date for any such payment that irrevocable instructions have been issued by it for such payment to be made to the Principal Paying Agent. In this Clause 7 (*Payment*), the date on which a payment in respect of the Retail Bonds of a particular Tranche becomes due means the first date on which the holder of the Retail Bonds or RB Coupon of that Tranche could claim the relevant payment by transfer to an account under the Conditions, but disregarding the necessity for it to be a Business Day in any particular place of presentation.

7.2 **Payments on Global Retail Bond**

7.2.1 For so long as a Global Retail Bond is lodged with the CMU:

- (i) the Paying Agents shall pay any amounts of principal and interest due on a Global Retail Bond to the person(s) notified by the CMU to the Principal Paying Agent (and confirmed by the Principal Paying Agent to the Paying Agents) as being the person(s) for whose account(s) interest(s) in that Global Retail Bond is credited and the Principal Paying Agent shall not endorse that Global Retail Bond;
- (ii) the records of the CMU shall be conclusive evidence of the identity of the persons to whose accounts interests in that Global Retail Bond are credited and the principal amount(s) of the interest(s) and of the Tranche of Retail Bonds represented by that Global Retail Bond. Save in the case of manifest error, the Principal Paying Agent shall be entitled to rely on any CMU Instrument Position Report (as defined in the CMU Rules) or any other statement by the CMU of the identities and interests of persons credited with interests in that Global Retail Bond.

7.2.2 If, and for so long as, a Global Retail Bond is not lodged with the CMU, the Principal Paying Agent and the other Paying Agents shall make all payments in respect of that Global Retail Bond against presentation (and, in the case of its redemption in full, surrender) of that Global Retail Bond and (unless that

Global Retail Bond is surrendered) shall on behalf of HKSAR Government endorse, or procure the endorsement of, a memorandum of each such payment in the relevant Schedule to that Global Retail Bond and return it, or cause it to be returned, to its bearer.

- 7.2.3 Unless and until payment of the full amount of any principal and interest due on a Global Retail Bond shall have been made in accordance with Clause 7.1 (*Payment to Principal Paying Agent*), none of the Paying Agents (including the Principal Paying Agent) will be bound to make payment of any such amount under sub-clauses 7.2.1 and 7.2.2 of Clause 7.2 (*Payments on Global Retail Bond*).

7.3 **Endorsement**

- 7.3.1 If a Global Retail Bond is not lodged with the CMU the gross amount of interest and the actual date of payment of interest in respect of each Interest Period in respect of that Global Retail Bond when presented to the Principal Paying Agent or the relevant Paying Agent by or on behalf of the holder thereof shall be endorsed in the appropriate Schedule and signed by the relevant number of authorised signatories of the Principal Paying Agent or the relevant Paying Agent as specified by the Principal Paying Agent or the relevant Paying Agent.

- 7.3.2 Upon receiving reasonable notification from the CMU and/or HKSAR Government and/or lodging agent in respect of a Global Retail Bond that that Global Retail Bond is to be withdrawn from the CMU, the Principal Paying Agent shall use all reasonable endeavours to ensure that that Global Retail Bond is endorsed in the relevant Schedule in respect of all payments of interest and/or principal that have been made in respect of that Global Retail Bond during such period as it has been lodged with the CMU.

7.4 **Notification of non-payment**

The Principal Paying Agent will forthwith notify by fax each of the other Paying Agents, the Trustee and HKSAR Government if it has not by the time specified for its receipt received the confirmation referred to in Clause 7.1 (*Payment to Principal Paying Agent*) or by the due date for any payment due in respect of either Tranche of Retail Bonds received the full amount so payable on such date.

7.5 **Payment by Paying Agents**

Unless they receive a notification from the Principal Paying Agent under Clause 7.4 (*Notification of non-payment*), the other Paying Agents will, subject to and in accordance with the Conditions, pay or cause to be paid on behalf of HKSAR Government on and after each due date therefor the amounts due in respect of the Retail Bonds and RB Coupons of a particular Tranche and will be entitled to claim any amounts so paid from the Principal Paying Agent, *provided, however, that* if any Definitive Retail Bond or the RB Coupon is presented or surrendered for payment to

any Paying Agent and such Paying Agent has delivered a replacement therefor or has been notified that the same has been replaced, such Paying Agent shall forthwith notify HKSAR Government of such presentation or surrender and shall not make payment against the same until it is so instructed by HKSAR Government and has received the amount to be so paid. If any payment provided for in Clause 7.1 (*Payment to Principal Paying Agent*) is made late but otherwise in accordance with this Agreement such Paying Agents will nevertheless make such payments in respect of the Retail Bonds and RB Coupons of that Tranche. However, unless and until the full amount of any such payment has been made to the Principal Paying Agent none of such Paying Agents will be bound to make such payments.

7.6 **Reimbursements of Paying Agents**

The Principal Paying Agent will on demand promptly reimburse each of the other Paying Agents for payments in respect of the Retail Bonds and RB Coupons of a particular Tranche properly made by it in accordance with the Conditions and this Agreement.

7.7 **Reimbursement by HKSAR Government**

Subject to Clause 7.5 (*Payment by Paying Agents*), if a Paying Agent makes a payment in respect of Retail Bonds and RB Coupons on or after the due date for such payment under the Conditions at a time at which the Principal Paying Agent has not received the full amount of the relevant payment due to it under Clause 7.1 (*Payment to Principal Paying Agent*) and the Principal Paying Agent is not able out of funds received by it under Clause 7.1 (*Payment to Principal Paying Agent*) to reimburse such Paying Agent therefor, HKSAR Government shall from time to time on demand pay to the Principal Paying Agent for account of such Paying Agent:

7.7.1 the amount so paid out by such Paying Agent and not so reimbursed to it; and

7.7.2 interest at the rate of 2% per annum above the prime rate from time to time of Bank of China (Hong Kong) Limited on such amount from the date on which such Paying Agent made such payment until the date of reimbursement of such amount;

provided, however, that any payment made under Clause 7.7 (Reimbursement by HKSAR Government) shall satisfy pro tanto the obligations of HKSAR Government under Clause 7.1 (Payment to Principal Paying Agent).

7.8 **Late Payment**

If the Principal Paying Agent has not by the due date for any payment in respect of the Retail Bonds of a particular Tranche received the full amount payable on such date but receives it later, it will forthwith give notice to the other Paying Agents, the Trustee, and, if requested by the Trustee, the relevant Retail Bondholders in accordance with Condition 13 (*Notices*) that it has received such full amount.

7.9 Method of payment to Principal Paying Agent

All sums payable to the Principal Paying Agent hereunder will be paid in Hong Kong dollars and in immediately available or same day funds to such account with such authorised institution in Hong Kong as the Principal Paying Agent may from time to time notify to HKSAR Government (such notification shall be given not less than three Business Days before any amount is due to be paid by HKSAR Government, as the case may be, in respect of a particular Tranche of Retail Bonds under this Agreement).

7.10 Moneys held by Principal Paying Agent

The Principal Paying Agent shall deal with moneys paid to it in accordance with this Agreement. For the avoidance of doubt, the Principal Paying Agent shall not exercise any lien, right of set-off or similar claim in respect of any such monies and, save as expressly provided in this Agreement, it shall not be liable to anyone for interest on any sums held by it under this Agreement.

7.11 Partial Payments

If on presentation of a Retail Bond or RB Coupon only part of the amount payable in respect of it is paid, the Paying Agent to whom the Retail Bond or RB Coupon is presented shall procure that such Retail Bond or RB Coupon is enfaced with a memorandum of the amount paid and the date of payment.

7.12 Notifications by Calculation Agent

The Calculation Agent shall notify (a) the Trustee, the Principal Paying Agent and each of the other Paying Agents the date of each Interest Payment Date and the RB Coupon amount payable on each Interest Payment Date in respect of each Tranche of Retail Bonds forthwith upon their being determined (and of any adjustment thereto in accordance with the Conditions forthwith upon its being made) and (b) HKSAR Government if it does not for any reason at any material time calculate the RB Coupon amount for any Interest Period.

7.13 Back Value

If, as a result of the negligence, misconduct or fraud of the Principal Paying Agent, any payment of principal or interest is not made to the Holders on the due date for such payment, then the Principal Paying Agent shall make such payment to such Holders for value on the due date for such payment, in accordance with established banking practice.

7.14 Refund

If, at any time, the Principal Paying Agent shall receive from HKSAR Government any amount in excess of the amount properly required to be paid by HKSAR Government to the Principal Paying Agent under this Agreement, the Principal Paying Agent shall on demand pay to HKSAR Government the excess amount and, if the Principal Paying Agent shall have received from HKSAR Government any amount in excess of the

amount properly required to be paid by HKSAR Government to the Principal Paying Agent under this Agreement by reason of the reliance by HKSAR Government on any calculation made and provided by the Calculation Agent to HKSAR Government pursuant to this Agreement, the Calculation Agent shall pay to HKSAR Government an amount equal to interest at the rate of two per cent. per annum above the prime rate from time to time of Bank of China (Hong Kong) Limited on such excess amount from the date on which the Principal Paying Agent received such excess amount to the date on which the Principal Paying Agent pays such excess amount to HKSAR Government.

8. REPAYMENT

If claims in respect of any principal or interest in respect of either Tranche of Retail Bonds become void under the Conditions, the Principal Paying Agent shall forthwith repay to HKSAR Government the amount which would have been due if presentations for payment had been made before such claims became void. Save as expressly provided in this Agreement, the Principal Paying Agent shall not however be otherwise required or entitled to repay any sums received by it under this Agreement.

9. CANCELLATION, DESTRUCTION AND RECORDS

9.1 Cancellation by Paying Agents

All Retail Bonds of either Tranche which are (a) redeemed (together with such unmatured RB Coupons (being RB Coupons relating to the same Tranche of Retail Bonds) as are attached to or are surrendered with them at the time of such redemption) or (b) exchanged as provided in the Trust Deed (together in each case with all unmatured RB Coupons (being RB Coupons relating to the same Tranche of Retail Bonds) attached thereto or delivered therewith) and all RB Coupons (being RB Coupons relating to the same Tranche of Retail Bonds) which are paid, shall be cancelled forthwith by the Paying Agent by or through which they are redeemed, exchanged or paid. Such Paying Agent shall send to the Principal Paying Agent the details required by the Principal Paying Agent for the purposes of this Clause 0 (*Cancellation, Destruction and Records*) and the cancelled Retail Bonds and RB Coupons.

9.2 Cancellation by HKSAR Government

If HKSAR Government purchases any Retail Bonds or RB Coupons which in accordance with the Conditions are to be cancelled after such purchase, HKSAR Government shall forthwith cancel them or procure their cancellation and send them (if in definitive form) to the Principal Paying Agent.

9.3 Certification of Payment Details

The Principal Paying Agent shall, in respect of each Tranche of Retail Bonds, as soon as possible and in any event within four months after the date of any such redemption, purchase, payment or exchange send to HKSAR Government and the Trustee a certificate stating (a) the aggregate principal amount of Retail Bonds of that Tranche

which have been redeemed and cancelled and the aggregate amount paid in respect of RB Coupons which have been paid and cancelled or in respect of interest paid on the Global Retail Bond representing that Tranche, (b) the serial numbers of such Retail Bonds in definitive form and coupons, (c) the total numbers (where applicable, of each denomination) by maturity date of such RB Coupons, (d) the aggregate principal amount of Retail Bonds (if any) of that Tranche which have been purchased by or on behalf of HKSAR Government and cancelled and the serial numbers of such Definitive Retail Bonds and the total number (where applicable, of each denomination) by maturity date of the RB Coupons (if any) attached thereto or surrendered therewith, and (e) the aggregate principal amounts of Retail Bonds and the aggregate amounts in respect of RB Coupons of that Tranche which have been so exchanged or surrendered and replaced and the serial numbers of such Retail Bonds and the total number (where applicable, of each denomination) by maturity date of such RB Coupons, in each case distinguishing between Retail Bonds and RB Coupons of different Tranches and specifying which Tranche of Retail Bonds the Global Retail Bond represents.

9.4 **Destruction**

Unless otherwise instructed by HKSAR Government, or unless, in the case of a Global Retail Bond, it is to be returned to its holder in accordance with its terms, the Principal Paying Agent shall destroy the cancelled Retail Bonds and RB Coupons in its possession and send HKSAR Government and the Trustee a certificate giving the serial numbers of such Retail Bonds in numerical sequence, the total numbers by maturity date and the aggregate amount paid in respect of such RB Coupons and particulars of the RB Coupons attached to or surrendered with such Retail Bonds in each case distinguishing between Retail Bonds and RB Coupons of different Tranches.

9.5 **Records**

The Principal Paying Agent shall keep (i) a record of the purchase, redemption, replacement, payment, cancellation, exchange and destruction of all Retail Bonds and RB Coupons in each case distinguishing between Retail Bonds and RB Coupons of different Tranches (but need not record the certificate numbers of RB Coupons) and (ii) in respect of the RB Coupons of each maturity retain either all paid or exchanged RB Coupons of that maturity or a list of the serial number of RB Coupons of that maturity still remaining unpaid or unexchanged until the expiry of six years from the due date for payment in respect of such RB Coupons. It shall make such records and RB Coupons (if any) available at all reasonable times to HKSAR Government and the Trustee.

10. **REPLACEMENT RETAIL BONDS AND RB COUPONS**

10.1 **Stocks of Retail Bonds and RB Coupons**

HKSAR Government shall, if Retail Bonds of a particular Tranche are issued in definitive form, cause a sufficient quantity of additional forms of Retail Bonds and RB Coupons of that Tranche to be made available, upon request, to the Principal Paying

Agent (in such capacity the "**Replacement Agent**") for the purpose of issuing replacement Retail Bonds and RB Coupons of that Tranche.

10.2 **Replacement**

The Replacement Agent shall issue replacement Retail Bonds and RB Coupons of a particular Tranche in accordance with the relevant Conditions.

10.3 **RB Coupons on replacement Retail Bonds**

In the case of a lost, stolen, mutilated or defaced Retail Bond, the Replacement Agent shall ensure that any replacement Retail Bond is issued on the condition that such indemnity as HKSAR Government may require is given and any replacement Retail Bond has only attached to it RB Coupons corresponding to those attached to the Retail Bond which it replaces.

10.4 **Cancellation**

The Replacement Agent shall cancel any lost, stolen, mutilated or defaced Retail Bonds or RB Coupons which have been surrendered and/or replaced pursuant to Condition 10 (*Replacement of Retail Bonds*), and, unless otherwise instructed by HKSAR Government, destroy any mutilated or defaced Retail Bonds or RB Coupons replaced by it and shall send HKSAR Government and the Principal Paying Agent and the Trustee a certificate giving the information specified in Clauses 9.3 (*Certification of Payment Details*) and 9.4 (*Destruction*).

10.5 **Notification**

The Replacement Agent shall, on issuing a replacement Retail Bond or RB Coupon, forthwith inform the other Paying Agents of the serial numbers of the replacement Retail Bond or RB Coupon and of the Retail Bond or RB Coupon which it replaces.

10.6 **Presentation of replaced Retail Bond or RB Coupon**

If a Retail Bond or RB Coupon which has been replaced is presented to a Paying Agent for payment, that Paying Agent shall forthwith inform the Principal Paying Agent, which shall inform HKSAR Government.

11. **CMU**

11.1 **CMU Membership**

The Principal Paying Agent confirms that it is a member of the CMU pursuant to a CMU Membership Agreement dated 1 October 2001 ("**Membership Agreement**") and is aware of and in compliance with the terms of the CMU Rules.

11.2 **Lodging Agent**

The Principal Paying Agent, acting as lodging agent (as such term is defined in the CMU Rules) on behalf of HKSAR Government, will lodge the Global Retail Bond in

respect of each Tranche of Retail Bonds with a sub-custodian of the CMU and will be nominated as paying agent to receive notification from the CMU in respect of interests in the Global Retail Bond credited to Accountholders with the CMU prior to the Interest Payment Dates and the maturity date of the Global Retail Bond in respect of each Tranche of Retail Bonds.

11.3 **CMU Rules apply**

It is understood that, once a Global Retail Bond is lodged with the CMU, the terms of the CMU Rules will apply to that Global Retail Bond and to all transactions and operations effected through the CMU in relation to that Global Retail Bond including transactions relating to the lodgement, withdrawal or redemption of that Global Retail Bond and in particular (but without limiting the generality of the foregoing):

- 11.3.1 that the CMU and its servants and agents are, with the limited exceptions expressly provided in the Membership Agreement, exempt from liability caused directly or indirectly by the operation of the CMU and the CMU is entitled without liability to act without further enquiry on instructions or information or purported instructions or information received through the CMU or otherwise in accordance with the CMU Rules; and
- 11.3.2 that the CMU is under no liability to any person (whether or not a member of the CMU) as a result of any actual or alleged defect or irregularity with respect to the Global Retail Bond lodged with or held in the CMU, any signature or purported signature appearing on that Global Retail Bond, any disposition or purported disposition of that Global Retail Bond or any inconsistency of that Global Retail Bond with the details specified in respect of that Global Retail Bond in the CMU.

11.4 **Authorisation of Principal Paying Agent**

HKSAR Government authorises the Principal Paying Agent to, on its behalf, do all such acts and things and execute all such documents as may be required to enable the Principal Paying Agent fully to observe and perform its obligations under this Agreement, its Membership Agreement and the CMU Rules and to enter into any arrangement which it considers proper in connection with the lodgement with the CMU of the Global Retail Bond in respect of each Tranche of Retail Bonds, the holding of the relevant Global Retail Bond in the CMU, payments under and the redemption of the relevant Global Retail Bond, including (but without limiting the generality of the foregoing):

- 11.4.1 authenticating the relevant Global Retail Bond and any Definitive Retail Bonds represented by it (including authentication on withdrawal from the CMU); and
- 11.4.2 making payments in respect of the relevant Global Retail Bond in the manner prescribed by the CMU Rules,

provided that the Principal Paying Agent shall, to the extent practicable, consult with HKSAR Government before it takes such actions or inform HKSAR Government of such actions immediately after taking such actions.

11.5 **No Presentment**

It is acknowledged that, under the terms of the CMU Rules, no further or other demand or presentment for payment of a Global Retail Bond lodged with the CMU shall be required other than the credit of interests in that Global Retail Bond to the relevant CMU accounts of CMU members (whether acting on their own behalf or as paying agent) in accordance with the CMU Rules and, so long as that Global Retail Bond is held by the CMU, HKSAR Government and the Principal Paying Agent waive the requirements for any further or other demand or presentment for payment.

11.6 **Payments through CMU**

It is agreed that the obligations of the Principal Paying Agent to make payments upon surrender to it of any Retail Bond or RB Coupon of a particular Tranche shall be suspended for so long as the Global Retail Bond representing Retail Bonds of that Tranche is held by the CMU and that while that Global Retail Bond is held by the CMU, the Paying Agents shall make payments to the person(s) confirmed to the Principal Paying Agent by the CMU prior to any relevant payment date as being credited with the interest(s) in that Global Retail Bond in accordance with the terms of the CMU Rules, in each case unless otherwise provided in that Global Retail Bond. In accordance with the CMU Rules, the Principal Paying Agent will be notified prior to that Global Retail Bond being withdrawn from the CMU. Upon such notification, the Principal Paying Agent shall arrange to make such endorsements to that Global Retail Bond as would have been made if it had not been lodged with the CMU or otherwise so as to confirm that all payments on that Global Retail Bond have been made up to the date of withdrawal from the CMU. Upon payment in full of a Global Retail Bond which is held by the CMU, the Principal Paying Agent shall withdraw, or cause to be withdrawn, that Global Retail Bond from the CMU, make the endorsements to that Global Retail Bond as provided above and cancel it forthwith subject to any applicable CMU Rules.

11.7 **Benefit**

The confirmations and acknowledgements in this Clause are given for the benefit of HKSAR Government, the Principal Paying Agent and the CMU and its servants and agents.

12. **NOTICES**

12.1 **Publication**

At the request and expense of HKSAR Government, the Principal Paying Agent shall arrange for the publication in accordance with the Conditions of all notices to Retail Bondholders. Notices to Retail Bondholders shall be published in accordance with the

Conditions having previously, unless the Trustee otherwise directs, been approved by the Trustee.

12.2 Copies to the Trustee

The Principal Paying Agent shall promptly send to the Trustee two copies of the form of every notice to be given to Retail Bondholders for approval and of every such notice once published.

13. DOCUMENTS AND FORMS

HKSAR Government shall send to the Paying Agents:

- 13.1 specimen Retail Bonds of a particular Tranche (but only if Definitive Retail Bonds in respect of that Tranche are issued);
- 13.2 sufficient copies of all documents required by the Retail Bonds and the Offering Documents relating to the Retail Bonds to be available for issue or inspection (and the Paying Agents shall make them so available to Retail Bondholders); and
- 13.3 as required, forms of voting certificates and block voting instructions, together with instructions as to how to complete, deal with and record the issue of such forms (and the Paying Agents shall make such documents available to Retail Bondholders and perform their other functions as set out in Schedule 4 to the Trust Deed).

14. TERMS OF APPOINTMENT

14.1 Rights and Powers

Each Agent may, in connection with its services hereunder:

- 14.1.1 except as ordered by a court of competent jurisdiction or otherwise required by law and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof, but subject to Clause 7.5 (*Payment by Paying Agents*), treat the holder of any Global Retail Bond, Definitive Retail Bond or RB Coupon as its absolute owner for all purposes and make payments thereon accordingly;
- 14.1.2 assume that the terms of the Global Retail Bonds, the Definitive Retail Bonds and the RB Coupons as issued are correct;
- 14.1.3 refer any question relating to the ownership of any Global Retail Bond, Definitive Retail Bond or RB Coupon or the adequacy or sufficiency of any evidence supplied in connection with the replacement of any Global Retail Bond, Definitive Retail Bond or RB Coupon to HKSAR Government for determination by HKSAR Government and, in the absence of manifest error, rely upon any determination so made;

14.1.4 in the absence of manifest error, rely upon the terms of any notice, communication or other document honestly and reasonably believed by it to be genuine; and

14.1.5 engage and pay for the advice or services of any lawyers or other experts whose advice or services it considers necessary (and, where such advice or service does not relate to HKSAR Government, such Agent shall act reasonably in considering whether such advice or service is necessary) and rely upon any advice so obtained (and such Agent shall be protected and shall incur no liability as against HKSAR Government in respect of any action taken, or permitted to be taken, in accordance with such advice and in good faith).

14.2 **Extent of Duties**

Each Agent shall be obliged to perform only the duties expressly set out herein. No Agent shall:

14.2.1 be under any fiduciary duty or other obligation towards or have any relationship of agency for or with any person other than HKSAR Government and the Trustee; or

14.2.2 be responsible for or liable in respect of the legality, validity or enforceability of the Retail Bonds or the RB Coupons or any act or omission of any other person (including, without limitation, any other Agent).

14.3 **Freedom to Transact**

Without prejudice to any rights of HKSAR Government under this Agreement, each Agent may purchase, hold and dispose of Retail Bonds and RB Coupons and may enter into any transaction (including, without limitation, any depository, trust or agency transaction) with any holders of Retail Bonds or RB Coupons or with any other person in the same manner as if it had not been appointed as the agent of HKSAR Government in relation to the Retail Bonds.

14.4 **Indemnities**

14.4.1 HKSAR Government undertakes with the Agents and the Trustee that it will indemnify and hold harmless each of the Agents and the Trustee (and their respective directors, officers, employees and agents) from and against any and all losses, liabilities, costs, charges, claims, damages, expenses or demands or actions in respect thereof (other than any such losses, liabilities, costs, charges, claims, damages, expenses or demands arising by reason of negligence, misconduct or fraud on the part of such Agent or the Trustee, as the case may be) which arise out of or in relation to or in connection with:

- (a) *Performance of Duties*: the performance by such Agent or the Trustee, as the case may be, of its obligations under this Agreement or its taking any action required to be taken by it under this Agreement; or
 - (b) *Incidental Actions and Duties*: any actions, duties or omissions to act by such Agent or the Trustee, as the case may be, arising in connection with or which are incidental to the circumstances contemplated by the provisions of this Clause 14.4.1 *provided that* the same arise from or in connection with, or are incidental to, the performance of the obligations referred to in Clause 14.4.1(a).
- 14.4.2 Each of the Agents undertakes with HKSAR Government that it will indemnify and hold harmless HKSAR Government from and against any and all losses, liabilities, costs, charges, claims, damages, expenses or demands or actions in respect thereof (other than any such losses, liabilities, costs, charges, claims, damages, expenses or demands arising by reason of HKSAR Government's own negligence, misconduct or fraud) which HKSAR Government may incur or which may be made against it as a result of the breach by such Agent of this Agreement or its negligence, misconduct or fraud or that of its officers, employees or agents.
- 14.4.3 If any action or claim shall be brought or threatened to be brought against any party (each, an "**Indemnified Party**") in respect of which any indemnity in this Agreement may be sought from another party (each, an "**Indemnifier**") under Clause 14.4.1 or, as the case may be, Clause 14.4.2, the Indemnified Party shall not make any admission of liability, settlement or compromise without the Indemnifier's prior written consent.
- 14.4.4 The Indemnified Party shall as soon as reasonably practicable notify the Indemnifier in writing of such action or claim referred to in Clause 14.4.3, together with all details thereof.
- 14.4.5 In the case of any action or claim which has been brought against any Indemnified Party in respect of which any indemnity in this Agreement may be sought from an Indemnifier, the Indemnifier shall be entitled at any time thereafter to assume the defence thereof, to settle or compromise such action or claim and to appoint legal advisers, counsel and experts in connection with such action or claim as the Indemnifier sees fit and such Indemnified Party shall give the Indemnifier all such information and assistance and do all such things and execute all such documents as the Indemnifier may reasonably require for the purposes of assuming and conducting such defence but so that such Indemnified Party shall not make any further claim against the Indemnifier in respect of the costs and time expended in providing such information and assistance.
- 14.4.6 If, pursuant to Clause 14.4.5, the Indemnifier assumes the defence of any such action or claim, the Indemnifier shall not settle, compromise or consent to the

entry of judgment with respect to the action or claim unless such settlement, compromise or judgment:

- (a) includes an unconditional release of the relevant Indemnified Party from all liabilities arising out of such action or claim; and
- (b) in the case of any settlement, compromise or judgment which contains a statement as to, or an admission of fault, culpability or a failure to act by or on behalf of such Indemnified Party, the Indemnifier shall have obtained such Indemnified Party's prior written consent to the making of such statement or admission (which consent shall not be unreasonably withheld or delayed).

14.5 **Force Majeure**

The parties hereto irrevocably and unconditionally agree that, notwithstanding anything to the contrary in this Agreement, none of the Agents shall in any event be liable for any failure or delay in the performance of its obligations hereunder if it is prevented from so performing its obligations by any existing or future law or regulation, any existing or future act of governmental authority, Act of God, flood, war (whether declared or undeclared), terrorism, riot, rebellion, civil commotion, strike, lockout, other industrial action, general failure of electricity or other supply, aircraft collision, technical failure, accidental or mechanical or electrical breakdown, computer failure or failure of any money transmission system beyond the control of the relevant Agent.

14.6 **Consequential Loss**

Notwithstanding any other term or provision of this Agreement, except in the case of fraud on the part of the Agents, the Agents shall not be liable under any circumstances for special or punitive damages, indirect or consequential loss or damages of any kind whatsoever (including but not limited to loss of profits) even if the relevant Agent is actually aware of the likelihood of such special or punitive damages, indirect or consequential loss or damages.

15. **GENERAL**

15.1 **No agency or trust**

In acting under this Agreement the Agents shall have no obligation towards or relationship of agency or trust with any Retail Bondholder or RB Couponholder and need only perform the duties set out specifically in this Agreement and the Conditions and any duties necessarily incidental to them. The obligations and liabilities of the Agents under this Agreement are several and not joint nor joint and several.

15.2 **Holder to be treated as owner**

Except as otherwise required by law, each Agent will treat the holder of a Retail Bond or RB Coupon as its absolute owner as provided in the Conditions and will not be liable for doing so and, so long as any Retail Bond is held in the CMU, shall be

entitled to treat a payment made, or notice given, to a person credited by the CMU as holding an interest in that Retail Bond as complete discharge of its and HKSAR Government's obligations to make such payment or give such notice.

15.3 No lien

No Paying Agent shall exercise any lien, right of set-off or similar claim against any Retail Bondholder or RB Couponholder in respect of moneys payable by it under this Agreement.

15.4 Reliance on documents etc.

In respect of a particular Tranche of Retail Bonds, no Agent shall be liable in respect of anything done or suffered by it in reliance on a Retail Bond, RB Coupon or other document reasonably believed by it to be genuine and to have been signed by the proper parties.

15.5 Other relationships

Any Agent and any other person, whether or not acting for itself, may acquire, hold or dispose of any Retail Bond, RB Coupon or other security (or any interest therein) of HKSAR Government or any other person, may enter into or be interested in any contract or transaction with any such person, and may act on, or as depositary, trustee or agent for, any committee or body of holders of securities of any such person, in each case with the same rights as it would have had if that Agent were not an Agent and need not account for any profit.

15.6 Link between CMU and Eurclear/Clearstream, Luxembourg

Without prejudice to each Agent's duties to HKSAR Government under this Agreement, HKSAR Government acknowledges that, in relation to the Retail Bonds, references to CMU in this Agreement may include, where operational circumstances so require, Euroclear and Clearstream, Luxembourg, and any payment in respect of the Retail Bonds may be settled in those circumstances through, or with the assistance of, Euroclear and Clearstream, Luxembourg.

16. CHANGES IN AGENTS

16.1 Resignation

Any Agent may resign its appointment upon not less than 30 days' notice to HKSAR Government (with a copy to the Trustee and, in the case of an Agent other than the Principal Paying Agent, to the Principal Paying Agent); *provided, however, that:*

16.1.1 if such resignation would otherwise take effect less than 30 days before or after the maturity date or other date for redemption of any of the Retail Bonds or any date on which interest is due to be paid in relation to the Retail Bonds, it shall not take effect until the thirtieth day following such date; and

16.1.2 in the case of the Principal Paying Agent, the Calculation Agent, such resignation shall not take effect until a successor has been duly appointed consistently with Clause 16.4 (*Additional and Successor Agents*) or Clause 16.5 (*Agents may Appoint Successors*) and notice of such appointment has been given to the Retail Bondholders.

16.2 **Revocation**

HKSAR Government may (with the prior written approval of the Trustee) revoke the appointment of any Agent by not less than 30 days' notice to such Agent (with a copy, in the case of an Agent other than the Principal Paying Agent, to the Principal Paying Agent); *provided, however, that*, in the case of the Principal Paying Agent or the Calculation Agent, such revocation shall not take effect until a successor has been duly appointed consistently with Clause 16.4 (*Additional and Successor Agents*) or Clause 16.5 (*Agents may Appoint Successors*) and previously approved in writing by the Trustee (which approval shall not be unreasonably withheld or delayed) and notice of such appointment has been given to the Retail Bondholders.

16.3 **Automatic Termination**

The appointment of any Agent shall terminate forthwith if:

- 16.3.1 such Agent becomes incapable of acting;
- 16.3.2 such Agent admits in writing to its insolvency or inability to pay its debts as they fall due;
- 16.3.3 a secured party takes possession of, or a receiver, Manager (within the meaning of section 152 of the Banking Ordinance (Cap.155)), supervisor, liquidator or other similar officer is appointed in respect of such Agent or the whole or any part of the undertaking, assets and revenues of such Agent (or application for any such appointment is made);
- 16.3.4 such Agent takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness;
- 16.3.5 an order is made or an effective resolution is passed for the winding-up of such Agent; or
- 16.3.6 any event occurs which has an analogous effect to any of the foregoing.

16.4 **Additional and Successor Agents**

HKSAR Government may (with the prior written approval of the Trustee, which approval shall not be unreasonably withheld or delayed) and shall (upon the written direction of the Trustee) appoint a successor principal paying agent or calculation agent and additional or successor paying agents and shall forthwith give notice of any such

appointment to each of the continuing Agents, the Retail Bondholders and the Trustee and shall procure that the additional or successor principal paying agent, calculation agent or paying agent (as the case may be) enter into an agreement in the form *mutatis mutandis* of this Agreement. The Trustee shall consult in good faith with HKSAR Government as to the form of any agreement to be entered into with any additional or successor agent appointed in accordance with this Clause 16.4 (*Additional and Successor Agents*) if such form is not the same *mutatis mutandis* as this Agreement prior to entering into the same.

16.5 **Agents may Appoint Successors**

If the Principal Paying Agent or Calculation Agent gives notice of its resignation in accordance with Clause 16.1 (*Resignation*) and by the tenth day before the expiry of such notice a successor has not been duly appointed in accordance with Clause 16.4 (*Additional and Successor Agents*), the Principal Paying Agent, or (as the case may be) Calculation Agent may itself, following such consultation with HKSAR Government as is practicable in the circumstances and with the prior written approval (which approval shall not be unreasonably withheld or delayed) of the Trustee appoint as its successor any reputable and experienced financial institution and give notice of such appointment to each of HKSAR Government, the remaining Agents, the Trustee and the Retail Bondholders. The outgoing Principal Paying Agent or, as the case may be, Calculation Agent shall procure that the successor Principal Paying Agent or, as the case may be, Calculation Agent enter into an agreement in the form *mutatis mutandis* of this Agreement. The Trustee shall consult in good faith with HKSAR Government as to the form of any agreement to be entered into with any successor agent appointed in accordance with this Clause 16.5 (*Agents may Appoint Successors*) if such form is not the same *mutatis mutandis* as this Agreement prior to entering into the same.

16.6 **Release**

Upon any resignation or revocation taking effect under Clause 16.1 (*Resignation*) or 16.2 (*Revocation*) or any termination taking effect under Clause 16.3 (*Automatic Termination*), the relevant Agent shall:

- 16.6.1 be released and discharged from its obligations under this Agreement (save that it shall remain entitled to the benefit of and subject to Clause 14 (*Terms of Appointment*), Clause 16 (*Changes in Agents*) and Clause 17.2 (*Costs*) and the foregoing shall be without prejudice to the rights of HKSAR Government and the Trustee in respect of any antecedent breach or any right of set-off or counterclaim available to HKSAR Government or the Trustee);
- 16.6.2 in the case of the Principal Paying Agent, deliver to HKSAR Government and to its successor a copy, certified as true and up-to-date by an officer or authorised signatory of the Principal Paying Agent, of the records maintained by it in accordance with Clause 9.5 (*Records*);

- 16.6.3 in the case of the Calculation Agent, deliver to HKSAR Government and its successor a copy, certified as true and up-to-date by an officer or authorised signatory of the Calculation Agent, of the records maintained by it in accordance with Clause 4 (*Duties of Calculation Agent*); and
- 16.6.4 forthwith (upon payment to it of any amount due to it in accordance with Clause 17 (*Fees and Expenses*) or Clause 14.4 (*Indemnity in favour of the Agents and Trustee*) transfer all moneys and papers (including any unissued Retail Bonds held by it hereunder and any documents held by it hereunder)) to its successor and, upon appropriate notice, provide reasonable assistance to its successor for the discharge of its duties and responsibilities hereunder.

16.7 **Merger**

Any legal entity into which any Agent or the Trustee is merged or converted or any legal entity resulting from any merger or conversion to which such Agent or (as the case may be) the Trustee is a party shall, to the extent permitted by applicable law, be the successor to such Agent or (as the case may be) the Trustee without any further formality, whereupon HKSAR Government, the other Agents, the Trustee (if applicable) and such successor shall acquire and become subject to the rights and obligations between themselves as if they had entered into an agreement in the form *mutatis mutandis* of this Agreement. The Trustee shall consult in good faith with HKSAR Government as to the form of any agreement to be entered into with any successor agent or trustee appointed in accordance with this Clause 16.7 (*Merger*) if such form is not the same *mutatis mutandis* as this Agreement prior to entering into the same. Notice of any such merger or conversion shall forthwith be given by such successor to each of HKSAR Government, the other Agents, the Trustee, the Retail Bondholders and, for so long as the Retail Bonds are listed in Hong Kong, the Hong Kong Stock Exchange.

16.8 **Changes in Specified Offices**

If any Agent decides to change its Specified Office (which may only be effected within the same city unless the prior written approval of HKSAR Government and the Trustee has been obtained), it shall give notice to HKSAR Government (with a copy to the Trustee and the other Agents) of the address of the new Specified Office stating the date on which such change is to take effect, which date shall be not less than 30 days after the date of such notice. HKSAR Government shall, at the expense of the relevant Agent, not less than 14 days prior to the date on which such change is to take effect (unless the appointment of the relevant Agent is to terminate pursuant to any of the foregoing provisions of this Clause 16 (*Changes in Agents*)) on or prior to the date of such change) give notice thereof to the Retail Bondholders.

16.9 **No Specified Office in the United States**

Notwithstanding any other provision hereof, no person shall act as a Paying Agent under this Agreement or in relation to the Retail Bonds except from a Specified Office

located outside the United States and its possessions (within the meaning of the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder).

17. **FEES AND EXPENSES**

17.1 **Fees**

HKSAR Government shall pay to the Principal Paying Agent the fees and expenses in respect of the Agents' services as separately agreed with the Principal Paying Agent in accordance with the Fee Letter. HKSAR Government does not need to concern itself with their apportionment between the Agents. The fee payable to each Agent in accordance with this Clause 17.1 (*Fees*) shall accrue until the effective date of resignation or, as the case may be, termination of appointment of such Agent under this Agreement, and shall be paid based on the actual number of days elapsed since the last date on which such fee has been paid to the Principal Paying Agent for the account of such Agent.

17.2 **Costs**

HKSAR Government shall pay on demand all reasonable out-of-pocket expenses (including legal, advertising, telex and postage expenses) properly incurred by the Agents in connection with their obligations hereunder together with any applicable value added tax and stamp, issue, documentary or other taxes and duties.

18. **COMMUNICATIONS**

18.1 **Addresses**

Any communication shall be by letter or fax:

In the case of HKSAR Government, to it at:

Address: The Treasury Branch, Financial
 Services and the Treasury Bureau
 Central Government Offices
 Lower Albert Road
 Hong Kong

Facsimile: 2523 5722

Attention: Deputy Secretary
 for Financial Services and the Treasury (Treasury) (2)

and, in the case of the Trustee, to it at:

Address : 17th Floor
 Bank of China Centre
 Olympian City
 11 Hoi Fai Road
 West Kowloon

Hong Kong

Telephone: 3198 8233 / 3198 8886

Facsimile: 2526 7478

Attention: Ms. Wong Pik Sin/ Mr.Chan Hon Tim, Gary

and, in the case of any of the Agents, to it at:

Address : 25th Floor
Bank of China Centre
Olympian City
11 Hoi Fai Road
West Kowloon
Hong Kong

Telephone: 3198 8024 / 3197 5122

Facsimile: 2523 5224

Attention: Ms. Tang Man Ling/Ms Shum Choi Hung, Rainbow

or any other address of which written notice has been given to the parties in accordance with this Clause. A communication will be deemed received (if by fax) when the sender's fax log confirms that it has been sent and (if by letter) when delivered; provided that any communication which is received outside business hours or on a non-Business Day in the place of receipt shall be deemed received at the opening of business on the next following Business Day in such place.

18.2 **Notices through Principal Paying Agent**

All communications relating to this Agreement between (1) HKSAR Government and the Trustee; and (2) any of the Agents or between the Agents themselves shall be made (except where otherwise expressly provided) through the Principal Paying Agent.

19. **LAW AND JURISDICTION**

19.1 **Governing law**

This Agreement is governed by, and shall be construed in accordance with, the laws of Hong Kong.

19.2 **Hong Kong courts**

The parties agree that the courts of Hong Kong have exclusive jurisdiction to settle any dispute arising out of or in connection with this Agreement.

SCHEDULE 1
TIMETABLE FOR RETAIL BOND ISSUE AND SUBSCRIPTION FOR THE RETAIL
BONDS

9:00 a.m. on 8 July 2004
(Thursday)
Commencement Date of
Subscription Period

Application for Retail Bonds may be made from this date on.

2:00 p.m. on 19 July 2004
(Monday)
Closing Date of Subscription
Period (the "**Closing Date**")

All applications in person, by internet or by telephone must have been submitted by 2:00 p.m. on the Closing Date. No applications shall be accepted by the Placing Banks after this time.

Each Placing Bank shall collect the PB Application Amounts by debit from 00:00 a.m. on the Closing Date onwards from the specified bank account held with it by those applicants who instructed it to apply for the Retail Bonds.

In respect of each Tranche of Retail Bonds, each Placing Bank shall inform HKSAR Government and the Principal Paying Agent by 5:00 p.m. of the indicative total number of applications received by it, the indicative total PB Application Amounts (whether the applications in respect of such PB Application Amounts are valid or not) and of the indicative total valid PB Application Amounts received by it and other information as requested by HKSAR Government before the Closing Date.

Each Placing Bank shall transfer all PB Application Amounts (whether the applications in respect of such PB Application Amounts are valid or not) to the non-interest bearing nominee account in the name of HKSAR Government's nominee held with it and then upon determination of the total amount thereof, transfer the same to the interest bearing deposit account in the name of HKSAR Government's nominee held with it (which interest and tenor shall be as mutually agreed between it and HKSAR Government).

20 July 2004 (Tuesday)
Closing Date plus one business
day

In respect of each Tranche of Retail Bonds, each Placing Bank shall confirm to HKSAR Government and the Principal Paying Agent by 6:00 p.m. the total number of valid applications received by it, the total and individual principal amounts of valid applications for the Retail Bonds received by it and provide such other information as reasonably requested by HKSAR Government before the Closing Date by fax in summary form together with details in diskette format agreed amongst the Principal Paying Agent and the Placing Banks.

HKSAR Government shall inform the Placing Banks and the Principal Paying Agent of the actual issue size in respect of each Tranche of Retail Bonds and whether balloting will be required to be conducted by the Principal Paying Agent by 7:00 p.m..

22 July 2004 (Thursday)
Closing Date plus three Business
Days ("**Price-fixing Date**")

The Calculation Agent shall fix the Subscription Price and the annualised yield for each Tranche of Retail Bonds by reference to the offer yield of the identified issue of EFN of a comparable remaining tenor quoted by the HKMA at or around 11:30 a.m. on this date and at the same time inform the Placing Banks, HKSAR Government and the Principal Paying Agent of the Subscription Price. If the annualised yield of an identified issue of EFN is not available, the Calculation Agent and the Trustee jointly shall have the discretion to select another issue of EFN of comparable remaining tenor for price-fixing purposes.

Allocation of Retail Bonds

Where HKSAR Government receives valid applications for a greater principal amount of Retail Bonds of either Tranche than is to be issued, the Retail Bonds will be allocated as follows:

- (a) a minimum of HK\$50,000 in principal amount of the Retail Bonds of that Tranche will be allocated to each of the valid applications (the "**Applications**") through (i) HKSCC from CCASS Investor Participants and CCASS Broker/Custodian Participants (and so that if more than one valid application instruction is given from an applicant to that applicant's designated CCASS Broker/Custodian Participant, all such valid applications will be aggregated) and (ii) the Placing Bank's accounts

through which valid application instructions were given (so that if more than one valid application is given from the same Placing Bank's account, all such valid application instructions will be aggregated);

- (b) the remaining Retail Bonds of that Tranche will be allocated to each of the Applications on a pro rata basis to the remaining number of Retail Bonds validly applied for (rounded down to the nearest whole Retail Bond); and
- (c) in the case of Retail Bonds remaining after rounding, by ballot,

provided that if either Tranche of Retail Bonds is so oversubscribed that HKSAR Government is unable to even allocate a minimum of HK\$50,000 in principal amount of the Retail Bonds of that Tranche to each Application, the Applications to receive such allocation will be chosen by ballot.

Fractions of Retail Bonds will not be allotted. No one will be allotted more Retail Bonds than they validly applied for.

The Principal Paying Agent shall inform the Placing Banks and HKSAR Government of the allotment results together with details in a diskette format agreed amongst the Placing Banks and the Principal Paying Agent by 3:00 p.m. and shall no later than 5:00 p.m. confirm to each of the Placing Banks the settlement amounts (i.e. the full amount of the Subscription Price for all the Retail Bonds allocated to the successful applicants who applied through it) payable by it to the Principal Paying Agent on the Issue Date.

HKSAR Government shall announce, no later than the Issue Date, the Subscription Price, the issue amount and the principal amount of valid applications received in respect of each Tranche of Retail Bonds on its own website, to which the websites of certain Placing Banks (as set out in the Information Supplement) have a hyperlink.

26 July 2004 (Monday)
Closing Date plus five Business
Days ("**Issue Date**")

Retail Bonds shall be issued against payment in full of the Subscription Price by the Placing Banks. Each Placing Bank shall instruct the relevant nominee to transfer the full amount of the Subscription Price for all the Retail Bonds allocated to the successful applicants who applied through it from the interest bearing deposit account in the name of HKSAR Government's nominee to the Principal Paying Agent by 10:00 a.m. by CHATS/RTGS to the following account:-

Bank Code 012 AID 002525 in favour of Bank of China (Hong Kong) Limited

The Principal Paying Agent shall execute lodgment (through the CMU) and settlement with HKSAR Government (by payment to the account of HKSAR Government in immediately available funds in accordance with the direction in writing given by HKSAR Government to the Principal Paying Agent) by 11:00 a.m..

Retail Bonds allotted shall be credited by the CMU to the Placing Banks for onward credit to the respective investment accounts of the successful applicants maintained with the Placing Banks by 7:00 p.m..

Times given are references to Hong Kong time.

The commencement date of the Subscription Period and any dates after the commencement of the Subscription Period will not be adjusted or extended for any reason (for example, the issue of a tropical cyclone warning signal no. 8 or above or a black rainstorm warning for all or any part of a day which would otherwise have been a Business Day) except that:

- (1) *if the Closing Date falls on a day which is not a Business Day for any reason, the latest time for completing an application will be 2:00 p.m. on the next Business Day (which shall become the Closing Date) and the Price-fixing Date and the Issue Date will be the third Business Day and the fifth Business Day, respectively, following the adjusted Closing Date;*
- (2) *if any day (other than a Saturday, Sunday or public holiday in Hong Kong) between the Closing Date and the Issue Date (exclusive of both dates) falls on a day which is not a Business Day for any reason, the Price-fixing Date and/or the Issue Date shall be postponed to such dates that the Price-fixing Date and the Issue Date shall always be the third Business Day and the fifth Business Day, respectively, following the Closing Date; and*
- (3) *if the Price-fixing Date or the Issue Date falls on a day which is not a Business Day for any reason, the Price-fixing Date, or as the case may be, the Issue Date will be the*

next Business Day which shall become the Price-fixing Date, or as the case may be, the Issue Date,

and provided that if the Closing Date or the Price-fixing Date falls on a day which would not be a Business Day because commercial banks are not open for business in Hong Kong for part of the day commencing after 12:00 noon (for example, because of the issue of a tropical cyclone warning signal no. 8 or above or a black rainstorm warning with effect from a time later than 12:00 noon) then that day shall remain the Closing Date or, as the case may be, the Price-fixing Date (and that day shall be deemed to remain a business day) but the Price-fixing Date (if appropriate) and the Issue Date shall, in this case, be the fourth Business Day and the sixth Business Day, respectively, following the Closing Date.

SCHEDULE 2
SPECIFIED OFFICES OF THE AGENTS

The Principal Paying Agent: Bank of China (Hong Kong) Limited

25th Floor
Bank of China Centre
Olympian City
11 Hoi Fai Road
West Kowloon
Hong Kong

Fax: 2523 5224
Attention: Settlement Division

The Calculation Agent: Bank of China (Hong Kong) Limited

25th Floor
Bank of China Centre
Olympian City
11 Hoi Fai Road
West Kowloon
Hong Kong

Fax: 2523 5224
Attention: Settlement Division

This Agreement has been entered into on the date stated at the beginning.

**THE GOVERNMENT OF THE HONG KONG SPECIAL ADMINISTRATIVE
REGION**

By: ***Martin Glass***

The Trustee

BANK OF CHINA (HONG KONG) TRUSTEES LIMITED

By: ***Chiu Man Ming*** ***Law Man Wah***

The Principal Paying Agent

BANK OF CHINA (HONG KONG) LIMITED

By: ***Lam Chor Chiu***

The Calculation Agent

BANK OF CHINA (HONG KONG) LIMITED

By: ***Lam Chor Chiu***